

Names in the News: PFE & Nintendo (7974 JP)

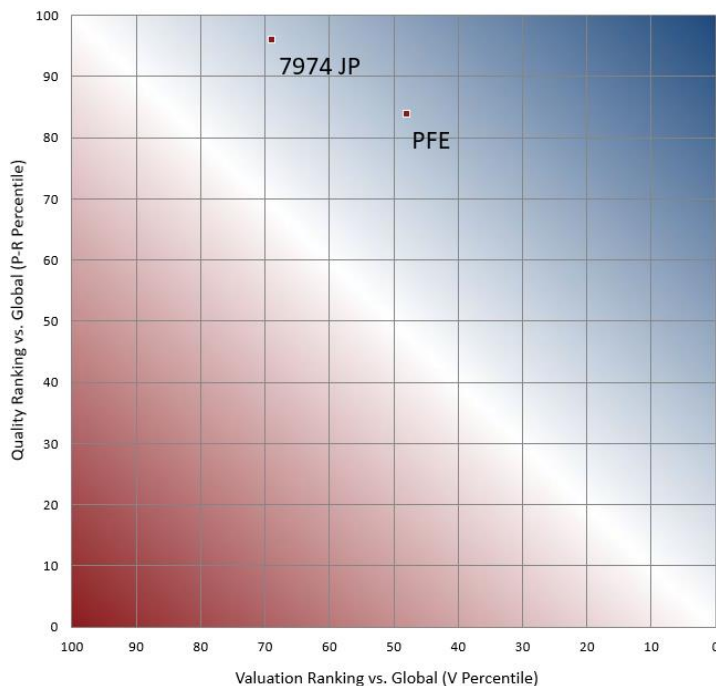
Pfizer Inc. (PFE) & Nintendo Co., Ltd. (7974 JP)

The two names this week are **Pfizer (PFE)** and **Nintendo (7974 JP)**. Both names have been favorable EVA wealth-compounding stories over the past few years: they have been able to expand their Current Value Added (CVA) through persistently positive expansion in EVA. PFE is more questionable as a long-term wealth compounder given the huge spike in EVA wealth creation through the Covid-19 pandemic. Nevertheless, given incredibly low expectations, **PFE** looks potentially attractive today. **Nintendo** also offers a potentially attractive entry level. **PFE** analysis can be found on page 2 and **Nintendo** on page 3.

EVA Momentum has slowed from very high levels for **Pfizer**, and the Market Value has witnessed declines over the past weeks on plans to buy Global Blood Therapeutics and hopes of launching a new Covid-19 booster. EBITDAR Margin and Capital Intensity remain favorable, while top line growth has continued to slow. We rate **PFE** as a 'Buy' based on very strong Profitability and moderate levels of Valuation. Japanese entertainment heavyweight **Nintendo** has recently announced that it will not raise prices for its Switch hardware lineup, unlike industry competitor Sony, which is increasing prices for its PS5 console. We rate **Nintendo** as 'Overweight' relative to the industry group.

In **Figure 1** we plot the financial Quality of the names on the y-axis, where higher is superior Quality, and the Valuation of the names on the x-axis, where more expensive names are to the left and cheaper names are to the right. Compared to PFE, Nintendo offers higher Quality, for a higher (more expensive) level of Valuation.

Figure 1: HEAT Map



PRVit and Sub-Factors

PRVit compares a company's operational Quality, based on EVA metrics, to the company's market-based Valuation. When Quality exceeds Valuation, the overall PRVit ranking will be higher.

Scoring

All factors scored from 0 to 100.

PRVit: 100 is most favorable.

Quality (P-R): 100 is highest Quality.

Profitability (P): 100 is most Profitable.

Risk (R): 0 is lowest Risk.

Valuation: 0 is cheapest.

Heat Map: The Heat Map shows the visual trade-off between Quality and Valuation: Companies in the favorable (blue) area offer higher quality and/or cheaper valuation than those in the unfavorable (red) area.

See ISS ESG Scores for both companies on page 4.

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +24,000 stock universe.

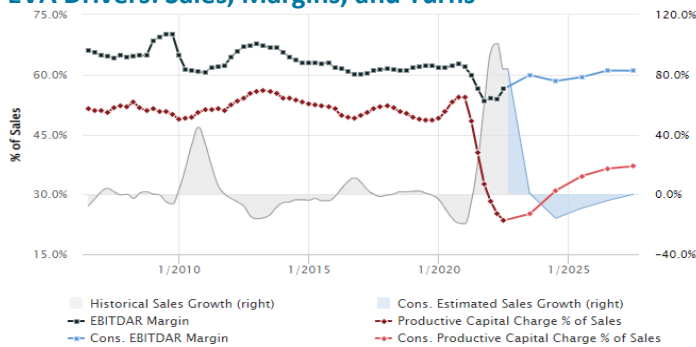
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Pfizer Inc. (PFE)

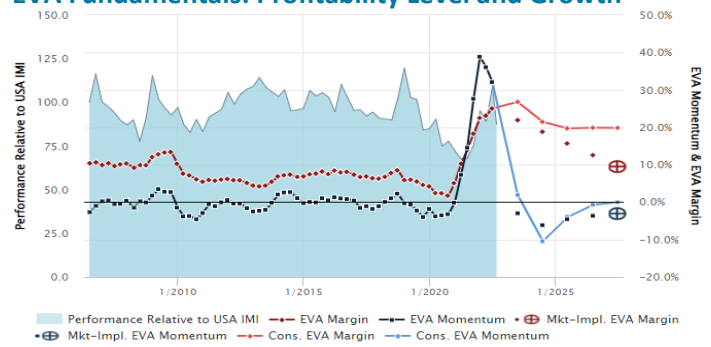
PRVit Recommendation: Buy

- Sales Growth dipped to an historic low at the end of 2020, then rapidly accelerated through 2021 to reach an all-time high of 100.6%. The U.S. firm shipped more than 2 billion Covid vaccination doses in 2021, driving top-line expansion through the year. Sales Growth has contracted to 83.7% in the two most recent quarters but remains well above historic levels.
- Despite record top-line strength, EBITDAR Margin declined from year-end 2020. The metric dipped to an historic low of 53.5% in the latter-half of 2021. In the most recent reported quarter, EBITDAR Margin expanded by 260 basis points, driven by reductions in adjusted COGS and adjusted SG&A expenses (as a percentage of sales).
- The firm’s Capital Intensity has experienced significant improvements since the highs of 2020 and is currently at an historic low. From December 2020 to the June 2022 quarter, the Productive Capital Charge (lower is more favored) improved by 31%. With top-line strength, the Working Capital, PP&E, and Intangible Capital Charges have proportionately reduced, driving improvements in Capital efficiency.
- EVA Margin (profitability) registered an historic low of 1.7% in the penultimate calendar quarter of 2020. Then, in the seven quarters to June 2022, EVA Margin expanded to an historic high of 25.1%, aided by underlying top-line strength through 2021 and 2022.
- EVA Momentum (growth) turned positive in 2021 and accelerated to an all-time high of 38.9% at the end of the year. Although the metric is still at elevated levels, **Pfizer (PFE)** has experienced a slowdown in incremental value creation so far in 2022, with EVA Momentum currently decreasing to 32.1%.
- Current Value Added (CVA) continues to expand in 2022. Looking ahead, however, investors have maintained expectations for value destruction: Future Value Added (FVA) has been negative for the last five quarters. Coinciding with the EVA Momentum slowdown, Future Growth Reliance (FGR), which measures the percentage of Market Value dependent on future EVA growth, declined to a discount of -32.8% at the end of 2021. In 2022, FGR has declined further back to lows seen only during the global financial crisis.

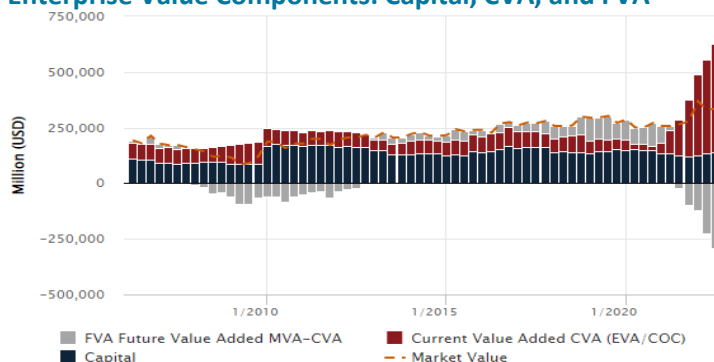
EVA Drivers: Sales, Margins, and Turns



EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance: Market-Implied Expectations

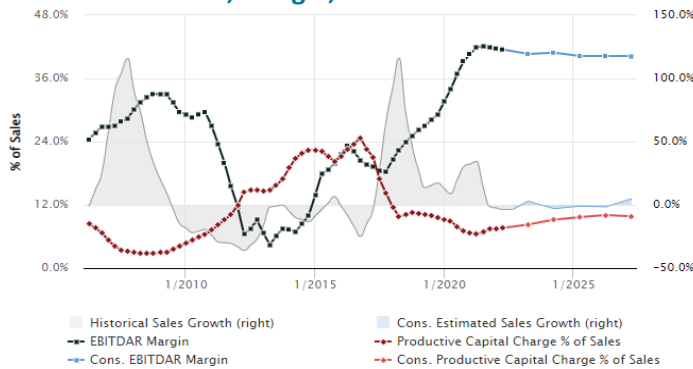


Nintendo Co., Ltd. (7974 JP)

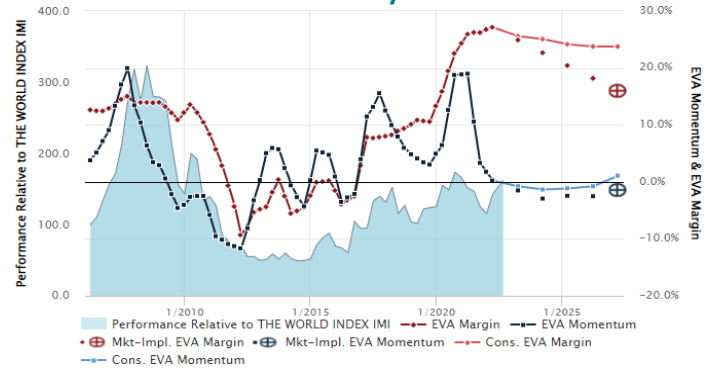
PRVIt Recommendation: Overweight

- Sales Growth contracted from mid-year 2021 and has been negative for the last four reported quarters. Compared to 2021, Nintendo Switch-related hardware and software sales have significantly slowed in Europe and Japan. The global semiconductor shortage impeded Switch-related production, leading to the year-on-year decline in hardware sales.
- EBITDAR Margin attained an historic peak of 42% in the first calendar quarter of 2021 and currently remains close to this high. Within the last three quarters, adjusted COGS and adjusted SG&A expenses (both expressed as a percentage of Sales) increased, leading to a 50-basis-point reduction in EBITDAR Margin.
- The Productive Capital Charge (lower is more favored) improved from 2019 onwards and is currently near lows previously experienced in 2010. The metric does face upward pressure from increasing Working Capital and R&D Charges: in the most recent four quarters, the Productive Capital Charge expanded by 120 basis points.
- EVA Margin (profitability) witnessed expansion through 2020 and 2021. The metric is presently at an all-time high. From the PRVIt perspective, **Nintendo (7974 JP)** achieves a very strong Profitability ranking, driven by a global-relative P1 score of 98. The firm is in the 98th percentile of profitability of our global universe.
- EVA Momentum attained a 13-year high during the first calendar quarter of 2021 but has rolled over since then. In the last four reported quarters, the firm experienced an aggressive deceleration of incremental EVA growth.
- The Japanese firm has been a wealth compounder: Current Value Added (CVA) aggressively increased from 2017. With Future Value Added (FVA) negative, the market continues to have expectations for value destruction going forward. Future Growth Reliance (FGR), which is a function of FVA and Market Value, turned negative in 2021 for the second time in history and contracted to a record discount of -22.7% in the most recent quarter.

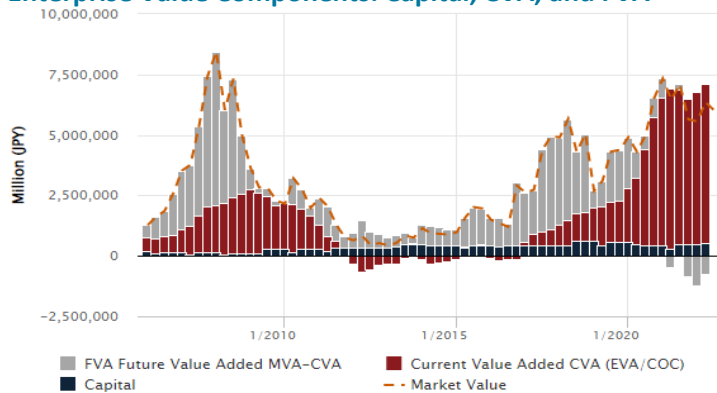
EVA Drivers: Sales, Margin, and Turns



EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance: Market-Implied Expectations



For ISS ESG ratings of both firms, please see page 4 below.

ESG Performance for Pfizer Inc. (PFE)

ESG RATING

PERFORMANCE SCORE



PRIME STATUS

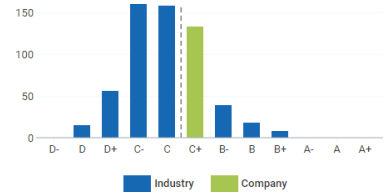
Prime

PRIME THRESHOLD



DISTRIBUTION OF RATINGS

587 companies in the industry



ESG Performance for Nintendo Co., Ltd. (7974 JP)

ESG RATING

PERFORMANCE SCORE



PRIME STATUS

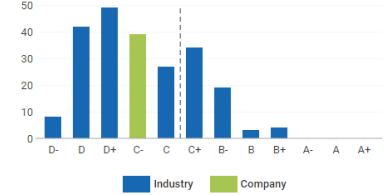
Not Prime

PRIME THRESHOLD



DISTRIBUTION OF RATINGS

225 companies in the industry



ISS ESG

ESG Performance Score: This factor provides a numerical score from 0 to 100. Prime Status is based on the ESG rating and a sector-specific Prime threshold. The ESG Rating and Performance Score, however, is comparable across all rated entities. All rated entities with values greater than or equal to 50 are considered 'Prime': they score well across Environmental, Social, and Governance metrics.

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We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.

EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +24,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + Present Value of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line-item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / Enterprise Value

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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