

SHAREHOLDER PROPOSAL REGARDING EXECUTIVE INCENTIVES AND STOCK BUYBACKS

RESOLVED that shareholders of Merck & Co., Inc. (“Merck”) urge the Board of Directors to adopt a policy that the Compensation and Benefits Committee (the “Committee”) must approve a proposed sale of Compensation Shares by a senior executive during a Buyback and, for each such approval granted, explain in writing, for inclusion in Merck’s proxy statement for the relevant period, why the Committee concluded that approving the sale was in Merck’s long-term best interest.

For purposes of this Proposal, “Compensation Shares” are shares of Merck common stock obtained pursuant to a compensation award, grant or other similar arrangement, including shares obtained upon the exercise of stock options, vesting of restricted stock or settlement of a long-term incentive plan award. A Buyback occurs when Merck has announced it will be repurchasing shares of common stock.

SUPPORTING STATEMENT

We support senior executive compensation arrangements that promote ethical behavior, encourage investment in innovation and the workforce, and align the interests of senior executives and long-term shareholders. We believe that equity compensation, appropriately managed, can be consistent with those objectives.

We are concerned, however, that allowing senior executives to cash out during a Buyback defeats the long-term orientation which equity compensation is meant to foster. Buybacks have reached record levels in 2018 as a result of the 2017 Tax Cuts and Jobs Act, including the \$10 billion in Buybacks which Merck announced in late 2017, and late 2018. This runs counter to the claims that the savings provided to corporations by the tax cut would be reinvested.¹ Even before the recent surge, research found that Merck’s spending on research and development - at 19% of revenues - lagged behind the 20% of revenues the company spent on share buybacks and dividends from 2006 through 2015.²

A 2018 study by Commissioner Robert Jackson’s staff found that sales of company stock by insiders increased significantly following Buyback announcements: The number of companies with at least one insider selling in the eight days after an announcement was double the number absent a buyback, and the average daily trade size was five times larger. Insiders benefited from a stock price bump following the announcement, which averaged over 2.5%. Commissioner Jackson concluded that Buybacks “give executives an opportunity to take significant cash off the table, breaking the pay-performance link.”³

¹ E.g., <https://www.nbcnews.com/politics/politics-news/trump-signs-tax-cut-bill-first-big-legislative-win-n832141>; <http://nymag.com/daily/intelligencer/2018/07/corporations-are-investing-in-stock-buybacks-that-dont-pay.html>

² See <https://www.oxfamamerica.org/explore/research-publications/prescription-for-poverty/>

³ See <https://www.sec.gov/news/speech/speech-jackson-061118>

We agree with Commissioner Jackson that “corporate boards and their counsel should pay closer attention to the implications of a buyback for the link between pay and performance.” To that end, he urged that compensation committees should be required to approve sales of shares acquired through equity compensation programs and, if approval is granted, disclose to shareholders why the sale is in the company’s long-term best interests. Our proposal urges Merck to adopt that suggestion for sales by senior executives of Compensation Shares during Buybacks.⁴ In our view, scrutinizing decisions to cash out will help keep senior executives’ focus on the long term, where it belongs.

We urge shareholders to vote for this Proposal.

⁴ See <https://www.sec.gov/news/speech/speech-jackson-061118>