



Merck & Company (MRK)

Updated August 3rd, 2025 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------------|----------------------------------|----------|
| Current Price: | \$79 | 5 Year CAGR Estimate: | 16.1% | Market Cap: | \$199 B |
| Fair Value Price: | \$116 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 09/15/25 |
| % Fair Value: | 68% | 5 Year Valuation Multiple Estimate: | 8.0% | Dividend Payment Date: | 10/07/25 |
| Dividend Yield: | 4.1% | 5 Year Price Target | \$148 | Years Of Dividend Growth: | 14 |
| Dividend Risk Score: | C | Sector: | Health Care | Rating: | Hold |

Overview & Current Events

Merck & Company is one of the largest healthcare companies in the world. Merck manufactures prescription medicines, vaccines, biologic therapies, and animal health products. Merck employs 71,000 people around the world and generates annual revenues of more than \$65 billion.

On November 19th, 2024, Merck raised its quarterly dividend 5.2% to \$0.81.

On May 29th, 2024, Merck completed its \$1.3 billion purchase of EyeBio, which has a pipeline of drug candidates that target retinal diseases.

On July 29th, 2025, Merck announced second quarter results for the period ending June 30th, 2025. For the quarter, revenue decreased 1.8% to \$15.8 billion, which was \$60 million below estimates. Adjusted earnings-per-share of \$2.13 compared unfavorably to \$2.28 the prior year, but topped expectations by \$0.10.

Keytruda, which treats cancers such as melanoma that cannot be removed by surgery and non-small cell lung cancer, continues to be the key driver of growth for the company as sales for the drug grew 9% to \$8.0 billion during the period. We note that this is a much slower growth rate for *Keytruda* than in the past. The product generated \$29.5 billion in 2024, up from \$25 billion in 2023 and \$20.9 billion in 2022. Sales for Merck's HPV vaccine *Gardasil* continue to decline, this time by 55% to \$1.1 billion as a national catch-up immunization program in Japan last year. U.S. sales grew 2%. Animal Health increased 11% to \$1.6 billion due to higher demand for Livestock, contributions from an acquisition, and higher pricing.

Merck provided updated guidance for 2025 as well, with the company now expecting sales in a range of \$64.3 billion to \$65.3 billion, compared to \$64.1 billion to \$65.6 billion previously. Adjusted earnings-per-share are now projected to be in a range of \$8.87 to \$8.97 for the year, compared to \$8.82 to \$8.97 and \$8.88 to \$9.23 previously. This guidance includes a one-time charge of \$0.06 related to a licensing agreement. We have updated our forecast accordingly.

Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|----------------|
| EPS | \$3.59 | \$3.78 | \$3.98 | \$4.34 | \$5.19 | \$5.94 | \$6.02 | \$7.48 | \$1.69 | \$7.65 | \$8.92 | \$11.38 |
| DPS | \$1.80 | \$1.84 | \$1.88 | \$1.99 | \$2.20 | \$2.48 | \$2.64 | \$2.76 | \$2.96 | \$3.08 | \$3.24 | \$4.14 |
| Shares¹ | 2781 | 2749 | 2697 | 2650 | 2603 | 2536 | 2535 | 2548 | 2533 | 2532 | 2522 | 2500 |

Merck's earnings declined during the last recession and it took the company several years to return to growth. Merck had earnings-per-share growth of 8.8% for the 2015 to 2024 period. Growth has slowed somewhat to 8.5% annually over the last five years. *Keytruda* has shown very high rates of growth and has patent protection in the U.S. until 2028, in the European Union until 2030, and in Japan until 2032. We note that the product's growth rate has slowed somewhat in recent quarters. The company's spinoff of Organon should allow for a higher growth as Merck focuses on its pharmaceutical, vaccines and animal health businesses. For now, we maintain our estimate of 5% earnings growth over the next five years. Merck has increased its dividend for 14 consecutive years.

¹ In millions of shares

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On August 16th, 2022, the Inflation Reduction Act of 2022 was signed into law. The law will, in part, require the federal government to negotiate prices for drugs covered under Medicare starting in 2026. This could reduce the profits pharmaceutical companies could collect, but these costs could be shifted to employer sponsored plans, reducing the negative impact on businesses. As such, we maintain our expected growth rates, but will monitor the situation as we get closer to the implementation of the law.

Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 15.8 | 15.2 | 15.6 | 14.8 | 15.9 | 13.6 | 12.7 | 14.8 | 64.5 | 13.0 | 8.9 | 13.0 |
| Avg. Yld. | 3.2% | 3.2% | 3.0% | 3.0% | 2.7% | 3.0% | 3.4% | 2.5% | 2.7% | 3.1% | 4.1% | 2.8% |

Shares of Merck have declined \$4, or 4.8%, since our April 28th, 2025 update. Based off earnings estimates for the current year, the stock has a forward P/E ratio of 8.9. Excluding 2023, Merck's long-term average P/E ratio is 14.6. While *Keytruda* has been an enormous source of growth over the recent years, Merck's other products have not seen as much success. We reaffirm our target P/E to 13 as a result. If shares were to revert to this target by 2030, then valuation would add 8.0% to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

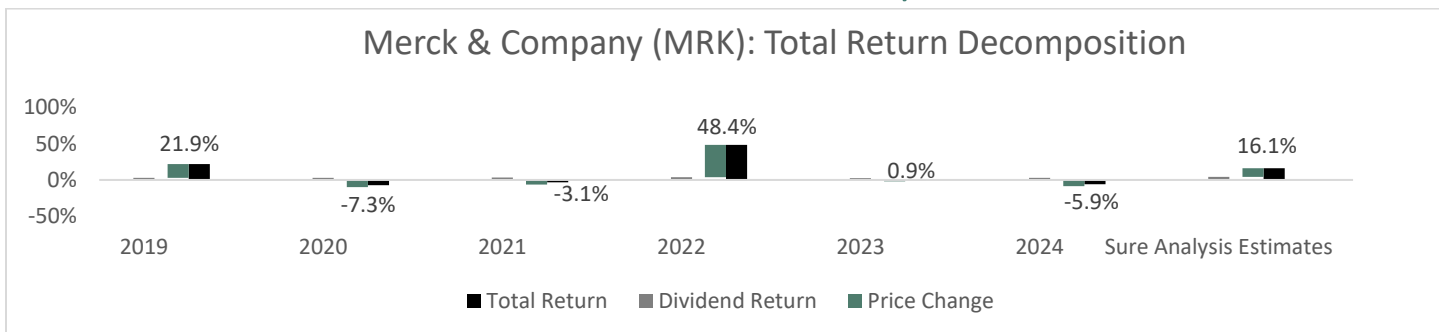
| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 50% | 49% | 47% | 46% | 42% | 42% | 44% | 37% | 175% | 40% | 36% | 36% |

Many investors consider pharmaceutical companies "defensive" stocks because their products are in demand even in a protracted recession. The thinking goes that sick people will seek treatment for illnesses even in poor economic conditions, causing earnings to increase. While this is true for many names in this industry, Merck's earnings declined in 2009 and suffered a subsequently long road back to profitability that this is not necessarily true for every healthcare corporation. With that said, Merck's key competitive advantage is that it is seeing strong growth rates in key product areas. While generic competition is putting pressure on certain pharmaceuticals, we find *Keytruda*'s growth rate and peak sales expectations very appealing. Merck is also one of the largest pharmaceutical companies in the world, which gives the company size and scale. If needed, the company would likely have the ability to acquire other assets. Merck has also spent heavily (16% to 19% of sales) on research and development over the past five years.

Final Thoughts & Recommendation

Merck & Company is expected to offer a total annual return of 16.1% through 2030, up from 14.8% previously. This projected return stems from expected earnings growth of 5%, a starting yield of 4.1%, and a high single-digit tailwind from multiple expansion. Once again, *Keytruda* sales growth was not as impressive as they have been in previous quarters while *Gardasil* continues to experience weaker results as well. We reaffirm our five-year price target of \$148 due to EPS estimates. We continue to rate shares of Merck as a hold due to a mediocre dividend risk score.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 39498 | 39807 | 40122 | 42294 | 46840 | 47994 | 48704 | 59283 | 60115 | 64168 |
| Gross Profit | 24564 | 25777 | 27210 | 28785 | 32728 | 32509 | 35078 | 41872 | 43989 | 48975 |
| Gross Margin | 62.2% | 64.8% | 67.8% | 68.1% | 69.9% | 67.7% | 72.0% | 70.6% | 73.2% | 76.3% |
| SG&A Exp. | 10313 | 10017 | 10074 | 10102 | 10615 | 10468 | 9634 | 10042 | 10504 | 10816 |
| D&A Exp. | 6375 | 5471 | 4676 | 4519 | 3652 | 3625 | 3214 | 3909 | 3872 | 4499 |
| Operating Profit | 7547 | 5499 | 6797 | 8931 | 12241 | 8483 | 13199 | 18282 | 2954 | 20221 |
| Op. Margin | 19.1% | 13.8% | 16.9% | 21.1% | 26.1% | 17.7% | 27.1% | 30.8% | 4.9% | 31.5% |
| Net Profit | 4442 | 3920 | 2394 | 6220 | 9843 | 7067 | 13049 | 14519 | 365 | 17117 |
| Net Margin | 11.2% | 9.8% | 6.0% | 14.7% | 21.0% | 14.7% | 26.8% | 24.5% | 0.6% | 26.7% |
| Free Cash Flow | 11255 | 8762 | 4563 | 8307 | 9967 | 5569 | 9661 | 14707 | 9143 | 18096 |
| Income Tax | 942 | 718 | 4103 | 2508 | 1687 | 1709 | 1521 | 1918 | 1512 | 2803 |

Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--------------------|--------|-------|-------|-------|-------|-------|--------|--------|--------|--------|
| Total Assets | 101677 | 95377 | 87872 | 82637 | 84397 | 91588 | 105694 | 109160 | 106675 | 117106 |
| Cash & Equivalents | 8524 | 6515 | 6092 | 7965 | 9676 | 8062 | 8096 | 12694 | 6841 | 13242 |
| Acc. Receivable | 6484 | 7018 | 6873 | 7071 | 6778 | 7851 | 9230 | 9450 | 10349 | 10278 |
| Inventories | 4700 | 4866 | 5096 | 5440 | 5978 | 6310 | 5953 | 5911 | 6358 | 6109 |
| Goodwill & Int. | 40325 | 35467 | 32467 | 31357 | 33621 | 34842 | 44197 | 41473 | 39208 | 38038 |
| Total Liabilities | 56910 | 55069 | 53303 | 55755 | 58396 | 66184 | 67437 | 63102 | 69040 | 70734 |
| Accounts Payable | 2533 | 2807 | 3102 | 3318 | 3738 | 4594 | 4609 | 4264 | 3922 | 4079 |
| Long-Term Debt | 26412 | 24842 | 24410 | 25114 | 26346 | 31791 | 33102 | 30691 | 35055 | 37111 |
| Total Equity | 44676 | 40088 | 34336 | 26701 | 25907 | 25317 | 38184 | 45991 | 37581 | 46313 |
| LTD/E Ratio | 0.59 | 0.62 | 0.71 | 0.94 | 1.02 | 1.26 | 0.87 | 0.67 | 0.93 | 0.80 |

Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 4.4% | 4.0% | 2.6% | 7.3% | 11.8% | 8.0% | 13.2% | 13.5% | 0.3% | 15.3% |
| Return on Equity | 9.5% | 9.2% | 6.4% | 20.4% | 37.4% | 27.6% | 41.1% | 34.5% | 0.9% | 40.8% |
| ROIC | 6.3% | 5.8% | 3.9% | 11.2% | 18.9% | 12.9% | 20.3% | 19.6% | 0.5% | 21.9% |
| Shares Out. | 2781 | 2749 | 2697 | 2650 | 2603 | 2536 | 2535 | 2548 | 2533 | 2532 |
| Revenue/Share | 13.90 | 14.28 | 14.60 | 15.79 | 18.16 | 18.89 | 19.19 | 23.32 | 23.60 | 25.25 |
| FCF/Share | 3.96 | 3.14 | 1.66 | 3.10 | 3.86 | 2.19 | 3.81 | 5.79 | 3.59 | 7.12 |

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

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