

Rating Action: Moody's downgrades Pfizer to A2 from A1 following Upjohn separation; stable outlook

16 Nov 2020

New York, November 16, 2020 -- Moody's Investors Service ("Moody's") downgraded the senior unsecured long-term ratings of Pfizer Inc. ("Pfizer") to A2 from A1. This action concludes a rating review for downgrade initiated on July 29, 2019, following the announcement that Pfizer would separate its Upjohn business. At the same time, Moody's affirmed Pfizer's Prime-1 commercial paper ratings, which were not under review for downgrade. Following these actions, the outlook is stable.

The downgrade of the unsecured rating results from the credit-negative aspects of Pfizer's separation of its Upjohn business, including a significant contraction in free cash flow and reduced diversity. Moody's believes that, in the near-term, lost Upjohn cash flow will be replaced by opportunities stemming from Pfizer's COVID-19 vaccine program. However, most of these opportunities will occur in 2021 and then subside, while the absence of Upjohn cash flow will continue in 2022 and beyond.

"The Upjohn separation removes a stable, recurring earnings stream and leaves Pfizer with lower sustainable cash flow for business development or other discretionary cash uses," stated Michael Levesque, Moody's Senior Vice President. "These factors more than offset the sizeable revenue and earnings opportunity that Pfizer faces in the near term from the potential approval of a COVID-19 vaccine," continued Levesque.

ESG considerations factor into the rating action, including social opportunities related to the COVID-19 vaccine. Positive social considerations in Moody's ESG framework relate to customer relations with key stakeholders, including patients, doctors, hospitals, governments and global health authorities. On the other hand, social risks related to drug pricing legislation is likely to contribute to ongoing acquisition activity in the sector. Pfizer's product portfolio would be exposed to any regulatory changes that affect Medicare Part D pricing because of products like Eliquis, Ibrance, Xeljanz and Xtandi that have high Medicare use. Among governance considerations, Pfizer's financial policies include a very high dividend payout ratio following the Upjohn separation. This leads to limited discretionary cash flow for business development, contributing to the weaker credit profile.

Ratings Downgraded:

..Issuer: Pfizer Inc.

...Issuer Rating, to A2 from A1

...Senior Unsecured Shelf, to (P)A2 from (P)A1

...Senior Unsecured Bank Credit Facility, to A2 from A1

...Senior Unsecured Regular Bond/Debenture, to A2 from A1

..Issuer: Pharmacia Corporation (Old Monsanto)

...Backed Senior Unsecured Regular Bond/Debenture, to A2 from A1

..Issuer: Wyeth

...Backed Senior Unsecured Regular Bond/Debenture, to A2 from A1

Outlook Actions:

..Issuer: Pfizer Inc.

...Outlook, Changed To Stable from Rating Under Review

..Issuer: Pharmacia Corporation (Old Monsanto)

...Outlook, Changed To Stable from Rating Under Review

..Issuer: Wyeth

...Outlook, Changed To Stable from Rating Under Review

Affirmations:

..Issuer: Pfizer Inc.

...Senior Unsecured Commercial Paper, Affirmed P-1

RATINGS RATIONALE

Pfizer's A2 rating reflects its position as one of the world's largest pharmaceutical companies, as well as its very good diversity, high profitability, and good cash flow. Key products like Ibrance, Eliquis, Xeljanz, and Xtandi will continue to grow, and the company's late-stage pipeline has good opportunities in oncology, immunology and rare diseases. Financial leverage is moderate, with debt/EBITDA of approximately 3.2x pro forma for the Upjohn separation but before any COVID-19 vaccine revenues. With strong interim efficacy data in hand, this revenue stream is likely to be sizeable in 2021, causing debt/EBITDA to materially decline. But as COVID-19 vaccine revenues subside, Moody's anticipates that Pfizer is likely to maintain debt/EBITDA in the range of 2.5x to 3.0x. This expectation incorporates modest cash outlays for acquisitions and share repurchases. An approaching patent cliff in the 2025-2027 period could result in a more aggressive acquisition appetite, especially if pipeline execution were to falter.

The stable outlook reflects Moody's expectations for mid-single digit growth, high cash levels, and debt/EBITDA sustained between 2.5x and 3.0x.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade include top-line growth sustained in the mid-single digits, strong pipeline execution, and deleveraging. Quantitatively, debt/EBITDA sustained below 2.5x would support an upgrade. Factors that could lead to a downgrade include significant pipeline setbacks, or large debt-funded acquisitions or share repurchases. Quantitatively, debt/EBITDA sustained above 3.0x could lead to a downgrade.

The principal methodology used in these ratings was Pharmaceutical Industry published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1062755. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in New York, NY, Pfizer is one of the world's largest pharmaceutical companies, with revenues exceeding \$40 billion. Pfizer's flagship global brands include Prevnar 13, Ibrance, Eliquis, Xeljanz and Enbrel.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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