

cines, 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),

stock; Capital World, 5.8%; Wellington, 5.3%; Off/dirs., 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.merck.com

ANNUAL RATES Past Past Est'd '11-'13 of change (per sh) 5 Yrs. to '17-'19 Nil 1.0% 3.0% Sales "Cash Flow" -1.5% 7.0% 7.0% 12.0% 7.5% 1.5% 15.5% 5.0% Earnings 2 0% 1.5% 9.0% 2.5% 1.5% Dividends Book Value

1753 4315

18348

2274 4521

17868

2279 9275

25927

Accts Payable Debt Due

Current Liab.

Cal-	QUARTERLY SALES (\$ mill.)				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
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
Cal-	EARNINGS PER SHARE A				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	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-	QUARTERLY DIVIDENDS PAID B=				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
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	.44	1.76
2015	.45				•

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 neutral to earnings per share in 2015 and significantly accretive in 2016 and beyond. The deal is scheduled to close in the first guarter 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 its 2014 results early next month. For

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 top-selling franchise. of its *Januvia/Janumet*, its other core brands have struggled of late. On a positive note, the pipeline currently boasts several attractive late-stage assets that projected to become meaningful tributors 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 investors. holding for income-seeking Merck possesses superior marks for Safety (1) and Financial Strength (A++). Its 3.1% dividend yield is a healthy clip above the Value Line median (2.0%).

Michael Ratty January 9, 2015

(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); ment plan available. '13, (\$2.02). Next egs. report due early Feb. (C) In millions. (B) Dividends historically paid in early January, April, July, and October. Dividend reinvest-

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