

<b>Company: Unitedhealth Group Ticker: MRK</b> Current price: \$100.77 Industry: Healthcare Sub-industry: Drug Manufacturer -General			
Target Price: \$127.35	TTM P/E: 16.31	Beta: 0.39	Market Cap: \$258.33B
Stop Loss: \$78.4	Forward P/E: 13.26	Credit Rating: Stable	Avg Vol (12M): 10.11 Million
52 Week High/Low: \$103.76/ \$71.50	EPS: 6.03	Rating Outlook: Stable	Dividend Yield: 2.7%

#### Company Background:

Merck & Co., Inc. operates as a healthcare company worldwide. It operates through two segments, Pharmaceutical and Animal Health. The Pharmaceutical segment offers human health pharmaceutical products in the areas of oncology, hospital acute care, immunology, neuroscience, virology, cardiovascular, and diabetes, as well as vaccine products, such as preventive pediatric, adolescent, and adult vaccines. The Animal Health segment discovers, develops, manufactures, and markets veterinary pharmaceuticals, vaccines, and health management solutions and services, as well as digitally connected identification, traceability, and monitoring products. It serves drug wholesalers and retailers, hospitals, and government agencies; managed health care providers, such as health maintenance organizations, pharmacy benefit managers, and other institutions; and physicians and physician distributors, veterinarians, and animal producers. The company has collaborations with AstraZeneca PLC; Bayer AG; Eisai Co., Ltd.; Ridgeback Biotherapeutics; and Gilead Sciences, Inc. to jointly develop and commercialize long-acting treatments in HIV. Merck & Co., Inc. was founded in 1891 and is headquartered in Kenilworth, New Jersey.

#### Industry Outlook:

The Pharmaceuticals industry is the second-largest industry (in terms of total revenue) in the global Health Care sector and boasted the fifth-highest EBITDA margins as of the fourth quarter of 2021. The primary reason most pharmaceutical firms focus heavily on the U.S. market is because they can generally charge more for brand drugs in the country. This is mainly because health care customers in the U.S. are private and fragmented, and drug makers do not have to negotiate pricing with a centralized national health system. Besides the additional sales of Covid-19 related products, we expect growth over the next 12 months to be supported by key products and new launches. Research & development (R&D) spending is expected to increase due to pharmaceutical companies' continuous efforts to boost their drug pipelines amid upcoming patent expirations, at a CAGR of 4.2% between 2020 and 2026. We expect the pharmaceutical industry to continue facing pricing pressure, with the high drug prices in the U.S. remaining a big political issue where both the Democratic and Republican parties aim for more affordable drug prices for Americans.

#### Investment Thesis:

Currently with a beta of .39 and a dividend yield of 2.7%, Merck has continued to execute year to year sales and revenue growth to bring back profits to its investors. Merck is shifting its focus toward areas of unmet medical need in specialty-care areas, strengthening its patents, economies of scale, and a powerful intellectual competitive advantage. As the bedrock of Merck's wide moat, patent protection should continue to keep competitors at bay while the company strives to introduce the next generation of drugs. The company's enormous cash flows support a powerful salesforce that not only sells currently marketed drugs, but also serves as a deterrent for developing drug companies seeking to launch competing products. Lastly, we expect new cancer drug combinations will further propel Merck's overall drug sales for future decades to come.

#### 3-5 take away from last quarter investor call transcript:

- Q3 2022 Earnings Call: *Robert M. Davis - Merck & Co., Inc. - President, CEO & Director*  
 "Our strong performance this quarter reflects sustained momentum across our key growth drivers and steady progress in our pipeline. We're well positioned to successfully close out the year, and we look forward to building on this momentum in 2023 and beyond."
- Q3 2022 Earnings Call: *Caroline Litchfield - Merck & Co., Inc. - Executive VP & CFO*  
 "We are confident in our ability to continue to deliver in the short term while we make disciplined investments to maximize long-term value for patients and shareholders. Global demand for our innovative medicines and vaccines remains strong, and we continue to demonstrate the operational momentum and commercial execution that will enable us to deliver value to patients and shareholders now and well into the future. "
- Q3 2022 Earnings Call: *Dean Y. Li - Merck & Co., Inc. - Executive VP & President of Merck Research Laboratories*  
 "I would also like to touch on the recently announced collaboration with Orna Therapeutics. We have made significant investments and gained important insights into the use of RNA technology. The compelling circular RNA platform that Orna has developed allows us to explore the potential for a new generation of vaccines and therapeutics."

Financial performance:							Discounted Cash Flow:		
	2017	2018	2019	2020	2021	2022		2018-2022	2023-2031
Revenue	\$40122 M	\$4229 4M	\$3912 1M	\$4151 8M	\$48704 M		Avg Revenue Growth	4.428%	8.2%
Operating Profit	27210	28785	27105	27900	35078		Avg Gross Margin	70.7%	69.88%
Net Income	2394	6220	9843	7067	13049		Avg EBITDA Margin	28.916%	23.01%
Revenue Growth (%)	0.79%	5.41 %	-7.5%	6.13 %	17.31 %		Avg NOPLAT Margin	17.93%	12.15%
EBITDA%	4.59%	17.23 %	-16.4 6%	-19.6 %	81.68 %		Avg FCF/Margin	14.12%	11.03
Operating Profit %	5.56%	5.79 %	-5.84 %	2.93 %	25.73 %		Tax Rate	27.372%	23%
Net Income Margin	5.97%	14.71 %	25.16 %	17.02 %	25.88 %		WACC	7.2%	4.2%
D/E	1.54	2.07	2.25	2.61	1.61		Perpetuity Growth Rate	2.0%	2%
EPS	0.87	2.32	3.81	2.78	5.14		<b>Analyst Opinion</b>		
PE Ratio	52.14	29.26	21.78	27.80	14.54		Buy:	Hold:	Sell:
Current Ratio	1.33	1.17	1.14	1.02	1.27			Rating	Target
ROE	6.26%	19.71 %	36.34 %	26.00 %	38.79 %		S&P Net Advantage	Strong Buy	
ROA	2.60%	7.34 %	11.79 %	7.92 %	13.71 %		Morningstar	Buy	
Dividend/share	\$1.61	\$1.75	\$2.04	\$2.31	\$2.54		Yahoo Finance	Buy	
FCF	\$4.564 B	\$8.30 7B	\$5.51 5B	\$3.18 8B	\$8.674 B				

Relative Competitive Valuation Snapshot:

Company Information		Financial Metrics		Valuation Metrics			Operational Metrics			
Ticker	Firm	Market Cap	Total Assets	P/Sales	P/B	P/E	Gross Margin	EBIT Margin	ROE	ROA
MRK	Merck & Co. Inc	\$260.80 B	\$105.694 B	4.22	5.59	16.25	70.7%	31.45%	35.9%	13.70%
JNJ	Johnson & Johnson	\$456.81 B	\$175.124 B	4.84	5.932	24.2	67.43%	23.71%	25.60%	10.70%
LLY	Eli Lilly and Company	\$357.79 B	\$47.462 B	10.5	34.46	58.51	75.98%	25.87%	70.80%	12.80%
ABBV	AbbVie Inc	\$261.70 B	\$141.325 B	4.616	16.29	21.01	42.10%	30.59%	82.80%	8.50%

**Total Return %**

	MRK	Industry Sec	S&P 500
YTD	30.67%	1.28%	-24.88%
2021	20.71%	25.59%	-17.78%
Last 3 years	35.12%	26.59%	7.58%
Last 5 years	119.39%	16.24%	8.67%

**CSR Characteristics**

	MRK	Industry
ESG Disclosure	21.64	22.19
Governance Disclosure Score	9.6	7.89
Social Disclosure Score	11.5	12.54
Environmental Disclosure Score	0.8	1.48

-Prepared by MSFRM Fund 2 (DATE) using Bloomberg, S&P Net Advantage, Morningstar, Yahoo Finance