Good afternoon, everybody. I'm Chris Schott from JPMorgan. And I'm pleased today to be hosting a fireside chat with Merck management. We can't be in person at the Westin, but we've tried to recreate the best of that here at JPMorgan.

But from Merck, we have Ken Frazier, the company's Chairman and CEO; as well as Rob Davis, the company's CFO; and Dean Li, who is newly appointed President of Merck Research Labs. So thanks, everyone, for joining us today.

So Ken, maybe just a question to open up with. Obviously, 2020 was an extraordinary year for everybody. But as we turn the page to 2021, can you just kick off with some opening comments in terms of key priorities for Merck as we enter the year? And just how you're thinking about the business for the year?

Okay. Chris, first of all, thanks for having us. And it's great to be in the same room with you, so that we're not doing this totally virtually, although my colleagues are virtual.

As we came out of 2020, I think the good news is that our business was really showing strong momentum coming out of 2020. So our #1 objective in 2021 is to continue that momentum, particularly with our key growth drivers, with KEYTRUDA, with LENVIMA, LYNPARZA, BRIDION, Animal Health. We continue to see the demand for these products continue to be strong. Obviously, we have had issues with respect to patient access that has affected GARDASIL. But then again, we continue to see GARDASIL having long-term growth based on clinical benefits that we're able to show with respect to GARDASIL.

The good news for us is, as we look at that portfolio and what's coming behind it, we feel that our revenue growth prospects still remain underappreciated between now and 2024. We're also increasingly having a better line of sight to what's coming through our pipeline, both before the KEYTRUDA LOE and after the KEYTRUDA LOE. So we continue to feel good about that. We have the firepower to do business development. And we realize that, particularly given the concerns that people have over the KEYTRUDA loss of exclusivity, it's really important to complement the work that's been done internally with the best external science, and we intend to do that. We intend to continue to focus on the kind of financial and operating leverage that we wanted to have going forward. And then lastly, I would say, it's important for us to actually consummate the spin of Organon, which we intend to do by midyear.
Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Can you -- you address it a little bit, but on the issue of diversification of the portfolio, the company has obviously had tremendous success with KEYTRUDA. But it's almost like that's, for some investors, I think, emerged as an overhang in the story as we think about the late decade LOE. And I guess, how do you think about diversifying the portfolio to a point where that KEYTRUDA overhang becomes less of an issue on the story? And I think that some -- I think most investors would agree, I think that would lead to...

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

It would be a good thing. It would be a good thing...

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Yes. So how are you addressing that issue?

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

So from an execution standpoint, of course, what we want to do is to continue to make KEYTRUDA bigger and bigger, which makes the problem more of a (inaudible). Okay? But at the same time, we want to continue to look for opportunities to diversify the portfolio. We understand the concerns that exist around KEYTRUDA. Although I will tell you, I believe as we look at the LOE for KEYTRUDA, we see it as not as big an issue as I think some investors may see it.

It is a big issue because the product is big. But as we continue to think about co-formulations and combinations, other routes of administration for KEYTRUDA, we see the opportunity to add benefit to patients that's above what we can do with the current formulation of KEYTRUDA, which should also provide a longer patent life at the same time.

But having said that, we do need to continue to focus on getting the best external science we can, both in oncology and outside oncology to diversify our portfolio, and we're going to continue to focus on that. On our one-on-ones, almost everyone, people said, you say that, but why haven't you done the deal?

And the answer to that is, it isn't because we have failed to look at all the opportunities, to consider all the opportunities, but as you know, you sit here with lots of the pharmaceutical companies, they are all struggling with the same issue. And oftentimes, for us, the issue comes down to whether we can acquire an asset at a price where we believe we can create value for our shareholders. So we're not complacent, but we're not desperate.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

So it sounds like, I think, about this, there's maybe some tail to that KEYTRUDA asset, there's internal R&D and then there's biz dev, and we'll kind of stay tuned as -- on the biz dev side as you...

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

Well, last year, we did 120 business development transactions. I think what people are saying is we'd like to see you do something bigger and later-stage. And for us, as we think about the problem, if you look at some of the deals that have been done in the past year or so, they -- some of them have gone from very, very large prices. I'm thinking about the ADCs, for example. And so for us, it's how can we find the right kinds of assets that will give us continued growth post the LOE, but in a way that creates value?
Okay. That makes sense. One other kind of bigger picture question. Can you just talk about the leadership transition that's underway in the R&D organization? And then maybe give us an update on the CEO succession planning as -- in terms of what we should think about in terms of communication around that?

Well, I'll start with the MRL side, which was that, that was a carefully orchestrated and planned transition. It's one that Roger and Dean worked together on for over 3 years to make sure that Dean had the opportunity to have hands-on experience in key areas of R&D. And so we're looking forward to Dean's leadership in MRL, and confident that he'll continue to move the company forward with both respect to what's in the pipeline now, and importantly, what is the new science, what is the new technology that a company like Merck needs to be sustainable long term?

On the CEO side of things, our Board continues to take that very seriously, and they are focused on it. I will say that we have good internal candidates. I'm confident that the Board agrees with me that we have good internal candidates. And I think the Board will make a decision about what's the right time for that kind of transition. And when they do, I think we will have the right leader going forward.

Great. Maybe just to bring Rob and Dean into the conversation. Rob, as we think about the top line and kind of earnings profile for 2021, can you just talk through some of the pushes and pulls that we should be keeping in mind for Merck's business this year?

As you look at the pushes and pulls for '21, as I said, as you think about the key growth pillars, we do expect to see all of those grow as we look into 2021. Obviously, the pandemic has had an impact, while we saw the biggest impact in the second quarter of 2020, and you did see a recovery into the third quarter, as we indicated on the third quarter call and as you see, just watching what's happening around us. While we are seeing a return to normalcy, we're not there yet. The wellness business continue to be tracking below historical levels that likely will continue into '21. And the area where you'll see biggest impact to that will be, as Ken highlighted, likely within GARDASIL and within products like MMR.

Maybe a few other points just to highlight. Obviously, Pneumovax has been -- has done very well in 2020, in part, given what's happened with the COVID virus. People are seeking vaccinations to fight against other forms of pneumonia, in this case, pneumococcal pneumonia. But as we look at '21, we are capacity constrained with that product, and therefore, you won't likely see growth as we see that going forward. So as you think about the revenue areas, those are some big things maybe to highlight.

And then just 2 other quick points that are worth mentioning, and we can go further if you'd like to. But obviously, we have benefited, within 2020, pretty meaningfully from our positions in equities of other companies, most notably Moderna, as a big benefit to us as that has seen a rise in value. We did exit our direct holdings at the beginning of the fourth quarter. So you will see a small gain in the fourth quarter. But obviously, that will be behind us as we look into next year. And then as you do, though, look at next year, we still do have an indirect position, and that's always marked on a 1 quarter lag. So actually, the benefit of the fourth quarter will actually be in the first quarter is when it will be recognized. And then as you
know, we did take a position of about 5 million shares at roughly a $200 price in Seagen during the quarter, that will be mark-to-market in the fourth quarter, and then obviously, will carry into next year. So those are something else just to highlight.

And then the last thing, obviously, we’ve benefited from reduced spend around COVID-19. And some of that we do see as permanent going forward. But as you look at the R&D line, in particular, there is going to be some of the spend that didn’t happen in ’20 will happen in ’21, on top of the fact that you have the COVID programs, the 2 vaccine programs and the antiviral programs, which will happen. And to the extent that those are investments in ’21, that could push the inflection point we had expected with R&D as a percentage of sales potentially out beyond ’21. We’re going to have to see how those programs evolve to understand what that is. But maybe that gives you a sense of some of the box cars we’re seeing as we look into the headwinds, tailwinds for next year -- or for this year.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

That’s very helpful. Can you just elaborate a little bit more? It seems like GARDASIL is one of the businesses that has the most kind of durable kind of impact from COVID thus far. What’s it going to take to normalize that business? So is that something as we think through ’21, assuming vaccinations go well and we get the pandemic under control, that you’d expect is a fairly quick rebound? Or is this kind of a longer-term process to rebuild that?

Robert M. Davis - Merck & Co., Inc. - Executive VP of Global Services & CFO

Yes. So maybe I’d start with, are we seeing anything other than the impact of the pandemic and the underlying fundamentals of the business? And importantly, the answer to that is no. If anything, there’s growing confidence and enthusiasm around GARDASIL as an anticancer vaccine. You saw that most recently coming -- we announced in the third quarter or made people aware of the data coming out of Sweden, which is a retrospective study, looking at the ability to truly end cervical cancer, if you really can get to universal vaccination. So as you look at it, whether it’s continued strong growth in China, which we continue to expect, it’s a growth driver, and we are a leader of what’s driving us in China, whether it’s gender-neutral vaccinations continuing to gain momentum in Europe, or it’s the broader world of looking at as a cancer vaccine, we expect the fundamentals to be strong. So this truly is related to just the impact on wellness visits.

And as you look at ’21, we do expect given the pace of the way things are going, that you will, as we get towards back-to-school next year, since this was largely in the adolescent population where we saw GARDASIL impacted by the reduced wellness visits, you would expect to see that return to normal as we get into ’21. And in fact, we do think there’s potentially an opportunity for some catch-up of some of the cohorts that were missed in 2020. So I think -- and you’ll see it as a fairly fast recovery once we can get through the pandemic.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Great. And then just a question on margins. I think you mentioned that the R&D spend might be a little bit of upward pressure on that kind of line item. But as we think about the longer-term profile, we’ve got roughly about $15 billion KEYTRUDA franchise. It seems like this is still a reasonably long runway ahead of that. How do you think about taking that -- the profit that, that franchise throws off? And how much of it drops the bottom line in terms of margin expansion versus how much of that goes into some of these R&D efforts and longer-term growth drivers you think about?

Robert M. Davis - Merck & Co., Inc. - Executive VP of Global Services & CFO

Yes. I don’t know if Ken wants to take that or you want me to jump in on that. Maybe he can...

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

Well, you can go ahead, Rob.
Robert M. Davis - Merck & Co., Inc. - Executive VP of Global Services & CFO

So if you look at it, overall, I would just start with, we continue to be very confident in our ability to drive long-term margin expansion and/or continue to be on track to deliver a margin of greater than 40% by 2024. And if you look through 2019, we added about 100 points to margin operating margin. If you look through the -- based on the guidance we have given in the third quarter for 2020, we would add somewhere between 150 to 200 basis points. So we have been driving margin year-on-year, and I do think you are going to continue to see margin growth.

Obviously, the one thing that I've tried to give some indication to is we had expected that inflection point in R&D in '21, that might get pushed out. But that's not changing the fact that across SG&A, we're still seeing continued improvement as a percentage of sales and the long-term ability to drive that mix benefit is definitely there. So margin growth is something that is -- we feel strongly about, and then the Organon spend is only going to accelerate it by the fact that it's going to add $1.5 billion of incremental margin improvement that we wouldn't have otherwise had. So as you look at all of those elements, we're very confident that you're going to see a very strong margin growth, which implies a big part of what KEYTRUDA is delivering will flow to the bottom line, which allows us not only to fund the R&D we have, but deliver that kind of margin expansion I'm talking about.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Great. And Dean, I know this is your first JPMorgan conference as the President of Merck Research Labs, so would love to hear your view in terms of the state of Merck's pipeline at this point. So I guess, what are you most excited about as we think about the mid- to late-stage pipeline? And what do you see is the greatest kind of challenges to the organization as you step into the new role?

Dean Y. Li - Merck & Co., Inc. - President of Merck Research Laboratories

So first of all, thank you so much for having me. I would say, also emphasize what Ken said, the transition between Roger and myself has been choreographed for some time. As you rightly point out, we are seeking to make KEYTRUDA and that mid- to late-stage pipeline as big as we possibly can. And then we also intend to use that as a leveraging point to think about 2028, 2030 and beyond. And what's exciting to me is that we have some line of sight to growth drivers and the strategy around that. So essentially, let me break it down to cancer, let me break it down to non-cancer.

So we are leveraging KEYTRUDA to expand our footprint in I-O, immuno-oncology, but also in oncology. We're crossing lots of lines of treatment from late stage and increasingly, to earlier stage, and that will be an important point a little bit later on, and across solid and increasingly liquid tumors. And if you look at our internal pipeline and external pipeline, one can sort of divide it a little bit. We have a rich internal pipeline with over 25 mechanisms in the clinic, but I would say that we really emphasized immune modulatory mechanisms in our internal pipeline. And many of those products are coming out as co-formulated and are advancing in Phase III this year: TIGIT, LAG-3, CTLA-4. There are other ones that you're beginning to see line of sight to or beginning to see, which is ILT4 and other family members similar to that. So that's the internal -- rich internal pipeline that we're advancing.

I would say that we also focused our business development in what I would call tumor-killing mechanisms. This is a company that did pembrolizumab, KEYNOTE-189, we recognize that pembrolizumab, when you have tumor-killing, oftentimes works extremely well. And we're building upon our success in those -- in partnerships with AZ and Eisai. And so we're very excited to advance the Seagen LIV-1 ADC, the Velos ROR1 ADC and also internal ADCs as well. I should also emphasize that Velos gives us a possibility of ADCs, both in solid, but clearly in hematologic malignancies. We also have ArQule, which is a noncovalent BTK inhibitor that we're very bullish about and we're advancing. So ROR1 ADC and the ArQule is advancing into hematologic malignancies. And then increasingly, we're getting back into what I would call the nodal oncogene sort of pathways, which is Peloton. And we have a potential filing in 2021.

In relationship to how do we improve the impact of KEYTRUDA, we can simplify the access for patients through dosing and route of administration. And we can augment the impact of KEYTRUDA, as I said, with these other mechanisms and co-formulation. And you see the execution of that, right? There's Q6-week infusion. That has been very important, especially in the age of COVID, that was approved and has become very important. Subcu KEYTRUDA is going to the clinic. The multiple Phase III programs with fixed-dose, co-formulated combination, those are infusions, but one can also think of other route of administration.
Now moving outside of cancer to non-cancer, we have a number of assets that are moving forward. But the critical issue for us is to develop foundational medicines that we can build in a similar way that one thinks about a KEYTRUDA. And we think islatravir has that potential in HIV to be a foundation for both treatment and for craft. It has very favorable attributes in terms of PK and resistance profile, and especially for treatment. It will be important of how well it combines with other agents, and we think it will work very well in combination.

I should also just quickly mention pneumococcal vaccines. We have a suite -- we're coming in with a suite of vaccines. We have V114 that was submitted for adults, and I should probably let everyone know that we've -- FDA accepted it and has granted a priority review with a PDUFA date of July 18. And we should also have readouts for V114 for Phase III, the V116 and V117. So those are the sort of drivers in the mid- to sort of what I would call late pipeline.

In relationship to the greatest challenges, I would just simply say the greatest opportunity is we must expand what we can do. We are a traditional platform company that was small molecules and vaccines. We have increasingly become a biologics, and we have to accelerate what we do in bispecifics, protein engineering and bioconjugates and ADCs. And we must exploit what we uniquely know.

We have asymmetric data advantage derived from incredible human biology experiments done at scale. And I would say, some of the compounds that are coming in, especially in the cancer, are beginning to have that flavor to it. I would say the ILT family of transmembrane receptors and similar transmembrane receptors will be coming. So those will be important for us to watch, and we need to do it with urgency, right?

Advances in technologies related to modalities, related to data are altering cycle times, and one sees it in the vaccines. And so we need to address our greatest challenge, which is to deepen and expand our impact in cancer and extend that impact, and we need to diversify outside of oncology and vaccines.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Right. On that point of, I guess, modalities, you mentioned bispecifics. It seems like with all the technology playing out now, whether it’s gene therapy, cell therapy, how does Merck stay on top of that? Is that something we should be thinking about there’s internal opportunities to do that? Or is that largely going to be accessed through external business development?

Dean Y. Li - Merck & Co., Inc. - President of Merck Research Laboratories

I think you have to do it both. So for example, in our biologics enterprise, I mean part of the reason that Roger put me in Discovery is to accelerate those changes internally. But I think it’s important to do it both internally and externally. So in the biologics enterprise, we have new leadership and relationship to that. But at the same time, as we build bispecifics, as we build ADCs internally, we should also use the external environment to do the same. And we’ve done that with Sutra with protein engineering, with Dragonfly with bispecifics, and also the acquisition of Velos. So I think you have to do it both internally through your own programs and through bringing in new talent, but you also need to combine that with external opportunities that can really accelerate to not just from a discovery standpoint, but also from a late development standpoint as well.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Great. Maybe Ken, just as I said on the topic of business development, I think there’s been this question of later larger deals and how that fits in the portfolio. Just -- maybe just broadly speak to the environment for biz dev right now. So it seems like on one hand, we’ve had this kind of a wave of innovation across the sector, on the other hand, we’ve got very high valuations for a lot of the small and mid-cap assets. How are you balancing those 2? And how realistic is it that we could see the company maybe look more towards those like later stage or larger acquisitions as we think about ’21 or beyond?
Kenneth C. Frazier - Merck & Co., Inc. - Chairman, President & CEO

Well, first of all, philosophically, we don’t really think about size as the most important aspect of what we’re trying to do from a business development standpoint. Recognizing, however, that given the KEYTRUDA LOE, people will say, well, you need something that will move the needle, so all things considered, a good asset that has size and can grow and provide us with growth beyond the LOE would be ideal. The challenge is the one that you just identified.

Right now, biotech’s at an all-time high, all kinds -- a huge amount of money is going into that sector like other risk assets. And the fact of the matter is, if you’re going to try to acquire those assets right now, you’re going to pay a very steep price and then a premium on top of it. And on top of that, any time somebody is going after something, it turns into a bidding war. So what I would say is that we’ll continue to look for opportunities in that area. And if we see something that the scientists really want, we’ll pay aggressively for it. I just -- we’re happy to pay aggressively for something that the scientists want. We’ve actually approached a couple of opportunities in the last year, so they didn’t work out because the seller ultimately decided not to sell, and that’s a challenge. But we will go after sizable assets as long as we can get them at a reasonable price.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

And I guess, just I think what the balance sheet over time and capital deployment, to the extent that those opportunities don’t present themselves in the near term, you’ve got a very clean balance sheet, some would say, very conservative or maybe too conservative of balance sheet, how do we think about cash deployment? So will you build cash on the balance sheet over time in anticipation that...

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

That’s not my goal. My goal is to use this opportunity that we have with a once-in-a-lifetime asset like KEYTRUDA to build the future of the company, right? That’s the best use of the cash, is to find those opportunities to invest in external science that will drive our long-term growth. If we can’t do that, then we’ll have to find ways of providing that cash back to shareholders, and that’s where Rob and I work together to figure out the best means to do that. But just to be very clear, this is an opportunity for us to build future growth, right? I mean you’re trying to balance having a good balance sheet, but the most important thing in this business is innovation.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay. And is the -- I think there’s probably a lot of range of assets you can look at, but is -- for those larger deals, is the most logical area to think oncology and try to better leverage the unique position you have with KEYTRUDA? Or could this really come in any vertical that the company has present in?

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

I think it could come in anything. Obviously, KEYTRUDA gives us an opportunity to build on to KEYTRUDA. So I have to say oncology probably has a slight preference, but not a very strong preference. I think the history of Merck has been that we haven’t tried to decide prospectively what areas we want to be in. We want to find the best opportunities. A few years ago, we weren’t in oncology to speak of at all. So when I look around, I think, Dean looks at areas like immunology. Look, there’s a huge opportunity set in neuroscience. So we will look at all those areas.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay. Great. Can I just pivot a little bit, just you mentioned Organon as one of your priorities for the year. It does seem like that spin is becoming a focal point for investors, again, as we get ready for the separation. So just a starting point, can you just remind us of the strategic logic that led to that decision? And how do you think about the growth opportunities for the 2 businesses independently relative to what can be done within Merck today?
Kenneth C. Frazier - Merck & Co., Inc. - Chairman, President & CEO

so I think Merck has been successful over the past number of years, because it’s focused on its greatest opportunities for growth. A few years ago, when we came out, we announced these growth drivers, these pillars, so to speak. I don’t think people saw the potential in them. But we looked at KEYTRUDA, we invested a lot of money early in KEYTRUDA across all these indications. And I think we’ve been very successful, for example, the same with GARDASIL and the vaccines, same with hospitals, especially, we’ve invested in Animal Health.

What we said to the company from an operational standpoint is we want you to focus on the growth drivers, and we want you to optimize everything else. Well, the growth drivers keep growing at such a point that the amount of financial and human resources that are being devoted to the growth over there puts us in a situation where we started to say, well, we’re really sub-optimizing the rest of the portfolio. And remember, Merck has more than 160 products. So if you’re running a country, let’s say you’re running France for Merck, we’re saying to the folks in France, we want you to take advantage of these opportunities and get all these indications for KEYTRUDA and LYNPARZA and LENVIMA. But by the way, at night, figure out what you’re going to do with everything else.

Well, that may sound like it makes sense on the outside, but people can’t do everything. When you tell people to do everything, they do everything poorly. If you tell them to focus on certain things, they can do an excellent job. So as time went by, we looked at that and we realized that we were not getting the benefit of all of those products. We’re not getting them as many patients as we wanted. We’re not driving the kind of growth. So we said, if we could split these things apart, we’re going to have 2 strong organizations that are focused on their respective strengths.

Merck is focused on R&D and bringing forward new products. We’ve never been as focused on what I would call commercial innovation. And I think if you look at this new organization at Organon, they’ll be much more focused on that, they’ll be much more focused on areas like women’s health. So there have been opportunities in business development in women’s health. We just haven’t been able to find the capital to invest in that area. So we felt like we were disadvantaged owner of our fertility business, for example, because it was never going to compete with KEYTRUDA for asset.

You spit it out, you give them their own opportunity, their own leadership, their own -- and by the way, we’re giving them, from the standpoint of resources, we’re not exploiting that business. It’s going to be a good business standing on its own. We think they can actually drive growth, and the shareholders will get the benefit of growth on both our side and on their side. The bottom line is, the strategic focus is focus.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay. That makes sense. And then just remind us on the financial impact, and maybe a question for Rob, that we should think about for remainco. And just any color in terms of how we should be thinking about potential dilution from this transaction. I know you’re going to have kind of 2 separate companies, but I think it’s been a question I’ve been getting more and more from investors, just your latest thoughts on how you’re thinking, how you’re approaching that.

Robert M. Davis - Merck & Co., Inc. - Executive VP of Global Services & CFO

Yes. So -- and we’ve really given no updated guidance from what we gave when we announced the fourth quarter earnings last February. But if you go back to that, what we had indicated is that as we look at this business, the stand-up cost, if you look at that time, the operating margin of what would amount to the Organon business within, worth was about 45%. And as a stand-alone company, we see it as about 35%, implying off a revenue base of somewhere between $6 billion to $6.5 billion. Basically, $600 million to $650 million of dis-synergy costs through the stand up.

So from an operating margin perspective, when you look at that, would be dilutive to our margins at the outset. But because we’re able to get $1.5 billion of operational efficiencies, $500 million in the first 12 months, post another $500 million at 24 and another at 36, by the time you get out 12 to 24 months, this turns to be actually margin accretive because, obviously, at 24 months you’re at $1 billion of savings versus the dis-synergy that’s held constant at around $650 million and then a $1.5 billion that even grows further. So it is, over time, accretive from a margin perspective, because it unleashes the ability to go after the $1.5 billion. And then from a value creation perspective, because we believe Organon as a focused
stand-alone business, with management focused on their opportunities, capital investments focused on their opportunities, they will be able to
grow faster, as Ken highlighted, and that growth at an accelerated rate versus what they would have been internally also will mean that they will
generate incremental cash flow. So we'll have incremental cash flow relative to us as a combined company, they will have incremental cash flow,
and that's also why we think it's value accretive at long-term as well. I don't know if that's getting at your question, but those are kind of 2 aspects
in the way I'm thinking.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Yes. That's helpful. And then one other question we're getting, I don't know if there's a clean answer yet, but the dividends you're getting from
Organon as part of the spin, should we think about Merck using that for share repo to offset some of the dilution that would be with the initial part
of the deal? Or is that still to be determined what you'll use that cash that comes in with the transaction?

Robert M. Davis - Merck & Co., Inc. - Executive VP of Global Services & CFO

So as we said in February, our goal is to deploy that dividend, which we had indicated in the $8 billion to $9 billion range at that time, for either
business development or share repurchase. What we were very clear that we will not do is we're not looking to pay down debt, we're not looking
to drive up our credit rating.

As Ken said, our priority as a company continues to be business development. And if we can find value-creating business development, that's the
best way to create long-term value. That would be our goal. But we also are cognizant of the dilution. And if there's an opportunity to offset some
of that through share repurchase, we're looking at both. And how that mix works out will depend on the opportunities we see as we get closer to
midyear of '21.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay. Great. Just in the last few minutes here, I wanted to ask Dean a few questions on the R&D side and then maybe wrap up with a bigger picture
policy question. But Dean, one question I have is on TIGIT, it seems like we've talked a lot about I-O combinations over time. And things -- some
things have worked, a lot of things have failed. Just your level of excitement around that asset and where you see TIGIT kind of fitting in the broader
kind of I-O landscape in combination with KEYTRUDA. I'm just trying to get a sense of the level of enthusiasm for that approach versus the various
other approaches that the company has looked at in the past.

Dean Y. Li - Merck & Co., Inc. - President of Merck Research Laboratories

Yes. So the combination of I-O and I-O is an important combination. The question is, can you elevate what pembro does by adding another I-O
agent? And we have multiple programs. And the readout that we got from TIGIT is actually very positive. But I also want to sort of frame that in the
fact that it is not clear to me that any of the other I-O agents is as broad as pembro. And so you may get in a situation where you're going to need
pembro and TIGIT for certain indications. And you need to drive it not broadly in every possibility, but in the places where your clinical data and
your biomarkers and tell you to do the same.

And that's true, whether it's LAG-3 or CTLA-4. So I don't want to give an impression that we are -- number one, we are bullish on advancing TIGIT;
but I also want to emphasize that we're bullish on the other pathways as well. But the critical thing is, where do you put those combinations? That
to me is the critical piece of information. And so that's how I see us going forward, and we're going to advance 2 or 3 of those in Phase III, those
agents. And it's not like I love one more than the other. It's in the indication that it has to go into.
Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Great. And on TIGIT in particular, will we get more clarity in ’21 in terms of that specific role? Or is this something we really have to watch for the Phase III program to really fully understand the place that’s going to play in the market?

Dean Y. Li - Merck & Co., Inc. - President of Merck Research Laboratories

I think your -- the fundamental thing is we're going to have to see what happens in Phase III whoever advances these other I-O, I-O combinations. I mean we just had a readout before the end of the year in relationship to pembro and epi. And that changes how we think, for example, where we should deploy CTLA-4. If we are bullish on CTLA-4, but it changes, where we navigate that. And so -- at least for me, the data is -- it's not just our data. It's data of other -- the information around TIGIT is promising. But I don't want to give a sense that it's a one-size-fits-all in every indication.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Fair enough, fair enough. Maybe just a last question, just over to Ken, on just maybe a more public policy question. I guess kind of this broader drug pricing debate that seems like it's been going on for years now. I guess what does Democrat control in Washington mean for Merck and the pharma industry more broadly?

So it seems like this issue of patient affordability is one that isn't going away, really needs to be addressed. How are you thinking about that under a Democrat administration? Is there an opportunity to make more progress on that front? How do you make sure the progress that's made is manageable for the company? And talk about how you're thinking about that challenge, I guess.

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

I would say that, first of all, I think that the industry wants to take a proactive stance on this issue. We recognize that as long as people are paying what they're paying out-of-pocket to get access to medicines is a political issue for us, but more importantly, there's a patient access issue for patients. So we want to be proactive on this issue. We try to be proactive with the last administration. I will say we had our challenges communicating with the last administration. I think the good thing is that, while the Democrats will have at least theoretical control in the Senate, the Senate is now just really balanced. And so we have to work with the next administration. We have to work with the House and the Senate to try to come forward with approaches that will help patients be able to afford medicines, but also in a way that allows us to continue to innovate to bring things forward.

And the only thing I can say to you is it's early days. I'm very pleased with the kinds of nominations that the President has made and his cabinet overall. I see no evidence that he's going to be necessarily held captive to the so-called progressive wing of the Democratic party. I think there's an opportunity for us to work on this. I don't think it will be #1 on his agenda, by the way. He'll have to work on things like COVID, he'll have to work on infrastructure, he'll have to work on some other issues around trade and all those kinds of things. But eventually, he's going to have to get to this. I think what they will want to do is to come up with things that make sense. And we want to be there with proposals for them. And I think the pharma industry will do that.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Great. That's great. Now to wrap up on. Thanks. Ken, Rob and Dean, really appreciate the comments today, and I look forward to a pretty eventful 2021 ahead.
Kenneth C. Frazier - Merck & Co., Inc. - Chairman, President & CEO

Yes. We're very excited by where we're heading in this year. And moreover, as I kept saying, I think our revenue growth prospects are underappreciated between here and 2024. I think also that the concerns around the KEYTRUDA LOE, although they're valid, I think they're a little bit overstated with respect to some of the things that Dean talked about with respect to both oncology and non-oncology in our pipeline. So thank you.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Thanks so much. Appreciate it.

Robert M. Davis - Merck & Co., Inc. - Executive VP of Global Services & CFO

Thank you.