Merck is a worldwide pharmaceutical company. Its major drugs include treatments in oncology and diabetes. The company also has a leading vaccine business and an Animal Health division. MRK shares are included in the S&P 500..

Analyst's Notes

Analysis by Jasper Hellweg, April 29, 2025

ARGUS RATING: BUY

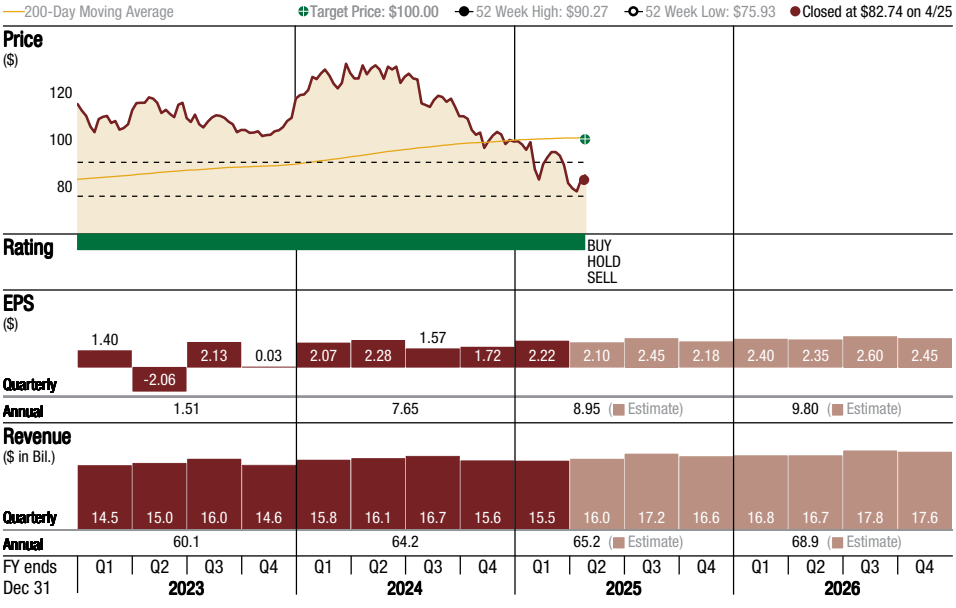
- Discounted price offers buying opportunity
- The price of Merck shares has fallen significantly over the past few months as investors contend with the impact of one-time charges relating to certain license agreements the company has pursued, as well as the impending 2028 loss of market exclusivity for the company's blockbuster drug Keytruda.
- In regard to these one-time charges and their impact on the company's guidance over the past several quarters, while impactful in the short term, we believe that these deals will benefit the company going forward as it continues to position itself for growth.
- Meanwhile, in preparation for the loss of Keytruda market exclusivity, Merck has developed a subcutaneous formulation of the product that has performed well in recent clinical trials, offering the potential to offset the impact of competing products for its intravenous formulation.
- Our revised target price of $100 implies a total return, including the dividend, of roughly 22% from current levels.

INVESTMENT THESIS

We are reiterating our BUY rating on Merck & Co. Inc. (NYSE: MRK). The price of Merck shares has fallen significantly over the past few months as investors contend with the impact of one-time charges relating to certain license agreements the company has pursued, as well as the impending 2028 loss of market exclusivity for the company's blockbuster drug Keytruda. In regard to these one-time charges and their impact on the company's guidance over the past several quarters, while impactful in the short term, we believe that these deals will benefit the company going forward as it continues to position itself for growth. Meanwhile, in preparation for the loss of Keytruda market exclusivity, Merck has developed a subcutaneous formulation of the product that has performed well in recent clinical trials, offering the potential to offset the impact of competing products for its intravenous formulation. The company also continues to receive regulatory approvals for additional indications for its products, including a recent approval for Capvaxive for active immunization for the prevention of invasive disease and pneumonia caused by Streptococcus pneumoniae in individuals 18 years of age and older in the European Union. Capvaxive is a pneumococcal vaccine specifically designed to help protect adults from the

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 26% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	**$84.71**
Target Price	**$100.00**
52 Week Price Range	**$75.93 to $134.63**
Shares Outstanding	**2.52 Billion**
Dividend	**$3.24**

Sector Overview

Sector	**Healthcare**
Sector Rating	**OVER WEIGHT**
Total % of S&P 500 Market Cap.	**11.20%**

Financial Strength

Financial Strength Rating	**MEDIUM**
Debt/Capital Ratio	**45.2%**
Return on Equity	**49.4%**
Net Margin	**27.3%**
Payout Ratio	**0.36**
Current Ratio	**1.36**
Revenue	**$63.92 Billion**
After-Tax Income	**$17.43 Billion**

Valuation

Current FY P/E	**9.46**
Prior FY P/E	**11.07**
Price/Sales	**3.33**
Price/Book	**4.62**
Book Value/Share	**$18.32**
Market Capitalization	**$213.16 Billion**

Forecasted Growth

1 Year EPS Growth Forecast	**16.99%**
5 Year EPS Growth Forecast	**9.00%**
1 Year Dividend Growth Forecast	**5.19%**

Risk

Beta	**0.59**
Institutional Ownership	**77.75%**

Please see important information about this report on page 6

Analyst's Notes ...Continued

serotypes responsible for the majority of invasive pneumococcal disease (IPD) cases. This approval marks the fourth authorization of Capvaxive for this indication, following previous approvals in the U.S. (in June 2024), Canada (July 2024), and Australia (January 2025).

Given these updates, our positive long-term outlook for the stock, and the reduced price of the shares, we believe that a BUY rating remains appropriate. Our revised target price of $100 implies a total return, including the dividend, of roughly 22% from current levels.

RECENT DEVELOPMENTS

MRK shares have underperformed the S&P 500 over the past quarter, declining 13% during the period while the market fell 8%. The stock has also underperformed over the past year, falling 36% while the market has increased 9%. Over the past five years, the stock has gained 9% versus a gain of 96% for the S&P 500 and a gain of 40% for the industry ETF IYH.

The company delivered 1Q25 results on April 24 that beat the consensus estimates for both earnings and revenue. Adjusted EPS rose to $2.22 from $2.07 in 1Q24, beating the consensus by $0.08. GAAP net income was $5.08 billion or $2.01 per share, compared with $4.76 billion or $1.87 per share a year earlier. Worldwide sales were $15.53 billion (-2% reported, +1% in constant currency), beating the consensus by $198 million.

The key growth drivers in 1Q were Keytruda ($7.21 billion, +6% in constant currency); Januvia/Janumet ($796 million, +21%); Bridion ($441 million, +1%); Lynparza ($312 million, +8%); Lenvima ($258 million, +2%); Vaxneuvance ($230 million, +7%); Prevymis ($208 million, +22%); and Welireg ($137 million, +63%). Animal Health product sales also grew 10% in constant currency to $1.59 billion, driven by 16% growth in the sale of Livestock products and 3% growth in Companion Animal products. Meanwhile, the company benefited from the 2Q24 launch of Winrevair, which delivered sales of $280 million during the first quarter, and the 3Q24 launch of Capvaxive, which delivered sales of $107 million. Offsetting the growth of these products were Gardasil, an HPV vaccine, which saw sales decline 40% in constant currency to $1.33 billion; Proquad/M-M-R II/Varivax, a vaccine for the prevention of measles, mumps, rubella, and varicella, which saw sales decline 5% to $539 million; Lagevrio, a treatment for COVID-19, which saw sales decline 69% to $102 million; and Simponi, which had its marketing rights transferred to Johnson & Johnson after recording revenues of $184 million in 1Q24.

The 1Q adjusted gross margin was 82.2%, up from 81.2% in 1Q24. The increase primarily reflected the favorable impact of product mix, but was partially offset by the unfavorable impact of foreign exchange.

Contributing 46% of 1Q revenue, Keytruda (pembrolizumab) is the company's cash cow. In regards to this drug, on April 27, Merck announced Phase 3 results from a trial evaluating Keytruda

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	41,518	48,704	59,283	60,115	64,168
COGS	13,618	13,626	17,411	16,126	15,193
Gross Profit	27,900	35,078	41,872	43,989	48,975
SG&A	8,955	9,634	10,042	10,504	10,816
R&D	13,397	12,245	13,548	30,531	17,938
Operating Income	5,548	13,199	18,282	2,954	20,221
Interest Expense	772	770	805	781	856
Pretax Income	5,863	13,879	16,444	1,889	19,936
Income Taxes	1,340	1,521	1,918	1,512	2,803
Tax Rate (%)	23	11	12	80	14
Net Income	7,067	13,049	14,519	365	17,117
Diluted Shares Outstanding	2,541	2,538	2,542	2,547	2,541
EPS	2.78	5.14	5.71	0.14	6.74
Dividend	2.48	2.64	2.80	2.96	3.12
GROWTH RATES (%)					
Revenue	6.1	17.3	21.7	1.4	6.7
Operating Income	-30.0	137.9	38.5	-83.8	584.5
Net Income	-28.2	84.6	11.3	-97.5	4,589.6
EPS	-19.5	173.0	17.5	-97.5	4,714.3
Dividend	9.7	6.5	6.1	5.7	5.4
Sustainable Growth Rate	19.0	4.9	20.6	-6.7	10.1
VALUATION ANALYSIS					
Price: High	$92.14	$91.40	$112.89	$119.65	$134.63
Price: Low	$65.25	$70.89	$72.88	$99.14	$94.48
Price/Sales: High-Low	5.6 - 4.0	4.8 - 3.7	4.8 - 3.1	5.1 - 4.2	5.3 - 3.7
P/E: High-Low	33.1 - 23.5	17.8 - 13.8	19.8 - 12.8	854.6 - 708.1	20.0 - 14.0
Price/Cash Flow: High-Low	21.2 - 15.0	17.7 - 13.8	14.6 - 9.4	17.7 - 14.7	18.7 - 13.2

Financial & Risk Analysis

FINANCIAL STRENGTH	2022	2023	2024
Cash ($ in Millions)	12,694	6,841	13,242
Working Capital ($ in Millions)	11,483	6,474	10,362
Current Ratio	1.47	1.25	1.36
LT Debt/Equity Ratio (%)	62.5	89.6	74.4
Total Debt/Equity Ratio (%)	66.7	93.3	80.1
RATIOS (%)			
Gross Profit Margin	70.6	73.2	76.3
Operating Margin	30.8	4.9	31.5
Net Margin	24.5	0.6	26.7
Return On Assets	13.5	0.3	15.3
Return On Equity	34.5	0.9	40.8
RISK ANALYSIS			
Cash Cycle (days)	88.9	106.3	112.3
Cash Flow/Cap Ex	4.4	3.4	6.4
Oper. Income/Int. Exp. (ratio)	18.1	2.6	16.7
Payout Ratio	78.1	45.8	162.2

Please see important information about this report on page 6

Analyst's Notes ...Continued

as a perioperative treatment regimen for patients with stage III or IVA, resected, locally advanced head and neck squamous cell carcinoma (LA-HNSCC). Results showed that Keytruda significantly improved event-free survival (EFS) as part of a perioperative treatment regimen with adjuvant standard of care (SOC) radiotherapy with or without cisplatin compared to adjuvant standard of care (SOC) radiotherapy with or without cisplatin alone in patients with resectable LA-HNSCC. These results mark the first positive trial outcome in more than two decades for this patient population. A supplemental Biologics License Application (sBLA) for Keytruda based on this data is under priority review with the FDA, with a target action date of June 23, 2025.

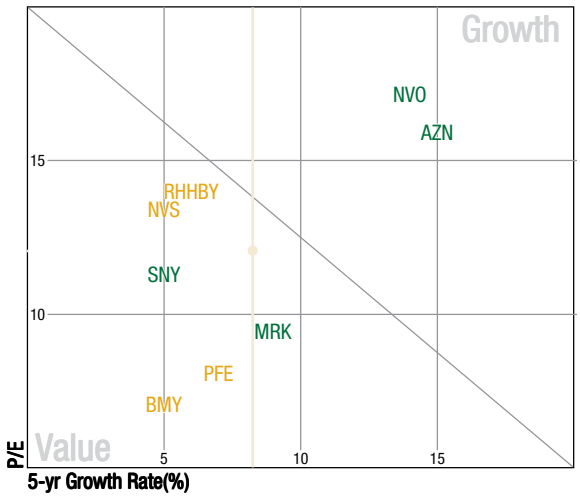
Although the number of indications is increasing, Merck is preparing for the loss of Keytruda marketing exclusivity in the U.S. and Europe in 2028, which will open the way for competition from biosimilars. To help offset the impact, Merck will continue to invest in internal new product development, as well as in M&A and the in-licensing of clinical-stage and preclinical assets. In one key avenue in its attempt to potentially extend its market exclusivity, Merck is working on a subcutaneous formulation of the drug. To this point, on March 27, Merck announced pivotal Phase 3 data from a study evaluating the subcutaneous administration of pembrolizumab, together with berahyaluronidase alfa (MK-3475A; from now on referred to as 'subcutaneous pembrolizumab'). The study met its primary endpoints, demonstrating noninferior pharmacokinetics for subcutaneous pembrolizumab administered with chemotherapy with a median injection time of two minutes, versus intravenous (IV) Keytruda (pembrolizumab) administered with chemotherapy for the first-line treatment of adult patients with metastatic non-small cell lung cancer (NSCLC). The secondary endpoints of objective response rate (ORR), progression-free survival (PFS) and duration of response (DOR) and safety were consistent for subcutaneous pembrolizumab with chemotherapy compared to IV Keytruda with chemotherapy. Based on these data, the FDA has accepted for review a Biologics License Application for subcutaneous pembrolizumab across all previously approved solid tumor indications for Keytruda, setting a target action date of Sept. 23, 2025. Additionally, the European Medicines Agency (EMA) has validated an extension application to introduce a new pharmaceutical form and new route of administration for Keytruda. In addition, results of a prospective, observational time and motion descriptive analysis conducted alongside the study show that, compared to IV Keytruda, subcutaneous pembrolizumab reduced time for patients spent in-chair and in the treatment room and reduced the total active time spent by healthcare professionals (HCPs) on treatment preparation, administration process, and patient monitoring.

Elsewhere in the company's portfolio, on March 31, Merck announced Phase 3 results from a trial evaluating Winrevair compared to placebo in adults with pulmonary arterial

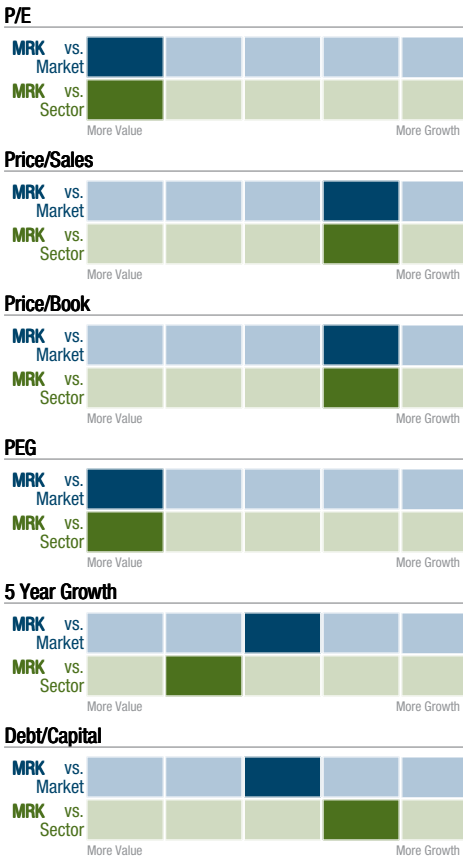
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare MRK versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how MRK stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how MRK might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
NVS	Novartis AG	239,654	5.0	13.4	24.2	5.3	HOLD
RHHBY	Roche Holding AG	228,530	6.0	14.0	13.7	5.2	HOLD
AZN	AstraZeneca PLC	222,392	15.0	15.9	14.1	13.3	BUY
NVO	Novo Nordisk	220,901	14.0	17.1	34.8	18.4	BUY
MRK	Merck & Co Inc	213,164	9.0	9.5	27.3	9.5	BUY
PFE	Pfizer Inc.	134,924	7.0	8.1	12.6	3.7	HOLD
SNY	Sanofi SA	131,728	5.0	11.3	12.6	9.5	BUY
BMY	Bristol-Myers Squibb Co.	100,167	5.0	7.1	11.4	-9.4	HOLD
Peer Average		**186,432**	**8.3**	**12.1**	**18.8**	**7.0**	



Please see important information about this report on page 6

Analyst's Notes ...Continued

hypertension (PAH, Group 1 PH) World Health Organization functional class (FC) III or IV at high risk of mortality who were on maximum tolerated background PAH therapy. At a median follow-up of 10.6 months, Winrevair reduced the relative risk of major morbidity and mortality events by 76% compared to placebo. Additionally, for patients treated with Winrevair, 17.4% experienced one or more major morbidity and mortality events, compared with 54.7% of patients in the placebo arm. The safety profile of Winrevair was generally consistent with that observed in previous studies.

Meanwhile, on March 26, the European Commission approved Capvaxive for active immunization for the prevention of invasive disease and pneumonia caused by Streptococcus pneumoniae in individuals 18 years of age and older. Capvaxive is a pneumococcal vaccine specifically designed to help protect adults from the serotypes responsible for the majority of invasive pneumococcal disease (IPD) cases. This approval marks the fourth authorization of Capvaxive for this indication, following previous approvals in the U.S. (in June 2024), Canada (July 2024), and Australia (January 2025).

The company has also grown through agreements with other organizations. On March 25, Merck and Jiangsu Hengrui Pharmaceuticals Co., Ltd. ('Hengrui Pharma) announced that the companies entered into an exclusive license agreement for HRS-5346, an investigational oral small molecule Lipoprotein(a), or Lp(a), inhibitor currently being evaluated in a Phase 2 clinical trial in China. Under the agreement, Hengrui Pharma has granted Merck exclusive rights to develop, manufacture, and commercialize HRS-5346 worldwide, excluding the Greater China region. Hengrui Pharma will receive an upfront payment of $200 million and is eligible to receive milestone payments associated with certain development, regulatory, and commercial milestones up to $1.77 billion, as well as royalties on net sales of HRS-5346, if approved. The transaction is expected to close in the second quarter of 2025. Merck expects to record a pre-tax charge of $200 million, or approximately $0.06 per share, to be included in GAAP and non-GAAP results in the quarter the transaction closes.

The company has also grown by expanding its manufacturing footprint. On April 29, Merck announced the start of construction for a $1 billion, 470,000-square-foot state-of-the-art biologics center of excellence in Wilmington, Delaware. Merck Wilmington Biotech will comprise laboratory, manufacturing, and warehouse capabilities to enable the launch and commercial production of next-generation biologics and therapies including potent antibody-drug conjugates (ADCs), as well as becoming as the future U.S. home for producing Keytruda for U.S. patients. The laboratory component is expected to be fully operational by 2028, with production of investigational compounds anticipated to start by 2030.

EARNINGS & GROWTH ANALYSIS

Along with the first-quarter results, management updated its outlook for 2025. It now expects adjusted EPS of $8.82-$8.97, lowered from its earlier estimate of $8.88-$9.08, representing growth of 15%-17% from 2024. Management noted that the revised guidance includes a $0.06 per share one-time charge related to an upfront payment to be made upon closing of the license agreement with Hengrui Pharma, which is expected in 2Q25; if not for this newly anticipated charge, the company's non-GAAP EPS outlook would have remained unchanged. Management also reiterated its outlook for revenue of $64.1 billion-$65.6 billion, representing a decline of 10 basis points to growth of 2.2%. Meanwhile, management looks for the company to generate a non-GAAP operating margin of approximately 82%, lowered from its earlier guidance of 82.5%.

Based in part on the company's guidance and the impact of recent license agreements on its earnings, we are lowering our 2025 adjusted EPS estimate to $8.95 from $9.05, still implying 17% growth from the company's 2024 result. While we expect growth to continue in 2026 as the company launches new products, we are lowering our adjusted earnings estimate to $9.80 from $9.90 to reflect the lower earnings base in 2025. Our revised estimate implies growth of about 9% from our 2025 estimate. Our five-year growth forecast is 9%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Merck is Medium, the midpoint on our five-point scale.

In late 2024, the company raised its quarterly dividend by about 5% to $0.81 per share from $0.77. The dividend is an annualized $3.24, for a yield of about 3.9%. Our dividend estimates are $3.24 for 2025 and $3.40 for 2026.

In January 2025, the company's Board authorized $10 billion of treasury stock purchases with no time limit for completion.

MANAGEMENT & RISKS

Robert M. Davis serves as CEO and chairman of Merck, having held the roles since 2021 and 2022, respectively. Mr. Davis joined the company in 2014 as CFO, holding additional responsibility for real estate operations, corporate strategy, and business development. Prior to joining Merck, Mr. Davis was corporate vice president and president of Baxter's Medical Products business. Caroline Litchfield is CFO.

Merck faces a number of risks, including the loss of exclusivity for certain drugs. For example, Remicade (which Merck co-markets with Johnson & Johnson and which is used to treat several autoimmune diseases) faces competition from biosimilars in Europe and the U.S. Merck holds the commercial rights to Remicade in Europe, Russia, and Turkey. We note that Keytruda faces patent expiration in 2028.

The company also faces risks from the development of new drugs, a process that may take more than 10 years and will include multiple stages of clinical studies.

COMPANY DESCRIPTION

Merck is a worldwide pharmaceutical company. Its major drugs include treatments in oncology and diabetes. The company also has a leading vaccine business and an Animal Health division. MRK shares are included in the S&P 500.

VALUATION

MRK shares are trading at 9-times our revised 2025 EPS estimate, below the average multiple for our coverage universe of biopharma stocks. The price of Merck shares has fallen significantly over the past few months as investors reacted to the expected impact of one-time charges relating to certain license agreements the company has pursued, as well as the impact that these charges have had on the company's 2025 guidance. Nonetheless, while impactful in the short term, we believe that these deals will benefit the company going forward as it continues to position itself for growth. Merck also has a robust portfolio of

Analyst's Notes ...Continued

oncology and cardiovascular drugs, a strong pipeline, a number of recent regulatory approvals, and a rising dividend. The stock is trading near the low end of its $75-$135 52-week range. We are reiterating our BUY rating with a revised target price of $100.

On April 29, BUY-rated MRK closed at $84.71, up $1.52.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.

Morningstar Disclaimer

For Residents of Singapore

Recipients of the Research reports in Singapore should contact the Intermediary of the Research Reports in respect to any matters arising from, or in connection with, the analysis of the report. Where the recipient is not an accredited, expert or institutional investor as defined by the Securities and Futures Act, the Intermediary accepts legal responsibility for the contents of Research Reports in respect of such recipient in accordance with applicable law. When reports are distributed by Intermediaries in Singapore, the Intermediary, and not Argus Research, is solely responsible for ensuring that the recipients of the Research Reports understand the information contained in the Research Reports and that such information is suitable based on the customer's profile and investment objectives.