

Company	Merck & Co., Inc.	Ticker	MRK	Current Price	Industry:	Health Care	Sub Industry:	Pharmaceuticals	
Target Price	\$116.00	TTM P/E	14.37	\$110.04	Beta		0.39	Mkt Cap (B)	278.39
Stop Loss	\$88.32	Forward P/E	14.73		Credit Rating	B		Avg Vol (12M)	2,533.00
52 wk High/Low	110.98-71.97	EPS	\$7.66		Rating Outlook	Below Average		Div Yield	2.66%

Company Background

Established in 1891, Merck & Co. is one of the leading global drug-makers and has been operating for over 130 years. They produce a wide range of prescription drugs and vaccines in many therapeutic areas in the U.S. and abroad. Merck & Co. currently operates in two segments which are Pharmaceuticals and Animal Health.

Industry Outlook

Our outlook for the Pharmaceutical sub-industry is positive, we expect an improved outlook for 2023, partly predicated on a return to normalcy post pandemic, with improved medical utilization and electives demand, accompanied by ongoing demand for Covid-related vaccines and treatments. While this does not likely induce further surges in Covid-related pharmaceutical sales, we do think it could prompt a more annuity-like pattern to such sales. Worldwide total prescription drug sales are projected to grow at a compound annual growth rate (CAGR) of 7.5% during the 2020-2026 period, according to forecasts from EvaluatePharma and reach \$1.4 trillion dollars by 2026.

Investment Thesis

The U.S. is MRK's largest market, accounting for 46% of total revenue of \$48.7 billion in 2021, while Europe, Middle East, and Africa was the second largest at 27%, followed by China (9%).

In the third quarter of 2022, MRK generated net sales of \$15.0B, up 14% year-over-year.

Low Beta stock 0.33

3-yr Proj. Eps CAGR 32%

Calculated ROR: 7% & Intrinsic Value of \$132.46

Merck Stock Price as of 12/6/22 at close: \$110.04

Investment Risks

Risks to our recommendation and target price include R&D pipeline failures; lower-than-expected market share for Keytruda and vaccines; and potential for unfavorable U.S. regulations on drug prices.

3-5 takeaways

Their November 2021 acquisition of the former Acceleron Pharma (AXLN; \$11.5 billion) adds to its portfolio of serious and rare disease therapies. Short term outlook is that Merck benefits from demand for "Molnupiravir" in the battle against Covid-19. Calculated ROR: 7% & Intrinsic Value of \$132.46

Financial Performance

	2017	2018	2019	2020	2021
Revenue	40,122	42,294	39,121	41,518	48,704
Operating Profit	1,870	5,538	5,313	3,629	11,181
Net Income	2,394	6,220	9,843	7,067	13,049
Revenue Growth	1	5	11	7	17
EBITDA%	26.66	30.31	27.99	21.21	33.05
Operating Profit %	—	—	—	—	—
Net Income Margin	26.45	27.48	15.83	27.25	34.28
D/E	70.61	93.42	105.19	131.68	90.52
EPS	0.88	2.34	3.84	2.79	5.16
PE Ratio	14.50	17.62	37.81	18.36	11.66
Current Ratio	1.33	1.17	1.24	1.02	1.27
RoE	6.43	20.38	37.42	27.59	41.10
RoA	2.61	7.30	11.79	8.03	13.23
Dividend per share	1.89	1.99	2.26	2.48	2.64
FCF	4,563.0	8,307.0	10,071.0	5,824.0	9,661.0

Discounted Cash Flow

	2018-21	2022-31
Avg Revenue Growth	5.3%	13.7%
Avg Gross Margin	69.5	73.3%
Avg EBITDA Margin	27.4%	35.0%
Avg NOPAT Margin	14.6%	27.8%
Avg FCF Margin	19.9%	19.6%
Tax Rate		21%
WACC		12.28%
Perpetuity growth rate		3%

Analyst Opinion

Buy: 19	Sell: 8	Hold: 0
	Rating	Target
S&P NetAdvantage	Strong Buy	116
Bloomberg	Buy	113
Yahoo Finance	Buy	113

Financial Performance

Name (BI Peers)	Ticker	Mkt Cap 1 (B\$)	MC to BV	Tot Assets:Y	P/S:Y	P/E:Y	P/FCF:Y	P/S:Y	GM:Y	EBIT/Net Sales:Y	ROE:Y	ROA:Y
Median		286.62B	6.28	127.92B	4.17	16.51	15.57	4.17	72.35%	24.56%	43.76%	13.55%
100	MERCK & CO. INC.	282.39B	6.35	105.69B	3.98	11.66	20.07	3.98	76.10%	25.74%	52.58%	16.92%
102	JOHNSON & JOHNSON	462.69B	6.20	182.02B	4.80	20.54	22.79	4.80	68.16%	25.22%	32.44%	12.48%
103	ELI LILLY & CO	346.54B	34.41	48.81B	8.85	35.51	42.10	8.85	75.21%	22.45%	97.03%	14.86%
104	ABBVIE INC	287.60B	17.98	146.53B	4.26	14.86	10.90	4.26	69.49%	31.89%	113.77%	10.96%
105	PFIZER INC	285.63B	3.08	181.48B	4.07	13.73	11.07	4.07	62.25%	23.91%	34.94%	14.62%
106	DRISTOL-HYVERS SQUIBB CO	153.52B	4.70	109.31B	2.99	18.16	9.09	2.99	79.87%	15.91%	20.86%	6.76%

*Industry Avg. includes companies listed

Total Return

Rating	Company	S&P 500	Industry Sect.
YTD	45.63	-20.31	-3.72
2021	45.28	-20.64	-3.35
Last 3 years	27.96	17.29	32.75
Last 5 years	106.92	41.42	64.32

CSR Characteristics	Company	Peers
Environmental disclosure score	5.85	6.35
Governance disclosure score	7.64	7.34
Social Disclosure score	5.04	4.42

Prepared by Team Hartford (Month Day, Year) using Bloomberg, S&P Net Advantage, Morning Star, Yahoo Finance