

Organon & Co. (OGN)

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Computing ID: qrx5hu

Analyst: Anmeng Hao
Industry Team: Healthcare

Investment Recommendation

- Buy/**Hold**/Sell (it is **okay** to realize a company isn't worth investing in!)
- Investment horizon (3-5yr)
- 2-3 sentences to summarize key points

Key Financials:

[sources: 10K, earnings release, Morningstar]

While entering in the information, think about what each metric means. Think of the numbers as clues to start understanding the company.

Historical Performance

	Yr1(19)	Yr2(20)	Yr3(21)	Yr4(22)	Current Yr(23)	5-year Avg	Industry Avg
Revenue	7777	6532	6304	6174	6263	6610	207.6
YoY Growth (%)	-20.46	-16.01	-3.49	-2.06	1.44	-8.12	7
R&D	220	210	339	471	528	353.6	5%
YoY Growth (%)	-39.73	-4.55	61.43	38.94	12.10	13.64	N/A
Selling, General & Admin	1443	1356	1668	1704	1893	1612.8	29.48
YoY Growth (%)	28.32	6.03	23.01	2.16	11.09	14.12	N/A
Operating Margin(%)	47.52	42.8	28.41	25.19	19.83	32.75	12.2
YoY Growth (%)	70.26	-9.95	-33.62	-11.33	-21.28	1.18	N/A
Free Cash Flow	2679	1937	2273	669	549	1621.4	N/A
YoY Growth (%)	-25.95	-27.70	17.35	-70.57	-17.94	-24.96	N/A

Return on Investment

	Company	Industry Avg
ROE	-209.70%	7.53
ROIC	21.73%	20.16

ROE = Net Income / Shareholder's Equity
ROIC = Aftertax Income / Invested Capital
 Aftertax Income = operating income * (1-tax rate)
 Invested Capital = total assets – current liabilities + short-term debt

Financial Position

	Company	Industry Avg
Debt/Equity	-125.14	0.73
Interest Coverage	2.28	5.7
Current Ratio	1.55	2.79

Debt/Equity = Long-term debt / Shareholder's equity
Interest coverage = Operating income / Interest expense

Market Valuation

	Company	Industry Avg
EV/EBITDA	8.77	13.7
P/E	4.44	50.43
PEG (5yr normalized)	0.39	2.48

PEG = P/E divided by 5yr average EPS growth rate
EV = market capitalization + value of debt + minority interest + preferred shares - cash and cash equivalents
EBITDA = operating profit + amortization + depreciation

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Trading Information

Last Closing Price	17.71(Apr 15)
52-week Range	10.84-24.79
Market Capitalization	4.53B
Beta	0.79
Dividend Yield	6.32%

Overall requirements: bottom line - make your points clear and convincing

1. Include ***stand-alone topic sentences*** that summarize your arguments in each section.
2. ***Think about all bolded bullet points for your research;*** the questions in the sub bullets are only to give you some directions. Try to find ***what's key*** that would make or break the company.
3. For key information, please ***insert endnotes*** and provide the title and link of the webpage you referenced.

Business Overview

[Why does the company even exist? This part will be easier if you are familiar with the business or the industry.]

[resources: "Business Overview" in 10K, industry reports from big consulting firms, Bloomberg/S&P Capital IQ]

- **Business model** – what does it do to make money?
 - Short description in words, think about its customers, products/services, suppliers, and key activities\
 - Organon & Co is a women's health-focused global healthcare company that markets more than 60 medicines and products, including women's health medicines, biosimilars, and prescription therapies from established brands that provide innovative health solutions. The company sells these products through a variety of channels and its customers include pharmaceutical wholesalers and retailers, hospitals, and government agencies.
 - Revenue breakdown by products/services & geographies [source: 10k, Trefis] (put chart in Appendix)
 - Organon's revenue comes from three main products: women's health, biosimilars, and established brands. (Appendix A). In terms of geographic distribution of sales, their selling revenue mainly from international part, with nearly 80% of revenue generated outside the U.S, but the United States is still a big market for them. (Appendix B)
- **Industry briefing** – define the industry and major opportunities & threats
 - What **drives** the demand of this industry?
 - The global population growth and aging population trend lead the demand for healthcare increase. Meanwhile, the demand for healthcare in the global market is growing year by year with the increase in education, healthcare awareness, emphasis on long-term health, and demand for chronic disease treatment.
 - Is the industry growing? By how much? When do you expect it to be saturated?
 - The healthcare industry continues to grow, with growth rates varying by region and industry-specific segments. On average, forecasts anticipate a CAGR of 7%. The healthcare industry is one of the very few sectors that will not reach saturation in the near future, with specific growth factors influenced by population growth, aging population, technological advancements, and changes in healthcare policy.
 - Will the competitive landscape of the industry change? Is it getting more or less competitive? Will the supply easily outweigh the demand? (think about barrier to entry)
 - The competitive landscape of the healthcare industry is evolving and becoming more complex. The industry is becoming increasingly competitive due to factors such as technological advances and the entry of new players. At the same time, however, there are significant barriers to entry into the healthcare industry, including regulatory requirements, the cost of developing a physician network, obtaining FDA approval, and high R&D costs and intellectual property challenges. These barriers can make it difficult for new companies to enter the market and compete effectively.

Thesis Points – Explaining the Historical Performance

["Past Behavior is the Best Predictor of... Future Behavior." This section is about how the company has performed in the past and understanding *what drove* its past performance.

- **Explain top-line growth** (use numbers from Key Financials) [resource: mostly found in 10-K, 10-Q and earnings call transcript]
 - Which products/services have been driving or maintaining historical growth?

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- Organon have a diverse product portfolio with no product representing more than 11% of total revenue. Their main drivers include women's health and biosimilars.
- Are there any other growth drivers? Inorganic (M&A), market expansion, etc.
- On June 16, 2021, Organon acquired medical products company Alydia Health for 240M USD. This is Organon's 1st and largest transaction in the Medical Products sector. Alydia Health, a commercial-stage medical device company focused on preventing maternal morbidity and mortality caused by postpartum hemorrhage (PPH) or abnormal postpartum uterine bleeding.
- Organon has been expanding its production capabilities. For example, it invested 40 million euros to significantly expand the production of long-acting contraception in the Netherlands. This expansion is part of Organon's strategy to meet the growing demand for its products in various markets.
- Did the management set goals for growth? Has it delivered what it promised? [look at 10Ks in past year]
- Remember it doesn't have to be a fast growing company!
- **Describe its profitability/margins** (refer to the Key Financials Table)
 - How have its margins (operating margins and other margins) changed overtime and why? We think consistency and predictability in earnings is a good thing
 - Organon's operating margins have seen some fluctuations over the years.
 - In 2019, the operating margin was at a high of 47.52%. By 2020, it had decreased to 34.33%, a significant drop of 27.77%. In 2021, the margin further declined to 28.73%, a decrease of 16.31%. In 2022, the operating margin was 25.01%, a decrease of 12.95%. As of December 31, 2023, the operating margin stood at 16.51%. As of March 2024, the operating margin was 14.29%.
 - Did the management address goals or changes in margins? Has it delivered what it promised?
 - Organon's initial portfolio is expected to generate low to medium level single organic revenue growth on a 2021 basis. Organon reported full-year 2021 revenue of \$6.3 billion. Organon's financial guidance for the full year 2022 is in the range of \$6.1 billion to \$6.4 billion in revenue and an adjusted EBITDA margin of between 34% and 36%. The company reported full-year revenue of \$6.2 billion in 2022. All three franchises (Women's Health, Biosimilars and well-known brands) grew on a constant currency basis. All in all, Organon fully achieved its financial objectives.
- **Defining MOAT**– i.e. is there a *sustainable competitive advantage*? Sometimes consistently high margin implies that a wide moat exists!
 - Companies' competitive advantage can be defined from three aspects: **1. Market Focus** (segmentation; position within the segment) **2. Differentiation** (design, quality, service, price) **3. Cost** (relative cost position)
 - Market focus: Segmentation: Organon's portfolio is focused on three core franchises: Women's Health, Biosimilars, and Established Brands.
 - Differentiation: Organon is positioning itself as the only player of its size focused on women's health at every stage of life and has a direct sales presence in 58 markets and supplying products to over 140 markets.
 - Cost: Organon guided to non-GAAP adjusted gross margin in the low to mid 60% range for full year 2021. Also, Organon aims to provide affordable access to contraceptive options for 100 million girls and women in low- and middle-income countries by 2030.
 - Are there any **unique resources or capabilities** that the company owns?
 - Patents: Organon holds rights in U.S. patents associated with its products. Globally, Organon has a total of 2674 patents, out of which 1303 have been granted.
 - R&D Resources: Organon has developed R&D capabilities to support its current portfolio and build a pipeline to drive future growth. It is focused on areas including reproductive health, heart disease, oncology, immunology, dermatology, allergy, and asthma.
 - Infrastructure and Capabilities: Organon has a global footprint and broad portfolio of 49 established brands. It seeks collaborations that add products and are synergistic with its infrastructure and capabilities.
- **Management** – we not only look for good managers with respectful characters, but more importantly pay attention to their interests and decisions
 - How does management use its money – dividend payout or reinvestment? What does this suggest?
 - Organon has an annual dividend of \$1.12 per share, with a forward yield of 6.13%. The dividend is paid every three months. The payout ratio is 28.07%, suggesting that a significant portion of its earnings is

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returned to shareholders. Organon focuses on sustainable growth and shareholder value as a standalone company. They aim to generate low to mid-single organic revenue growth off of a 2021 base and reinvest in the portfolio that consists of many well-known products that have received limited resources and investment in the past and in the areas where high unmet needs exist. This strategy suggests a balanced approach. While Organon returns a portion of its earnings to shareholders through dividends, it also reinvests in its business to drive future growth. This could indicate a commitment to both immediate shareholder returns and long-term value creation.

- How much ownership does the management have in the firm? Do you think the management's interest is well aligned with that of the shareholders?
- Organon's CEO, Kevin Ali, directly owns 0.049% of the company's shares, worth \$2.19M. The management's interests aligned with those of the shareholders. Organon's management aims to deliver long-term value for its shareholders. They have outlined strategic priorities to generate value for patients and shareholders, including developing a new commercial strategy and roadmap for sustainable growth.
- The human aspect is optional – extremely strong/poor expertise, past experience, management style, etc. [resource: interviews, articles, conversations from people working with him]
- Organon is a global women's health company that places a strong emphasis on gender equity within its organization. The company's Board of Directors is comprised of 70% women, which is higher than any S&P 500 healthcare company. This representation reflects Organon's commitment to improving women's health and promoting gender equity within its organization.

Thesis Points – Rationale of Future Expectations

[This section is about why the *company* will do well in the long- and/or short-term future.]

- **Long-term Expectations**

[Where do you expect the company to be in 3-5 years? Be sure to back up with reasoning and evidence!]

- What are the long-term goals of management? i.e. is there a **vision**?
- Vision: Organon envisions a better and healthier every day for every woman.
- Mission: Their mission is to deliver impactful medicines and solutions for a healthier every day.
- How might the company be impacted from **where the industry is going**? (refer to Business Overview)
- Both the biosimilars market and the women's health care market, which organon focuses on, have great prospects for the future, and organon is driving this industry forward.
- What is the company doing to maintain or increase its competitiveness in the future? Will the same product or different/new products drive future growth?
- Organon is investing in the development of biosimilars, which are expected to play an important role in the future of healthcare. For example, the company is planning to launch a biosimilar version of Humira, AbbVie's blockbuster drug developed in partnership with Samsung, in the United States in 2025. Organon is open to strategic partnerships and acquisitions to enhance its product portfolio. Organon, for example, has struck a deal with Eli Lilly to commercialise two migraine drugs in Europe. In terms of future growth drivers, both existing and new products are expected to contribute. The contraceptive implant Nexplanon, which has patent protection until 2027, is expected to be a significant contributor. New products, such as biosimilar versions of Humira and those resulting from strategic partnerships and acquisitions, are also expected to drive growth

- **Short-term Catalysts**

[“A catalyst is a revelation or event *in the future* that propels the price of a security dramatically up or down... it is a news item that *has no immediate effect on the fundamentals of a stock*, but might rattle investors, breaking the price's upward or downward momentum.”]

- Can be meeting financials goals like cash flow/earnings multiples/earnings expectations, or product usage like the number of Snapchat users, etc. [source: management's goal for next quarter, fiscal year]
- Some examples from our RAs: a potential acquisition, release of a new product prior to official announcement, positive indications of a successful trial, product failure of a major competitor, potential of change of regulation in favor of the company
- Organon is investing in the development of biosimilars, which are expected to play a significant role in the future of healthcare. For example, the company is planning to launch its own biosimilar version of AbbVie's blockbuster Humira, developed in partnership with Samsung, in the US in 2025.
- Organon is open to strategic partnerships and acquisitions to enhance its product portfolio. For instance, Organon has entered a commercialization agreement with Eli Lilly for two migraine medicines in Europe.

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- About 80% of Organon's revenues come from outside the U.S., and the company sees untapped potential in markets like China.

Risks

[What could go wrong?]

- What threats and risks to the company's products or services do you anticipate?
- General Industry Conditions and Competition: The pharmaceutical industry is highly competitive. New products and patents attained by competitors could pose a threat to Organon's market share.
- What factors are beyond the company's control? Can be industry-wide or company specific
- Regulatory Challenges: The impact of pharmaceutical industry regulation and health care legislation, both in the United States and internationally, could affect Organon's operations.
- General economic factors, including interest rate and currency exchange rate fluctuations, could impact Organon's financial performance.
- The ongoing COVID-19 pandemic and the emergence of variant strains could disrupt Organon's operations and affect its financial results.
- What arguments is the short side making? Do you think they have a point and why? [resource: seeking-alpha, blogs/articles from other investors]
- The expiration of the drug patent will greatly affect organon's competitiveness. At the same time, because organon's operating profits are heavily dependent on the international market, fluctuations in the international market and changes in policy will affect his future earnings.

Valuation

[Now that you've had a good understanding of the company as an owner, now you could think about how much your ownership is worth!]

- **Is there a Market Misperception? If so, what is it?**
[After looking at the company's market valuation, you need to ask yourself – Is the market correctly valuing this company? Why? This is important because as equity holder, you make money by waiting for the market to adjust to the intrinsic value of the company that *you believe* is currently undervalued.]
 - [two examples from our RAs: market overreacted to the failure of a drug trial, successful debt restructuring after tenant bankruptcy while market hasn't adjusted]
 - [resources: news articles, sell-side report – look for their growth expectations/risks, equity analysts' earnings estimates, investment advisors' views]
- **Comparable Analysis Conclusion** (see Appendix)
- **Discounted Cash Flow Conclusion**
 - DCF Stock Price: 47.10
 - Current Stock Price: 17.56
 - Conclusion: The company's intrinsic value appears to be higher than its current market price, and the value of the specific area of the company is highly undervalued. Organon's focus on women's health, a sector that has been historically underserved, positions it to address a significant market need. This focus could lead to growth opportunities that are not fully reflected in the current market price. Organon's diverse portfolio of over 60 medicines and products in women's health, along with its growing biosimilars business and a large franchise of established medicines across various therapeutic areas, provides it with multiple revenue streams. This diversity might not be fully accounted for in the market price. Organon's Price-to-Earnings (P/E) ratio is significantly lower than both its industry average and its peers. A lower P/E ratio could indicate that the stock is undervalued.

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Investment Summary

- Buy/**Hold**/Sell
- Key points that summarize what makes this a good/fair/bad investment. Pretend that you have 2 minute to persuade the I-Board to buy or sell the stock.
- Organon & Co. is a global healthcare company that focuses on improving the health of women throughout their lives. It offers more than 60 medicines and products in women's health, in addition to a growing biosimilars business and a large franchise of established medicines across a range of therapeutic areas. Organon's focus on women's health, a sector that has been historically underserved, positions it to address a significant market need. This focus could lead to growth opportunities that are not fully reflected in the current market price. Organon's diverse portfolio provides it with multiple revenue streams, which might not be fully accounted for in the market price. The company's Price-to-Earnings (P/E) ratio is significantly lower than both its industry average and its peers, indicating that the stock could be undervalued. Furthermore, the company's intrinsic value appears to be higher than its current market price, suggesting that the specific areas of the company are highly undervalued. However, there are risks associated with investing in Organon. The pharmaceutical industry is highly competitive, and new products and patents attained by competitors could pose a threat to Organon's market share. Regulatory challenges, general economic factors, and the ongoing COVID-19 pandemic could also impact Organon's operations and financial performance. Despite these risks, Organon's strategic focus on women's health, its diverse portfolio, and its lower P/E ratio make it an attractive investment opportunity. Therefore, I recommend holding the stock of Organon & Co. for its potential growth and undervalued status.

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A. Appendix I: Revenue/Profit Breakdown by Segment and Geography

(\$ in millions)	Year Ended December 31,		
	2022	2021	2020
Women's Health	\$ 1,673	\$ 1,612	\$ 1,555
Biosimilars	481	424	330
Established Brands	3,874	4,068	4,540

Sales Overview

(\$ in millions)	Year Ended December 31,			% Change	% Change Excluding Foreign Exchange	% Change	% Change Excluding Foreign Exchange
	2022	2021	2020				
United States	\$ 1,437	\$ 1,383	\$ 1,408	2022 vs. 2021	4 %	2021 vs. 2020	(2)%
International	4,737	4,921	5,124	(4)	4	(4)	(8)
Total	\$ 6,174	\$ 6,304	\$ 6,532	(2)%	4 %	(3)%	(6)%

U.S. plus international may not equal total due to rounding.

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Appendix II: Comparable Analysis

Peer Group

	Organon & Co.	Viatis Inc.	CRISPR Therapeutics AG	Intellia Therapeutics, Inc.	Jazz Pharmaceuticals plc
Main Products/Services	Women's healthcare, biosimilars	Medicines, Biosimilars, OTC drugs	Gene editing, Rare Disease Therapeutics	CRISPR technology, Gene editing	Oncology and Neuroscience Pharmaceutical and R&D
Industry and Market Share	0.70%	1.23%	0.62%	0.30%	0.90%
Operating Margin	19.83%	4.97%	-59.95%	-1420.51	15.09%
Market Capitalization	4560	13970	5059	2411	7246
Revenue Growth (5yr CAGR)	-8.12%	6.21%	21200%	38.51%	16.29%

Note: You don't need to describe the comparable companies in words; just find out the key information and put it in the table!

Relative Value using Different Multiples

	Organon & Co.	Viatis Inc.	CRISPR Therapeutics AG	Intellia Therapeutics, Inc.	Jazz Pharmaceuticals plc	Average
EBITDA	1436	3517	-130.89	-472.22	1223	1114.6
Estimate EV/EBITA	8.78	8.64	N/A	N/A	8.94	8.79
Shares Outstanding	255.64	1190	84.88	96.11	62.35	337.80
Estimate Share Price	3.99	0.05	56.9	-5.42	6.10	12.32
P/E (or Industry Specific Metric, e.g. P/FFO)	4.44	222.4	N/A	N/A	17.85	81.56

Note: Make sure to put your conclusion in the valuation section of your memo.

For further understanding of Comparable Analysis, here's a good website: <http://www.streetofwalls.com/finance-training-courses/investment-banking-technical-training/comparable-company-analysis/>

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Appendix III: Stock Chart

2 Year Stock Chart

NYSE - Nasdaq Real Time Price • USD

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☆ Follow

17.47 -0.33 (-1.83%)

As of 11:03 AM EDT. Market Open.



Note: Please explain lows/highs/ trend/ why there are sudden dips etc.

Organon & Co.'s stock performance in the past year has seen some fluctuations. Here are some key points:

Highs: The all-time high for Organon's stock was \$38.70 on March 2, 2022.

Lows: The 52-week low for Organon's stock was \$10.84. This may be due to they haven't fully recover from the pandemic shock.

Sudden Dips: Sudden dips in stock prices can be caused by a variety of factors, such as the disappointing earnings reports, negative news about the company or its products, or broader market downturns.

Appendix IV: ...

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References:

- 1: Organon & Co. (OGN), <https://finance.yahoo.com/quote/OGN?.tsrc=fin-srch>
- 2: Organon & Co. (OGN), <https://stockanalysis.com/stocks/jazz/statistics/>
- 3: Merck Hosts Organon Investor Day Outlining New Company's Vision, Focus and Business Model for Sustained Growth, <https://www.organon.com/news/merck-hosts-organon-investor-day-outlining-new-companys-vision-focus-and-business-model-for-sustained-growth/>
4. SEC filings, <https://www.organon.com/investor-relations/sec-filings/>