

FINAL TRANSCRIPT

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MRK - Merck & Co., Inc. at JP Morgan HealthCare Conference

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PRESENTATION

Chris Schott - *JPMorgan - Analyst*

Good morning, everybody. I'm Chris Schott, pharmaceutical analyst at JPMorgan. I'm very pleased this morning to be introducing Merck. From Merck we have Ken Frazier, the Company's President and newly elected Chief Executive Officer. Obviously a very exciting year ahead for Merck, so looking forward to some interesting comments this morning.

Two quick things before we turn it over to Ken and the team. First, we will not be having a breakout session following this; I think we might have time for a question or two at the end of the presentation. In addition also, I'm going to turn it over right now to Alex to make some forward-looking statements and then go over to Ken.

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

Thank you, Chris. Before Ken begins I'd just like to remind you that some of the statements that Ken makes today might be considered forward-looking statements. You should definitely check our SEC documents to identify the risk factors that could cause our actual results to differ materially from any forward-looking statements we make today. You can find our SEC documents on our website at www.Merck.com. With that, I'll hand it over to Ken Frazier.

Ken Frazier - *Merck & Co., Inc. - President & CEO*

Thanks, Alex. Good morning, it's great to be with you this morning. As we are celebrating our first year as a combined company following the merger of Schering-Plough and Merck, we feel that this new company, the new Merck as we call it, is uniquely positioned to outperform the broader healthcare market based on a number of factors.

First and foremost, we have a broad portfolio of market leading medicines and vaccines based on the products of both legacy companies. We have an expanded broader geographic footprint in our key markets. We have a very strong exciting late stage pipeline backed up by the excellence of our research organization, which is the best of both the legacy Schering-Plough and Merck organizations.

Our new customer centered commercial model enabled us to rapidly integrate the two companies last year and we believe will provide greater efficiency in operations and better meet the needs of our customers in a highly competitive marketplace. And lastly, the two companies have a very strong financial position that will allow us to pursue the best growth opportunities going forward.

Last year, 2010, was an important year for us as we put these two companies together. And we're pleased with the progress that we saw in 2010 and, as I mentioned before, I think it positions us well to be competitive in the future. We saw strong continued growth of key brands through the first three quarters of last year. In fact, seven of our 10 top brands grew on a



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non-GAAP basis in the first three quarters of 2010 and we're pleased with the continuing stabilization of VYTORIN and ZETIA in the US and their growth outside the US.

Significantly, we spent time at the very beginning focused on the late stage pipeline and I'm pleased that Tom Koestler is here who ran R&D for legacy Schering-Plough. And Tom and my colleague Peter Kim led a process that culminated in some decisions that allowed us to look at the two late stage pipelines of the two companies and to produce what we believed to be the strongest combined pipeline that was possible. And we sought to do that in an objective way.

And the evidence that we accomplished that objectivity is that the resulting pipeline was essentially 55% legacy Merck compounds and 45% Legacy Schering compounds, which speaks to the scientific prowess and productivity of both organizations. But it also really speaks to the mindset that we took in this merger of trying to have the best science from both companies.

We're engaged in launching new important medicines in key markets around the world, which I'll talk about in a few minutes. Significantly, we completed the commercial integration in the customer facing aspects of our Company in 17 of our top 20 markets, which comprise essentially 85% of our global sales.

We also made significant progress on synergies. We said from the very beginning that there were substantial cost synergies to be obtained in merging these two companies, but that this merger was fundamentally about science and not about the synergies. Having said that, we recognize that that was a way of producing shareholder value that is to achieve the synergy targets and we've made very good progress on those synergy targets and coming up with a new operating model equipping us to work in the future in a much more challenging healthcare environment.

And lastly, we strengthened our presence and our productivity in the emerging markets both through our internal growth as well as through partnerships. The key is that we want to create in this new company a unified culture and a new organization.

So I'd like to talk briefly about our growth strategy going forward because 2011 is an important year for us too coming out of the merger year, if you will. It's a year where we have ambitious plans across all parts of our Company to help drive growth in shareholder value going forward. And I'd like to focus on three aspects of our growth strategy.

You can see that our growth strategy is about maximizing our current portfolio; delivering on the pipeline because, of course, pipeline success is what drives long-term customer and shareholder value; the management of cost which also produces shareholder value, but importantly allows us to continue to invest in the long-term growth of our commercial business as well as an R&D enterprise; our geographic expansion in Japan and the emerging markets; and lastly, our broader portfolio of businesses which includes Merck BioVentures, our animal health business as well as Merck Consumer Care.

So first, focusing on our portfolio. As I mentioned earlier, we're pleased that seven of our top 10 products are growing through the period of maximum disruption. And what this slide depicts is the fact that in 2010 alone globally we were able to reduce our pharmaceutical and vaccine sales force by more than 10%.

Now let me explain that what that really represents is a net figure, because if you look at large developed markets, for example the US, in 2010 we reduced the size of our sales forces by nearly one-third, 32% in 2010 alone. The reason it's 12% on that slide is at the same time we were substantially increasing our presence in our field force in the emerging markets like China and Brazil and Russia.

But in the developed markets we were able to significantly reduce the number of representatives while also avoiding disruption in front of our customers. And the evidence of that is on the right. You can see that our total portfolio, if one excludes Cozaar/Hyzaar, grew by 3% during a year of maximum disruption. And when we undertook this merger we looked very closely at some of the precedent mergers that had occurred in our industry and related industries.



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And what we saw is that most companies really struggle to maintain their top line during a period of maximum disruption when you're blending sales forces, when you're training reps on new products, when you're disrupting established customer relationships. So this gives us a great deal of confidence and is very gratifying as we think about what's possible going forward for our business.

We're also in the middle of lunches based on our R&D success. Recently it's been, as you know, very difficult for pharmaceutical companies to get drugs approved and regulatory authorities through the year. Here we have more than 10 ongoing launches and they are -- many of them are in the emerging markets around the world. You can see that many of them are in Japan where we're having great success in getting both our newest drugs and some of our more established drugs, if you will, through the Japanese regulatory authorities.

And then lastly, I think you can see that there are some significant brands here; for example, I highlight SIMPONI which we're launching in 18 countries around the world with great success. So, one of the keys to driving success in our business is launching products and we're really pleased to have a number of launch opportunities in front of us going forward at this time.

So, next I'd like to focus on the pipeline because, as I mentioned before, in this business pipeline success is the real long-term driver of shareholder value and customer value. And recently I think observers of this industry would agree that there have been real challenges to innovation in the pharmaceutical and vaccine space and they have many varied reasons and this slide depicts a few of them.

First of all, obviously the regulatory process around the world has gotten much more complex and costly. Government and large private payers are becoming much more demanding about the evidence that they feel is necessary before they conclude that a new innovative product is actually better for patients or for society as compared to lower cost often generic alternatives.

The industry faces a wave of patent expirations. The global macroeconomic environment is getting much tougher with the result that pricing is becoming tougher in many areas of the world, particularly in Europe. And lastly, we're contending with Health Care Reform in the US and other countries. That has led some people to suggest -- I think wrongly -- that innovation is no longer a sustainable model for a large healthcare company like Merck.

At Merck we profoundly disagree. We believe that in today's market innovation is even more important, in fact it is the only basis upon which you can build a sustainable model going forward.

So we remain committed to our fundamental mission as a company, we want to be true to what it is that made legacy sharing and legacy Merck great companies, which is their commitment to providing innovation and translating cutting-edge science into medically important products. We're going to continue to play to our strengths and that's what we think this Company has been particularly effective at and will be effective going forward.

So last year, as evidence of it, at a time when many companies really struggled frankly to get drugs approved, we had five new drug approvals including, as I mentioned before, DULERA in the US, BRINAVESS in the EU and DAXAS, ELONVA and SYCREST in the EU.

This year we're in the middle major new filings. I'm quite proud of the job that my R&D colleagues have done in getting boceprevir filed in the US and the EU. I think many people were surprised by how quickly we were able to accomplish that. I think that portends well for that brand. And this morning we put out a press release disclosing that we had gotten our submission for once daily extended release JANUMET accepted by the US FDA.

Our commitment to cardiovascular is well-known; we have over 100,000 patients in cardiovascular outcome studies. These are costly studies, obviously. But when these drugs come to market if approved, they will come to market not with surrogate outcomes but with concrete outcomes -- reductions in cardiovascular events, heart attacks, strokes. Vorapaxar is the largest of these with almost 40,000 patients. Tredaptive has 25,000 patients.



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We're pleased with the recent results of the SHARP study for VYTORIN. After a number of years with some controversy in the market I think the SHARP study actually points to what we believe is true which is that these are valuable drugs for patients, they actually help to reduce the cardiovascular risk. And then going forward we are planning to have another 30,000 patients in our CETP study. And in the osteoporosis space we have 16,000 patients in our Odanacatib osteoporosis outcomes trial.

That is why we say we are very committed fundamentally to R&D and to innovation as a company. But while we're as focused as we could be on our internal pipeline and the progress of our early-, mid- and late-stage pipeline, we didn't sit still.

Even in a year where we were bringing together the pipelines of these two great companies, we signed 46 significant outside deals with external partners including most recently the SmartCells deal in diabetes because we want to continue to be at the forefront of that field. So you can see that we continue to invest in sitagliptin and we continue to invest in the next generation of products.

So this is our pipeline as of October 2010. As you can see, we have a significant number of drugs in Phase III, over 20 drugs in Phase III. And I would highlight just a few of these drugs, as I did in the last slide, including Vorapaxar, including Tredaptive, including Anacetrapib, Odanacatib and others including boceprevir going forward. So this actually is the reason why we're so excited about what's happening in the new Merck; it is because we have what we believe to be the strongest late stage pipeline in the industry.

So next I'll touch on another important aspect of our opportunity to grow which is our ability to gain more than our fair share in the high-growth markets around the world. Those are including Japan where we have actually I mentioned a lot of lunches underway, but particularly I want to focus on the emerging markets as we try to expand our business globally.

So as we have said in the past, our goal is to be as strong in the emerging markets as we are globally. And we are number two, as the slide shows, globally, but number five in the emerging markets. So our goal going forward, as we've announced, is to grow from about 18% of our total sales now in the emerging markets to 25% by 2013. And it's important not only to grow and to grow our top line, but it's important how we grow in those markets.

Our goal is profitable growth in those markets and we intend to do that through three major ways, the first of which is our portfolio, which we believe is particularly well suited to meet many of the unmet medical needs in the emerging markets, starting with infectious diseases. As you know, there continues to be a significant burden of infectious diseases in those markets and we have very strong products in that area -- oral antibiotics as well as vaccines -- which can be used to help protect the populations, particularly the children, against infectious diseases.

We have a very strong women's health business now. And as the slide suggests, access to birth control can be an important part of economic development in those markets. But what is also happening in those markets is that many of the diseases, many of the chronic diseases that characterize the Western lifestyle are now having an impact in those markets. And so we have drugs and vaccines that are important in those areas.

I'll start with respiratory where 300 million people currently suffer from asthma. We have the broadest -- one of the broadest and strongest respiratory portfolios in the industry. And then cardiovascular disease and diabetes. So we believe our portfolio is well-suited.

The second thing that we're going to focus on though is innovation. And what this slide depicts is something that we're quite pleased with and that is the success of JANUVIA in the emerging markets. JANUVIA, which has been in the emerging markets for a little more than two and a half years, is already the number one oral diabetic product in those markets. We were able to commercially and socially price our drug in a responsible way and we've seen tremendous uptake for these drugs compared to other benchmarks like Lipitor and Crestor in these markets.



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And so we remind ourselves that we have a significant ability because innovation matters in those markets also. When I say innovation I don't mean just our recently launched products like JANUVIA, I also mean products that may no longer have patent protection but are very prominent products. For example, in China our leading products include PROSCAR, PRIMAXIN and Zocor.

While those products are no longer protected by patents in most developed markets, those products have tremendous brand equity in countries like China and they continue to be surrounded by very strong science. In fact, we recently had a symposium in China where the Chinese invited our former CEO, Roy Vagelos, to have a big medical symposium around PROSCAR. So we continue to believe that innovation matters in those markets where the newest innovation or some of the standby products that have become hallmarks of treatment in the West.

The last factor that's an important aspect of our strategy in the emerging markets is that we want to grow through the right kinds of value creating partnerships, because that allows us to have local management expertise, it avoids us having to pay what we consider to be very high multiples to get companies in those markets. And we believe the local expertise is particularly helpful as you deal with issues like pricing, reimbursement, market access, low-cost manufacturing and other issues.

So in summary, our priority going forward is driving profitable growth as a company. Based on continuing to drive our in-line portfolio of strong products including JANUVIA, JANUMET, Remicade, Singulair, ISENTRESS and ZETIA and VYTORIN. Flawlessly executing on the upcoming opportunities we have as a result of our pipeline to ensure that these new products have rapid and substantial uptake in major markets around the world.

Leveraging both our portfolio and our commercial model to develop trust and value with our customers at the same time as driving efficiency and effectiveness. And also expanding in our emerging markets in a way that allows us to grow faster than the underlying market and allows us to achieve our 25% goal of emerging markets income for our pharmaceutical and vaccine business in 2013.

But over and above all of this, I want to come back to what is the hallmark of Merck and will remain the hallmark of Merck and that is, again, the importance of translating cutting edge science into medically important products. We're very excited by the pipeline; we believe that it really does reflect products that can have substantial impact on public health as well as creating substantial customer and shareholder value.

So, with that I thank you for your generous attention this morning. I tried to use 20 minutes to give you a top-line sense of why we're so excited about the opportunities that we have before us in the new Merck. And according to the time I have about 4 minutes to take questions.

QUESTIONS AND ANSWERS

Chris Schott - JPMorgan - Analyst

Great. Well I have one maybe just to kick off here, Ken. Can you talk a little bit about SG&A allocation? You've obviously highlighted a pretty robust late stage pipeline here, a lot of primary care assets. You've meaningfully restructured your US and European sales infrastructure. Maybe a two-part question here.

First, can you talk about your comfort of being able to launch these assets if we do see success with some of these outcome studies over the course of 2011 and 2012? And the second piece of this, as we think about the emerging market opportunity, you've made a lot of investment. Are we pretty far along in that investment, we can start to maybe think about as sales continue to grow that the margin structure of that emerging market business may continue to grow as well? Or do we still need to see a bit more investment in the emerging markets these next couple years?

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Ken Frazier - Merck & Co., Inc. - President & CEO

So, I think we are going to continue to invest both in our product launches in developed markets as well as in the emerging markets. Starting with the emerging markets, I want to say that we've tried to emphasize from the very beginning that our goal is to drive profitable growth, value creating growth for shareholders. And we tried to go about it in a disciplined way.

We've been frank to say that some companies are ahead of us and they have actually pursued a very different strategy. I think it's important to recognize though that in a country like China the leader in the market has about 3% of the market share. So the winners have not been determined in those markets.

We want to go about growth in a way that continues to allow us to have attractive margins in those markets, allows us to expand our geographic reach in those markets. But we think value creating partnerships are the right way to go, because that way our partners have a very strong stake in the growth and success of our business, we get the benefit of the local expertise and insight.

This year we will continue to invest in the launches that are underway. We think it's very important. These pipeline assets are rare opportunities when they come along nowadays and it behooves us to ensure that we are providing the right kinds of resources. And I think that's one of the benefits of the new commercial model, we're able to flex and provide the kind of support that we need. But I think it's also clear in the coming quarters, you can expect to see additional investment in the SG&A line as we continue to try to launch these products successfully.

Chris Schott - JPMorgan - Analyst

Great. We have time for one last one here. A lot of your peers have significantly diversified their business outside of traditional pharmaceutical areas. Merck obviously has an element of that. But can you maybe just talk about how you're feeling of diversification of the overall Merck business.

I know you've made an obviously significant commitment to R&D. But as we think about this and maybe nontraditional channels, do you feel like you're where you need to be at this point? Is that a big area of focus and priority for you right now?

Ken Frazier - Merck & Co., Inc. - President & CEO

Well, I would say that we are committed to our core business which is pharmaceutical and vaccine innovation. But we also believe that our core skills, as well as our infrastructure, actually do lead to the ability to broaden that opportunity. The question becomes, where is it that, as a management team and as a company with scientific expertise, that we can actually add value to customers?

We see a significant amount of integration happening in the marketplace and we want to participate in that and we are looking on that, it's an important part of our aspect. But I wouldn't say diversification for diversification's sake. Inside the Company what we're really focused on is sustainable, profitable growth, sustainable profitable cash flow growth.

Chris Schott - JPMorgan - Analyst

Great. We appreciate the comments very much.

Ken Frazier - Merck & Co., Inc. - President & CEO

So, thank you very much again for your generous listening this morning.

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