MERCK & CO. NYSE-MRK

RECENT PRICE **57.85** | P/E RATIO **16.5** (Trailing: 16.4 Median: 12.0) | RELATIVE P/E RATIO **0.87** | DIV'D YLD **3.0%** | **VALUE LINE**

TIMELINESS 3 Raised 11/29/13
SAFETY 1 Raised 4/15/11
TECHNICAL 3 Raised 7/7/14
BETA .80 (1.00 = Market)

2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+5%)	*4%*
Low	50	(-15%)	*Nil*

Insider Decisions

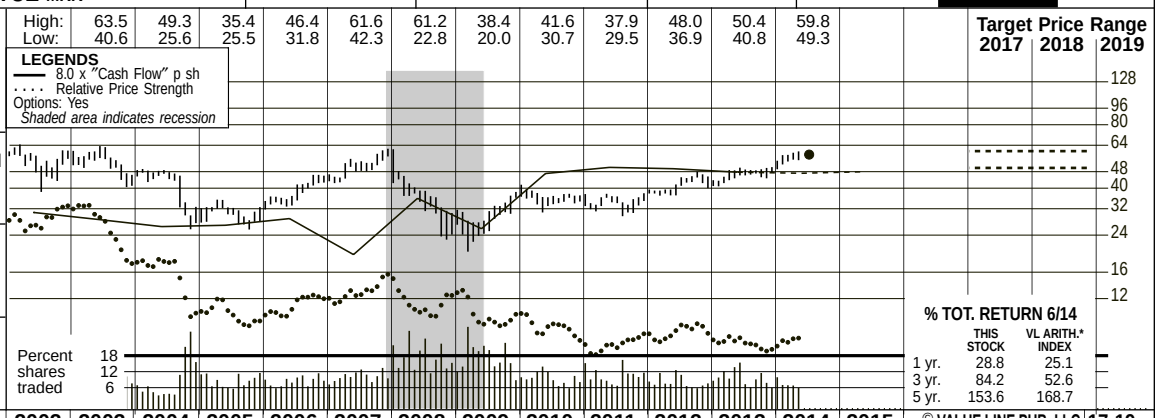
	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	1	0	1	9	0	5
to Sell	1	0	1	0	0	0	11	0	4

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	634	733	683
to Sell	659	693	748
Hld's(000)	2168645	2170511	2172724

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
High:	63.5	49.3	35.4	46.4	61.6	61.2	38.4	41.6	37.9	48.0	50.4	59.8								
Low:	40.6	25.6	25.5	31.8	42.3	22.8	20.0	30.7	29.5	36.9	40.8	49.3								
	11.40	14.05	17.49	20.99	23.07	10.12	10.39	10.09	10.44	11.14	11.32	8.82	14.92	15.80	15.62	15.04	***14.65***	***14.75***	Sales per sh	***15.70***
	2.65	3.02	3.51	3.85	3.85	3.56	3.29	3.34	3.59	2.42	4.48	3.21	5.87	6.29	6.19	5.95	***5.90***	***6.00***	"Cash Flow" per sh	***6.35***
	2.15	2.45	2.90	3.14	3.14	2.92	2.61	2.53	2.52	1.49	3.64	3.25	3.42	3.77	3.82	3.49	***3.50***	***3.70***	Earnings per sh [A]	***4.20***
	.95	1.10	1.21	1.37	1.41	1.45	1.49	1.52	1.52	1.52	1.52	1.52	1.52	1.52	1.68	1.72	***1.76***	***1.80***	Div'ds Decl'd per sh [B■]	***1.92***
	.84	1.10	1.18	1.20	1.06	.86	.78	.64	.45	.47	.62	.47	.54	.57	.65	.53	***.55***	***.55***	Cap'l Spending per sh	***.70***
	5.42	5.69	6.43	7.06	8.11	7.01	7.83	8.21	8.10	8.37	8.90	19.00	17.64	17.93	17.52	17.00	***17.25***	***17.55***	Book Value per sh	***18.95***
	2360.5	2329.1	2307.6	2272.7	2245.0	2221.8	2208.6	2181.9	2167.8	2172.5	2107.7	3108.2	3082.1	3040.8	3026.6	2927.5	***2900.0***	***2850.0***	Common Shs Outst'g [C]	***2800.0***
	30.0	29.8	25.6	22.7	17.3	18.2	16.2	12.1	15.2	34.1	10.2	9.1	10.5	9.1	10.8	13.3			Avg Ann'l P/E Ratio	***13.0***
	1.56	1.70	1.66	1.16	.94	1.04	.86	.64	.82	1.81	.61	.61	.67	.57	.69	.75			Relative P/E Ratio	***.80***
	1.5%	1.5%	1.6%	1.9%	2.6%	2.7%	3.5%	5.0%	4.0%	3.0%	4.1%	5.1%	4.2%	4.4%	4.1%	3.7%			Avg Ann'l Div'd Yield	***3.5%***
	22939	22012	22636	24198	23850	27428	45987	48047	47267	44033	***42500***	***42000***	Sales ($mill)	***44000***
	35.2%	35.2%	32.9%	31.4%	48.5%	24.1%	23.3%	32.4%	32.9%	31.6%	***32.0%***	***34.0%***	Operating Margin	***35.0%***
	1450.7	1708.1	2268.4	1988.0	1631.2	2576.0	7381.0	7427.0	6978.0	6988.0	***6900***	***6600***	Depreciation ($mill)	***6000***
	5813.4	5575.8	5513.0	3275.4	7808.4	7409.3	10715	11697	11743	10443	***10150***	***10545***	Net Profit ($mill)	***11760***
	27.1%	29.1%	29.9%	2.8%	20.4%	20.0%	20.0%	23.4%	23.8%	21.7%	***25.0%***	***25.0%***	Income Tax Rate	***25.0%***
	25.3%	25.3%	24.4%	13.5%	32.7%	27.0%	23.3%	24.3%	24.8%	23.7%	***23.9%***	***25.1%***	Net Profit Margin	***26.7%***
	1731.1	7745.8	2507.5	2787.2	4986.2	12678	13423	16936	16509	17817	***20000***	***21000***	Working Cap'l ($mill)	***22000***
	4691.5	5125.6	5551.0	3915.8	3943.3	16075	15482	15525	16254	20539	***19000***	***18000***	Long-Term Debt ($mill)	***15000***
	17288	17917	17560	18185	18758	59058	54376	54517	53020	49765	***50000***	***50000***	Shr. Equity ($mill)	***53000***
	26.9%	24.9%	24.5%	15.5%	34.8%	10.1%	15.8%	17.2%	17.4%	15.4%	***15.5%***	***16.0%***	Return on Total Cap'l	***18.0%***
	33.6%	31.1%	31.4%	18.0%	41.6%	12.5%	19.7%	21.5%	22.1%	21.0%	***20.5%***	***21.0%***	Return on Shr. Equity	***22.0%***
	14.5%	12.4%	12.5%	NMF	24.1%	7.1%	11.0%	12.9%	12.5%	10.6%	***10.0%***	***11.0%***	Retained to Com Eq	***12.0%***
	57%	60%	60%	101%	42%	43%	44%	40%	44%	49%	***50%***	***49%***	All Div'ds to Net Prof	***46%***

Bold figures are Value Line estimates



CAPITAL STRUCTURE as of 3/31/14
Total Debt $28148 mill. **Due in 5 Yrs** $8417 mill.
LT Debt $19589 mill. **LT Interest** $800 mill.
(28% of Cap'l)

Pension Assets-12/13 $17.4 bill. **Oblig.** $16.1 bill.

Pfd Stock None

Common Stock 2,922,376,244 shs.
as of 4/30/14

MARKET CAP: $171 billion (Large Cap)

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	16141	17486	20513
Receivables	7672	7184	7188
Inventory (LIFO)	6535	6226	6376
Other	4509	4789	7163
Current Assets	34857	35685	41240
Accts Payable	1753	2274	2434
Debt Due	4315	4521	8559
Other	12280	11073	11477
Current Liab.	18348	17868	22470

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Sales	-1.5%	7.0%	*Nil*
"Cash Flow"	5.0%	12.0%	*.5%*
Earnings	2.0%	7.5%	*2.0%*
Dividends	1.5%	1.5%	*2.5%*
Book Value	9.0%	15.5%	*1.5%*

Calendar	QUARTERLY SALES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	11580	12151	12022	12294	48047
2012	11731	12311	11488	11738	47268
2013	10671	11010	11032	11320	44033
2014	10264	***10600***	***10700***	***10936***	***42500***
2015	***10200***	***10500***	***10500***	***10800***	***42000***

Calendar	EARNINGS PER SHARE [A] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.92	.95	.94	.97	3.77
2012	.99	1.05	.95	.83	3.82
2013	.85	.84	.92	.88	3.49
2014	.88	***.80***	***.92***	***.90***	***3.50***
2015	***.85***	***.85***	***1.00***	***1.00***	***3.70***

Calendar	QUARTERLY DIVIDENDS PAID [B■] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.38	.38	.38	.38	1.52
2011	.38	.38	.38	.38	1.52
2012	.42	.42	.42	.42	1.68
2013	.43	.43	.43	.43	1.72
2014	.44	.44	.44		

BUSINESS: Merck & Co., Inc. is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products. Operations comprised of four operating segments: Pharmaceutical, Animal Health, Consumer Care, and Alliances. Top-grossing products in 2013: *Januvia* (diabetes), *Zetia* (cholesterol) and *Remicade* (arthritis). Acquired Schering-Plough, 11/09. Has 76,000 employees. BlackRock owns 7.0% of common stock; Capital World, 5.8%; Wellington, 5.3%; Off/dirs., less than 1%. (4/13 proxy). Chrmn.: Richard T. Clark; CEO: Kenneth Frazier. Inc.: NJ. Addr.: One Merck Dr., P.O. Box 100, Whitehouse Station, NJ 08889. Tel.: 908-423-1000. Internet: www.merck.com.

We have raised our 2014 estimates for Merck & Co. The drugmaker reported first-quarter earnings of $0.88 a share, versus $0.85 in the comparable year-ago period. The bottom-line tally handily beat consensus (and our own) expectations of $0.80, as increased cost cutting helped to mitigate the impact of continued generic erosion on several former blockbusters. Due to the strong start, we have lifted our full-year share-earnings target from $3.40 to $3.50, which is at the higher end of management's $3.35-$3.53 guidance.

Merck will likely continue to lean on cost management. While the company beat on the bottom line last quarter, revenues came up a bit short of our estimate (reported $10.3 billion versus our $10.5 billion target). Year-over-year, this represented a 4% pullback as continued fallout of *Singulair* (-20%), and declines in the *Zetia/Vytorin* (-5%) and *Nasonex* (-19%) franchises, largely offset gains in *Januvia/Janumet* (+3%), *Remicade* (+10%), and *Isentress* (+8%). With management currently guiding for a 2%-3% decline in revenues in 2014, continued execution of it's cost-cutting strategy will be vital in ensuring bottom-line stability.

The worst may be over. Although 2014 is shaping up to be Merck's fourth-consecutive year of revenue decline, we expect to see significant deceleration off last year's pace thanks to a less-impactful *Singulair* overhang and improved contributions from other franchises. Indeed, *Singulair* has been the biggest burden on the top line since it fell victim to generic competition in 2012, however, with the majority of the sales loss now over and done with (now represents less than 3% of sales), Merck appears poised to turn the page on that chapter. Positively, it's #1 seller *Januvia/Janumet* is under patent protection until 2022 and the pipeline holds several attractive late-stage assets.

This neutrally ranked blue chip represents a solid core holding. The stock is currently trading near its highest levels in more than five years. While the recent surge has diminished appreciation potential somewhat, Merck still holds superior rankings for Safety (1) and Financial Strength (A++), to go along with a 3%+ dividend yield.

Michael Ratty *July 11, 2014*

(A) Based on avg. shares outstanding through 1997, diluted thereafter. Quarters may not sum due to rounding. Excludes nonrecurring gains (losses): '98, 1¢; '05, (43¢); '06, (13¢); '09, $2.40; '10, ($3.16); '11, ($1.75); '12, ($1.66); '13, ($2.02). Next egs. report due late July.
(B) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(C) In millions.

Company's Financial Strength	A++
Stock's Price Stability	90
Price Growth Persistence	45
Earnings Predictability	75

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