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# EDITED TRANSCRIPT

MRK - Merck & Co Inc Annual Shareholders Meeting

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## CORPORATE PARTICIPANTS

**Jennifer L. Zachary** *Merck & Co., Inc. - Executive VP, General Counsel & Corporate Secretary*

**Jennifer Mauer**

**Kenneth C. Frazier** *Merck & Co., Inc. - Chairman, President & CEO*

**Roger M. Perlmutter** *Merck Research Laboratories - President*

## CONFERENCE CALL PARTICIPANTS

**John Chevedden**

**Nicholas Lusiani**

## PRESENTATION

### Operator

Good morning, and welcome to the Annual Meeting of Shareholders for Merck & Co., Inc. We do not expect any technical difficulties today. However, in the event that we lose audio or webcast connection, and we are unable to provide any updates, please wait 10 minutes for a resolution. Please refer to the company's Investor Relations website for updates.

I would now like to introduce Merck's Chairman, President and Chief Executive Officer, Kenneth Frazier.

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**Kenneth C. Frazier** - *Merck & Co., Inc. - Chairman, President & CEO*

Thank you, Paul, and good morning, ladies and gentlemen. It is my pleasure to welcome you all to the 2020 Annual Meeting of Shareholders and to call this meeting to order.

This is our first ever virtual Annual Meeting of Shareholders. As with so many aspects of our daily lives, the COVID-19 global pandemic has required that we approached this meeting in a different way than in years past. I look forward to our time together even though it's not in person and hope you are all safe and well.

I would like to acknowledge that all of our directors and director nominees nominated for election at this meeting are attending virtually. I would also like to take a moment to express my deepest gratitude to Shelly Lazarus and Wendell Weeks for retiring from our Board today. Since 2004, we both Shelly and Wendell have contributed significantly to our company and to our Board, and I thank them both for their leadership and years of dedicated service.

We are also joined virtually by Merck's Executive Committee, including Dr. Roger Perlmutter, Executive Vice President and President, Merck Research Laboratories; and Jennifer Zachary, Executive Vice President, General Counsel and Corporate Secretary. Ms. Zachary has informed me that we have a quorum today. Also attending this meeting virtually are Geoff Brzuchalski and Denis Naughter, representing PricewaterhouseCoopers LLP, the independent registered public accounting firm for Merck for 2020, subject to shareholder ratification at this meeting.

Today's agenda as well as the rules of conduct are available in the Meeting Materials section of the virtual meeting website. Also available are the 2020 proxy statement and the 2019 annual report on Form 10-K. Lastly, pursuant to New Jersey law, a list of all shareholders of record entitled to vote at this meeting is available for all shareholders to view.

Now on to our presentation. We are living in truly unprecedented times. The COVID-19 global pandemic poses extraordinary challenges to all of us, including serious threats to the health of people, businesses and economies around the world. Without question, our industry and our company have a unique ability and responsibility to help the world respond. Our priorities from the outset have been to protect the safety of our employees



and their families; to sustain the supply of our medicines and vaccines to our patients and customers; to advance scientific efforts to find solutions to coronavirus infections; and to support health care providers and communities. I'm proud of our efforts on all these fronts to date, and we'll share some of this with you today. That said, there's still much more for us to do as a company, as an industry and as a global community.

Let me start by saying that Merck has been fully committed to developing an effective response to the COVID-19 pandemic since it was first recognized, and we know that success will require global collaboration among countries and companies. The 3 programs we announced today, a significant collaboration with IAVI for vaccine development, the planned acquisition of Themis to expedite development of another vaccine and a partnership with Ridgeback Biotherapeutics to develop an antiviral medicine are exemplars of Merck's long tradition of applying the world's best science to the task of finding answers to the most daunting health challenges.

Merck scientists started their quest as soon as the new coronavirus was recognized and have been working on multiple fronts to understand the nature of the new coronavirus and to formulate the best approaches for both treatment and vaccinations. As we previously announced, one initial step we took was to establish a significant research collaboration with the Institute for Systems Biology to probe the basic biology of the virus and how it interacts with the immune system in order to help formulate our approaches.

Our long history of developing vital medicines and vaccines has shown us that durable scientific solutions take time, expertise and experience to discover and deliver to the people and communities who so desperately need them. Today, we are proud to mark the culmination of a swift, conscientious and concerted effort within our company and with our partners across the scientific community to identify some of the most promising potential solutions to this global challenge and to apply our considerable resources towards accelerating these programs.

The world simply must face this challenge together. We are racing against the disease, not against other companies. None of us can solve this alone. But together, I have no doubt we will find solutions. Dr. Roger Perlmutter will talk about the details of our efforts in a moment. But let me just say that we are committed to contributing our considerable expertise and experience to expedite the development of what we believe are promising approaches in support of the global effort.

We are encouraged that many across the biopharmaceutical sector are working together to address this public health challenge. We are applying our proven vaccine innovation engine, which has enabled us to introduce 4 of the 7 new disease pathogen vaccine introduced over the last 25 years. We're applying our proven antiviral innovation engine, which provided breakthrough HIV medicines, like CRIXIVAN and ISENTRESS. We are accelerating clinical development of these candidates at scale using the same parallel process capability we have used to support more than 1,000 simultaneous clinical trials of KEYTRUDA in record time. We are investing to scale up our manufacturing capabilities, already targeting hundreds of millions of doses.

We have a proud record in vaccine and antiviral development, and we have thought carefully about what is required to defeat COVID-19. We are hopeful that our new candidate will have a meaningful impact on the pandemic. But science is a stern taskmaster. We still have a lot to learn about this pandemic virus and the spectrum of diseases it causes. Our commitment is simply this. We will act thoughtfully, responsibly and rapidly to advance effective vaccines and medicines against this deadly coronavirus. Never has there been a moment in our lifetime where Merck's mission could be clearer or more compelling. And we are conscious of our abiding responsibility to help advance vaccine and antiviral efforts as part of the global response to this unprecedented health challenge.

As I stated earlier, one of our top priorities is the safety and well-being of our employees and their families. Throughout the pandemic, we have moved swiftly to implement our pandemic response plan to keep our employees safe while also ensuring that we sustained our important work. As the pandemic has slowed and governments have eased stay-at-home orders, we are being very careful in planning and implementing methodologies for evaluating risk mitigation strategies in order to return different employee populations to the workplace.

Of course, many of our people don't have the option of working remotely. Thanks to the more than 17,000 Merck colleagues who have continued to go to our sites each and every day and the thousands more working remotely, I am pleased to say that the majority of Merck's manufacturing plants and clinical supply sites remain fully operational. Because of their efforts and our business continuity planning, we have seen little impact to the production, supply and distribution of our medicines, vaccines and animal health products. In fact, the metrics we use to track our supply chain are as high as they have been in recent history. For patients currently enrolled in our clinical trials, we are making every effort to ensure that

they are able to continue their treatment and receive appropriate care and monitoring. As conditions allow, we are enrolling patients in ongoing studies and we are even starting new studies. Our team took a no-patient-left-behind approach, one very much in line with our mission to save and improve lives.

We owe a special debt of gratitude to the health care providers, who are on the front lines, helping the millions of patients with COVID-19. Some of them are from our own teams. Early on, we created a medical service volunteer program to enable Merck employees, who are licensed medical professionals, to aid in the fight against COVID-19 while maintaining their pay. To date, more than 100 Merck employees have answered the calls. Even though this pandemic has changed all of our lives in profound ways, what has not changed is the unwavering commitment of the people of Merck to our patients and our customers. As a company whose mission is to save and improve lives, we simply do not have the option to pause our operations. Now I'd like to play a short video for you.

(presentation)

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

I particularly appreciate this video because it illustrates the extraordinary resilience and dedication of the people of Merck. Throughout this pandemic, governments have declared the work of our industry and our company to be essential because it is, as it has for more than 125 years, Merck remains committed to taking on the world's most daunting health challenges, and our portfolio and pipeline reflect that commitment.

Beyond our scientific activities, we are engaged in several efforts to do our part in helping others deal with the COVID-19 pandemic. We are actively supporting communities in a number of ways, including through product donations, donations of personal protective equipment and funding to relief organizations, including the United Nations Foundation's COVID-19 Solidarity Response Fund in support of the World Health Organization and to the U.S. Centers for Disease Control Foundation's Emergency Response Fund.

In the U.S., we have donated more than 1 million surgical face masks for use as part of urgent efforts to address outbreaks across the country, when the need for masks was critical. We also have made significant donations of personal protective equipment outside the U.S. Through Merck for Mothers, the company is providing \$3 million to help health systems tackling COVID-19 better meet the needs of pregnant women before, during and after deliveries. Overall, Merck has committed more than \$30 million to COVID-19 relief efforts to date, including \$10 million to help advance health equity and address social determinants of health in our most vulnerable communities and patient populations.

We have taken a number of new steps to support patients in the U.S. who may have lost their jobs and insurance coverage during this crisis. And we continue to consider other possible ways to support our communities as well as national relief efforts. While we are encouraged that the rate of new infections in many places appears to be slowing, we know this pandemic is far from over. We know we have much more to do. And again, we are steadfastly committed to do our part.

Another way we make a difference and deliver long-term value to all our stakeholders is by ensuring our company's sustainable financial strength. Merck had an extraordinary year in 2019 as we solidify our leadership across our 4 key growth pillars of oncology, vaccines, hospital and animal health. As a result, we began 2020 in a position of operational and financial strength, driven by strong execution of our strategy and focus on our key growth drivers and innovative pipelines. Our strong business momentum continued in the first quarter with underlying demand for our innovative portfolio driving 13% total sales growth worldwide and non-GAAP EPS growth of 26%, both excluding the effect of currency translation.

However, as we have previously stated, the pandemic is impacting patients' ability to access hospitals and physician offices, which affects many of our products that are administered by medical professionals. Social distancing measures are also impacting customer access and demand for our animal health products. At this time, we continue to expect our second quarter to be the most heavily impacted as that a gradual return to normal operation will begin late in the second quarter and through the third quarter with a more complete return to normal operations in the fourth quarter.

On a longer-term basis, we remain confident in our outlook for strong growth once health systems have had the time to adjust to the new reality through the pandemic. Importantly, our financial strength and strong balance sheet allow us to continue with our capital allocation priorities,

including investing in R&D and in our growth drivers, investing in manufacturing capacity expansion, paying our dividend and continuing our search for value-enhancing business development, which remains a top priority. I will talk about each one of our growth pillars.

In just 6 years, KEYTRUDA has become a foundational cancer treatment with approvals in more than 10 tumor types and more than 20 separate indications. We estimate that nearly 400,000 patients around the world have been treated with KEYTRUDA. And we are still in the early stages. We are investigating KEYTRUDA in more than 30 tumor types in more than 1,200 clinical trials. With sales of \$3.3 billion, KEYTRUDA grew nearly 50% year-over-year in the first quarter.

Our broader oncology portfolio continues to benefit from growth in LYNPARZA in collaboration with AstraZeneca and LENVIMA with Eisai. LYNPARZA continues to lead the PARP inhibitor class in the competitive U.S. market with more than 60% share and a broad clinical development program. LENVIMA maintains market leadership in liver cancer in the U.S. and is benefiting from its strong launch in combination with KEYTRUDA in endometrial carcinoma. In addition, we have more than 20 novel mechanisms in clinical and preclinical development that show early promise for helping to turn the tide in the fight against malignant disease.

The pandemic has reminded us that vaccines are one of the greatest public health success stories in history. And Merck is, without question, part of that history. Our broad portfolio of vaccines helps prevent diseases affecting patients at all stages of life from infancy to adulthood. In the U.S., Merck makes vaccines for 11 of the 17 diseases on the CDC's recommended immunization schedule. And Merck has led the way in inventing 4 of the 7 most recent pioneering vaccines intended for broad use. It is our experience and legacy in vaccines that makes us optimistic that with appropriate care and persistence, a safe and effective vaccine can be developed for COVID-19.

During the first quarter, Merck vaccine sales grew 16% year-over-year, driven primarily by GARDASIL as more countries around the globe adopt HPV vaccinations in pursuit of the elimination of cervical cancer as a public health threat. PNEUMOVAX sales grew more than 40% in the quarter, primarily due to heightened interest in pneumococcal vaccinations amidst the COVID-19 pandemic. A discussion of our vaccines would not be complete without mentioning the approval at the end of last year of ERVEBO, our Ebola Zaire vaccine. ERVEBO exemplifies not just Merck's commitment to vaccines but also Merck's commitment to making our medicines and vaccines accessible and affordable globally.

Our hospital portfolio represents a range of products in infectious diseases, virology and hospital-based care. Growth in this pillar is led by the demand for BRIDION, which is used to bring patients out of anesthesia and speed post-surgical recovery times. In addition, we remain committed to the development of novel antibiotics and antivirals, which will have an important role to play with respect to COVID-19.

Merck Animal Health is a global leader in pharmaceuticals, vaccines, digital technology and other customer solutions. Present in more than 150 markets, our Animal Health business has an extensive network of manufacturing and research and development sites around the world and a broad portfolio of products for both companion animals and livestock. As the world struggles to feed nearly 100 million new people each year, we believe we can make an important contribution to sustainable food supply through improving the health and well-being of animals.

Throughout Merck's history, we have consistently focused on science as core to our purpose, not only to benefit individual patients but also as a means of creating the most value for society and for our shareholders. In recent years, Merck's portfolio has evolved from one focused largely on primary care products to one focused on oncology, vaccines, hospital and animal health. Accordingly, after careful consideration, in February, we announced the decision to separate into 2 companies: one, a research-intensive biopharmaceutical leader; the other, a new company focused on becoming a leader in women's health with the capability to realize the full potential of a portfolio of trusted and medically important legacy products and a rapidly expanding biosimilars business.

By spinning off this new company as a distinct business, we believe we can better prioritize and support a set of products that increasingly are non-core to Merck's strategic framework but nonetheless remain important to public health and to the patients who rely on them. If managed and resourced appropriately, we believe these products can help even more people around the world, which translates into greater opportunities for growth. We remain committed to the spin-off transaction, and we believe we are on track for completion in the first half of 2021.

We completed several important milestones in the quarter, including the naming of the new company, Organon & Co., a name which has strong brand equity and engenders trust among health care professionals for its dedication and innovation, particularly in women's health. We have also

named several members of the Organon leadership team. We continue to believe that 2 more focused companies will allow us to reach more patients, drive stronger growth and unlock long-term value for shareholders.

Let me close by saying I am both proud and inspired by the dedication of our employees around the world. From my perspective, the COVID-19 pandemic has brought to the forefront the commitment and resiliency of our people. I hope I have helped you understand the innovative spirit of our people and are resolved to do everything we can to best serve patients even in the face of extraordinary challenges like the pandemic. As a company that has taken on the world's most critical health challenges for more than 125 years, we cannot predict when this battle against COVID-19 will be won. But we know that we need to try, and we are confident that just as science has found a way to defeat infectious disease threats in the past, it will do so again.

To talk more about our efforts and Merck Research Laboratories, I'd now like to turn the call over to Dr. Roger Perlmutter. Roger?

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**Roger M. Perlmutter** - Merck Research Laboratories - President

Thank you very much, Ken. Thank you, everyone, who's joined us for this unprecedented virtual shareholders' meeting. It's my privilege this morning to have the opportunity to describe some of the important efforts that have been made in the Merck Research Laboratories over the past year, and in particular, to speak about our efforts to address the COVID-19 pandemic. If I could have the next slide, please.

Just a year ago, our attention was focused on the Ebola outbreak in the Democratic Republic of the Congo. It seems a distant memory now, but Ebola virus disease was threatening to expand throughout the region into adjoining countries, Rwanda and Uganda, and potentially to spread around the world. And we responded by developing a vesicular stomatitis virus-based vaccine now called ERVEBO, registered now in the United States and in Europe and in 6 African countries, that has been shown by the World Health Organization to have 97.5% or better effectiveness in preventing Ebola virus disease.

This is the first vaccine that's ever been developed for Ebola virus and it was developed in record time. It seemed an extraordinary accomplishment then. We started in 2014. At the time, we knew quite a bit about Ebola virus. Nevertheless, it took nearly 6 years to complete the development program, to build a factory to produce the vaccine and to complete registration. It was an important, meaningful, indeed, a historic achievement.

Next slide. But now there is a new threat. The SARS-CoV-2 coronavirus is a different sort of animal. And it is demanding of us an even more profound response than did Ebola. Indeed, we estimate that we must proceed at 1,000x the scale and 10 times the speed to have a meaningful impact on COVID-19. It's the sort of challenge that, while daunting, is precisely what we, at Merck Research Laboratories, choose to embrace. It's important to point out that we are not alone in this effort. There are many companies and many public organizations that have contributed important knowledge. In just a few months, we've learned an enormous amount about the coronavirus that causes COVID-19.

Next slide. I'm showing you here a depiction of the surface of the SARS-CoV-2 coronavirus that is responsible for COVID-19. It has this set of spike proteins, partially shown on the right-hand side in red and depicted in molecular detail on the left-hand side. It is the spike protein that permits the virus to attach to epithelial cells in the lung and elsewhere and, after undergoing a change in shape, permits the virus to enter the cell to inject its ribonucleic acid into the cell and then to replicate itself. That spike protein, which we now understand in molecular detail, is the target for vaccines because it is the target for most of the immune response that occurs in individuals who are infected with SARS-CoV-2 and who recover.

Our goal is to generate an immune response that mimics that of those who recovered from infection but to do this using a vaccine that itself causes no disease. Our second goal is to produce drugs that can actually block the production of the virus in those who have been infected and who were not previously protected. I should make plain that with more than 5 million people known to be affected around the world and nearly 350,000 confirmed deaths, COVID-19 has clearly had a devastating impact. The coronavirus has its own biological imperatives, and we must be similarly uncompromising.

And to this end, as shown on the next slide, and as we've announced today, we have engaged in a series of partnerships that will assist us in developing new drugs and vaccines to treat this pandemic. We began, as Ken mentioned, by supporting research coordinated by the Institute for Systems Biology in Seattle that is aimed at characterizing the normal immune response that occurs in people who are infected with SARS-CoV-2.

This immune response, in many cases -- indeed, in most cases, leads to complete recovery, typically without any sequelae and often without symptoms. In some individuals, however, the disease progresses, lung damage ensues, and this can lead to death. Is there a difference in the immune response of those who successfully controlled the virus as compared to those who succumb? If there is such a difference, we need to understand it because we will want our vaccine to stimulate an immune response that is like the immune response that occurs in those who recover successfully.

To make the right vaccine, we've done 2 things. First, we've partnered with the International AIDS Vaccine Initiative, IAVI, to develop a new vaccine based on the same platform that we successfully used to develop an Ebola virus vaccine. We have those constructs in hand and have shown that they produce a virus that in principle could be immunogenic. This vaccine has many potential advantages. It's a live virus vaccine, it replicates and it should be a very potent stimulus to the immune system, and we're hoping to advance it very rapidly.

At the same time, we're not depending just on that single vaccine platform. We've also announced our intention to advance in partnership with Themis Biosciences, which is a Vienna-based small company that has been working closely with the Institut Pasteur to develop a vaccine against SARS-CoV-2 based on a measles virus platform that has been studied for many years at the Institut Pasteur. It's the product of an enormous scientific investment and it's extremely well understood. And indeed, Themis Biosciences has used this technology to develop a series of vaccines against a variety of different viruses, some of which have been tested in people, although none of them have yet been registered. In this case, we are partnering with them. And in fact, we are acquiring the Themis company in order to do so, in order to make the measles-based SARS-CoV-2 vaccine.

It's a powerful platform. Measles, after all, is a disease that has been, in most parts of the world, essentially conquered through effective vaccination. Measles vaccines have been used in billions of people. And hence, there is a high likelihood that this platform will be safe. There's also reason to believe that it will be effective based on the work that's been done by the Themis corporation and the Institut Pasteur. These viral constructs also have been successfully made and are now being scaled up. And clinical trials will begin relatively soon to assess whether or not this new platform produces a satisfactory immune response, whether that immune response resembles that, that's seen in patients who have successfully controlled the disease. And ultimately, we'll learn whether this immune response, either stimulated by the measles vaccine or by the IAVI-partnered VSV vaccine can satisfactorily control the disease in those who have not been infected yet.

Vaccines, however, may not be enough. And to this end, we've also partnered with Ridgeback Biotherapeutics to advance an orally available antiviral drug. This compound is currently called EIDD-2801. It was first discovered at Emory University and it has been advanced through Phase I clinical studies by the team at Ridgeback Biotherapeutics. It will soon begin Phase II studies in the United States and in Europe. And we will be supporting those studies and, in fact, directing them going forward. This compound, because it can be taken orally, is just a pill.

It's the sort of thing that we know how to scale up to a very large extent. We understand how to make it, we understand how to formulate it. And if necessary, we can produce billions of doses relatively rapidly. The information that comes from the Phase II and later clinical trials will tell us whether or not this can be successful. So as I've indicated, we are advancing an uncompromising approach to the control of the COVID-19 pandemic. We're working with these groups, but we're also working with others to ensure that the best possible therapies and vaccines can be advanced.

Next slide. But as Ken also mentioned, beyond the COVID-19 pandemic, we continue to work diligently to advance those important new therapies that control other important diseases, diseases that frankly are even more devastating to human health in the current situation than is the COVID-19 pandemic. KEYTRUDA is the leading immuno-oncology therapy in the world, and we continue to learn more about how best to employ KEYTRUDA in adjuvant, neoadjuvant and therapeutic settings to improve therapy for cancer for people everywhere. With more than 23 indications and directed against multiple tumor types, KEYTRUDA is an extraordinary new product. And we are advancing KEYTRUDA in combination with multiple new drugs.

Important among those are: LYNPARZA, the leading poly ADP ribose polymerase inhibitor around the world, which was originally developed by AstraZeneca and with whom we are partnering for further development; and LENVIMA, which is a potent multi-kinase inhibitor that is especially advantaged in combination with KEYTRUDA. Recently, for example, we've shown that LENVIMA plus KEYTRUDA can be used effectively to treat endometrial cancer and we gained registration for that indication. These drugs are extremely important parts of the new armamentarium directed against cancer. But they're just the beginning.

Next slide. During the past year, we also announced that we had gained access to 2 important new drugs that will provide further benefit to cancer patients. These investigational agents are, as see it shown on the right-hand side, first, a non-covalent inhibitor of the BTK kinase, which is active in B-cell malignancies. We acquired this drug through the acquisition of ArQule, who had developed it. And the drug has extremely favorable properties in an area where we know already that drugs directed against the BTK kinase can be effective at treating B-cell malignancies.

We also acquired Peloton, as shown on the left. Peloton had developed the first inhibitor of what is called HIF-2 alpha. And HIF-2 alpha is a special regulator that controls the body's response to reduced oxygen tension. The slide diagrams what happens when levels of oxygen become low. And that green figure represented in the slide is this HIF-2 alpha factor that moves to the nucleus of the cell in low oxygen conditions and changes the expression of a variety of genes. Because the HIF-2 alpha protein is very potent at changing cell behavior, the amount of this protein is normally controlled very carefully. And it is controlled in part by a protein that's shown with the red slash through it, which is the von Hippel-Lindau protein. von Hippel-Lindau is a protein that regulates the degradation of HIF-2 alpha. Some people, however, are born with an inactivated version of von Hippel-Lindau. And under those circumstances, these people have elevated levels of HIF-2 alpha and, as a result, can suffer dramatic consequences.

In particular, they can develop renal cell cancers and many other kinds of malignancies, as shown on the next slide. Although von Hippel-Lindau disease is a rare disease, it's a disease that has enormous impact. And recent data from studies performed at the United States National Institute of Health have shown that the HIF-2 alpha inhibitor that was developed by Peloton can block the effect of the genetic mutation in the von Hippel-Lindau protein and protect patients who have developed serious neoplastic changes as a result of the activation of HIF-2 alpha. We view this HIF-2 alpha inhibitor as a potentially important drug for the treatment of renal cell carcinoma and other malignancies. And indeed, early data suggests that it could be transformational in this kind of setting. I mentioned this to you to emphasize that we are constantly searching for the best approaches to treat grievous illness.

Next slide. And in just the last few months, we have advanced important initiatives with respect to novel vaccines in cardiovascular medicine, in neuroscience, new antimicrobials, new drugs directed against HIV and to further control HIV. And also in the rare disease category and partnered with AstraZeneca, we recently gained approval for KOSELUGO, which is the first drug ever improved to control the plexiform neurofibromas of neurofibromatosis.

In saying all of this, I'm making one point very clear. Merck has always aspired to be the premier research-intensive biopharmaceutical company in the world. To do that, we deploy the largest and most sophisticated research and development organization in the world devoted to human health, and we're making progress. With each passing day, we put paid to statements made by George W. Merck many years ago, who, at the time of the construction of the first research laboratory at Merck, commented that in those new laboratories with the tools that had been provided, science would advance, knowledge would increase and human health would earn further protection from suffering and disease. Today, we face the COVID-19 pandemic, but you can be confident that Merck Research Laboratories, once again with the tools that have been provided and with the capabilities that we have gained over decades, is doing everything possible to address this pandemic.

I'll return the call to Ken.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Thank you, Roger. Now continuing with the business portion of the meeting, I will ask Ms. Zachary as the secretary of the meeting to report on our quorum and other matters.

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**Jennifer L. Zachary** - Merck & Co., Inc. - Executive VP, General Counsel & Corporate Secretary

Mr. Chairman, proxies have been received totaling 2,126,473,000 votes or 84.2% of the total votes entitled to be cast. This substantially exceeds the majority required for a quorum. This meeting is held pursuant to the notice of annual meeting that we began mailing on April 6, 2020, to all shareholders of record on March 27, 2020.



**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Thank you, Ms. Zachary. In accordance with the resolution of the Board dated March 24, 2020, Michael J. Barbera, a representative of First Coast Results, Inc., is appointed as inspector of election for this meeting and has executed the required oath of office.

The proposals will be presented in the order outlined in the proxy statement. We have 3 management proposals and 2 shareholder proposals. I now declare the polls officially open. All Merck shareholders entitled to vote at this meeting have the ability to do so online. If you are a shareholder entitled to vote and have not yet voted or if you want to change your previously cast vote, you may do so via the website used to access this meeting.

Please remember that if you've already voted by proxy, it is not necessary to vote again. After voting has been completed on all matters on the agenda, we will close the polls and share the preliminary report of the inspector of election. If any shareholder would like to ask a question on a proposal, please submit your question through the web portal and note the proposal number to which it relates. After the voting, we will begin our general question-and-answer period, and we'll respond to your general questions at that time.

The first item of business is the election of directors. The Board's nominees are: Leslie A. Brun, Lead Director of Merck's Board and Chairman and Chief Executive Officer, Sarr Group, LLC; Dr. Thomas R. Cech, Investigator at Howard Hughes Medical Institute and Distinguished Professor at the University of Colorado; Mary Ellen Coe, President, Google Customer Solution, Google Inc.; Pamela J. Craig, former Chief Financial Officer, Accenture plc; Ken Frazier, Chairman, President and Chief Executive Officer of Merck; Thomas H. Glocer, former Chief Executive Officer of Thomson Reuters Corporation; Dr. Risa Lavizzo-Mourey, Penn Integrates Knowledge Professor of

Health Equity and Health Policy at the University of Pennsylvania and President, America of the Robert Wood Johnson Foundation; Dr. Paul B. Rothman, Dean of the Medical Faculty and Vice President for Medicine of Johns Hopkins University and CEO of Johns Hopkins Medicine; Patricia F. Russo, Chairman, Hewlett Packard Enterprise Company; Dr. Christine E. Seidman, Thomas W. Smith Professor of Medicine and Genetics at Harvard Medical School and Director of the Cardiovascular Genetic Center at Brigham and Women's Hospital; Inge G. Thulin, former Chairman, President and Chief Executive Officer of 3M Company; Kathy J. Warden, Chairman, Chief Executive Officer and President of Northrop Grumman Corporation; and Peter C. Wendell, Managing Director of Sierra Ventures for terms expiring in 2021.

I note for the record that no nominations for director has been properly made in advance of this meeting by any shareholder of the company. Are there any questions on this item?

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**Jennifer Mauer**

No, there are no questions.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

We now turn to a proposal to approve by nonbinding advisory vote the compensation of our named executive officers. The Board of Directors recommends a vote for this proposal. Are there any questions on this item?

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**Jennifer Mauer**

No, there are no questions.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

The next item of business is a proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for 2020 as set forth in the proxy statement. The Board of Directors recommends a vote for this proposal. Are there any questions on this item?

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**Jennifer Mauer**

No, there are no questions.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

This brings us to the shareholder proposals. Each shareholder will be given 3 minutes to present their proposal. Shareholders should restrict their comments to the proposal before the meeting. The first shareholder proposal is from Mr. Ken Steiner and concerns shareholders' right to act by written consent. If Ken Steiner, John Cheveddden or representative is on the line, I would now ask the operator to unmute their line to allow them to present their proposal.

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**John Cheveddden**

This is John Cheveddden. Can you hear me okay?

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Yes, I can, sir.

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**John Cheveddden**

Okay. Proposal 4, adopt a new shareholder right to written consent, sponsored by Kenneth Steiner. Shareholders request that the Board of Directors take the steps necessary to permit written consent by shareholders entitled to cast a minimum number of votes that would be necessary to authorize an action at a meeting in which all shareholders entitled to vote thereon were present and voting.

Hundreds of major companies enable shareholder action by written consent. This proposal topic won majority shareholder support at 13 large companies in a single year. This included 67% support at both Allstate and Sprint. This proposal topic also won 63% supported at Cigna in 2019. This proposal topic would have received higher votes than the 63% to 67% at these companies if more shareholders had access to independent proxy voting advice. This proposal topic also won 44% support at the 2018 Merck Annual Meeting. This 44% support was probably majority support from shares that had access to independent proxy voting advice.

Taking action by written consent is a means shareholders can use to raise important matters outside the normal annual meeting cycle, like the election of a new director. At the 2019 Merck Annual Meeting, Mr. Wendell Weeks received the most negative votes, and Mr. Weeks is not standing for election today. The Merck lead director, Mr. Leslie Brun, received the next highest negative votes. The Merck Chairman and CEO, Mr. Ken Frazier was next in negative votes. The next highest negative votes were in regard to Ms. Patricia Russo, who with her 25 years' long tenure could be challenged to act independently. Plus Ms. Russo was on 2 important board committees. Ms. Russo has 10 years more tenure than the departing Mr. Weeks. A shareholder right to act by written consent could be an incentive for better performance by our highest-ranking directors.

The right for written consent is gaining acceptance as more important rights than the right to call a special meeting. This also seems to be the conclusion of Intel Corporation shareholder vote at the 2019 Intel annual meeting. The directors at Intel apparently thought they could divert shareholder attention away from written consent by making it less difficult for shareholders to call a special shareholder meeting. However, Intel shareholders responded with greater support for written consent in 2019 compared to 2018.

The Bank of New York Mellon Corporation said it adopted written consent in 2019 following a 45% vote for written -- for a written consent shareholder proposal. Written consent won 44% support at Capital One Financial Corporation in 2018. And this increased to 56% support in 2019. Written consent won 47% support United Rentals in 2018. And this increased to 51% support in 2019.



Please vote yes, adopt a new shareholder right, written consent, proposal 4.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Thank you, Mr. Chevedden. The Board has carefully considered the shareholder proposal concerning shareholder right to act by written consent and believes adopting such a proposal was not necessary in light of our current governance structures. Specifically, the shareholder protections and strong corporate governance practices we already have in place protect the interest of all shareholders in a fair and balanced manner.

Our bylaws allow holders of as little as 15% of the company's stock to call a special shareholder meeting. In addition, Merck shareholders have a proxy access right permitting a group of as many as 20 shareholders, who have held at least 3% of the outstanding shares for at least 3 years, to nominate individuals representing up to 20% of the Board. Actions taken by written consent could deprive shareholders of the critical opportunities to receive notice, assess, discuss and vote on the merits of proposed actions.

Requiring as we do, that all shareholder acts should be taken at an annual or special meeting to which all shareholders are invited ensures that all shareholders have a voice in critical matters. It also ensures that all shareholders have a meaningful and structured opportunity to exchange views with the Board before acting. For more information regarding the Board's position on this proposal, please see the Board's full statement and opposition, which is available on Page 80 of the company's proxy statement.

The Board of Directors recommends a vote against this proposal. Are there any questions on this item?

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**Jennifer Mauer**

No, there are no questions.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

The last shareholder proposal is from Oxfam America, Inc. and concerns the allocation of corporate tax savings. If Mr. Nicholas Lusiani or a representative for Oxfam America, Inc. is on the line, I would now ask the operator to unmute their line to allow them to present this proposal.

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**Nicholas Lusiani**

Mr. Frazier, members of the Board, fellow shareholders, good morning. I'm happy to move proposal 5, which requests Merck to issue a report describing how the company plans to allocate tax savings that result from the Tax Cuts and Jobs Act, or TCJA.

The TCJA signed into law in December 2017 reduced the statutory corporate tax rate from 35% to 21% and transformed many of the provisions guiding how companies such as Merck pay taxes on money earned abroad. As a major beneficiary, Merck in 2018 received an estimated \$1.2 billion in tax savings from 2 provisions of the act and an estimated \$7 billion in tax cuts through 2025. No matter one's view on the desirability or the need of these tax cuts, once in play, this new after-tax cash flow represents a rare opportunity to strengthen reputation and long-term value creation by, amongst other things, rethinking risky pricing strategies and increasing R&D to solve some of the world's current and future health problems.

What is Merck's strategy to deploy this previously public money? And how will it lead to long-term value creation? On the whole, investors remain in the dark with more questions than answers. Some indications do, however, point to concerns that Merck's current strategy may be pursuing short-term ends at the expense of longer-term objectives. A JUST Capital study reported that Merck allocated 81% of its tax cuts to shareholders. During the tax reform's first full year, Merck more than doubled share repurchases from \$4 billion to \$9 billion. While buybacks have dropped in 2019, Merck's combined buybacks and dividends were more than 100% of net income last year. These have surely boosted short-term EPS, but at what price to long-term value? The amount Merck spends on R&D has steadily declined since the Tax Cuts and Jobs Act, \$1.1 billion less in 2019 than it was in 2017. This is a potentially very costly disinvestment from the new pipeline of medicines essential to long-term value.

As Americans suffer from the COVID public health and economic crisis, Merck's drug prices continue to rise, exposing the company to reputational and regulatory risks. Long-term investors are left scratching their heads as to whether the company's capital allocation strategy values reinvestment or quick shareholder return. Every day during this pandemic, our tax dollars put health care providers to work saving lives. Tax savings may boost short-term earnings. But they're steep opportunity costs of doing so, especially in an economic crisis like we face. It behooves us as investors and its citizens to understand carefully the costs and benefits of tax minimization. Larry Fink, CEO of BlackRock, wrote in a recent letter that, "Companies should explain to investors how the significant changes to tax law fit into their long-term strategy."

Our proposal asks Merck to do exactly that. And we urge shareholders to support item 5. Thank you.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Thank you, Mr. Lusiani. The Board has carefully considered the shareholder proposal regarding allocation of corporate tax savings and recommend you vote against it. The subject matter underlying the proposal's request for a report relates to the company's capital allocation decision.

Our decisions around capital allocation are made carefully and purposely by the company's management and our Board and require deep knowledge of the company's business and operations. Such decisions are fundamental to our ordinary course operations and the proposed report would be unduly burdensome without providing meaningful additional information to shareholders. Our Board believes that preparing and releasing a report of this type requested in the proposal would require substantial time and expense without significant benefit to our shareholders or stakeholders as a whole.

Each year, we issue a corporate responsibility report that speaks to the health, economic, social and environmental impact that we have on individuals and communities around the world and our efforts to build a responsible and sustainable business. We hold ourselves accountable to our many stakeholders, including patients, employees, customers and shareholders, whose perspectives help to define our corporate responsibility priorities. Aligning our reporting with widely accepted standards and framework enables us to report more robustly and comprehensively in a way that is responsible to all of our stakeholders, not just a subset.

For more information regarding the Board's position on this proposal, please see the Board's full statement in opposition, which is available on Page 82 of the company's proxy statement. And before I point out that the Board of Directors recommends a vote against this proposal, I would just correct, for the record, that our research budget has not declined. We remain fully committed to research. So the Board of Directors recommends a vote against this proposal. Are there any questions on this item?

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**Jennifer Mauer**

No, there are no questions.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Okay. Since this completes the proposal, if you have not yet voted, please do so now.

(Voting)

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

I declare the polls officially closed. Now we turn to the general question-and-answer portion of our meeting. We have already received a number of written questions, and I will respond to some of them. Given the time limitations, I apologize I won't be able to respond to all of them. I will also be pleased to answer some questions if we have time from the phone, but I think that will be challenging, given the number of questions you've already sent in, in writing. (Operator Instructions) All right. I'll take the first question.



## QUESTIONS AND ANSWERS

**Jennifer Mauer**

The first question, what is Merck doing to respond to the COVID-19 pandemic?

**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

I believe we've already answered that question within the prepared remarks. However, I would reiterate a few key points. First, we've been working on multiple fronts to understand the new coronavirus and to formulate the best approaches for both treatment and vaccination, including the 3 programs we announced earlier today and the research collaboration Roger discussed with the Institute for Systems Biology. Second, we know that success will require a global collaboration among countries and companies, and we are very much involved in those collaborations. Finally, I want to say that Merck has a long track record of making our vaccines and medicines accessible and affordable globally, including most recently, our Ebola virus vaccine. And we intend to do the same for any medicines or vaccines we develop for SARS-CoV-2.

**Jennifer Mauer**

Second question, how quickly will we be able to produce a vaccine and how quickly can we scale up to make hundreds of millions or billions of doses?

**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

So very good question. Let me start by pointing out that production of the first human doses of the measles vaccine has already begun in France. We expect to begin immunizing healthy volunteers soon in a matter of weeks. Thereafter, much depends upon the yield of the vaccine from each production cycle as well as the actual dose that's going to be required. All that being said, we expect to support large clinical trials that could begin in the early fall. With respect to our VSV vaccine, we're beginning production soon at our plant in Pennsylvania. Again, the time required to produce large amounts will depend on how efficiently the vaccine can be made and the dose required, and we will provide further information as those programs progress.

**Jennifer Mauer**

What measures will the company enact to revise supply chains and return essential API production to the U.S.A.?

**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Again, another good question. The primary goal of the company's supply chain design is to ensure continuous supply of its medicines for human and animal patients in every geography it operates in. Our supply chain design includes a robust set of policies, which ensure durability, efficiency and affordability. These policies include mechanisms like redundant capacity, alternate sources of supply, well-thought-through inventory positions and technical and human resource capabilities. These policies are working and protect the company's supply chain from disruptions in any geography. In fact, the company's supply performance has been the highest on record during the entire course of the current pandemic. The company is not overdependent on any one geography for its supply chain. We continue to evaluate all opportunities to strengthen our supply chain as the effects of the pandemic on global trade become more apparent.

**Jennifer Mauer**

Tell us about Merck's move to Rahway, New Jersey.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

We have announced our intention to consolidate our New Jersey campuses into a single New Jersey headquarters located in Rahway. Our new headquarters will bring all our divisions and their leadership teams together in one setting, creating a more integrated and modern environment centered around the science and invention that drive our mission to save and improve lives. Of course, all of this will be contingent upon returning to a state of normalcy in terms of headquarters-type operations.

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**Jennifer Mauer**

What is Merck's approach to Board refreshment?

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Our Board has long believed in the business value of having diverse perspectives in the boardroom and is committed to having a right mix of perspective, skills and expertise to address both Merck's current needs as well as anticipated needs as opportunities and challenges the company faces evolve. The commitment is evident in our Board's new director elections and nominations this year. We are thrilled that Kathy Warden and Christine Seidman joined our Board in March and that we nominated Risa Lavizzo-Mourey for election as a director at this meeting. Each of these women brings unique experience, skills and perspective to our Board.

I think with that, we probably run out of time for Q&A. So I would thank you very much for attending Merck's 2020 meeting. And right now, I think we need to proceed to the final report of the inspector of election, which will not be available today. We do, however, have a preliminary report, which I'd now ask Ms. Zachary to read.

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**Jennifer L. Zachary** - Merck & Co., Inc. - Executive VP, General Counsel & Corporate Secretary

Mr. Chairman, the inspector of election has determined in his preliminary report that each of the 13 directors nominated by the Board has been elected by a majority of the votes cast and the Audit Committee's request for ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm has been approved. In addition, shareholders approved by a nonbinding advisory vote the 2019 compensation of our named executive officers. The proposal received an affirmative vote of 91.5% of the votes cast.

The inspector has also determined that the shareholder proposal concerning shareholders' right to act by written consent received an affirmative vote of 41.8% of the total votes cast. And the shareholder proposal regarding the allocation of corporate tax savings has received an affirmative vote of 3.2% of the total votes cast. A majority of the votes cast was required for each of the proposals to be approved.

The final results will be available on Friday on the company's toll-free telephone number, 1 (800) 225-5675, and also on the company's website, [www.merck.com](http://www.merck.com), under the Investors tab, along with an archived recording of this meeting. We also intend to disclose the final results on Form 8-K within 4 business days of this meeting. Thank you.

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**Kenneth C. Frazier** - Merck & Co., Inc. - Chairman, President & CEO

Thank you, Ms. Zachary, for that report. The business of this meeting has now been completed, and I want to thank you all very much for attending Merck's 2020 Annual Meeting of Shareholders, and we look forward to seeing you hopefully in person next year. Be safe, be happy, be well. Bye-bye.

**Operator**

This now concludes the meeting. Thank you for joining, and have a pleasant day.

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