

Delivering on Efficiency to Create Value

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Key Messages

**We will continue to
grow our top-line**



**We will deliver
higher profitability**

- 180m of net cost savings in SG&A
- 120m of net cost savings in R&D



**We are re-building
our pipeline and
creating greater
focus in the
organization**



Agenda

- 1. Strengths and revenue trends**
2. Details of restructuring
3. Conclusion and summary

Biopharmaceuticals has many operational strengths

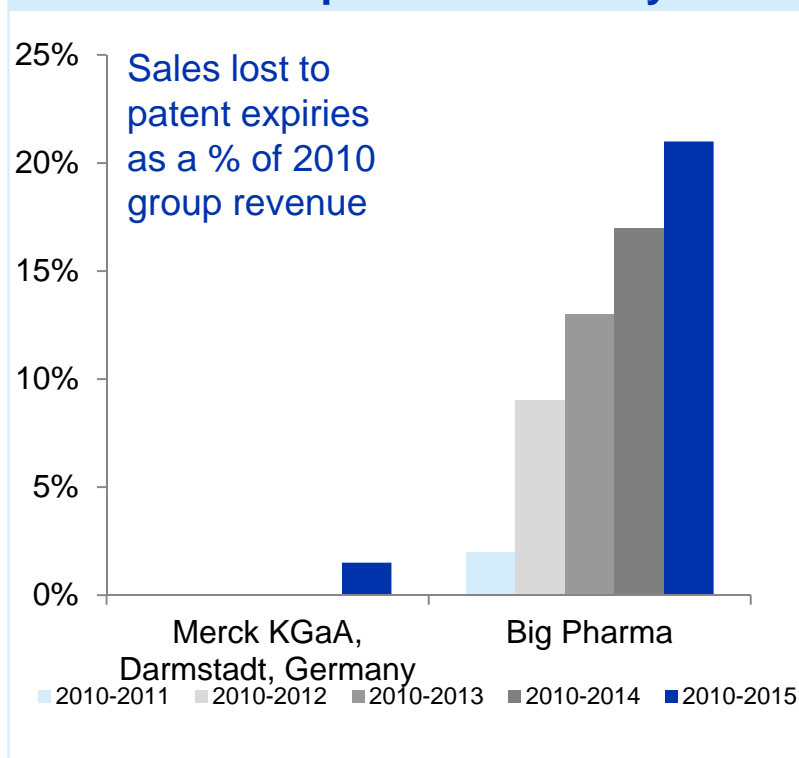
- Leadership positions and attractive franchises
- High exposure to biologic drugs
- Well-established products and brands in key areas and markets
- Global footprint - high percentage of revenues derived from emerging markets positively benefits overall growth profile
- Excellent track record of lifecycle management and device development

We have a stable underlying business that will grow



Lack of patent cliff provides resiliency to revenue streams

Significantly less exposure to patent cliff compared to industry

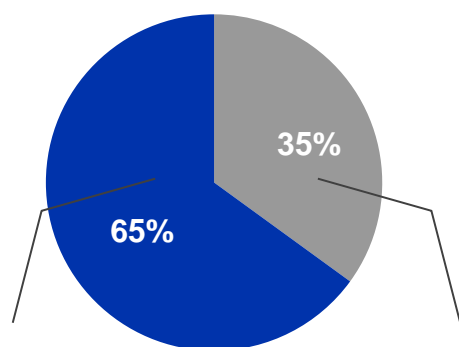


- Key products protected for next three years - patent expiries:
 - Rebif
 - First formulation: EU 2015, US 2022
 - HSA-free* formulation: patent application pending; tentative expiry date 2024 (US, EU)
 - Erbitux
 - Data exclusivity: EU 2014, Japan 2016 (Post Marketing Surveillance)
 - Gonal-f
 - EU 2009, USA 2015
- Strong brands such as Gonal-f provide additional protection

Source: Sell-side research on Merck KGaA, Darmstadt, Germany, June 23, 2011; corporate reports; Big Pharma incl. AstraZeneca, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Merck & Co., Pfizer, Roche, Sanofi
*human serum albumin - free

High exposure to biologics helps defend sales even beyond patent expiration

~2/3 of Biopharmaceuticals' drug portfolio are biologics



Biologics

- Neurodegenerative Diseases
- Oncology
- Fertility
- Endocrinology

Small molecules

- Cardiometabolic Care
- Endocrinology

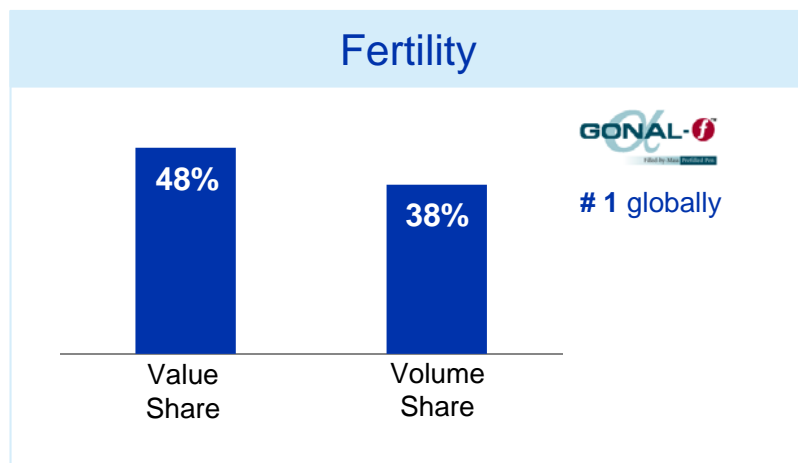
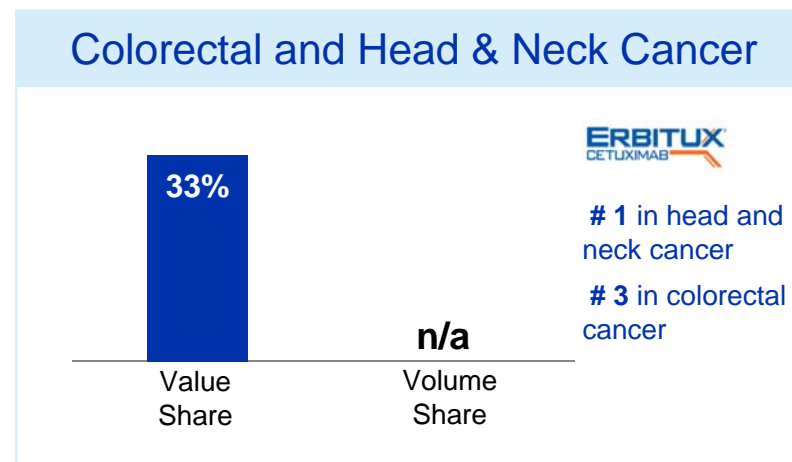
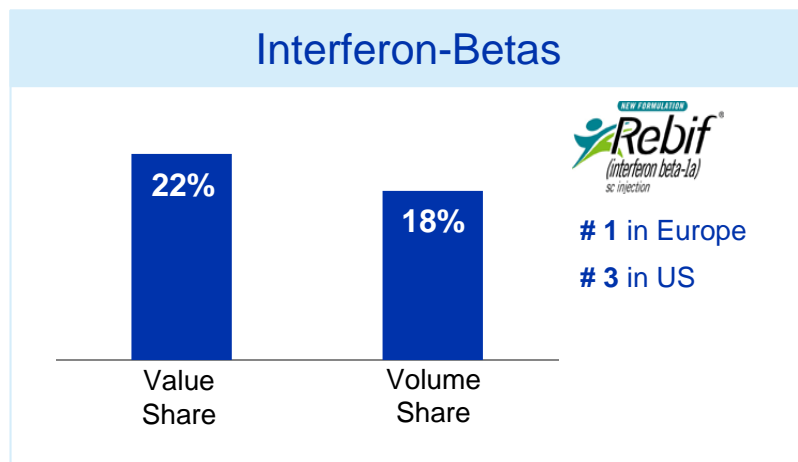


High exposure to
Biologics provides
stability

Generic threat for biologics is fundamentally lower compared to small molecules:

- Very complex molecule structure → similar but not identical drugs
- Complex and costly manufacturing → strong expertise needed for cost leadership
- High regulatory requirements for approval of follow-on biologics
- Dedicated sales force and marketing required for follow-on biologics

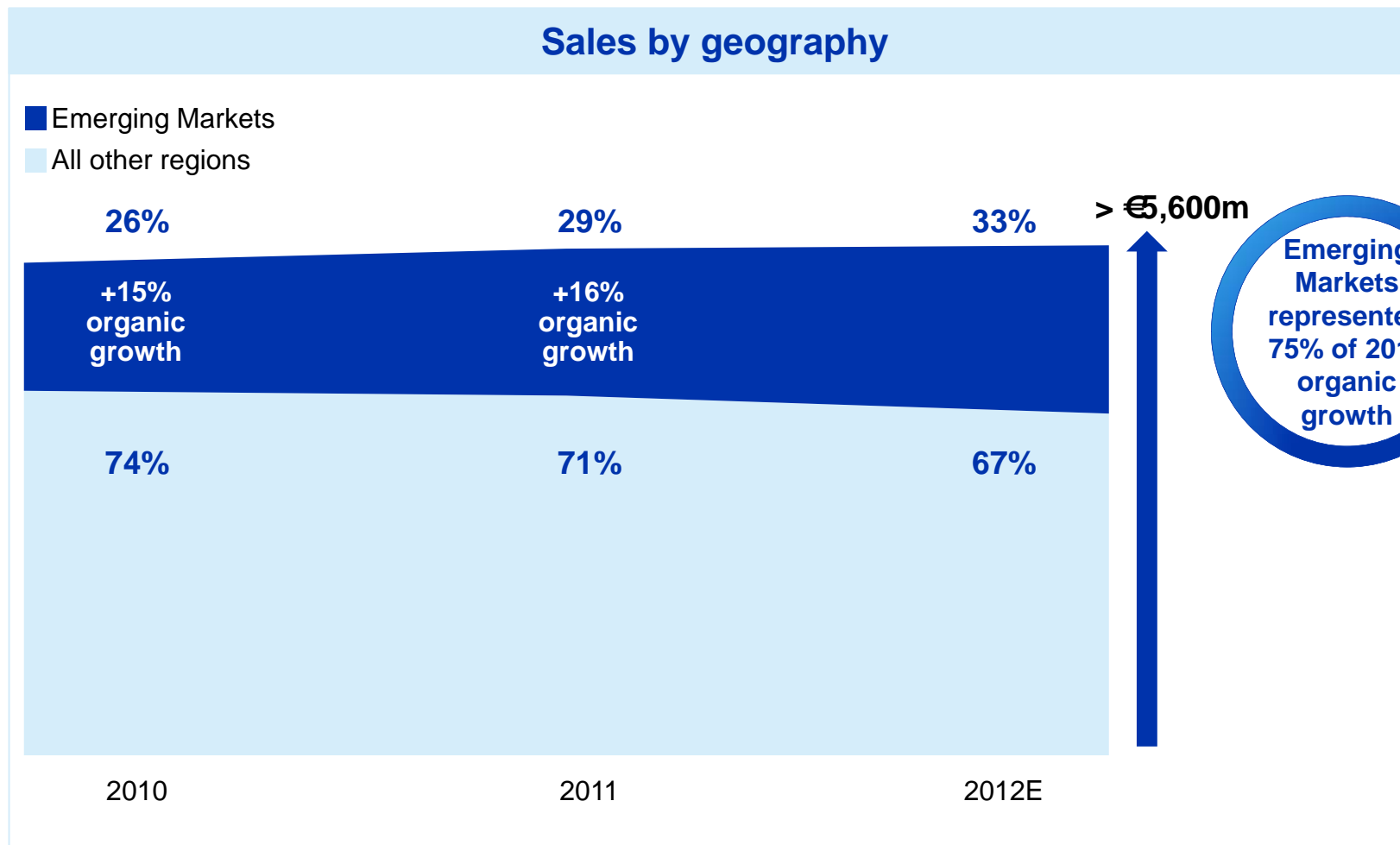
We have leading positions and attractive franchises*



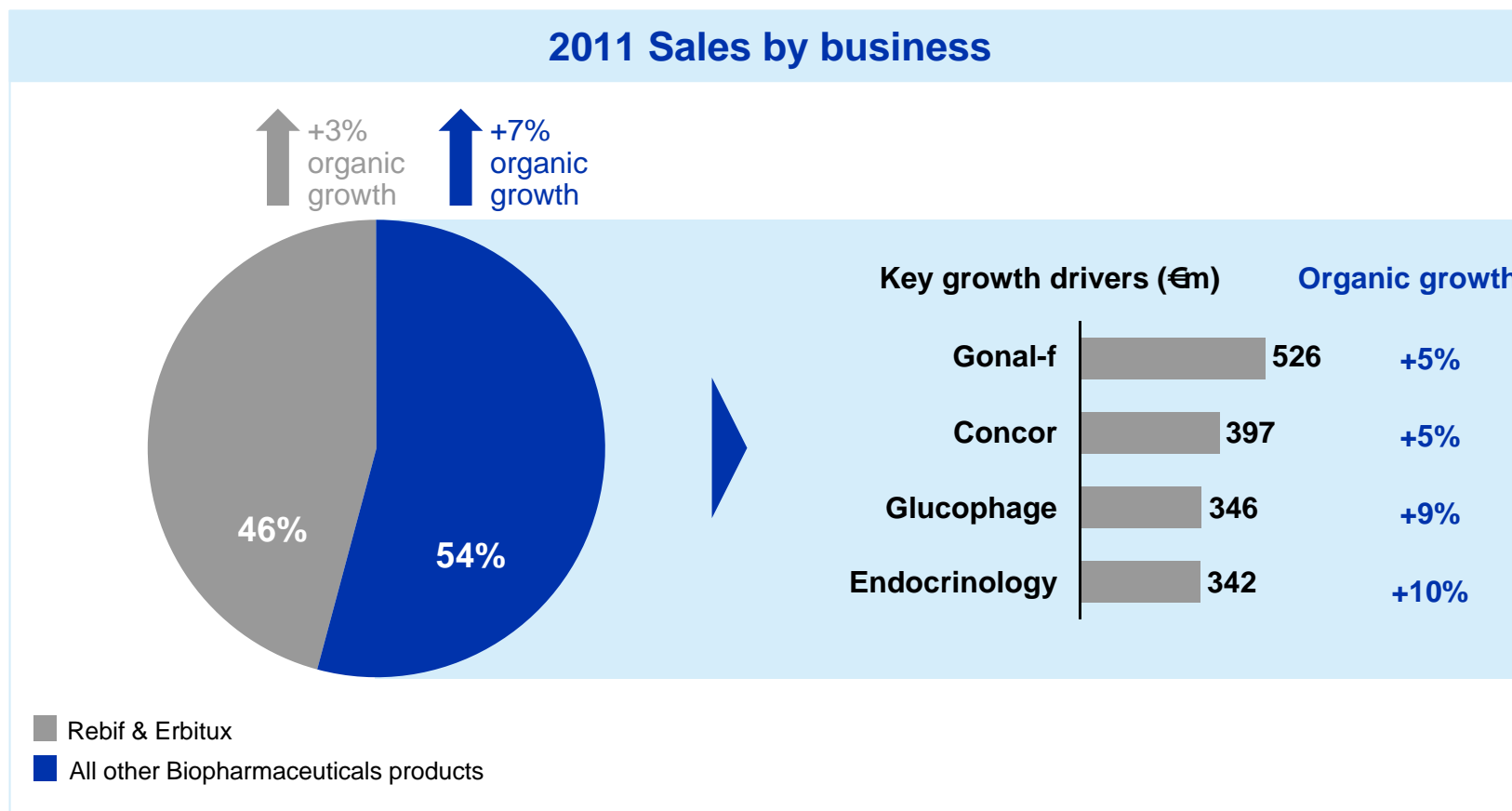
- ### Endocrinology
- Diversified across 4 products
 - Orphan drugs
 - 10% organic sales growth in 2011
 - Leadership position in fast growing markets

* Market shares based on 2011 numbers, company estimates

Emerging Markets is an increasing share of our sales and will drive attractive growth

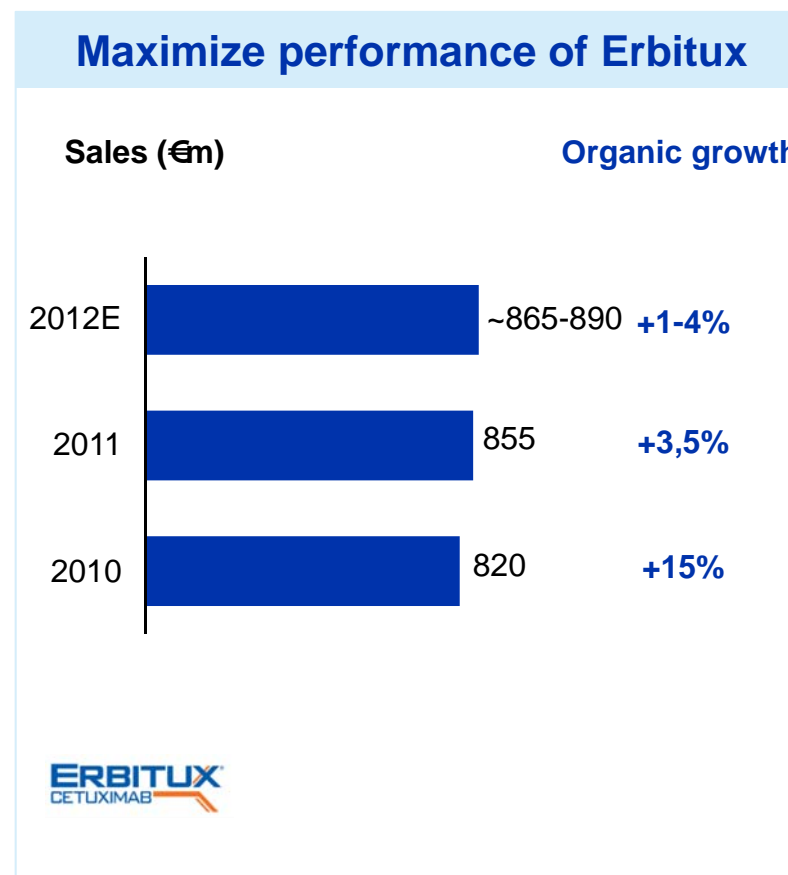
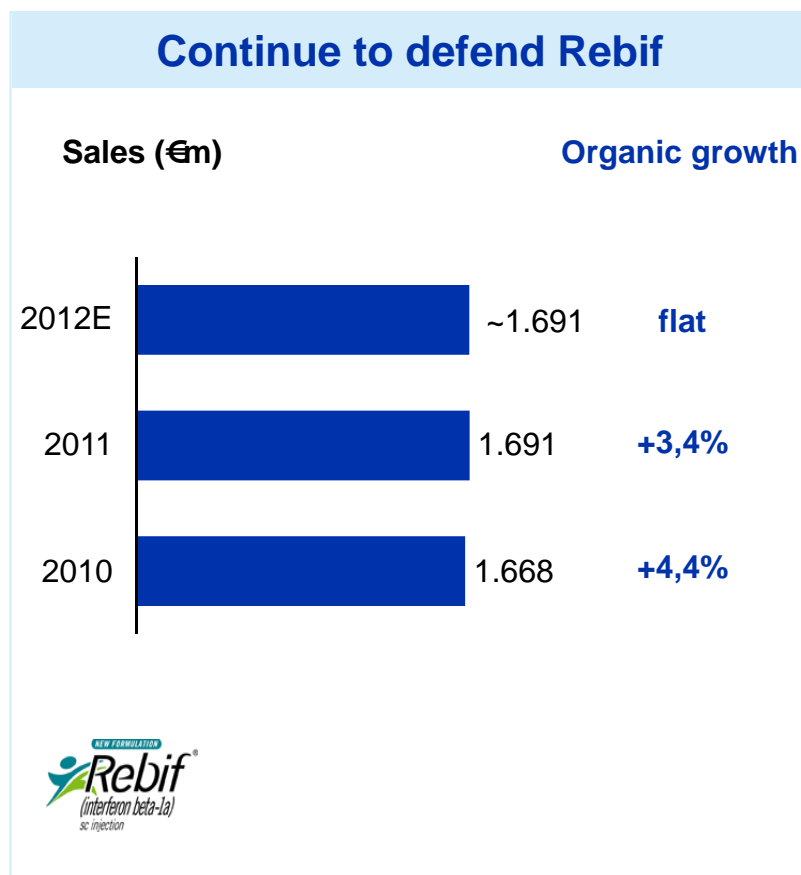


Over half of our portfolio is generating strong performance and will continue to grow



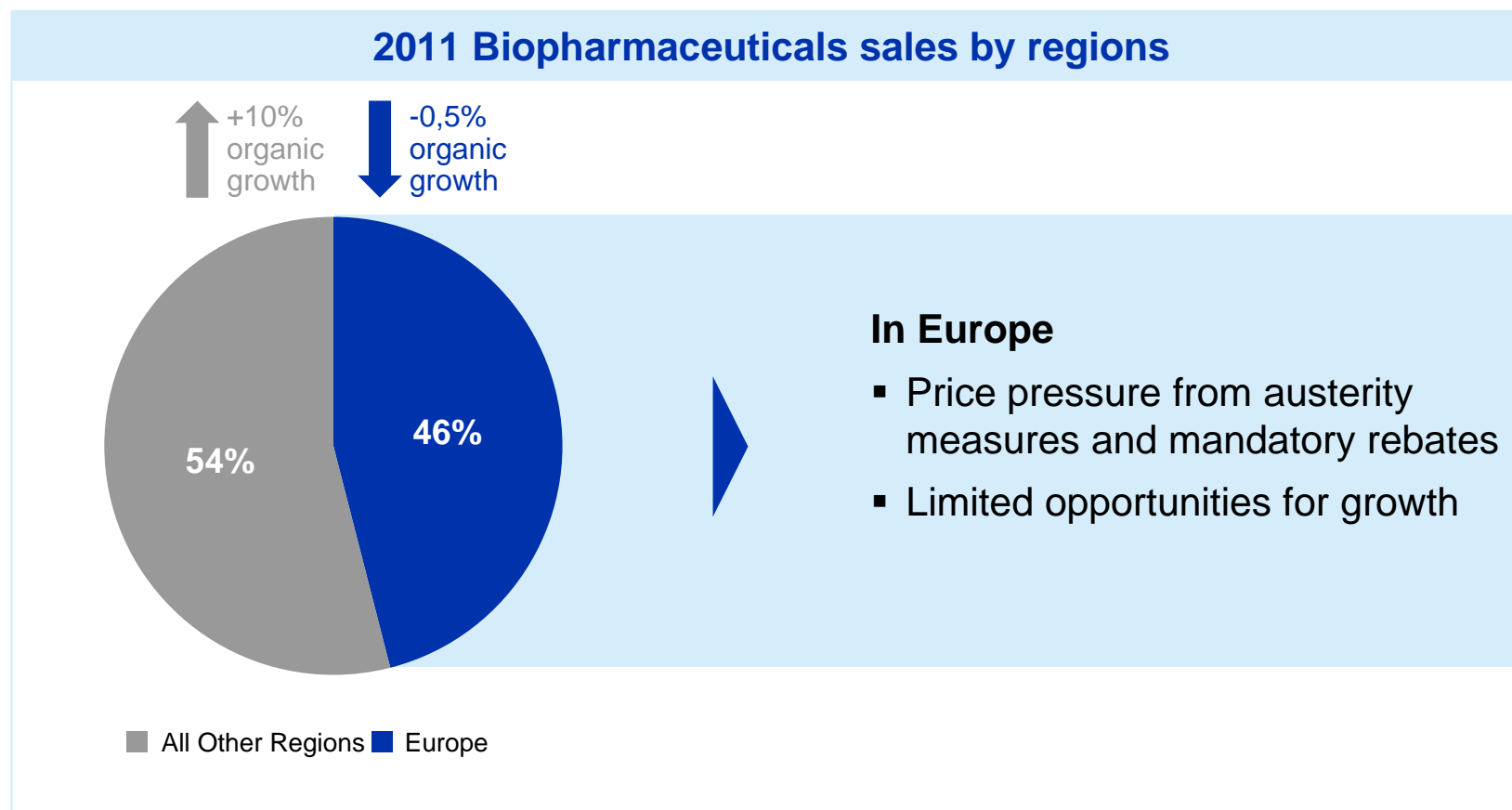
We have good assets that will continue to grow

Rebif and Erbitux will continue to be important assets for the division



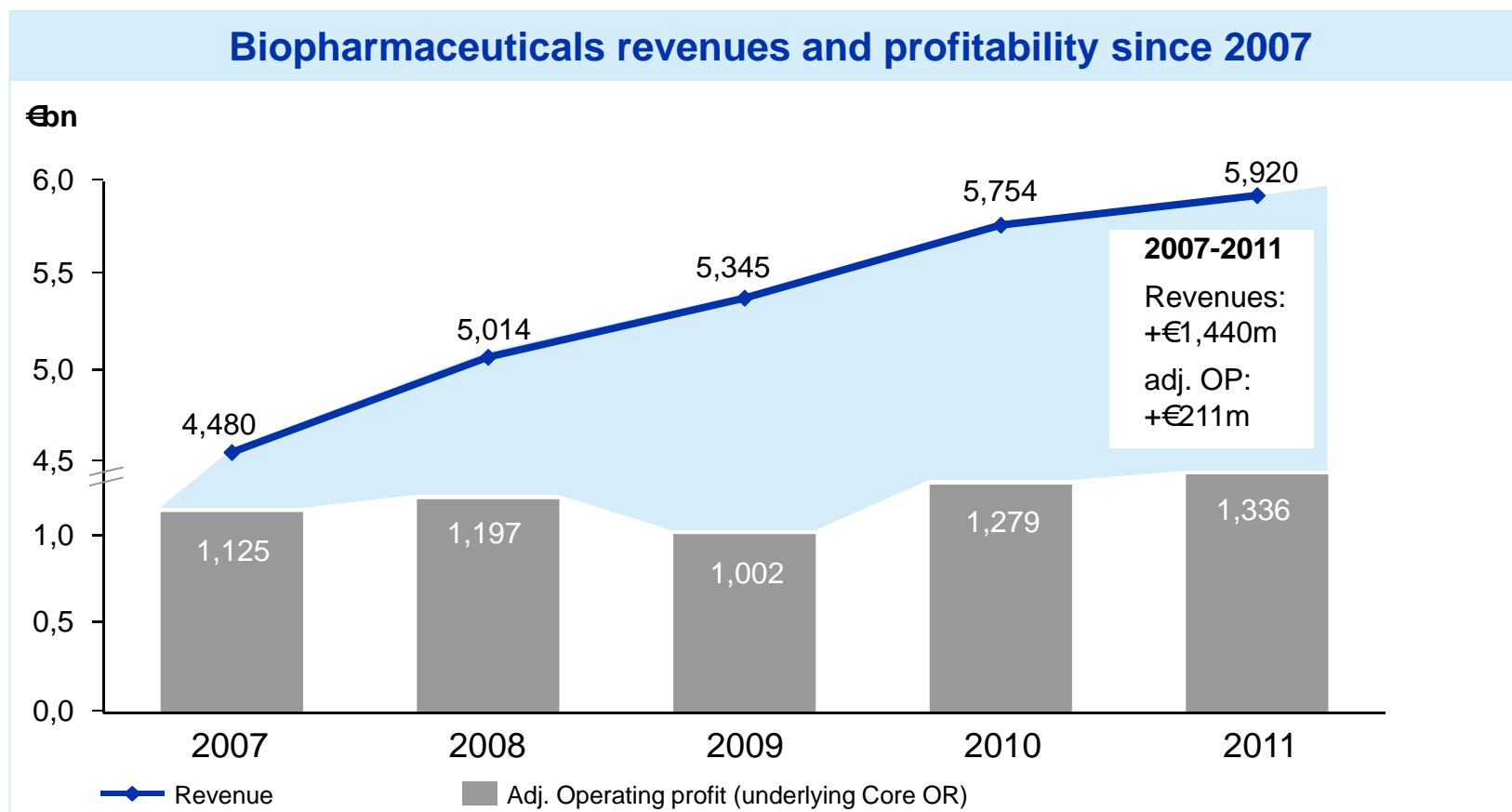
Rebif and Erbitux proving resilient in face of increasing competition

We are generating solid performance despite our high exposure to Europe



Double-digit growth outside Europe

Our ability to drive improved profitability is critical to ensure our future competitiveness



➤ Lack of effective operating leverage despite good top-line growth

We have a sense of urgency to deliver on efficiency



2012-2013

- Stable revenue and healthy margins
- Attractive double-digit growth by Emerging Markets
- Defense of Rebif franchise
- Continued growth from Erbitux
- Solid performance from Endocrinology and Fertility franchises

2014 and beyond

- Potential entry of oral multiple sclerosis drugs
- Potential new Erbitux competition
- Further maturing of other product lines

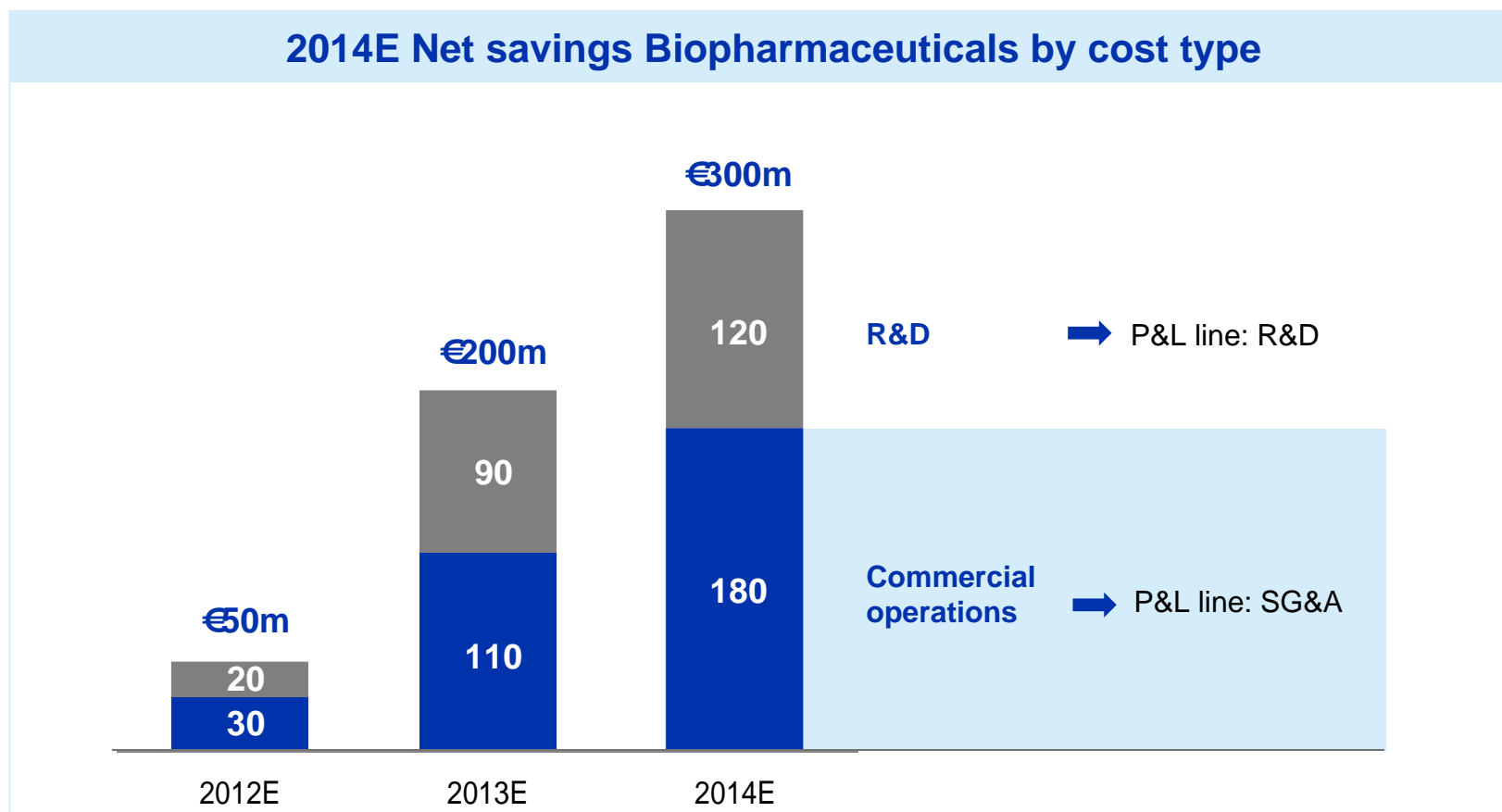


We have a two year window to deliver on efficiency

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Breakdown of Biopharmaceuticals net cost savings through 2014



€300 m of net cost savings by 2014

We will improve the efficiency of our SG&A spending

- Business setup is overly complex
- Not enough customer focus

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- Current resource allocation not aligned with geographical growth opportunities

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- Over-represented in Europe
 - Under-represented in Emerging Markets, US and Japan

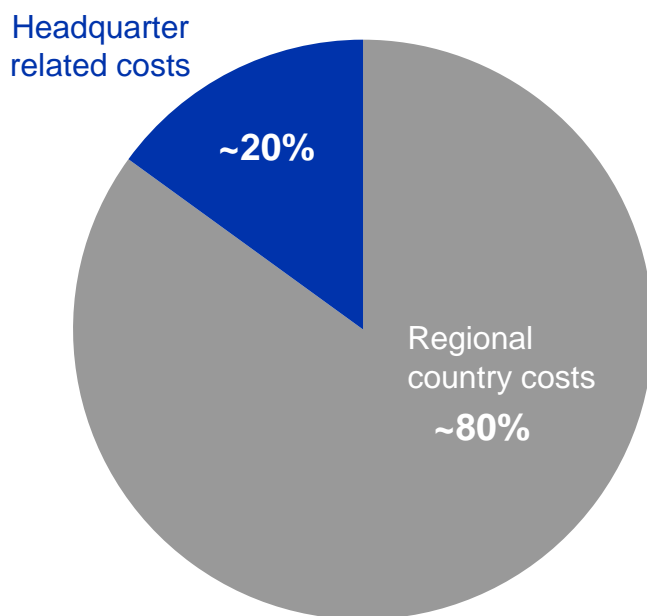
1. We are reducing organizational complexity, creating accountability and focusing on business performance

2. We are better aligning our resource allocation with geographical and portfolio growth opportunities

3. We need to eliminate existing inefficiencies so that we can fund growth in Emerging Markets

Commercial operations will drive ~60% of Biopharmaceuticals' net cost savings

2014E Net savings in SG&A split into:



Cost savings in commercial operations:

- Trim headquarter costs
- Eliminate double functions across the whole organization
- Downsize resources in administration and marketing along with the globalization of the organization
- Ensure appropriate levels of customer facing contacts

€180 m of cost savings from Commercial Operations by 2014

Planned closure of Geneva hub will generate meaningful savings

- We intend to close Geneva in the first half of 2013
- Out of 1,250 employees in Geneva we intend to reduce our headcount by 500 positions and relocate 750 positions
- We cannot afford to maintain two headquarters and two R&D hubs in Europe
- We intend to eliminate duplicative functions
- We intend to reduce our R&D infrastructure costs
- Consultative process with employees is ongoing



Priorities in Research & Development

Below industry productivity

Fragmented site footprint

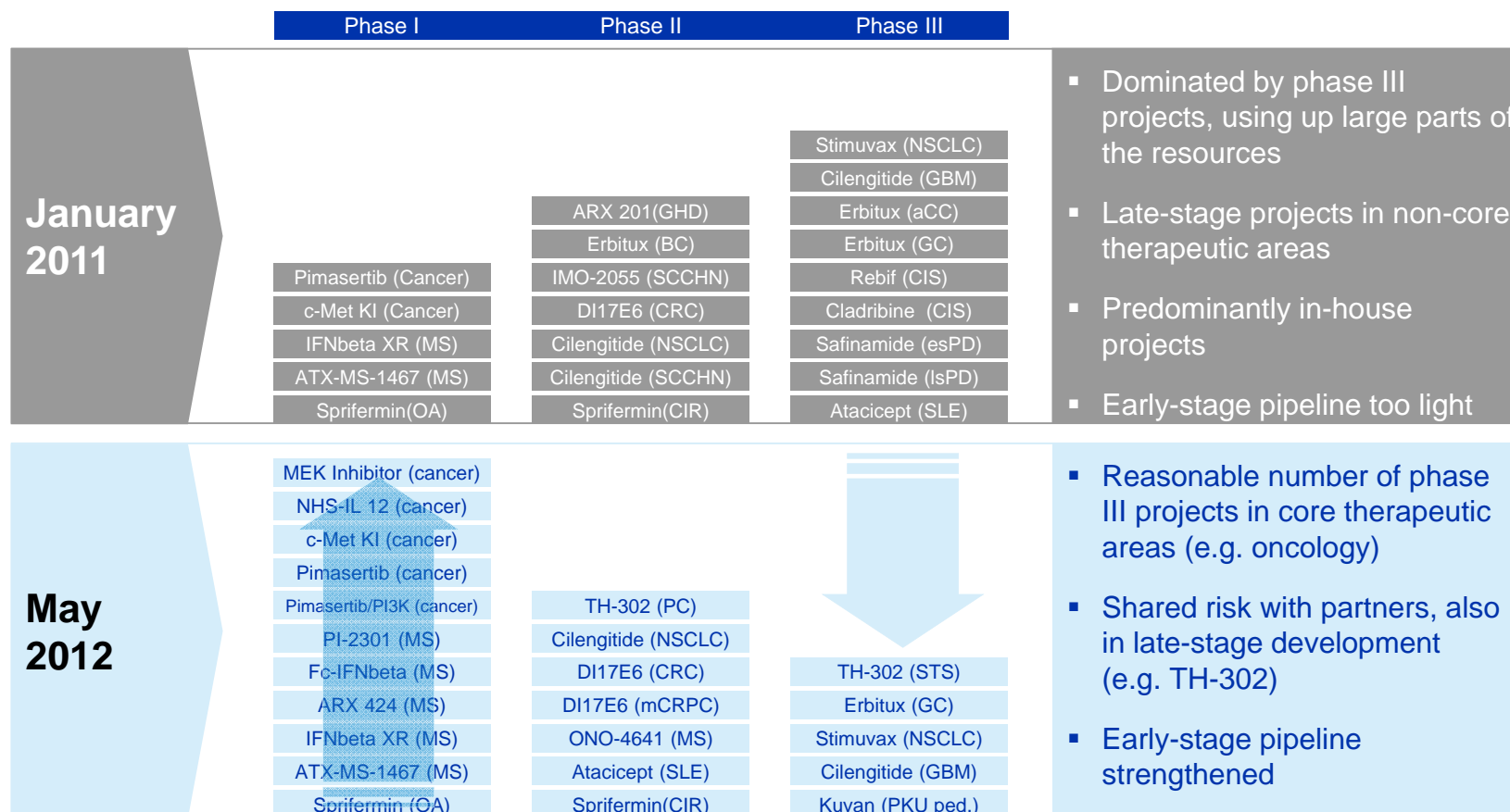
High fixed costs

- 1.** Advance cost, speed, and probability of success to industry benchmarks
- 2.** Increase focus on value and risk assessment in pipeline decisions
- 3.** Close R&D in Geneva and shift resources from Europe to the US and China
- 4.** Reduce R&D sites
- 5.** Create higher variable spend

Eliminate costs while ensuring R&D is located close to future growth opportunities



We have begun the process of rebuilding our pipeline in 2011



Pipeline has improved, but significant work remains

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We have made significant progress over the past year

What I communicated to you on April 11, 2011

What we have accomplished

We will improve our efficiency

- We kicked off our efficiency program

We will strengthen our R&D organization and processes

- Revamped R&D organization and streamlined processes

We will reduce the number of risky projects in our pipeline

- Decisions taken to cancel projects; early success in business development

We will streamline processes to increase our speed

- Management layers eliminated, clearer responsibility and accountability

We have a solid business that will continue to perform

- Good operational performance despite major change program

Conclusion

1 We are launching a major restructuring to improve our productivity

2 We will deliver on our savings and profitability targets

3 We are rebuilding our pipeline and we are off to a good start

4 We will create value through efficiency and additional value could be created from new product launches

We will deliver €300 m of net cost savings and increase the profitability of the division

2014

R&D net savings	▶	€120 m
SG&A net savings	▶	€180 m
EBITDA margin*	▶	~31 – 32%

* EBITDA pre one-time items in % of sales