



Organon & Co. (OGN)

Updated June 7th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	11.0%	Market Cap:	\$8.6 billion
Fair Value Price:	\$41	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	N/A
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	N/A
Dividend Yield:	3.7%	5 Year Price Target	\$48	Years Of Dividend Growth:	N/A
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	N/A

Overview & Current Events

On 6/3/2021, Merck & Company (MKR) completed its spinoff of Organon & Co. Organon is a pharmaceutical company that develops and markets health solutions in a variety of areas. It's established brands portfolio consists of nearly 50 products that have lost patent exclusivity and are used for treatment in the areas of cardiovascular, respiratory and dermatology and non-opioid pain management. Organon's women's health portfolio includes fertility and contraception brands, such as Nexplanon/Implanon and Nuva Ring. The company also has a small portfolio of biosimilars which are used in immunology and oncology. The spinoff has resulted in 15% of revenue, 25% of manufacturing sites and 50% of products being transferred from Merck to Organon.

Organon has yet to release its first quarterly earnings report since becoming a standalone entity, but has provided guidance for its business. Based on the company's investor presentation, Organon is expected to produce annual revenues of \$6.25 billion and earnings-per-share of \$5.86. Established brands, women's health and biosimilars generated revenue of \$4.5 billion, \$1.6 billion and \$300 million, respectively, in 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	---	---	---	---	---	---	\$5.86	\$6.79
DPS	---	---	---	---	---	---	---	---	---	---	\$1.17	\$1.36
Shares¹	---	---	---	---	---	---	---	---	---	---	253	253

Organon's parent company experienced an earnings per share growth rate of more than 5% over the last decade and nearly 12% over the last five years. Given that much of this growth was due to accelerating pharmaceutical sales that remain with Merck, we believe a slightly lower growth rate for Organon is likely to take place. Given the unknowns of the company at this point, we are comfortable forecasting earnings-per-share growth of 3% through 2026.

Organon does have several factors working in its favor for future growth. The established brands business should provide Organon with strong cash flows as the off-patent products don't require much in the way of the research and development expenses. The women's healthcare business has long been a pioneer in its field since its founding in 1923. The company produced the first-ever hormonal oral contraceptive as well the first-ever lower dose estrogen combined oral contraceptive. More recently, Organon developed the first once-a-month contraceptive ring. Biosimilars are the smallest portion of the new company, but Organon does expect to expand its portfolio, including a biosimilar to Humira for the U.S. market starting in 2023. Organon operates a fairly diverse business. By revenue per geography for 2020, Europe accounted for 27%, Asia Pacific/Japan 24%, the U.S. 22%, China 14% and Latin America/Middle East/Russia and Africa 13%, which affords the company some cushion should a specific region encounter headwinds.

Though a dividend has not yet been officially announced, Organon did guide towards a long-term dividend payout ratio in the low 20% range.

¹ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	---	---	---	---	---	5.5	7.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	---	3.7%	2.9%

Using the current share price and expected earnings-per-share for 2021, Organon trades with a price-to-earnings ratio of 5.5. This is an incredibly low valuation given the current state of the market. However, we feel that this new company will likely see low, but stable, growth in future years. We believe a starting price-to-earnings ratio of 7 is appropriate for the time being. This valuation target might be too conservative in the long run, but we are not ready to make that prediction at this point. Reaching the target multiple would add 5.1% to annual returns through 2026.

Even at the targeted low payout ratio, Organon's dividend yield is quite substantial at 3.7% and compares very favorably to the average yield of 1.4% for the S&P 500 index. We believe that dividend growth will match earnings-per-share growth over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

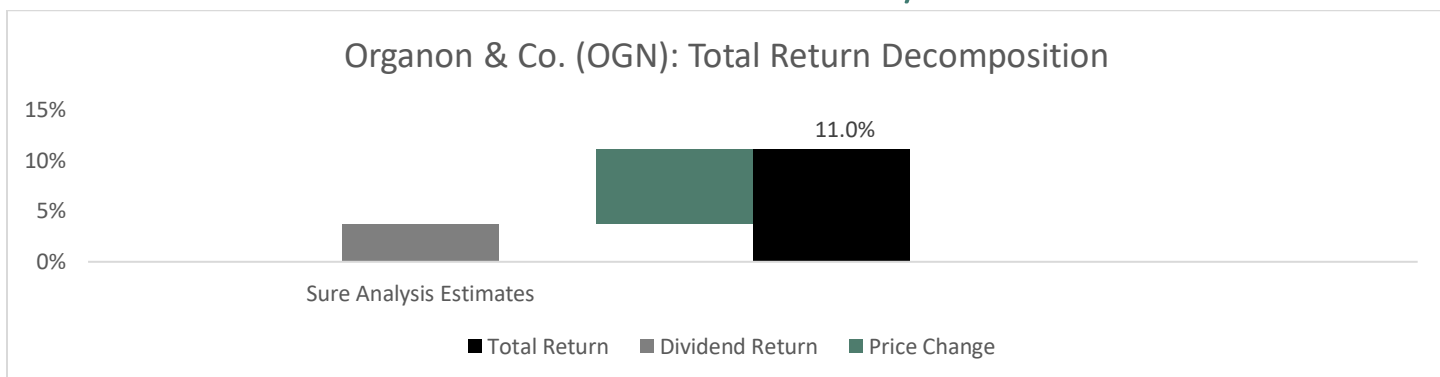
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	---	---	---	20%	20%

Organon has not yet been tested during a recession. It's parent company generated of earnings-per-share growth of 33% from 2007 through 2009. Including 2006 in this calculation actually results in an earnings-per-share decrease of nearly 11% for this period of time, showing that Merck's business was more unpredictable than its healthcare peers. However, Merck is a vastly different company now than it was during that period of time, thanks to the explosive growth of its key product *Keytruda*. Nevertheless, we believe that Organon would perform well during a recession as its product portfolio can largely be considered recession resistant. Healthcare companies tend to hold up much better than more cyclical companies in economic downturns as their products are in demand regardless of economic conditions.

Final Thoughts & Recommendation

Organon is projected to return 11% annually through 2026. Our projected return stems from an earnings growth rate of 3%, a 3.7% starting dividend yield and a mid-single-digit contribution from multiple expansion. Organon appears to be a very interesting company as it has a leadership position in established brands and women's healthcare. The biosimilar business is small, but set to expand in the near future. We initiate coverage of Organon with a buy rating and a 2026 price target of \$48. We encourage investors receiving the spun off shares to consider keeping shares of the new company due to projected returns. In addition, we believe investors looking for yield and value could do well owning shares of Organon.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	---	---	---	---	---	9,777	9,530	8,096
Gross Profit	---	---	---	---	---	---	---	5,084	5,909	4,749
Gross Margin	---	---	---	---	---	---	---	52.0%	62.0%	58.7%
SG&A Exp.	---	---	---	---	---	---	---	2,013	1,922	1,666
D&A Exp.	---	---	---	---	---	---	---	1,673	354	157
Operating Profit	---	---	---	---	---	---	---	2,706	3,655	2,779
Op. Margin	---	---	---	---	---	---	---	27.7%	38.4%	34.3%
Net Profit	---	---	---	---	---	---	---	2,153	3,218	2,160
Net Margin	---	---	---	---	---	---	---	22.0%	33.8%	26.7%
Free Cash Flow	---	---	---	---	---	---	---	---	---	---
Income Tax	---	---	---	---	---	---	---	576	337	520

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	---	---	---	---	---	---	---	---	10,548	10,434
Cash & Equivalents	---	---	---	---	---	---	---	---	319	500
Acc. Receivable	---	---	---	---	---	---	---	---	1,474	1,092
Inventories	---	---	---	---	---	---	---	---	1,071	913
Goodwill & Int.	---	---	---	---	---	---	---	---	5,172	5,106
Total Liabilities	---	---	---	---	---	---	---	---	3,513	11,254
Accounts Payable	---	---	---	---	---	---	---	---	258	259
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Total Equity	---	---	---	---	---	---	---	---	7,035	(820)
D/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	---	---	---	---	---	---
Return on Equity	---	---	---	---	---	---	---	---	---	---
ROIC	---	---	---	---	---	---	---	---	---	---
Shares Out.	---	---	---	---	---	---	---	---	---	---
Revenue/Share	---	---	---	---	---	---	---	---	---	---
FCF/Share	---	---	---	---	---	---	---	---	---	---

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

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