Merck & Co., Inc.(MRK)

$72.80 (As of 06/07/21)

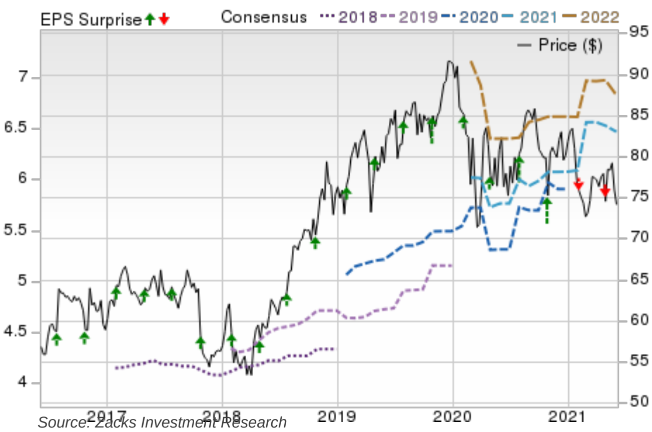
Price Target (6-12 Months): **$76.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/30/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: C	**4-Sell** VGM:B Momentum: C

Summary

Merck's drugs like Keytruda, Lynparza and Bridion have been driving sales. Keytruda sales are gaining from continued uptake in lung cancer and increasing usage in other cancer indications. Animal health and vaccine products remain core growth drivers. The separation into two companies makes strategic sense as the remaining Merck should be able to achieve higher profits than the combined company. However, generic competition for several drugs and rising competitive pressure, mainly on the diabetes franchise, will continue to be overhangs on the top line. Sales of Merck's physician-administered drugs and vaccines are being hurt due to reduced wellness visits amid the pandemic. Merck's shares have underperformed the industry this year so far.

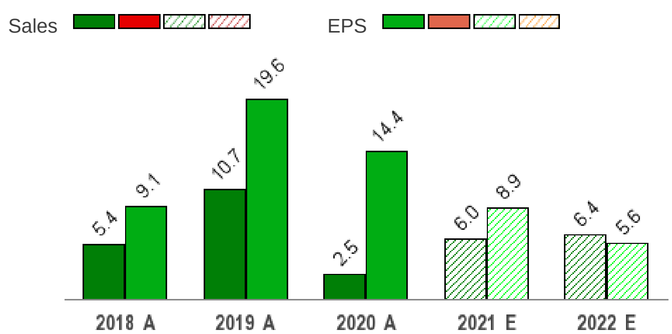
Price, Consensus & Surprise



Data Overview

52-Week High-Low	**$83.89 - $68.52**
20-Day Average Volume (Shares)	**11,076,597**
Market Cap	**$184.3 B**
Year-To-Date Price Change	**-11.0%**
Beta	**0.40**
Dividend / Dividend Yield	**$2.60 / 3.6%**
Industry	**Large Cap Pharmaceuticals**
Zacks Industry Rank	**Bottom 26% (186 out of 251)**
Last EPS Surprise	**-14.1%**
Last Sales Surprise	**-6.0%**
EPS F1 Estimate 4-Week Change	**-0.7%**
Expected Report Date	**07/30/2021**
Earnings ESP	**4.4%**
P/E TTM	**12.5**
P/E F1	**11.3**
PEG F1	**1.1**
P/S TTM	**3.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	12,100 E	12,200 E	12,300 E	11,800 E	54,137 E
2021	12,080 A	12,763 E	12,937 E	12,735 E	50,866 E
2020	12,057 A	10,872 A	12,551 A	12,514 A	47,994 A

EPS Estimates

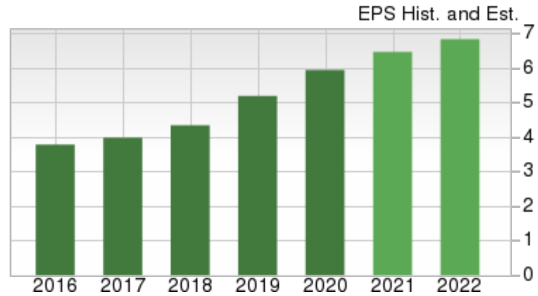
	Q1	Q2	Q3	Q4	Annual*
2022					$6.83 E
2021	$1.40 A	$1.66 E	$1.66 E	$1.61 E	$6.47 E
2020	$1.50 A	$1.37 A	$1.74 A	$1.32 A	$5.94 A

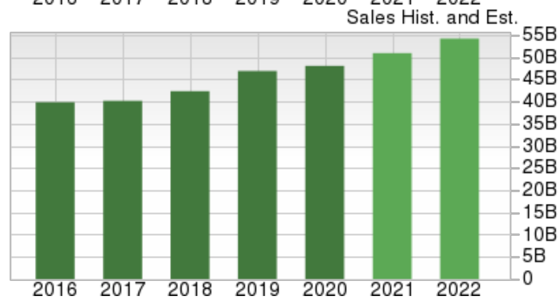
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/07/2021. The report's text and the analyst-provided price target are as of 06/08/2021.

Overview

Based in Kenilworth, NJ, Merck & Co. boasts more than six blockbuster drugs in its portfolio with PD-L1 inhibitor, Keytruda, approved for several types of cancer, alone accounting for more than 25% of its pharmaceutical sales. Keytruda has played an instrumental role in driving Merck's steady revenue growth in the past few years. Though Keytruda may be Merck's biggest strength and a solid reason to own the stock, it can also be argued that Merck is excessively dependent on the drug and should look for ways to diversify its product lineup.





Well-known products in Merck's portfolio include Remicade (Immunology), Vytorin and Zetia (Cardiovascular), Januvia and Janumet (Diabetes), Cubicin, Bridion (Hospital Acute Care), Isentress & Zepatier (Virology), Emend and Keytruda (Oncology), Cozaar/Hyzaar, Nasonex, Singulair, (Diversified Brands), ProQuad, Gardasil, RotaTeq (Vaccines), and NuvaRing and Implanon. (Women's Health).

In 2009, Merck made its biggest acquisition of Schering-Plough for $41.1 billion. Merck sold off its Consumer Care business to Bayer for $14.2 billion in October 2014. Other key acquisitions include Idenix Pharmaceuticals in August 2014, Cubist Pharmaceuticals in January 2015, Rigontec in October 2017 and ArQule in January 2020.

In February 2020, Merck announced that it will spin off products from its Women's Health unit, legacy drugs and biosimilar products into a new publicly traded company called Organon & Co. The transaction closed on Jun 2.

Merck reported sales of $48.0 billion in 2020, up 4% year over year. While the Pharmaceuticals segment accounted for 89.6% of total sales, Animal Health products generated 9.4% of total revenues. Key drug Keytruda recorded sales of $14.4 billion in 2020, up 30% from 2019.

Source: Zacks Investment Research

Reasons To Buy:

Key drugs like Keytruda Lynparza, and Bridion are driving sales at Merck . Animal health and vaccine products remain core growth drivers.

▲ **Keytruda: A Key Top-Line Driver:** Keytruda is already approved for treatment of many cancers globally. Keytruda is continuously growing and expanding into new indications and markets globally. In fact, the Keytruda development program is also progressing well and the drug is being studied for more than 30 types of cancer in more than 1450 studies, including more than 1050 combination studies. Several regulatory decisions for new indications in the United States as well as in Europe are pending, which, if approved, can further boost sales.

Undoubtedly, Keytruda has strong future growth prospects based on increased utilization, approval for new indications and expectation of additional approvals worldwide.

▲ **New Product Approvals & Line Extensions to Drive Growth:** Key approvals in 2018 for Merck included Steglatro and its fixed-dose combinations for type II diabetes, two new HIV drugs - Pifeltro and Delstrigo - containing doravirine and Prevymis (letermovir) for cytomegalovirus (CVM) infection. In 2019, Merck gained Food and Drug Administration (FDA) approval for its antibacterial injection, Recarbrio, a fixed combination of relebactam with imipenem/cilastatin for the treatment of certain patients with complicated urinary tract infections caused by certain Gram-negative microorganisms and Ervebo, its vaccine for Ebola Zaire disease. Two key FDA approvals for 2020 were Koselugo (selumetinib) for the treatment of pediatric patients with neurofibromatosis type 1 (NF1) related plexiform neurofibromas (PN) in April 2020 and Recarbrio for hospital-acquired or ventilator-associated bacterial pneumonia caused by susceptible organisms in June 2020. In 2021, Merck has already received approval for Verquvo/vericiguat for worsening chronic heart failure with reduced ejection fraction (HFrEF).

Lynparza, approved in three tumor types, ovarian, breast and pancreatic, was approved for metastatic castration-resistant prostate cancer (with HRR genetic mutations) in May 2020, which marked the drug's approval for the fourth cancer type.

These new products and line extensions should bring in additional sales in 2021 and beyond.

▲ **Impressive Pipeline:** Merck boasts a promising internal pipeline of drugs/vaccines, including in oncology, HIV, and pneumococcal disease, and, more recently, therapeutics for COVID-19. Merck has several candidates (including Keytruda) in phase III development. Some of the important pipeline candidates include belzutifan (MK-6482) (VHL-associated clear cell renal cell carcinoma – under priority review in United States [FDA Action Date – Sep 15]), gefapixant (refractory chronic cough - under review in the United States [FDA Action Date: Dec 21, 2021]), V114 (15-valent pneumococcal conjugate vaccine – under review in United States [FDA Action Date: Jul 18, 2021]) and EU, MK-8591A/doravirine/islatravir combo (HIV-1 infection – phase III) MK-8591/islatravir (pre-exposure prophylaxis [PrEP] – phase III) and molnupiravir /MK-4482 (oral antiviral for non-hospitalized COVID-19 – phase III).

Meanwhile, Keytruda is being studied in phase III studies for biliary tract, cervical, gastric, hepatocellular, cutaneous squamous cell, mesothelioma, ovarian and prostate cancers. Lynparza is also being evaluated in combination with Keytruda for colorectal cancer, NSCLC and SCLC. Lenvima is being studied in combination with Keytruda for bladder, gastric, head and neck squamous cell carcinoma, gastric, melanoma and NSCLC cancers.

▲ **Pursuing Acquistions/Deals to Boost Portfolio:** Merck, in order to build its long-term portfolio, is tapping external sources. The company entered into several licensing deals in the past few years and targets more such deals in the future. The company's acquisition of Idenix provided a significant boost to its HCV pipeline. In 2019, Merck acquired Antelliq, Peloton, Immune Design and Tilos, which has strengthened its pipeline. In 2020, Merck made important acquisitions, such as that of OncoImmune, VelosBio and ArQule. In 2021 so far, Merck has acquired Pandion Therapeutics.

The July 2017 profit sharing deal with AstraZeneca added two key assets (Lynparza/ Koselugo) to its oncology pipeline. Similarly, in March 2018, Merck formed a deal with Japan's Eisai to co-develop and commercialize the latter's tyrosine kinase inhibitor, Lenvima, both as a monotherapy as well as in combination with Keytruda, for several types of cancer. In September 2020, Merck entered into a deal for joint global development and potential commercialization of Seagen's antibody-drug conjugate ladiratuzumab vedotin (now MK-6440), which is in mid-stage development for breast cancer and other solid tumors. In 2021, it signed a joint development and commercialization deal with Gilead to evaluate islatravir and Gilead's lenacapavir into a two-drug regimen for HIV patients.

Meanwhile, the pending spin-off of Organon will allow Merck to focus on innovation and its key growth drivers.

▲ **Cost-Cutting Driving Bottom Line:** In 2019, Merck announced a new restructuring plan for optimizing its manufacturing and supply network as well as reducing its global real estate footprint. The program is expected to be completed by 2023 and result in annual net cost savings of approximately $900 million by the end of 2023.

Merck expects the spin off to help it achieve more than $1.5 billion in operating efficiencies by 2024 by reducing its manufacturing footprint for pharmaceutical drugs by 25%. Accordingly, Merck expects to achieve operating margins greater than 42% in 2024.

Merck also divested segments like the Consumer Care business so that it can focus on its core areas of expertise. The company is also returning value to shareholders in the form of share buybacks and dividends.

▲ **Favorable Debt Profile:** Merck had $24.0 billion in long-term debt and $7.3 billion in short-term debt as of Mar 31, 2021. Its cash of $6.98 billion is sufficient to meet short-term debt obligations. As of Mar 31, 2021, the company's debt to total capital stands at 47.0%, which is lower than 50.0% as of Dec 30 2020. A lower ratio indicates lower financial risk. Moreover, the company carries an A+ rating from Fitch (last updated on Jan 25, 2021) for its long-term debt. The rating indicates low default risk though the company's capacity of payment is subject to adverse economic conditions. Overall, Merck is in good financial health.

Reasons To Sell:

Generic competition for several drugs and rising competitive pressure, mainly on the diabetes franchise will continue to be overhangs on the top line.

- **Shares Underperforming Industry:** Merck's shares have declined 11.0% this year so far, underperforming the industry, which has risen 5.5% in the same time period.

- **Patent Expiry Hits Sales:** Merck is facing generic competition for several drugs including Singulair, Cozaar/Hyzaar, Nasonex, Cubicin and Zetia, Vytorin Zocor and Fosamax. All these drugs have recorded rapid and steep declines in revenues due to the presence of generics. Merck lost U.S. market exclusivity for NuvaRing in 2018 and generic versions were launched in December 2019, which hurt sales of the drug significantly in 2020. Januvia and Janumet will lose market exclusivity in the United States in 2023 and in the EU in September 2022 and April 2023, respectively. Sales of the drugs are expected to decline significantly thereafter.

- **Competitive Pressure Hurting Sales of Key Drugs:** In addition to being impacted by the genericization of several products, Merck's top-line is being hurt by competitive pressures on some key drugs.

  Isentress is facing competitive pressure and is being impacted by slowing growth of the integrase class. Sales of Isentress have declined consistently since 2015. Meanwhile, biosimilar competition for Remicade in the EU has intensified, leading to pricing pressure and decline in sales of the drug since 2015. Remicade sales are expected to continue declining rapidly in the coming quarters not just due to competitive pressures, but also as a result of patients switching to biosimilars.

  Rising competition in the immuno-oncology market is also a significant concern. Competition in the immuno-oncology market is rising following FDA approval of Pfizer's Bavencio (avelumab) in MCC and bladder cancer and AstraZeneca's Imfinzi (durvalumab) in bladder cancer and some lung cancer indications.

  Merck is also facing rising competitive pressure for Zepatier (HCV) which is significantly hurting sales of the drug.

- **Pipeline Setbacks:** Merck has had its share of pipeline and regulatory setbacks. Key setbacks include the discontinuation of development of pipeline candidates like vicriviroc (HIV), acadesine (ischemia reperfusion injury in patients undergoing heart bypass surgery), telcagepant (acute migraine), V710 (vaccine), preladenant (Parkinson's), MK-0431C (diabetes), odanacatib or MK-0822 (osteoporosis in post-menopausal women), MK-3682B and MK-3682C (HCV combination programs) and verubecestat (Alzheimer's disease).

- **Uncertainty Surrounding the Pandemic:** The pandemic has hurt demand trends of physician-administered drugs of most companies. Approximately 70% of Merck's pharmaceutical revenues comprises physician-administered products whose sales have been hurt by the pandemic. Though trends are recovering somewhat, the recovery has been at a slower pace than originally expected due to rising cases of infections due to the second wave of the pandemic. The pandemic is expected to continue to hurt drugmakers' sales in the second quarter with some stability expected in the second half of the year. In 2021, Merck expects a net unfavorable impact to sales of approximately 3% due to the COVID-19 pandemic.

Last Earnings Report

Q1 Earnings & Sales Miss, COVID-19 Hurts Vaccines

Quarter Ending	03/2021
Report Date	Apr 29, 2021
Sales Surprise	-5.96%
EPS Surprise	-14.11%
Quarterly EPS	1.40
Annual EPS (TTM)	5.83

Merck reported first-quarter 2021 adjusted earnings of $1.40 per share, which missed the Zacks Consensus Estimate of $1.63. Earnings declined 7% year over year (down 9% excluding the impact of currency) due to lower revenues and higher operating costs.

Including acquisition- and divestiture-related costs, restructuring costs, income and losses from investments in equity securities and certain other items, earnings per share were $1.25, down 1% year over year (down 3% excluding the impact of currency).

Revenues were flat year over year (down 1% on a constant currency basis) at $12.1 billion mainly as the pandemic hurt demand for its drugs. Sales missed the Zacks Consensus Estimate of $12.846 billion.

Decent performance of Keytruda, Lynparza, Bridion and Animal Health was offset by business disruption due to the pandemic, which particularly impacted vaccines.

Quarter in Detail

The Pharmaceutical segment generated revenues of $10.7 billion, flat year over year. Excluding Fx impact, sales declined 3% due to the negative impact of the COVID-19 pandemic and generic competition for legacy drugs. COVID-19 related business disruptions hurt Merck's first-quarter pharmaceuticals revenues by $600 million, mostly vaccines.

Keytruda, the largest product in Merck's portfolio, generated sales of $3.9 billion in the quarter, up 16% (excluding Fx impact) year over year. Keytruda sales have been gaining particularly from continued strong momentum in lung cancer indications and continued uptake in newer indications. However, the impact of COVID-19 (which lowered new patient starts) and pricing pressure in Europe and Japan offset the growth to an extent.

The launch of the six-week dosing regimen also benefited Keytruda sales in the United States. Outside the United States, lung cancer indications remain the driver of Keytruda's growth.

Merck expects continued strong growth of Keytruda as cancer screenings and patient diagnosis return to normal levels

Alliance revenues from Lynparza and Lenvima also boosted oncology sales in the quarter.

Lynparza alliance revenues increased 51% year over year to $228 million in the quarter driven by continued uptake across the multiple approved indications in the United States, the EU and China. Lenvima alliance revenues were $130 million, down 1% from the year-ago period, reflecting rising competition in hepatocellular carcinoma.

In the hospital specialty portfolio, Bridion Injection generated sales of $340 million in the quarter, up 11% year over year, reflecting higher demand.

In vaccines, reduced patient access to doctors and prioritization of COVID-19 vaccinations hurt sales of Merck's vaccines in the quarter.

Sales of HPV vaccine, Gardasil/Gardasil 9 declined 20% year over year to $917.0 million hurt by timing of shipments to China last year and the timing of U.S. public sector purchases in both periods. The pandemic also hurt sales of the vaccine, mainly in the United States and Europe. The company said it plans to re-allocate doses of Gardasil to markets outside the United States to make up for lower demand in the domestic market due to the pandemic.

Proquad, M-M-R II and Varivax vaccines recorded combined sales of $449 million, up 2% year over year. Sales of rotavirus vaccine, Rotateq declined 29% to $158 million. Sales of pneumococcal vaccine, Pneumovax 23 vaccine declined 36% to $171 million due to lower demand amid the pandemic, which offset the impact of higher volumes in international market.

Januvia/Janumet (diabetes) franchise sales declined 2% year over year to $1.3 billion, reflecting continued pricing pressure in the United States and lower demand in Europe. Sales of Isentress declined 15% to $209 million due to competitive pressure in EU and the United States.

Pharmaceutical sales were hurt by loss of U.S. market exclusivity for drugs like Noxafil and Zetia. Zetia sales declined 41% to $92 million in the quarter while Noxafil sales declined 32% to $67 million. Remicade sales declined 9% year over year to $85 million in the quarter.

Merck's Animal Health segment generated revenues of $1.42 billion, up 17% from the year-ago quarter. Excluding the impact of currency, sales rose 15%.

Sales of companion animal products rose 24%, driven by higher demand in companion animal vaccines and parasiticides, primarily the Bravecto line of products. Sales of livestock products rose 9% driven by higher demand for ruminant, poultry and swine products in international markets and for Animal Intelligence products worldwide.

Margin Discussion

Adjusted gross margin was 75.7%, down 80 basis points from the year-ago quarter due to pricing pressure and higher costs associated with COVID programs, which offset the favorable impact of product mix.

Selling, general and administrative (SG&A) expenses were $2.4 billion in the reported quarter, up 6% year over year driven by higher promotion and administrative costs, which offset the impact of lower selling costs due to the pandemic. Research and development (R&D) spend rose 13% to $2.4 billion due to higher clinical development costs, including for COVID-19 programs and increased investment in discovery research and early drug development.

2021 Outlook

Merck maintained its previously issued financial guidance for 2021.

In 2021, Merck expects revenues to be in the range of $51.8 billion-$53.8 billion, which indicates growth of 8% to 12% from 2020. This includes a positive currency impact of less than 2%. The guidance does not include revenues from the potential launch of molnupiravir.

Adjusted earnings are still expected to be in the range of $6.48-$6.68. This includes a positive currency impact of less than 3%.

Adjusted operating costs are expected to be higher than 2020 by a mid-to-high-single-digit rate, lower than the previous expectation due to SG&A cost savings

The guidance assumes that Organon business will be part of Merck for all of 2021. Once the spin-off is completed in the late second quarter, Merck will update its guidance. Adjusted tax rate is expected to be in the range of 15%-16%.

The pandemic is expected to continue to hurt Merck's performance, particularly in the second quarter of 2021 and most notably with respect to vaccine sales in the United States. The company forecasts a bigger hit to 2021 sales from the pandemic than previously expected. Merck expects COVID-19 related business disruptions to hurt sales by roughly 3% in 2021 versus approximately 2% expected previously. The entire impact relates to pharmaceutical segment sales.

Assuming the completion of the Organon spinoff in 2021, Merck expects full-year 2021 sales from continuing operations to be between $45.8 billion and $47.8 billion.

Recent News

ASCO Update – Jun 3

Merck announced data from the pivotal phase III KEYNOTE-564 study, which showed that Keytruda given after surgery reduced the risk of disease recurrence or death by 32% versus placebo as adjuvant therapy in patients with renal cell carcinoma (RCC). Meanwhile, Keytruda reduced the risk of death by 46% compared to placebo. The data was presented in the Plenary session of the 2021 annual meeting of the American Society of Clinical Oncology.

At ASCO, Merck also presented data from the phase III OlympiA study evaluating Lynparza versus placebo in adjuvant treatment of patients with germline BRCA mutations and high-risk HER2-negative early breast cancer. The data showed that Lynparza reduced the risk of invasive disease recurrence or death by 42%.

Organon Spin-Off Complete – Jun 3

Merck announced it has completed the spinoff of Organon & Co. The spinoff is expected to allow Merck to achieve higher revenues and EPS growth rates and enable incremental operating efficiencies of approximately $1.5 billion, which are expected to be achieved ratably over three years, with approximately $500 million realized during 2021.

Q3 Dividend – May 25

Merck's board of directors declared a quarterly dividend of 65 cents per share for the third quarter of 2021 to be paid out on Jul 7 to shareholders of record at the close of business on Jun 15.

CHMP Nod for Keytruda in Esophageal Cancer – May 24

Merck announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) gave a positive opinion recommending approval of Keytruda in combination with chemotherapy as first-line treatment for certain patients with metastatic esophageal cancer or HER2-negative gastroesophageal junction (GEJ) adenocarcinoma. A final decision from the European Commission is expected in the second quarter of 2021. The positive CHMP opinion is based on results from the pivotal phase III KEYNOTE-590 study. Keytruda was approved for a similar indication by the FDA in March.

Keytruda Study in TNBC Meets Endpoint – May 13

Merck announced data from the pivotal phase III KEYNOTE-522 study evaluating Keytruda in combination with chemotherapy as a neoadjuvant and adjuvant therapy for the treatment of patients with high-risk early-stage triple-negative breast cancer (TNBC). In the study, neoadjuvant Keytruda plus chemotherapy followed by adjuvant Keytruda as monotherapy showed statistically significant improvement in event-free survival (EFS) versus neoadjuvant treatment alone, thereby meeting the dual primary endpoint. KEYNOTE-522 met its other dual primary endpoint of pathological complete response (pCR).

Pneumococcal Vaccine Pediatric Studies Succeeds – May 20

Merck announced that two phase III pediatric studies on its investigational 15-valent pneumococcal conjugate vaccine, V114, met their primary immunogenicity and safety endpoint.

One late-stage study — PNEU-DIRECTION— evaluated V114 in healthy infants who may have previously started a pneumococcal vaccination series with currently available 13-valent pneumococcal conjugate vaccine (PCV13). In the study, immune responses in those who received a four-dose series of PCV13, and those who received a mixed dose schedule of PCV13 followed by V114, were generally comparable for the 13 serotypes, or strains of pneumococcal disease, targeted by both vaccines.

In the second study, PNEU-PLAN, V114 was used as a catch-up regimen in healthy children who were either pneumococcal vaccine-naïve or who previously received a partial or full regimen of a licensed pediatric PCV. In the study, immune responses were generally comparable to PCV13 for the 13 shared serotypes and higher for serotypes 22F and 33F included only in V114.

A biologics license application (BLA) is under review in the United States and EU for V114, with FDA's decision expected on Jul 18, 2021. A supplemental BLA for approval in children is expected to be filed before the end of the year.

FDA's Priority Tag for Keytruda/Lenvima Combo for Two New Indications – May 6

Merck announced that the FDA has accepted and granted priority review to two regulatory applications seeking approval of a combination of Keytruda and Lenvima for two new indications. The first set of application seeks approval of Keytruda/Lenvima combo for the first-line treatment of patients with advanced renal cell carcinoma (RCC) based on data from the CLEAR study. The applications are a supplemental biologics license application [sBLA] for Keytruda and a supplemental new drug application [sNDA] for Lenvima

The second set of application seeks approval of the combo for advanced endometrial carcinoma in patients who have disease progression following prior systemic therapy based on data from the pivotal phase III KEYNOTE-775 study.

The FDA is expected to give its decision on Aug 25 and 26, 2021 for the advanced RCC sNDA and sBLA applications, respectively, and on Sep, for the advanced endometrial carcinoma applications.

FDA Approval to Keytruda for First-Line Gastric Cancer – May 5

Merck announced that the FDA has granted accelerated approval to Keytruda in combination with trastuzumab and chemotherapy as first-line treatment of patients with locally advanced unresectable or metastatic HER2-positive gastric or gastroesophageal junction adenocarcinoma. The approval is based on data from the ongoing phase III KEYNOTE-811 study.

Valuation

Merck's shares are down 11.0% in the year-to-date period and 11.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5.5% while those in the sector are down 1.6% in the year-to-date period. Over the past year, stocks in the sub-industry and sector are up 9.6% and 0.3%, respectively.

The S&P 500 Index is up 13.3% in the year-to-date period and 34.0% in the past year.

The stock is currently trading at 10.99X forward 12-month earnings per share, which compares with 14.29X for the Zacks sub-industry, 22.72X for the Zacks sector and 21.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.86X and as low as 10.89X, with a 5-year median of 15.49X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $76 price target reflects 11.5X forward 12-month earnings per share.

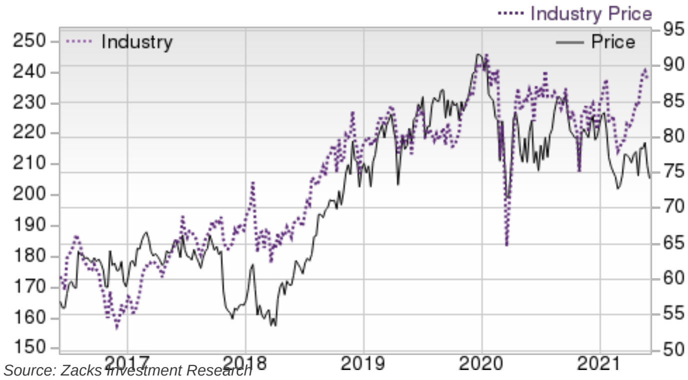
The table below shows summary valuation data for MRK

Valuation Multiples - MRK

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.99	14.29	22.72	21.84
	5-Year High	17.86	16.62	22.78	23.83
	5-Year Low	10.89	13.18	15.82	15.31
	5-Year Median	15.49	14.99	19.34	18.05
P/S F12M	Current	3.49	4.47	2.63	4.72
	5-Year High	5	4.85	3.17	4.74
	5-Year Low	3.37	3.88	2.27	3.21
	5-Year Median	4.24	4.44	2.78	3.72
P/B TTM	Current	6.81	6.78	4.35	7.03
	5-Year High	9.01	7.37	5.05	7.03
	5-Year Low	3.49	3.99	3.03	3.84
	5-Year Median	6.17	5.41	4.35	5.02

As of 6/07/2021 *Source: Zacks Investment Research*

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Amgen Inc. **(AMGN)**	Neutral	4
Bristol Myers Squibb Company **(BMY)**	Neutral	3
GlaxoSmithKline plc **(GSK)**	Neutral	3
Johnson & Johnson **(JNJ)**	Neutral	3
Novartis AG **(NVS)**	Neutral	4
Pfizer Inc. **(PFE)**	Neutral	3
Roche Holding AG **(RHHBY)**	Neutral	3
Eli Lilly and Company **(LLY)**	Underperform	4

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Large Cap Pharmaceuticals

	MRK	X Industry	S&P 500	AMGN	GSK	PFE
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	B	-	-	A	B	A
Market Cap	184.33 B	191.21 B	30.32 B	136.28 B	104.34 B	218.25 B
# of Analysts	7	3	12	13	6	8
Dividend Yield	3.57%	2.57%	1.29%	2.97%	5.36%	4.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.04	0.05	0.06	0.08	0.07	0.06
EV/EBITDA	16.22	16.22	17.33	12.07	9.85	19.55
PEG F1	1.14	2.05	2.13	1.73	4.03	1.42
P/B	6.81	5.33	4.17	14.60	3.60	3.16
P/CF	9.85	10.51	17.93	10.31	10.01	12.54
P/E F1	11.25	14.15	21.52	14.51	14.14	10.75
P/S TTM	3.84	4.10	3.52	5.42	2.46	4.35
Earnings Yield	8.89%	7.07%	4.55%	6.89%	7.07%	9.31%
Debt/Equity	0.89	0.56	0.66	3.34	1.10	0.51
Cash Flow ($/share)	7.39	5.04	6.83	23.01	3.87	3.11
Growth Score	C	-	-	B	D	B
Historical EPS Growth (3-5 Years)	11.59%	5.04%	9.44%	8.87%	3.08%	4.56%
Projected EPS Growth (F1/F0)	8.85%	8.08%	21.30%	-1.52%	-8.05%	63.40%
Current Cash Flow Growth	9.82%	8.76%	0.98%	19.25%	-3.54%	-23.28%
Historical Cash Flow Growth (3-5 Years)	2.46%	6.53%	7.28%	5.89%	5.21%	-1.79%
Current Ratio	1.02	1.13	1.39	1.66	0.91	1.48
Debt/Capital	47.03%	34.84%	41.53%	76.93%	52.31%	33.92%
Net Margin	14.64%	16.31%	11.95%	28.16%	16.01%	22.09%
Return on Equity	54.15%	34.62%	16.36%	93.84%	24.57%	24.55%
Sales/Assets	0.53	0.43	0.51	0.39	0.40	0.30
Projected Sales Growth (F1/F0)	5.98%	8.28%	9.30%	1.95%	3.38%	48.77%
Momentum Score	C	-	-	D	B	B
Daily Price Change	-1.77%	-0.27%	-0.33%	0.14%	-0.39%	-0.41%
1-Week Price Change	-2.35%	0.01%	0.58%	-0.46%	0.34%	1.08%
4-Week Price Change	-6.87%	0.59%	0.12%	-6.11%	0.57%	-2.18%
12-Week Price Change	-4.50%	6.43%	6.91%	0.52%	8.00%	10.11%
52-Week Price Change	-12.18%	5.61%	29.97%	5.07%	-8.54%	6.56%
20-Day Average Volume (Shares)	11,076,597	2,637,360	1,799,698	2,481,734	3,819,864	21,187,956
EPS F1 Estimate 1-Week Change	-0.07%	0.00%	0.00%	-0.07%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.66%	0.00%	0.01%	-0.07%	-0.30%	1.39%
EPS F1 Estimate 12-Week Change	-1.39%	-1.10%	3.36%	-2.22%	-1.44%	13.49%
EPS Q1 Estimate Monthly Change	-1.78%	0.00%	0.00%	-0.60%	-4.73%	3.36%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	B

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock’s closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

# of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn’t change frequently, dividend yield usually changes with a stock’s price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock’s weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every $1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at $35 and expected to earn $3 per share in the current fiscal year (F1), would be 0.0857 (3/35 = 0.0857) or 8.57%. In other words, for $1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow ($/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.