



Organon & Co. (OGN)

Updated March 19th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	7.6%	Market Cap:	\$8.7 B
Fair Value Price:	\$38	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	5/27/22 ¹
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	6/16/22 ²
Dividend Yield:	3.2%	5 Year Price Target	\$44	Years Of Dividend Growth:	N/A
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 reported fourth quarter and full year earnings results on 2/17/2022. For the quarter, revenue fell 0.6% to \$1.6 billion, but was \$20 million higher than expected. Adjusted earnings-per-share of \$1.37 was \$0.10 above estimates. For the year, revenue declined 1% to \$1.604 billion. Adjusted earnings-per-share decreased 34% to \$6.54, but topped our estimate of \$6.30.

Established brands, which contributes nearly two-third of quarterly revenue, was lower by 42% due to a terminated agreement for *Rosuzet*, which helps to lower cholesterol levels, in Korea and the loss of exclusivity of other products in certain markets. Women's health, which contributed a quarter of sales, grew 6% due to strong sales of *Nexplanon* as demand for the product increased in the U.S. Sales for Biosimilars were up 15% as demand remains high for *Renflexis*, which treats certain types of arthritis, and *Ontruzant*, which is used to treat HER2-overexpressing metastatic breast cancer. Organon offered guidance for 2022 as well, with the company expecting revenue of \$6.1 billion to \$6.4 billion for the year. The company is projected to earn \$5.48 per share this year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	---	---	---	\$6.54	\$5.48	\$6.35
DPS	---	---	---	---	---	---	---	---	---	\$0.56	\$1.12	\$1.30
Shares³	---	---	---	---	---	---	---	---	---	253	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 2027.

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

¹ Estimated ex-dividend date

² Estimated dividend date

³ 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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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, including geographically.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	Now	2027
Avg. P/E	---	---	---	---	---	---	---	---	---	4.7	6.4	7.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	1.8%	3.2%	2.9%

Shares of Organon are flat since our 11/12/2021 update. Using the current share price and expected earnings-per-share for 2021, Organon trades with a price-to-earnings ratio of 6.4. This is an incredibly low valuation relative to other healthcare companies. 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 1.9% to annual returns through 2027.

Even at the targeted low payout ratio, Organon's dividend yield is quite substantial at 3.2%. We believe that dividend growth will match earnings-per-share growth over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

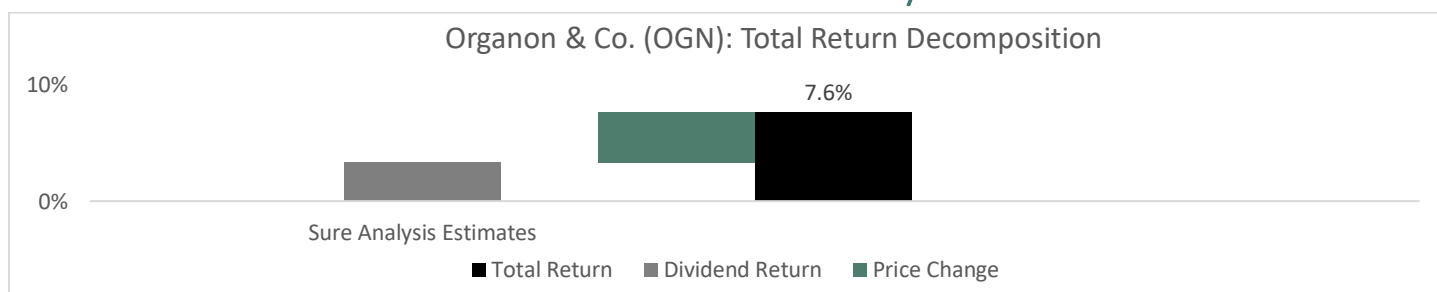
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	---	---	9%	20%	20%

Organon has not yet been tested during a recession. It's former 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 7.6% annually through 2027, down from our prior estimate of 10.3%. Our projected return stems from an earnings growth rate of 3%, a 3.2% starting dividend yield, and a low single-digit contribution from multiple expansion. Organon delivered another decent quarter, but saw just a few products create significant challenges in its Established Brands business. We have lowered our five-year price target \$7 to \$44 due to earnings estimates for the year and now rate shares of Organon as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	---	---	---	---	---	9,777	9,530	8,096	6,304
Gross Profit	---	---	---	---	---	---	5,084	5,909	4,749	3,922
Gross Margin	---	---	---	---	---	---	52.0%	62.0%	58.7%	62.2%
SG&A Exp.	---	---	---	---	---	---	2,013	1,922	1,666	1,668
D&A Exp.	---	---	---	---	---	---	1,673	354	157	---
Operating Profit	---	---	---	---	---	---	2,706	3,655	2,779	1,811
Op. Margin	---	---	---	---	---	---	27.7%	38.4%	34.3%	28.7%
Net Profit	---	---	---	---	---	---	2,153	3,218	2,160	1,351
Net Margin	---	---	---	---	---	---	22.0%	33.8%	26.7%	21.4%
Free Cash Flow	---	---	---	---	---	---	3,586	2,658	1,909	---
Income Tax	---	---	---	---	---	---	576	337	520	178

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	---	---	---	---	---	---	10,548	10,434	10,434	---
Cash & Equivalents	---	---	---	---	---	---	319	500	500	---
Acc. Receivable	---	---	---	---	---	---	1,474	1,092	1,092	---
Inventories	---	---	---	---	---	---	1,071	913	913	---
Goodwill & Int.	---	---	---	---	---	---	5,172	5,106	5,106	---
Total Liabilities	---	---	---	---	---	---	3,513	11,254	11,254	---
Accounts Payable	---	---	---	---	---	---	258	259	259	---
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Total Equity	---	---	---	---	---	---	7,035	(820)	(820)	---
LTD/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---	---	---	---	---	---	20.6%	---
Return on Equity	---	---	---	---	---	---	---	---	69.5%	---
ROIC	---	---	---	---	---	---	---	---	68.4%	---
Shares Out.	---	---	---	---	---	---	---	---	---	253
Revenue/Share	---	---	---	---	---	---	38.62	37.65	31.98	24.80
FCF/Share	---	---	---	---	---	---	14.17	10.50	7.54	---

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

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