



NEWS RELEASE

# Merck and Viralytics Announce Acquisition Agreement, Expanding Merck's Leading Immuno-Oncology Pipeline

2/21/2018

Proposed Acquisition of Viralytics Would Add Investigational Oncolytic Immunotherapy, CAVATAK<sup>®</sup>, Supporting Merck's Strategy to Broaden Its Pipeline with the Best Scientific Assets

Merck (NYSE: MRK), known as MSD outside the United States and Canada, and Viralytics Limited (ASX: VLA, OTC: VRACY) today announced that the companies have signed a definitive agreement under which it is proposed that Merck, through a subsidiary, will acquire Viralytics, an Australian publicly traded company focused on oncolytic immunotherapy treatments for a range of cancers by way of a scheme of arrangement (Scheme) for AUD 1.75 cash per Viralytics share. The proposed acquisition values the total issued shares in Viralytics at approximately AUD 502 million (USD 394 million). The cash consideration of AUD 1.75 per share represents a premium of 160% to the one month volume weighted average price (VWAP) of Viralytics shares.

On completion of the transaction, Viralytics will become a wholly-owned subsidiary of Merck, and Merck will gain full rights to CAVATAK<sup>®</sup> (CVA21), Viralytics's investigational oncolytic immunotherapy. CAVATAK is based on Viralytics's proprietary formulation of an oncolytic virus (Coxsackievirus Type A21) that has been shown to preferentially infect and kill cancer cells.

CAVATAK is currently being evaluated in multiple Phase 1 and Phase 2 clinical trials, both as an intratumoral and intravenous agent, including in combination with Merck's KEYTRUDA<sup>®</sup> (pembrolizumab), an anti-PD-1 therapy. Under an agreement between Viralytics and a subsidiary of Merck, announced in November 2015, a study is investigating the use of the CAVATAK and KEYTRUDA combination in melanoma, prostate, lung and bladder

cancers.

“Viralytics’s approach of engaging the innate immune system to target and kill cancer cells complements our immuno-oncology strategy, which is focused on the rapid advancement of innovative monotherapy approaches and synergistic combinations to help the broadest range of cancer patients,” said Dr. Roy Baynes, senior vice president and head of global clinical development, chief medical officer, Merck Research Laboratories. “We are eager to further build on Viralytics’s science as we continue our efforts to harness the immune system to improve long-term disease control and survival outcomes for people with cancer.”

“This proposed acquisition culminates years of dedicated work by the Viralytics team and represents an opportunity for significant value creation for our shareholders. Viralytics is proud to have progressed its lead investigational candidate CAVATAK to Phase 1 and Phase 2 clinical trials and, we believe that Merck, the leader in immuno-oncology, is best suited to advance CAVATAK for the benefit of patients globally, and to realize its potential,” said Dr. Malcolm McColl, managing director and chief executive officer, Viralytics.

The board of directors of Viralytics unanimously recommends that its company’s shareholders vote in favor of the Scheme, subject to there being no superior proposal and an independent expert concluding that the Scheme is in the best interest of the company’s shareholders. It is the intention of Viralytics’s directors to vote all the shares of Viralytics held or controlled by them in favor of the Scheme, subject to those same qualifications. Merck and Viralytics anticipate the transaction will be implemented by the second quarter of 2018. Implementation of the transaction is subject to a Viralytics’s shareholder vote and customary regulatory approvals.

Viralytics’s largest shareholder, Lepu Medical Group, which currently holds voting power in 13 percent of the Viralytics’s shares, has informed Viralytics that it intends to vote the shares it holds at the time of the Scheme meeting in favor of the Scheme, in the absence of a superior proposal and subject to the Viralytics directors maintaining their recommendation to vote in favor of the Scheme.

Chairman of Lepu Medical Group, Dr. Pu stated, “Lepu Medical Group acknowledges this is an attractive opportunity for Viralytics and, as such, is supportive of the transaction. In line with its existing strategy, Lepu Medical Group intends to continue to focus on developing immuno-oncology therapies, including in collaboration with companies globally.”

## Transaction Terms and Implementation Process

The Scheme proposes that Merck acquires 100 percent of the issued shares in Viralytics. Implementation of the Scheme will be subject to customary conditions, including Viralytics shareholder approval, court approval, regulatory approval, an independent expert concluding, and continuing to conclude, that the Scheme is in the best

interest of shareholders, and no material adverse change or prescribed event occurring.

More information on the Scheme and conditions is provided in a copy of the scheme implementation agreement which has been appended to this announcement. The agreement also contains exclusivity provisions that are customary in Australia, including “no shop”, “no talk” and “no due diligence” provisions, a break fee, as well as a notification obligation and matching right. The “no talk”, “no due diligence” and notification obligation provisions are subject to the directors’ fiduciary obligations.

A scheme booklet is expected to be dispatched to Viralytics shareholders in April 2018. The scheme booklet will contain information relating to the Scheme, the independent expert’s report on whether the Scheme is in the best interests of Viralytics shareholders, the reasons for the directors’ unanimous recommendation and details of the Scheme meeting and other matters relevant to Viralytics shareholders’ vote on the Scheme.

## Indicative timetable

A number of expected key dates relevant to the proposed acquisition have been outlined below.

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Key milestones	Date (AEDT)
Announcement of the proposed acquisition	February 21, 2018
First court hearing	April 23, 2018
Scheme booklet dispatched to Viralytics shareholders	April 27, 2018
Viralytics shareholder meeting to approve the scheme	May 28, 2018
Final court hearing	June 4, 2018
Implementation date	June 20, 2018

## Advisors

Credit Suisse Securities (USA) LLC is serving as financial advisor to Merck, and Baker & McKenzie is serving as Merck’s legal counsel. Lazard is serving as financial advisor and McCullough Robertson is serving as legal counsel to Viralytics.

## About CAVATAK

Viralytics is developing oncolytic immunotherapy treatments for a range of cancers. The company’s lead investigational product, CAVATAK®, is currently being studied in clinical trials for the treatment of melanoma, as well as bladder and lung cancers. CAVATAK is a proprietary formulation of the Coxsackievirus Type A21 (CVA21) that preferentially binds to specific ‘receptor’ proteins highly expressed on multiple cancer types. CAVATAK acts to kill

both local and metastatic cancer cells through cell lysis and the potential generation of an immune response against the cancer cells – a two-pronged mechanism of action known as oncolytic immunotherapy.

## About Viralytics Limited

Viralytics is focused on the development and commercialization of oncolytic immunotherapies that harness the power of specific viruses to preferentially infect and kill cancer cells. Based in Sydney Australia, the company is listed on the Australian Securities Exchange (ASX: VLA) while Viralytics's ADRs also trade under VRACY on the US OTCQX International market. For more information, please visit [www.viralytics.com](http://www.viralytics.com).

## Merck's Focus on Cancer

Merck's goal is to translate breakthrough science into innovative oncology medicines to help people with cancer worldwide. At Merck, helping people fight cancer is our passion and supporting accessibility to our cancer medicines is our commitment. Our focus is on pursuing research in immuno-oncology and we are accelerating every step in the journey – from lab to clinic – to potentially bring new hope to people with cancer.

As part of our focus on cancer, Merck is committed to exploring the potential of immuno-oncology with one of the fastest-growing development programs in the industry. We are currently executing an expansive research program evaluating our anti-PD-1 therapy across more than 30 tumor types. We also continue to strengthen our immuno-oncology portfolio through strategic acquisitions and are prioritizing the development of several promising immunotherapeutic candidates with the potential to improve the treatment of advanced cancers.

For more information about our oncology clinical trials, visit [www.merck.com/clinicaltrials](http://www.merck.com/clinicaltrials).

## About Merck

For more than a century, Merck, a leading global biopharmaceutical company known as MSD outside of the United States and Canada, has been inventing for life, bringing forward medicines and vaccines for many of the world's most challenging diseases. Through our prescription medicines, vaccines, biologic therapies and animal health products, we work with customers and operate in more than 140 countries to deliver innovative health solutions. We also demonstrate our commitment to increasing access to health care through far-reaching policies, programs and partnerships. Today, Merck continues to be at the forefront of research to advance the prevention and treatment of diseases that threaten people and communities around the world - including cancer, cardio-metabolic diseases, emerging animal diseases, Alzheimer's disease and infectious diseases including HIV and Ebola. For more information, visit [www.merck.com](http://www.merck.com) and connect with us on [Twitter](#), [Facebook](#), [Instagram](#), [YouTube](#) and [LinkedIn](#).

## Viralytics Forward-Looking Statements

Certain statements made in this presentation are forward looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but rather are based on Viralytics's current expectations, estimates, assumptions and projections about the industry in which Viralytics operates. Material referred to in this document that use the words 'estimate', 'project', 'intend', 'expect', 'plan', 'believe', 'guidance' and similar expressions are intended to identify forward looking statements and should be considered an at-risk statement. These forward-looking statements are not a guarantee of future performance and involve known and unknown risks and uncertainties, some of which are beyond the control of Viralytics or which are difficult to predict, which could cause the actual results, performance or achievements of Viralytics to be materially different from those which may be expressed or implied by these statements. These statements are based on our management's current expectations and are subject to a number of uncertainties and risks that could change the results described in the forward-looking statements. Risks and uncertainties include, but are not limited to, general industry conditions and competition, general economic factors, the impact of pharmaceutical industry regulation and health care legislation in the United States and internationally, and challenges inherent in new product development. Investors should be aware that there are no assurances that results will not differ from those projected and Viralytics cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the view of Viralytics only as of the date of this presentation. Viralytics is not under a duty to update any forward-looking statement as a result of new information, future events or otherwise, except as required by law or by any appropriate regulatory authority.

## Forward-Looking Statement of Merck & Co., Inc., Kenilworth, N.J., USA

This news release of Merck & Co., Inc., Kenilworth, N.J., USA (the "company") includes "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based upon the current beliefs and expectations of the company's management and are subject to significant risks and uncertainties. There can be no guarantees with respect to pipeline products that the products will receive the necessary regulatory approvals or that they will prove to be commercially successful. If underlying assumptions prove inaccurate or risks or uncertainties materialize, actual results may differ materially from those set forth in the forward-looking statements.

Risks and uncertainties include but are not limited to, general industry conditions and competition; general economic factors, including interest rate and currency exchange rate fluctuations; the impact of pharmaceutical industry regulation and health care legislation in the United States and internationally; global trends toward health care cost containment; technological advances, new products and patents attained by competitors; challenges

inherent in new product development, including obtaining regulatory approval; the company's ability to accurately predict future market conditions; manufacturing difficulties or delays; financial instability of international economies and sovereign risk; dependence on the effectiveness of the company's patents and other protections for innovative products; and the exposure to litigation, including patent litigation, and/or regulatory actions.

The company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the company's 2016 Annual Report on Form 10-K and the company's other filings with the Securities and Exchange Commission (SEC) available at the SEC's Internet site ([www.sec.gov](http://www.sec.gov)).

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