Merck & Company (MRK)

Updated August 18th, 2026, by Nathan Parsh

Key Metrics

Current Price:	$136	**5 Year Annual Expected Total Return:**	3.4%	**Market Cap:**	$335 B
Fair Value Price:	$111	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/15/26
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Dividend Payment Date:**	10/07/26
Dividend Yield:	2.5%	**5 Year Price Target**	$141	**Years Of Dividend Growth:**	15
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 $67 billion. On November 18th, 2025, Merck raised its quarterly dividend 4.9% to $0.85.

On January 7th, 2026, Merck completed its purchase of Cidara Therapeutics, which will strength the company's respiratory portfolio.

On August 4th, 2026, Merck announced second quarter results for the period ending June 30th, 2026. For the quarter, revenue grew 5.1% to $16.6 billion, which was $220 million ahead of estimates. Adjusted earnings-per-share of -$0.13 compared very unfavorably to $2.13 in the prior year, but this was $0.13 more than expected. Included in this figure was a charge of $2.31 per share for the acquisition of Terns Pharmaceuticals, which was completed on May 5th, 2026.

Keytruda, which treats cancers such as melanoma that cannot be removed by surgery and non-small cell lung cancer and has been a key driver of growth for the company, had a sales decline of 0.6% for the period. Growth rates for *Keytruda* have been slowing down but this is the first year-over-year decline. Year-to-date through the end of June, sales are higher by 4.3%. The product generated $31.7 billion in 2025, up from $29.5 billion in 2024, $25 billion in 2023, and $20.9 billion in 2022. *Keytruda QLEX*, which is an under-the-skin injection version of *Keytruda* and allows for quicker administration, generated sales of $463 million during the period, which was up from $128 million during Q1 2026. It is early, but *Keytruda QLEX* is expected to generate peak sales of ~$7 billion by the early 2030s. Sales for Merck's HPV vaccine *Gardasil* returned to growth as revenue improved 3.8% to $1.17 billion due to better demand in Asia Pacific and Europe. *Winrevair*, which treats pulmonary arterial hypertension in adults, had sales of $588 million, which was a 75% increase from the prior year as uptake rates continue to climb in the U.S., Japan, and Europe. Analysts expect peak sales of $5 billion to $8 billion, up from a prior range of $3 billion to $5.5 billion. Animal Health grew 7.8% to $1.78 billion due to strength in both Livestock and Companion Animal products.

Merck provided guidance for 2026 as well, with the company expecting adjusted earnings-per-share in a range of $2.66 to $2.76 for the year, down from $5.00 to $5.15 previously. However, this includes a one-time charge of $3.65 per share for the company's purchase of Cidara and another one-time charge $2.43 per share for the purchase of Terns Pharmaceutical, Inc. We maintain our earnings power assumption of $8.50 per share.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
EPS	$3.78	$3.98	$4.34	$5.19	$5.94	$6.02	$7.48	$1.69	$7.65	$8.98	***$2.74***	***$10.85***
DPS	$1.84	$1.88	$1.99	$2.20	$2.48	$2.64	$2.76	$2.96	$3.08	$3.28	***$3.40***	***$4.34***
Shares[1]	2749	2697	2650	2603	2536	2535	2548	2533	2532	2488	***2470***	***2450***

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 10.1% for the 2016 to 2025 period. Growth has slowed somewhat to 7.1% 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

[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.

the European Union until 2030, and in Japan until 2032. The patent could be extended to 2036 for some indications in the U.S. We note that the product's growth rate has slowed in recent quarters and even turned to a year-over-year decline in the most recent quarter. The company will need other products, such as *Winrevair*, to continue to grow as sales for *Keytruda* slow. We maintain our estimate of 5% earnings growth over the next five years.

Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/E	15.2	15.6	14.8	15.9	13.6	12.7	14.8	64.5	13.0	11.7	***16.0***	***13.0***
Avg. Yld.	3.2%	3.0%	3.0%	2.7%	3.0%	3.4%	2.5%	2.7%	3.1%	3.1%	***2.5%***	***3.1%***

Shares of Merck have gained $25, or 22.5%, since our May 16th, 2026 update. Based off earnings power estimates for the current year, the stock has a forward P/E ratio of 16.0. Excluding 2023, Merck's long-term average P/E ratio is 14.1. We reaffirm our target P/E to 13.0. If shares were to revert to this target by 2031, then multiple contraction would be a 4.1% headwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

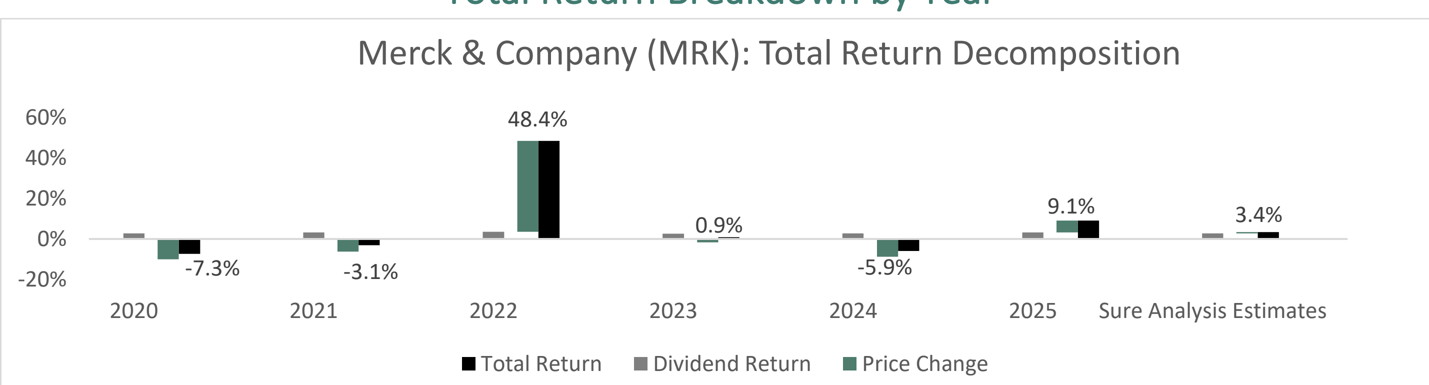
Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	49%	47%	46%	42%	42%	44%	37%	175%	40%	37%	***40%***	***40%***

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 3.4% through 2031, down from 7.7% previously. This projected return stems from expected earnings growth of 5% and a starting yield of 2.5%, offset by a low single-digit headwind from multiple contraction. *Keytruda* sales were down for the period, which is a cause of concern given how important that product has been to Merck in recent years. Other newer products performed better. This year's EPS results will be impacted by several acquisitions. We reaffirm our five-year price target of $141 due to earnings power estimates. We rate shares of Merck as a hold due to projected returns and a mediocre dividend risk score.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	39,496	39,981	42,446	46,586	41,537	48,907	58,473	59,871	63,973	64,926
Gross Profit	26,133	27,265	29,381	32,725	28,094	35,441	41,267	43,894	47,171	46,731
Gross Margin	66.2%	68.2%	69.2%	70.2%	67.6%	72.5%	70.6%	73.3%	73.7%	72.0%
SG&A Exp.	9,762	10,074	10,102	10,615	8,955	9,634	10,042	10,504	10,816	10,733
D&A Exp.	5,441	4,676	4,519	3,652	3,486	3,214	3,909	3,872	4,499	5,838
Operating Profit	10,491	7,348	9,684	13,480	10,060	15,619	19,501	2,982	20,644	23,486
Op. Margin	26.6%	18.4%	22.8%	28.9%	24.2%	31.9%	33.4%	5.0%	32.3%	36.2%
Net Profit	3,941	2,418	6,193	9,777	4,523	12,358	14,526	377	17,133	18,263
Net Margin	10.0%	6.0%	14.6%	21.0%	10.9%	25.3%	24.8%	0.6%	26.8%	28.1%
Free Cash Flow	8,762	4,563	8,307	9,967	5,824	9,661	14,707	9,143	18,096	12,360
Income Tax	718	4,103	2,508	1,687	1,340	1,521	1,918	1,512	2,803	2,804

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	95,377	87,872	82,637	84,397	91,588	105,694	109,160	106,675	117,106	136,866
Cash & Equivalents	14,341	8,498	8,864	10,450	8,050	8,096	13,271	7,161	13,765	14,690
Acc. Receivable	7,019	6,873	7,071	6,778	6,803	9,230	9,450	10,349	10,278	11,775
Inventories	4,866	5,096	5,440	5,978	5,554	5,953	5,911	6,358	6,109	6,658
Goodwill & Int.	35,467	32,467	29,684	33,621	32,983	44,197	41,473	39,208	38,038	48,260
Total Liabilities	55,069	53,303	55,755	58,396	66,184	67,437	63,102	69,040	70,734	84,204
Accounts Payable	2,807	3,102	3,318	3,738	4,327	4,609	4,264	3,922	4,079	4,404
Long-Term Debt	24,274	21,353	19,806	23,504	26,695	31,915	29,758	34,611	35,339	47,651
Total Equity	40,088	34,336	26,701	25,907	25,317	38,184	45,991	37,581	46,313	52,606
LTD/E Ratio	0.62	0.71	0.94	1.06	1.32	0.91	0.70	0.97	0.83	0.96

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	4.0%	2.6%	7.3%	11.7%	5.1%	12.5%	13.5%	0.3%	15.3%	14.4%
Return on Equity	9.3%	6.5%	20.2%	37.0%	17.6%	38.8%	34.5%	0.9%	40.8%	36.9%
ROIC	5.8%	3.9%	11.2%	18.6%	8.1%	18.8%	19.2%	0.5%	21.6%	19.4%
Shares Out.	2749	2697	2650	2603	2536	2535	2548	2533	2532	2488
Revenue/Share	14.17	14.55	15.84	18.06	16.35	19.27	23.00	23.51	25.18	25.90
FCF/Share	3.14	1.66	3.10	3.86	2.29	3.81	5.79	3.59	7.12	4.93

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