

# Q1 2012 Earnings Release

May 15, 2012

Merck KGaA  
Darmstadt · Germany



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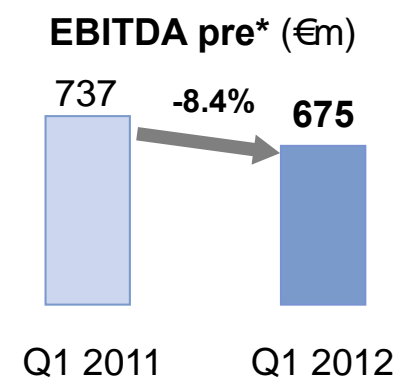
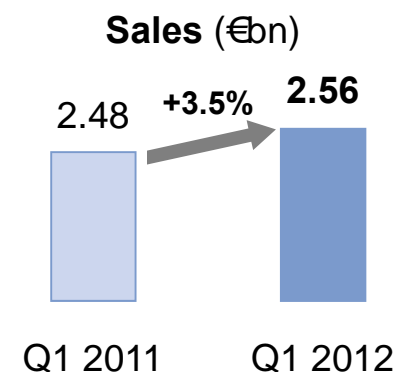
# The Group Q1 2012

## Q1 2012 Summary

### Key Highlights

- Reasonable operational performance despite difficult year-over-year comparison
- Biopharmaceuticals and Life Science drive all of the organic revenue growth
- Performance Materials declines after a strong start in Q1 2011
- Cost containment continued
- Efficiency program launched and first planned initiatives announced

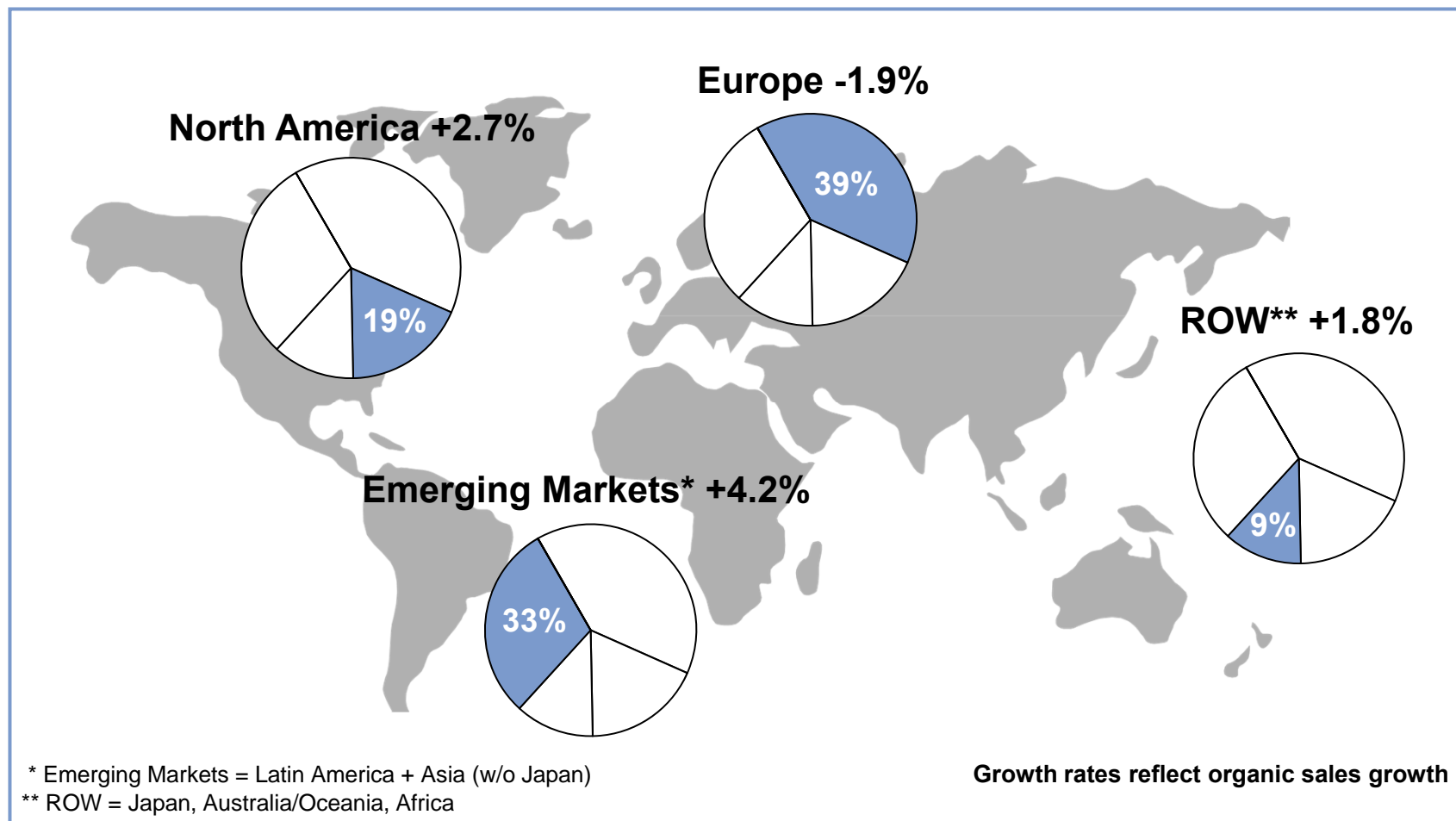
### Q1 2012 Financials



\*EBITDA pre one-time items

## The Group Q1 2012

# Good Performance in Emerging Markets Continues to Offset Declines in Europe



## The Group Q1 2012 Operating Performance Meets Expectations

| €m                      | Q1 2012      | Q1 2011      | Δ           |
|-------------------------|--------------|--------------|-------------|
| <b>Total Revenues</b>   | <b>2,645</b> | <b>2,564</b> | <b>3%</b>   |
| Sales                   | 2,564        | 2,478        | 4%          |
| Royalty income          | 81           | 86           | -6%         |
| <b>Gross Profit</b>     | <b>1,896</b> | <b>1,925</b> | <b>-2%</b>  |
| as % of sales           | 74.0         | 77.7         |             |
| Marketing & Selling     | -587         | -590         | -1%         |
| Royalty and Comm. Exp.  | -120         | -111         | 8%          |
| Administration          | -136         | -130         | 5%          |
| Other Expenses / Income | -145         | 63           | -330%       |
| R&D                     | -382         | -379         | 1%          |
| Amortization            | -216         | -248         | -13%        |
| <b>EBIT</b>             | <b>311</b>   | <b>530</b>   | <b>-41%</b> |
| <b>EBITDA pre</b>       | <b>675</b>   | <b>737</b>   | <b>-8%</b>  |
| as % of sales           | 26.3         | 29.7         |             |

| Comments   |
|--|
| <ul style="list-style-type: none"> <li>▪ <b>Sales</b> growth of 4% reflects 1% organic growth, 2% impact from currency, and 1% from acquisitions</li> <li>▪ <b>Gross profit</b> down due to               <ul style="list-style-type: none"> <li>– Higher start-up costs (LSB)</li> <li>– Lack of positive manufacturing variances</li> <li>– Negative FX effect (CHF)</li> </ul> </li> <li>▪ <b>Marketing &amp; Selling</b> down due to successful cost containment</li> <li>▪ <b>Other Expenses / Income</b> Q1 2012 includes €30m of one-time costs; Q1 2011 includes €158m gain</li> <li>▪ <b>Amortization</b> lower due to €50m cladribine impairment in Q1 2011</li> </ul> |

## The Group Q1 2012

# One-Time Effects Negatively Influence Year-Over-Year Comparison

| €m                         | Q1 2012    | Q1 2011    | Δ           |
|----------------------------|------------|------------|-------------|
| <b>EBIT</b>                | <b>311</b> | <b>530</b> | <b>-41%</b> |
| Financial Result           | -65        | -68        | -5%         |
| <b>Profit Before Taxes</b> | <b>246</b> | <b>461</b> | <b>-47%</b> |
| Income Tax                 | -69        | -117       | -41%        |
| Tax Rate (%)               | 28.2       | 25.4       |             |
| <b>Net Profit pre</b>      | <b>363</b> | <b>415</b> | <b>-13%</b> |
| EPS pre (€)                | 1.67       | 1.91       | -13%        |

| Comments  |
|---|
| <ul style="list-style-type: none"> <li>▪ <b>EBIT</b> down due to lack of CropBioScience gain (€158m) and lower operational performance</li> <li>▪ <b>Income tax rate</b> shows quarterly volatility while underlying tax rate remains unchanged</li> <li>▪ <b>Net Profit pre</b> down due to lower operational performance</li> </ul> |

## Biopharmaceuticals Q1 2012

# Solid Performance Despite Challenging Environment in Europe

| €m                              | Q1 2012      | Q1 2011      | Δ          |
|---------------------------------|--------------|--------------|------------|
| <b>Total Revenues</b>           | <b>1,495</b> | <b>1,427</b> | <b>5%</b>  |
| Sales                           | 1,417        | 1,345        | 5%         |
| Royalty income                  | 78           | 82           | -5%        |
| <b>Gross Profit</b>             | <b>1,224</b> | <b>1,222</b> | <b>0%</b>  |
| as % of sales                   | 86.3         | 90.9         |            |
| <b>SG&amp;A</b>                 | <b>-604</b>  | <b>-565</b>  | <b>7%</b>  |
| Royalty and Commission Expenses | -115         | -106         | 8%         |
| R&D                             | -303         | -305         | -1%        |
| Amortization                    | -165         | -199         | -17%       |
| <b>EBIT</b>                     | <b>152</b>   | <b>153</b>   | <b>0%</b>  |
| <b>EBITDA pre</b>               | <b>394</b>   | <b>401</b>   | <b>-2%</b> |
| as % of sales                   | 27.8         | 29.8         |            |

| Comments  |
|---|
| <ul style="list-style-type: none"> <li>▪ <b>Sales</b> growth of 5% reflects 4% organic growth and 1% benefit from FX</li> <li>▪ <b>Gross Profit</b> margin lower due to higher start-up costs (LSB), lack of positive manufacturing variances, and lower royalty income (Vilazodone milestone payment in Q1 2011)</li> <li>▪ <b>SG&amp;A</b> increase primarily related to €18m of one-time costs and higher Rebif commission expenses</li> <li>▪ <b>Amortization</b> lower due to €50m cladribine impairment in Q1 2011</li> </ul> |



## Consumer Health Q1 2012

# Division Begins Efficiency Measures

| €m                                   | Q1 2012           | Q1 2011           | Δ           |
|--------------------------------------|-------------------|-------------------|-------------|
| <b>Sales</b>                         | <b>108</b>        | <b>116</b>        | <b>-7%</b>  |
| <b>Gross Profit</b><br>as % of sales | <b>71</b><br>66.2 | <b>82</b><br>70.7 | <b>-13%</b> |
| SG&A                                 | -60               | -68               | -12%        |
| R&D                                  | -5                | -5                | 1%          |
| Amortization                         | -1                | -1                | 13%         |
| <b>EBIT</b>                          | <b>5</b>          | <b>8</b>          | <b>-39%</b> |
| <b>EBITDA pre</b><br>as % of sales   | <b>9</b><br>8.0   | <b>11</b><br>9.1  | <b>-19%</b> |

| Comments  |
|---|
| <ul style="list-style-type: none"> <li>▪ <b>Sales</b> decline organically by 8%               <ul style="list-style-type: none"> <li>- Weakness in Europe</li> <li>- One-time supply chain issue in France</li> </ul> </li> <li>▪ <b>Gross Profit</b> adversely impacted by lower sales</li> <li>▪ <b>SG&amp;A</b> significantly lower due to tighter cost management</li> <li>▪ One-time restructuring costs of €1m in Q1 2012 lowers reported EBIT compared to previous year</li> </ul> |

## Performance Materials Q1 2012

# Business Remains Healthy Despite Tough Y-o-Y Comparison (LC 20% Organic Growth in Q1 2011)

| €m                                   | Q1 2012            | Q1 2011            | Δ           |
|--------------------------------------|--------------------|--------------------|-------------|
| <b>Sales</b>                         | <b>386</b>         | <b>408</b>         | <b>-5%</b>  |
| <b>Gross Profit</b><br>as % of sales | <b>214</b><br>55.5 | <b>265</b><br>64.8 | <b>-19%</b> |
| SG&A                                 | -49                | 100                | -149%       |
| R&D                                  | -35                | -36                | -2%         |
| Amortization                         | 0                  | -1                 | -51%        |
| <b>EBIT</b>                          | <b>129</b>         | <b>328</b>         | <b>-61%</b> |
| <b>EBITDA pre</b><br>as % of sales   | <b>160</b><br>41.5 | <b>198</b><br>48.5 | <b>-19%</b> |

| Comments  |
|---|
| <ul style="list-style-type: none"> <li>▪ <b>Sales</b> decline of 5% reflects 8% organic decline and 3% benefit from FX</li> <li>▪ <b>Gross Profit</b> decrease due to lower sales, negative mix (less PS-VA sales)</li> <li>▪ <b>SG&amp;A</b> decrease driven by divestment of Crop BioScience in Q1 2011; excluding this effect, SG&amp;A down €7M from Q1 2011</li> <li>▪ <b>EBITDA pre</b> down due to lower gross profit</li> </ul> |

## Life Science Q1 2012

# Continuing to Deliver Solid Growth While Investing for the Future

| €m                                   | Q1 2012            | Q1 2011            | Δ         |
|--------------------------------------|--------------------|--------------------|-----------|
| <b>Sales</b>                         | <b>653</b>         | <b>608</b>         | <b>7%</b> |
| <b>Gross Profit</b><br>as % of sales | <b>390</b><br>59.7 | <b>357</b><br>58.6 | <b>9%</b> |
| SG&A                                 | -224               | -203               | 10%       |
| R&D                                  | -38                | -32                | 16%       |
| Amortization                         | -50                | -47                | 6%        |
| <b>EBIT</b>                          | <b>78</b>          | <b>74</b>          | <b>5%</b> |
| <b>EBITDA pre</b><br>as % of sales   | <b>161</b><br>24.7 | <b>158</b><br>26.0 | <b>2%</b> |

| Comments   |
|--|
| <ul style="list-style-type: none"> <li>▪ <b>Sales</b> growth of 7% reflects 3% organic growth, 2% acquisition effect and 2% FX benefit</li> <li>▪ <b>Gross Profit</b> driven by sales increase</li> <li>▪ <b>SG&amp;A</b> higher due to acquisitions and investments in sales force</li> <li>▪ <b>R&amp;D</b> reflects acquisitions and strategic investments in Process Solutions</li> <li>▪ <b>EBITDA pre</b> only moderately up due to reinvestments predominantly in US sales force</li> </ul> |

## The Group Q1 2012

# Balance Sheet Continues to Strengthen

| €m                        | Mar. 31, 2012 | Dec. 31, 2011 | Δ          |
|---------------------------|---------------|---------------|------------|
| <b>Total Assets</b>       | <b>21,490</b> | <b>22,120</b> | <b>-3%</b> |
| Equity                    | 10,638        | 10,493        | 1%         |
| Cash & other liquid funds | 1,842         | 2,055         | -10%       |
| Intangible Assets         | 11,467        | 11,764        | -3%        |
| Financial Debt            | 4,859         | 5,539         | -12%       |
| Pension Provisions        | 1,144         | 1,137         | 1%         |
| Net Financial Debt        | 3,017         | 3,484         | -13%       |

| Comments   |
|--|
| <ul style="list-style-type: none"> <li>▪ Repayment of €500m Euro bond in March 2012:               <ul style="list-style-type: none"> <li>▪ Decreased cash &amp; other liquid funds</li> <li>▪ Financial debt lowered</li> </ul> </li> </ul> |

## The Group Q1 2012

# Good Improvement in Working Capital Helps Drive Free Cash Flow

| €m                          | Q1 2012    | Q1 2011    | Δ           |
|-----------------------------|------------|------------|-------------|
| Profit after tax            | 177        | 344        | -168        |
| Depreciation & Amortization | 343        | 353        | -10         |
| Changes in working capital  | -11        | -203       | 192         |
| Capital expenditures        | -51        | -75        | 24          |
| Others                      | -38        | 226        | -264        |
| <b>Free Cash Flow</b>       | <b>420</b> | <b>645</b> | <b>-226</b> |

| Comments  |
|---|
| <ul style="list-style-type: none"> <li>▪ Changes in <b>Working Capital</b> <ul style="list-style-type: none"> <li>▪ Improved inventory management</li> </ul> </li> <li>▪ <b>Others:</b> Q1 2011 reflects payments received for sale of Théramex &amp; CropBioScience (€466m)</li> </ul> |

## The Group Q1 2012 Guidance Update FY 2012

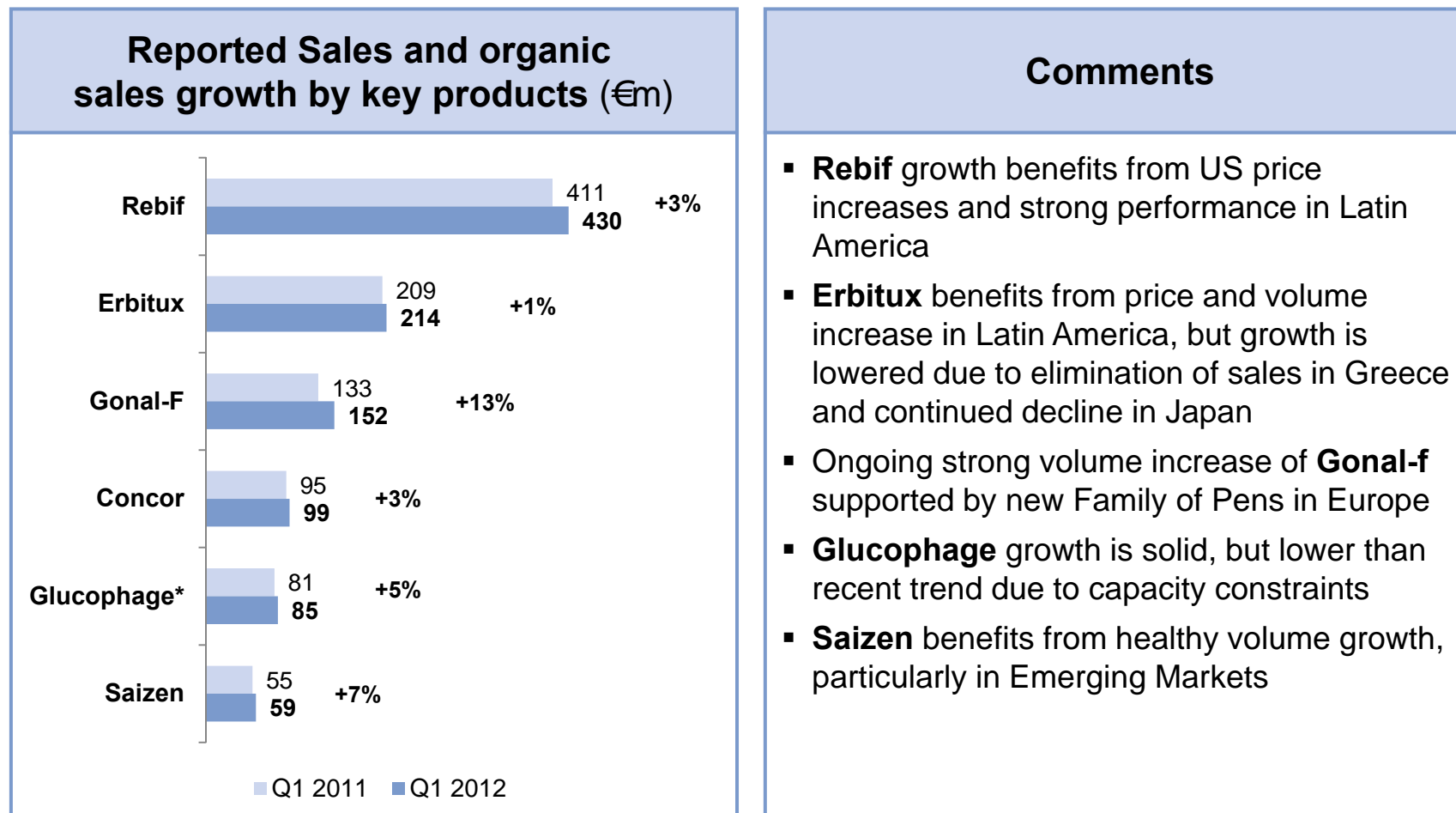
| <b>Divisions</b>  | <b>Sales Growth</b> |
|---|---------------------|
| Biopharmaceuticals  | ~2%                 |
| Consumer Health   | 0% - 2%             |
| Performance Materials   | 2% - 3%             |
| Life Science  | 4% - 6%             |
| <b>The Group</b>  |                     |
| Total Revenues  | ~ € 10.5bn          |
| <b>EBITDA pre</b> (incl. €50m efficiency savings)   | €2.8bn - €2.9bn     |
| <b>Profitability:</b>   |                     |
| <ul style="list-style-type: none"> <li>▪ Biopharmaceuticals: Modest increase in profitability before efficiency savings</li> <li>▪ Consumer Health: Slight improvement in profitability in a moderate market environment</li> <li>▪ Performance Materials: Profitability close to 2011 level</li> <li>▪ Life Science: Profitability improvements in line with sales growth</li> </ul> |                     |

Assumption Q2 – Q4 2012: EUR/USD = 1.35; EUR/CHF = 1.20

Q1 2012  
**APPENDIX**

# Biopharmaceuticals Q1 2012

## Reported Sales and Organic Sales Growth of Main Products

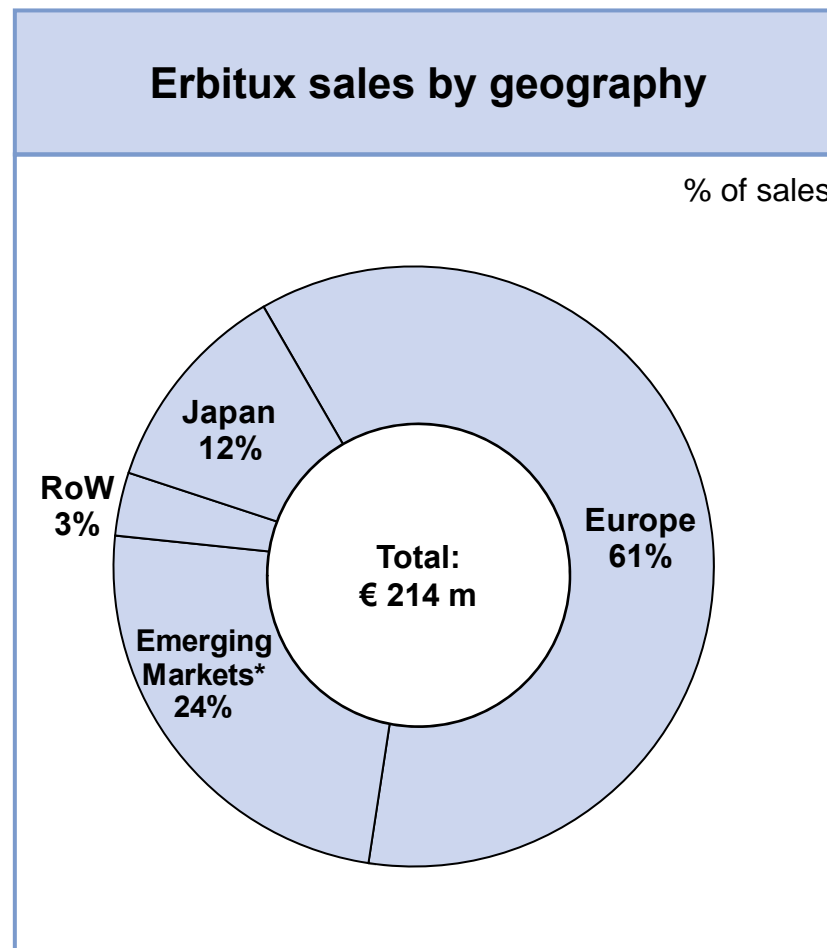
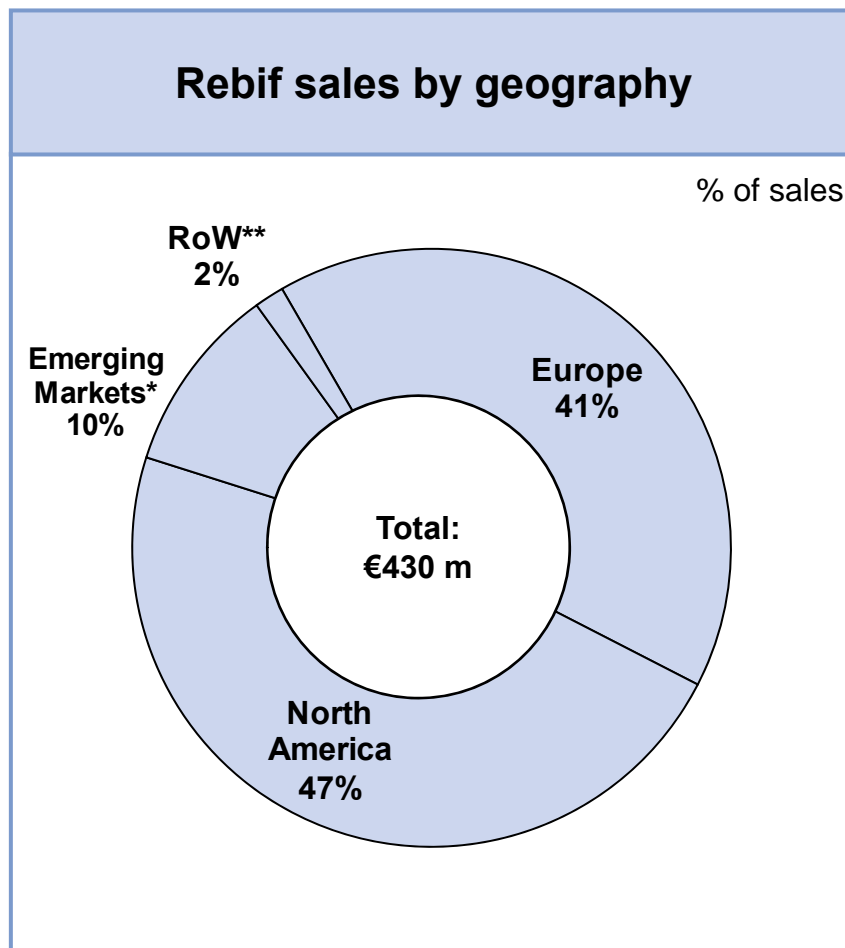


\* Sales of branded products only



# Biopharmaceuticals Q1 2012

## Rebif and Erbitux Sales by Geography

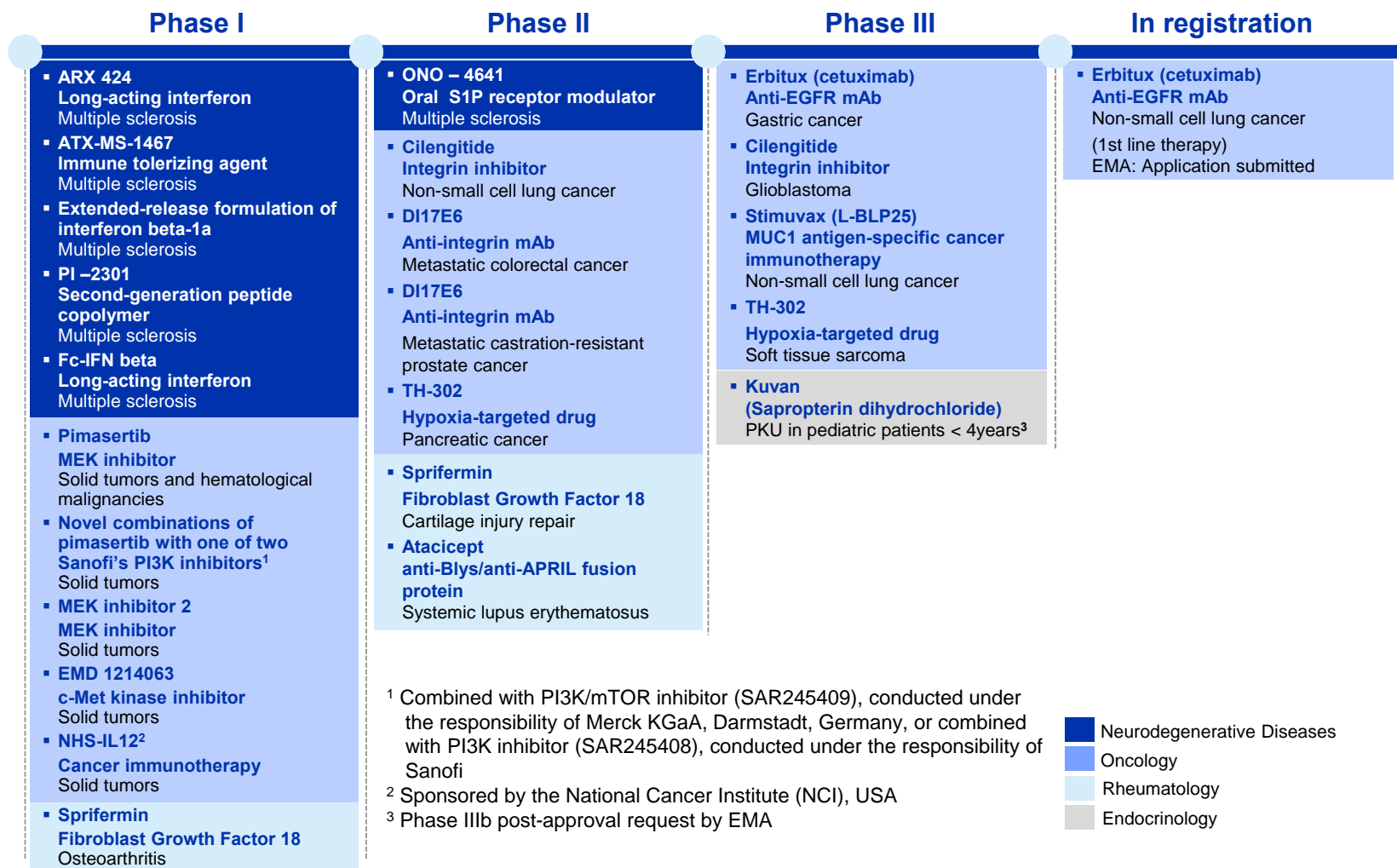


\* Emerging Markets = Latin America + Asia (w/o Japan)

\*\* RoW = Japan, Australia/Oceania, Africa

# Biopharmaceuticals Portfolio

## May 15, 2012



# Biopharmaceuticals Pipeline Timelines

| Project             | Indication     | Trial   | Datapoint  | Timeline |
|---------------------|----------------|---------|------------|----------|
| <b>Oncology</b>     |                |         |            |          |
| Erbitux             | Gastric cancer | EXPAND  | PIII final | H2 2012  |
| Stimuvax            | NSCLC          | START   | PIII final | H1 2013  |
| Cilengitide         | Glioblastoma   | CENTRIC | PIII final | H1 2013  |
| <b>Rheumatology</b> |                |         |            |          |
| Atacicept           | SLE            | APRIL   | PII final  | H2 2012  |

## The Group Q1 2012

# Reconciliation to EBITDA pre and EPS pre

| €m  | Q1 2012     | Q1 2011     |
|---|-------------|-------------|
| <b>EBIT</b>                                 | <b>311</b>  | <b>530</b>  |
| <b>Depreciation &amp; Amortization</b>      | <b>343</b>  | <b>353</b>  |
| Regular depreciation & amortization         | 119         | 107         |
| Amortization of purchased intangible assets | 215         | 196         |
| Impairments*                                | 9           | 50          |
| <b>EBITDA</b>                               | <b>654</b>  | <b>883</b>  |
| <b>One-time items</b>                       | <b>21</b>   | <b>-146</b> |
| M&A costs                                   | 0           | 0           |
| Restructuring costs                         | 10          | 0           |
| Integration/IT related costs                | 10          | 12          |
| Costs from discontinuing businesses         | 1           | -158        |
| Other one-time costs                        | 0           | 0           |
| <b>EBITDA pre</b>                           | <b>675</b>  | <b>737</b>  |
| Regular depreciation & amortization**       | -119        | -107        |
| Financial result                            | -65         | -68         |
| Profit before tax pre                       | 491         | 562         |
| <b>EPS pre (in €)</b>                       | <b>1.67</b> | <b>1.91</b> |

\* Classified as one-time item

\*\* Regular depreciation & amortization = depreciation & amortization – amortization of purchased intangible assets – impairments

## The Group

# Adjusted Definition of Corporate & Other to Increase Operational Accountability

| EBITDA pre (€m)              | FY 2011 reported | Change     | FY 2011 restated |
|------------------------------|------------------|------------|------------------|
| Biopharmaceuticals           | 1,556            | 13         | 1,569            |
| Consumer Health              | 58               | 1          | 59               |
| Performance Materials        | 674              | 9          | 683              |
| Life Science                 | 552              | 9          | 561              |
| <b>Corporate &amp; Other</b> | <b>-111</b>      | <b>-32</b> | <b>-143</b>      |
| <b>Total Group</b>           | <b>2,729</b>     |            | <b>2,729</b>     |

| Comments  |
|---|
| <ul style="list-style-type: none"> <li>▪ Adjusted definition of “Corporate &amp; Other” as of Jan. 1, 2012: <ul style="list-style-type: none"> <li>▪ €32m reallocation in 2011</li> <li>▪ Further reallocations will occur over next 12 months</li> </ul> </li> <li>▪ Rationale for changes: <ul style="list-style-type: none"> <li>▪ Eliminate allocation of corporate costs in divisions</li> <li>▪ Ensure business has 100% control over P&amp;L</li> <li>▪ Create greater accountability in the organization</li> </ul> </li> </ul> |

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