<u>Merck & Co. (MRK) Company Report #4</u>

How Merck Performed

Merck & Co. reported a mixed second quarter for 2025, showing both strong product performance and clear cost pressures. According to the company's Q2 8-K filing, total revenue for the six months ending June 30, 2025, reached $30.9 billion, while net income was $7.6 billion, producing GAAP earnings per share (EPS) of $3.58 (Merck & Co., 2025). For the second quarter alone, Merck recorded $15.8 billion in revenue and GAAP EPS of $1.76, with non-GAAP EPS at $2.13 (Merck & Co., 2025).

The Wall Street Journal (Loftus, 2025) reported that profit fell as Merck increased its R&D spending and began a major cost-optimization plan that includes layoffs across several divisions. Reuters (Leo, 2025) added that vaccine sales, particularly the Gardasil HPV vaccine, declined sharply—dropping 55% year over year—mainly because of a temporary halt on shipments to China.

What Drove Results

Merck's quarter was shaped by two main stories: the strength of Keytruda and the weakness of Gardasil. Keytruda, the company's top-selling cancer therapy, grew 9% to approximately $8.0 billion in quarterly sales (Merck & Co., 2025). Its steady demand helped offset falling vaccine revenue.

Meanwhile, Gardasil's pause in China significantly reduced vaccine income, contributing to the overall 2% decline in quarterly sales (Leo, 2025). Animal Health provided a bright spot, up 11% in sales due to strong demand for aquaculture products acquired from Elanco (Merck & Co., 2025). At the same time, Merck announced a multiyear $3 billion cost-reduction plan aimed at streamlining operations by 2027. The company stated it plans to reinvest these savings into growth areas like oncology, HIV research, and cardiovascular medicine (Merck & Co., 2025). It also revealed plans to acquire Verona Pharma, gaining access to its COPD drug Ohtuvayre.

How Analysts and Reporters Interpreted It

The Wall Street Journal compared Merck's restructuring to similar cost-control efforts across Big Pharma, noting that several peers are tightening budgets to offset R&D growth (Loftus, 2025). Reuters emphasized that Merck's stock dipped shortly after the announcement because of uncertainty surrounding the Chinese vaccine suspension (Leo, 2025). Analysts cited in both stories suggested that the market reaction was short-term and that Merck's long-term outlook remains strong, given the durability of Keytruda and the company's expanding pipeline.

Connecting the News to the SEC Filing

The figures cited in both articles—revenue of $15.8 billion, GAAP EPS of $1.76, non-GAAP EPS of $2.13, Keytruda up 9%, and Gardasil down 55%—come directly from Merck's Form 8-K and accompanying press release filed on July 29, 2025. They appear in the "Consolidated Statement of Income (GAAP)" and "Product Sales Performance" tables of Exhibit 99.1 (Merck

& Co., 2025). These correspond exactly to the same income-statement categories discussed in class: Revenue → Expenses → Net Income → Earnings per Share.

What Surprised Me

Despite declining vaccine revenue, Merck's gross margin rose to about 82%, which shows how heavily its profits now depend on high-margin cancer drugs (Merck & Co., 2025). I was also struck by how the company emphasized that all $3 billion in savings will be reinvested instead of used to boost short-term profits—an unusual move that highlights Merck's focus on research and innovation (Loftus, 2025).

What I Learned

From this report, it's clear that Merck's success depends on balancing short-term challenges with long-term investments. The company's diversified portfolio—spanning oncology, vaccines, and animal health—helps it weather disruptions in one area without derailing overall performance.

Still, I'm left wondering:

1. When will Gardasil shipments in China resume, and how much demand might return?
2. How much of the $3 billion savings will come from layoffs versus operational changes?
3. Will Verona Pharma's acquisition meaningfully impact Merck's 2026 results?

Works Cited

Leo, S. (2025, July 29). Merck extends pause of China Gardasil shipments; shares slip. Reuters. https://www.reuters.com/business/world-at-work/merck-extends-pause-china-gardasil-shipments-year-end-shares-slip-2025-07-29/

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