

Merck MRK

Last Close \$ \$32.16
Sales \$Mil \$22,818
Mkt Cap \$Mil \$71,318
Industry Drugs

Merck makes pharmaceutical products for a number of therapeutic areas, including cardiovascular, asthma, arthritis, fungal infections, and osteoporosis. The company has also developed a substantial business selling vaccines to prevent hepatitis B and pediatric diseases. About 60% of the company's sales are generated in the United States.

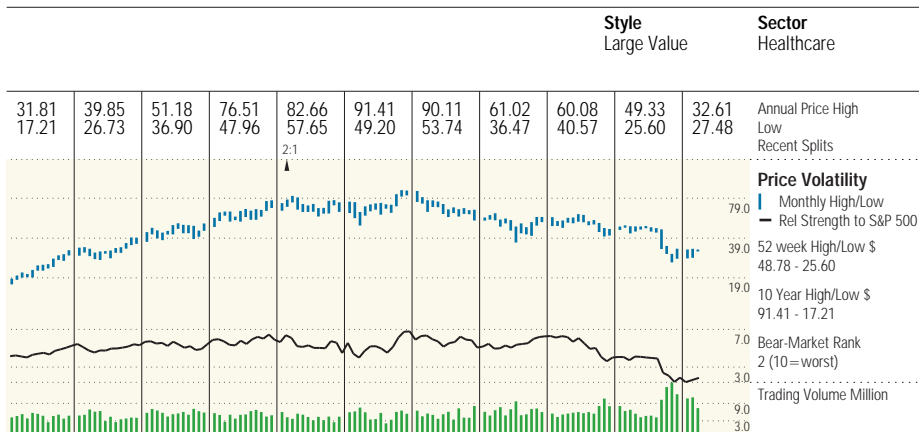
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Growth Rates Compound Annual					
Grade: C-	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue	-56.6	-17.7	-3.5	—	
Operating Income	-13.9	-3.3	8.7	—	
Earnings/Share	-7.0	0.2	6.3	—	
Dividends	2.8	2.8	6.3	10.1	
Book Value/Share	-13.6	2.8	5.3	—	
Stock Total Return	-25.7	-14.3	-9.0	7.2	
+/- Industry	-26.2	-11.5	-9.8	-5.0	
+/- Market	-36.0	-17.0	-7.5	-4.1	

Profitability Analysis				
Grade: A+	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	37.6	44.6	23.7	18.8
Return on Assets %	14.3	16.8	11.0	6.9
Fixed Asset Turns	1.6	3.4	4.0	6.9
Inventory Turns	2.1	6.8	2.4	12.0
Revenue/Employee \$K	361.0	545.6*	363.0	621.4
Gross Margin %	78.5	49.4	75.9	35.8
Operating Margin %	32.1	25.1	18.3	15.7
Net Margin %	26.8	18.9	18.5	10.1
Free Cash Flow/Rev %	32.9	15.9	12.1	9.3
R&D/Rev %	16.7	7.4		5.0

Financial Position			
Grade: A-	12-03 \$Mil	09-04 \$Mil	
Cash	1201	2667	
Inventories	2555	2213	
Receivables	4024	3908	
Current Assets	11527	13860	
Fixed Assets	14169	14433	
Intangibles	1949	1811	
Total Assets	40588	42874	
Payables	4097	4289	
Short-Term Debt	1700	2192	
Current Liabilities	9570	10790	
Long-Term Debt	5096	4394	
Total Liabilities	25011	25563	
Total Equity	15576	17312	

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	11.8	22.5	24.2	22.9
Forward P/E	13.0	—	19.3	18.6
Price/Cash Flow	7.8	19.2	19.4	14.7
Price/Free Cash Flow	9.6	29.0	24.6	24.8
Dividend Yield %	4.7	—	2.2	1.7
Price/Book	4.1	9.6	5.8	4.2
Price/Sales	3.1	4.1	4.4	2.9
PEG Ratio	4.8	—	2.0	1.7



Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	YTD	Stock Performance
Revenue	76.8	24.1	35.7	41.3	-7.4	41.9	-35.9	-1.1	-11.1	-27.8	1.3	Total Return %
Operating Income	39.3	1.2	2.4	12.8	-28.4	51.0	-24.0	21.0	-39.8	-38.6	2.0	+/- Market
Earnings/Share	17.5	3.7	-16.5	-0.5	5.9	14.0	-23.4	18.4	-30.1	-26.1	1.1	+/- Industry
Dividends	2.0	1.9	1.6	1.3	1.7	1.4	2.4	2.5	3.2	4.7	0.0	Dividend Yield %
Market Cap \$Mil	80644	96077	126527	174083	157047	215912	133753	127121	103434	71273	71318	Market Cap \$Mil

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TTM	Financials
Revenue \$Mil	14970	16681	19829	23637	26898	32714	40363	47716	51790	22486	22818	Revenue \$Mil
Gross Margin %	60.2	55.3	53.0	50.1	48.2	46.4	44.4	39.3	36.2	80.8	78.5	Gross Margin %
Oper Income \$Mil	4599	4421	5181	5864	5601	7861	9408	10058	9873	8496	7331	Oper Income \$Mil
Operating Margin %	30.7	26.5	26.1	24.8	20.8	24.0	23.3	21.1	19.1	37.8	32.1	Operating Margin %
Net Income \$Mil	2997	3335	3881	4614	5248	5891	6822	7282	7150	6831	6108	Net Income \$Mil

Earnings Per Share \$	1.18	1.32	1.57	1.87	2.15	2.45	2.90	3.14	3.14	2.92	2.73	Earnings Per Share \$
Dividends \$	0.58	0.64	0.74	0.87	0.95	1.12	1.26	1.38	1.42	1.46	1.49	Dividends \$
Shares Mil	2552	2539	2490	2469	2441	2404	2353	2322	2277	2253	2285	Shares Mil
Book Value Per Share \$	4.49	4.78	4.95	5.27	5.42	5.72	6.44	7.07	8.11	7.00	7.81	Book Value Per Share \$
Oper Cash Flow \$Mil	4140	2944	5428	6317	5328	6131	7687	9080	9529	8427	9259	Oper Cash Flow \$Mil
Cap Spending \$Mil	-1009	-1006	-1197	-1449	-1973	-2561	-2728	-2725	-2370	-1916	-1751	Cap Spending \$Mil
Free Cash Flow \$Mil	3131	1939	4231	4868	3355	3570	4960	6355	7159	6511	7508	Free Cash Flow \$Mil

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TTM	Profitability
Return on Assets %	—	14.6	16.1	18.4	18.2	17.5	18.1	17.4	15.6	15.5	14.3	Return on Assets %
Return on Equity %	—	29.1	32.8	37.5	41.3	45.2	48.6	47.1	41.8	40.4	37.6	Return on Equity %
Net Margin %	20.0	20.0	19.6	19.5	19.5	18.0	16.9	15.3	13.8	30.4	26.8	Net Margin %
Asset Turnover	—	0.73	0.82	0.94	0.93	0.97	1.07	1.14	1.13	0.51	0.53	Asset Turnover
Financial Leverage	—	2.0	2.0	2.0	2.3	2.6	2.7	2.7	2.6	2.6	2.6	Financial Leverage

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	09-04	Financial Health
Working Capital \$Mil	1473	2928	2897	2644	4160	2500	3644	1417	2459	1958	—	Working Capital \$Mil
Long-Term Debt \$Mil	1146	1373	1156	1347	3221	3144	3601	4799	4879	5096	4394	Long-Term Debt \$Mil
Total Equity \$Mil	11139	11736	11971	12614	12802	13242	14832	16050	18201	15576	17312	Total Equity \$Mil
Debt/Equity	0.12	0.15	0.15	0.18	0.30	0.45	0.47	0.55	0.47	0.44	0.38	Debt/Equity

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TTM	Valuation
Price/Earnings	16.2	24.9	25.4	28.3	34.3	27.4	32.3	18.7	18.0	15.8	11.8	Price/Earnings
P/E vs. Market	0.9	1.2	1.1	1.1	1.0	0.7	1.0	0.6	0.7	0.6	0.5	P/E vs. Market
Price/Sales	3.3	5.0	5.0	5.5	6.7	4.9	5.5	2.9	2.5	4.6	3.1	Price/Sales
Price/Book	4.3	6.9	8.1	10.1	13.6	11.8	14.5	8.3	7.0	6.6	4.1	Price/Book
Price/Cash Flow	11.8	28.3	18.3	20.7	33.8	26.4	28.7	15.0	13.5	12.4	7.8	Price/Cash Flow

Quarterly Results						
Revenue \$Mil	Dec	Mar	Jun	Sep		
Most Recent	5627.1	5630.8	6021.7	5538.1		
Previous	13918.4	13388.4	13281.2	5762.0		
Rev Growth %	Dec	Mar	Jun	Sep		
Most Recent	-59.6	-57.9	-54.7	-3.9		
Previous	10.8	10.0	3.7	-55.3		
Earnings Per Share \$	Dec	Mar	Jun	Sep		
Most Recent	0.62	0.73	0.79	0.60		
Previous	0.83	0.76	0.83	0.83		

Close Competitors				
	Mkt Cap \$Mil	Rev \$Mil	P/E	ROE%
Merck	71318	22818	11.8	37.6
Pfizer	201454	52027	22.5	13.4
Eli Lilly & Company	62874	13679	23.6	24.6

Major Fund Holders		
		% of shares
Franklin Income A		1.40
American Funds Washington Mutual A		0.88
Fidelity Magellan		0.64

*3Yr Avg data is displayed in place of 5Yr Avg

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Stock Detail Report

Disclosure Statement

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Last Close \$

Stock price shown represents the market price of the stock as of the close of trading on the release date noted at the top of the investment detail page.

Market Capitalization \$ mil

Value of a company as determined by the market price of its outstanding common stock. It is calculated by multiplying the market price as of the close of trading as of the last day of the most recent month-end by the number of shares outstanding as of the most recently completed fiscal quarter. It may be used as an indicator of how investors value a company's future prospects.

Morningstar Rating

The Morningstar Rating for stocks is calculated by comparing Morningstar's assessment of a stock's fair value with the stock's current market price. The rating is assigned a five star rating if fair value is 30% or more above the current market price, four star rating if it is 10% to 30% above the current market price, three star rating if fair value is 10% above or below the current market price, two star rating if fair value is 10% to 30% below the current market price, and a one star rating for a fair value of 30% or more below the current market price.

Business Risk

To generate Morningstar Business Risk, companies are scored based on the size of their economic moat, as well as an assessment of the chance that that a non-financial issue could materially affect the company's fortunes. Based on these two factors, the companies level of business risk is classified as above average, average, or below average.

Fair Value

Each stock's fair value is estimated by utilizing a proprietary discounted cash flow model (DCF). This model assumes that the stock's value is equal to the total of the free cash flows of the company is expected to generate in the future, discounted back to the present at the rate commensurate with the riskiness of the cash flows. As with any DCF model, the ending value is highly sensitive to Morningstar's projections of future growth.

Economic Moat

Economic Moat measures the strength and sustainability of a firm's competitive advantage. Many factors are considered when assigning this rating, including the firm's historical performance, the source of the company's excess economic profits, market share, ability to produce products at lower costs than competitors, governmental protection via patents/copyrights, high customer switching costs, and other various considerations as determined by our Editorial staff. The rating value assigned will be either none, narrow, or wide.

Style

The Morningstar Style consists of nine categories that provide an overview of the investment strategy. The style is comprised of a combination of market capitalization of the security and the investment style (value, blend, or growth).

Stock Grades

The grading system is a letter-based grading system from A+ through F, with A+ being the highest.

The Growth Grade shows how well the company's growth compares with its sector. Growth is measured not only by how fast a company's sales are growing, but also by how consistent this growth has been and whether it is speeding up or slowing down.

The Profitability Grade shows how well a company's profitability, as measured by return on assets, compares with its sector. It measures not only raw profitability, but whether a company's ROA is consistent and improving.

The Financial Health Grade rewards companies with improving financial health and punishes those with deteriorating health. To get a high grade in this area, a company should have low financial leverage (assets/equity), high cash-flow coverage (total cash flow/long-term debt), and a high cash position (cash/assets).

Stock Performance

Total Return represents shareholders' gains from a stock over a given period of time (YTD, one month, three month, one-, three-, and five year). Total return includes both capital gains and losses and dividend payments. It is calculated by taking the change in the stock's price as of the close of trading of the respective period, assuming the reinvestment of all dividends, then dividing by the initial stock price, and expressing the result as a percentage. Returns for periods longer than one year are annualized. Returns do not include brokerage commission or the effects of taxation.

Financials

Earnings per share \$ (EPS), diluted EPS, is calculated by dividing net income net of preferred dividends by a weighted average of total shares outstanding plus additional common shares that would have been outstanding if the dilutive common share would have been issued for the trailing 12 months (TTM). This data is from Mergent, Inc., an unaffiliated data vendor.

Dividend per share \$ is the dollar amount of dividends paid out by the company in a particular period to its common shareholders, as reported by the company.

Profitability

Return on Assets (ROA) is the percentage a company earns on its assets in a given year. (Year 1, 2, etc.). The calculation is net income divided by end-of-year total assets, then multiplied by 100.

Return on Equity (ROE) is the percentage a company earns on its total equity in a given year (Year 1, 2, etc.). The calculation is net income divided by end-of-year net worth, multiplied by 100.

Net Margin is a measure of profitability. It is equal to annual net income divided by revenues from the same period for the past five fiscal years, multiplied by 100.

Asset Turnover represents how many dollars in revenue a company has generated per each dollar of assets. It is calculated by dividing total revenues for the period by total assets for the same period.

Financial leverage is calculated by dividing total assets by total shareholders' equity.

Financial Health

Debt/Equity is calculated by dividing long-term debt by total shareholder's equity. This figure is not provided for financial companies.

Valuation

Price/Earnings (PE) is the current price divided by the company's trailing 12-month earnings per share.

Price/Book (PB) is the most recent stock price divided by the most recent book value per share.

Price/Sales (PS) is the current price divided by the company's sales per share over the trailing 12 months.

Price/Cash Flow (PC) is the most recent price divided by the cash flow per share of the latest fiscal year.

Growth Rates

All the figures in the Growth section represent the compounded or annualized growth rate. These figures are collected for revenue, net income, EPS, equity per share, and dividends.

Profitability Analysis

The below referenced items are reported as both a current value and a 5-year average figure.

Return on Equity % is the percentage a company earns on its total equity in a given year. The calculation is net income divided by end-of-year net worth.

Return on Assets % is the percentage a company earns on its assets in a given year. The calculation is net income divided by end-of-year total assets.

Net Margin % is equal to annual net income divided by revenues.

Asset Turnover represents how many dollars in revenue a company has generated per each dollar of assets. It is calculated by dividing total revenues for the period by total assets for the same period.

Valuation Analysis

The below referenced items are reported as both a current value and a 5-year average figure.

Price/Earnings is the stock's price divided by the company's earnings per share.

Forward P/E ratio is the most-recent stock price divided by the mean EPS estimate for the current fiscal year. This number gives some indication of how cheap or expensive a stock is compared with consensus earnings estimates. The lower the forward P/E, the cheaper the stock. Multex data is used in the denominator of this calculation.

Price/Cash Flow is the stock's price divided by the cash-flow per share of the latest fiscal year.

Price/Free Cash Flow is the free cash flow divided by its "enterprise value", or market capitalization plus net debt. This number tells you what cash return you would get if you bought the entire company, including its debt.

Dividend Yield % is a percentage calculated by dividing total dividends by the current market price and multiplying by 100.

Price/Book is the stock price divided by the book value per share.

Price/Sales is the stock's price divided by the company's sales per share.

PEG Ratio is Forward P/E ratio divided by the company's EPS Growth % Five-Year Mean Estimate. The Forward P/E ratio used in the numerator of this ratio is calculated by taking the current share price and dividing by the mean EPS estimate for the current fiscal year. The denominator is the average estimate of long-term EPS growth, derived from all polled analysts' estimates from Multex.

Market

Standard & Poor's 500: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.