

FINAL TRANSCRIPT

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CONFERENCE CALL PARTICIPANTS

Chris Schott

JPMorgan - Analyst

PRESENTATION

Chris Schott - *JPMorgan - Analyst*

Great. Good morning, everybody. I'm Chris Schott, pharmaceutical analyst at JPMorgan. Very happy to be introducing Merck today. Obviously, a pretty transformational year we've had for the company. From Merck, we have Dick Clark, Merck's Chairman, President and CEO. I'm going to turn it over to Dick, but I think Alex Kelly is going to make some forward disclosures before we do that.

Alex Kelly - *Merck & Co., Inc. - VP, IR*

Before we begin, it's my duty, I guess, to remind you that some of the statements that Dick makes today might be considered forward-looking statements. You can see our SEC filings that discusses risk factors which may cause our actual results to differ from any forward-looking statements that we make today, and those are available on our website and also in our SEC filings. So with that, I'll hand it over to Dick.

Dick Clark - *Merck & Co., Inc. - Chairman, President & CEO*

Thank you, Alex. Good morning, everyone. It certainly is an exciting time for the new Merck as we put the two companies together and have just an outstanding future from a merger standpoint of two companies that really focused on science as the primary principle, and not just the synergies. And so the theme that you'll hear this morning is around the pipeline and the science that we're putting together as a new company.

We believe our formula for growth is really designed to maximize total shareholder returns, which is a key part of the strategy as we look at the fact that we have a strong and diverse portfolio of medicines and vaccines throughout the business, both at the in-line and from the pipeline standpoint.

We have a powerful late-stage pipeline with nearly 20 compounds in late-stage development. It's a problem that most of us would like to have, but the late-stage pipeline at Merck is very robust as we move forward.

We've expanded our global presence. With this merger that took place, a greater proportion of the sales are now outside of the US so from a diversification standpoint and having a much better global footprint as we move forward, I think we're in a very good position as well.

There is no doubt that there is substantial cost synergies. Incremental \$3.5 billion of cost savings after the year 2011 will be implemented as we put the two companies together as well.

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And finally, the financial strength. There is significant increase in free cash flow for the combined company so it gives us the capability to move forward with additional investments from a strategy standpoint and certainly from a shareholder standpoint to look at dividends and stock buyback if that is a part of the strategy as we move forward.

So there is a lot that's going on in the new company and certainly I want to focus on some of the stages of this; on our strong and diverse portfolio, powerful late-stage pipeline and talk about the integration in our roadmap forward to make this successful.

So I'm going to start by talking about the strong and diverse portfolio from a company standpoint. We are well positioned to capitalize on the growth opportunities of the combined company. So we have a strong prescription business with eight franchises including new -- two new franchises with mature brands and women's health.

Within each of these franchises we've taken products from both legacy companies and really have built a leadership category in each of their franchises based on the products from both companies. And what was unique about this merger is the complementary capabilities that we had in each franchise with the many products that both companies had.

More importantly, across our franchises, we have a broader range of offering for our customers. So in respiratory, we just don't have to go now and talk about SINGULAIR. With the outstanding respiratory franchise that Schering-Plough had, we have a much broader range from a franchise standpoint to be able to meet our customer needs as we move forward.

We have complementary businesses now with the leading animal health business that is now part of the new Merck and strategically the consumer healthcare business is an important part as we look at extending our brands and looking at emerging markets as we move forward.

We're also building our structure to focus on some key growth opportunities, certainly emerging markets, biologics and vaccines are an important part of that. And as we brought the two new -- the two companies together to form the new Merck, it was really important from a leadership standpoint that we were taking the best leaders from both companies into the new company moving forward.

But in addition to that, we went outside as well and so, for example, Julie Gerberding, who was previously the Director for the CDC, will lead the vaccine business for Merck moving forward. Michael Kamarck, who joined from Wyeth, is President of the Merck BioVenture unit. And Rich Murray, who was formerly the Chief Scientific Officer at PDL, will head up biological research.

So not only did we take the best leadership from both companies, but at the same time, we brought leadership from outside of the company to run these areas. Certainly in the biological and vaccine area, we strengthened our capability and organization moving forward.

When you look at our portfolio of diversified products, it is just an amazing story. So there is powerful brand names across human health and vaccines, consumer healthcare and animal health as well. And with our prescription brands, you can see SINGULAIR and REMICADE and JANUVIA are good examples of the brands that we are launching or have been launched on a global basis.

With vaccines you see GARDASIL and ZOSTAVAX, which are key products for us as well from the vaccine standpoint. And with the consumer brands of CLARITIN and COPPERTONE and DR. SCHOLL'S as well. So you can see the brand not only from a US standpoint, but a global footprint standpoint will be significant with the franchises that we have on this particular slide.

With the strong portfolio of pharmaceutical and biological products, our top ten brands are on or above pace to exceed \$1 billion and what's good about this slide from the standpoint of the brands is that there is a diversity of therapeutic areas and there is a diversity of small molecules, biologics and vaccines as well, and there is no reliance on a single brand or a franchise. So no brand accounts for more than 10% of the sales.



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It's also interesting from this slide as we go forward in 2010, COZAAR and HYZAAR in the first half of 2010 will go off of patent and TEMODAR will go off of patent in Europe as well. So as we're bringing new brands, as we are launching new products, we still have to replace them due to the fact that we have additional products coming off of patent.

When you think about the waves of product launches and why we are so excited as a company moving forward, today we are launching -- have many launches underway on a global basis. And we're excited about the promotion and the resources that we have to put in place in order to make these launches successful as we move forward.

In 2010, there is significant filings with regulatory agencies that are planned to take place and then we have the robust late-stage pipeline as we move forward. So we are fortunate to have not only a late-stage pipeline that we continue to invest in, but near-term commercial opportunities as well.

And so while we resource and we push to make sure that we put the right amount of resources and strength behind our research organization, at the same time we have to make sure that from a promotion standpoint and a sourcing standpoint that we're able to take our products that are -- just been approved last year, early this year, where the filings are going to take place and really prepare the market for these new products as well, so it's truly the best of both worlds.

When you think about the market launches that are underway today, you can see from this slide that TREDAPTIVE, SIMPONI, JANUVIA, SAPHRIS, there is quite a list of new products that we are launching in many countries around the world and into Japan.

Japan is going to be a critical time for us in the next year or so because we have so many launches that are planned for Japan and so it's an opportunity for growth within the Japanese market. And just as we launch in the United States, many people think well, JANUVIA, for example, or other products that have been launched in the United States.

As you can see from this slide for many of the products we're launching in 28 countries or 20 countries across the globe and so there is still a significant amount of investment and excitement around our brands as we launch them on a global basis. We also have approved JANUVIA in China and we plan to launch that in 2010 as we move forward.

So again a nice complementary mix of products that were approved in 2009 and early '10 and certainly the launches that are underway today. It's also important that we remember we have in-line products, as I showed on a previous slide, and that we continue invest in them as well.

When you look at six products that are under review for 2010 filing opportunities, again, an outstanding list of products for asthma and oral contraceptives and fertility treatment as well as schizophrenia and bipolar disease. And also from a a-fib standpoint and so it's really across our franchises as we move forward, and this second wave of new product introductions is also something that we continue to invest in.

We also have to keep in mind in 2010, boceprevir for hep C will be filed as well. And assuming that we get the right amount of data and the right data in, there will be also a filing for ZOSTAVAX for age 50 to 59. So again, the second wave again looks very exciting against what each company could do as a separate stand-alone company.

And then the best news is a robust Phase III pipeline with potential for substantial growth. You can see from this slide that it really is a best-in-class, first-in-class mentality that both companies use as part of their research strategies moving forward.

We are in the process now of going through the pipeline of the new Merck and making prioritization decisions on these new pipelines; which are the projects and programs that we need to move forward quickly and we need to accelerate, which are the programs that we will sequence or perhaps stop, and which are the programs that may be available for out-licensing, as well.



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So a very important time within the company and certainly we will update and highlight as those decisions are finalized to be able to show you what that late-stage pipeline is looking like, but certainly the future of the company, to be able to have the potential growth with this late-stage pipeline is just incredible.

One area that I would like to highlight is the cardiovascular disease area. Certainly you can see by this slide the programs that we have in place in the new Merck. And there is no question in my mind when it comes to cardiovascular/atherosclerosis franchise, within our industry, that Merck is a leader in the cardiovascular area.

What's amazing about this list of programs that are in Phase III as well is more than 80,000 patients are in cardiovascular outcomes studies so you can see the major amount of investments that we have made in this area.

This is an area that Merck has always had a leadership position in and we think that by bringing the two companies together and having that complementary capability, the cardiovascular/atherosclerosis area, that we will continue that. So a great deal of excitement around first- and best-in-class when you look at the cardiovascular disease franchise moving forward.

Remaining activity in business development continues to be an important part of our strategy. So we're always asked, now that you're putting two large companies together, does that mean that business development is going to be put on the back burner? And the answer to that is, obviously, no.

In 2009, we did 51 deals keeping up with our rigorous pace even during the merger planning period. And you can see from this slide, we made significant advancements in continuing that cardiovascular franchise as we move forward with an a-fib product in a relationship with Cardiome and Portola relationship with Factor Xa. So you can see that we continue a strategy of continuing to build the atherosclerosis/cardiovascular franchise.

We also made relationships with glaucoma and for infectious disease, so I think this is a good illustration that we continue to look at relationships and licensing and biotech acquisitions as a key part of the strategy moving forward.

And as we announced the Merck BioVenture in the last year or so, we continue to do acquisitions with Insmad and relationships with Insmad and Avecia for a biological standpoint to build our infrastructure and manufacturing capabilities. So I think this will be an important part of our strategy. It's not put on the back burner as some have suggested that would take place.

Want to take a few minutes and talk about our roadmap and how we look at the future of the company and certainly when we think about we're in the launch phase now. So when you think about the day one which took place on November 4 last year, and the first 18 month of what we need to do, we need to focus on the integration, we need to focus on the portfolio, we need to make sure that we have the right momentum for the strong launches, the important launches, that I talked about.

And as you get into an acceleration phase in the next year or so, it's important that you focus on making sure that your Phase III programs are continuing to move along, that you continue to resource in your biologicals and vaccine and emerging markets strategy. And then hopefully by year three to eight you see a significant movement of the pipeline from Phase II into Phase III and hopefully into regulatory approval and development. So this is the way we look at it as we move forward.

And from a launch standpoint, what we're doing today is really launching new products and the growth of the current product. So we have made sure that our marketing and sales organizations on a global basis are really focusing on those launches to make sure that they are successful.

And the advancement of the late-stage pipeline is so critical as we move forward so to be able to put ring fences around the teams, the scientific teams, making sure that that pipeline is moving forward, they get the right resources as we plan the integration.



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There is a tremendous amount of opportunities in the marketing organizations now coming together and saying based on the products we have, based on the technology and scientific capabilities that we have, what can we do to advance the in-line products we have today with lifecycle management? What can we do with this new technology to actually advance some of the franchises we have? So we have teams working on that as well.

And you can also imagine we have teams working on the cost synergies, whether it's from an infrastructure standpoint, or procurement standpoint, to really make sure that we're able to take the infrastructure to the right level with the new model of what a pharmaceutical company should look like as we move forward.

We are also spending a great deal of time on culture, because we truly believe that you need to get the culture right in the new company in order to make sure that your strategy and your objectives are executed the right way.

And certainly I use a statement, perhaps too much, that culture eats strategy for lunch, and so if you don't get the culture right, it really doesn't matter what the strategy is.

And so an important part of that as we think about unifying our company, the good thing about the Schering-Plough and Merck foundation when it comes to culture is the fact that from a value standpoint, and an ethics and integrity and improving global health, that foundation exists at both companies and so as you make the new Merck and you come together, there really isn't an issue around collaboration and doing what's right from a patient standpoint.

Having said that, in order to build a new company and to have everyone focused in the right areas, we picked three cultural expectations for the organization as we move forward.

One is rapid decision-making. Really to get the data we need, to make the decisions as quickly as we can and move on and so you can imagine with an integration of the complexity of this size that we really have to make sure that the data is available and we make the decisions, we execute that correctly and communicate it within the organization.

Candor and courage is very important. In order to make those decisions we have to make sure that all levels of the company have the ability to speak up and to get into good intellectual debate on what the potential alternatives are and recommendations and then once a decision is made is to move very quickly.

One of the concerns you have when you think about an integration of companies the size of Merck and Schering-Plough is that we've become too internally focused; that we're so focused on the integration of the two companies that we forget what our primary objective is and that's supporting our customers and making sure that from a customer standpoint or a patient standpoint or a stakeholder standpoint that we really understand their needs and their request of us.

And so we're really making sure that from a customer-focused standpoint that every part of our company understands who their customers are both internally and, more importantly, externally and we sit the right objectives in place to make sure that we can measure on the progress we're making from a customer standpoint.

And, certainly, Merck starting several years ago with our models around how do we change our business models. I think we've gotten a head start on that as we move forward.

And this business model transformation that we started in 2005 really lends itself to bringing our two companies together, so we're building on that new business model.

Whether it's what we think about in basic research or preclinical research for a new operating strategy for basic research, the new clinical development model we're putting in place with -- inside the company, and particularly the new commercial model to make sure that we're no longer looking at a reach and frequency model with our professional representatives, and the



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physicians and our customers that we have, but making sure that we give them customized solutions in order to meet their needs from a patient standpoint.

And then certainly a different approach that we have put in and have been put in very successfully in over 30 countries around the world now, so this is a model that we will be using moving forward.

The supply model is very critical, making sure that you get the right network in place, the right utilization both internally and externally, making sure that you have the right strategic partners.

And certainly we had that opportunity now with our new manufacturing model and the number of manufacturing plants that we have in new Merck to really step back again and make significant improvements in the network and significant improvements in relationships inside and outside the company from a technology standpoint.

And then the back-office information and systems are probably just as important as any on that list. When you think about making sure that you have the right information systems, horizontally through your company to make sure you had the right data, right financial data, right research data, right marketing data in countries around the world and to be able to give the information to your managers to be able to make the decisions that they have to make. So -- and a very important part of it that we have to continue to invest in as we move forward.

When you think about stage 2 around accelerating the business momentum, you're really looking for the growth drivers. All right? What have you done in phase 1 to really establish the growth drivers -- from a launch standpoint of your new products, to making sure that market share continues to grow for your in-line products as we move forward.

To take potential pipeline candidates in the early stages and be able to progress them as we move forward. And this is where the revenue growth opportunity should kick in, so if you have your teams working in phase 1 and one of the opportunities with either your new technologies or lifecycle management or the capabilities of combining different dosage form, different indications, different relationships with the external world.

This should really start to kick in and start to have value in the second phase as we move forward and I would hope by the acceleration phase in the second phase that were in the position to have, without question, the best-in-industry cost structure.

We're very good at this. We started this in 2005 and I think we can set the pace for our industry on what the infrastructure and what the cost should be for a pharmaceutical company. Certainly we've used Six Sigma as the focal point within our company to make sure that we do that the right way.

And finally the breakthrough, and what the breakthrough is to us is really how do you achieve sustainable growth? How do you make sure that you continue to replenish the late-stage pipeline, and to make sure that you have the new products in place and make sure you have the efficient operating model and that you've taken this global presence and really turned it into a growth driver for the company, both from a product standpoint -- both on a pharmaceutical and vaccine standpoint, but by this time also, your network, your manufacturing network, should be extremely robust as you work through all of the network strategies as you move forward.

And certainly your scientific and commercial and financial strength, if you do this phase correctly will, without doubt, make Merck a leader within the healthcare industry as we move forward.

And so finally, what does the new Merck look like? And what will success look like? How do we look in the future from the standpoint of being a leader? And certainly we want to be viewed by our customers as the most trusted and value partner.



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I believe the new commercial model that we're putting in place and the sophistication it's going to take to take that to the next level will, without doubt, be viewed as an important part of the trust value that we need from customers moving forward, deliver the highest value pipeline and portfolio in the industry.

We have the opportunity, we have the programs and we have the scientific capability to make that happen as we move forward. The new innovative and diversified businesses, whether they are biologics, emerging markets, Merck BioVentures, for example, consumer health (technical difficulty) animal health, make sure that our diversified business are continued to be invested in and continue to grow at the rate that we would like to see them grow from a long-range operating plans standpoint.

As I said before, operate with the most effective and lean business model. In order to make this successful, in order to have a return for your shareholders as well as a -- continue to invest in your research organization, you must have the most effective and lean business model to make that happen.

And I understand this is the best global healthcare company and the employer of choice. You really want 100,000 Merck employees to feel like they own the business and you have to develop the culture to be able to put that in place as we move forward.

So we're excited about the new Merck. We think we're off to a great start with the closing November 4. A lot of work yet to do, a lot of execution plans in place. I'm very happy with the progress we have and without a doubt, from a vision standpoint, we believe that if we execute these three stages right, we will be the leader in the healthcare industry. Thank you.

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