



Organon & Co. (OGN)

Updated August 18th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	13.5%	Market Cap:	\$5.7 B
Fair Value Price:	\$30	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/17/23
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.7%	Dividend Payment Date:	09/14/23
Dividend Yield:	5.1%	5 Year Price Target	\$35	Years Of Dividend Growth:	1
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

On June 3rd, 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.

On August 8th, 2023, Organon announced second quarter results for the period ending June 30th, 2023. For the quarter, revenue of \$1.61 billion was 1.3% higher from the prior year and \$51 million better than expected. Adjusted earnings-per-share of \$1.31 compared favorably to \$1.25 in the prior year and was \$0.32 above estimates.

Excluding the impact of currency exchange, revenue was up 4% for the period. For the quarter, Established Brands, which contributed 62% of quarterly revenue, fell 2% as volume gains in Arcoxia was offset by weakness in select injectable steroids. Women's Health, which contributed ~27% of sales, was up 8% due to increased demand for long-acting contraceptives and as well as gains in the fertility portfolio. Sales for Biosimilars grew 14% due to improvements in volume in the U.S. and Canada.

Organon provided updated guidance for 2023 as well, with the company now expecting revenue of \$6.25 billion to \$6.45 billion for the year, up from \$6.15 billion to \$6.45 billion previously. We now project that the company will earn \$4.35 per share in 2023, up from \$4.30 previously.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	---	---	\$6.20	\$5.03	\$4.35	\$5.04
DPS	---	---	---	---	---	---	---	---	\$0.56	\$1.12	\$1.12	\$1.30
Shares¹	---	---	---	---	---	---	---	---	253	255	255	255

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 2028.

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

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.



Organon & Co. (OGN)

Updated August 18th, 2023 by Nathan Parsh

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	---	4.7	5.6	5.1	7.0
Avg. Yld.	---	---	---	---	---	---	---	---	1.8%	4.0%	5.1%	3.7%

Shares of Organon have increased \$2, or 10%, since our May 20th, 2023 report. Using the current share price and expected earnings-per-share for 2023, Organon trades with a price-to-earnings ratio of 5.1. 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, implying an 6.7% contribution from multiple expansion to annual returns over the next five years.

Even at the targeted low payout ratio, Organon's dividend yield is quite substantial at 5.1%. We believe that dividend growth will match earnings-per-share growth over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

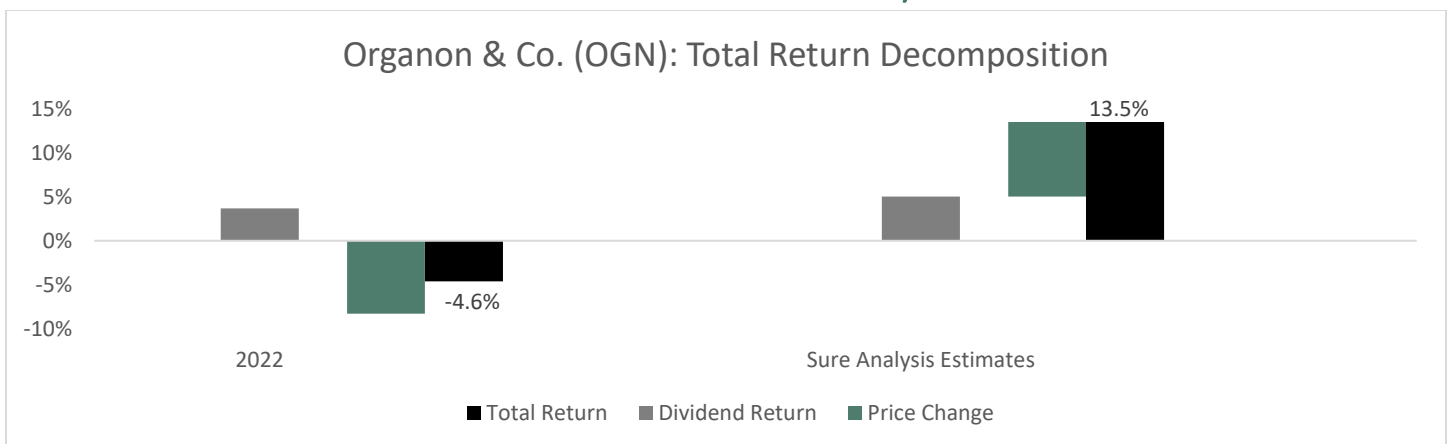
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	9%	22%	26%	26%

Organon has not yet been tested during a recession. Its 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, 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 13.5% annually through 2028, down from our prior estimate of 15.4%. Our projected return stems from an earnings growth rate of 3%, a 5.1% starting dividend yield, and a mid-single-digit contribution from multiple expansion. We reaffirm our five-year price target of \$35 and continue to rate shares of Organon as a buy due to projected returns.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Organon & Co. (OGN)

Updated August 18th, 2023 by Nathan Parsh

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	---	---	---	9,777	9,530	8,096	6,304	6,174
Gross Profit	---	---	---	---	---	5,084	5,909	4,749	3,922	3,880
Gross Margin	---	---	---	---	---	52.0%	62.0%	58.7%	62.2%	62.8%
SG&A Exp.	---	---	---	---	---	2,013	1,922	1,666	1,668	1,704
D&A Exp.	---	---	---	---	---	1,673	354	157	195	212
Operating Profit	---	---	---	---	---	2,706	3,655	2,779	1,811	1,705
Op. Margin	---	---	---	---	---	27.7%	38.4%	34.3%	28.7%	27.6%
Net Profit	---	---	---	---	---	2,153	3,218	2,160	1,351	917
Net Margin	---	---	---	---	---	22.0%	33.8%	26.7%	21.4%	14.9%
Free Cash Flow	---	---	---	---	---	3,586	2,658	1,909	1,970	431
Income Tax	---	---	---	---	---	576	337	520	178	205

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	---	---	---	---	---	10,548	10,548	10,109	10,681	10,955
Cash & Equivalents	---	---	---	---	---	319	319	12	737	706
Acc. Receivable	---	---	---	---	---	1,474	1,474	1,038	1,382	1,475
Inventories	---	---	---	---	---	1,071	1,071	913	915	1,003
Goodwill & Int.	---	---	---	---	---	5,172	5,172	5,106	5,254	5,252
Total Liabilities	---	---	---	---	---	3,513	3,513	4,623	12,189	11,847
Accounts Payable	---	---	---	---	---	258	258	259	1,382	1,132
Long-Term Debt	---	---	---	---	---	---	104	1,339	9,134	8,913
Total Equity	---	---	---	---	---	7,035	7,035	5,486	(1,508)	(892)
LTD/E Ratio	---	---	---	---	---	---	0.01	0.24	(6.06)	(9.99)

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	---	---	20.6%	13.0%	8.5%
Return on Equity	---	---	---	---	---	---	---	69.5%	67.9%	
ROIC	---	---	---	---	---	---	---	68.4%	18.7%	11.7%
Shares Out.	---	---	---	---	---	---	---	---	253	255
Revenue/Share	---	---	---	---	---	38.62	37.65	31.98	24.80	24.20
FCF/Share	---	---	---	---	---	14.17	10.50	7.54	7.75	1.69

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.