
From: Jeffrey Epstein <jeevacation@gmail.com>
Sent: Wednesday, February 13, 2013 5:48 PM
To: Barrett, Paul S
Subject: Re: An idea

ok

On Wed, Feb 13, 2013 at 12:41 PM, Barrett, Paul S <[REDACTED]>
<mailto:[REDACTED]> wrote:<=r>

Jeffrey

I do not think we have enough equity risk in the portfolio right now. While we feel very good about our mortgages and credit exposure, the upside in credit feels limited. Therefore I would like to selectively add some equity exposure with names that have underperformed the broader market yet maintain some buffers to protect us on the downside.

We recently added Merck to our focus list. I think we should consider a Market Plus Note on MRK (Overweight with a \$52 price target)

- 18 month
- Greater of the upside or a 3% coupon so long as we don't finish below 80% at expiry.</=>
- Would consider \$1MM<=span>

Background:

Merck is the 2nd largest pharmaceutical company globally with a broad portfolio of market-leading medicines and vaccines. International revenues represent 62% of total, while the U.S. represents ~38%. Highest selling products include Singulair (asthma/allergies) and Januvia (diabetes)<=p>

- Pullback presents opportunity in a favored sector (the cheapest defensive sector)<=>
- MRK is down -14% over last 4 months vs. PFE at up 7% and S&P at up 4%

– Delay in filing of odanacatib, MRK=92s phase III osteoporosis drug and investor concern about upcoming trial data have hurt sentiment. We believe this pullback is overdone and at current levels potential downside from upcoming trial information appears limited.

- Upcoming pipeline data points expected in 2H13 and 2014 provide catalysts and higher EPS growth potential than peers

– MRK has a solid pipeline beyond odanacatib (suvorexant - insomnia, anacetrapib - cholesterol, PD-1 - oncology, BACE - Alzheimers) as well as healthy core product portfolio (Januvia -diabetes and vaccines).

– JPMS LLC expects strong EPS growth of ~8% through 2020

- Valuation attractive both versus peers and historical averages; high dividend should support the stock

– MRK trades at 11.2x F13EPS vs. 12.5x five-yr avg, PFE at 12.0x and at a 20% discount to larger cap pharmaceuticals, despite higher growth potential

– 4.2% div yield, which we view as sustainable given 7.8% FCF yld

White line = buffer

> _____ = _____

>Paul Barrett= | Managing Director
| Global Investment Opportunities Group | J.P. Morgan Private Bank |

320 Park Avenue, 14th Floor, New York, NY=10022 | T: (212) 622-2770 <tel:%28212%29%20622-2770> | F:
(212) 310-0108 <tel:%28212%29%20310-0108> | paul.s.barrett@jpmorgan.com
<mailto:paul.s.barrett@jpmorgan.com> | NMLS ID# 853441

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