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# EDITED TRANSCRIPT

MRK - Merck & Co Inc Annual Shareholders Meeting

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## CORPORATE PARTICIPANTS

**Geralyn S. Ritter** *Merck & Co., Inc. - SVP of Global Public Policy & Corporate Responsibility, Secretary and Assistant General Counsel*

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

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

## CONFERENCE CALL PARTICIPANTS

**Jeannette Brown**

**Joel Summer**

**Justin Danhof**

## PRESENTATION

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

Good morning, ladies and gentlemen, and welcome to Merck's 2018 Annual Meeting of Shareholders. It is now 9:00 a.m., the official time to start our meeting. My name is Ken Frazier, Chairman of the Board and Chief Executive Officer, and it is my pleasure to call this meeting to order.

On the stage with me is the company's Senior Vice President, Corporate Secretary and Assistant General Counsel, Geralyn S. Ritter, who will serve as Secretary of today's meeting. Geralyn has informed me that we have a quorum.

I ask that you direct your attention to today's agenda, which we plan to follow as closely as possible. The Audit Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP as the independent registered public accounting firm for Merck for 2018, subject to shareholder ratification at this meeting. Representing PricewaterhouseCoopers today are Denis Naughter, Chris Harris and Tiffany Gallagher. Welcome, and thank you for joining us.

Before introducing Merck's current Board of Directors, I would like to acknowledge Carlos E. Represas, who could not be with us here today, but is retiring after 9 years of serving on our company's board. Throughout his tenure as a board member, Carlos has served as a member of the Audit Committee, the Compensation and Benefits Committee as well as the Governance Committee. Thank you, Carlos. We have greatly benefited from your wisdom and insight.

Now it's my pleasure to introduce Merck's Board of Directors. I ask the board members to rise and remain standing as I read your names. And may I ask the shareholders to hold your applause until all are introduced. Leslie A. Brun, Lead Director of the Board, Chairman and Chief Executive Officer, Sarr Group, LLC; Pamela J. Craig, former Chief Financial Officer, Accenture Plc; Thomas H. Glocer, retired Chief Executive Officer of Thomson Reuters Corporation; Rochelle B. Lazarus, Chairman Emeritus and former Chief Executive Officer of Ogilvy & Mather; Dr. John H. Noseworthy, President and Chief Executive Officer of Mayo Clinic and Professor of Neurology of Mayo Clinic College of Medicine and Science; 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. Craig B. Thompson, President and Chief Executive Officer of the Memorial Sloan-Kettering Cancer Center; Wendell P. Weeks, Chairman, Chief Executive Officer and President, Corning Incorporated; Peter C. Wendell, Managing Director of Sierra Ventures; and Inge Thulin, Chairman, President and Chief Executive Officer of 3M Company, who joined the Merck board in March 2018. Dr. Thomas R. Cech, Investigator at Howard Hughes Medical Institute and distinguished professor at the University of Colorado, could not be with us today.

This outstanding Board of Directors represents a depth of experience in business, science and medicine and a broad range of global perspectives. Our company is fortunate to be served by people of such experience, commitment and wisdom. Please join me in thanking them.

And now I'd like to introduce the members of our senior leadership team. Please stand as I call your names. And again, I would ask that the audience please hold applause until all members have been introduced.

I'd like to first introduce the members of our Executive Committee: Sanat Chattopadhyay, Executive Vice President and President Merck Manufacturing Division; Robert M. Davis, Executive Vice President, Global Services and Chief Financial Officer; Richard R. DeLuca, Jr., Executive Vice President and President, Merck Animal Health; Dr. Julie L. Gerberding, Executive Vice President and Chief Patient Officer, Strategic Communications, Global Public Policy and Population Health; Mirian M. Graddick-Weir, Executive Vice President, Human Resources; Dr. Roger M. Perlmutter, Executive Vice President and President, Merck Research Laboratories; Adam H. Schecter, Executive Vice President and President, Global Human Health; and Jennifer Zachary, Executive Vice President and General Counsel. Jennifer joined Merck in April from the prominent law firm of Covington & Burling, where she provided expertise to Merck in the field of food and drug law.

In addition to our Executive Committee members, also joining us today are 3 other key senior leaders: Rita Karachun, Merck's Controller; Teri Loxam, Merck's Senior Vice President, Investor Relations and Global Communications; and Ashley Burns Watson, Merck's Chief Ethics & Compliance Officer.

Ladies and gentlemen, please join me in recognizing the efforts of our talented senior management team.

Thank you. I'd like to now share with you a short video.

(presentation)

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

I believe Joann's Story is powerful because it highlights how formidable lung cancer can be and the toll it has taken, not only on individual patients like Joann and their families, but also whole generations of families. Today, lung cancer kills more patients than any other form of malignant disease. But KEYTRUDA is giving patients new hope, and we believe this medicine could provide an important tool to help turn the tide and transform treatment for people with lung cancer.

It was just over a month ago that we presented data from the KEYNOTE-189 study at the American Association for Cancer Research meeting. These compelling data showed longer survival in first-line non-squamous, non-small cell lung cancer patients when KEYTRUDA was combined with chemotherapy as compared with chemotherapy alone. To be more specific, KEYTRUDA combined with chemotherapy reduced the risk of death by half compared with chemotherapy alone.

This slide registers some of the excitement from AACR. We believe KEYTRUDA has set a new standard of care for first-line nonsquamous non-small cell lung cancer and a new bar against which future trials in first-line lung cancer should be measured. Dr. Perlmutter will share more on this in a few minutes.

Delivering therapeutics and vaccines for unmet medical needs is what Merck is all about. We are committed to being the premier research-intensive biopharmaceutical company, and we pursue science and our business goals in a manner that provides long-term value to both shareholders and patients alike.

Over the last 127 years, our salient purpose in the world has not changed: To deliver medically important medicines and vaccines which tackle diseases and improve the lives of people and the well-being of animals around the world. Our legacy is made up of the products we have brought to market that have rewritten medical textbooks and changed medical practice, like cortisone, the M-M-R vaccine, the first statin, a drug for river blindness, one of the first effective HIV drugs, an HPV vaccine and countless others.

We want to continue to be successful for our business while also being significant for humanity. Research is at the core of who we are and what we do. Many have walked away from the hard task of inventing drugs, either lacking the resources or the risk tolerance to pursue transformative science. But we continue to believe research and development is and will remain the primary source of the biopharmaceutical industry's value to society.

Our innovation strategy has been the right strategy for more than a century. The test of a strategy is its durability over the long term. There will be times when we face challenges, including research challenges and the loss of exclusivity of key products. However, we have always overcome our

challenges by focusing on research. If one looks back over the past century, Merck has delivered value to society, and it has also delivered value to its shareholders. According to this research published in the New York Times, Merck ranks #16 in terms of the value it has created over the past 100 years.

Consistent with that, we are continuing to invest in R&D and especially in discovery research. We have invested in 3 new discovery centers: In London; in South San Francisco; and in Cambridge, Massachusetts, which will focus on building the pipeline of medicines for tomorrow. When I visit these discovery centers, the excitement and enthusiasm of the scientists is infectious. These are world-class scientists, and I consider our ability to recruit and retain them and to have them energized and engaged as a leading indicator of Merck's future success.

We have been executing well on our long-term strategy. Last year, in 2017, we had a successful transitional year for our organization. We demonstrated the underlying strength of our business and grew despite the loss of exclusivity of more than $3 billion in products, a cyber incident and several natural disasters that threatened our production, logistics and human resources. Our 2017 total revenue grew 1% to $40.1 billion. Our non-GAAP earnings per share of $3.98 grew 5%.

We recently reported results for the first quarter of 2018, and we have had a strong start to this year. Sales in the first quarter grew 6% or 3% ex exchange. We reported a non-GAAP EPS of $1.05. Our first quarter performance provides good momentum for the rest of the year and into the long term. We remain confident in our prospects for revenue growth through 2021 and then beyond to 2025, in part driven by our current products, but also driven by what we believe is a promising pipeline.

In particular, there are 4 key pillars of growth for Merck that we anticipate to drive long-term value. These pillars, which include oncology, vaccines, hospital and specialty care as well as animal health are expected to drive solid top and bottom line growth for the company in the next year and beyond.

I want to focus first on our first pillar, which is oncology. Today, we have unprecedented momentum in this field, thanks largely to KEYTRUDA. We've always believed in KEYTRUDA's potential. And as I've mentioned before, we think our data from KEYNOTE-189, along with our broader clinical program, firmly established KEYTRUDA as a foundation of cancer treatment and a substantial driver for the company.

Given the promise of this remarkable medicine, we continue to see KEYTRUDA in effect as a pipeline in a product, and Merck has created the broadest clinical program in the immuno-oncology area in recognition of that promise. KEYTRUDA now has 10 FDA-approved indications, and it is being tested in more than 700 clinical trials across 30 types of tumors. Today, approximately 200,000 patients worldwide have received treatment with KEYTRUDA. We are still in the early stages of this journey with this product.

We also believe we have tremendous near- and long-term opportunities with our partner products LYNPARZA and LENVIMA. In total, we have 8 medicines in supportive care therapies on the market in oncology. In addition, we have a robust early-stage oncology pipeline which contains more than 20 other novel mechanisms.

Our next pillar of growth is vaccines. We believe our vaccines portfolio, anchored by GARDASIL and complemented by our next-generation pneumococcal asset, V114, can drive significant value. GARDASIL and GARDASIL 9 prevents certain cancers caused by HPV, including cervical cancer as well as other forms of cancer. The broad adoption of GARDASIL in many markets around the world gives us hope that we can drastically reduce the incidence of cervical cancer going forward. Today, GARDASIL is approved in 135 countries, and GARDASIL 9 is approved in 74 countries. So you can begin to appreciate that this is a tremendous opportunity to attack certain HPV-related cancers for both girls and boys.

We have a long and rich history of developing vaccines and are a leader in that field. We will continue to build on our legacy, and we are excited about the portfolio of vaccines in our pipeline. Aside from pneumococcal disease, there are candidates to treat respiratory syncytial virus and cytomegalovirus as well as dengue and Ebola.

Vaccines are among the most effective public health interventions, and we are seeing that play out in real time in the Democratic Republic of Congo, where there is another Ebola outbreak today. Yesterday, just yesterday, officials said they began vaccination using our experimental Ebola vaccine in affected areas. I think the New York Times got it right when they noted that the key difference between this outbreak today and the one

that occurred in 2014, which killed 11,000 people in West Africa, is that we have an investigational vaccine. The Head of Emergency Response at WHO called it a paradigm shift.

Ebola kills about half of its victims, but the investigational vaccine could succeed in changing the world -- the way the world responds to Ebola and dramatically reducing the death toll of the disease. We are proud to work with the World Health Organization and other public health organizations to seek to contain this outbreak and save lives.

This is just one example of how vaccines can be beneficial for society. There are also a constellation of factors that make this a business with a long revenue tail, which helps to drive the long-term financial value of vaccines.

We see the area of hospital and specialty care as another key pillar of growth. BRIDION for neuromuscular blockade reversal is a key product in this portfolio and stands out as a fast-growing product in the United States and elsewhere. This innovative product for neuromuscular blockade reversal is launched in 60 countries. It is also been exciting to see the launch in several countries of PREVYMIS, which prevents cytomegalovirus infection among patients getting a bone marrow stem cell transplant. This is the first new CMV therapy in 15 years.

We are also pleased to report that Merck has filed for regulatory approval for doravirine for HIV in several markets. If approved, we have an opportunity to create an even better future for patients and build on our legacy with a product that is potentially safer with fewer side effects.

We also saw advancement of another candidate for HIV, MK-8591, which has a first of its kind mechanism and has the potential to be a long-acting agent.

We also recently reported positive Phase III results for relebactam in combination with imipenem/cilastatin. I always have that, I'm going to say it right: imipenem/cilastatin as a triple antibiotic to create -- to treat certain resistant gram-negative bacterial infections, which is a serious and unmet medical need.

We see promise in our pipeline to tackle other major unmet medical needs. These includes areas, such as Alzheimer's disease, where 1 in 8 people will get the disease after they turn 65. The risk increases to nearly 1 in 2 after age 85. In February of this year, we announced the end to our late-stage Alzheimer's disease trial. While that was certainly disappointing, we are continuing with other targets. I think companies like ours exist to take the big, but sensible bets, and we are continuing our work, given the high toll Alzheimer's disease is expected to take on global society.

We continue to see exciting growth in the Animal Health business with a broad portfolio of products for both companion animals and livestock. This is a significant business with sales of almost $4 billion, which represents around 10% of our sales. Animal health is an area of growth, and the first quarter of 2018 was no exception. We continue to see strong performance across the portfolio with added impact from acquisitions of Vilsan in Turkey and Vallée in Brazil.

In addition to these important pillars of growth, business development also remains a top priority, and we will continue to look for opportunities to further augment our outlook. We must continue to execute, but I am very optimistic about our near- and long-term growth trajectory, driven by our key pillars of growth.

In closing, we continue to live the philosophy articulated by our modern-day founder, George W. Merck: "Our employees embody our sense of purpose and our character. They are our most important asset. Their talent and commitment is a source of competitive advantage that helps to advance our mission. It is what we have that other companies can't copy." We're excited about the opportunities we have in front of us, both in products on the market and candidates in the pipeline. We believe this will drive sustainable growth today and into the future.

And with that, I would like to turn the stage over now to my colleague, Dr. Roger Perlmutter.

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

Thank you very much, Ken. Good morning. For the second half of the R&D presentation this morning, I'd like to focus on Joann's Story. Ken Frazier toured the R&D discovery profile. He told us about our progress in vaccines, in infectious diseases, in neuroscience. He told us about our progress in oncology. But let's focus for just a minute on Joann's Story.

Feeling well and then a cough, a sore throat and then another cough, and then a visit to her physician, where she had a chest X-ray and there was a large mass in her chest. More than 1 million people will go through something like that every year: be diagnosed with non-small cell lung cancer. And unfortunately, with currently available chemotherapy, the outcomes for such patients are grim.

The introduction of KEYTRUDA is changing that story, and it's changing rapidly. You'll recall that KEYTRUDA was first registered in the United States in 2014. It is less than 4 years later, and yet the progress has been remarkable.

So to begin with, let's focus on what we're doing in oncology. We truly are a leader in delivering breakthrough approaches that extend and improve the lives of people with cancer. KEYTRUDA provides the foundation for this new therapeutic approach. It is one piece, and a critically important piece, for treatment of cancer patients.

We've used KEYTRUDA to address outcomes in monotherapy for patients with very advanced disease who have failed other treatments, but we've also used it in combination, in combinations with traditional chemotherapy and also with novel agents. We've developed novel biomarkers that permit us to identify patients who are most likely to respond and to focus our efforts on those patients in whom responses are not as good.

And we've also developed strategic partnerships which provide us with new drugs that act by themselves but also can potentially act even more powerfully when used with KEYTRUDA. This, as Ken Frazier mentioned, is an enormously large program, the largest in the history of the company to be sure, and in fact, the largest program ever undertaken in oncology or in any other discipline for any single molecule.

This slide shows some of the numbers, and you saw some of these in Ken Frazier's presentation. I looked this morning. On ClinicalTrials.gov, there are 785 trials that are registered. That doesn't include many other studies at earlier stages that we're performing. It's over 800. Unprecedented, but so many aspects of the KEYTRUDA program are unprecedented. As we speak, we have 10 approved indications with 3 more under review. We've had 12 breakthrough therapy designations from the FDA, more than any other molecule ever in history. And we have a series of trials. In fact, a nearly unbroken string of trials with monotherapy KEYTRUDA that have demonstrated that we actually improve overall survival in cancer patients and do so quite dramatically.

Last month, we had the opportunity to present studies of this kind at the American Association for Cancer Research in Chicago, and we will present additional data in more than 125 accepted abstracts at the American Society for Clinical Oncology meetings in June in Chicago.

Just to give you a feel for what this looks like, I'm showing you a slide that shows the activity of KEYTRUDA as what are called waterfall plots. These waterfall plots show you the behavior of the tumor in terms of its size measured as the sum of linear dimensions.

And in this slide, if we look at the top-left circled graph, that's for patients with melanoma, for whom we achieved our first registration. All of those green lines represent individual patients in a particular study. Where the green line goes up, unfortunately, KEYTRUDA did not work. But where it goes down, KEYTRUDA had a measurable effect reducing the size of the tumor. And in most cases, those responses, the shrinkage of the tumor, are durable.

You can see there 7 tumors in which we already have achieved registration, and the dashed lines show you 2 others in which registration is anticipated very soon, these are for monotherapy studies, for a total of more than 25 different cancer types in which we've seen that. And some of this, the results are quite remarkable. If you look at the classical Hodgkin lymphoma patients, for example, which is on the top row, the second from the right, virtually everyone responds with meaningful shrinkage of their tumors. And this translates into important outcomes for patients.

Let's think about melanoma, for example. And here, the image I would like you to have in your mind is that of former President Jimmy Carter, who at the age of 90, was diagnosed with widespread metastatic malignant melanoma with metastases to his lungs, his liver and his brain. He received KEYTRUDA. He's still writing, he's still speaking, and he's still teaching Sunday school. It's amazing.

At the American Association for Cancer Research meetings, we showed data that demonstrated that, in patients with malignant melanoma, patients who undergo a resection for that melanoma, who were not nearly as advanced in terms of the stage of their disease as was former President Carter. That in those individuals, if they are, at the same time, given KEYTRUDA, the risk of recurrence of that melanoma goes down dramatically. The graph shows that -- the percent of individuals alive without recurrence. And those people who received simply surgery and a placebo, that's the red line, or those who received KEYTRUDA, that's the blue line, KEYTRUDA given as an adjuvant for surgical therapy improves outcomes in patients with malignant melanoma who are eligible for resection.

Also at the American Association for Cancer Research, we showed the data that Ken Frazier mentioned, using a combination of KEYTRUDA with traditional chemotherapy in the treatment of non-squamous non-small cell lung cancer. That is the most common type of lung cancer. And in those individuals, here, we're measuring overall survival. The graph shows you the results for traditional chemotherapy, shown in black; versus the combination of chemotherapy plus KEYTRUDA, shown in green, and you're looking at overall survival. And in these individuals, at 2 years, the majority of patients remain alive when treated with KEYTRUDA plus chemotherapy under circumstances where, in traditional chemotherapy treatment, actually very few people survive. In this case, we've doubled overall survival. It's remarkable.

But that, we think, is just the beginning. In addition, as I mentioned, we're expanding our oncology portfolio. We are partners with AstraZeneca in the development of the first effective poly ADP ribose polymerase inhibitor, PARP inhibitor, called LYNPARZA. It's a very effective drug for the maintenance therapy of patients who have been treated for ovarian cancer, and it's effective also in patients with differentiated thyroid cancer and also in patients with renal cancer. And we are testing it in combination with KEYTRUDA in a number of settings.

And similarly, we have a partnership with Eisai for LENVIMA, which is a molecule that is active in hepatocellular carcinoma, where it is registered in Japan and currently under review in the United States. And it is also active in a variety of other tumor settings and currently is approved in thyroid cancer and renal cell carcinoma.

So we are making a lot of progress with these molecules, and that's also just the beginning because these are 2 that were developed by other groups. But we actually have more than 20 new molecules that are designed to improve cancer therapy that are currently being investigated. They're broken out by mechanism here, and they include things that stimulate immune function, things that block the activity of negative immune regulators, vaccines against cancer and things that affect the environment which enables a tumor to grow.

They are important new product candidates, and they are the results of an enormous research effort that's going on in our traditional research facilities in West Point, Pennsylvania and in Rahway, New Jersey and as well going on in our new research facilities that Ken Frazier mentioned in Cambridge, Massachusetts, in South San Francisco and the facility that we will soon be constructing in London.

If you were to visit our Rahway facility, you could come to Building [AD] -- the Building AD complex. And there, we have a small demonstration that shows the many, many different advances that have come from the laboratories over the years. We have molecules and stick and stem structures displayed on the walls. But in the back, there's something that people generally don't notice. Inscribed on the wall is a statement that George W. Merck made at the time that facility was chartered.

April 25, 1933, George W. Merck said: "We have faith that in this new laboratory, with the tools that we have supplied, science will be advanced. Knowledge will increase, and human lives will win even greater freedom from suffering and disease."

Will win even greater freedom from suffering and disease. With our oncology program, our scientists are putting paid to that statement. That's your company. Thank you.

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

Thank you, Roger. Continuing now with the meeting. I note for the record that Geralyn S. Ritter and I are members of the proxy committee. And now I ask Ms. Ritter as the Secretary of the meeting to report on our quorum and other matters.

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**Geralyn S. Ritter** - *Merck & Co., Inc. - SVP of Global Public Policy & Corporate Responsibility, Secretary and Assistant General Counsel*

Mr. Chairman, proxies have been received totaling 2,324,615,000 votes or 86% 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 9, 2018, to all shareholders of record on March 28, 2018.

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

Thank you. In accordance with the resolution of the board dated March 27, 2018, Michael J. Barbera of IVS Associates, Inc. is appointed as inspector for this meeting and has executed an oath of office to conduct the voting and canvass and receive the ballots.

In the interest of time, we will dispense with the reading of the minutes of our previous meeting, but those minutes are available to anyone who wishes to see them.

The proposals will be presented in the order outlined in the proxy statement. There will be an opportunity for questions on each proposal. To give everyone a chance to participate, we ask that any questions pertaining to the proposals be no longer than 3 minutes in length. At this time, I would ask that you please limit your questions to the specific proposal on the floor. There will be time for general questions later in the meeting. If you have a question, please raise your hand and wait to be recognized. When it is your turn, the microphone in front of you will be on and ready for use. Please speak into the microphone, identify yourself and spell your name before asking your question.

If you've already mailed in your proxy or voted by telephone or the Internet, you do not need to vote now unless you wish to change your vote today. Ballots for matters to be voted on will be distributed to those who have not voted yet or who wish to change their vote today. Please raise your hand so that ballots may be distributed to you. If your shares are held in street name and you have a legal proxy from your broker to vote your shares, you will need to take a ballot. We ask you to mark the appropriate part of your ballot after each item is presented. The inspectors will collect the ballots and legal proxies when all voting is completed.

I declare the polls officially open.

The first item of business is the election of directors. The board's nominees are: Leslie A. Brun; Dr. Thomas R. Cech; Pamela J. Craig; Kenneth C. Frazier; Thomas H. Glocer; Rochelle B. Lazarus; Dr. John H. Noseworthy; Dr. Paul B. Rothman; Patricia F. Russo; Dr. Craig B. Thompson; Inge G. Thulin; Wendell P. Weeks; and Peter C. Wendell for terms expiring in 2019. I note for the record that no nomination for director has been properly made in advance of this meeting by any shareholder of the company.

Are there any questions?

Those shareholders voting in person should now mark their ballots for directors.

(Voting)

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

We turn now to a proposal to approve by a 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 proposal?

If you are voting in person, please mark your ballots with respect to this proposal.

(Voting)

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

The next item of business is a proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for 2018, as set forth in the proxy statement. The Board of Directors recommends a vote for this proposal.

Are there any questions on this proposal?

If you are voting in person, please mark your ballots with respect to this proposal.

(Voting)

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

We now come to the shareholder proposal. The shareholder proposal is from Mr. Kenneth Steiner and concerns shareholders' right to act by written consent. Is Mr. Kenneth Steiner or an authorized representative here to introduce this proposal?

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**Unidentified Shareholder**

Hello. My name is James Moore. It's M-O-O-R-E, and I'm going to read proposal 4, the right to act by written consent, again, sponsored by Kenneth Steiner of Great Neck, New York. Shareholders request that the Board of Directors take the necessary steps to permit written consent by the shareholders entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting.

This written consent is to be consistent with giving shareholders the fullest power to act by written consent in accordance with applicable law. This indicates -- this includes, excuse me, shareholder ability to initiate any appropriate topic for written consent. This proposal topic was -- also won majority shareholder support at 13 major companies in a single year. This included 67% support at both Allstate and Sprint. Hundreds of major companies enable shareholder action by written consent.

Taking action by written consent in place of a meeting is a means shareholders can use to raise important matters outside the normal annual meeting cycle. A shareholder right to act by written consent and to call a special meeting are 2 complementary ways to bring an important matter to the attention of both management and shareholders outside the annual meeting cycle. Scores of Fortune 500 companies provide for shareholders to call special meetings and to act by written consent.

Please vote yes, the right to act by written consent.

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

Thank you, Mr. Moore. The board has carefully considered the shareholder proposal concerning shareholders' right to act by written consent and believes adopting such proposal is unnecessary in light of the many shareholder protections and strong corporate governance practices we already have in place.

The requirement that all shareholder action be taken at an annual or special meeting to which all shareholders are invited rather than by written consent ensures that all shareholders have a voice in critical matters affecting the company. It also ensures that all shareholders have a meaningful opportunity to exchange views with the board before acting.

Furthermore, our bylaws already contain strong shareholder protections. Holders of as little as 15% of the company's stock can call for a special shareholder meeting. Merck shareholders also have a proxy access right permitting a group of 20 shareholders who have at least 3% of the outstanding shares for at least 3 years to nominate individuals representing up to 20% of the board.

For all these reasons, the Board of Directors believes that the limitation on shareholders' ability to act by written consent best protects the interest of all shareholders in a fair and balanced manner. 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 74 of the company's proxy statement. The Board of Directors recommends a vote against this proposal.

Are there any questions on this proposal?

If you are voting in person, please mark your ballots with respect to this shareholder proposal.

(Voting)

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

Since this completes the voting, the inspectors may now collect the ballots and legal proxies and tabulate the votes. Any ballot not received when called for will not be counted.

I declare the polls officially closed.

Now I'll be pleased to answer any questions you may have this morning. Please raise your hand and wait to be recognized. I will try to answer as many questions as possible. To facilitate this equitable process, we will limit each question to a maximum of 3 minutes. When you are recognized, please speak into the microphone and identify yourself before asking your question.

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## QUESTIONS AND ANSWERS

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

So there's a question right here.

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**Unidentified Shareholder**

My name is Alex Lehner. That's spelled L-E-H-N-E-R. I'm a retiree. I used to work for Schering-Plough years ago. I am thrilled, if I can use that word, to have this opportunity. I have a daughter-in-law who will soon start treatment with temozolomide for a gliosarcoma, 47 years old woman, 2 teenagers. Since I used to work for Schering-Plough, I realize that temozolomide is an old compound, old molecule. It's at least 20 years, maybe more. I'm wondering, is there any plan to follow up temozolomide with something new? Or is it -- are there any plans, perhaps, to combine temozolomide with KEYTRUDA to study it in glioblastoma or gliosarcoma? Thank you very much.

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

Thank you. Roger, why don't you take that?

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

Well, first of all, I'm very sorry to hear about your daughter-in-law's condition. Tumors of that type are extremely difficult to treat, as you're aware. And temozolomide, despite the fact that it is just as you say, an old drug, remains a standard of care. We have done quite a lot of work trying to find other agents that would be effective in glioblastoma. And unfortunately, malignant glio tumors are just extremely difficult to address. Early studies with KEYTRUDA have not demonstrated a meaningful effect, and combinations with temozolomide thus far do not look promising. On the other hand, we have a lot of ideas, and we continue to pursue those ideas with the hope that we will find something that will be more efficacious. We're on it every day. But it is an extremely difficult disease to treat.

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

Thank you, and I also share Roger's sentiments about your daughter-in-law.

**Unidentified Shareholder**

My name's Ed Norin, N-O-R-I-N. For probably a dozen years, I've been reading about the next government coming in is going to lower prices for pharmaceutical medicines in the United States, all different -- they bring them in from other countries, let the Medicare negotiate. Is this a risk? And if so, can you give us your feel for what kind of risk this is to profits in the future.

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

Thank you for your question, Mr. Norin. Certainly, we carefully monitor actions by all governments, but in particular, the government here in the United States. Because we realize affordability and accessibility of our products and the products of the industry as a whole are critical questions in our society, and therefore, critical questions for elected representatives. You might have seen the President outline the blueprint for drug pricing about 10 days ago. A lot of what that focused on, quite rightly, is the out-of-pocket cost being borne by consumers in recognition that the current system for reimbursement provides some incentives, as the President would say, for high list prices in our industry. As you know, in our industry, substantial rebates are actually paid for putting our products on formularies. The challenge is that, very often, those rebates and discounts, which can be very substantial, are not being passed on to consumers. And the President outlined various statements about the need to address both the high list price problem and the out-of-pocket problem. We have to wait and see what specific ideas there are. There were some requests for information, but we don't yet know exactly what would come out of that. I will say that a lot of the suggestions that were in the blueprint, as you read it, were not inconsistent with what we want as an industry going forward, which is the ability to price our products consistent with the value that they provide to patients and the impact that they have on the health care system overall. Unfortunately, some of the laws that exist in this country were existing for a very different health care system, where people were being paid for volume not for value. And what was very encouraging was some of the suggestions that the government might want to step up to allowing those kinds of negotiations to occur more freely, which is something that Merck really supports. We really do think that our products do provide tremendous value not only to individual patients, but again, impact on the overall health care system, reduce hospitalizations and things like that. So we would be extremely supportive of a system that allowed modern negotiation techniques that are consistent with us being able to show the true, full value of our products. So thank you for your question.

**Justin Danhof**

Hi. My name is Justin Danhof, D-A-N-H-O-F. I'm General Counsel with the National Center for Public Policy Research. Mr. Frazier, I want to ask about your decision to leave President Trump's American Manufacturing Council. As you just talked about the outline, I think you could have had a stronger input had you been around still. But last summer, after an episode of civil unrest in Charlottesville, Virginia, you joined with other CEOs in quitting President Trump's Advisory Council. Liberal activist groups had, of course, been pressuring the entire counsel to quit from its very inception, and this incident provided you just the opportunity to virtue signal to that crowd. While they were vile racial elements at play and there's 0 defense for any of that, many of the folks protesting simply didn't want to see parts of history, such as monuments, literally toppled. And there's real cause for concern. Liberal leaders, including Nancy Pelosi, Al Sharpton and others have called for the destruction of not just Confederate

monuments, but recently, the Jefferson Memorial, Mount Rushmore and a Chicago park named for George Washington. This is just to name a few. Totalitarians like Pelosi and her historical predecessors have a strong predilection for trying to erase history. We should resist that. You also took shots at President Trump's environmental and immigration policies. You told the New York Times:"There were things that happened earlier in this administration that I didn't necessarily agree with about immigration and climate change, but I didn't think that it was my role to actually speak out on these issues." Well, you did speak out. And as with Charlottesville, these issues aren't core to Merck and what we talked about at today's meeting. They're not core to us investors or us stakeholders. The Harvard Business Review now ranks you as one of America's activist CEOs, along the lines with leftists such as Apple's Tim Cook and Starbucks' Howard Schultz. Your personal politics are just that, your personal politics. But when you speak as the Head of Merck, you're representing thousands of people and opinions, those of the board; the employees; the investors; and probably more importantly, the brand. Surely, many of those folks agree with the President's stance on immigration and his environmental actions, such as withdrawing from the Paris Climate Accord. Many of them would prefer to see historical monuments stand and serve as lessons rather than be toppled. My question is this, what did Merck's long-term investors gain from your virtue signaling to the liberal crowd on these issues?

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

Well, first of all, thank you for your questions. I think you're raising some very substantial issues. And I want to tell you at the outset, the decision that I made to step down, which was supported by this board, was something that I did after giving it much thought. We live, unfortunately, in a society where it's very difficult for us to have what I would call nuanced conversations about difficult issues that we disagree with. So let me start by saying that, without regard to where one stands on the political spectrum individually, any step that a CEO like me takes is going to be criticized by some people. When I joined the President's Council, I saw harsh criticism from a number of elements saying that, that was a political statement in support of the President. I disagree. We were in the room to have our voice heard, and that was the reason why I joined. I didn't join it because that was a reflection of my personal politics. I joined it because I thought it was consistent with my responsibilities. And when I stepped off the council, I did not think that, that was a reflection of my personal partisan political views. I feel very strongly about the issues that occurred in Charlottesville. And as an American, as a citizen, I feel I have the right to express my conscience. And I did so under those circumstances. By the way, on the nuanced conversation, I wholeheartedly agree that we should be able to discuss issues like the monuments. My concern, however, were with some of the sentiments that were being expressed and the violence that occurred there, people can agree that a statue of Robert E. Lee should or should not stand. I hope that we, as Americans, don't subscribe to some of the sentiments. And as it relates to history, I would just point out to you that many people, including many proud sons and daughters of the South, perished on the battlefields of Europe because they were opposed to what those swastikas represent. So that would be my answer. Thank you.

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**Joel Summer**

My name is Joel Summer, spelled S-U-M-M-E-R. And I didn't think I'd get into this, but after this last gentleman, I can't keep my mouth shut. If our Chairman stood sideways -- I take some words from John F. Kennedy, he is a profile in courage. And I have to say this, I'm prejudiced because my aunt lived in the same city as Anne Frank lived in. And she went to a concentration camp because of those people who wore -- who had swastikas. My grandfather's family came from a town in Poland called (inaudible). The entire city was burned to the ground, and everybody was killed. So forgive me for interjecting my personal horrors, family horrors. And later on, I'd like to reserve the right to ask some regular questions to Dr. Perlmutter. Thank you all.

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

Thank you for sharing your experience. And again, I would repeat, in respect to the question that was asked, I would hope that we, as a country, are able to get into conversations about these difficult, challenging issues in a nuanced way and be able to communicate because that's, frankly, what makes our country stronger, is if we focus on the things that unite us as a country, okay?

I'm going to go to the lady in the back.

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**Unidentified Shareholder**

My name is William Shepey, S-H-E-P-E-Y. First, I want to congratulate you on taking a stand based on moral grounds, not political grounds. But moving on to my major question is I have, among friends, heard rumors that there's a possibility of Bristol-Myers and Merck getting together. I was wondering if you have any comments on that.

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

Well, I will say that we never comment on rumors in the marketplace. But I would make the following observation. If one looks at these 2 firms and their valuations today, a substantial portion of each respective company's valuation is tied up in the immuno-oncology field, where we are direct competitors. So that's the only thing that I can make is that factual observation that we are actually direct competitors in the PD-1 field. So thank you for your question.

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**Unidentified Shareholder**

Hello. My name's Donald Light. I just want to ask about a small rounding error -- or not an error, a small rounding issue. In May 2013, when Merck very generously offered to sell GARDASIL to Gavi, the Global Alliance (sic) [Gavi, The Vaccine Alliance] for $4.50 a dose, about a 95% reduction, the President then of Merck Vaccines, Dr. Julie Gerberding, told the New York Times: "The price is what we calculate to be our cost of goods. Our intent is to sell it to Gavi at a price that does not bring profit to Merck." However, no evidence at the time was provided to verify the cost of manufacturing GARDASIL. Doctors Without Borders commissioned a detailed study of those manufacturing costs, which was published in Vaccine, the leading journal in vaccine research. It found that the first set of 15 million doses for affluent markets cost between $2.07 and $3.05 a dose. The second set for less affluent countries and for Gavi cost $0.48 to $0.59. Selling at manufacturing cost to the world's poor has been a long-standing principle of Merck and practice of Merck. This principle and related Merck practices have earned Merck high marks for the corporate social responsibility and a high standing in the International Access to Medicines Index. Merck's price to Gavi in the world's poorest countries should reflect this moral commitment and not exceed its cost of $0.48 to $0.59. And I respectfully request that the Executive Committee and board consider this and think about adjusting the price to Gavi.

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

Thank you very much for your comments, and we will continue to look at trying to provide these vaccines at the lowest cost possible. As you know, accounting for cost varies depending on what you include in those costs and not simply the variable cost, what we have to think about in order to be sustainable. So there are different numbers that get quoted at different times, depending on the context. But your main point is one that I think we wholeheartedly agree with. We know that this is a vaccine that can do a tremendous amount of good around the world. We can talk, as you've heard public people talking about the first discussions about the possible elimination of cervical cancer and other cancers. We want to be a part of that because that's what our mission has always been about. So thank you for your question.

Okay. Over let's go over here.

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**Unidentified Shareholder**

I'm William Sidun, Jr., S-I-D-U-N. My question is basically, what is Merck's rationale in eliminating the matching funds from retirees to higher learning or any learning institute? Basically, as far as I remember, since I'm a retiree, and Merck was always targeting specific institutions, academic institutions, to further their research area. So now you've -- you reduced it, not you personally, sir, but Merck reduced it down to 7 -- I think it was 7,000 matching a year or 2 ago or more, and now it's 0. And to me, I think you're hurting the academic institutions because, now I continue to give, but there is no matching funds. So I just want to know what the rationale -- Merck's rationale is in eliminating the matching funds for retirees.

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

Okay. So thank you for your question. The Merck Foundation's annual budget was recently reduced from $40 million -- to $40 million, I meant to say, from $60 million, so from $60 million to $40 million, in an effort to extend the life of the endowment. The endowment, which is fully funded by Merck, is the sole source of funding for the foundation and its programs. Given the limitations of available funding, it was important to ensure that these reduced resources are being used in the most strategic, deliberate and impactful way possible. And that, frankly, required some difficult decisions about how to take that $40 million down from $60 million and stretch it as well as we could. The foundation's match for personal contributions actually consumes about 1/3 of our total spending in the foundation, with the retiree portion accounting for a very substantial portion of that. So the elimination of the retiree component was done by the foundation's board, which is a separate board, in order to allow the foundation to place more emphasis on a number of programs where the foundation is in involved in directly implementing in areas that are really aligned with its giving priorities. So for example, when we say something like we're going to take on a 10-year program for maternal mortality, reducing preventable cases of maternal mortality, that is a very strong commitment that we're making to the world. And I really have to say these are difficult decisions. We didn't reduce our flow of cash into the foundation arbitrarily. As you heard Dr. Perlmutter talk about competing needs for cash when we are dealing with programs like our cancer program. And I want to just end this by saying I want to say publicly that I have enormous respect and regard and appreciation for what retirees have done to make this company a successful company. The reduction in what we are able to give the foundation is a very real economic issue and one that I think the foundation feels it needs to respond to. So thank you.

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**Jeannette Brown**

Okay. My name is Jeannette Brown, J-E-A-N-N-E-T-T-E. I'm not spelling Brown. I'm a retiree, and I'm a member of the American Chemical Society. And I have to congratulate Merck because one of the women who is a chemist at Merck won an award for being -- finding diversity, putting more women chemists to work for Merck. And I also met the woman who now is Head of Diversity at Merck. I had lunch with her. So thank you for all of that. And also, thank you for donations for my award for minority little kids, high school and middle school. They won their awards yesterday, and I think Merck gave most of that money. And that was -- part of that money was an award that I had won, too. So thank you very much. Back in the day, when I was a chemist, we did our little piece of diversity, but now it's bigger and better. Thank you.

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

Thank you. We want to do all that we can do to support, particularly, rigorous education in science and math. We talked about Alzheimer's. As a country, we would need all the brainpower we can get to start to solve some of these tough problems.

Yes?

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**Unidentified Shareholder**

Hi. Good morning. Peter Braverman, B-R-A-V-E-R-M-A-N. My question this morning is, over the course of the years, I've received numerous notices of class-action lawsuits regarding Merck. I was just curious because I don't fully understand the nature of those lawsuits, and I was just curious as to how that impacts on the functioning of Merck and how that impacts on the shareholders.

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

I'm sorry, which lawsuits again?

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**Unidentified Shareholder**

Well, I don't know all the details, that's why I was asking the questions. There was notices that I've received through the mail on class-action lawsuits, and I was just curious about those.

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

Okay. So from time to time, lawyers file broad class actions. I'm not sure exactly the ones that you're referring to, whether they're in the employment field or in the drug marketing field. But I can generally say that we feel very strongly that we have both the resources to defend those kinds of class-action lawsuits. And I don't think we see them as, in any way, posing a threat to the orderly conduct of business at Merck. So thank you for your question.

I'll take one more because we're running out of time.

**Unidentified Shareholder**

Good morning, everyone. My name is Margaret Lipani, L-I-P-A-N-I. I was wondering, sir, if KEYTRUDA or any other of your drugs in the pipeline are being used for the treatment of pediatric cancers, particularly osteogenic sarcoma, Ewing sarcoma.

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

Roger?

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

Yes. Thank you very much for the question. We have done a number of studies looking at pediatric tumors. And those tumors, the osteosarcomas, are difficult to treat. But we have had some responses, and we continue to pursue those questions and to ask whether or not KEYTRUDA would be beneficial, or more importantly, whether we could use combinations in that setting. It's early days, but we're optimistic that we may be able to find something there. So we continue to work on that.

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

Thank you, Roger.

I'll take one more.

**Unidentified Shareholder**

Thank you. As a retiree, I'm just curious, and I will go along with the question that was asked before about matching funds. And do you have any percentage, as far as the number of retirees, that participated in the matching funds as opposed to current employees? Because I think that most retirees are more charitably giving than present, younger people. And I think that, that's a very important factor.

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

I don't have that data, but we can certainly look at that and get that back to you. But I must say, again, that I want to make it very clear that we make these kinds of decisions very carefully so as to not impact on the overall value of the foundation, particularly the kinds of strategic programs that we think are making a big impact on the world. The decision was not made in order for us to reduce, essentially, the respect that we have for our retirees. So thank you very much.

You're a problem. She takes this mic duty seriously. All right. This is the last question.

**Unidentified Shareholder**

My name is Joe Kuhta, K-U-H-T-A. Really quick about the pricing of pharmaceuticals. This really bothers me. You manufacture a product for ophthalmics and you got a price on it -- you sell it for like, say, $50 by the time it gets to the pharmacist. But between you and the pharmacist, now there's about 7 different channels of people and organizations, and nobody realizes that. And what happens is that $50, you got $35 for it. Pharmacist gets it for $55. You know what you pay for it? An average of $200 to $300. But people won't know this. They blame the pharmaceutical companies. They say, well, the pharmaceutical company just got $200 for it. No they didn't. And I think the government needs to know this. I didn't bring the packet with me, but there's about 7 or 8 different channels from your price to this price and all this stuff. But that's a fact. It's sad.

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

Yes, yes. So we've been devoted to making greater transparency around our pricing, the difference between our list price and our net price publicly. In fact, I think Merck was the first company to actually do that. And I think when you see some of the things that the President is talking about in terms of high list prices, he's actually addressing that issue. He is aware of that issue. He is aware of the substantial discounts and rebates that are being paid into various actors in the supply chain. Some of whom have really important roles, but others perhaps we can think of an optimal distribution system that might be more efficient. But in any event, what he really cares about is that those discounts should be shared with the actual patients at the counter as opposed to going solely to the businesses that exist in the supply chain. So again, our system is extremely complex. It's hard to make sweeping change to our system. But I think people now do identify that as a very specific problem.

So with that, again, I apologize for the fact that we have no longer time for our questions and we have to proceed with the rest of our meeting.

The final report of the Inspectors of Election will not be available today. We do, however, have a preliminary report, which I will now ask Ms. Ritter to present.

**Geralyn S. Ritter** - *Merck & Co., Inc. - SVP of Global Public Policy & Corporate Responsibility, Secretary and Assistant General Counsel*

Mr. Chairman, the Inspector of Election has presented his preliminary report. He's determined 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 also been approved.

Shareholders approved by a nonbinding vote the 2017 compensation of our named executive officers. The proposal received an affirmative vote of 94.5% of the total votes cast.

The inspector has also determined that the shareholder proposal concerning shareholders' right to act by written consent has received an affirmative vote of 44.8% 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 Friday on the company's toll-free telephone number, 1 (800) 225-5675 and also on the company's website, www.merck.com, under the Investors tab, along with an archived webcast of this meeting. We also intend to disclose the final results on Form 8-K within 4 business days of this meeting.

Thank you.

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

The business of this meeting has now been completed. I want to say to all of you, I really appreciate your coming out, the effort that you make to be here. And clearly, the interest that you have in our company. I really very much appreciate that as do my colleagues on the board and my colleagues on the senior management team.

So again, the final matter is to conclude the meeting. All those in favor, say yes.

(Voting)

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

Opposed, no?

(Voting)

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

I declare this meeting concluded. Thank you very much, and see you next year.

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