

Merck & Co. (MRK)

Rating: Hold	Price \$84.06	Yield 3.9%	Market Cap. \$212.3B	52-Week Range \$127.99 – \$73.31
Data as of 07/28/2025				

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	48%
Standard & Poor's/Moody's	A+/Aa3
MSCI ESG Rating	A/Average

Dividend Outlook (1-Year): Rising

Annualized Payment	\$3.24
Last Change	5% (Nov 19, 2024)
Consec. Yrs Increased	14
Paid Since	1935
5-Yr. Trailing Growth	6%
Long-Term Growth Est.	3%
Payout Ratio ('25)	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

	'24A	'25E	'26E
Earnings Per Share	7.65	9.00	9.75
P/E	11.0x	9.3x	8.6x
PEGY	1.2x	1.1x	1.0x
LT EPS Growth Est.			5%
Est. Earnings Date	October 28, 2025		

Annualized Total Returns	1yr	3yr	5yr
Merck & Co.	(31)%	1%	5%
S&P Health Care Index	(8)%	2%	7%
S&P 500 Index	19%	18%	16%

Data as of 7/28/25. Source: FactSet. Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Investment Summary

We rate the shares of Merck a Hold. The company has a strong lineup of drugs, vaccines, and animal health products. However, Merck's top drug, Keytruda, faces patent expiration in 2028. Keytruda makes up over 45% of total company sales. Previously, we believed that Merck's promising new product pipeline (e.g., cancer, heart, and other diseases) and its HPV (human papillomavirus-9) vaccine, called Gardasil, would help it navigate this patent expiration. However, Gardasil demand has slowed in China, an important market. Demand could eventually return in China and sales in other developing nations may accelerate in the future, but we have less confidence in our growth outlook despite an attractive product pipeline. Eventually, new products may reaccelerate growth, but this may take longer than we initially believed due to Merck's challenges. We believe this outlook is reflected in the price of the shares, as evidenced by Merck's price-to-earnings ratio trading below its peers.

Outlook

Growth Driven by Keytruda - Keytruda 2024 sales were over \$29 billion, and we expect 2025 sales of roughly \$32 billion, which would be over 45% of total company sales. It does have a new formulation for Keytruda in development that could retain a portion (approximately 30%-40%) of the patients of the version going off patent. However, we would like to see doctor uptake on the new formulation before we give Merck credit for these potential sales.

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, but we believe its HPV vaccine Gardasil may see slower sales due to sluggish demand in China. Other developing markets may eventually help restore growth, but this may take some time.

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 8.6 times our 2026 earnings estimate, which is lower than its peer-group average of 11.1. Given our growth outlook for Merck, we feel shares are appropriately valued. Merck has underperformed its peers over the past year due to slow Gardasil sales.

Risks - Upside risks are that Gardasil demand returns, Keytruda sales remain resilient after its patent expiration, and its new product pipeline exceeds our expectations. Downside risks include unexpected product failures or liabilities, and political and regulatory (FDA) risk. Tariffs and drug-pricing executive orders are also downside risks.

Key Developments

7/29/25: Merck reported a second-quarter earnings-per-share (EPS) result of \$2.13, higher than the consensus view of \$2.02. Merck raised the lower end of its 2025 EPS guidance range by \$0.05, and it is now \$8.87-\$8.97. The company also tightened its 2025 sales guidance to \$64.3 billion-\$65.3 billion from \$64.1 billion-\$65.6 billion.

Sales this quarter were about what we expected except for ongoing weak sales of Gardasil (HPV vaccine) versus the consensus forecast. We were expecting lackluster sales of Gardasil, but it appears that demand could take some time to return, especially in China. Sales of Keytruda (cancer) were modestly higher than the consensus view. Additionally, Winrevair (heart) sales were higher than our outlook, which gives us confidence in our positive long-term view for this drug. Merck is managing its costs well, as evidenced by the better-than-expected EPS, and it is instituting a new \$3 billion cost-control program that will be reinvested back into the company. We believe that Merck has a good pipeline of new and existing products, but this is balanced by slowing sales of a key vaccine (Gardasil) and Keytruda eventually going off-patent. Therefore, we believe Merck's shares are appropriately valued.

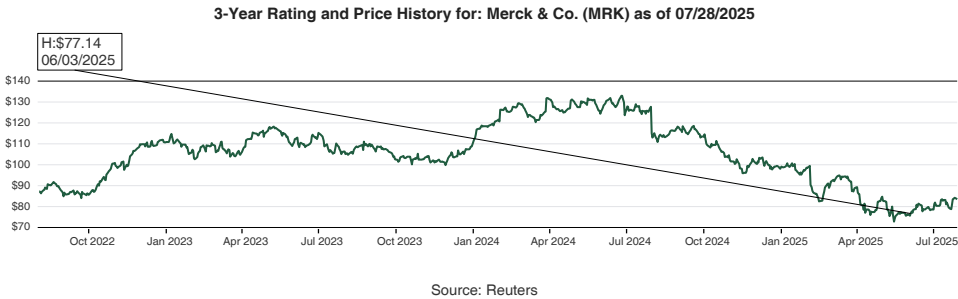
Analyst: John Boylan, CFA

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



July 29, 2025	BUY	HOLD	SELL
Stocks	55%	45%	0%
Investment Banking Services	4%	6%	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 where the firm has acted in furtherance of a public offering of the issuer within the past 12 months.

- Initiated Coverage PRE-1993.....BUY since 09/02/09-06/03/25...(H) 06/03/25-
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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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