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MRK.N - Q4 2020 Merck & Co Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 04, 2021 / 1:00PM GMT

OVERVIEW:

Co. reported 4Q20 total Co. revenues of \$12.5b and non-GAAP EPS of \$1.32. Expects 2021 revenue to be \$51.8-53.8b and non-GAAP EPS to be \$6.48-6.68.

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PRESENTATION

Operator

Good morning. My name is Lara, and I will be your conference operator today. At this time, I would like to welcome everyone to the Merck & Co. Q4 Sales and Earnings Conference Call. (Operator Instructions) Thank you.

I would now like to turn the call over to Peter Dannenbaum, Vice President, Investor Relations. Sir, please go ahead.

Peter Dannenbaum - Merck & Co., Inc. - VP of IR

Thank you, Lara, and good morning. Welcome to Merck's Fourth Quarter 2020 Conference Call. Today, I'm joined by Ken Frazier, our Chairman and Chief Executive Officer; Rob Davis, our Chief Financial Officer; Dr. Dean Li, President of Merck Research Labs; Frank Clyburn, our Chief Commercial Officer; and Mike Nally, our Chief Marketing Officer.

Before we get started, I'd like to point out a few items. You will see that we have items in our GAAP results such as acquisition-related charges, restructuring costs and certain other items. You should note that we have excluded these from our non-GAAP results and provide a reconciliation in our press release. We've also provided a table in our press release to help you understand the sales in the quarter for the business units and products. And the supplemental financials posted to our website include recast 2020 quarters based on the reporting change we are announcing today.

I would also like to remind you that some of the statements that we make during today's call may be considered forward-looking statements within the meaning of the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are made based on the current beliefs of Merck management and are subject to significant risks and uncertainties. If our underlying assumptions prove inaccurate or uncertainties materialize, actual results may differ materially from those set forth in the forward-looking statements.

Our SEC filings, including Item 1A and the 2019 10-K, identify certain risk factors and cautionary statements that could cause the company's actual results to differ materially from those projected in any of our forward-looking statements made this morning. Merck undertakes no obligation to publicly update any forward-looking statements.

Our SEC filings, today's earnings release and an investor presentation with highlights of our results are all posted on merck.com.

With that, I'd like to turn the call over to Ken.

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

Thank you, Peter. Good morning, and thank you all for joining today's call. Before turning to our financial results and our future perspective, I'd like to make a few comments about this morning's other announcement. It has been a distinct honor and privilege to serve this great company as its CEO over the past decade. I thank all of my Merck colleagues for their extraordinary support throughout this period. We are making this leadership change to cure in the knowledge that Merck has the elements in place for a strong future of scientific innovation and profitable growth.

Rob Davis is well prepared and well suited to help Merck capitalize on the many exciting opportunities before it as well as to take on the challenges that lie ahead. He and the Merck senior team will provide outstanding leadership for our company in the coming years. Given Merck's current position of strength, the Merck Board and I believe it is a good time to begin transitioning the company's day-to-day decision-making as well as the strategic direction to Rob, who will assume the title of President in April, at which point, our operating divisions, Human Health, Animal Health, Manufacturing and Research, will begin reporting to him.

I will retire as CEO at the end of June, but remain for some period of time as Executive Chairman to assist Rob, Dean and the rest of the senior team. I am extremely confident in the capabilities and commitment of Merck's people and Rob's ability to guide the company to an even brighter future.

Moving on to our results. Despite challenges from the pandemic, Merck achieved solid growth in revenues and earnings in 2020, made meaningful advancements in our pipeline and added important assets through business development. Despite the particular impact to our portfolio, the underlying demand for our innovative medicines and vaccines remains strong. And our initial guidance reflects our expectation for a return to strong growth this year, 2021.

Looking out to 2024, we continue to believe our revenue potential is underappreciated. Longer term, the work we are doing in advancing our internal pipeline and in adding assets through business development gives us increasing line of sight to significant potential growth drivers later this decade and into the next.

I'm amazed by the dedication of our employees who rallied to keep supply uninterrupted, regulatory filings on track and clinical and commercial execution in line with our goals. And I remain continually inspired by what Merck accomplishes for patients around the world.

I'm also encouraged by the progress scientific experts across the biopharmaceutical industry have achieved in bringing vaccines to market that will help address the pandemic and start to return the world to normalcy. These successes further underscore the societal value of our industry's ongoing investments in science and innovation.

Merck remains committed to developing an effective response to COVID-19 also. We have discontinued development of our COVID-19 vaccine candidate, but our therapeutic research programs continue to move forward. We believe that our oral antiviral candidate, molnupiravir, could make an important contribution to treating COVID-19 patients, and we look forward to seeing the results of our pivotal trials.

More recently, we acquired Oncolmmune and have accelerated the development of MK-7110, a Phase III candidate with strong potential in the treatment of severe and critical COVID-19 patients. I am encouraged by the innovative research happening in our lab, not just on the COVID front, but across our broad late-stage pipeline of promising medicines and vaccines, including in oncology, HIV and pneumococcal disease.

We remain highly focused on business development to enhance our internal pipeline. We completed 120 transactions in total in 2020, including important acquisitions, such as Oncolmmune, VelosBio and ArQule; and collaborations, including Seagen and Ridgeback. Our plan to spin off Organon remains on track for completion late in the second quarter. As independent, more focused companies, I'm confident Merck and Organon will have the ability to more effectively pursue their respective market opportunities and business strategy to bring more value to patients and to shareholders.

Let me conclude by expressing my confidence in the leaders of this company and how proud I am of the Merck team's success in advancing our pipeline and maintaining business continuity in a challenging environment. Additionally, I'd like to recognize and thank the frontline health care workers, scientists and government officials working together to bring the world back to normalcy.

And with that, I'll pass it on to my colleague, Rob, to review the details of our performance and our outlook.

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

Thanks, Ken, and good morning, everyone. I'm honored and humbled to be named as Merck's next Chief Executive Officer. I look forward to continuing the important work we do to bring our medicines and vaccines to the people who need them. Under my leadership, Merck will remain focused on scientific innovation as the source of sustained long-term value for both patients and shareholders.

Ken's unrelenting commitment to excellence and scientific innovation with patients at the center of everything we do permeates the culture of the company and its employees. Under Ken's leadership, Merck has achieved improved growth, clinical success, most notably with KEYTRUDA, and a revitalized pipeline and discovery research capability that will benefit both the company and the patients we serve for many years to come.

Ken has put us in a position of financial and operational strength, from which we will be able to pursue our important mission to save and sustain lives through ongoing scientific innovation. The company has benefited from Ken's leadership. I personally and professionally benefited from his mentorship and guidance and want to thank him for that. His shoes won't be easy to fill in so many ways, both within Merck, but also including his many principled and valuable contributions to important issues facing society today. The talent and commitment of Merck's employees worldwide, however, make me extremely confident that we will achieve continued success through this transition and long into the future as we build on Ken's legacy.

Now turning to the business. Our resilience in a year that brought us countless challenges amidst the global pandemic is a true testament to the talent, hard work and dedication of Merck employees worldwide. Our performance in this environment reinforces the confidence we have in our science-led strategy and in our potential for strong growth in 2021 and beyond. Underlying demand for our key growth pillars allowed our business to deliver 2% growth year-over-year or 4% excluding the impact of exchange, while absorbing approximately \$2.5 billion of negative pandemic impact to revenues. Were it not for the pandemic impacts, we estimate growth for the year would have been approximately 9% ex exchange.

Now turning to our fourth quarter results. Total company revenues were \$12.5 billion, an increase of 5% year-over-year, both nominally and excluding the impact of foreign currency. Fourth quarter results were negatively impacted by approximately \$400 million due to the pandemic. Excluding this impact, fourth quarter revenues would have grown by approximately 9% ex exchange.

The remainder of my comments will be on an ex exchange basis. Our human health revenues increased 6%. In oncology, KEYTRUDA sales in the quarter grew 27% to \$4 billion and for the year by 30% to \$14 billion. In the U.S., KEYTRUDA continues to maintain its leadership position in lung cancer and is benefiting from strong usage across all key tumor types. We continue to see strong growth outside of lung cancer, including in renal and endometrial carcinomas, and further uptake in our Q6 weekly dosing regimen.

Outside the U.S., KEYTRUDA growth continues to be driven by lung cancer indications. Uptake from KEYNOTE-189 and newly imbursed markets for KEYNOTE-407 remain the key growth drivers in the EU. In Japan, price adjustments in the first half of the year more than offset underlying volume growth. Lynparza and Lenvima continue to demonstrate strong growth and are meaningful contributors to our broader oncology portfolio, growing 53% and 26%, respectively, year-over-year.

Our vaccines portfolio continues to be impacted by below-normal wellness visits, particularly in the United States. GARDASIL sales grew year-over-year, mostly reflecting the impact from the \$120 million CDC stockpile replenishment in the quarter and the initial \$120 million borrowing in the fourth quarter of 2019, which had a combined positive impact of \$240 million year-over-year.

Our hospital performance showed continued improvement in the fourth quarter. BRIDION sales grew 13% year-over-year, driven by continued market share gains, offset in part by lower elective surgery procedures. Our Animal Health business again delivered a strong quarter with sales of \$1.2 billion and 6% growth. Companion Animal grew 9%, reflecting demand for companion animal vaccines and parasiticides. Livestock grew 4%, primarily reflecting an extra month of sales from the acquisition of Antellico, partially offset by distributor purchasing patterns.

Turning to the rest of our P&L, my comments will be on a non-GAAP basis. Gross margin was 73% in the quarter, an increase of 0.4 percentage points, driven by favorable product mix and manufacturing variances, partially offset by higher inventory write-offs due to a recall of ZERBAXA, pricing pressure and foreign exchange. Operating expenses grew 4% year-over-year to \$5.4 billion. COVID had a largely neutral impact as operating savings were offset by incremental spend to advance our COVID-19 research programs.

Operating expenses in the quarter reflect overall growth in R&D spending as well as a donation to the Merck Foundation. Other income increased year-over-year driven by income from equity securities. The effective tax rate for the quarter was 15.3%, a decrease of 1.6 percentage points from a year ago due to favorable earnings mix. Taken together, we earned \$1.32 per share, an increase of 17%.

Now before detailing our 2021 outlook, I want to highlight that our press release details reporting changes we will be implementing beginning in the first quarter that are reflected in our guidance ranges. These changes result in a better alignment between our non-GAAP results and the underlying operational performance of our company and improve unpredictable quarter-to-quarter volatility. While these changes will have an impact on our non-GAAP results going forward, there is no impact to cash flow.

Turning to 2021 guidance. For Merck, we expect revenues of \$51.8 billion to \$53.8 billion, which represents growth of 8% to 12% versus 2020, and excludes any potential revenue from our COVID therapeutics. This range assumes a positive impact from foreign exchange of roughly 2 percentage points using mid-January rates. We assume full year pandemic impacts to be approximately 2% or roughly \$1 billion, largely in the first half of the year.

Our gross margin will be roughly 77%, including a benefit of 1.8 percentage points due to the reporting change. We expect operating expenses to grow at a high single-digit to low double-digit rate. Normalized for the impact of COVID, operating expenses would be expected to grow closer to mid-single digits.

We expect other expense of \$400 million in our other income and expense line, driven largely by net interest expense. Under our prior reporting, we would have guided to an expected \$400 million of income, resulting in an \$800 million unfavorable swing. This difference is driven by an expected gain on the announced sale of Preventice, mark-to-market gains on our fund holdings, which include our indirect investment in Moderna, and other expected investment gains that will now be excluded from non-GAAP.

We expect our full year tax rate to be between 15% and 16%. We anticipate 2.53 billion shares outstanding. Taken together, we expect our non-GAAP EPS to be between \$6.48 to \$6.68, which reflects growth of 12% to 15% versus 2020 recast EPS. This range includes a positive impact from foreign exchange of roughly 3 percentage points.

Our EPS growth under the new reporting convention benefits from the removal of the disproportionate mark-to-market equity gains we recorded in 2020. Importantly, however, under either reporting method, we expect strong operating margin leverage of 1 percentage point or more in 2021. The benefit to our 2021 EPS guidance is only \$0.08 under new reporting versus previous reporting.

We will continue to monitor the ongoing impact of the pandemic on wellness visits and delayed procedures as we move into and through 2021. We remain confident in our ability to grow both in the near and long term, driven by our portfolio of derisked and innovative assets.

Now turning to Organon. We are on track to complete the spin-off of Organon, which we expect will take place in the second quarter -- I should say, late in the second quarter. The strategic merits of this transaction are even more clear as we sit here today. In 2020, we brought -- the products we will spin-off as part of Organon achieved revenues of \$6.5 billion. The high-level metrics for Organon that we provided a year ago remain largely unchanged. We expect Organon to achieve 2021 revenues of \$6 billion to \$6.5 billion. Off of this base and as the negative impact of the loss of exclusivity on key brands diminishes, we expect Organon to achieve longer-term revenue growth in the low to mid-single digits.

As a stand-alone company post spin, we continue to expect Organon's operating margins to be in the mid-30% range and to increase over time. This compares to a non-GAAP operating margin of approximately 45% within Merck, with the difference reflecting additional costs Organon will incur to operate as an independent company. EBITDA margins are now expected to be in the high 30% range initially and are expected to grow over time. This is a slight decrease from our prior guidance due to a lower proportion of capital assets transferred to Organon versus our initial expectations.

We expect Organon to have initial debt of \$9 billion to \$9.5 billion. Merck expects to receive a special tax-free dividend of \$8.5 billion to \$9 billion prior to the spin. We continue to expect Organon to pay a meaningful dividend that will be entirely incremental to that of Merck. For Merck, the spin-off of Organon is expected to enable incremental operating efficiencies of approximately \$1.5 billion over 3 years, including approximately \$500 million in 2021, which is included in our guidance.

We now expect to deliver operating margins of greater than 42% in 2024, an increase of 2 percentage points versus our prior expectation of greater than 40% as a result of the impact of the reporting change. For modeling purposes, please be aware that Merck will continue to incur overhead costs previously allocated to the Organon products, which we estimate to be approximately \$400 million on a full year basis. These stranded costs will be reduced over time and are netted into the overall efficiency target.

To conclude, the strength and resilience of our business in 2021 -- or in 2020 reinforces our confidence as we begin the new year. Demand for our key growth drivers remains intact, and we are confident that we will deliver strong growth in 2021 and long into the future. We will continue to use our strong financial position to invest meaningfully in our pipeline, capitalizing both internal and external opportunities, and to make the right strategic decisions like the spin-off of Organon to position our company for continued success.

With that, I'll turn the call back over to Ken.

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

Thank you, Rob. As I've underscored many times, innovative research is the cornerstone of Merck. This is why we planned carefully for Dr. Roger Perlmutter's retirement and the transition of leadership of the Merck Research Laboratories to Dr. Dean Li, who I'm pleased to welcome to today's call.

Dean is a physician scientist who has a keen understanding of Merck's mission, dedication to science in our early- and late-stage assets. He has hands-on experience leading key areas of research, including early discovery in translational medicine while under Roger's leadership at Merck as well as in his prior roles where he exploited new technologies to found companies and was a leader in an academic health care delivery system.

We believe he is uniquely positioned to take on this important role and advance Merck's promising pipeline. I'm confident that under Dean's leadership, Merck's legacy of innovative R&D will continue, and we will persist in successfully bringing forward breakthrough medicines and vaccines that make a real difference for patients and shareholders alike. Dean?

Dean Y. Li - Merck & Co., Inc. - EVP

Thank you, Ken. I'm delighted to be here for my first earnings call as Head of Merck Research Laboratories. And so for my remarks today, I will provide an update on our COVID research effort, cover key regulatory milestones, clinical updates and recent business development, first in our oncology pipeline and then the broader pipeline.

Regarding our COVID-19 research programs, Merck has made the decision to discontinue development of its vaccine candidate, V590 and V591. This decision was based on clinical finding from Phase I study showing that, while the vaccines were well tolerated, immune responses were inferior to those observed with natural infection and those reported for other authorized COVID vaccines. We are grateful to our collaborators and the volunteers who participated in this trial.

Our COVID-19 efforts now shift, advancing our 2 therapeutic candidates, molnupiravir, often known as MK-4482 and, MK-7110. Our orally available antiviral candidate, molnupiravir, which we are developing in collaboration with Ridgeback Biotherapeutics, continues to progress in our Phase II/III trials studying hospitalized and nonhospitalized patients. The primary completion date is in May 2021, but it is possible that we may have interim efficacy data in the first quarter, which, of course, we would share publicly if meaningful.

Molnupiravir has the potential to play an important role in the current pandemic as well as other emerging novel coronavirus infections. We have been scaling production capacity and expect to have over 10 million courses of therapy available by the end of 2021. We recently added the second candidate to address COVID-19 through the acquisition of Oncolmmune. This agent, MK-7110, is a recombinant fusion protein administered by IV infusion that targets the novel immune checkpoint. Final results are expected in our -- in the clinical trial in the first quarter.

Turning to oncology. In the fourth quarter, KEYTRUDA received an additional new approval in the U.S. in combination with chemotherapy for first-line treatment of patients with metastatic triple-negative breast cancer whose tumors express PD-L1 at a combined proportion score of 10 or greater. The approval was based on progression-free survival results from KEYNOTE-355, and this marks the 17th tumor type for which KEYTRUDA has been approved.

Also in the last quarter, the FDA accepted a supplemental New Drug Application with priority review for KEYTRUDA in combination with chemotherapy in previously untreated patients with esophageal carcinoma regardless of PD-L1 expression based on KEYNOTE-590. These results demonstrated clinically meaningful improvement in overall survival, progression-free survival and overall response rate. The FDA target action date is April 13.

Working with our partners at Eisai, we are pleased to note positive results from the KEYNOTE-581 trial for KEYTRUDA plus Lenvima versus sunitinib for first-line treatment of renal cell carcinoma. The study demonstrated statistically significant improvements across primary and secondary endpoints, and these data will be presented at ASCO GU next week.

We also announced that KEYNOTE-775, evaluating KEYTRUDA plus Lenvima for treatment of second-line endometrial carcinoma, was stopped early. The independent data monitoring committee reported that KEYTRUDA plus Lenvima demonstrated a significant improvement across all endpoints versus chemotherapy. The success of KEYNOTE-581 and KEYNOTE-775 reinforces the opportunity presented by the combination of KEYTRUDA and the multi-tyrosine kinase inhibitor, Lenvima. We continue to explore this combination in 19 studies spanning multiple tumor types.

Now looking ahead, we look forward to meeting with the FDA's Oncologic Drug Advisory Committee to discuss data from the third interim analysis from KEYNOTE-522, evaluating neoadjuvant and adjuvant treatment of patients with early-stage, triple-negative breast cancer as compared with an alternative regimen. The BLA that includes data from this study is currently under FDA review with a PDUFA date next month.

Business development remains a priority. In the fourth quarter, we completed the acquisition of VelosBio, whose lead candidate, VLS-101, known as MK-2140, is a ROR1 targeted antibody drug conjugate currently being evaluated in a Phase II study of patients with solid tumor and in Phase I for patients with hematologic malignancies. This opportunity, along with the LIV-1 antibody-drug conjugates that we are developing in partnership with Seagen, underscores our commitment to investigating tumor-targeted chemotherapy using next-generation antibody-drug conjugates.

Now as part of our strategy to explore new tumor-targeting technology, we recently entered collaborations with A2 Biotherapeutics and Artiva Biotherapeutics aimed at evaluating opportunities for T and NK cell therapy, and a third collaboration with Janux Therapeutics on their T cell

engager technology. These collaborations, along with work already underway with Dragonfly Therapeutics to design targeted NK cell engagers, support our commitment to tumor-targeting technologies.

Now turning to our broader pipeline. We continue to progress our suite of pneumococcal vaccine candidates, V114, V116 and V117. Each one is designed for targeted production against prevalent pneumococcal disease serotypes across different age groups. The assay for V114, our 15-valent pneumococcal vaccine candidate, was recently granted priority review by the FDA for the prevention of invasive pneumococcal disease in adults. The target action date is July 18.

Adults administered V114 produced comparable levels of antibodies for all serotypes in the currently available conjugate vaccines with higher responses observed for serotype 3, one of the most common causes of invasive pneumococcal diseases in adults and in children. Robust response to unique disease-causing serotypes, 22F and 33F, were also observed. Now in the U.S., serotypes 22F and 33F have been linked to 13% of invasive pneumococcal disease seen among adults aged 65 and older; and in Europe, 7% to 12% of adult cases. Our V114 Phase III pediatric studies are on track, and we anticipate results from these trials this year. In addition to V114, we are progressing our adult and pediatric next-gen vaccines, V116 and V117.

In the infectious disease space, islatravir, our novel nucleoside reverse transcriptase translocation inhibitor for HIV, continues to progress in both the treatment and in the prep setting. In the prep setting, we expect to begin recruitment soon for 2 new Phase III trials, IMPOWER 22 and IMPOWER 24, in different populations at high risk of acquiring HIV infection.

Now IMPOWER 22 will evaluate the efficacy and safety of islatravir as a once-monthly oral capsule in adult women and adolescent girls. IMPOWER 24 will evaluate the same regimen in men who have sex with men and transgender women who have sex with men. Also, in the prep setting, positive interim results from the Phase II trial evaluating islatravir as a once-monthly oral prep regimen were recently presented at HIV Research for Prevention 2021. These interim results show that islatravir achieved the efficacy pharmacokinetic threshold at each of the 2 doses study, 60 milligrams and 120 milligrams, and that these doses are well tolerated. These findings offer further evidence for the potential of islatravir to provide a monthly oral prep option for people at risk of acquiring HIV.

Now in addition, as we announced previously, we are advancing MK-8507, our non-nucleoside reverse transcriptase inhibitor, in combination with islatravir into a Phase II study as a potential once-weekly oral treatment option. This weekly islatravir MK-8507 combination builds on the once-daily islatravir plus doravirine combination currently in Phase III, a Phase III study which we expect to start to read out in the second half of 2021.

Finally, we received FDA approval for VERQUVO, following priority review. This new option for patients who've experienced worsening heart failure built on our commitment to develop therapies for patients with cardiovascular disease. We at Merck Research Laboratories are well positioned to continue to take full advantage of our considerable strength in oncology and vaccine while investing in other therapeutic areas, exploring new modalities and complementing and supplementing our internal pipeline with external opportunities.

I will now turn the call back to Peter.

Peter Dannenbaum - Merck & Co., Inc. - VP of IR

Thank you, Dean. We recognize there could be additional questions today, and we're prepared to extend the call past 9 a.m. But in order to get to as many analysts as possible, I ask that you please limit yourselves to one question. Lara, could you start the queue, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) So your first question will come from the line of Mr. Seamus Fernandez.

Seamus Christopher Fernandez - *Guggenheim Securities, LLC, Research Division - Senior Analyst of Global Pharmaceuticals*

So Rob, congratulations on the CEO appointment. Just wanted to get a sense of your thoughts in terms of Merck moving forward. You've talked about the under-appreciation of the upside that you see for the company in 2023 plus relative to consensus expectations. But the obvious question that is going to continue is, how are you thinking about the evolution of the company in sort of 2026 to 2030 as KEYTRUDA basically approaches its patent expiration? What do you think the company really needs to do in that regard?

And then just as a follow-up to that, just from a strategic perspective, can you just give us your thoughts around the Animal Health business as part of Merck? Could that be part of a future restructuring?

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

Great. And thanks, Seamus, for the questions. As we look forward, from a strategic perspective, obviously, there'll be a lot more time as we move into the months and quarters to come to continue to have the dialogue. But I think at the highest level, the important point is that the strategy we've been under, which is focused on scientific innovation as the core of who we are, driven first by really the revitalization of what we're doing in the drug discovery and from a clinical development perspective, which I think you're seeing the fruits of, and obviously, what we're achieving with KEYTRUDA and with what we see as a growing earlier-stage pipeline, which we're excited about.

So as we look at 2025 and beyond and into the 2030 time frame, it really is to continue to focus, first and foremost, on investing behind the best science, whether it comes from inside the company or outside the company, execute on the pipeline we have. We have a lot of great, near-term, late-stage launches coming. We've got islatravir. We've got our V114, the entire pneumococcal franchise that we're building. We have obviously a whole host of opportunities in oncology, which I'm sure Dean and others would be happy to comment on. Looking at both what we can do to extend the breadth of KEYTRUDA's reach to the number of patients it serves as well as its efficacy through combinations as well as broadening into other oncology fields and broader mechanisms, which we have. So that all will be continued to be where we will focus our efforts.

As we look at that, we realize, though, we will need to continue to do business development to augment that, and we are committed to that. We've been pretty consistent in talking about the urgency we have around business development. That hasn't changed. That won't change. But what also won't change is we will do it when we see an alignment of strategy and value that is tied with our scientific endeavor and that -- so that is really the way we look. But as we started to highlight even at the JPMorgan conference, I think people under-appreciate what we have as growth opportunities as we start to move into that 2028 and beyond time frame. Clearly, we have a real opportunity to continue to grow between now and then with KEYTRUDA. But I think, actually, we will have an opportunity to grow beyond then through all of the things I mentioned. So more of the same from that regard.

And then with regard to Animal Health, we continue to see Animal Health as a strategic part of this business. If you look at the growth that business delivers, it's best-in-class within the animal health space. It's accretive to the overall position for Merck, and we are investing in it. And I think it is positioned to continue to show very strong growth, both through the existing products it has, but also through a very good portfolio of pipeline products which is leveraging the synergies we have with the MRL function we have on the human health side. So as we sit here, looking forward, I continue to see animal health as a core part of our strategy. And as we've said, we always are looking at our portfolio, but everything I see tells me that this is something we will maintain and grow because we are the most advantaged owner, in my mind.

Operator

Your next question will come from the line of Mr. Andrew Baum from Citi.

Andrew Simon Baum - Citigroup Inc., Research Division - Global Head of Healthcare Research and MD

A question on islatravir, please. Roger was quite determined that cabotegravir was not the right dancing partner for fixed-dose combination in the treatment setting. But aside from the capsid inhibitor, there doesn't seem to be a whole lot of other options. With a fresh pair of eyes under Dean's leadership, should we assume that the status quo remains intact or whether another look at cabotegravir as a combination may be interesting?

And then secondly, perhaps you could comment on whether in the prep setting, you can bridge islatravir to explore different delivery formulations, including very long-acting without running separate trials?

Dean Y. Li - Merck & Co., Inc. - EVP

Yes. So thank you for that question. I'll just make some comments that will sort of frame how one might want to think about islatravir. And one way to think about it is with the lens that we believe that this can be a foundational medicine, both in prep and in treatment. And the favorable attribute to recognize is PK dosing schedule, route of administration, resistant profile, tissue levels and combinability.

And so the question in relationship to treatment is, I've laid out what we're doing once-daily, once-weekly. But if this molecule is as foundational as we believe it is, this is something that could combine with many different mechanisms and many different molecules. I can just tell you that integrase inhibitors, which is cabotegravir, that's an important class. It's an important class that's actually very dear to Merck. And so that needs to be looked at carefully.

And then lenacapavir, which you allude to, that's a new mechanism. And we believe that islatravir as a foundational medicine should -- we should look at the full array of combinations that can be achieved because we believe it's foundational, and we believe that, that foundation can provide a lot of benefit for many different patients. And we should look at all combinations possible that would allow us to prove that and to show that.

Operator

Your next question will come from the line of Mr. Terence Flynn.

Terence C. Flynn - Goldman Sachs Group, Inc., Research Division - MD

Congrats again, Ken, on a remarkable career, and best wishes in the future. And congratulations, Rob, as well on the new role and responsibilities, and best of luck.

I just -- maybe a 2-part question. Rob, I was just wondering if you can provide your perspective on the share repurchase outlook for 2021. Obviously, you have the \$8 billion to \$9 billion dividend coming in from Organon. Maybe how aggressive are you going to be on that front?

And then just a question for Dean on MK-4482, building on Ken's comment regarding an important contribution from this drug in the COVID paradigm, was wondering if you guys already have some of that initial Phase II data in-house.

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

Maybe I'll go first and then turn it over to Dean. Thanks for the question, Terence, and thank you for the congratulatory comments.

As you look at share repurchase, as we've been saying, we continue to prioritize business development as where we want to go. Obviously, first and foremost, it's about funding our internal R&D efforts and funding the capacity expansion efforts we have underway from a capital perspective. But really beyond that, as we've talked, we would like to see business development. And so we have been holding back on share repurchase for that purpose. But what we've also been clear to say is that we're not looking to just grow cash to grow cash, and we're not looking to drive up our

credit rating. So over time, if we don't find those opportunities to utilize the cash for business development, eventually, we will return it to shareholders, and that's on an ongoing basis.

And then you asked explicitly about the \$8 billion to \$9 billion, the potential dividend we're getting coming from the [mid-9] dividend from the Organon spin. With that similar answer, our goal would, first and foremost, be business development. But we also will look, if we don't have those opportunities, to return that to shareholders. And we'll be able to make those determinations as we get closer to late second quarter and into the second half of 2021.

Dean Y. Li - Merck & Co., Inc. - EVP

Yes. In terms of the 4482 question, it's a Phase II/III trial. It has different interim analysis. The critical component of the Phase II different interim analysis is to sort of establish dose. And at this point, we have not fully taken a look at all of the data that is available to us in relationship to that Phase II.

Operator

Your next question will come from the line of Mr. Chris Schott from JPMorgan.

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

And congrats as well to both Ken and Rob. I just had a 2-part question on capital deployment in biz dev. It's obviously been a big focus and remains a big focus of the organization. Should we think about any pauses or slowdown in activities, specifically as you think about larger transactions given the leadership transitions that are occurring in the organization?

And then on BD, I guess all else equal, would your bias be towards a series of smaller transactions versus a larger one that brings multiple assets? So we think about issues of ease of execution, integration, et cetera. I know you're probably looking at everything, but if you had a choice, which direction would the organization lean?

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

So let me just start by saying that the purpose behind this CEO transition is not to slow Merck down in any respect. The senior team and Rob have the responsibility and the autonomy going forward to evaluate the situation that the company faces and to make the right decisions to position this company for long-term growth. So I wouldn't read into the transition that there would be any hesitation at all about taking steps that we believe are the right steps for this company's long-term success.

And with that, I'll turn it over to Rob.

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

Yes. No, I appreciate that. And Chris, to your question about our preferred composition of the business development, we continue to prefer to look for smaller opportunities where we can find great science earlier in its life and bring it into Merck Research Labs and then capitalize on that and, we believe, bring competitive advantage and differentiation to those assets. So that focal point continues to be where we will look. As we've said many times in the past, we are agnostic to therapeutic area. We will be driven by science. Science will take us to the areas to look. But likewise, we've been clear to say we're not foreclosed to larger-scale deals, always looking at the size more in terms of its disruption and complexity than in dollar terms.

We obviously recognize the need to continue to augment the pipeline, to augment our revenue potential. So we're looking at those as well. But one thing that remains completely consistent as we do not prefer and do not see a transformative deal, driven mainly by synergies as a way forward, it will continue to be science-led, science-based and driven by where we see an opportunity to bring differential value.

Operator

Your next question will come from the line of Ms. Louise Chen from Cantor.

Louise Alesandra Chen - *Cantor Fitzgerald & Co., Research Division - Senior Research Analyst & MD*

So Rob, what about your experience and skill set make you the right fit for where Merck is in its journey right now? And then, Dean, when you look into your pipeline currently, is [islatravir] that you think could take the place of KEYTRUDA?

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

Yes, great. Louise, thanks for the question. If you look back at my career and what I've done, I've spent my whole career dedicated to health care and to the pharmaceutical industry and the time I began at Eli Lilly, where I spent nearly 15 years before moving on to Baxter and saw a different view of the business, running the diversified medtech side of that company before coming to Merck. So I have a broad base of experience in the industry and a lens that has really seen it from different views. And I think that is always important to challenge our internal thinking, to make sure we have an external focus and that we are looking externally.

But as we look forward, while scientific innovation will continue to be the core of who we are and, I believe, is our best path to succeed in a world where you're going to face increasing margin pressure, we also have to marry with that side-by-side a continuing focus on how do we evolve the business to make it more nimble, to make it simplified and really more focused such that we can drive ever greater efficiency and productivity, not in terms of reducing spend, rather the opposite. We're going to invest in this business to grow, but we have to find a way to make every dollar we invest more productive so that we get a greater than the dollar of output.

And that is really where our focus is going to be on how do we leverage new technologies, new capabilities to do that, and then how do we think about broadening our view long term as you think about not only the drug, but we have to focus increasingly on the outcomes from our medicine, the value we demonstrate and how we ensure affordable access. So those are the cores of what we're looking at. And my experience broadly in the industry and being a part of the leadership team here at Merck has positioned me to, I believe, to do that.

Dean Y. Li - *Merck & Co., Inc. - EVP*

Let me grab the other part of that question. And if you don't mind, I would just sort of make 4 points. The first is immuno-oncology has essentially revolutionized all of cancer biology and medicine. And a quick way to point that out is, if one reads the book Emperor of All Maladies, one looks at it and say, this is outdated because the whole impact of immuno-oncology is not there. And the driver for this revolution has been pembrolizumab. And just so that we're very clear, we continue to want to expand indications by tumor type and by stage of cancer. We want to deepen responses with combinations that span agents with immunomodulatory mechanisms, which the internal pipeline is focused on, and agents with direct tumor-killing mechanisms that we have largely done through BD. And we want to extend the value and access of pembrolizumab to patients through route of administration, dosing regimens, combinations, co-formulations and biomarkers. So that's I-O, pembro and cancer.

So the question that you ask is, do I have anything in my pipeline that has reshaped a whole field right now that I can see? I do not have one in our pipeline, and this is an important point that we should mention. We should remember that we were not in cancer, and I-O allowed us the chance to make a huge impact on cancer, transformative cancer -- transformative impact. And one of the reasons why Rob and Ken and Roger for that matter have always talked about therapeutic agnostic, it is because we do not know that we have the foresight to know where that next revolution and where that next transformation occurs.

So could that be in my pipeline? Yes. Could it be in the pipeline of others? Yes. But do we have it right now defined, whether it be in neuro, whether it be in cardiovascular, whether it be metabolism? I would say that, in general, the whole field has not seen, the whole pharmaceutical field has not seen something equivalent to KEYTRUDA or pembro at this point in time throughout the industry.

Operator

Your next question will come from the line of David Risinger from Morgan Stanley.

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

And I wanted to add my congratulations to Ken and Rob as well. So my question is, could you discuss the opportunity for weekly combination HIV treatment, including your internal assets for a combination regimen, and how you are assessing and seeing the opportunity to move that forward versus pursue an external partnership opportunity to bring forward a weekly combination treatment regimen?

Dean Y. Li - *Merck & Co., Inc. - EVP*

Yes, I'll take a first shot at that. This is Dean. Fundamentally, we're doing it stepwise, right? We're doing it in prep and we're doing it in treatment. And we're trying to demonstrate to ourselves and to others that this is what we think it is, that this is a really important medicine. And so we're stepwise doing it today to a week. But I do agree with you, we have to think about what's really going to be important for patients and their access to the medicine. And so less frequent dosing will be important and that less frequent dosing will be important for both treatment and for prep. And both of them are places that Merck needs to explore fully to create that full suite of options as we build the story for islatravir.

But Mike, did you want to make some comments?

Michael T. Nally - *Merck & Co., Inc. - CMO & Executive VP*

Yes. Thank you for the question, Dave. I think a couple of things just to add to what Dean said. I think, first and foremost, islatravir is the best partner across a whole range of different mechanisms of action, and we think it will add a lot of value. And we do think the market will ultimately evolve to a longer-acting format. We see up to a majority of the HIV market ultimately being in a long-acting format. And so weekly would be the starting place, and then we look even further out in the treatment space.

In the prep space, I think what I would add is that we don't need necessarily a partner with islatravir in the prep space. And so we think they're through both in an oral route of administration and other forms of administration. We can go to long-acting format, potentially even longer than a week initially in the prep space. And so that's how we're looking at the market.

Operator

Your next question will come from the line of Ms. Daina Graybosch from SVB Leerink.

Daina Michelle Graybosch - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

And congratulations from me all around. I wonder talking about BD in oncology and KEYTRUDA. We've had a couple of negative trial readouts with competitors on TGF-beta and oncolytic virus approaches. I wonder if you could update us on your current perspective on the path forward for some of the early I-O assets Merck has acquired in recent years, including Tilos, Viralytics and Immune Design.

Dean Y. Li - Merck & Co., Inc. - EVP

Yes, let me take a stab at that. So I sort of separated how one might think about the I-O space and related to pembrolizumab and especially related to solid tumors. And so when you look at our internal pipeline, we speak about having over 25 mechanisms in the clinic. And you're aware of 3 immune modulatory mechanisms are advancing into Phase III, and they have the opportunity to be co-formulated, our TIGIT, our LAG-3, our CTLA-4, we also showed ILT4.

The other sort of thing that I would also emphasize is that the word is sometimes overused, but it's called orthogonal. But I simply say that KEYTRUDA, when mixed with tumor-killing mechanisms or standard-of-care mechanisms, like chemo, surgery and potentially radiation, there seems to be enhancement. And because of that, that creates a possibility for us from a business development standpoint, and that business development you saw with Eisai and AZ. But we are excited with Seagen with the LIV-1 ADC, the Velos with the ROR1 ADC because essentially, there -- we're confident that pembro plus chemo works really well, right? We're first-in-class, best-in-class and transformative in class in lung. And so Seagen, Velos, those are ADCs where you're essentially developing a chemotherapy that's a little bit more precise.

But our interest is past that. I would call your attention to Peloton, which is essentially targeting an oncogenic nodal pathway. And we would hope that, that not only can we advance that Peloton with a potential 2021 filing, but we're also interested in looking at that HIF-2 alpha in relationship to pembrolizumab. But I also want to emphasize that that's focusing on KEYTRUDA as a foundational medicine that can combine with many internal and external assets.

I would just end by simply saying, we are in an advantaged situation. And the advantaged situation is that if you are developing a drug in cancer and you're a biotech company, you must ask what your molecule will do in relationship to I-O. And if you're going to look for a partner, you're going to look for a partner who can give you that quickness, that speed and that rigor to advance that. And so when we say that we have 1,400 trials, including more than 950 combinations and more than 90 registrational trials, I would remind myself that most of those combinations are in combinations with other assets from other companies. So it allows us to do BD, not simply by looking at PowerPoint decks, but by actually getting our hands wet with the agents of other companies.

Operator

Your next question will come from the line of Mr. Umer Raffat from Evercore ISI.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

And my congratulations to Rob as well. I wanted to focus on the COVID [NMR]. And my question is, is it fair to assume that the first upcoming trial is the hospitalized trial? And the time from symptoms to study enrollment is a little more loose in the hospitalized trial versus nonhospitalized. So should we assume that hospitalized setting is more difficult? And could you also update us on your progress for attempting to characterize in vitro activity against the new variants?

Dean Y. Li - Merck & Co., Inc. - EVP

Yes. So let me take both of those questions. The first thing is we're advancing it in both, and we think it's important to do it in both. And so there's no distinction between hospitalized or nonhospitalized patients. We think we need to advance it for both because we believe that this will affect the viral replication and viral load.

In terms of the other question, let me just make sure. The other question was?

Peter Dannenbaum - Merck & Co., Inc. - VP of IR

The variants.

Dean Y. Li - Merck & Co., Inc. - EVP

The variants. We need to do those experiments, but the mechanism by which molnupiravir works would make it very -- we would predict that it would work for all the variants. I would remind everyone that molnupiravir doesn't just work for corona viruses. It works for many RNA viruses and many respiratory RNA viruses. So the variance difference within a SARS-CoV-2 is there's variation, but that variation is much smaller than the variation that you see with whole different classes of RNA viruses. But to answer your question specifically, we need to test that to prove that, but every expectation is that the variant would be taken care of by molnupiravir based on mechanism of action.

Operator

Your next question will come from the line of Steve Scala from Cowen.

Stephen Michael Scala - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

And let me add my congratulations to Rob, and thanks to Ken for your many contributions. Ken, I think 2 of your more significant contributions to Merck were guiding it through the Vioxx litigation and buying Schering-Plough. The industry once again finds itself dealing with CV risk of oral arthritis drugs, and you don't prefer big deals. On the former, what observations would you make on Vioxx 15 years later, particularly since I believe it's back on the market? And why do you not prefer big deals when it was perhaps your biggest contribution?

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

So thank you for giving me the opportunity for retrospective here. Let me start by saying, I think if there's one lesson that I learned from Vioxx, it is that for a company like Merck, you have to stand strong on your heritage. And people see this as a litigation defense. But I think for every one of us inside the company, it was really about articulating to an audience, particularly in that case, jurors, what this company really stood for. And I thought we won repeatedly because we were able to remind people of the importance of what we do for the world and the integrity by which we do it. I won't go into any more details about the decision to withdraw the drug, but it was also based largely on this company's sense of what was in the best interest for patients based on what we knew at that time.

On the issue around Schering-Plough, this company was in a very different situation at that time relative to its pipeline, relative to its growth prospects. And that deal was done at a time where, frankly, we saw an opportunity in the market based on where the valuations of companies were. We saw that as an opportunity that was appropriate for Merck back in 2009. And the reality of the world is none of us were really smart enough to know that among the assets we were acquiring was pembrolizumab. So I would like to take a bow, but that's a classic example of the narrative fallacy when people say, wow, look at a great deal you did.

I think the one thing that we learned from that deal is that when we bought that company, we actually had our eye on Organon and the work that was being done in the basic research labs at Organon. And so we knew that we were buying a company that not only gave us an opportunity for cost synergies, but gave us an opportunity for growth based on the quality of the science. And so at the end of the day, the problem with large transactions, and I think if you look at the history of this industry, is that they are really difficult for our research organizations to respond to and recover from. And so that's the main reason I opposed for those mergers, it's because I think they're highly disruptive. And then at the end of the day, when you get through your cost synergies, you still either have a pipeline or you don't. And what we're focusing on right now is developing that pipeline. So thanks for the question.

Peter Dannenbaum - Merck & Co., Inc. - VP of IR

Thank you, Steve. I realize it's 9:00. We're prepared to continue on with some additional questions. So next question, please?

Operator

Your next question will come from the line of Mr. Navin Jacob from UBS.

Navin Cyriac Jacob - *UBS Investment Bank, Research Division - Equity Research Analyst of Specialty Pharmaceuticals and Large Cap Pharmaceutic*

I'll add my congrats to the chorus as well to both Ken and Rob. Rob, if I may ask about Organon, please. In the past, Merck has suggested that there are some pipeline assets that could furnish the Organon spin-off. Wondering if there's any more color to add as to what those assets may be, just to help us with trying to model out what revenues could look like for the next few years.

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

Yes. Thanks for the question, Navin. So as you look at Organon and the assets that will make up that spin, the key growth drivers that sit within that business is, first and foremost, the Women's Health business, anchored by NEXPLANON, which we continue to believe is going to be a blockbuster drug. It has patent protection for several years. It is growing globally. And as you look at the need for contraception, it continues to fill in a very important niche. So that is a core area of growth. And then, obviously, surrounding that is the broader Women's Health business, including our fertility drugs and other drugs. So that business is the core growth driver.

And if you could dissect within Merck and look at that business, excluding the impact of the loss of exclusivity of some key franchises, that has been growing and will continue to grow. So really, what is accelerating the growth will be further focus and investment in that. And then you layer upon that the Biosimilars business, which is really a burgeoning business, very small now, but will grow very fast and will contribute meaningfully to the growth. So between those 2 pieces of Organon, they will comprise, I think as we get out over the next 4 or 5 years, they're going to be 30%, 40-plus percent of the total revenue of the company.

Why the business has been declining over the last couple of years is really twofold. One, it is mainly loss of exclusivity. Most recently, we're experiencing the loss of NuvaRing. Before that, we had ZETIA and VYTORIN. So we've been hit by those LOEs. As we look forward, they really don't have those. Those should start to sunset as we get through 2021. So it is really going to allow those businesses, which have been good businesses to start to shine, and then they will accelerate that growth through focus and investment and more of a core formulation strategy and a business development strategy to augment those assets long term.

So I do think they will continue to look at the assets and ask how can they extend them, how can they broaden them, but that's really the focal point. There are no real key R&D programs being transferred over. It's more of how they will focus on those strategies moving forward across those growth businesses with the LOEs out of the base.

Operator

Your next question will come from the line of Mr. Gregg Gilbert from Truist.

Gregory B. Gilbert - *Truist Securities, Inc., Research Division - Analyst*

Congrats, gentlemen. Maybe a 2-parter for the newer guys in the newer roles. Dean, what are some modalities you'd like to enhance or add to MRL?

And Rob, I realize this decision has been made on Animal Health, at least for now, your comments are obviously in line with what Ken has been saying for a few years. And I certainly get that Merck is investing in that business and then it's performing well. But how do you bridge the gap between how helpful it is to Merck versus how valuable it would be if it stood alone and traded at 35x earnings or more? I realize that's one moment in time, but it's not like these peers are just all of a sudden trading in a high multiple and are likely to change. So again, understand why it's helpful to Merck, but how do you bridge the gap to why it's not better served and better valued elsewhere?

Dean Y. Li - Merck & Co., Inc. - EVP

I'll take that first question. I'll say 2 or 3 things. The first thing is modalities are important. They're a platform. It's critical that we focus on products. But if you don't have the right platforms, it makes it more difficult for you to move quickly.

In terms of platforms that we are building currently, clearly, we're a company that's really well-known for our chemistry. And over the last few years, we've become increasingly a more biologics company with KEYTRUDA. And so our continued evolution to use that from antibodies to bispecific immune engagers to TriNKET to protein engineering, those fields are going to be very important. And as we build biologics, it will also help us in relationship to the space between chemistry and biologics, especially with targeted therapy. So that's a very important play.

What I would also say is that I kind of group them in the nucleic acids, whether you talk about mRNA or sRNA or gene delivery systems. Those -- that group, we have to take a look at. But one can't willy nilly decide, I want this platform because I'm really interested in the platform, that it's neat and cool. One has to say, what am I going to do with that platform? What is the product? How am I going to drive it from discovery to development to registration? So we look at modalities and we look at what is moving throughout the whole landscape, but we don't get enamored specifically on a platform by itself.

Peter Dannenbaum - Merck & Co., Inc. - VP of IR

Okay. Rob?

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

Okay, great. And to the question on animal health, so we obviously -- I would start by saying, we look at this objectively. So you should not assume that there is some form of philosophical opposition to thinking about animal health differently. It comes from an objective analysis of what we think creates the greatest long-term value for the Merck shareholder. And that's our focus is long-term value creation. As I look at the Animal Health business and if you really decompose what's happened and why we feel like we're the rightful owner for this asset, you have to start to challenge where is the growth coming from in that business and what would happen outside of Merck.

I would start with the fact that we do see meaningful synergies coming from the collaboration with Merck Research Labs. As I mentioned, a big portion of the growth we're going to see in animal health long term is coming from new products. And those new products are, in many instances, coming on the companion animal space through products that they've discovered, working with MRL and looking at the human health catalog. And there are also new products coming in vaccines. And obviously, we are the leader in vaccines on the human health side. We're a leader in vaccines on the animal health side.

So across the pillars of our excellence, there's a nice alignment from a synergy, and that is driving their growth. It's not by accident that they're one of the fastest-growing businesses in the animal health space. It's because of our ability to focus on innovation and leverage those synergies. And then beyond that, I think you have to look at each company and the facts and take them one at a time. So if just maybe one example, if you look back at when Pfizer spun out Zoetis, Zoetis was a low-margin business that had not been invested in. Pfizer effectively said as much. They made a decision because they weren't focused to spin it out. That allowed that company to bring focus and investment and margin expansion that has allowed that multiple to really take off.

We already have, in our own Animal Health business, a high-margin business where we're focused and invested. So there's not a big margin lift opportunity and there's not, frankly, a big growth acceleration opportunity because I believe we fully invest to drive both the margin and the growth today. So I think as you think in that regard, also, you have to look at it. And then you have to ask what is the contribution to Merck. It's accretive to our growth. It's accretive to cash flow. It's an annuity-like business that allows diversification away from the Human Health business, which we know is important. And it's one where, as we look forward, we continue to believe long-term value will be created. So that's just a few of the points that I would make.

And I would note, we did where we saw a different set of facts, as we did with the consumer, we will make the right decision. But we continue to believe keeping this business as part of Merck is the best long-term value creator for us and for our shareholders, and that's what drives our thinking.

Operator

Your next question will come from the line of Ms. Mara Goldstein from Mizuho.

Mara Goldstein - *Mizuho Securities USA LLC, Research Division - MD of Equity Research Department*

So Rob, I just have a question for you, and that is with the benefit of having occupying the CFO seat, what are you looking for from that position once you have transitioned to your new role as CEO? And if I could also just ask, with the incremental bump in the operating margin guidance post-spinout, does that change the upper end of the aspirational dividend payout ratio as well?

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

Yes. So on the first question, with regard to the next CFO of the company, what I would expect from that person and what I think is an important role that the CFO can play is to, obviously, first and foremost, you have to be a strong fiduciary for the company. You have to focus and make sure that the controls are in place, the compliance is met and that the company is meeting its reporting responsibility. That's kind of table stakes and expected. What differentiates a CFO, in my perspective, is the ability to partner with the business to find solutions on how to grow strategically. And as I mentioned in the earlier comments, we're going to be investing for growth, but we know that there's going to be pressure. There's a -- on margins. The world is transforming around us. We're going to have to find ways to drive productivity to get every dollar we invest more from that dollar. And I think that's an important area where a CFO can help.

The one thing that being CFO allowed me to do, I sat at the crossroads between each of the divisions, and it allowed me to see the whole company and to start to look at Merck as an integrated whole and to start to look to how can we challenge and drive optimization at the scenes that sit between the divisions because, frankly, those are always where, if you will, the corporate tax is paid. And the more you can eliminate those inefficiencies, the more productive and efficient you can go. And I believe that's what a CFO should do.

On your question around the margin expansion, it does not change our view of the dividend payout ratio. We're still shooting for that 47% to 50% range. And obviously, we're looking at that both now but even more importantly as we think post-spin. And then we'll continue to reassess that as we go. But right now, that is -- continues to be our long-term goal that we would shoot for.

Peter Dannenbaum - *Merck & Co., Inc. - VP of IR*

Thank you, Mara. Ken, do you have some closing remarks?

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

Thanks, Peter. As you've heard, we are executing on our clinical and commercial priorities while making the necessary changes in our business model and, importantly, investing in opportunities for future growth for the short, intermediate and longer term. I'm confident that if we continue to follow this strategy and with new leadership charged with taking a fresh look at how we operate our business and our strategic opportunity and charge also with taking the right actions for Merck going forward, that the company will be positioned to continue to deliver important value to patients and shareholders in the future.

It's been a privilege working in this job for 10 years. I'm pleased to be handing it over to Rob and the senior team at this time. And I want to thank you for joining us and for your continuing interest and support. I hope you have a healthy and happy new year.

Peter Dannenbaum - Merck & Co., Inc. - VP of IR

Thank you all.

Operator

Thank you, sir. Thank you so much, presenters. And again, thank you, everyone, for participating. This concludes today's conference. You may now disconnect. Stay safe, and have a lovely day.

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