Merck Strategy

Richard T. Clark
Chief Executive Officer and President

Where patients come first  MERCK
The Global Health Care Market is Challenging but Creates Great Opportunity for Merck

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Declining success rates in new drug development</td>
<td>• Rising disease incidence globally</td>
</tr>
<tr>
<td>• Rising cost of drug development and commercialization</td>
<td>• High unmet medical needs, e.g. Alzheimer’s, Oncology, etc.</td>
</tr>
<tr>
<td>• Increasing pressure on returns</td>
<td>• New technologies for research and development</td>
</tr>
<tr>
<td>• Increasing price sensitivity and growing reimbursement pressures</td>
<td>• Expanding access, income, and insurance coverage in key emerging pharma markets</td>
</tr>
<tr>
<td>• Greater regulatory scrutiny</td>
<td>• Greater patient engagement in health care decisions</td>
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Build a new business model to win
Reclaim Leadership in the Discovery, Development and Commercialization of Innovative Medicines and Vaccines

- Winning will require a **fundamentally different approach** in every aspect of Merck’s business supported by an **accountable and results-focused culture**
- Merck will **prioritize investment in pharma as its core business**
- Merck will **pursue focused acquisitions and partnerships**
- Merck’s strategic choices are expected to generate **top-line growth** and **double digit earnings growth** over the next 3-5 years
- Beyond 2010, this approach, well executed, is expected to deliver **sustained revenue and earnings growth** fueled by a **strong pipeline**
**Key Innovative Products Will Drive Growth While Merck Changes its Business Model to Win**

<table>
<thead>
<tr>
<th>Product</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VYTORIN</strong></td>
<td>Fastest growing product in the cholesterol market due to superior LDL lowering efficacy vs. all competitors</td>
</tr>
<tr>
<td><strong>ZETIA</strong></td>
<td>Continued growth due to excellent add-on LDL lowering efficacy with a statin and as monotherapy</td>
</tr>
<tr>
<td><strong>GARDASIL</strong></td>
<td>Breakthrough investigational vaccine to prevent cervical cancer caused by HPV types 16 and 18; cervical cancer is the second leading cause of cancer death in women worldwide</td>
</tr>
<tr>
<td><strong>ZOSTAVAX</strong></td>
<td>Vaccine reduces the incidence of herpes zoster (85 million adults in the at-risk cohort in the U.S. alone) and postherpetic neuralgia, which occurs in 25 to 50 percent of shingles patients over 50</td>
</tr>
<tr>
<td><strong>ROTATEQ</strong></td>
<td>Pediatric vaccine for use in prevention of rotavirus gastroenteritis, which has been estimated to be responsible for 500,000 deaths worldwide each year in children under age 5</td>
</tr>
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### Key Innovative Products Will Drive Growth While Merck Changes its Business Model to Win

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<tr>
<td>JANUVIA</td>
<td>New mechanism with potential to deliver substantial glycemic efficacy, excellent tolerability, and to alter the progression of the underlying disease</td>
</tr>
<tr>
<td>GABOXADOL</td>
<td>Unique mechanism with potential to provide benefits over existing therapies with respect to sleep quality and next day effects without developing significant tolerance</td>
</tr>
<tr>
<td>MK-0524A</td>
<td>A novel approach to raising HDL-C and lowering triglycerides, with proven outcomes. Can be combined with any statin to provide comprehensive lipid management</td>
</tr>
<tr>
<td>MK-0524B</td>
<td>Combines MK-0524A with the proven benefits of simvastatin to potentially reduce CHD risk beyond what statins provide alone</td>
</tr>
<tr>
<td>MK-0518</td>
<td>First of a new class of antiretrovirals with efficacy against many strains of HIV, including some resistant to existing drugs</td>
</tr>
</tbody>
</table>
Acquisitions and Partnerships will Reinforce Merck’s Core Rx Business

- Merck will pursue focused acquisitions and partnerships that reinforce its core Rx business and drive additional top-line growth.

- Merck will pursue niche acquisitions and partnerships in diagnostics and devices to enable its core Rx business, but will not build a stand-alone business.

- Merck will opportunistically participate in authorized generics.
Merck’s Plan to Win is Driven by Five Strategic Actions

- Focus on priority disease areas
- Redefine product discovery and development
- Create a new commercial model
- Achieve leadership in emerging pharma markets
- Create lean and flexible cost structure

High performance culture
- Uncompromising ethics and integrity
- Strong execution capability
Merck’s Plan to Win is Driven by Five Strategic Actions

Merck’s plan to win

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Uncompromising ethics and integrity  Strong execution capability
Focus on Priority Disease Areas to Meet Unmet Medical Needs and Maximize Opportunities

Principles

- Commit resources to achieve research breadth and depth in priority disease areas
- Prioritize disease areas based on unmet medical need, scientific opportunity, and commercial opportunity
- Develop products that are highly valued by patients, payers, and physicians
- Sustain investment in innovation throughout product lifecycle
- Achieve scientific leadership in priority disease areas

Deliver best-in-class targeted and differentiated products
Significant Investment for Leadership in Nine Priority Disease Areas

<table>
<thead>
<tr>
<th>Disease Area</th>
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<tbody>
<tr>
<td>Alzheimer’s Disease</td>
</tr>
<tr>
<td>Atherosclerosis</td>
</tr>
<tr>
<td>Cardiovascular</td>
</tr>
<tr>
<td>Diabetes</td>
</tr>
<tr>
<td>Novel Vaccines</td>
</tr>
<tr>
<td>Obesity</td>
</tr>
<tr>
<td>Oncology (Targeted Therapies)</td>
</tr>
<tr>
<td>Pain</td>
</tr>
<tr>
<td>Sleep Disorders</td>
</tr>
</tbody>
</table>
Focused Investment in Other Selected Disease Areas

- Antibiotics
- Antifungal
- Antiviral (HCV, HIV)
- Asthma
- COPD
- Neurodegeneration
- Ophthalmology
- Osteoporosis
- Schizophrenia
- Stroke
Merck Will Also Capitalize on Selected Opportunities Outside Its Priority Disease Areas

• Where Merck currently has clinical development candidates, it will continue to develop and commercialize, where attractive, regardless of disease areas.

• In other selected disease areas, if there is clinical proof of concept, Merck will pursue external licensing opportunities where attractive.
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# Redefine Discovery and Development to Yield New High-value Products Faster and More Efficiently

## Principles

- Seek patient, payer, and physician input early and throughout product lifecycle
- Engage in partnership with scientific leaders and key opinion leaders
- Increase external sourcing of capabilities
- Integrate key product enablers (e.g., biomarkers, diagnostics, devices, and information) in the development of products
- Maximize speed and efficiency of output while increasing success rates
Merck is Redefining Its R&D Model End-to-end

| Increase productivity                      | • Expand pipeline through both internal discovery and licensing  
|                                           | • Outsource non-core activities in research and development |
| Improve probability of success            | • Develop/access biomarkers and diagnostics from early stage  
|                                           | • Test candidates pre-trial with molecular profiling of efficacy/toxicity  
|                                           | • Use experimental medicine to improve target validation |
| Decrease cycle time                       | • Apply Six Sigma concepts and principles  
|                                           | • Increase throughput by 20% without increasing operational costs |
| Move towards differentiated, targeted therapies | • Build on platform of advanced Rosetta technology  
|                                           | • Access cutting-edge tools externally via academic partnerships |
| Recruit and develop top talent            | • Be willing to tackle important medical problems in novel ways  
|                                           | • Develop the existing internal talent pool  
|                                           | • Look outside to tap broad pool of innovative scientists |
Active External Partnering has Continued in 2005

- Completed over **190 transactions** in past five years
- Achieved **high success rate** in priority transactions

**2005 transaction highlights**

<table>
<thead>
<tr>
<th>Partnership</th>
<th>Field</th>
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<tbody>
<tr>
<td>Agensys – Oncology</td>
<td></td>
</tr>
<tr>
<td>CSL – Vaccine adjuvant</td>
<td></td>
</tr>
<tr>
<td>FoxHollow – Atherosclerosis</td>
<td></td>
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<tr>
<td>Geron – Oncology vaccine</td>
<td></td>
</tr>
<tr>
<td>Sumitomo – Schizophrenia</td>
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Merck has Experienced a Four-fold Increase in Research Productivity

Index (2001=1)

- Number of programs entering Phase I & II
- Basic and pre-clinical spending

Index (2001=1)
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Evolve Commercial Model to Drive Revenue with Greater Efficiency and Effectiveness

**Principles**

- Enhance communications with key opinion leaders for rapid dissemination of scientific information
- Increase productivity of promotion to primary care physicians
- Use technology to communicate in a more targeted, cost-effective way
- Invest to drive successful product launches
- Devote more resources to payers and consumers who will have increasing influence on Rx choices
- Demonstrate product differentiation, outcomes, and value to patients, payers, and physicians
**Merck is Creating a New Commercial Model to Win**

<table>
<thead>
<tr>
<th>Deepen Merck’s engagement with scientific leaders and payers</th>
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<tbody>
<tr>
<td>• Develop scientific leadership in priority disease areas and enhance engagement of global opinion leaders in the diffusion of science</td>
</tr>
<tr>
<td>• Become a leader in conducting and communicating health technology assessments and outcomes research</td>
</tr>
<tr>
<td>• Develop innovative partnerships and programs, including compliance and adherence programs</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Deliver information that meets patient needs</th>
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<tbody>
<tr>
<td>• Help patients understand their disease and therapeutic choices</td>
</tr>
<tr>
<td>• Educate patients on the safety, tolerability, efficacy, and cost effectiveness of Merck’s products</td>
</tr>
<tr>
<td>• Communicate in more targeted and diverse ways including the internet, patient advocacy groups and allied health professionals</td>
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<table>
<thead>
<tr>
<th>Drive increased productivity</th>
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<tbody>
<tr>
<td>• Reduced number of representatives promoting same product by 50% vs. historical levels</td>
</tr>
<tr>
<td>• Decreasing number of representatives for major in-line products by 1,500 and redeploying resources to support new vaccine launches</td>
</tr>
<tr>
<td>• Expanding e-detailing pilots and more productive targeting</td>
</tr>
<tr>
<td>• Apply Six Sigma concepts and principles</td>
</tr>
<tr>
<td>• Piloting broad range of deployment options</td>
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## Based on Pilots Around the World, Merck Expects Significant Productivity Improvements

<table>
<thead>
<tr>
<th>Pilot</th>
<th>Observed Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Field Source Productivity:</strong> Increasing number of days in field, calls per day</td>
<td>9% increase in calls</td>
</tr>
<tr>
<td><strong>U.S. Video and Internet Detailing:</strong> Increasing time with physicians at less cost</td>
<td>Three-fold increase in physician interaction time</td>
</tr>
<tr>
<td><strong>Merck Frosst Canada – Partners for Better Care:</strong> Increasing the value provided to physicians through partnerships to improve health outcomes</td>
<td>More than doubled the number of physicians who rank Merck as a top company</td>
</tr>
<tr>
<td><strong>European Subsidiary – Enhancing Access to Physicians:</strong> Using peer-to-peer detailing to access difficult-to-reach physicians</td>
<td>17% of difficult-to-reach physicians requested a visit from a MSD representative</td>
</tr>
</tbody>
</table>
In The Future, Merck Expects to Spend 15-20% Less Per Brand

<table>
<thead>
<tr>
<th>Spending per brand</th>
<th>ILLUSTRATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical spending mix per brand</td>
<td>Future spending mix per brand (~2010)</td>
</tr>
<tr>
<td>Payer</td>
<td>Payer</td>
</tr>
<tr>
<td>Patient</td>
<td>Patient</td>
</tr>
<tr>
<td>Physician promotion and direct selling</td>
<td>Physician promotion and direct selling</td>
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15-20% less in the U.S.

- Better demonstration of value
- More targeted channels
- Different selling roles and configuration; more alternative channels
Merck’s Plan to Win is Driven by Five Strategic Actions

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Emerging Pharma Markets Offer an Important Source of Growth

**Principles**

- Build long-term leadership position in key emerging pharma markets
- Invest now to fully realize this significant opportunity
- Lower costs by sourcing capabilities from emerging pharma markets
Merck’s Revenue in Key Emerging Pharma Markets is Expected to Double to Over $2 Billion by 2010

Example emerging pharma markets

China

Russia, Turkey, and Hungary

Merck’s commercial growth

- 23% revenue and 46% profit CAGR since 1999
- #1 market share in top 4 products
- Strong presence in over 40 cities

- 11% revenue CAGR over five years and increasing profitability
- #2 U.S.-based company
Merck is Already Sourcing Global Capabilities from Emerging Pharma Markets

Example emerging pharma markets

China

Merck’s global capability sourcing

• R&D
  – Regional clinical research
  – University and hospital partnerships

• Manufacturing
  – Procurement of specialty chemicals

India

• R&D
  – Regional clinical research
  – Chemical synthesis partnerships

• Manufacturing
  – Procurement of APIs, intermediates, and chemicals
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Redefine product discovery and development
Create a new commercial model
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Strong execution capability
Create a Lean and Flexible Cost Structure to Improve Margins

Principles

- Implement company-wide process redesign to increase effectiveness and lower cost base
- Build world class Six Sigma capability throughout the company
- Outsource and partner non-core activities
- Achieve best-in-class marketing and administrative efficiency
- Lead the industry in supply strategy
Supply Strategy is the First Phase of Merck’s Company-wide Redesign

**Anticipated Impact of Manufacturing Process Redesign**

- 25% manufacturing headcount reduction
- 30% product cost reduction
- 50% reduction in new capital
- 35% external sourcing
- $400M inventory reduction
- $1.2B procurement savings (company-wide)

Return to pre-ZOCOR product gross margin after 2008
Merck is Redesigning End-to-end Processes to Fundamentally Shift its Cost Position

- All general and administrative processes
- Global commercial process
- End-to-end product development and lifecycle management process

Achieving 20-30% savings target will maintain marketing and administrative expense at 2006 levels
Merck has a Clear Plan to Deliver Results

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Integrated set of actions to deliver results
Actively engaged leadership with clear accountabilities for delivery
Milestones and metrics to track progress
Examples of How Merck Will Measure Progress Using Key Benchmarks

- **Focus on priority disease areas**
  - Quality/value of pipeline

- **Redefine product discovery and development**
  - Cycle times from PCC to launch

- **Create a new commercial model**
  - Launch performance (market share of drugs in first year of launch)

- **Achieve leadership in emerging pharma markets**
  - Share relative to competitors

- **Create lean and flexible cost structure**
  - Marketing and admin as percent of revenues
Merck Has a Plan to Win — Here is What Winning Means:

<table>
<thead>
<tr>
<th>Recognized by patients:</th>
<th>For products that address important unmet needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognized by physicians:</td>
<td>For better outcomes for their patients</td>
</tr>
<tr>
<td>Recognized by payers:</td>
<td>For products that are truly differentiated and deliver high value</td>
</tr>
<tr>
<td>Recognized by employees:</td>
<td>For being the most desired place to work</td>
</tr>
<tr>
<td>Recognized by shareholders:</td>
<td>For double digit earnings growth and leadership in returning value to shareholders</td>
</tr>
</tbody>
</table>