RESOLVED, that shareholders of Merck & Co., Inc. ("Merck") urge the Compensation and Benefits Committee to report annually to shareholders on the extent to which risks related to public concern over drug pricing strategies are integrated into Merck's incentive compensation policies, plans and programs ("arrangements") for senior executives. The report should include, but need not be limited to, discussion of whether (i) incentive compensation arrangements reward, or not penalize, senior executives for adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding prescription drug prices; and (ii) such concern is considered when setting financial targets for incentive compensation arrangements.

SUPPORTING STATEMENT

As long-term investors, we believe that senior executive incentive compensation arrangements should reward the creation of sustainable value. To that end, it is important that those arrangements align with company strategy and encourage responsible risk management.

We are concerned that the incentive compensation arrangements applicable to Merck's senior executives may discourage them from taking actions that result in lower short-term financial performance even when those actions may be in Merck's best long-term interests. Merck has committed to limit average price increases of its drugs to no more than the rate of inflation (https://www.marketwatch.com/story/merck-to-lower-price-of-hep-c-treatment-zepatier-by-60-commits-to-responsible-pricing-2018-07-19), but incentive compensation arrangements may be inconsistent with that commitment.

Merck uses revenue and pre-tax income as metrics for the annual bonus, and earnings per share (EPS) is a metric for performance share units granted after January 1, 2017. (2018 Proxy Statement, at 51, 61) A 2017 Credit Suisse analyst report identified Merck as a company where U.S. net price increases accounted for at least 100% of 2016 net income growth. (*Global Pharma and Biotech Sector Review: Exploring Future US Pricing Pressure*, Apr. 18, 2017, at 22)

In our view, risks to long-term value arise when large senior executive payouts can be driven by price hikes. Attention may focus on both high senior executive payouts and drug pricing, fueling public outrage. Ovid Therapeutics CEO Jeremy Levin has argued that incentives to boost short-term performance, such as EPS, lead executives to raise prices (and rebates to middlemen), starve research and development and buy back shares. (https://www.biocentury.com/biocentury/strategy/2016-09-19/why-jeremy-levin-says-executive-compensation-and-drug-pricing-must-)

Incentives may have societal implications, as one critic of high pay for healthcare executives has noted: “[I]f the most influential executives of these companies are being paid to keep that [cost] trajectory up, that's money that's being taken away from education or infrastructure or other parts of the economy that may not be growing as quickly, and maybe that we'd want to grow more quickly.” (https://www.npr.org/sections/health-shots/2017/07/26/539518682/as-cost-of-u-s-health-care-skyrockets-so-does-pay-of-health-care-ceos)

The disclosure we request would allow shareholders to better assess the extent to which compensation arrangements encourage senior executives to responsibly manage risks relating to drug pricing and contribute to long-term value creation. For example, it would be useful for investors to know whether incentive compensation target amounts reflect consideration of pricing pressures.

We urge shareholders to vote for this Proposal.