<u>Company Report 5:</u>
<u>How are executives and board members paid at your company?</u>

After reviewing Merck's latest DEF 14A proxy statement, it's clear the company puts a big emphasis on "pay-for-performance." Merck's top executives only earn most of their money if the company hits specific financial and strategic goals. According to the Compensation Committee, the philosophy is meant to reward long-term performance and align leadership with shareholder interests.

Executive pay at Merck includes a mix of base salary, annual bonuses, and long-term stock-based compensation like Performance Share Units and stock options. The board explains that this mix is intentional so executives stay focused not only on short-term results but also future growth, especially in key areas like oncology and vaccines. The company says this structure is competitive compared to other big pharmaceutical companies and helps retain strong leadership.

Looking at the Summary Compensation Table, one clear trend is that the majority of CEO Robert Davis's pay is performance-based. In 2024, he earned about $23.2 million, and the report shows most of that came from long-term equity awards rather than salary. The proxy notes that Merck paid out 114% of target for annual incentives and 169% of target for PSUs, meaning the company exceeded goals in areas like revenue, pipeline progress, and shareholder value. That explains why incentive payouts were high.

The CEO-to-median-worker pay ratio also stood out: 219 to 1, with the median Merck employee making around $106,000. While that number may seem high, it's fairly typical for large pharma companies. If I worked at Merck, I might feel mixed — on one hand, the compensation seems tied to results; on the other hand, that kind of gap highlights the difference in rewards between leadership and regular employees.
The proxy also lists board members and their compensation. Directors mainly receive equity awards and cash retainers, which reflects the industry norm and encourages long-term commitment. It's also noticeable that major institutional investors — like Vanguard and BlackRock — hold large ownership stakes. That signals the company is closely watched by major players in the investment world.

What I Learned
This filing helped me understand how structured and strategic executive compensation is at large public companies. I was surprised that performance payouts exceeded goals by that much, but it also shows Merck thinks it's moving in the right direction culturally, financially, and scientifically.

Questions:
- How does Merck decide which peer companies to benchmark pay against?
- Do median employee wages vary significantly by region?
- How does Merck balance rewarding leadership while keeping employees motivated company-wide?