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PRESENTATION

Unidentified Analyst

If everyone could take their seats, we're about to start the second session. Okay, delighted to kick off our second session of this year's conference. With me is Rob Davis, the CFO of Merck. We also have Teri Loxam, who runs the IR Department of Merck. Thank you for coming with us today.

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

Thank you very much.

Unidentified Analyst

So Merck has been a loyal attendee over the years at Citi's Healthcare Conference. In previous years, it's been heavy IR representation or R&D representation from Roger and Roy, and it's a very welcome change to have the opportunity to talk some of the broader facets of the business in terms of the structure.

QUESTIONS AND ANSWERS

Unidentified Analyst

So maybe just to kickoff, we're completing the end of 2018. It's been a good year, certainly, from the share price of Merck, with that it appears. As you look forward in thinking about the challenges and the opportunities in the state of the business, are there any general observations that you'd like to make where you think investors need to be particularly aware of?

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

Sure. No, I appreciate the opportunity. And as you said, we feel very good operationally about where we've come out or where we're coming out in 2018. And I think the important thing as you look, the momentum we've built in this business, as we look forward into 2019, we see continuing. And importantly, it's going to continue on what -- the really the growth pillars we've established. Obviously, KEYTRUDA is the foundation, but beyond that, the broader oncology portfolio, and then importantly, as we look at what's going on in vaccines, we continue to be very bullish on what is the opportunity with GARDASIL to really lead the vaccines business. But then beyond that, the broader business and importantly our pipeline, we have right now what we feel is one of the best pipelines we've had in vaccines, whether it be PCV, RSV, CMV, dengue, a host of really meaningful opportunities, both for patients and, ultimately, for the company. And then in our hospital specialty business, we talk a lot about the strength of KEYTRUDA and GARDASIL. We don't talk about the fact that we have BRIDION in our hospital specialty business, a product that's approaching $1 billion and will surpass $1 billion next year. There was a day when that was a blockbuster and people wanted to talk about it. It's kind of amazing when you think relative, but the important thing is that as we look at our hospital specialty business, we feel very good about opportunities there. And then as we look into the earlier-stage pipeline in that space, a whole host of opportunities in cardiovascular, neuroscience and, importantly, HIV. So as we think about that Human Health business, a lot of excitement across the breadth of those growth pillars. And then last, but not least, Animal Health continues to grow very nicely on the back of the innovation it's driving and frankly, it shares through our Human Health business and we're very excited about it. So as we sit here today looking forward, we feel very good, not only about 2019, but beyond and that the momentum is there and that we're delivering operationally. One thing I would point out for 2019 that is a continuing headwind that we

face is foreign currency. It's worth noting. And I pointed this out to a group we were meeting with earlier today, that as we came into the year, we expected currency by the time we got through the full year 2018 to become a tailwind. In reality, we've absorbed over $800 million relative to our initial guidance of currency loss. So as you look at our growth we're delivering, if you take our guidance range, we put out here for 2018, 5% to 6% on the top line. We've absorbed $800 million of unexpected FX coming into this year. Unfortunately, as we look at next year, that headwind is going to continue. I'd hope it would switch to a tailwind, but it's not going to. But that frankly, we don't control currencies and, obviously, that's based on spot rates, so the world could change. But beyond that fact, I would say the fundamental growth drivers of the company are solid and delivering.

Unidentified Analyst

So maybe we could -- given you mentioned vaccines and it's a big part of your anticipated future growth, we could kick off with that subject. So can you talk through the dynamics associated with the increase in volumes expected for both the marketed vaccines, namely GARDASIL? And then separately, the CapEx obligations that need to be put in place in anticipation of approval of your pipeline vaccines, and how you manage that and the size and contribution of that given the existing base?

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

Yes. So it's -- they're all good questions. Let me start with maybe -- for those who maybe don't have the context, giving why we believe starting with GARDASIL, it is such an important opportunity. If you look at GARDASIL today, it truly is starting to be seen as an anticancer vaccine. The amount of discussion now going on globally, I would highlight Australia as an example, who was pretty far down the path of driving for cervical cancer elimination. The fact that we are at a point where we're even discussing the potential for elimination of something like cervical cancer is really -- if you think back a few years, that's unbelievable, and it's becoming a reality with GARDASIL 9. Obviously, we have to see the vaccination rates continuing to drive higher to do that, but importantly, governments are starting to embrace that. So that is a huge tailwind and driver of growth for GARDASIL. Beyond that, our global expansion continues, namely in China. Right now, GARDASIL and GARDA 9 are launching in China. GARDA 9 is now, I think, the most successful product to launch in China if you look at it in terms of sales and the ramp of sales. We got approval for GARDA 9 in record time in China, and it's just -- it's taking off in a market with still large untapped opportunities. Beyond that, we continue to see gender-neutral vaccination rates increase around the world. And then within The United States, you saw recently we got approval to expand our age cohort to age 26 to 47. So whether it's expanding age cohorts, global -- growth on a global basis, the fact that we're looking at driving the anti-cervical cancer move, all of those things are really leading to what is the situation right now in an unprecedented way that we're seeing our demand for product outpace supply, which really gets to your question. We've been meaningfully increasing capacity over the last few years. We have a plan to more than double our capacity over the next few years. So -- but as we look at it, given the fact that you are seeing demand at a -- growing at such a strong rate, we're really going at it in a phased way. We're focusing first and foremost about where can we make capital and capacity investments into our existing infrastructure to drive productivity through our existing assets. That's really what's going to -- if you look between now and 2022, that's where a lot of our expanded capacity is coming from. We're partnering with third-party manufacturers, as we look downstream at packaging and finishing to make sure that we can address that need, and then we're doing capital investments through brownfield investments in our existing infrastructure by building on sites adjacent to existing sites that allow us to leverage the infrastructure we have in place, that increases our speed to bring capital into play and reduces cost. And so all of that is what's driving the need for -- pretty intense capital for GARDASIL as we look forward. And I think, it will put us in a -- put us in a very good position to be able to address this unprecedented demand. If you look beyond what we're doing in GARDASIL, and I think you're also getting at some of our next-generation vaccines, PCV, namely, and then CMV, dengue and RSV. We are being very thoughtful. We use the stage-gated approach, a very risk-focused approach on how we think about making those investments. We actually have a risk authorization process that works through our colleagues in R&D, manufacturing and commercial, where together we look at the commercial opportunity, we look at the economic opportunity and then we look at the science and determine based on positive markers coming from the scientific community. And when they see indications of success, that's how we stage gate capital going forward. Understanding that at some point, we're doing this at risk, but I think we're very prudent on how we manage that risk. So as we look at it from a gross margin perspective, vaccines overall will see gross margins expand over time. And despite the fact that we're bringing new capacity on, it actually has a very de minimis effect on our margin, our ability to drive higher volumes and to drive other productivity measures, largely offset that impact. So it will allow us long term to have some nice margin expansion on a gross-margin basis coming from the vaccines business.

Teri Loxam - *Merck & Co., Inc. - Senior VP of IR & Global Communications*

And can I just correct one thing, just since we're on transcript, our indication for GARDASIL is to 45 and not 47. Small correction, doesn't change the story, but just so that the transcript has it correct.

Unidentified Analyst

And in terms of the point you're making on margin, I see an additional factor is the demand is such that capacity utilization is going to go from 0 to high within a very short space of time compared to nonvaccine type products.

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

Yes. No, that's quite clear. We are chasing the demand. So you're not going to see us sit with underutilized facilities for very long.

Unidentified Analyst

Got it. And then just on the R&D front, we recently did an exercise trying to calculate the contribution of KEYTRUDA-related trials and the timing, given the initiation and determination of making some assumptions, given that most of the development work or the bulk of the development work that KEYTRUDA has likely done, and square that in context of your guidance for continued growth in R&D for the next couple of years and what that means versus declining demand from KEYTRUDA. So perhaps you could talk to what percentage of that R&D spend is going to be contributed from these very large additional vaccine trials? Or should we assume that there's a significant assumption that some of that R&D spend is coming from assets, which we may not see because they're going to be sourced from BD or a pre-proof-of-concept?

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

So -- no. So I think I understand your question. So if you look at where our R&D growth is coming, while KEYTRUDA on -- from a monotherapy perspective is starting to reach its peak, obviously, we still have meaningful combination studies underway. As you know, we have over -- if you look on ClinicalTrials.gov, there's over -- I think, over 900 studies now clinical trials underway. So we still are in that bonus period. We're not through it completely with KEYTRUDA because it's more than just a monotherapy. It's all the combinations. And then beyond that, really if you look at Lynparza and Lenvima are also requiring meaningful investment for good reasons. We see a real opportunity and are excited about the opportunity with both of those assets. That's also driving an increase. And then you are seeing a little bit of it coming from what is the earlier-stage pipeline in vaccines. Actually, a lot of the larger spend in the vaccines portfolio will be in the outer years. But as we look at it, we've been pretty consistent to say over the next couple of years, you're going to continue to see R&D grow. And then beyond that, we do think, as a percentage of sales, you're going to see it start to moderate as we move through this bonus period, but it's still largely driven by the oncology franchise, not only KEYTRUDA, but the broader combination studies and then Lynparza and Lenvima.

Unidentified Analyst

And see, you mentioned Lynparza, and there's a question I've asked some of your colleagues, historically, the timing of the expansion of Lynparza clinical trials program has taken a long time given the time when you ink the deal. And there's no doubt the science is there and GSK, obviously, we're talking about their recent transaction, which I can't comment on, but there is clearly potential there as you allude yourself. So what has been the block to expanding the clinical trials, has it been R&D budgets? Has it been science elucidation? Has it been the nature of the JV? What's been driving that?

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

Yes, yes. It's not a budget constraint that's driving that. It is -- as our colleagues within the labs look at all of the work they're trying to drive, both, obviously, with KEYTRUDA, the broader oncology portfolio and with Lynparza, they go through a very thoughtful process based on where they see the science at the moment and where they see their ability to push their own work and capabilities and they do that prioritization. I think what's important rather than getting into the details of how we do it, I would ask some questions, does it imply less confidence in Lynparza? The answer to that is absolutely not. We are more confident in Lynparza today than when we signed the deal. You might have just seen, we actually just, I think, put on ClinicalTrials that we now have started our first study in combination of KEYTRUDA with Lynparza. We're very excited about the SOLO-1 data and what that can mean in ovarian cancer. So as we look at Lynparza today, the breadth of the number of studies underway and what we see is the opportunity. We are -- everybody is excited, if not more excited now than we were, and we're going to make phase appropriate investments driven by when the scientists feel it's right to do, but it's not a budget question or a concern question. It's purely how they're trying to manage, frankly, what is an amazing portfolio of oncology opportunities.

Unidentified Analyst

If anyone does have question, just to remind, please do raise your hands vigorously, otherwise I might not see it, but I'll be looking from time to time. So moving on to business development and one of the observations that some of us just have made is, the relative lack of BD at Merck or largest scale BD, given the strength to your balance sheet and certainly relative to some of your peers. Now a couple of observations which I may have made is, your CEO is a lawyer by background, which probably has a greater degree of awareness of downside risk than maybe a CEO from a marketing perspective and that has positive and negative potential implications. And then, obviously, the Cubist deal was a less-than-value enhancing deal, at least, from our perspective. So the deals you have done and you mentioned Lynparza and Lenvima are very smart sensible deal with very limited downside and a significant amount of upside, but there's only so many of those deals that are around, right? They don't grow on trees or you have a counterparty that's willing to entertain those type of discussions. Given you've had a derating of several of the biotech names right now, given the headwinds that you are facing despite having this enormous contribution from KEYTRUDA and whatever the 2 other existing partnerships gives, what's your appetite, what opportunities, what relative value do you see out there now within the biopharmaceutical landscape? And what magnitude of opportunities are of interest for Merck?

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

Yes. So I would start by saying that our approach to business development and our desire for business development really hasn't changed over the last several years. We've been pretty consistent in what we're trying to achieve, which is primarily how can we augment our pipeline to ensure we have a path to sustainable long-term value creation and growth. That's really been the focus all along. And as we've been pretty consistent in saying as well, we're not interested in the large transformative deals, hopefully, now more than ever, given the confidence we see ourselves and the opportunities in front of us and the growth potential within the company and in the pipeline we have, it just -- we don't need to do those type of deals because we have the opportunities inside. Now that being said, we also believe that you're never good enough and you can always look to augment, and you should be constantly looking to find the best science and augment your pipeline where you can. So we are very interested in those smaller bolt-on transactions where we can find those opportunities, where we find the right combination of scientific interest, unmet need and value creation. And to your point, over the last 12 months, the thing that's probably held us back more than anything is not lack of looking or frankly being very active in discussions, it's that to get to what we feel was the discipline value decision, just wasn't there because the market was so fully valued or you could -- even some could argue overvalued. You are starting to see some of those companies rerate. I think it's a little too early to say, if this is a real trend or if it's, in some cases, event-driven within some of those companies. Not all of them are just rerating, some of them are doing it for a reason. And we're going to have to wait and see how that plays out, but we're very focused on finding those opportunities. And when we see one where the value makes sense, we'll act. And I don't think the Cubist acquisition in any way changes that mindset. I would tell you that the first thing Ken would tell you if he was here himself is, you can't -- you have to always be willing to take risk, some will succeed, some will failure -- will fail. I would argue, frankly, we probably see Cubist still as more of a success than what you're implying. Obviously, it didn't create the value we had hoped, but it has been a valuable deal for us in cementing our position in the hospital. And if you look now with ZERBAXA, given the fact that we recently had top line data, you saw very favorable data in hospital-acquired pneumonia and in ventilator-acquired pneumonia, we feel ZERBAXA still has a real opportunity to be a major contributor in the hospital space and the breadth of what we had with CUBICIN, ZERBAXA, SIVEXTRO has really cemented our presence in the hospitals as we go speak with governments around the world. It's a hard thing to quantify, but

I would tell you, as we visited with managing directors, they all talk about the access they're getting to hospital leadership and the breadth of what it allows them to do as they think about the total portfolio of Merck, and a large part of that came with the acquisition of Cubist. So that does not change our view of risk and our interest is there. We're going to have to find the right opportunity for the right value. When we do, we'll act. And as you pointed out, a lot of people didn't give, I think, full credit to the AstraZeneca deal or the Eisai deal because they want acquisitions in the traditional sense, but I think they were both very smart derisked capital, smart acquisitions or transactions that have given us access to great assets at a low cost. So from our perspective, we feel very good about those, and we'll look to whatever means we can to find further opportunities as those assets present themselves.

Unidentified Analyst

And when you refer to bolt-on, just to make sure I've got the right type of order of magnitude in my head, what's your definition of a bolt-on?

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

Yes. We've never specifically quantified that, so I don't want to do that today. But clearly, we're not looking at any more large transactions. They're more moderate-size transactions. And as we think about bolt-ons, I'd also say we tend to think also in terms of complexity of integration. We definitely do not want to disrupt the chemistry if you -- no pun intended -- we have in our labs right now, the momentum they have. And so a lot of it is, if we look to something, is it going to be disruptive through the complexity of the integration drives a lot of our thinking as much as we would think about size.

Unidentified Analyst

So again, partly on the topic of BD, but not completely, the concept of risk concentration within KEYTRUDA. Look, we have estimates of the higher end of $20 billion for peak sales of the drug, but consensus is probably around $16 billion, and that's a significant part of the anticipated EBIT of the company, and that's a good problem to have. But as you think about the relative contribution of KEYTRUDA versus the risk and that either is competitive, and lung is, obviously, a big part of that. There's still some late-stage trials, which potentially could impact your positioning in lung or even from a reimbursement side, which will go on to depending on what happens in the U.S. in terms of reform over Part B. How does that impact your scenario planning modeling business development? Or I'd just be interested in how you think about that?

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

Yes. So it's -- well, one, it's -- I'd start by saying, I'm glad we have the problem we have. A few years ago, everyone asked us why KEYTRUDA wasn't growing faster, and now everyone wonders why it's growing so much. So we're definitely thankful we have it. And given the size of what KEYTRUDA will be and given the sense of what consensus is, it's hard to believe you're going to find another pillar, if you will, that's going to be of that size. But we don't tend to look at it that way. What we tend to look at and say across the breadth of our portfolio, do we think we have enough diversification and breadth and opportunities and growth drivers outside of KEYTRUDA to be meaningful in ensuring we have a strong growing and sustainable foundation. And we think we do. Obviously, we feel very good about where we're on KEYTRUDA, and I will tell you today more than ever while we never want to say we are not focused on competition, we feel very good about where we are. The wall of data we're creating, the breadth of data that -- if you look at the number of different indications, where now we have overall survival, we feel better now than ever that we have created a very high bar for competition. So we feel very good about where KEYTRUDA is and where -- and its ability to grow and to continue to see sustained growth through time. Beyond that within the oncology space, we talked about Lynparza and Lenvima, those are, I still think, underappreciated opportunities for growth. And then beyond that, we have now 20 mechanisms of our own in development that offer an opportunity, who knows what those are going to do. If you look -- if we go back 4 or 5 years ago, you would have never believed we'd have KEYTRUDA. What's sitting in our early oncology pipeline that could be the next KEYTRUDA, we don't know, but I can tell you there are several areas we're very excited. So we see breadth within oncology. And then beyond that, we've talked about, I won't go through it again, but in vaccines the fact that GARDASIL is continuing to grow and will grow meaningfully beyond the long-range plan outlook we look at, as you look out in the next 5 to 10 years, is significant. That combined with the opportunities in PCV, which is a meaningful market opportunity; RSV, which really is a market

to be created and developed; CMV; dengue, we see a very strong growth pillar with vaccines and in Hospital and Specialty. So as we look at it across Human Health and then with Animal Health there as well growing very nicely, I think we have a lot more breadth of growth opportunities and pillars of growth than frankly The Street fully appreciates. So from that perspective, we probably feel better internally than the sentiment you just communicated. All that said, if we can find another pillar of growth, we're interested in that, and we're constantly challenging ourselves to look at it. It will be driven by where we see a scientific opportunity in an unmet need -- in an area of unmet need. If we see that, we're ready to move, but we want to make sure it's the right one. So I think we're positioned very nicely for sustained growth, given what we have and you will see what we can augment it with over time.

Unidentified Analyst

And then staying with that same topic of managing risk and risk concentration, what are the implications for Animal Health? Obviously, you have Elanco, and there has been value creation there, and industry participants tend to look at each other. It's a broad perspective. Against that, any divestment would further increase the contribution from KEYTRUDA, which may not be something that you want to do. So how do you determine whether Merck still is the right owner for this asset?

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

Yes. Well, it starts with us asking the question of ourselves, do we believe there are real and meaningful synergies between the Animal Health business and the Human Health business. And if we believe there are meaningful and real synergies, which we do, that -- then that is value created through the combination of our Human Health and our Animal Health business that would frankly be lost if we separated the business. What's interesting, if you look at our Animal Health business, I would first start by pointing out, we're growing at or above the market. We're, I think if you look depending upon how -- the time period, the fastest growing top line company within the animal health space, we have very strong growth in the bottom line with a leveraged P&L. We're generating operating margins of 40% or more. So if you look at it first relative to the companies that are out there, use the way as Elanco, we look as good or better than the competition. So I start by saying, this isn't an underserved asset sitting within Merck. We've actually, I believe, done a very good job and, frankly, I give credit to our Animal Health leadership team led by Rick DeLuca, who has bought focus to that business. And frankly, credit to ourselves that we have invested in that business. We have not deprived it of capital. We actually invested heavily in it, and it's paying off. I would then say what is driving the growth? Why have we been able to grow so well when others have not? And it's because we are more innovative than others. And if you look at where that innovation is coming from, it is through the synergies with the Human Health R&D. So we feel very good about that and what that business is. And as you mentioned, from a Merck perspective, it's a strong -- it's a high-growth business. It's growing faster than our Human Health business. It's a high-margin business. It generates very good cash flow that we can use to invest, not only into Animal Health, but into Human Health as well, and it provides diversification. So whether it's the synergies we believe we create, the value it brings to Merck, we believe this is an asset that we will create the most long-term sustainable value for shareholders holding on to it more so than we would splitting it off. We constantly are looking at this and challenging ourselves to that point. We understand the excitement and enthusiasm people have, especially given what we've seen with Elanco. But as we look at it, we continue to believe, as we've done the analysis, we are the best owners of that business.

Unidentified Analyst

And staying with the same topic of maximizing value for your shareholders, other approaches which have been adopted by some of your competitors include the divestment or monetization of noncore brands and AstraZeneca has been the most prolific in that. And there are certainly areas where Merck does not have a competitive presence right now, respiratory being one for example. And whether those types of transactions are something that interest? And then the pushes and pulls there. And then similar point, Pfizer has created and established products business for products that have been through the LOE. As you look at the potential merits or demerits of adopting that kind of operational framework, again, I'd be interested in how you see it?

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

Yes. So if you look at our -- the breadth of our portfolio, we constantly are looking and asking ourselves, are there assets that we would be better served if we sold it or somehow separated it from the company. And to the extent we find those opportunities, we will do them. I think we've demonstrated that. If you go back a few years, we had an ophthalmology business, we sold. We had the consumer care business, we sold. So we have demonstrated our willingness and ability to do that when we see the value is better outside of Merck than inside of Merck. The challenges we face as we look at the established brands, as you call it, portfolio within the company is: one, these are very strong cash flow-generating businesses and, frankly, at very high margin. I would point to the fact that we've been able to bring down our SG&A as a percentage of sales pretty meaningfully over the last few years. At the same time, we've been standing up from scratch an oncology business and investing heavily in the research and development and clinical programs for oncology and the other areas. We did that because of the fact we have been pulling resources away from those established brands pretty effectively. And as a result, that's a -- those are very high-margin businesses today generating strong cash. So as we look at any kind of transaction, we have to weigh that fact and then we have to look at the value created. In the sale of these assets, you have to look at the fact that a lot of these have very little tax or no tax base. So we're going to have to overcome the tax impact of the sale. And then if you're looking at doing spins or splits, right now, if you look at the macroeconomics going on in the marketplace, there's really not an attractive market right now for the multiples you would probably get. So we look at all of this and are constantly asking ourselves the question. And if we see that right transaction, we are willing to do it. So this is not a philosophical statement that we're not willing to separate these assets. If we see a value-creating transaction, we will do it. And look, we are consistently looking at the portfolio and making those moves when we see them as being appropriate. And then, you'd ask the second part, remind me now.

Unidentified Analyst

So the second part was the merits of creating an established products division just to try and optimize...

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

Yes, yes. So we've discussed this as a management team. Our own feeling as we weigh the benefits versus the cost, as we look at the main benefit you would get through that primarily is focus into those assets and potentially capital investment depending on how you set that up. As we see it today, we think, frankly, we took a little bit of a different approach that has achieved largely the same outcome, but in a different way. As we looked at and saw the opportunity in oncology, we recognized the need to stand up a more dedicated commercial organization focused on oncology. It's not a business unit in its traditional sense, but they are very focused and work in a matrix situation with the geographic regions. So that bought the focus we needed to do what we've done in oncology. Likewise, we have a team in vaccines that's very focused at thinking through the commercial opportunities and working across the regions to focus on vaccine. So in our growth areas, we've bought that focus. The group that is left, which is largely in many of the developing markets around the world, frankly, those diversified brands or established products, whatever label you want to put on them, that is their core business, that is where they focus today. So we don't see a lot of value in driving further focus through doing that. In fact, we think we would lose some of the benefits we get today. If you look outside The United States, our ability to negotiate with governments across the breadth of our portfolio is very important. It's the key differentiator of why we think we have success in our international markets and our growth. We share sales forces across these products. And so to lose that, we think would be more of a cost than the benefit. So that's why we decided not to pursue that as a strategy now.

Unidentified Analyst

I know there's a question towards the back, but before we go there, I just want to bring up the topic of reimbursement reform in the U.S. In particular, there is a couple of things: So number one, the potential for the impact of net pricing within government plans and the, if I can call it, nurturing of protected classes, which has been proposed to impact parts of your business. And obviously, it would impact right now Lynparza, potentially, given they're a number of parts with large equipments apparent efficacy, and it potentially has implications for HIV as well, which is something we've addressed. So how you're thinking about the evolution of those 2 markets? And then we can continue on the Part B.

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

Yes. Well, I would maybe step up real quickly and just point out that overall if you say what do we think is most important, we very much agree that lowering out-of-pocket cost should be the focus of whatever ends up being the ultimate paradigm that's adopted in The United States. And from that perspective, it's about how do you take out the distortions and align incentives to achieve that, which we're very much supportive of. Assuming whatever is done is pro-innovation, we want to make sure we protect innovation and that it protects access for patients. So those are the key tenets we look at and we apply to all of the proposals that are out there. There are a lot out there today, and we'll see where it plays out. How this affects a given franchise, I think it's too early, frankly, to predict because these are still -- a lot of this is still in discussion, and we're, obviously, participating with the administration in Washington to try to help shape and make sure that those areas we want to protect innovation and access are there. So I think it's too early to get into details. The one I'd mentioned on HIV, we continue to believe whether it be, frankly, HIV or in oncology, the key to us through all of this is, if we focus on innovation, driving real value creation by addressing unmet need that will be the best solution to address the pricing concern. And that's why we continue to be very focused in that area. And as we look at HIV, is the one you mentioned, however this plays out, our strategy is, if we can bring forward a meaningful innovation, which is truly bringing people long -- true long-dated, highly efficacious therapies, we believe there is value there and we'll be rewarded for it regardless of how the situation plays out with the pricing.

Unidentified Analyst

And then in relation to the API, the reference pricing-based approach proposed to address drugs covered under Part B, an obvious sequelae when I saw the proposal is, surely the industry is just going to raise list prices in Europe and negotiate behind the scenes in order to mitigate any adverse effect on U.S. pricing. So is that credible? Or do the constraints of disclosure of net prices in Europe mean that, that's not a possibility?

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

I would say right now, given we're in active discussions on this with -- I don't want to get into specific policy solutions, frankly, because we need to have the discussions with the administration first and make sure that they understand what our views are. But I would just say, there's -- I think there's many ways to solve the solution, and we need to focus on the one that addresses my concern, which is protect our innovation and the importance of innovation to this industry in this country and ensuring access. I don't want to necessarily go beyond that into specifics.

Unidentified Analyst

In the interest of timing and the changeover, I'm going to take the liberty of stopping 2 minutes early, if that's okay.

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

Yes, no worries.

Unidentified Analyst

But many thanks, Rob and Teri, for joining us today. It was a pleasure.

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

Thank you very much.
