

Animal Health

Merck 4Q23 AH results: +4% CC sales growth, big Companion rebound

Industry Overview

Slightly better results than in 3Q, led by Companion

This morning, Merck (MRK, covered by Geoff Meacham) announced its 4Q23 earnings results. Its Animal Health business, which has annual revenues of \$5.6bn and accounts for ~9% of total company sales, provides an important read-through to stand-alone animal health companies, including Zoetis, Elanco, IDEXX, and Phibro.

In 4Q, Merck Animal Health (AH) saw 4% constant-currency sales growth, on a +6% prior-year comp. Companion Animal grew 12% in constant currency (on a -5% comp). Livestock had a relatively softer result, at 0% constant currency revenues (but on a tough +12% cc comp). F/X was neutral to revenues (MRK AH is more OUS-exposed than Zoetis or Elanco, with roughly 70% OUS mix vs 50% for ZTS/ELAN). The overall business results are relatively consistent on a year-over-year basis with prior quarters, but slightly better (two-year CC revenue growth stack of 5%, vs 3-4% in 2Q/3Q).

Timing of shipments impacts both segments, Bravecto

Comments on performance in the press release were very sparse, as usual. Merck highlighted pricing power as a contributor to growth in both segments. Livestock also saw higher demand in the swine portfolio – but this was offset by timing of shipments for ruminant products (often dependent on timing of feedlot placements, which can easily shift between quarters).

For companion, Merck flagged pricing power as a tailwind, and also highlighted the timing of shipments for its Bravecto line (implying a possible push ahead of the usual 1H selling season, or potentially catch-up after a soft 3Q23). Merck's Bravecto (oral flea & tick parasiticide) had revenues of \$197mn in the quarter, which represents strong +19% cc growth year-over-year ([see this link for our report on the Animal Health parasiticide market](#)). For the year, Bravecto ended with sales of \$1.07bn, making it the #2 top selling drug in Animal Health (after BI's NexGard), but only grew 5% yoy, primarily from pricing.

Tough comps, market slowing, or competition?

Expectations in our Animal Health coverage universe are relatively modest for 4Q results, as companion businesses are facing tough comps and vet-visits remain soft, and mgmt. commentary has remained somewhat subdued throughout the quarter. We believe that AH companies are broadly well-positioned and resilient despite these headwinds, and the Merck AH 4Q results highlight the pricing power that's prevalent in the industry. It is notable that Merck is more heavily biased to livestock (~60% of total company sales, vs ~50% for Zoetis and Elanco) and also more OUS exposed (~70% of total company sales, vs ~30% for Zoetis, ~50% for Elanco), so these results offer particular insights into those markets.

Finally, given Merck cited timing-related benefits (and challenges) in 4Q, it's difficult to gauge whether there was any meaningful share gains or share losses to peers (particularly ZTS and the ramp in Simparica Trio, given the significant parasiticide exposure).

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AH = Animal Health

CC = constant currency

OUS = outside the United States

BI = Boehringer Ingelheim

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Exhibit 1: Stocks mentioned
BofA Global Research Animal Health Coverage

BofA ticker	Bloomberg Ticker	Company name	Price	Rating
ELAN	ELAN US	Elanco Animal Health	\$14.74	B-1-9
IDXX	IDXX US	IDEXX	\$515.08	B-2-9
PAHC	PAHC US	Phibro Animal Health	\$10.81	B-3-7
ZTS	ZTS US	Zoetis	\$187.81	B-1-7

Source: BofA Global Research

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