

MERCK & CO. NYSE-MRK

RECENT PRICE **53.75**

P/E RATIO **13.2** (Trailing: 13.5, Median: 12.0)

RELATIVE P/E RATIO **0.72**

DIV'D YLD **3.6%**

VALUE LINE

TIMELINESS 3 Lowered 2/9/18	High: 61.6 Low: 42.3	61.2	38.4	41.6	37.9	48.0	50.4	62.2	63.6	65.5	66.8	63.8	Target Price Range 2021 2022 2023
SAFETY 1 Raised 4/15/11	<p>LEGENDS —— 12.0 x "Cash Flow" p sh ... Relative Price Strength Options: Yes Shaded area indicates recession</p>												
TECHNICAL 4 Raised 3/2/18													
BETA .85 (1.00 = Market)	<p>Percent shares traded</p>												
2021-23 PROJECTIONS	Price	Gain	Ann'l Total Return										
High Low	85 70	(+60%) (+30%)	15% 10%										
Insider Decisions	<p>M J J A S O N D J</p> <p>to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0</p> <p>Options 6 0 0 0 0 0 1 0 2</p> <p>to Sell 1 0 0 0 0 0 0 1 0 3</p>												
Institutional Decisions	<p>2Q2017 3Q2017 4Q2017</p> <p>to Buy 860 847 778</p> <p>to Sell 854 855 845</p> <p>Hlds(000)218347821814512007087</p>												
<p>% TOT. RETURN 2/18 THIS STOCK VS. ARITH. INDEX</p> <p>1 yr. -15.2 10.1 3 yr. 1.9 24.2 5 yr. 49.2 76.2</p>													

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC	21-23
23.07	10.12	10.39	10.09	10.44	11.14	11.32	8.82	14.92	15.80	15.62	15.04	14.88	14.20	14.48	14.88	15.80	16.35	Sales per sh	18.40
3.85	3.56	3.29	3.34	3.59	2.42	4.48	3.21	5.87	6.29	6.19	5.95	5.98	5.96	5.83	5.77	5.75	5.90	"Cash Flow" per sh	6.40
3.14	2.92	2.61	2.53	2.52	1.49	3.64	3.25	3.42	3.77	3.82	3.49	3.49	3.59	3.78	3.98	4.15	4.35	Earnings per sh A	5.20
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	1.84	1.88	1.92	1.96	Div'ds Decl'd per sh B=C	2.08
1.06	.86	.78	.64	.45	.47	.62	.47	.54	.57	.65	.53	.46	.46	.59	.70	.70	.70	Cap'l Spending per sh	.70
8.11	7.01	7.83	8.21	8.10	8.37	8.90	19.00	17.64	17.93	17.52	17.00	17.14	16.06	14.58	12.73	12.40	12.20	Book Value per sh	14.00
2245.0	2221.8	2208.6	2181.9	2167.8	2172.5	2107.7	3108.2	3082.1	3040.8	3026.6	2927.5	2838.1	2781.1	2748.7	2696.6	2660.0	2620.0	Common Shs Outst'g C	2500.0
17.3	18.2	16.2	12.1	15.2	34.1	10.2	9.1	10.5	9.1	10.8	13.3	16.4	15.8	15.2	15.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0
.94	1.04	.86	.64	.82	1.81	.61	.61	.67	.57	.69	.75	.86	.80	.80	.76			Relative P/E Ratio	.85
2.6%	2.7%	3.5%	5.0%	4.0%	3.0%	4.1%	5.1%	4.2%	4.4%	4.1%	3.7%	3.1%	3.2%	3.2%	3.0%			Avg Ann'l Div'd Yield	2.7%
CAPITAL STRUCTURE as of 12/31/17																			
Total Debt \$24410 mill. Due in 5 Yrs \$7789 mill.																			
LT Debt \$21353 mill. LT Interest \$754 mill. (38% of Cap'l)																			
Leases, Uncapitalized Annual rentals \$255 mill.																			
Pension Assets-12/17 \$20.2 bill. Oblig. \$21.4 bill.																			
Common Stock 2,696,190,502 shs. as of 1/31/18																			
MARKET CAP: \$145 billion (Large Cap)																			
CURRENT POSITION (SMILL.)																			
Cash Assets	13427	14341	8498																
Receivables	6484	7018	6873																
Inventory (LIFO)	4700	4866	5096																
Other	5153	4389	4299																
Current Assets	29764	30614	24766																
Accts Payable	2533	2807	3102																
Debt Due	2585	568	3057																
Other	14085	13829	12455																
Current Liab.	19203	17204	18614																

2015	2016	12/31/17	2015	2016	12/31/17	2015	2016	12/31/17	2015	2016	12/31/17	2015	2016	12/31/17	2015	2016	12/31/17	2015	2016	12/31/17	2015	2016	12/31/17
24.1%	7.1%	11.0%	12.9%	12.5%	10.6%	10.5%	11.4%	13.6%	17.1%	18.0%	19.5%	46%	45%	44%	43%	42%	BUSINESS: Merck & Co., Inc. is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, biologic therapies, and animal health products, which it markets directly and through joint ventures. Operations comprised of four segments: Pharmaceutical, Animal Health, Alliances and Healthcare Services. Top-grossing drugs in 2017: Januvia (diabetes) and Keytruda (cancer). Acquired Schering-Plough, 11/09. Has 69,000 employees. Officers and directors own less than 1% of common stock; BlackRock, 6.7%; Vanguard, 6.7%; Capital World Investors, 5.1% (4/17 proxy). Chairman and CEO: Kenneth Frazier. Inc.: NJ. Addr.: 2000 Galloping Hill Road., Kenilworth, NJ 07033. Tel.: 908-740-4000. Internet: www.merck.com.						
42%	43%	44%	40%	44%	49%	50%	50%	48%	46%	46%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17 to '21-'23	2015	2016	2017	2018	2019
of change (per sh)	3.5%	2.0%	4.0%	3.5%	3.0%	1.5%	2.0%	2.0%
Sales	5.5%	3.0%	1.5%	3.5%	1.0%	5.5%	2.0%	3.5%
"Cash Flow"	7.0%	-2.5%	-5%	7.0%	-2.5%	-5%	7.0%	-2.5%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year	2015	2016	2017	2018	2019
QUARTERLY SALES (\$ mill.)						9425	9785	10073	10215	39498
EARNINGS PER SHARE A						.85	.86	.96	.93	3.59
QUARTERLY DIVIDENDS PAID B=C						.44	.44	.44	.44	1.76

Merck is poised to deliver mid-single-digit growth on both lines in 2018. The drugmaker's fourth-quarter adjusted earnings (\$0.98 a share) beat consensus expectations, with much of the upside coming from reduced taxes. Total sales of \$10.43 billion were relatively in line, highlighted by continued strong growth in stand-out immunotherapy drug *Keytruda* (+169% year over year) and a nice gain in lead vaccine asset *Gardasil* (+17%). On the Q4 conference call, management indicated that it was targeting 2018 adjusted earnings of \$4.08-\$4.23 a share on sales of \$41.2 billion-\$42.7 billion, implying annual growth of 3%-6% on both lines. The guidance compared favorably to previous analyst forecasts, but MRK shares have pulled back some since the release.

New legislation is expected to reduce the tax rate by a few points. Merck's effective tax rate was 19.1% in 2017, but that was aided by one-time foreign tax benefits. Excluding these, it would have been more consistent with the low 20s range seen in past years. Going forward, management is guiding for a tax rate of 19%-20%. On a side note, the company ex-

pects to pay \$5 billion over eight years for the one-time repatriation tax. It also plans to invest \$12 billion over five years in capital projects, including \$8 billion in the U.S., due in part to the new tax law.

The long-term growth story remains heavily tied to *Keytruda*. Merck has experienced a few setbacks in other areas of the business, but *Keytruda* continues to soar. With a string of recent positive developments, the drug has emerged as the favorite in the high-growth immunology space and annual sales are projected to exceed \$8 billion by 2020. With generic losses mounting on *Zetia* and *Vytorin*, the company is banking on further development of *Keytruda*, steady gains in the *Januvia* diabetes franchise, and nice momentum in animal health to drive growth in the coming years.

The stock's Timeliness rank has been downgraded to 3 (Average). Based on our system, shares of MRK are now pegged to mirror the broader market in the year ahead. The equity maintains solid investment appeal as a low-risk, income play in the pharmaceutical industry.

Michael Ratty April 6, 2018