

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

MRK - Merck & Co Inc Annual Shareholders Meeting

EVENT DATE/TIME: MAY 28, 2019 / 1:00PM GMT



MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

## CORPORATE PARTICIPANTS

**Geralyn S. Ritter** *Merck & Co., Inc. - Senior VP, Corporate Secretary & Assistant General Counsel*

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

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

## CONFERENCE CALL PARTICIPANTS

**Anthony Verrelli**

**David Almasi**

**Meg Jones-Monteiro**

**Nicholas Lusiani**

**Sebin Nicole Ahn**

**Irenej Krayewsky**

**Walter Korfmacher**

## PRESENTATION

### Unidentified Participant

Ladies and gentlemen, the Shareholders' Meeting is about to begin. (Operator Instructions)

(presentation)

Please welcome Chairman of the Board and Chief Executive Officer, Ken Frazier.

---

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

Good morning, ladies and gentlemen, and welcome to Merck's 2019 Annual Meeting of Shareholders. It is my pleasure to call this meeting to order. On the stage with me is the company's Corporate Secretary, Geralyn 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 2019, subject to shareholder ratification at this meeting. Representing PricewaterhouseCoopers today are Denis Naughton and Sonia Luaces. Welcome, and thank you for joining us.

Now it is 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 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; Mary Ellen Coe, President, Google Customer Solutions, Alphabet Inc., who joined the Merck Board in March 2019; 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. 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; Inge G. Thulin, retired Chairman and Chief Executive Officer of 3M Company; Wendell P. Weeks, Chairman, Chief Executive Officer and President of Corning Incorporated; Peter C. Wendell, Managing Director of Sierra Ventures; and Dr. Thomas R. Cech, Investigator at Howard Hughes Medical Institute and distinguished Professor at the University of Colorado, who could not be with us today. This outstanding Board of Directors represents



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

a depth of experience in business, science and medicine and has a broad range of global perspectives. Our company is quite 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 Executive Committee. Please stand as I call your names, and again, I would ask that the audience please hold applause until all members have been introduced. Sanat Chattopadhyay -- I'm sorry, Sanat, Executive Vice President and President of Merck Manufacturing Division; Frank Clyburn, Executive Vice President and Chief Commercial Officer; 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; Steven C. Mizell, Executive Vice President, Human Resources; Michael T. Nally, Executive Vice President and Chief Marketing Officer; Dr. Roger M. Perlmutter, Executive Vice President and President, Merck Research Laboratories; Jim Scholefield, Executive Vice President, Chief Information and Digital Officer; and Jennifer Zachary, Executive Vice President and General Counsel. Ladies and gentlemen, please join me in recognizing the efforts of our talented senior management team.

Thank you. Now on to our presentation. This is our forward-looking statement. We at Merck are bound by our mission and live every day to fulfill our purpose of discovering, developing and providing innovative medicines and vaccines that save and improve lives around the world. Our goal is to be the premier research-intensive biopharmaceutical company, which propels our pursuit of medical breakthroughs that benefit patients, our shareholders and the world at large.

As you heard in the video, we run our business for the long term, focused on creating sustainable value for our many stakeholders. As a company, we believe innovation will continue to be our most important contribution to society. We invest significantly in R&D and are, in fact, one of the world's top investors in research and development. Merck is powered by nearly 70,000 employees that help create health and wellness for people and animals worldwide and help expand access to our medicines and vaccines.

Merck was established more than a century ago to help address the world's most pressing health challenges. Our inventions have improved health around the world, as you can see from some of these dramatic examples on this slide. However, this legacy of foundational achievement is not just a relic of the past. Our legacy provides a guide and springboard for our future.

As you will see here, the success of 2018 demonstrates the importance of the work we do and why we must remain committed to our mission of bringing forward the kind of medical innovations the world needs. We are seeing how the fruits of our long-term investment in R&D, coupled with strong commercial execution and disciplined expense management, have culminated in the highest top and bottom line growth the company has seen in years.

We recently reported results for the first quarter of 2019, and we have had a promising start to this year. Our first quarter performance showed strong year-over-year sales and EPS growth. This is the result of portfolio and operational strength in the key areas of oncology, vaccines, hospital and specialty and animal health. We believe that products in these areas, including KEYTRUDA, Lynparza, Lenvima, GARDASIL and BRIDION, together with our Animal Health business, will continue to be strong and sustainable drivers of growth.

Here is a look at our highlights for the first quarter of 2019. Back to 2018. Merck continued to redefine the standard of care in oncology with our cancer medicine, KEYTRUDA. There are now approximately 175,000 patients around the world who have been treated with commercially available drug, which is providing new hope. KEYTRUDA continues to be the largest driver of growth for the company and has the potential to be the largest product Merck has ever had by revenue. Today, we are the leading immuno-oncology company, but we are still early in the launch phase with KEYTRUDA as it enters markets around the world. We are committed to exploring the full potential of KEYTRUDA and are running the largest development program in the industry with over 1,000 clinical trials testing it as monotherapy and combination therapy in more than 30 cancer types.

We also remain very encouraged by the progress and potential of Lynparza in partnership with AstraZeneca, and also Lenvima with Eisai. Dr. Perlmutter will provide more detail in his section of the presentation. There are also more than 20 novel mechanisms in clinical and preclinical development that show early promise for continuing to turn the tide in the fight against cancer.



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

Merck vaccines play an important role in protecting and serving public health. Today, in the U.S., our company produces vaccines for 11 of the 17 diseases on the CDC's recommended immunization schedules. In terms of sales, our vaccines portfolio is led by GARDASIL, our HPV vaccine, which continued its strong performance in 2018 and into the first quarter this year. Health systems worldwide are supporting increased HPV screening and vaccination with GARDASIL with the goal of one day eliminating cervical cancer completely and certain other HPV-related cancers.

We also have a very promising vaccine pipeline. This includes our next-generation 15-valent pneumococcal asset, V114, which received Breakthrough Designation by the FDA in January for the prevention of invasive pneumococcal disease in infants, children and adolescents. Pneumococcal disease is a leading cause of serious illness throughout the world. According to a study published in 2015, pneumococcal disease accounts for about 515,000 deaths annually in children under 5 years of age around the world.

One last point on vaccines. The day before last year's shareholder meeting, in the Democratic Republic of Congo, health officials began vaccinating using our experimental Ebola vaccine. Since that time, nearly 120,000 people have been vaccinated against Ebola in hopes of altering the course of this deadly outbreak. Government health officials have called this investigational vaccine a game-changer and a critical tool in trying to limit the devastation of the outbreak that is happening today.

Now on to our hospital and specialty care business. There is steady growth in our hospital and specialty portfolio, representing a range of products in infectious diseases, virology and hospital-based care. Demand for BRIDION continues, which is used to speed up the recovery of your muscles after an operation, allowing you to breathe on your own again. In HIV, Merck continues to build on its 30-year legacy of scientific research and discovery with the approval of 2 new medicines in the U.S. and Europe. We are also hopeful about another candidate for the treatment of HIV, MK-8591, an investigational molecule, which works differently from any previous drug in the HIV class and shows promise to be a longer-acting agent.

Turning to Animal Health. Our Animal Health business is also driven by innovation and provides important revenue and diversification to our Human Health business. As the world struggles to feed nearly 100 million new people each year, we believe we can make an important contribution to sustainable food supply through improving the health and well-being of animals. Animal Health continues on its exciting growth path with a broad portfolio of products for both companion animals and livestock. There were 14 new product approvals in Animal Health alone last year. We are continuing to invest in this business, and with the closing of the Antelliq deal, our Animal Health business is now the leader in emerging digital technology for livestock and companion animals.

In addition to these important growth drivers, business development also remains a top priority, and we will continue to look for opportunities to further augment our portfolio and pipeline. Last year, we completed about 60 transactions spanning licensing, technology deals and clinical collaborations. Many of these deals were around earlier-stage pipeline assets where we believe we can add the most value to the collaboration given our scientific capabilities.

Turning to our performance across geographies. In the first quarter of 2019, nearly 60% of our sales came from our international business. China represents a significant opportunity, where pharmaceutical sales increased 67% year-over-year, driven largely by newly launched products. Last year, we had 9 new product approvals in China, including GARDASIL 9; and 2 approvals for KEYTRUDA: one for first-line lung cancer and one for advanced melanoma.

Over the last 128 years, our salient purpose in the world has not changed. And that's why I think whether you are a current or a past employee, every one of us knows this Merck W. -- George W. Merck quote, which set out the ideal for what today we call corporate responsibility. But what's important about this quote isn't that George W. Merck once said it, but rather that our employees around the world believe it and live it every day and that it continues to play an important role in shaping our company's culture.

Last year's achievements stand out not only as hallmarks of a good year for Merck but as milestones in health care history. And I think we are being increasingly recognized for our work and the impact we are having. Our longer-term perspective and commitment to innovation have led to strong shareholder returns. We're excited about the opportunities we have in front of us, both in terms of the products currently on the market and the candidates in the pipeline. And we are doing everything we can to be here not only for today's patients but for future generations.



MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

And with that, I would like to now turn it over to our Head of Research, Dr. Roger Perlmutter.

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

Good morning. Thank you very much, Ken. Our odyssey in the near term began with the observation that you see on this slide. It began with the realization that a single monoclonal antibody, which we now call KEYTRUDA, could have dramatic therapeutic effects in patients suffering from widely disseminated, advanced malignant disease.

This slide I'm showing you is a slide that shows a patient with advanced malignant melanoma that is widely metastatic. It is a CT scan through the thorax of this patient, a 72-year-old man, who was treated in California. And the -- if you imagine, this is a cross-section through this man's chest. The legs of the patient are pointing out towards you. And what you can see is that in the left lung field, there's a lot of material that shouldn't be there. That should be clear and black, but it's not. And the reason is because there's a very large tumor mass that's in the left lung field.

That particular CT image was taken in April of 2012, and this individual was treated with KEYTRUDA. And you can see, just 3 months later, what happened. In 3 months, that tumor mass essentially disappeared. These kinds of results are unprecedented. No one had ever seen anything like this. The benefits of KEYTRUDA in this setting are extraordinary, and the drug in general is well tolerated.

The image to have in mind, this patient, a 72-year-old man, treated with KEYTRUDA in 2012, demonstrates that very large tumor masses can disappear and that those responses can be quite durable. This man is alive today. He would ordinarily, without such treatment, have been expected to die within a few months.

Think, too, about former president, Jimmy Carter, who had a similar disease, malignant melanoma, widely metastatic to the chest, the liver and the brain. Treated with KEYTRUDA, he is alive today and is our oldest-living president.

So we begin with these dramatic responses. But an important aspect of KEYTRUDA treatment is that the treatment effect is not limited just to malignant melanoma. And indeed, we look now across a broad spectrum of different tumor types, and I'm showing you a set of plots for 24 different tumor types of the more than 30 that we have evaluated. In each case, the green lines represent a summation of treated patients. Where the line goes down, the tumor is shrinking. Where it goes up, the tumor is growing. And you can see that in many patients, there's an awful lot of green going in the downward direction across these many, many different tumor types.

We did these monotherapy studies in order to understand not only the breadth of activity of KEYTRUDA, but also to be able to think about where we might best utilize combinations of KEYTRUDA with other agents. KEYTRUDA is the first broad-spectrum anticancer drug ever introduced into clinical practice. It is broadly active, but it can be made more active.

And our idea was simply this: whereas in the past, conventional therapies provided modest benefit in terms of overall survival, with immunotherapy, as I've mentioned to you, responses are both broad in terms of tumor type, but they also tend to be durable. And a fraction of those individuals who respond to KEYTRUDA respond for many, many years. In some cases, as in melanoma, that fraction is quite high.

5-year survival data will be presented, for example, from our lung cancer studies at the American Society for Clinical Oncology meetings in June, just a couple of weeks from now. And just the fact that I can say 5-year survival data for non-small cell lung cancer, a disease where 5-year survival was almost never seen before, tells you that this drug is having a transformative effect. But beyond the administration of KEYTRUDA by itself, our view is that combinations can improve overall survival in the first instance and extend it over a longer period of time.

And we've demonstrated that now in a number of cases. We've demonstrated that in non-small cell lung cancer, we've demonstrated that in head and neck cancer and we've demonstrated that most recently in renal cell carcinoma. And what I'm showing you here is a plot that's called a Kaplan-Meier plot, which measures overall survival as a function of time.

And we're comparing here the combination of KEYTRUDA with another drug called a kinase inhibitor. This one is made by Pfizer. It's called axitinib. And axitinib plus KEYTRUDA, shown in the green line, is superior to what was then the best available therapy, shown in the dark line, in the treatment



MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

of advanced renal cell carcinoma. So these are remarkable effects that we have been able to demonstrate in a variety of different settings, and we're optimistic that we'll be able to extend these effects still further.

As Ken mentioned, this is not the only thing that we're doing. In the cancer realm, we have KEYTRUDA, but in addition, we have a kinase inhibitor that we have partnered with colleagues at Eisai in Japan to develop called Lenvima. And we also have the leading PARP inhibitor, poly ADP ribose polymerase inhibitor, for treating cancer called Lynparza. The activity of these 2 drugs is remarkable. And in addition, we've been able to demonstrate that combinations of these drugs with KEYTRUDA can provide superior benefit. Beyond these drugs, there are more than 20 investigational agents in the cancer realm that we're pursuing.

Similarly, in infectious diseases, we have new antimicrobial agents and new antiviral agents, some of which are listed on the slide. And in the area of vaccines, also, as Ken mentioned, we have our 15-valent pneumococcal conjugate vaccine, V114, currently in Phase III development. And in addition, vaccines directed against cytomegalovirus to eliminate one of the major causes of neonatal disability; dengue vaccine, D181; and of course, the Ebola virus vaccine, which has been so important in trying to manage Ebola virus disease in the Democratic Republic of the Congo.

We do all of these things because we have enormous capability in manipulating molecular structures. And indeed, if I could say the single salient advantage that our company brings to the field of human and animal health, it is our ability to generate important new compositions of matter, new molecular structures that have a big impact on human health and animal health.

And so to illustrate that, I thought I would tell you a little bit about the evolution of our strategies to make new molecules. I'm showing you on this slide 3 different structures. At the top of the slide is MK-8591, which Ken alluded to, which is a new class of inhibitors of an enzyme that's critical for the function of the human immunodeficiency virus. We believe this molecule has enormous potential. The second one down is something called a STING agonist, MK-1454. And the STING agonist is one of those compounds that is an experimental compound we're using to try and improve treatments for cancer. The last compound is KEYTRUDA, of course, a registered drug and an important one.

These structures are all illustrated as if they are similar, but they are not. They differ dramatically in size. The HIV inhibitor is about 1000th the size, 1000x smaller than KEYTRUDA. So you have a 1000-fold range in the size of these structures. And we have to develop mechanisms to synthesize these structures, both at an investigational scale and also to help our colleagues in manufacturing at an industrial scale.

And to do that, we began many, many years ago to take advantage of a phenomenon called enzyme evolution. Enzyme evolution, or biotransformation, permitted us to use normal biological processes to make structures of arbitrary complexity. This general approach was recognized with a Nobel Prize at the end of 2018. And the Nobel Prize, in particular, was awarded to Frances Arnold for her studies on enzyme evolution.

In her Nobel Prize lecture, she alluded, well, and said quite specifically that Merck had been the company that had implemented these discoveries to generate important new approaches to generating new molecules. She said something else also. She said we must look at nature with the eyes of a chemist, not just for what she's done, but for what she could do, as you see in this chimeric avian-canine complex.

We do, in fact, look at nature for what she can do and have generated combinations of evolved enzymes that can make very complicated structures. This process, as I mentioned to you, began for us, this odyssey, more than 20 years ago. And it was approached to improve the cost of manufacture, to do so in an environmentally sustainable way. Hence, the green chemistry symbol at the far left.

And we began with sitagliptin. Until recently, our most important and most profitable drug. Sitagliptin, for its synthesis, requires a very difficult step, which is shown by the introduction of the nitrogen in the center of the molecule. We engineered an enzyme to do that, and that biotransformation process dramatically improved our ability to make this compound.

But then I show you MK-8591 again and MK-1454, the 2 molecules that were present on the earlier slide. We now make these molecules using a complete enzymatic synthesis. For 1454, that was a relatively straightforward evolution. For 8591, though it looks kind of simple in the center of the slide, it's actually enormously complicated to manufacture. And we do it with a series of enzymes that are coupled together in a kind of a machine, if you will, shown at the bottom right. And that machine permits in a single vessel the simultaneous synthesis, all of the steps required to make the structure and to produce it at very, very high yield, at room temperature and without toxic catalysts.



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

I emphasize this because it represents an important new approach to making molecular structures. But most importantly, it provides a mechanism for rapid discovery of new compounds, compounds which have unimagined properties, compounds which may look like that canine-avian chimera that Frances Arnold spoke about. And this ability to make new structures, new molecular structures never before seen on earth, is a mechanism whereby we can approach the central issues affecting human health.

I'll close with another quote from George W. Merck, an important one, who in 1933 celebrated the opening of the Raleigh Research Laboratories. And at the time he said, "We have confidence that in these laboratories, with the tools that we have provided, science will advance, knowledge will increase and human life will earn still greater freedom from suffering and disease."

As the video mentioned, it is a hard road. It is a hard path. We play a long game. We began this biotransformation journey more than 20 years ago. But we have confidence that human life will earn still greater freedom from suffering and disease. Thank you.

---

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

Thank you, Dr. Perlmutter. Continuing now with the meeting. I note for the record that GERALYN RITTER, JENNIFER ZACHARY and I are designated to act as proxies for this meeting.

And now I ask Ms. Ritter as the secretary of the meeting to report on our quorum and other matters.

---

**GERALYN S. RITTER** - Merck & Co., Inc. - Senior VP, Corporate Secretary & Assistant General Counsel

Mr. Chairman, proxies have been received totaling 2,286,008,000 votes or 89% 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 8, 2019, to all shareholders of record on March 29, 2019. Thank you.

---

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

Thank you. In accordance with the resolution of the Board dated March 26, 2019, Michael J. Barbera, a representative of IVS Associates, Inc., is appointed as inspector for this meeting and has executed an oath of office to conduct the voting and canvas and receive the ballots.

In the interest of time, we'll 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. We ask that any questions pertaining to the proposals be no longer than 3 minutes. 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. 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. 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 that you mark the appropriate part of your ballot after each item is presented. The inspector will collect the ballots and legal proxies when all voting is completed.

I declare the polls officially open.





## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

The first item of business is the election of directors. The Board's nominees are: Leslie A. Brun, Dr. Thomas R. Cech, Mary Ellen Coe, Pamela J. Craig, Kenneth C. Frazier, Thomas H. Gloer, Rochelle B. Lazarus, Dr. Paul R. Rothman (sic) [Dr. Paul B. Rothman], Patricia F. Russo, Inge G. Thulin, Wendell P. Weeks and Peter C. Wendell for terms expiring in 2020.

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? There's a question in the back right there.

---

**Irenej Krayewsky**

(inaudible). I would like to ask a question. Are any of the director and the membership -- [or and] the directorship of other pharmaceutical company, which is a violation of Federal antitrust law?

---

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

The answer to that question is none of our directors are directors of other competitive pharmaceutical companies. So thank you for your question.

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

(Voting)

---

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

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? There's a question in the back.

---

**Unidentified Shareholder**

My name is [Alex Lopez], A-L-E-X L-O-P-E-Z, and I am a representative of a carpenter union pension fund that holds shares in Merck. The carpenter pension funds collectively have assets of \$60 billion, and they hold 919,000 shares of the company's common stock.

Mr. Chairman, as the say-on-pay vote is taken, I would like to express our support for the executive compensation plan that we believe is a very solid plan. The annual and long-term performance components utilize financial and strategic performance metrics designed to drive long-term, corporate value enhancement.

Two issues or questions I would like to raise relate to the 3-year pro rata vesting of stock options granted to named executive officers and realized pay reporting. The 3-year pro rata vesting of stock options is a short vesting schedule for a significant award of long-term compensation. Also, while not required, realized pay disclosure to augment the required summary compensation table disclosure would help shareholders assess pay-for-performance features of the plan. Could you or the Chair of the Compensation Committee comment on these 2 issues?

---

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

Okay. So we have the Chair for our Comp Committee here, Tom Gloer. I'll take a stab at it. For many, many years, we have had the stock option plan that has the 3-year vesting, and we have had essentially 1/3, 1/3, 1/3. I think the most important thing to think about as you think about that is that I think our management team has demonstrated, through good times and bad, that we are committed to the long term as a company. We have demonstrated that in many, many ways over the past few years. That is what we are committed to. I think we could certainly continue to ask ourselves about whether or not a different vesting schedule would be more appropriate. But I can assure you, certainly, as the CEO of Merck, I've always taken the position that what we are here to do is to, as Dr. Perlmutter just said, advance the science to help human beings live longer, better





## MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

lives. And the company's been around for 128 years, and I feel it's my responsibility to make sure it's around for another 100 years. And I don't even think day-to-day when I'm doing my job about that vesting schedule. So I can assure you that that's not really an issue for us as we go forward.

In terms of realized pay, we can certainly take a look at making sure that the proxy fully describes what the realized pay is. We use the formulas that we're supposed to be using to describe each element of compensation going forward. But we will certainly make sure that we look at it with an eye towards whether or not there's more effective disclosure we can make. So thank you for your questions.

All right. If you're voting in person, please mark your ballots with respect to this proposal.

(Voting)

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

The next item of business is a proposal to adopt the 2019 incentive stock plan as described in the proxy statement. The Board of Directors recommends a vote for this proposal. Are there any questions on this proposal?

Seeing none, I will say if you're voting in person, please mark your ballots with respect to this proposal.

(Voting)

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

The next item is a proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for 2019 as set forth in the proxy statement. The Board of Directors recommends a vote for this proposal. Are there any questions on this proposal? There's a question here.

**Irenej Krayewsky**

Again, Mr. Chairman. I'm sorry I didn't mention my name. My name is Irenej Krayewsky, I-R-E-N-E-J K-R-A-Y-E-W-S-K-Y. I'm a Professor of Economics at Kean University.

What would the expense (inaudible) Pricewaterhouse? Are the expenses going to be increasing this day for this year or [factored] in next year?

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

Well, let me answer the question by saying that over the past few years, with very few exceptions, our expenditures for our accounting had been essentially level, and I don't expect to see any major changes. Obviously, from time to time, issues come up during the course of the year that weren't foreseen, and we need the help and assistance of our very able outside accountants. But generally speaking, our Audit Committee pays very careful attention to the year-to-year budget for our accounting, and we've had it essentially be pretty level over the past few years.

Are there any other questions on this proposal? If you're voting in person, please mark your ballots with respect to this proposal.

(Voting)



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

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

Now we come to the shareholder proposals. The first shareholder proposal is from Mr. Kenneth Steiner and concerns an independent Board Chairman. Is Mr. Steiner or an authorized representative here to introduce this proposal? There is a person here.

**Meg Jones-Monteiro**

Mr. Chairman, members of the Board and fellow shareholders. My name is Meg Jones-Monteiro, and I am here on behalf of Kenneth Steiner of Great Neck, New York, to present proposal 5, independent Board Chairman.

Shareholders request the Board of Directors adopt a policy to require that the Chairman of the Board be an independent member of the Board whenever possible. Merck shareholders need an independent Board Chairman like the management structure many Fortune 500 companies already have. This is especially important because management had ignored 2 consecutive shareholder proposals for an independent Board Chairman that received more than 45% support each. These 45% supported proposals could have received higher votes, perhaps 51% each, if more shareholders had access to independent proxy voting advice. Ignoring these 45% supported proposals is more serious given that Merck may have a weak lead director with little skin in the game.

Lead Director, Leslie Brun, had 0 beneficially owned shares. Mr. Brun is also a Director at Broadridge Financial Solutions since 2007. Broadridge is attempting to diminish shareholder rights at hundreds of major companies by replacing the traditional in-person annual shareholder meeting with once-a-year audio broadcast meetings that are accessed through a computer. Nobody cares about such audio broadcast meetings. For instance, a company with 55,000 employees had attendance of less than 50 people for its once-a-year audio broadcast meeting that was used to replace a traditional in-person annual meeting.

An independent chairman is best positioned to build up the oversight capabilities of the directors, while the CEO addresses the challenging day-to-day issues facing the company. The roles of Chairman of the Board and CEO are fundamentally different and should not be held by the same person. There should be a clear division of responsibilities between these positions to ensure a balance of power and authority on the Board.

Please vote yes to help make up for a potentially weak Lead Director, independent Board Chairman, proposal 5.

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

Thank you, Ms. Jones-Monteiro. The Board has carefully considered this shareholder proposal concerning an independent Board Chairman and recommends that you vote against it. The Board's view is that Merck shareholders continue to be best served by having a CEO that is also Chairman of the Board, working closely with a strong, independent lead director who has significant duties that are clearly defined. Les Brun has been a very active lead independent director. If you don't believe that, you can ask my secretary about the number of calls we receive. And we're very fortunate, I would say, to have the benefit of his service on this Board.

Our current leadership model provides the right balance between consistent and experienced leadership as well as robust, effective and independent oversight of Merck's business. Furthermore, the Board believes that the independent directors who serve on the Board are best positioned to identify the individual who has the skills and commitment to perform the Chairperson role most effectively. Our directors should continue to have this discretion. For more information regarding the Board's position on this proposal, please see the Board's full statement and opposition, which is available on Page 88 of the company's proxy statement.

The Board of Directors recommends a vote against this proposal. Are there any other questions on this proposal? And there's a question back here.



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

**Anthony Verrelli**

Chairman Frazier, my name is Anthony Verrelli, V-E-R-R-E-L-L-I. I represent the Southwest Carpenter Funds, speaking on proposals requiring an independent Board Chair.

Chairman Frazier, our funds would simply like to voice our support for the Board's position in opposition to this proposal. The Board should reserve the right to set the governance structure of the Board. The current arrangement has served the company well in the past, and the company has always maintained a strong governance structure with the majority voting as its foundation. I want to thank you for your position. Thank you.

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

Thank you. There's another question here.

**Unidentified Shareholder**

Mr. Frazier, my name is [Jim White], W-H-I-T-E, shareholder since just around 2002.

And on this proposal, I would cite the following studies and dates. 2019 Harvard Law School study saw that 34% split the CEO and Chairman role, but then later recombined those roles. A 2016 Stanford study showed that 52% of the companies in 2015 had a combined role, and only 3% of those split-role resolutions passed, and 8% to 21% of those companies split the role. In 2013, a Booz study quotes, "When performance is flagging, split the top jobs. Otherwise, don't rock the boat". And as I look at your excellent performance in 2018 with revenues up 5%, income up 8%, the earnings per share up 11%, Q1 of 2019 revenues up 11%, earnings per share up 13% and, by the way, debt down 7% in 2018, no small mention, I would say that's a strong case for us not to rock the boat. Lastly, a Heidrick & Struggles study says that only 20% to 25% have split roles. Most revert back. And this is not a comment on Mr. Brun. But what it basically concluded is outsiders without intimate business knowledge of the company do poorly.

So I think your company position on this proposal is apt, and God bless you. Keep up the good work. Thank you.

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

Thank you, Mr. [White]. I particularly appreciate data, which sheds a different light on this.

Are there any other questions? If you're voting in person, please mark your ballots with respect to this shareholder proposal.

(Voting)

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

The next shareholder proposal is from Oxfam America, Inc. and concerns executive incentives and stock buyback. Is an authorized representative for Oxfam America here to introduce this proposal? Thank you very much.

**Nicholas Lusiani**

My name is Niko Lusiani, and I'm speaking in behalf of the resolution filed by Oxfam America. Oxfam is a nonprofit organization, active in the fight against poverty in more than 90 countries around the world, including here in the United States. We're also a shareholder of Merck.



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

Oxfam, like many investors, believes that senior executive compensation arrangements can and should encourage investment in public and private innovation, reward responsible and transparent tax practices and align the interests of senior executives with longer-term shareholder value. Yet recent practice at Merck seems to tell a different story.

Last year, Merck received an estimated \$1.2 billion in tax cuts from 2 provisions of the 2017 Tax Cuts & Jobs Act. This follows an estimated \$745 million in annual savings the company may have derived from tax avoidance through profit shifting in the U.S. and around the world. These tax savings were presented by Merck and others as being necessary to invest in research and development. However, Merck's 2018 R&D spending, a key indicator of innovation and medium-term value creation, dropped by almost \$0.5 billion, a 4.5% decrease from 2017.

What has the company prioritized instead? Merck more than doubled its share repurchases in 2018. According to the company's financial statements, the company spent a record \$9 billion-plus last year in buybacks, an increase of over 125% from 2017. Share repurchases may provide a quick bump in earnings per share for investors, but we do not believe they are conducive to longer-term value creation when they come at the cost of innovation and at the expense of tax-financed public investments.

The case for investing sizable tax cuts into stock buybacks is even less justified when coinciding with significant insider selling by senior executives. Various experts, including an SEC commissioner, have noted the top managers, who make vital capital allocation decisions, have in-built incentives to favor buybacks. The reason is simple: Share repurchases provide a quick boost to earnings per share, a key metric used by Merck in its executive pay design. When buybacks raise share prices even transiently, they increase the value of the equity-based compensation senior executives receive. Timing large-scale cash-outs to coincide with record stock buybacks raises at least the possibility that key capital allocation decisions may be influenced by personal incentives at the expense of longer-term shareholder interests.

As one example, during Merck's record share repurchase period over the past several months and as the stock price continually rose, Merck's CEO sold \$110 million of the stock he received as part of his compensation package. This far surpassed and outpaced the cash-outs by CEOs in peer U.S. pharmaceutical companies during the same period. More importantly, this insider selling coincided with the largest buyback period in Merck's recent history, boosted by the biggest corporate tax cuts in decades.

We believe that it is a disservice to investors, to taxpayers and to patients whose lives are at stake when companies use what was formerly money in -- paid in taxes to boost its stock price and enrich senior executives. This proposal simply aims to counterbalance incentives senior executives may have in favor of buybacks. In the view of Oxfam America, our co-filer and the many of the investors supporting this resolution, we believe that Merck's Board should disclose to investors in writing why these sorts of insider sales during buyback periods are in the company's long-term best interests.

Sustainable value creation in today's biopharmaceutical business, we believe, rests upon a well-resourced and functioning tax and public finance system. It is taxpayers who pay for essential front-end research through the National Institutes of Health. It's taxpayers who pay to protect patents and intellectual property here and abroad. It is taxpayers, moreover, who subsidize various business, charitable and marketing activities, and it is taxpayers who...

---

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

Mr. Lusiani, I've given you now a minute over the 3 minutes. So...

---

**Nicholas Lusiani**

I understood I had 5 minutes.

---

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

No, 3.



MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

**Nicholas Lusiani**

I understood I had 5 minutes. I'm just finishing up.

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

Okay. Thank you.

**Nicholas Lusiani**

When a company like Merck fails to pay its fair share of tax while overpricing patented medicines, the company not only undermines the written -- the unwritten compact it has with the public. It also can undermine long-term value. Enhancing transparency and responsiveness to ensure that insider sales during stock buybacks are in the company's long-term best interest is just one important measure Merck can take to foster longer-term value creation while safeguarding the health and improving the lives of millions of people around the world.

Thank you. And I apologize for going over. I was told 5 minutes. So I...

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

Fully understand. Fully understand. It's an important subject, too. Thank you, Mr. Lusiani.

The Board has carefully considered this shareholder proposal concerning executive incentives and stock buybacks and believes adopting the proposal is unnecessary in light of the company's existing stock ownership policy and rigorous safeguards that regulate stock sales by senior executives. The Compensation and Benefits Committee recognizes the critical role that executive stock ownership has in aligning the interest of management with those of shareholders. As such, the company maintains a formal stock ownership policy under which the CEO and other senior executives are required to acquire and hold a substantial amount of Merck common stock at all times. In addition to the stock ownership policy, we also have established and enforced policies that limit when senior executives can sell Merck common stock.

For all these reasons, the Board of Directors believes the existing stock ownership policy and rigorous safeguards that regulate stock sales by senior executives are aligned with the interest of our shareholders. For more information regarding the Board's position on this proposal, please see Page 91 of the company's proxy statement. The Board of Directors recommends a vote against this proposal.

Are there any other questions on this proposal? Okay. If not, if you're voting in person, please mark your ballots with respect to this shareholder proposal.

(Voting)

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

The final shareholder proposal is from the Province of Saint Joseph of the Capuchin Order and several co-filers and is related to drug pricing. Is an authorized representative of the Province of Saint Joseph of the Capuchin Order here to introduce this proposal? We have a person.

**Meg Jones-Monteiro**

Again, Mr. Chairman, members of the Board and fellow shareholders, my name is Meg Jones-Monteiro, and I am here on behalf of the Province of Saint Joseph of the Capuchin Order of Milwaukee, Wisconsin, and other ICCR investors who are long-term shareholders in Merck. I hereby move



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

proposal 7, which asks our Board to report annually to shareholders on the extent to which risks related to public concern over drug pricing strategies are integrated into our company's executive incentive compensation policies, plans and programs for senior executives.

In 2017, a Crédit Suisse report stated that U.S. drug prices contributed 100% of industry EPS growth in 2016 and characterized that fact as the most important issue for a pharma investor today. In 2018, the Crédit Suisse report concluded that U.S. drug prices increase accounted for 80% of the pharmaceutical industry growth in 2017 despite significant public and political scrutiny. The proposal requests information that will help investors assess the extent to which compensation arrangements encourage senior executives to responsibly manage risks relating to drug pricing and contribute to long-term value creation. We see executive compensation structures that may prioritize revenue sourced from price increases over innovation and stewardship as unsustainable.

When 1 in 4 adults today say they or a family member have not filled a prescription, cut pills in half or skip doses because of cost, we must question the broader social and economic impact that results from the current business model. Reactions from the public, health care payers, policymakers and prescribers to high drug prices pose a serious risk, in our view, to sustainable value creation. We need assurance that there are no situations of misaligned long- or short-term incentive pay that may encourage executives to sacrifice long-term sustainability for strategies that may pose business risks.

Increasing drug prices may create risk to corporate reputation. Some companies have responded to public concerns about pricing -- prices by committing not to raise prices by more than a certain amount per year. Merck has committed to limit average price increases of its drugs no more than the rate of inflation, but incentive compensation arrangements may be inconsistent with that commitment.

Specifically, Merck's incentive pay arrangements that take into account revenue and pretax income to determine payouts may disregard pricing pressures. Legislative and regulatory risks are apparent, with at least 30 pieces of legislation addressing prescription drug prices being introduced in this Congress and various congressional committees holding high-profile hearings. In addition, last year, at least 24 states passed legislation to curb rising drug costs. Merck's existing disclosures do not mention drug pricing-related risks, but rather describe compensation arrangements as required by SEC rules. We believe that the information sought by the proposal will give shareholders valuable insight about how Merck's executive pay practices balance financial goals and manage pricing-related risks.

With this proposal, we're asking how these very real concerns are being incorporated into corporate governance policies on executive compensation, importantly, if these policies and practices are consistent with Merck's stated mission to discover, develop and provide innovative products and services that save and improve lives around the world. We urge our fellow shareholders to vote for proposal 7. Thank you.

---

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

Thank you, Ms. Jones-Monteiro. The Board has carefully considered the shareholder proposal requesting a report on our drug pricing strategies and believes adopting this proposal will be unnecessary and duplicative in light of the company's existing risk management practices and disclosures related to pricing and executive compensation.

Merck's mission is to invent medicines and vaccines that save and improve lives. The company invests billions of dollars annually in research and development for this goal. We also seek to ensure that patients have meaningful access to the medicines we develop and have long committed to responsible pricing practices. Indeed, the company has implemented multiple programs to help eligible patients who can't afford their medicines.

Our pricing approach supports these efforts. We look at the value a medicine provides to patients and to society and simultaneously take into account the need to pay an appropriate return on invested capital to ensure that we can sustain our research and development initiatives over the long term. Our Board appreciates the importance of risks related to pricing from a strategic and reputational perspective. This concern is reflected in the Board's oversight of the company's long-term strategy as well as our enterprise risk management process. Moreover, Merck's executive compensation programs are designed in a manner that balances short- and long-term incentives in both financial and pipeline metrics. In addition, the Compensation and Benefits Committee regularly evaluates our programs through a formal, third-party risk assessment to ensure the plans do not encourage inappropriate risk taking or threaten the company's long-term interest.



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

For all these reasons, the Board of Directors believes that our current annual disclosures, including the annual drug Pricing Transparency Report, are consistent with what the proposal seeks. For more information regarding the Board's position, please see Page 93 of the company's proxy statement. The Board of Directors recommends a vote against this proposal.

Are there any additional questions on this proposal? Seeing none, if you're voting in person, please mark your ballots with respect to the shareholder proposal.

(Voting)

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

Since this completes the voting, the inspector 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.

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

## QUESTIONS AND ANSWERS

**David Almasi**

I'm David Almasi with the National Center for Public Policy Research, spelled A-L-M-A-S-I. I. I want to ask you about Merck's membership in and funding of a controversial group that wants to keep our company from making a profit while also putting patients at risk.

According to the website of the Institute for Clinical and Economic Review, ICER, Merck currently helps pay for the annual ICER Policy Summit, webinars and other programming. But a group of concerned oncologists have claimed that ICER recommendations about drug pricing are based on research that is unscientific, biased and non-comprehensive. Those oncologists also expressed concern that ICER has relied on largely inaccurate assumptions to demand lower drug prices. According -- additionally, Amgen, not a member or a funder of ICER, charge ICER is too focused on drug prices as the main determinant of health system value. As these concerns were being aired, ICER was calling for Merck's KEYTRUDA drug to be discounted at -- by at least 20%, possibly up to 60%.

ICER was founded by Dr. Steven Pearson. He came to our shores after working with the National Institute for Health and Care Excellence in the United Kingdom, commonly known as NICE. NICE's not-so-nice recommendations are a reason why hundreds of thousands of Britons are on waiting lists for basic diagnostics tests and thousands of operations are regularly canceled. The Guardian recently reported that people who are looking -- losing their sight are being forced to wait for months before having eye cataracts removed because of imposed restrictions on patient's access to cataract surgery in more than half of England, thanks to NICE. NICE's disastrous cost-effectiveness policies are what Dr. Pearson and ICER are now trying to replicate here.

Former U.S. representative Tony Coelho, a primary author and sponsor of the Americans With Disabilities Act, explain the real-world unfairness of the scheme. He wrote, "This type of cost-effectiveness analysis discriminates against people with disabilities and other vulnerable groups, like the elderly, because it assigns higher value to people in perfect health than people in less-than-perfect health." ICER is working with CVS on cost-effectiveness strategies. CVS CEO Larry Merlo told my colleague, "It's about getting suitable price points for drugs." That means more of what happened with KEYTRUDA at the expense of patient outcomes. When I brought this up with Johnson & Johnson CEO Alex Gorsky, he appeared disturbed about ICER's agenda. I'm hoping he will reevaluate his company's relationship with ICER.

So now I ask you the same question that I asked Mr. Gorsky. Can you explain how funding ICER benefits Merck?



MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

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

Thank you very much for your question. Before I get to your direct question, I just want to reassure you that this company is extremely committed to 2 things, the first of which, as you heard Dr. Perlmutter describe, the unprecedented progress we're making in our labs in areas like oncology. The second area is meaningful access to patients today as well as making sure that we have the investments necessary to find the medicines that tomorrow's patients will need. So let me be abundantly clear: We are committed to ensuring that we have a health care system that adequately rewards important innovations.

Now to get your question, I think it's a philosophical question in terms of whether our presence in that organization is the best way to influence how this kind of cost-effectiveness analysis gets done over time. So our choices are to absent ourselves from the whole discussion and hope that it turns out in a positive way. Because let's be very clear, to the extent that reimbursement authorities around the world listen to ICER, they're not going to listen or not listen because we're there or not there. So we have a choice to make here, whether we should show up and try to influence the work that's being done in ICER -- and I would say that we share many of your concerns about the methodology in which drugs are being evaluated. We completely share them. But the philosophical question is whether or not walking out on the discussions puts us in a better position in the long term to achieve our mission or whether or not being in the room and having our own health economics experts participate in those discussions is likely to lead to a better outcome.

But thank you for your question. Next question. There's one over here.

**Walter Korfmacher**

My name is Walter Korfmacher. That's K-O-R-F-M-A-C-H-E-R. My question concerns climate change.

As we know, scientists have said we have about 11 years to reduce use of fossil fuels by about 50% if we want to reduce the worst effects of coming climate change. So based on that, my question is simple. What is Merck doing to reduce its use of fossil fuels, either by energy conservation or switching to renewable fuels?

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

Excellent question. So as you heard from Dr. Perlmutter's presentation, first and foremost, as a global company, we believe we have a responsible (sic) [responsibility] to use resources wisely and try to drive the right kind of innovations that will enable global development while also protecting and preserving the planet and the communities in which we live and work. So that's what we're doing with respect to our own operations as a company.

Moreover, as we think about environmental sustainability, we look at 3 key areas, the first of which is that we want to reduce the risks in our value chain, including reducing greenhouse gas emissions. We want to understand the impact and the life cycle impacts of our products. But what we try to do is we try to make sure that we take those steps that we can, reasonably, given today's technology and our business needs, to reduce greenhouse gas emissions. As of 2017, I can say about 5% of our electricity, for example, came from renewable sources, and we're on track towards our goal of 50% by 2025.

So we're doing everything that we can. We understand the issue. We want to be as kind to our planet as we possibly can, consistent with our business needs. So thank you for the very good question.

We'll take one back here. This lady had her hand up.



MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

### Sebin Nicole Ahn

My name is Sebin Ahn, spelled S-E-B-I-N A-H-N, and I'm a student at Yale University. And I'm here on behalf of Dwight Hall Socially Responsible Investment Fund.

Our question concerns Merck's RotaTeq vaccine for rotavirus. Rotavirus is the most common cause of diarrhea in children under 5 worldwide and is responsible for around 215,000 child deaths per year according to WHO. We heard today about Merck's long-standing commitment to vaccines and preventive medicine. However, in November of last year, Merck announced it would supply only 2/3 of the RotaTeq vaccines required by West African nations in 2018 and 2019, and would pull the vaccine entirely from the region in 2020. Merck cited supply constraints but agreed to begin selling the vaccine in China this year. Merck released a statement offering to work with affected nations on a transition to alternative vaccines.

What actions has Merck taken to ensure access to rotavirus vaccines in West Africa? And how will it uphold the pledge in the coming year?

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

That's an excellent question and one that I get frequently when I'm out speaking about our vaccine business. So you should know that your question gets put to me by public health experts everywhere we go.

So let me first start by saying we are committed to making this vaccine available to the greatest extent possible. I have to say that often the question gets put to us, how are going to we make these vaccines available when, in fact, what we are working on are public/private partnerships that will allow us to make these vaccines available in areas of the world where people can't afford them. We, right now, are going to continue to increase the amount of manufacturing we can do over the next couple of years, which will help people all around the world.

And I know there was a report about the vaccines that are going to China versus sub-Saharan Africa. First of all, you should know that those plants, or the plant that you're talking about, is licensed for the use of vaccines in China. We can't just send vaccines anywhere we want. The product image, the formulation is the one that is appropriate for China. So the concept that we're making vaccines available for Chinese children at the expense of African children is a bit misleading. I'm not saying you're misleading, but the reports have been misleading.

So I have to come back again to my bottom line point, which is as a company, we are committed to making these vaccines available. For example, you see our Ebola vaccine in the Congo. That's not a vaccine we do because we want to make a profit on it. On the other hand, if we're going to make sustainable contributions to those areas of the world, we're going to need the right kinds of public/private partnerships to ensure that we have the right kinds of demand forecasts well in advance so that we could put in place the right kind of supply chain in conjunction with others who might actually help us manufacture in ways that are actually going to lower cost.

So that's a very complicated question you asked. I guess my bottom line is you should know that we are committed to ensuring that those 215,000 children don't have to die of rotavirus-induced diarrhea and vomiting.

I'm going to go over here.

### Unidentified Shareholder

Mr. Frazier, [Jim White], W-H-I-T-E. And I just want to thank you for your engaging style. It's so refreshing to see a CEO/Chairman of a company out in the reception area, greeting the shareholders and shaking their hand and having discussions with them in terms of state of the company and questions they may have. So it's a tribute to you for your leadership style and your engaging and transparent way of doing business. So thank you for that. And...



MAY 28, 2019 / 1:00PM, MRK - Merck & Co Inc Annual Shareholders Meeting

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

Thank you.

**Unidentified Shareholder**

You're welcome.

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

Shareholders are important to us.

**Unidentified Shareholder**

And you demonstrate that. You really do. I'd like to thank you, lastly, for your 2.7% dividend yield, for the fact that we had a 2.4% CPI inflation factor last year. It's a good place to park your money, nonetheless. So I appreciate all your good work.

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

Thank you, Mr. [White]. I was going for this man in the front row. He hasn't had a chance.

**Unidentified Participant**

My name is [Joel Summer], S-U-M-M-E-R, and I feel privileged to be here. And I'm an octogenarian, and I don't agree with corporate laws about people having to retire at 65. And I'm very pleased that our Chairman has agreed to stay on beyond the age of 65. Of course, I'm very pleased in having attended 3 meetings, and each one gets better and better. I also should say one of my corporate heroes is Warren Buffett. He's 86, and Charlie Munger is 95. Now I believe our Chairman has great strength, but I will not push him to stay on another 21 years.

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

Thank you.

**Unidentified Participant**

So once again, thank you for everything that Merck has accomplished. And also, I have to mention Dr. Perlmutter, who is also beyond 65, he's 66, and his great work. For all these seniors or about to be seniors, thank you.

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

Mr. [Summer], thank you for those kind comments. Next question is the gentleman right here.

**Unidentified Participant**

So investors, the U.S. Congress, governments around the world are increasingly calling for greater corporate tax transparency to ensure companies are paying tax where economic activity takes place. For example, United Nations' Principles for Responsible Investment, a network of investors



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

with more than \$70 trillion in assets under management, has called on companies to publish key tax and financial information, so-called country-by-country reports.

Norges Bank Investment Management, also a very significant shareholder in Merck, similarly expects Merck and other companies that it invests in to exhibit appropriate, prudent and transparent tax behavior, including through publication of country-by-country financial reports. The EU's proposed mandating large multinationals to disclose this information publicly, and Deloitte recently released a survey that 80% of multinational companies believe it is inevitable that public country-by-country reporting will be required in the coming few years.

There are real financial and reputational benefits to being viewed as a first mover in adopting robust tax transparency and responsibility practices. Merck has the ability to be this first mover and to be a real industry leader in tax transparency before being forced to do so. So my question is simply, will Merck commit to publishing its country-by-country reports?

---

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

Well, what I will commit to is we'll continue to think about that. We file our financial disclosures, including our tax disclosures, consistent with the laws that exist in those countries. I understand your point about being a first mover. It's something that we have to think about. But we're going to be responsible when it comes to our tax disclosures going forward. I can assure you.

I think we're running tight on time. Only one more question, and then we'll go on.

---

**Irenej Krayewsky**

This is about [your question], which I asked the Chairperson before you, 5 years, 7 years. The Vioxx litigation, had that case been concluded or still ongoing case?

---

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

It is all but completely concluded. I think we have just one case left, and I think it's in Utah. And that -- one is a lot better than 60,000. So I think we're almost to the end.

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

---

**Geralyn S. Ritter** - Merck & Co., Inc. - Senior VP, Corporate Secretary & Assistant General Counsel

Mr. Chairman, the inspector of election has presented his preliminary report. He's determined that each of the 12 directors nominated by the Board has been elected by a majority of the votes cast, and the Audit Committee's request for ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm has been approved. Shareholders approved, via nonbinding advisory vote, the 2018 compensation of our named executive officers. The proposal received an affirmative vote of 93% of the total votes cast. Shareholders also approved the adoption of the 2019 incentive stock plan. That proposal received an affirmative vote of 94.5% of the total votes cast.

The inspector has also determined that the shareholder proposal requesting an independent Board Chairman has received an affirmative vote of 32% of the total votes cast. The shareholder proposal concerning executive incentives and stock buybacks has received an affirmative vote of 4.5% of the total votes cast. And the shareholder proposal requesting a report on the company's drug pricing strategies has received an affirmative vote of 29% of the total votes cast. A majority of the votes cast was required for each of these proposals to be approved.



## MAY 28, 2019 / 1:00PM, MRK - Merck &amp; Co Inc Annual Shareholders Meeting

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](http://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, President & CEO

Thank you. The business of this meeting has now been completed. The final matter is to conclude the meeting.

All those in favor say, "Yes." Opposed, say "No."

(Voting)

---

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

I -- no? Okay. Okay, thank you. Thank you for your attendance this morning. I declare the meeting concluded. I wish you all good health, and I look forward to seeing you again next year.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

