

# MERCK & CO. NYSE-MRK

RECENT PRICE **71.15** P/E RATIO **15.8** (Trailing: 16.6; Median: 12.0) RELATIVE P/E RATIO **1.10** DIV'D YLD **3.1%** VALUE LINE

**TIMELINESS** 1 Raised 11/30/18  
**SAFETY** 1 Raised 4/15/11  
**TECHNICAL** 3 Raised 11/16/18  
**BETA** .95 (1.00 = Market)

High: 61.6 61.2 38.4 41.6 37.9 48.0 50.4 62.2 63.6 65.5 66.8 80.2  
 Low: 42.3 22.8 20.0 30.7 29.5 36.9 40.8 49.3 45.7 48.0 53.6 52.8

LEGENDS  
 — 12.0 x "Cash Flow" p sh  
 ... Relative Price Strength  
 Options: Yes  
 Shaded area indicates recession

Target Price Range  
 2021 2022 2023  
 128  
 96  
 80  
 64  
 48  
 40  
 32  
 24  
 16  
 12

**2021-23 PROJECTIONS**

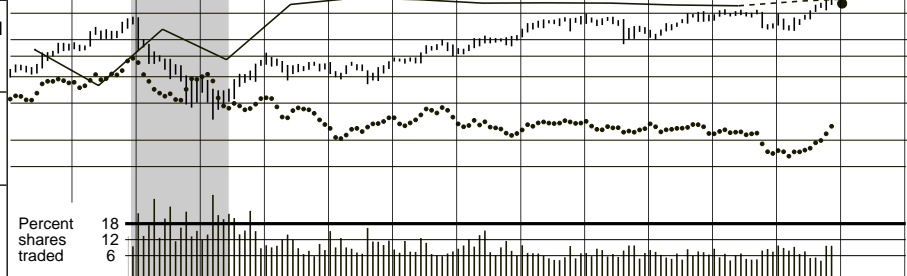
	Price	Gain	Ann'l Total
	High	(+20%)	Return
Low	70	(Nil)	8%
		(Nil)	3%

**Insider Decisions**

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	2	1	1	0	3	1	0	2	2
to Sell	1	0	1	1	1	1	0	3	2

**Institutional Decisions**

	1Q2018	2Q2018	3Q2018
to Buy	909	869	856
to Sell	902	926	938
Hlds(000)	1984665	1956355	1966061



% TOT. RETURN 11/18

	THIS STOCK	VL ARITH. INDEX
1 yr.	48.2	0.2
3 yr.	64.5	33.1
5 yr.	86.4	40.9

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	16.30	17.50	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	5.79	6.10	6.30	"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	4.35	4.60	Earnings per sh <sup>A</sup>	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	2.20	Div'ds Decl'd per sh <sup>B</sup>	2.44
1.06	.86	.78	.64	.45	.47	.62	.47	.54	.57	.65	.53	.46	.46	.59	.70	.80	.80	Cap'l Spending per sh	.80
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	12.70	12.80	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	2600.0	2500.0	Common Shs Outst'g <sup>C</sup>	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	14.7		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	.78	.78		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%	3.0%		Avg Ann'l Div'd Yield	3.1%

**CAPITAL STRUCTURE as of 9/30/18**

Total Debt \$23592 mill. Due in 5 Yrs \$10757 mill.  
 LT Debt \$19936 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** 2,600,376,500 shs. as of 10/31/18

**MARKET CAP: \$185 billion (Large Cap)**

**CURRENT POSITION (SMILL.)**

	2016	2017	9/30/18
Cash Assets	14341	8498	10285
Receivables	7018	6873	7374
Inventory (LIFO)	4866	5096	5416
Other	4389	4299	3761
Current Assets	30614	24766	26836
Accts Payable	2807	3102	3091
Debt Due	568	3057	3656
Other	13829	12455	11839
Current Liab.	17204	18614	18586

23850	27428	45987	48047	47267	44033	42237	39498	39807	40122	42400	43800	Sales (\$mill)	46000
48.5%	24.1%	23.3%	32.4%	32.9%	31.6%	32.4%	33.9%	34.4%	33.8%	33.0%	33.0%	Operating Margin	35.0%
1631.2	2576.0	7381.0	7427.0	6978.0	6988.0	6691.0	6375.0	5441.0	4637.0	4500	4200	Depreciation (\$mill)	3000
7808.4	7409.3	10715	11697	11743	10443	10271	10195	10580	10981	11310	11500	Net Profit (\$mill)	13000
20.4%	20.0%	20.0%	23.4%	23.8%	21.7%	24.3%	21.7%	22.3%	19.1%	19.0%	19.0%	Income Tax Rate	19.0%
32.7%	27.0%	23.3%	24.3%	24.8%	23.7%	24.3%	25.8%	26.6%	27.4%	26.7%	26.3%	Net Profit Margin	28.3%
4986.2	12678	13423	16936	16509	17817	14407	10561	13410	6152.0	8000	9000	Working Cap'l (\$mill)	12000
3943.3	16075	15482	15525	16254	20539	18699	23929	24274	21353	19000	18500	Long-Term Debt (\$mill)	17000
18758	59058	54376	54517	53020	49765	48647	44676	40088	34336	33000	32000	Shr. Equity (\$mill)	35000
34.8%	10.1%	15.8%	17.2%	17.4%	15.4%	15.8%	15.3%	17.0%	20.4%	22.5%	23.5%	Return on Total Cap'l	25.5%
41.6%	12.5%	19.7%	21.5%	22.1%	21.0%	21.1%	22.8%	26.4%	32.0%	34.5%	36.0%	Return on Shr. Equity	37.0%
42%	43%	44%	40%	44%	49%	50%	50%	48%	47%	44%	44%	All Div'ds to Net Prof	47%

**ANNUAL RATES**

	Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17 to '21-'23
Sales	3.0%	-1.0%	4.0%
"Cash Flow"	6.5%	-1.0%	1.5%
Earnings	5.5%	.5%	5.5%
Dividends	2.0%	3.0%	5.0%
Book Value	6.0%	-4.0%	-5%

**QUARTERLY SALES (\$mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	9425	9785	10073	10215	39498
2016	9312	9844	10536	10115	39807
2017	9434	9930	10325	10433	40122
2018	10037	10465	10794	11104	42400
2019	10300	10800	11200	11500	43800

**EARNINGS PER SHARE <sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.85	.86	.96	.93	3.59
2016	.89	.93	1.07	.89	3.78
2017	.88	1.01	1.11	.98	3.98
2018	1.05	1.06	1.19	1.05	4.35
2019	1.12	1.14	1.22	1.12	4.60

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.45	.45	.45	.45	1.80
2016	.46	.46	.46	.46	1.84
2017	.47	.47	.47	.47	1.88
2018	.48	.48	.48	.48	
2019	.55				

**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, Aliances and Healthcare Services. Top-grossing drugs in 2017 included *Januvia* (diabetes), *Keytruda* (cancer), and *Gardasil* (HPV). Acquired Schering-Plough, 11/09. Has 69,000 employees. Officers and directors own less than 1% of common stock; Vanguard, 7.2%; BlackRock, 6.8% (4/18 proxy). Chairman and CEO: Kenneth Frazier, Inc.: NJ. Addr.: 2000 Galloping Hill Road., Kenilworth, NJ 07033. Tel.: 908-740-4000. Internet: www.merck.com.

**Merck & Co. likely capped off 2018 on solid footing.** While fourth-quarter results aren't due out for a few more weeks, the drugmaker's adjusted earnings and sales were up 10% and 5%, respectively, though the first nine months of the year. Comp growth was fueled primarily by strong momentum in the standout *Keytruda* franchise (sales +100% year over year) and impressive gains in lead vaccine asset *Gardasil* (+38%). The former benefited from recent launches with new indications and further penetration in the non-small cell lung cancer (NSCLC) market, while the latter reflected solid growth in Europe and the ongoing commercial launch in China. Together, the two drugs now combine for roughly 25% of Merck's total sales and have been key in offsetting generic pressures in other areas, most notably in the *Zetia/Vytorin* franchise.

**It's all about Keytruda.** Merck is seeing nice growth in several core products and the animal health business should provide solid complementary support (more below), but the long-term growth story remains heavily tied to the continued success and development of *Keytruda*. The drug has

emerged as a clear favorite in the attractive immuno-oncology space, and perhaps more importantly, has established a dominant position in the most lucrative segment of the market, lung cancer. Current projections suggest that annual sales could exceed \$12 billion by 2024.

**The company recently inked a deal to bolster its animal health business.** In mid-December, Merck agreed to acquire privately-held Antelliq Group for up to \$3.7 billion in cash and debt assumption. Antelliq provides digital animal identification, traceability, and monitoring solutions, and should be a nice complement to Merck's existing portfolio of vaccines and pharmaceuticals. Animal health currently accounts for roughly 10% of total sales.

**The stock's Timeliness rank has been upgraded to 1 (Highest).** Based on our system, shares of MRK currently represent one of the more attractive year-ahead growth plays in the large pharma space. An above-average dividend yield (3.1%) and strong scores for Safety and Price Stability should appeal to risk-averse, income-oriented investors.

*Michael Ratty*  
 January 4, 2019

(A) Diluted earnings (adjusted). Quarters may not sum due to rounding. Excludes nonrecurring gains (losses): '05, (43c); '06, (13c); '09, \$2.40; '10, (\$3.16); '11, (\$1.75); '12, (\$1.66); '13, (\$2.02); '14, 58c; '15, (\$2.03); '16, (\$2.37); '17, (\$3.11). Next eps. report due early Feb. (C) In millions.

Company's Financial Strength A++  
 Stock's Price Stability 90  
 Price Growth Persistence 50  
 Earnings Predictability 100