



Merck & Company (MRK)

Updated February 9th, 2025 by Nathan Parsh

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	14.0%	Market Cap:	\$221 B
Fair Value Price:	\$116	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/17/25
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.0%	Dividend Payment Date:	04/07/25
Dividend Yield:	3.7%	5 Year Price Target	\$149	Years Of Dividend Growth:	14
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Merck & Company is one of the largest healthcare companies in the world. Merck manufactures prescription medicines, vaccines, biologic therapies, and animal health products. Merck employs 71,000 people around the world and generates annual revenues of more than \$65 billion.

On November 19th, 2024, Merck raised its quarterly dividend 5.2% to \$0.81.

On May 29th, 2024, Merck completed its \$1.3 billion purchase of EyeBio, which has a pipeline of drug candidates that target retinal diseases.

On February 4th, 2025, Merck announced fourth quarter and full year results for the period ending December 31st, 2024. For the quarter, revenue improved 7% to \$15.6 billion, which was \$110 million above estimates. Adjusted earnings-per-share was \$1.72 compared to \$0.03 the prior year and \$0.04 more than expected. For the year, revenue increased 7% to \$64.2 billion while adjusted earnings-per-share of \$7.65.

Keytruda, which treats cancers such as melanoma that cannot be removed by surgery and non-small cell lung cancer, continues to be the key driver of growth for the company as sales for the drug were up 19% to \$7.8 billion during the period. The product generated \$29.5 billion in 2024, up from \$25 billion in 2023 and \$20.9 billion in 2022. Sales for Merck's HPV vaccine *Gardasil* declined 17% to \$1.6 billion, mostly due to lower demand in China, partially offset by gains in Japan. Animal Health grew 9% to \$1.4 billion due to higher prices for both Livestock and Companion Animal products.

Merck provided guidance for 2025 as well, with the company expecting sales in a range of \$64.1 billion to \$65.6 billion. Adjusted earnings-per-share are projected to be in a range of \$8.88 to \$9.23 for the year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.59	\$3.78	\$3.98	\$4.34	\$5.19	\$5.94	\$6.02	\$7.48	\$1.69	\$7.65	\$8.96	\$11.44
DPS	\$1.80	\$1.84	\$1.88	\$1.99	\$2.20	\$2.48	\$2.64	\$2.76	\$2.96	\$3.08	\$3.24	\$4.14
Shares¹	2781	2749	2697	2650	2603	2536	2535	2548	2533	2532	2532	2520

Merck's earnings declined during the last recession and it took the company several years to return to growth. Merck had earnings-per-share growth of 8.8% for the 2015 to 2024 period. Growth has slowed somewhat to 8.6% annually over the last five years. *Keytruda* has shown very high rates of growth and has patent protection in the U.S. until 2028, in the European Union until 2030, and in Japan until 2032. In addition, the company's spinoff of Organon should allow for a higher growth as Merck focuses on its pharmaceutical, vaccines and animal health businesses. For now, we maintain our estimate of 5% earnings growth over the next five years. Merck has increased its dividend for 14 consecutive years.

On August 16th, 2022, the Inflation Reduction Act of 2022 was signed into law. The law will, in part, require the federal government to negotiate prices for drugs covered under Medicare starting in 2026. This could reduce the profits pharmaceutical companies could collect, but these costs could be shifted to employer sponsored plans, reducing the

¹ In millions of shares

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negative impact on businesses. As such, we maintain our expected growth rates, but will monitor the situation as we get closer to the implementation of the law.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.8	15.2	15.6	14.8	15.9	13.6	12.7	14.8	64.5	13.0	9.7	13.0
Avg. Yld.	3.2%	3.2%	3.0%	3.0%	2.7%	3.0%	3.4%	2.5%	2.7%	3.1%	3.7%	2.8%

Shares of Merck have declined \$15, or 14.7%, since our November 3rd, 2024 update. Based off earnings estimates for the current year, the stock has a forward P/E ratio of 9.7. Excluding 2023, Merck's long-term average P/E ratio is 14.6. While *Keytruda* has been an enormous source of growth over the recent years, Merck's other products have not seen as much success. We are lowering our target P/E to 13 from 15 as a result. If shares were to revert to this target by 2030, then valuation would add 6.0% to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

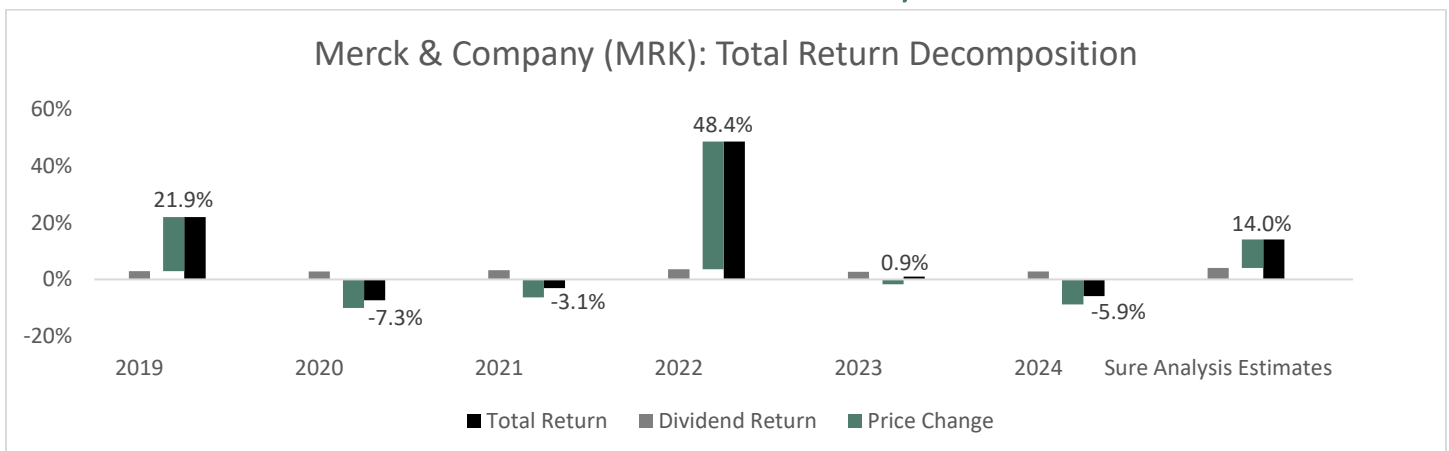
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	50%	49%	47%	46%	42%	42%	44%	37%	175%	40%	36%	36%

Many investors consider pharmaceutical companies "defensive" stocks because their products are in demand even in a protracted recession. The thinking goes that sick people will seek treatment for illnesses even in poor economic conditions, causing earnings to increase. While this is true for many names in this industry, Merck's earnings declined in 2009 and suffered a subsequently long road back to profitability that this is not necessarily true for every healthcare corporation. With that said, Merck's key competitive advantage is that it is seeing strong growth rates in key product areas. While generic competition is putting pressure on certain pharmaceuticals, we find *Keytruda's* growth rate and peak sales expectations very appealing. Merck is also one of the largest pharmaceutical companies in the world, which gives the company size and scale. If needed, the company would likely have the ability to acquire other assets. Merck has also spent heavily (16% to 19% of sales) on research and development over the past five years.

Final Thoughts & Recommendation

Merck & Company is expected to offer a total annual return of 14.0% through 2030, up from 10.3% previously. This projected return stems from expected earnings growth of 5%, a starting yield of 3.7%, and a mid-single-digit tailwind from multiple expansion. Merck's top selling products, especially *Keytruda*, continue to produce strong growth rates. We have raised our five-year price target \$1 to \$149 due to EPS estimates and a lower target P/E. We continue to rate shares of Merck as a buy due to total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	42237	39498	39807	40122	42294	46840	47994	48704	59283	60115
Gross Profit	25469	24564	25777	27210	28785	32728	32509	35078	41872	43989
Gross Margin	60.3%	62.2%	64.8%	67.8%	68.1%	69.9%	67.7%	72.0%	70.6%	73.2%
SG&A Exp.	11606	10313	10017	10074	10102	10615	10468	9634	10042	10504
D&A Exp.	6691	6375	5471	4676	4519	3652	3625	3214	3909	3872
Operating Profit	6683	7547	5499	6797	8931	12241	8483	13199	18282	2954
Op. Margin	15.8%	19.1%	13.8%	16.9%	21.1%	26.1%	17.7%	27.1%	30.8%	4.9%
Net Profit	11920	4442	3920	2394	6220	9843	7067	13049	14519	365
Net Margin	28.2%	11.2%	9.8%	6.0%	14.7%	21.0%	14.7%	26.8%	24.5%	0.6%
Free Cash Flow	5672	11255	8762	4563	8307	9967	5569	9661	14707	9143
Income Tax	5349	942	718	4103	2508	1687	1709	1521	1918	1512

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	98167	101677	95377	87872	82637	84397	91588	105694	109160	106675
Cash & Equivalents	7441	8524	6515	6092	7965	9676	8062	8096	12694	6841
Acc. Receivable	6626	6484	7018	6873	7071	6778	7851	9230	9450	10349
Inventories	5571	4700	4866	5096	5440	5978	6310	5953	5911	6358
Goodwill & Int.	33378	40325	35467	32467	31357	33621	34842	44197	41473	39208
Total Liabilities	49376	56910	55069	53303	55755	58396	66184	67437	63102	69040
Accounts Payable	2625	2533	2807	3102	3318	3738	4594	4609	4264	3922
Long-Term Debt	21403	26412	24842	24410	25114	26346	31791	33102	30691	35055
Total Equity	48647	44676	40088	34336	26701	25907	25317	38184	45991	37581
LTD/E Ratio	0.44	0.59	0.62	0.71	0.94	1.02	1.26	0.87	0.67	0.93

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.7%	4.4%	4.0%	2.6%	7.3%	11.8%	8.0%	13.2%	13.5%	0.3%
Return on Equity	24.2%	9.5%	9.2%	6.4%	20.4%	37.4%	27.6%	41.1%	34.5%	0.9%
ROIC	16.2%	6.3%	5.8%	3.9%	11.2%	18.9%	12.9%	20.3%	19.6%	0.5%
Shares Out.	2838	2781	2749	2697	2650	2603	2536	2535	2548	2533
Revenue/Share	14.43	13.90	14.28	14.60	15.79	18.16	18.89	19.19	23.32	23.60
FCF/Share	1.94	3.96	3.14	1.66	3.10	3.86	2.19	3.81	5.79	3.59

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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