



Organon & Co. (OGN)

Updated November 13th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$15.58	5 Year CAGR Estimate:	13.5%	Market Cap:	\$4.0 B
Fair Value Price:	\$20.50	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/12/24
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Dividend Payment Date:	12/12/24
Dividend Yield:	7.2%	5 Year Price Target	\$24	Years Of Dividend Growth:	N/A
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. The company'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 October 31st, 2024, Organon reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue grew 3.9% to \$1.58 billion and beat estimates by \$20 million. Adjusted earnings-per-share of \$0.87 was unchanged from the prior year, but this was \$0.03 less than expected.

Excluding the impact of currency exchange, revenue improved 5% for the period. For the quarter, revenue for Established Brands, which contributed 60% of the total, grew 3% as gains from recent licensing agreements, a recovery in certain injectable steroid products, and growth in China all positively impacted results. Women's Health, which contributed 28% of sales, continued to see a return to growth, with sales up 6% year-over-year. Growth continues to be driven by the ongoing higher demand for fertility products, offset by unfavorable discount rates in the U.S. Sales for Biosimilars was higher by 17% as higher uptake rates for *Hadlima* were offset by a steep decline in *Ontruzant* due to timing of orders in Brazil and lower demand in the U.S. and Europe.

Organon provided updated guidance for 2024 as well, with the company now expecting revenue in a range of \$6.375 billion to \$6.425 billion, compared to \$6.25 billion to \$6.45 billion and \$6.2 billion to \$6.5 billion previously. We project that the company will earn \$4.10 per share in 2024, down from \$4.37, \$4.44, and \$4.22 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	---	---	---	---	---	\$6.20	\$5.03	\$4.14	\$4.10	\$4.75
DPS	---	---	---	---	---	---	---	\$0.56	\$1.12	\$1.12	\$1.12	\$1.12
Shares¹	---	---	---	---	---	---	---	253	255	257	259	259

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 2029.

The company announced its 14th consecutive quarterly dividend of \$0.28 per share. We expect a constant distribution through 2029 given that Organon has yet to raise its dividend since becoming a standalone company.

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 November 13th, 2024 by Nathan Parsh

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 do not 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. Organon operates a fairly diverse business, including geographically.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	---	---	4.7	5.6	3.5	3.8	5.0
Avg. Yld.	---	---	---	---	---	---	---	1.8%	4.0%	7.8%	7.2%	4.7%

Shares of Organon have fallen almost 23% since our August 10th, 2024 report. Using the current share price and expected earnings-per-share for 2024, Organon trades with a price-to-earnings ratio of 3.8. 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 reaffirm our target price-to-earnings ratio of 5 from 7, but this still implies a 5.6% annual tailwind to annual returns due to multiple expansion. Organon’s dividend yield is quite substantial at 7.2%. The high yield could be a warning sign, but the dividend looks very safe from a payout ratio perspective.

Safety, Quality, Competitive Advantage, & Recession Resiliency

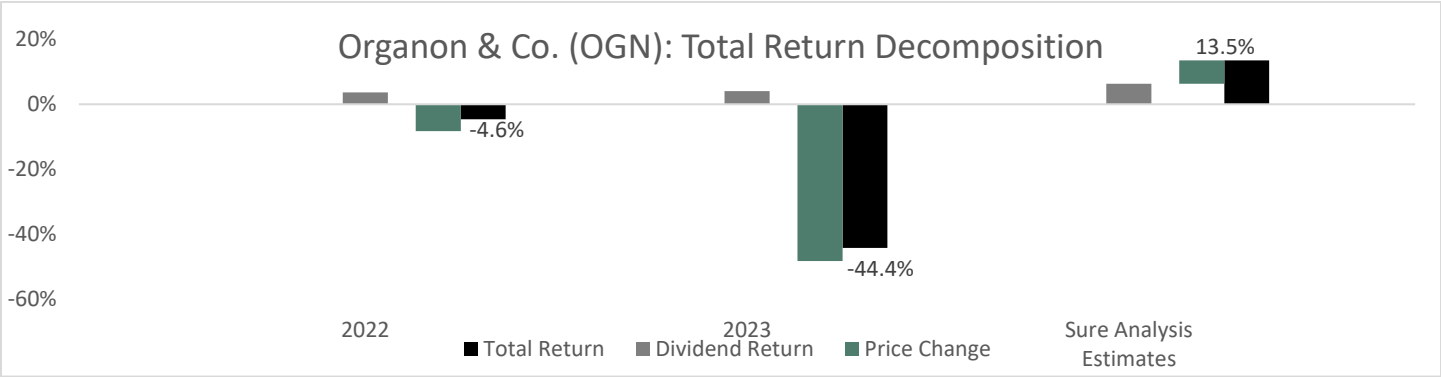
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	---	9%	22%	27%	27%	24%

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 then 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 2029, up from our prior estimate of 8.9%. Our projected return stems from an earnings growth rate of 3%, a starting yield of 7.2%, and a mid-single-digit contribution from multiple expansion. We now rate Organon as a buy due to projected returns.

Total Return Breakdown by Year



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 November 13th, 2024 by Nathan Parsh

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	---	---	---	9,777	9,530	8,096	6,304	6,174	6,263
Gross Profit	---	---	---	---	5,084	5,909	4,749	3,922	3,880	3,748
Gross Margin	---	---	---	---	52.0%	62.0%	58.7%	62.2%	62.8%	59.8%
SG&A Exp.	---	---	---	---	2,013	1,922	1,666	1,668	1,704	1,893
D&A Exp.	---	---	---	---	1,673	354	157	195	212	236
Operating Profit	---	---	---	---	2,706	3,655	2,779	1,811	1,705	1,327
Op. Margin	---	---	---	---	27.7%	38.4%	34.3%	28.7%	27.6%	21.2%
Net Profit	---	---	---	---	2,153	3,218	2,160	1,351	917	1,023
Net Margin	---	---	---	---	22.0%	33.8%	26.7%	21.4%	14.9%	16.3%
Free Cash Flow	---	---	---	---	3,586	2,658	1,909	1,970	431	538
Income Tax	---	---	---	---	576	337	520	178	205	(350)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	---	---	---	---	10,548	10,548	10,109	10,681	10,955	12,058
Cash & Equivalents	---	---	---	---	319	319	12	737	706	693
Acc. Receivable	---	---	---	---	1,474	1,474	1,038	1,382	1,475	1,744
Inventories	---	---	---	---	1,071	1,071	913	915	1,003	1,315
Goodwill & Int.	---	---	---	---	5,172	5,172	5,106	5,254	5,252	5,136
Total Liabilities	---	---	---	---	3,513	3,513	4,623	12,189	11,847	12,128
Accounts Payable	---	---	---	---	258	258	259	1,382	1,132	1,314
Long-Term Debt	---	---	---	---	---	104	1,339	9,134	8,913	8,760
Total Equity	---	---	---	---	7,035	7,035	5,486	(1,508)	(892)	(70)
LTD/E Ratio	---	---	---	---	---	0.01	0.24	(6.06)	(9.99)	(125.14)

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	---	---	---	20.6%	13.0%	8.5%	8.9%
Return on Equity	---	---	---	---	---	---	69.5%	67.9%		
ROIC	---	---	---	---	---	---	68.4%	18.7%	11.7%	12.2%
Shares Out.	---	---	---	---	---	---	---	253	255	257
Revenue/Share	---	---	---	---	38.62	37.65	31.98	24.80	24.20	24.44
FCF/Share	---	---	---	---	14.17	10.50	7.54	7.75	1.69	2.10

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.