

Merck & Co. (MRK)

Rating: Buy	Price \$127.00	Yield 2.4%	Market Cap. \$320.4B	52-Week Range \$133.10 – \$99.14
Data as of 04/24/2024				

Sector	Health Care
Subsector	Biopharma & Life Sci
Investment Category	Large Cap
Price Movement	Below Average

Company Overview

Merck develops and markets drugs for human and animal health. Top drugs include Keytruda, Januvia, Lageviro and Gardasil. The company was founded in 1891 and is headquartered in Whitehouse Station, N.J. Competitors include Bristol-Myers Squibb, Eli Lilly and Pfizer.

Merck has emerged as a leader in immuno-oncology, which is a breakthrough cancer treatment that uses the body's own immune system to fight cancer. Merck's drug, Keytruda, has been approved for use in many different cancer types, and we expect more approvals in the future.

Revenues International	54%
Standard & Poor's/Moody's	A+/A1
MSCI ESG Rating	A/Average

Dividend Outlook (1-Year): Rising

Annualized Payment	\$3.08
Last Change	6% (Nov 28, 2023)
Consec. Yrs Increased	13
Paid Since	1935
5-Yr. Trailing Growth	7%
Long-Term Growth Est.	6%
Payout Ratio ('24)	36%
Dividends Paid	Jan, Apr, Jul, Oct

Commentary: We believe the company will continue to grow its dividend slightly below earnings growth to help fund its drug pipeline.

Valuation & Earnings

	'22A	'23A	'24E
Earnings Per Share	7.48	1.50	8.62
P/E	17.0x	84.7x	14.7x
PEGY	1.5x	7.4x	1.3x
LT EPS Growth Est.			9%
Est. Earnings Date	July 25, 2024		

Merck's 2023 earnings include a one-time noncash in-process research and development charge of \$4.02 per share related to the Prometheus acquisition as well as a \$1.70 per share charge related to a cancer-product collaboration with Daiichi.

Annualized Total Returns	1yr	3yr	5yr
Merck & Co.	13%	23%	16%
S&P Health Care Index	6%	6%	12%
S&P 500 Index	24%	8%	13%

Data as of 4/24/24. Source: FactSet. Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Investment Summary

We rate shares of Merck & Co. (Merck) a Buy. Merck has a strong lineup of drugs, vaccines and animal health products. It has emerged as a leader in immuno-oncology with its top drug Keytruda, which we believe will drive solid long-term growth through additional approvals. Keytruda makes up about 40% of total company sales. Keytruda should face patent expiration in a few years, but new products should help Merck navigate this challenge. We also believe Merck will use its strong financial position to make acquisitions to boost growth. These acquisitions may help reduce dependence on Keytruda in the future, with the recent Prometheus acquisition being one such example. In our view, Merck's growth prospects are not fully reflected in the current share price.

Outlook

Growth Driven by Keytruda - Major therapeutic areas for Merck include autoimmune diseases, cancer and diabetes. Keytruda (immuno-oncology) is the primary growth driver for the company. 2023 sales for Keytruda were \$25 billion, and we expect 2025 sales of roughly \$30 billion, which would be about 45% of total company sales. As a result, any developments in this market could impact Merck's share price.

Success in Animal Health and Vaccines - Merck is a leader in animal health, developing products for pets and livestock. Animal health is attractive due to increasing demand and lack of pricing pressure from insurers. Merck also has a sizable vaccine business, and we believe its HPV vaccine, Gardasil, will support continued growth.

Strong Financial Position Allows for Acquisitions - Merck generates strong annual cash flow that should allow it to grow through investment in internal research and through acquisitions. We believe Merck is actively looking to use its strong cash position to make acquisitions that will boost growth and reduce its dependence on Keytruda.

Valuation and Recent Performance - Merck trades a price-to-earnings ratio of 14.7 times our 2024 earnings estimate, which is modestly above its peer-group average of 14.2. Given Merck's cancer expertise and our growth expectations, we feel shares are attractively valued. Merck has outperformed its peers over the past one, three and five years due to solid business execution.

Risks - The primary downside risks to our Buy rating include slower-than-expected growth of Keytruda or delays in the development of new products.

General industry risks include unexpected product failures or liabilities, and political and regulatory (FDA) risk.

Key Developments

4/25/24: Merck reported a first-quarter earnings-per-share (EPS) result of \$2.07, higher than the consensus view of \$1.90. Sales were also higher than the consensus forecast. Merck raised its 2024 earning-per-share (EPS) guidance range to \$8.53 - \$8.65. Previously it was \$8.44 - \$8.59. The company also raised its sales guidance.

Keytruda (cancer) was, again, the star of the show, with sales higher than the consensus outlook. This was due to a stronger-than-expected uptake of Keytruda in earlier-stage cancers, such as breast and renal (kidney) cancer, as well as continued use in approved indications of metastatic cancers. We expect that to continue due to the growing acceptance of the drug and good clinical data. The recent approval of Winrevair, (pulmonary artery hypertension) should also help future sales, thanks to a label (instructions on how to administer and who may benefit from the drug) that was broader and had fewer warnings for use than many investors expected. Gardasil (HPV vaccine) sales essentially met consensus expectations. We also did not see any notable surprises in the sales results of Merck's other drugs, and the company appears to be managing its costs well. We believe that Merck has a solid pipeline of other new products and has an impressive management team. We do not believe this positive outlook is reflected in the price of the shares.

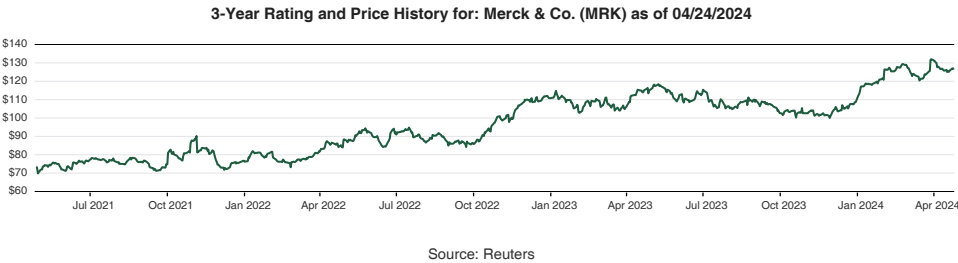
Analyst: John Boylan, CFA

Please see important disclosures and analyst certification on page 2 of the report.

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. John Boylan, CFA

Required Research Disclosures



April 25, 2024	BUY	HOLD	SELL
Stocks	51%	48%	1%
Investment Banking Services	5%	2%	0%

The table lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies that have been investment banking clients within the past 12 months.

- Initiated Coverage PRE-1993.....BUY since 09/02/09-
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Opinion Rating Definitions: **Buy (B)** - We believe the valuation is attractive and total return potential is above average over the next 3-5 years compared with industry peers. **Hold (H)** - We believe the stock is fairly valued and total return potential is about average over the next 3-5 years compared with industry peers or a special situation exists, such as a merger, that warrants no action. **Sell (S)** - We believe the stock is overvalued and total return potential is below average over the next 3-5 years compared with industry peers. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain. **FYI (FYI)** - For informational purposes only; factual, no opinion. **Under Review (UR)** - Our rating, estimates, and opinion for this company are under review and should not be relied upon for making investment decisions until updated.

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- Dividend Outlook (1-Year): Rising – We believe the dividend is likely to increase based on historical trends, the current payout ratio, and/or expected future earnings and cash flow; Stable – We believe the dividend is stable at the current level and is unlikely to increase or decrease; At Risk – We believe the dividend is at risk of being reduced or eliminated; No Dividend – This company does not pay a dividend.
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