

MRK/BMY

Restricted Keytruda Label as Expected; See Opdivo Maintaining Leadership Position - ALERT

Today, the FDA approved Keytruda (PD-1) with a companion diagnostic (PD-L1 IHC 22C3 pharmDx test) for second-line PD-L1+ lung cancer patients. The restricted label is generally in line with expectations and is likely to broaden over time as data from additional trials support Keytruda's efficacy in a larger patient population. Given that Opdivo is already approved in an all comer sq-NSCLC population and Keytruda has been granted a restricted label, we expect the uptake to be skewed towards the PD-L1+ non-sq patients. For, BMY, today's Keytruda label further reinforces our view that Opdivo will maintain a clear leadership position in the NSCLC marketplace. Overall, we continue to see Merck as a competitive I/O player with a lead in multiple tumors with large unmet need such as HNSCC and colorectal tumors harboring MMR mutations.

- Keytruda approved in 2L PD-L1+ NSCLC.** The FDA approved Keytruda for use with a companion diagnostic in PD-L1+ second-line lung cancer patients who have been previously treated with chemotherapy. The approval was based on patients with PD-L1 expression in >50% of tumor cells, which showed an ORR of 41% and a 16 month OS rate of 55-60%. Further, although the data are immature the survival benefit seen was similar to the OS rates for Opdivo in high PD-L1 expressers. As a result we see a healthy uptake of Keytruda in 2L PD-L1+ patients.
- We expect the label to expand over time.** With KEYNOTE-010, a registrational 2L study expected to read out in the next several months and different frontline studies ongoing in PD-L1+/ all comer patients, we expect the initial label to broaden over time and gradually increase Keytruda's footprint in NSCLC. In addition, we are encouraged by our recent immunotherapy survey in which a majority of physicians considered PD-1/PD-L1s as interchangeable. That said, in the near term we expect today's narrow label and Opdivo's approval in sq-NSCLC/ NCCN recommendation in non-sq to largely restrict use in PD-L1+ non-sq patients.
- Up next: Watching for range of near-term catalysts across Merck's diverse portfolio.** In addition to watching the HCV triplet data (C-CREST) at AASLD and potential doublet launch later this year/early 2016. In the long term, we expect 2016-17 updates and data from assets such as second-generation I/O compounds (GITR), BACE-inhibitor (Alzheimer's) and anaceptrapib (CETP), none of which appear to be reflected in Merck's current share price.

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Overweight
Price: \$60.05

01 October 2015

MRK, MRK US
Overweight
Price: \$49.37

01 October 2015

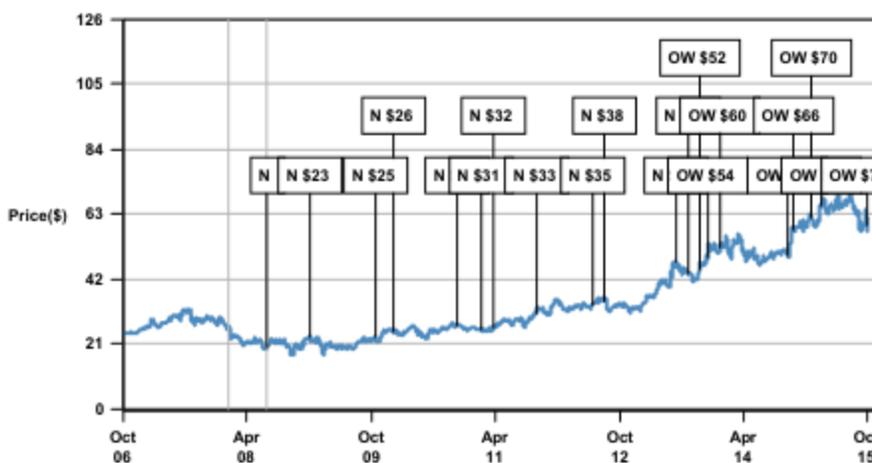
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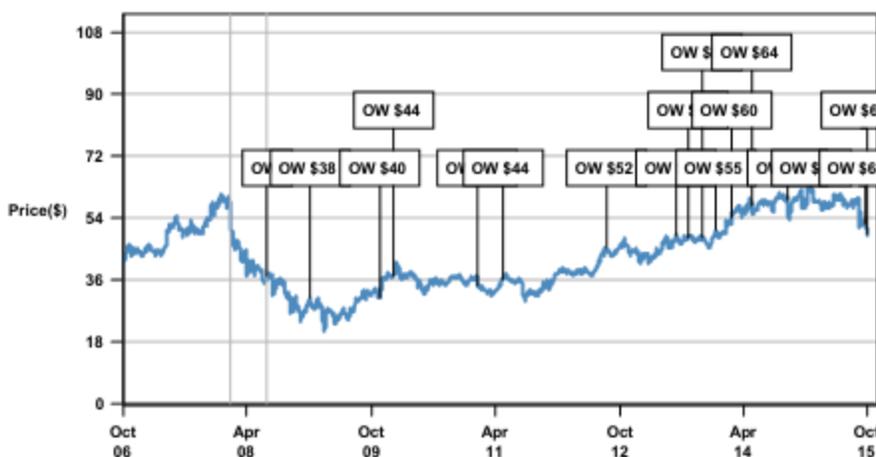


Date	Rating	Share Price (\$)	Price Target (\$)
24-Jun-08	N	20.23	--
06-Jan-09	N	23.23	23.00
19-Oct-09	N	22.97	25.00
05-Jan-10	N	25.23	26.00
18-Oct-10	N	27.33	27.00
27-Jan-11	N	25.79	31.00
25-Mar-11	N	26.43	32.00
26-Sep-11	N	30.94	33.00
04-Jun-12	N	33.33	35.00
25-Jul-12	N	34.73	38.00
03-Jun-13	N	47.59	48.00
25-Jul-13	N	43.93	50.00
16-Sep-13	OW	45.14	52.00
23-Oct-13	OW	48.96	54.00
19-Dec-13	OW	52.59	60.00
10-Oct-14	OW	49.50	63.00
03-Nov-14	OW	58.19	66.00
20-Jan-15	OW	62.31	70.00

Source: Bloomberg and [REDACTED]. Morgan; price data adjusted for stock splits and dividends. Break in coverage Jun 24, 2008 - Jan 06, 2009.

05-Mar-15	OW	65.67	75.00
30-Sep-15	OW	59.20	78.00

Merck & Co., Inc. (MRK, MRK US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Break in coverage Jun 24, 2008 - Jan 06, 2009.

Date	Rating	Share Price (\$)	Price Target (\$)
24-Jun-08	OW	37.03	--
06-Jan-09	OW	30.53	38.00
04-Nov-09	OW	30.67	40.00
05-Jan-10	OW	37.16	44.00
13-Jan-11	OW	34.23	42.00
02-May-11	OW	35.95	44.00
30-Jul-12	OW	45.10	52.00
03-Jun-13	OW	48.45	54.00
30-Jul-13	OW	48.05	52.00
01-Oct-13	OW	48.37	53.00
02-Dec-13	OW	50.18	55.00
05-Feb-14	OW	53.77	60.00
06-May-14	OW	57.11	64.00
10-Oct-14	OW	59.21	66.00
20-Jan-15	OW	63.03	68.00
21-Sep-15	OW	52.13	65.00
30-Sep-15	OW	49.39	66.00

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