

Company: Merck & Co		Ticker: MRK	Current Price: \$88.00	Industry: Healthcare	Subgroup: Drug Manufacturers
Target Price: \$107.18 Stop Loss: \$70.40 52W H/L: \$105.11/\$73.31		TTM P/E: 13.79x F. P/E: 9.13x EPS: \$6.53 Legging In: 1.5% allocation on 10/28, remainder will be allocated after earnings report on 10/30		Beta: .37 Credit Rating: A+ Rating Outlook: Stable Market Cap: \$223.58B Avg. Vol(12M): 12.16M Dividend Yield: 3.72%	

Company Background:
<p>Founded in 1891 and headquartered in Rahway, New Jersey, Merck & Co., Inc. is a global healthcare leader engaged in the discovery, development, manufacture, and marketing of prescription medicines, vaccines, and animal health products. The company operates through two primary segments: Pharmaceutical and Animal Health. Its pharmaceutical division focuses on oncology, vaccines, infectious diseases, cardiometabolic disorders, and immunology, with flagship products such as Keytruda, Gardasil/Gardasil 9, and Lagevrio. Merck’s Animal Health segment offers a broad range of veterinary pharmaceuticals, vaccines, and digital monitoring solutions for livestock and companion animals. The company maintains operations in more than 140 countries, generating over \$64 billion in annual revenue in FY 2024. Merck continues to invest heavily in research and development, allocating over \$30 billion across 2023–2024 toward innovation in biologics, oncology, and vaccine manufacturing capacity.</p>
Industry Outlook:
<p>Global biopharma is a ~\$1.6–1.8T market growing ~5–6% annually, led by oncology, immunology, and vaccines. Prescription drugs make up ~80% of sales, while biologics are ~40% and expanding ~9–10% yearly. Oncology exceeds \$250B and is growing ~12–13% on immuno-oncology and targeted therapies, and vaccines are a \$45–50B market growing ~8% on HPV, pneumococcal, and adult immunization demand. Big Pharma invests ~\$130B per year in R&D (~18–20% of revenue). Growth is supported by aging populations, a rich innovation pipeline (IO/biologics/vaccines), greater access in emerging markets, and faster regulatory pathways. Key risks include pricing pressure and reimbursement negotiations, patent expirations with generic/biosimilar competition, high R&D failure risk and long timelines, and macro headwinds from inflation, supply chains, and FX. Market sentiment is cautiously constructive, favoring diversified large-cap pharma with durable cash flow; the sector typically trades ~14–16× forward EPS with ~2–3% dividend yields.</p> <p>The industry remains a defensive, cash-generative sector offering yield stability and selective growth through innovation in oncology, vaccines, and biologics.</p>
Investment Thesis:
<ul style="list-style-type: none"> • Market Leadership & Portfolio Strength: Merck remains a global leader in oncology and vaccines, anchored by Keytruda (>\$25B annualized revenue) and Gardasil. These blockbuster franchises continue to drive resilient demand while upcoming launches in oncology, cardiovascular, and immunology support durable mid-term revenue visibility. • Steady, Sustainable Growth: The base case assumes a ~3.2% revenue CAGR (2025–2029) driven by continued oncology momentum, vaccine penetration, and productivity improvements from the \$3B Elkton, Virginia manufacturing expansion and biotech center completion by 2028–2029. This transition enhances domestic capacity, reduces tariff exposure, and strengthens U.S. distribution efficiency. • Margin Expansion Through Efficiency: Gross and operating margins expand modestly as the new U.S. facilities become fully operational, offsetting early construction costs. Cost of revenue declines to ~22.6% of sales by 2029, while operating margins rise from 36.5% to 37.7%, reflecting disciplined expense management and improved production mix. • High Profitability & Cash Flow: Operating leverage and disciplined CapEx execution drive free cash flow growth to ~\$26B by 2029, representing a 35% FCF margin. Strong D&A growth reflects new assets coming online and reinforces the company’s reinvestment capacity. • Resilient & Diversified Business Model: A balanced portfolio across oncology, vaccines, and animal health provides stability through varying economic conditions. Geographic and therapeutic diversification mitigate dependence on any single franchise. • Attractive Financial Returns: ROIC remains well above WACC (~18–20% vs. 5.1%), underlining value creation through efficient capital allocation and recurring high-margin revenue streams. <p>Merck’s base case outlook demonstrates a steady and defensible growth trajectory built on operational efficiency, strong recurring revenue, expansion. The company’s U.S. manufacturing investments position it to lower costs, enhance supply chain resilience, and sustain mid-single-digit top-line growth while generating consistent, high-quality free cash flow and long-term shareholder returns.</p>
Investment Risks:
<p>Key Risks:</p> <ul style="list-style-type: none"> • Regulatory pressure: Drug price negotiations, reference pricing, and reimbursement caps impact profitability. • Patent expirations: Loss of exclusivity for major drugs increases generic and biosimilar competition. • R&D uncertainty: High clinical failure rates and longer approval timelines add financial and execution risk. • Macro & cost headwinds: Inflation, supply chain costs, and foreign exchange volatility affect margins.
Take aways from last Earnings Call *Next Earnings Report On: 10/30/25 9:00 am

- Q2 2025 revenue totaled \$15.8 billion, coming in slightly below expectations.
- EPS of \$2.13 beat consensus by roughly \$0.10, reflecting continued margin strength.
- Full-year guidance was reaffirmed at \$64–65 billion in revenue and EPS of \$8.9–\$9.0.
- Keytruda remained the primary growth driver, supported by new indications and strong oncology demand.
- Gardasil sales declined sharply due to temporary shipment pauses and inventory adjustments in China.
- Animal Health delivered steady growth, benefiting from continued vaccine and companion animal product demand.
- Management highlighted ongoing pipeline momentum in oncology, cardiovascular, and immunology programs.
- The company is reallocating ~\$3 billion from slower-growth areas to fund high-potential R&D and new launches.
- Executives reiterated confidence in long-term growth despite near-term headwinds in vaccines and FX impacts.

Financial Performance

Income Statement (in Bil, except ratios)	06/30/2025	12/2024	12/2023	12/2022	12/2021	12/2020
Revenue	63.62	64.17	60.12	59.28	48.70	47.99
Revenue Growth %	1.82%	6.74%	1.40%	21.72%	17.31%	22.68%
Gross Profit	48.73	48.98	43.99	41.87	35.08	32.51
Gross Profit Margin %	76.60%	76.32%	73.17%	70.63%	72.02%	67.74%
Operating Income	19.82	20.22	2.95	18.28	13.20	8.48
Operating Margin %	31.16%	31.51%	4.91%	30.84%	27.10%	17.68%
EBIT	19.99	20.79	2.67	17.25	14.65	9.56
EBIT Margin %	31.42%	32.40%	4.44%	29.10%	30.08%	19.93%
EBITDA	24.59	25.29	6.54	21.16	17.86	13.19
EBITDA Margin %	38.65%	39.41%	10.88%	35.69%	36.68%	27.48%
Net Income	16.41	17.12	0.37	14.52	13.05	7.07
Net Profit Margin %	25.81%	26.70%	0.63%	24.50%	25.37%	14.76%
Basic EPS	6.51	6.76	0.14	5.73	5.16	2.79
Diluted EPS	6.49	6.74	0.14	5.71	5.14	2.78
Normalized EPS	7.64	7.64	1.50	7.48	6.02	4.57
Total Dividends per Share	3.20	3.12	2.96	2.80	2.64	2.48

DCF and Analyst Opinions

Analyst Opinion
Buy: allocation size: 1.5%, Will Increase After 10/30
Exit EV/EBITDA 8.36x Target \$107.18; Stop-loss 20%.

Avg Revenue Growth(5YR CAGR)	2.7%
Avg. EBITDA Margin(FY25)	43.2%
Avg Net Income Margin(LTM)	34.4%
Debt/Equity	1.1x
Avg FCF Margin	23.2%
Cost of Debt	4.61%
Tax Rate	11.26%
Cost of Equity	5.31%
WACC	5.13%
Perpetuity Growth Rate	2%

Relative Valuation

Company Name	Description	Market Cap(\$)	EV(\$)	EBITDA	EV/EBITDA	P/E TTM	EV/EBITDA	ROIC	Gross Margin %	Net Margin %	5Yr Beta	Credit Rating
MERCK & CO, INC. (NYSE:MRK)	Merck & Co., Inc. is a global healthcare company providing innovative health solutions through prescription medicines, biologics, therapies, vaccines, and animal health products. It operates in two segments: Pharmaceutical, which offers human health drugs and vaccines sold to wholesalers, hospitals, and government agencies, and Animal Health, which develops and markets veterinary medicines, vaccines, and health management solutions for livestock and companion animals. Key products include KEYTRUDA, VERzenio, and Olanzapine.	218.83	243.48	28.33	8.59	13.30	20.30%	77.46%	77.46%	22.80%	0.37	A+
ELI LILLY AND COMPANY (NYSE:LLY)	Eli Lilly and Company is a global pharmaceutical firm focused on discovering, developing, manufacturing, and marketing human medicines. Its portfolio spans several therapeutic areas, including cardiovascular health (e.g., Mounario, Trulicity, Jardiance), oncology (e.g., Verzenio, Cyramza), immunology (e.g., Taltz, Cyltezo), and neuroscience (e.g., Engaltap, Kisqada). Through its subsidiary PIONEER Pharmaceuticals, the company is advancing immunopharmaceutical and radiopharmaceutical therapies for cancer, and it is also developing an oral small-molecule inhibitor for inflammatory bowel disease (IBD).	768.89	777.13	24.77	31.37	54.00	30.20%	82.80%	82.80%	25.90%	0.46	A+
BREASTHERM SQUIBE COMPANY (NYSE:BST)	BreastHERM Squibb Company is a global biopharmaceutical firm focused on discovering, developing, and delivering transformative medicines for serious diseases in oncology, hematology, immunology, cardiovascular, and neuroscience. Its key growth products include Opdivo, Yervoy, Ralimet, Camptos, Zeposin, Abiraterone, and Taltz, while its legacy portfolio features major drugs like Eliquis, Revlimid, and Pomalyst. The company's leading therapy, Opdivo, is a monoclonal antibody targeting the PD-1 receptor to enhance immune response against cancer.	90.35	128.31	19.11	6.61	17.60	-12.88%	73.90%	73.90%	10.60%	0.34	A
PFIZER INC. (NYSE:PFE)	Pfizer Inc. is a global research-based biopharmaceutical company involved in the discovery, development, manufacturing, and marketing of medicines and vaccines. Operating through its Biopharm segment, which includes U.S. and international divisions, Pfizer's portfolio spans oncology, primary care, and specialty care. Key products include Eliquis, Eliquis, Cominvy, Prevacid, and Nuquin, along with a wide range of therapies addressing cancer, infectious diseases, immunology, and rare conditions.	140.55	189.39	24.50	7.73	13.10	14.30%	73.80%	73.80%	16.80%	0.46	A
Statistics Summary		Market Cap (\$B)	EV (\$B)	EBITDA	EV/EBITDA	P/E TTM	ROIC	Gross Margin %	Net Margin %	5Yr Beta		
High		218.83	777.13	28.33	31.37	54.00	30%	83%	26%	0.46		
Low		493.88	451.72	23.72	33.35	33.35	9%	78%	18%	0.40		
Average												

Merck:
EV/EBITDA: 8.59x
P/E(TTM): 13.5x
ROIC: 20.30%
Comps Avg.
EV/EBITDA: 33.55x
P/E (TTM):33.55 x
Spread:
ROIC vs. WACC
20.30% vs. 5.13% 15.17%

Relative Performance

YTD

1yr

Merck

-11.3%

-7.8%

Healthcare Sector

+6.9%

+8.4%

S&P 500

+10.7%

+11.9%

