High:
Low:

| 5.4 | 46.4 |
| :--- | :--- |


|  | 61.6 | 61.2 | 38.4 | 41.6 | 37.9 |
| :--- | :--- | :--- | :--- | :--- | :--- |
|  | 42.3 | 22.8 | 20.0 | 30.7 | 29.5 |


| 48.0 | 50.4 |
| :--- | :--- |
| 36.9 | 40.8 |

-... Relative Price Strength
Options: Yes

$\qquad$

Shaded area indicates recession



| $\mathbf{1} 998$ | $\mathbf{1 9 9 9}$ | $\mathbf{2 0 0 0}$ | $\mathbf{2 0 0 1}$ | $\mathbf{2 0 0 2}$ | $\mathbf{2 0 0 3}$ |
| ---: | ---: | ---: | ---: | ---: | ---: |
| 11.40 | 14.05 | 17.49 | 20.99 | 23.07 | 10.12 |
| 2.65 | 3.02 | 3.51 | 3.85 | 3.85 | 3.56 |
| 2.15 | 2.45 | 2.90 | 3.14 | 3.14 | 2.92 |
| .95 | 1.10 | 1.21 | 1.37 | 1.41 | 1.45 |
| .84 | 1.10 | 1.18 | 1.20 | 1.06 | .86 |
| 5.42 | 5.69 | 6.43 | 7.06 | 8.11 | 7.01 |
| 2360.5 | 2329.1 | 2307.6 | 2272.7 | 2245.0 | 2221.8 |
| 30.0 | 29.8 | 25.6 | 22.7 | 17.3 | 18.2 |
| 1.56 | 1.70 | 1.66 | 1.16 | .94 | 1.04 |
| $1.5 \%$ | $1.5 \%$ | $1.6 \%$ | $1.9 \%$ | $2.6 \%$ | $2.7 \%$ |
| CAPITAL STRUCTURE |  |  |  |  |  |

CAPITAL STRUCTURE as of $9 / 30 / 14$
Total Debt $\$ 27841$ mill. Due in 5 Yrs $\$ 8417$ mill. LT Debt $\$ 18566$ mill. LT Interest $\$ 800$ mill. (29\% of Cap'l)

Pension Assets-12/13 $\$ 17.4$ bill. Oblig. $\$ 16.1$ bill.
Pfd Stock None
Common Stock 2,850,873,371 shs.
as of $10 / 31 / 14$
MARKET CAP: $\$ 165$ billion (Large Cap)

| $\begin{array}{c}\text { CURRENT POSITION } \\ (\text { SMILL }\end{array}$ | 2012 | 2013 | $9 / 30 / 14$ |
| :--- | :--- | :--- | :--- | Cash Assets Receivables Inventory

Other
Current Assets
Accts Payable
Debt Due
Other
Current Liab.

| ANNUAL RATES | Past | Past | Est'd '111'13 |
| :--- | :---: | :---: | :---: |
| of change (per sh) | 10 Yrs. | 5Yrs. | to '17.'19 |
| Sales | $-1.5 \%$ | $7.0 \%$ | Nil |
| "Cash Flow" | $5.0 \%$ | $1.0 \%$ | $1.0 \%$ |
| Earnings | $2.0 \%$ | $7.5 \%$ | $3.0 \%$ |
| Dividends | $1.5 \%$ | $1.5 \%$ | $2.5 \%$ |
| Book Value | $9.0 \%$ | $15.5 \%$ | $1.5 \%$ |


| Calendar | QUARTERLY SALES (\$ mill.) |  |  |  | Full Year |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 |  |
| 2011 | 11580 | 12151 | 12022 | 12294 | 48047 |
| 2012 | 11731 | 12311 | 11488 | 11738 | 47268 |
| 2013 | 10671 | 11010 | 11032 | 11320 | 44033 |
| 2014 | 10264 | 10934 | 10557 | 10745 | 42500 |
| 2015 | 10000 | 10300 | 10200 | 10500 | 41000 |
| $\begin{array}{\|l} \text { Cal- } \\ \text { endar } \\ \hline \end{array}$ | $\text { Mar. } 31$ | $\begin{aligned} & \text { RNINGS P } \\ & \text { Jun. } 30 \end{aligned}$ | $\begin{aligned} & \text { ER SHARI } \\ & \text { Sep. } 30 \end{aligned}$ | $\begin{aligned} & \hline \text { E A } \\ & \text { Dec. } 31 \end{aligned}$ | Full <br> 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 | . 85 | . 90 | . 87 | 3.50 |
| 2015 | . 85 | . 85 | . 95 | . 95 | 3.60 |


| Cal- <br> endar | QUARTERLY <br> Mar.31 |  | Jun.30 | Sep.30 | Dec.31 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | | Full |
| :---: |
| Year |

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
Merck recently made a move to bolster its antibiotics portfolio. On December 8th, the drugmaker announced that it had entered into a definitive agreement to acquire Cubist Pharmaceuticals in a deal valued at $\$ 9.5$ billion (includes the assumption of $\$ 1.1$ billion in debt). Under the terms, Merck will pay $\$ 102$ a share in cash, which represented a $35 \%$ premium to CBST's preannouncement closing price. Merck expects the transaction to be neutral to earnings per share in 2015 and significantly accretive in 2016 and beyond. The deal is scheduled to close in the first quarter of 2015.
We have mixed feelings. While the purchase significantly strengthens Merck's capabilities in antibiotics, we believe the company may have overpaid in light of recent news. On the day the acquisition was announced, a judge ruled that two key patents on Cubist's top-selling drug Cubicin were invalid. Barring a successful appeal, competitors can now bring generic versions of Cubicin to market years earlier than originally expected.

## The company is scheduled to release

(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, $5.3 \%$; Offddirs., less than 1\%. (4/14 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.merch.com.
the full year, we estimate Merck earned $\$ 3.50$ a share, on revenues of $\$ 42.5$ billion. Our targets reflect a modest bump on the bottom line versus 2013's tally, but a 3\% pullback on the top line. Much like the past few years, the company continues to rely on effective cost control to support earnings, as intense generic competition weighs heavily on several key franchises.
Further pipeline development is vital. While Merck is getting steady growth out of its top-selling franchise, J anuvia/ J anumet, its other core brands have struggled of late. On a positive note, the pipeline currently boasts several attractive late-stage assets that are projected to become meaningful contributors over the 3- to 5 -year pull. Recent approvals include Keytruda (advanced melanoma) and Belsomra (insomnia).
The stock is neutrally ranked. In our view, these shares represent a quality core holding for income-seeking investors. Merck possesses superior marks for Safety (1) and Financial Strength (A+H). Its $3.1 \%$ dividend yield is a healthy dip above the Value Line median (2.0\%).
Michad Ratty
J anuary 9, 2015

[^0]
[^0]:    (A) Based on avg. shares outstanding through $\$ 2.40$; '10, (\$3.16); '11, (\$1.75); '12, (\$1.66); ment plan available.

    1997, diluted thereafter. Quarters may not sum due to rounding. Excludes nonrecurring gains
    $13,(\$ 2.02)$. Next egs. report due early Feb.

    | Company's Financial Strength | A++ |
    | :--- | ---: |
    | Stock's Price Stability | 90 |
    | Price Growth Persistence | 55 |
    | Earnings Predictability | 75 |

