

Merck & Co.

Initial Thoughts on 4Q23 Earnings

Maintain Rating: BUY | PO: 135.00 USD | Price: 120.78 USD

4Q beat driven by Keytruda; 2024 guidance above

Merck delivered another strong commercial quarter (+\$138M ahead on revenues / +\$0.17 EPS), driven by Keytruda (+\$253M) and ProQuad (+\$165M) while Gardasil missed modestly (-\$92M). Further, 2024 rev guidance midpoint of \$63.45B and non-GAAP EPS guidance midpoint of \$8.52 are modestly above expectations and look beatable. Indeed, we continue to like Merck's strong growth (2024-27e CAGR: +6%) driven by core assets (i.e., Keytruda, Gardasil) and new launches. Further, the company had a disciplined strategy towards Keytruda LOE and made solid progress, including 1) Daiichi collaboration, 2) the Prometheus deal, and 3) new launches from sotatercept, V116, and HER3-DXd. As an aside, Merck announced a new restructuring program to further optimize the manufacturing network and improve efficiency. Maintain Buy and \$135 PO.

Core business growth and new launches in focus

Merck has demonstrated consistent commercial execution and we expect the momentum to carry on in 2024+. Indeed, recent approvals of Keytruda in adjuvant/perioperative lung and metastatic urothelial cancer, together with continued market penetration should continue to drive Keytruda growth. Gardasil growth should remain strong due to global demand (China). Key questions for the call: 1) commercial performance from core products (i.e., Keytruda & Gardasil), 2) launch expectations for sotatercept, V116, and HER3-DXd, 4) updates on pipeline assets (e.g., ADC, TIGIT), 5) commentary on 2024 guide and medium-term outlook, and 6) BD environment.

Merck's 4Q23 call starts at 9:00 am ET. Dial in: (800) 779-6561; ID code 5958465

Exhibit 1: Merck 4Q23 Earnings Variance and 2024 Guidance

Merck reported 4Q23 earnings with consistent performance

4Q23 Performance				Growth		Variance				
\$ in millions	4Q23	vs. Cons	BofA	Cons	Q/Q	Y/Y	BofA	Cons		
Keytruda	6,608	BEAT	6,414	6,355	4.3%	21.2%	194	253		
Gardasil	1,871	MISS	2,105	1,963	(27.6%)	27.3%	(234)	(92)		
ProQuad	713	BEAT	504	548	0.0%	35.6%	209	165		
Vaxneuvance	176	MISS	261	201	(18.1%)	N/M	(85)	(25)		
Januvia/Janumet	787	BEAT	667	691	(5.6%)	(13.9%)	120	96		
Animal Health	1,278	MISS	1,296	1,327	(8.7%)	3.9%	(18)	(49)		
Total Revenue	14,630	BEAT	14,623	14,492	(8.3%)	5.8%	7	138		
COGS	3,340		3,269	3,242	(9.2%)	(0.6%)	71	98		
R&D	8,838		8,819	8,498	168.1%	191.2%	19	340		
SG&A	2,751		3,034	3,054	11.7%	4.7%	(283)	(303)		
Taxes	(281)		(381)	(274)	NM	NM	100	(7)		
Adjusted Net Income	66		(270)	(170)	(98.8%)	(98.4%)	336	236		
Non-GAAP EPS	2.13	BEAT	2.00	1.96	N/M	15.1%	0.13	0.17		
2024 Guidance					2024E		Growth		Midpoint Variance	
	Low	High		BofA	Cons		y/y	BofA	Cons	
Total Revenue (\$M)	\$62,700	\$64,200	Above	64,963	63,419		+5.5%	(1,513)	31	
Non-GAAP EPS	\$8.44	\$8.59	Above	\$8.60	\$8.44		+463.9%	(\$0.09)	\$0.07	

Source: BofA Global Research, Visible Alpha, Bloomberg. MISS/BEAT metrics based on consensus

BofA GLOBAL RESEARCH

01 February 2024

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Stock Data

Price	120.78 USD
Price Objective	135.00 USD
Date Established	26-Jan-2024
Investment Opinion	A-1-7
52-Week Range	99.14 USD - 122.85 USD
Mkt Val (mn) / Shares Out	306,059 USD / 2,534.0 (mn)
Free Float	99.6%
Average Daily Value (mn)	1007.24 USD
BofA Ticker / Exchange	MRK / NYS
Bloomberg / Reuters	MRK US / MRKN
ROE (2023E)	8.7%
Net Dbt to Eqty (Dec-2022A)	39.1%
ESGMeter™	High

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Abbreviations:

TIGIT: immune checkpoint
BD: Business development
ADC: antibody-drug conjugate
KOL: key opinion leader
LOE: loss of exclusivity

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Timestamp: 01 February 2024 07:48AM EST

Price objective basis & risk

Merck & Co. (MRK)

Our \$135 price objective (PO) is based on the intrinsic value of Merck standalone. We use a 50/50 blended average of our P/E multiple applied to 2025E EPS (we think the current 17x vs. 18x peer average makes sense to reflect continued strength of Merck's core growth franchises but broader Keytruda concentration risk concerns) and risk-adjusted DCF (7% WACC and -2% terminal growth rate).

Risks to our PO are 1) impressive competitor readouts results in key immuno-oncology (I/O) indications, 2) more rapid declines across the diabetes franchise than expected, 3) negative outcomes from the company's later-stage assets in ongoing development, and 4) pressures from headline risks facing the sector (including drug pricing reform).

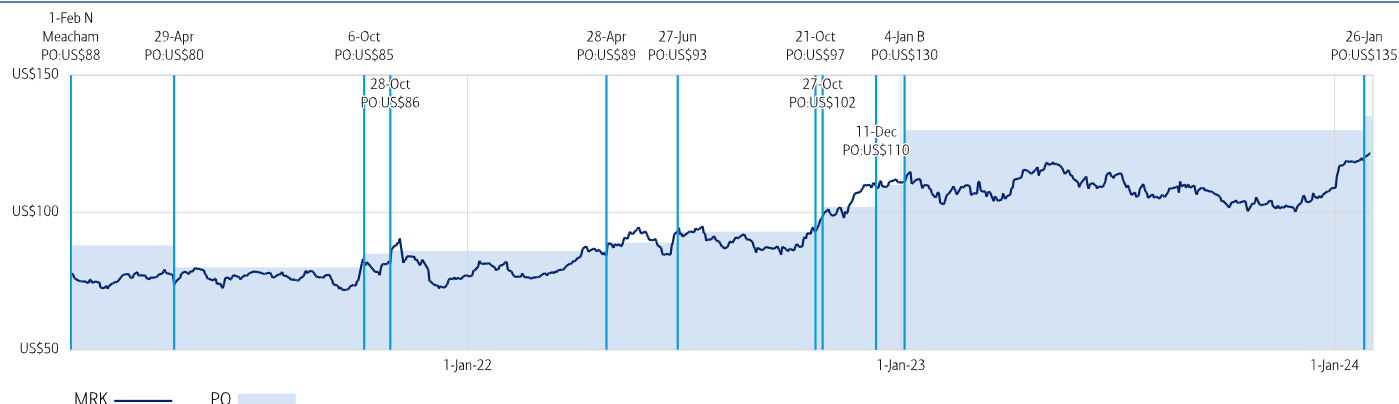
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Merck & Co. (MRK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Sell	807	22.84%	Sell	383	47.46%

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