

Company: Merck & Co Inc	Ticker: MRK	Current Price: \$84.18	Industry: Consumer Defensive	Sub Industry: Beverages - Non-Alcoholic
Target Price: \$102 Stop Loss: \$77 52 Week High/ Low: \$105.05–73.31	TTM P/E: 11.13 Forward P/E: 9.59 EPS: \$7.56	Beta: 0.30 Credit Rating: A+ (S&P) Rating Outlook: Stable	Market Cap: \$210.24B Avg Vol (20 Day): 10.07 MM Dividend Yield: 3.69%	

Company Background:

Merck & Co. is a major U.S.-based pharmaceutical company known for developing vaccines, oncology treatments, and other prescription medicines. The company focuses heavily on research, with Keytruda as its flagship cancer drug and one of the most important products in its portfolio.

Industry Outlook:

CFRA holds a neutral outlook for Pharmaceuticals, with global prescription drug sales expected to rise about 6.3% annually and reach roughly \$2.0 trillion by 2032. Margins improved in 2024 and are projected to strengthen into 2026, though the sector faces a large patent cliff with about \$300 billion in sales at risk through 2030, including major losses in 2028. Obesity remains the strongest growth driver, supported by 173 pipeline assets and GLP-1 drugs projected to account for around 9% of global drug sales by 2030. On valuation, Health Care trades at roughly 17.5x forward earnings versus about 22.9x for the S&P 500, while the U.S. pharma ETF (IHE) trades near 27x and has delivered mid-teens gains this year. Key near-term factors include U.S. price policy, tariff pressure, FDA decisions and late-stage trial readouts.

Investment Thesis:

Merck (MRK) continues to deliver solid performance, anchored by the strength of Keytruda and a broad vaccine portfolio. In 2024, the company generated roughly \$61–62 billion in revenue with about \$15–16 billion coming from Keytruda alone, supporting healthy profitability with operating margins around the low-30s and consistent free-cash-flow generation. Merck carries a balanced capital structure, maintaining moderate leverage and steady dividend growth, while reinvesting heavily in oncology, vaccines and immunology. Analysts expect low- to mid-single-digit revenue growth over the next several years and mid-single-digit EPS growth as Keytruda continues to expand ahead of its 2028 patent expiration, supported by new launches such as the RSV vaccine and ongoing pipeline progress.

Investment Risks:

- 1- Keytruda dependence:** Merck gets more than a quarter of its revenue from Keytruda, and the drug's U.S. patent expires in 2028, creating a real gap the company must fill through new launches and expanded indications.
- 2- Pricing and regulatory pressure:** Ongoing U.S. pricing reforms, reimbursement changes, and global policy shifts could trim margins and slow earnings growth, especially in areas where payers demand tighter cost control.
- 3- Pipeline and trial uncertainty:** Merck's future growth depends on consistent progress across oncology, vaccines and immunology, and any late-stage trial failure, delay or safety issue could weaken revenue forecasts and reduce confidence in post-Keytruda replacements.

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

- The company reported Q2 2025 revenue of \$15.8 billion, down about 2% year-over-year, with solid growth in its core drug Keytruda (9%) and animal health (11%), offset by a sharp decline in its HPV vaccine Gardasil (-55%).
- Merck launched a cost-optimization initiative aiming to deliver ~\$3 billion in annual savings by end of 2027, with the plan to reinvest those savings into higher-growth segments (new products, R&D, commercial launches).
- The company narrowed its full-year guidance for 2025 worldwide sales to a range of \$64.3 billion to \$65.3 billion and non-GAAP EPS to \$8.87–\$8.97, underscoring cautious near-term expectations amid volume/portfolio headwinds.

Financial Performance: MRK

In millions*	2019	2020	2021	2022	2023	2024	TTM
Revenue*	46,840	47,994	48,704	59,283	60,115	64,168	63,616
Operating Profit*	12,241	8,483	13,199	18,282	2,954*	20,221	19,820
Net Income *	9,777	7,082	12,358	14,526	377*	17,133	16,419
Revenue Growth %	10.75%	22.68%	17.31%	21.72%	1.40%	6.74%	1.82%
EBITDA%	33.59%	27.48%	36.68%	35.69%	10.88%*	39.41%	38.65%
Operating Profit %	26.13%	17.68%	27.10%	30.84%	4.91%*	31.51%	31.16%
Net Income Margin	20.87%	14.76%	25.37%	24.50%	0.63%*	26.70%	25.81%
D/E	1.01	1.25	0.87	0.67	0.93	0.80	0.72
EPS	3.81	2.78	5.14	5.71	0.14*	6.74	6.49
PE Ratio	25.41	18.06	30.29	18.37	60.57	20.81	11.09
Current Ratio	1.24	1.02	1.27	1.47	1.25	1.36	1.42
ROE	37.42%	27.59%	41.10%	34.50%	0.87%	40.81%	35.44%
ROA	11.79%	8.03%	13.23%	13.52%	0.34%	15.30%	14.26%
Dividend Per share	2.26	2.48	2.64	2.80	2.96	3.12	3.24
FCF	12.03	10.16	12.51	17.49	11.35	21.76	19.97

Discounted Cash Flow

	2025-29	2030-35
Avg Revenue growth	3.9%	NA
Avg EBITDA Margin	18.7%	NA
Avg Net EBIT Margin	14.1%	NA
Avg Debt/Equity	NA	NA
Avg FCF / Margin	NA	NA
Cost of Debt		4.707%
Tax Rate		19.3%
Cost of Equity		6.17%
WACC		5.8%
Perpetuity growth rate		2.0%

Analyst Opinion

Buy: 42	Hold: 5	Sell: 0
	Rating	Target
S&P Net Advantage	★★★★★	\$98
Morning Star	★★★★★	\$111

Relative Valuation

	Merck & Co Inc (MRK)	Eli Lilly and Co (LLY)	Johnson & Johnson (JNJ)	AbbVie Inc (ABBV)	PEER GROUP Avg.*
P/E	11.09x	46.24x	17.92x	163.08x	59X
P/B	4.28	34.14	5.67	20.97	16.20
Dividend Yield	3.86	0.64	2.72	3.04	2.56
PEG Ratio	0.38	1.63	1.77	0.64	1.11
EPS	7.56	20.44	10.35	1.32	9.91
Revn Grth	1.82%	45.41%	5.08%	7.40%	14.8%
NI Grth	11.3%	73.8%	78.5%	-44.6%	29.5%
Operating Margin	31.16%	45.16%	26.31%	24.09%	31%
Debt / Equity	0.72	1.78	0.58	-	1.03
Market Cap	\$210.24B	\$845.61B	\$447.00B	\$381.77B	-
Revenue TTM	63.61	59.42	92.15	59.64	68B
Net Income TTM	16.45	18.41	25.12	2.35	14.9B
FCF TTM	19.97	5.80	16.22	20.61	18B

*Industry Avg. NI Grth, Operating Margin, Revenue TTM, FCF TTM includes companies listed.

Prepared by Helmy Salah (11/5/ 2025)
using Bloomberg, S&P Net Advantage, Morning Star,
Yahoo Finance