

Merck KGaA

Darmstadt · Germany

Q3 2013 Results Conference Call

Solid performance and acceleration of savings

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Darmstadt | November 14th, 2013





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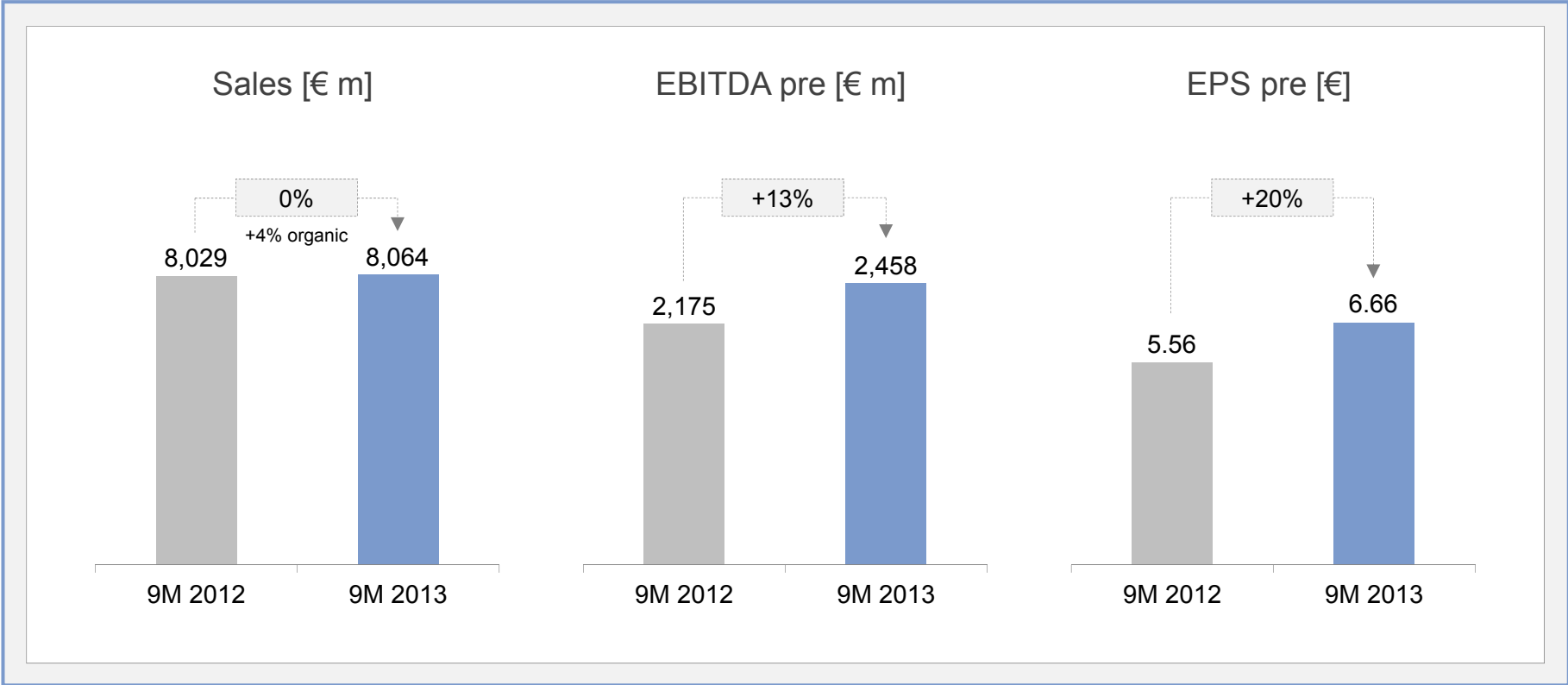
Agenda

Executive overview

Business and financial review Q3 2013

Guidance

9M 2013 – Transformation well on track



Q3 2013 – a solid quarter amid a challenging environment

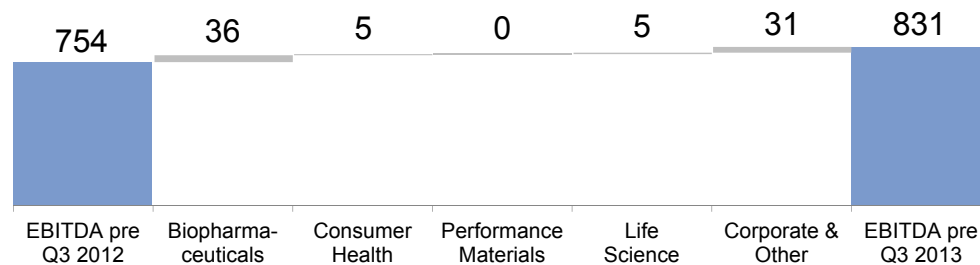
Operations	▶ Biopharmaceuticals shows strong organic sales growth of 5% driven by EM* and Japan
	▶ Consumer Health turnaround on track underlined by strong Q3 performance
	▶ Performance Materials solid, first signs of destocking
	▶ Life Science outperforms due to strength of balanced portfolio
	▶ Accelerated implementation of efficiency measures
Financials	▶ Strong EBITDA pre increase despite major FX headwinds
	▶ 16% EPS pre increase to €2.29
	▶ Significant net financial debt reduction to now ~ €500 m
▶ FY 2013 guidance upgraded to ~ €3.2 – 3.25 bn EBITDA pre	
On track to deliver	

*Emerging Markets

EBITDA pre improves while currency headwinds hurt

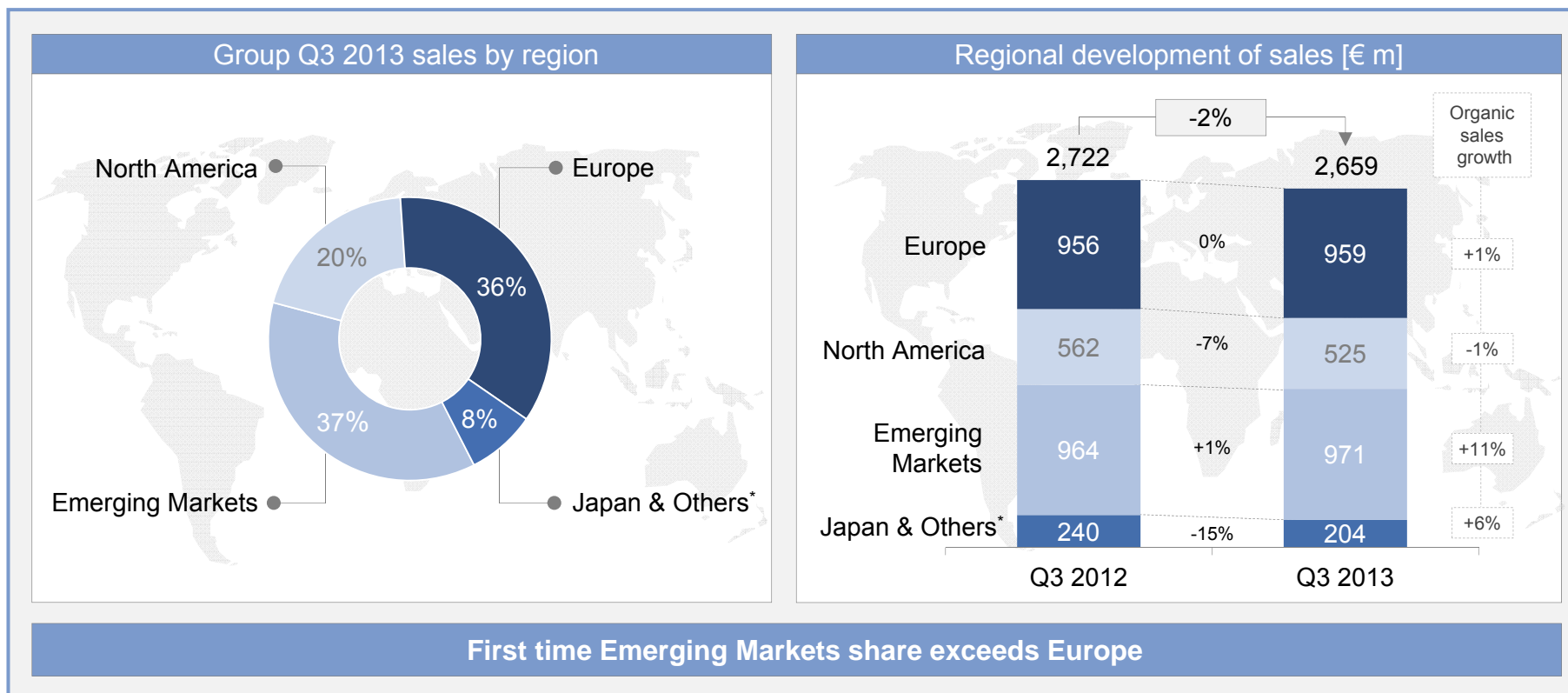
Q3 yoy sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	5%	-7%	0%	-2%
Consumer Health	15%	-8%	0%	7%
Performance Materials	-2%	-7%	0%	-9%
Life Science	6%	-7%	1%	-1%
The Group	5%	-7%	0%	-2%

Q3 yoy EBITDA pre contributors [€ m]



- Biopharmaceuticals and Life Science strongest absolute contributors to organic growth
- All divisions continue to experience significant currency headwinds, stemming mainly from the U.S. dollar and the Japanese yen
- Cost efficiencies and resource allocation in marketing and selling fuel Biopharmaceuticals improvement
- Corporate & Other reflects hedging gains and cost efficiencies

Emerging Markets and Japan drive organic growth, reported sales burdened by strong FX headwinds



*Australia/Oceania, Africa

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Q3 2013: Strong margin and profitability expansion amid significant FX headwinds

[€ m]	Q3 2013	Q3 2012	Δ	Q3 2013 dynamics
Sales	2,659	2,722	-2%	<ul style="list-style-type: none"> ▪ Sales decline slightly as solid organic growth of 5% is being more than offset by FX ▪ EBITDA pre increase driven by cost control and gains from proactive hedging approach ▪ Strong operating cash flow despite restructuring cash-outs of ~€45 m; previous year driven by exceptional improvements in working capital management ▪ Cash generating nature of portfolio drives net debt reduction
EBITDA pre	831	754	10%	
<i>Margin (% of sales)</i>	<i>31.2%</i>	<i>27.7%</i>		
EPS pre [€]	2.29	1.98	16%	
Operating cash flow	827	908	-9%	
[€ m]	Sept 30, 2013	Dec 31, 2012	Δ	
Net financial debt	536	1,926	-72%	
Working capital	2,290	2,360	-3%	
Employees	37,976	38,847	-2%	
Over ~€1.4 bn net financial debt reduction in nine months				

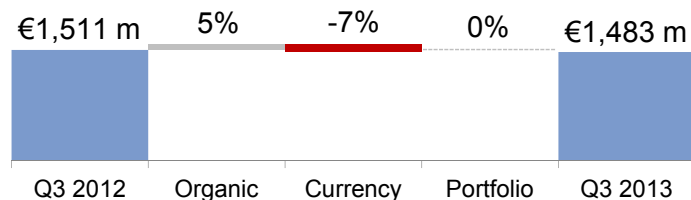
Reported earnings strong, driven by operational and financial improvements

[€ m]	Q3 2013	Q3 2012	Δ	Reported results
EBIT	482	318	51%	<ul style="list-style-type: none"> ▪ EBIT increases due to good business performance and lower one-time costs ▪ Strong debt deleveraging drives financial result improvement ▪ Lower tax rate, due to one-time tax benefits ▪ Increase of reported EPS reflects operational and financial improvements
Financial result	-52	-58	11%	
Profit before tax	430	260	65%	
Income tax	-87	-71	-23%	
<i>Tax ratio (%)</i>	<i>20%</i>	<i>27%</i>		
Net income	340	185	83%	
EPS (€)	1.56	0.85	83%	

Biopharmaceuticals: Good organic growth combined with strong margin improvement

[€ m]	Q3 2013	Q3 2012
Sales	1,483	1,511
Marketing and selling	-301	-339
Admin	-51	-59
R&D	-297	-287
EBIT	274	152
EBITDA	480	383
EBITDA pre	501	466
<i>Margin (% of sales)</i>	33.8%	30.8%

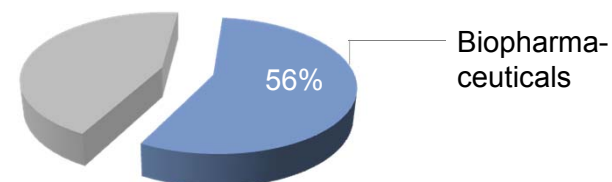
Sales bridge



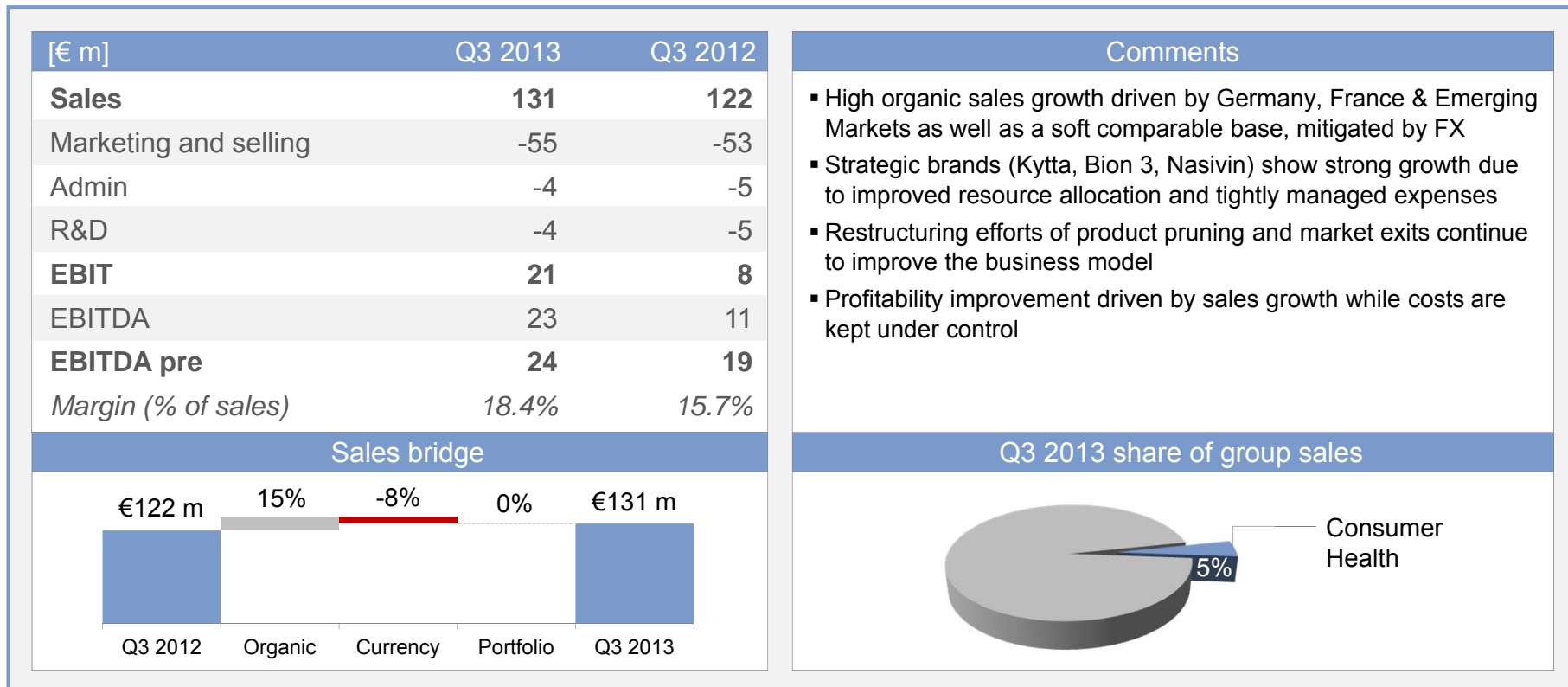
Comments

- Solid organic sales growth of 5% driven by Emerging Markets and Japan; FX overshadows underlying growth
- Rebif - U.S. volume decline as guided
- Strong Erbitux performance driven by Emerging Markets & Japan
- Branded mature products outperforming in Emerging Markets
- Cost savings accelerated especially in marketing and selling
- Slight R&D increase due to investments in life-cycle management and increase in early stage projects
- Solid profitability improvement despite significant FX headwinds and loss of Avonex royalty income of ~€30 m in Q3

Q3 2013 share of group sales



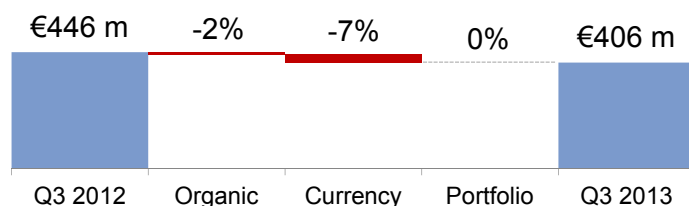
Consumer Health: Turnaround fully on track



Performance Materials: Liquid crystal mix and leaner Pigments & Cosmetics drive margin expansion

[€ m]	Q3 2013	Q3 2012
Sales	406	446
Marketing and selling	-35	-38
Admin	-7	-9
R&D	-37	-35
EBIT	177	164
EBITDA	202	194
EBITDA pre	197	197
<i>Margin (% of sales)</i>	<i>48.4%</i>	<i>44.2%</i>

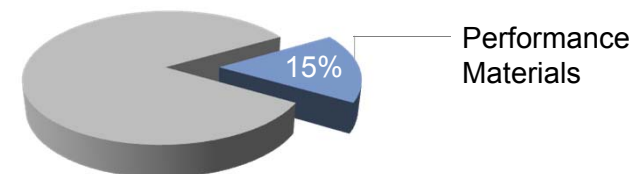
Sales bridge



Comments

- Sales down due to strong FX and moderate inventory destocking
- Healthy demand for continuously improved flagship technologies PS-VA and IPS support volumes and profitability
- Market shares kept at high levels due to product innovation and trend to larger displays
- Faster implementation of Pigments efficiency measures, leading to visible improvement of profitability versus previous years
- EBITDA pre stable due to favorable mix in liquid crystals and improved Pigments cost structure offsetting FX headwinds
- Inventory destocking expected to become more visible in Q4

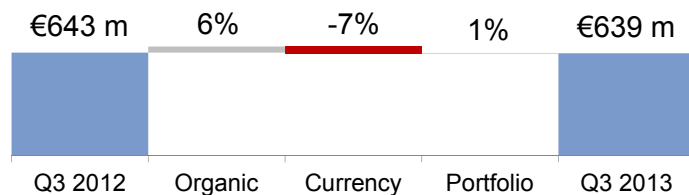
Q3 2013 share of group sales



Life Science: Resilient portfolio delivers solid sales and profitability despite difficult environment

[€ m]	Q3 2013	Q3 2012
Sales	639	643
Marketing and selling	-171	-166
Admin	-25	-26
R&D	-40	-43
EBIT	67	68
EBITDA	145	145
EBITDA pre	157	152
<i>Margin (% of sales)</i>	<i>24.6%</i>	<i>23.7%</i>

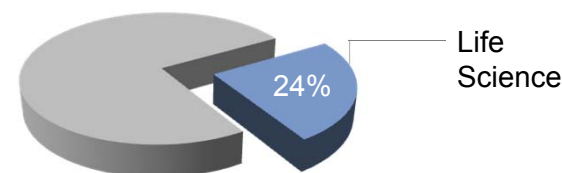
Sales bridge



Comments

- Volume and price increases in Process and Lab Solutions compensate for U.S. sequestration pressure in Bioscience (-8%*)
- Solid organic performance and portfolio effects are offset by FX headwinds (Japanese yen and U.S. dollar)
- All business units with double-digit organic growth in Emerging Markets and ongoing solid performance in Europe
- Continued biopharma demand drives volume and price increases in Process Solutions
- Despite difficult economic environment business proves resilient maintaining high profit and cash contribution

Q3 2013 share of group sales



*reported

Balance sheet: Deleveraging continues

[€ m]	Sept 30, 2013	Dec 31, 2012		Sept 30, 2013	Dec 31, 2012
Current assets	7,374	6,626	Net equity	10,781	10,415
Cash and cash equivalents	915	730	Current liabilities	4,080	4,562
Marketable securities and financial assets	2,392	1,798	Current financial liabilities	568	1,091
Trade accounts receivable	2,053	2,115	Trade accounts payable	1,329	1,288
Inventories	1,566	1,534	Other current liabilities	1,072	1,096
Other current assets	361	272	Income tax liabilities	535	401
Income tax receivables	87	179	Current provisions	576	684
Non-current assets	13,953	15,017	Non-current liabilities	6,465	6,667
Intangible assets	10,281	10,945	Non-current financial liabilities	3,274	3,362
Property, plant and equipment	2,592	2,954	Other non-current liabilities	6	9
Non-current financial assets	75	97	Non-current provisions	1,002	892
Other non-current assets	95	75	Prov. for pensions / other	1,240	1,212
Deferred tax assets	909	947	Deferred tax liabilities	943	1,192
Total assets	21,326	21,643	Total liabilities and equity	21,326	21,643

- Cash position increases, despite redemption of €750 m eurobond in September
- Ongoing deleveraging leading to comfortable gearing ratios

Another quarter of strong cash generation

[€ m]	Q3 2013	Q3 2012	Δ	Cash flow drivers
Profit after tax	343	189	154	<ul style="list-style-type: none"> ▪ High profit after tax due to strong underlying business performance and lower restructuring charges ▪ Lower amortization from Avonex and Enbrel reduced D&A ▪ Operational cash flow down as prior year benefitted from new working capital management ▪ Financing activities reflect €750m bond repayment in September 2013 ▪ Q4 expected sequentially at more moderate level due to seasonal cash items
D&A	315	343	-28	
Changes in provisions	32	121	-88	
Changes in other assets / liabilities	76	54	21	
Other operating activities	-8	-2	-6	
Operating cash flow before changes in WC	758	705	53	
Changes in working capital	69	203	-134	
Operating cash flow	827	908	-81	
Investing cash flow	-20	-397	377	
thereof Capex*	-78	-64	-14	
Financing cash flow	-745	-76	-669	

*Only PPE without intangibles

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Executive overview


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Guidance




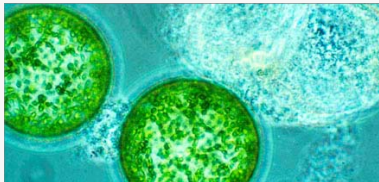
Upgrade of EBITDA pre group guidance

Group guidance for 2013	
Sales:	~ €10.7 - 10.9 bn
EBITDA pre:	~ €3.2 - 3.25 bn
EPS pre:	~ €8.50 - 9.00

On track to deliver



Precision of divisional 2013 guidance: Performance Materials and Consumer Health to come out stronger

Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
			
Sales	Sales	Sales	Sales
Moderate organic growth	Moderate organic growth	Stable	Moderate organic growth
EBITDA pre	EBITDA pre	EBITDA pre	EBITDA pre
~ €1.9 – 2.0 bn	~ €73 - 77 m	~ €750 - 770 m	~ €620 – 640 m
Group 2013 guidance: ~ €3.2 – 3.25 billion EBITDA pre			


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Appendix

Additional financial guidance

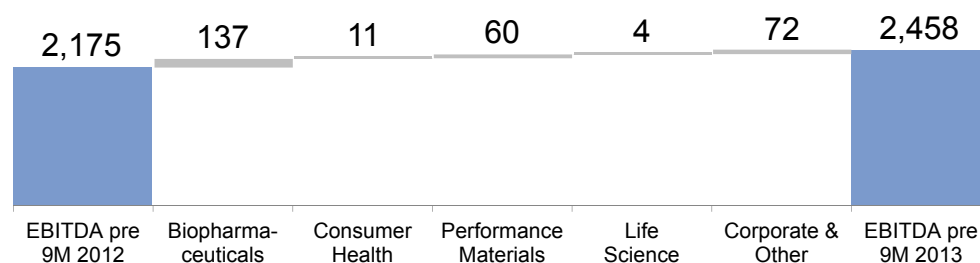
Further financial details	
Royalty, license and commission income in 2014	To decline to: ~€180-200 m
Corporate EBITDA pre	~€-210 m
Underlying tax ratio	~25% to 26%
Capex on PPE	~€450 m
Hedging / USD assumption	2013 & 2014 hedge ratio around 40% at EUR/USD ~1.30 to 1.35



Biopharmaceuticals and Performance Materials key contributors to EBITDA pre increase

9M yoy sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	4%	-4%	0%	0%
Consumer Health	8%	-4%	0%	3%
Performance Materials	4%	-4%	0%	0%
Life Science	5%	-4%	1%	2%
The Group	4%	-4%	0%	0%

9M yoy EBITDA pre contributors [€ m]



- Solid organic growth within all divisions with Biopharmaceuticals and Life Science as highest absolute contributors
- Group sales flat as strong currency headwinds offset organic growth
- EBITDA pre increase mainly driven by better cost structure, positive product mix and organic growth in all divisions
- Corporate & Other supported bottom line result with yoy hedging delta of ~€65 m

9M 2013: Jump in profitability fueled by restructuring

[€ m]	9M 2013	9M 2012	Δ	9M 2013
Sales	8,064	8,029	0%	<ul style="list-style-type: none"> ▪ Good organic sales growth of 4% is being offset by FX leading to stable top line development ▪ 340 bps EBITDA pre margin uplift reflects strong restructuring execution ▪ 2012 operating cash flow driven by exceptional working capital improvement ▪ Continuous net financial debt reduction reflecting strong cash-generating nature of business
EBITDA pre	2,458	2,175	13%	
<i>Margin (% of sales)</i>	<i>30.5%</i>	<i>27.1%</i>		
EPS pre [€]	6,66	5.56	20%	
Operating cash flow	1,785	2,074	-14%	
[€ m]	Sept 30, 2013	Dec 31, 2012	Δ	
Net financial debt	536	1,926	-72%	
Working capital	2,290	2,360	-3%	
Employees	37,976	38,847	-2%	
EBITDA and margin upgraded to a new level				

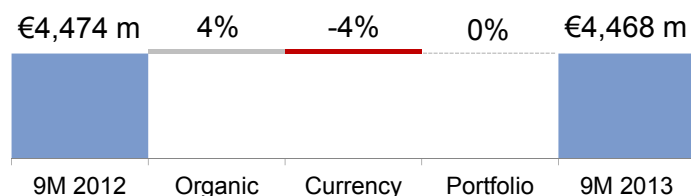
Strong reported figures reflect three quarters of structural improvements and organic growth

[€ m]	9M 2013	9M 2012	Δ	Reported results
EBIT	1,347	652	>100%	<ul style="list-style-type: none"> ▪ EBIT doubles due to strong 2013 performance, prior year burdened by one-time items ▪ Ongoing deleveraging process and €500 m December 2012 bond repayment improve financial result ▪ 9M 2012 income tax ratio reflects ~€530 m one-time items ▪ Record EPS level stemming from strong financial and operational performance
Financial result	-159	-194	18%	
Profit before tax	1,188	458	>100%	
Income tax	-260	-155	-68%	
<i>Tax ratio (%)</i>	22%	34%		
Net income	922	295	>100%	
EPS (€)	4.24	1.36	>100%	

Biopharmaceuticals: Good organic growth and swift cost savings implementation boost margin

[€ m]	9M 2013	9M 2012
Sales	4,468	4,474
Marketing and selling	-965	-1,030
Admin	-154	-166
R&D	-918	-916
EBIT	752	328
EBITDA	1,407	1,034
EBITDA pre	1,455	1,318
<i>Margin (% of sales)</i>	32.6%	29.5%

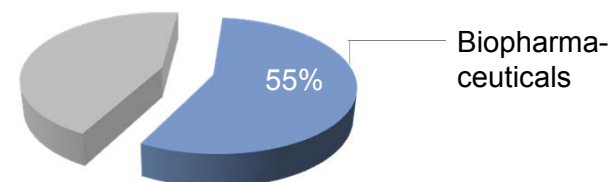
Sales bridge



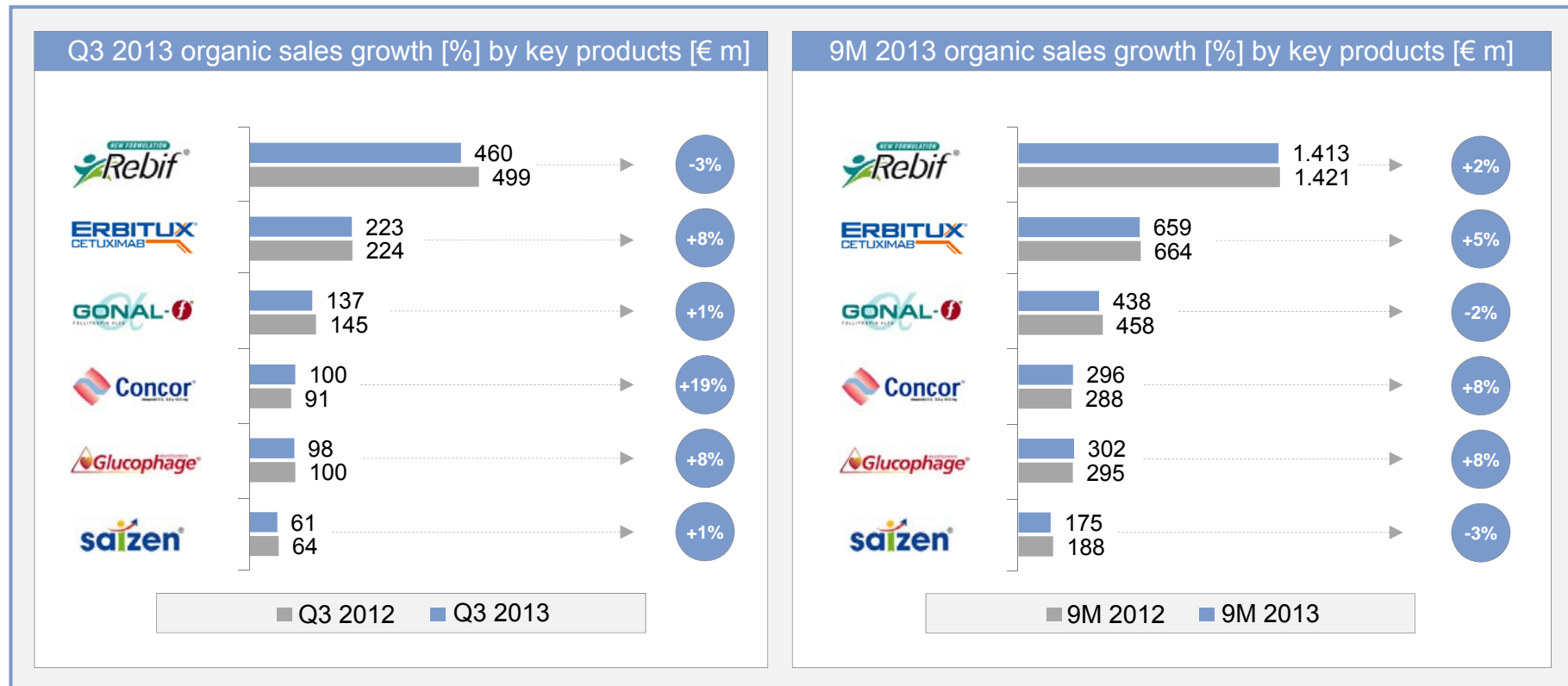
Comments

- Sales virtually stable as ongoing good organic momentum in Emerging Markets is being offset by adverse currency effects
- Rebif price increases in U.S. trigger organic growth - being mitigated by softening volumes
- Erbitux performs at 5% organic growth driven by Emerging Markets and strong support from head and neck launch in Japan
- Visible cost containment in marketing & selling and administration
- R&D contains investments in life-cycle management as well as early oncology projects
- Profitability increases on savings and yield variances

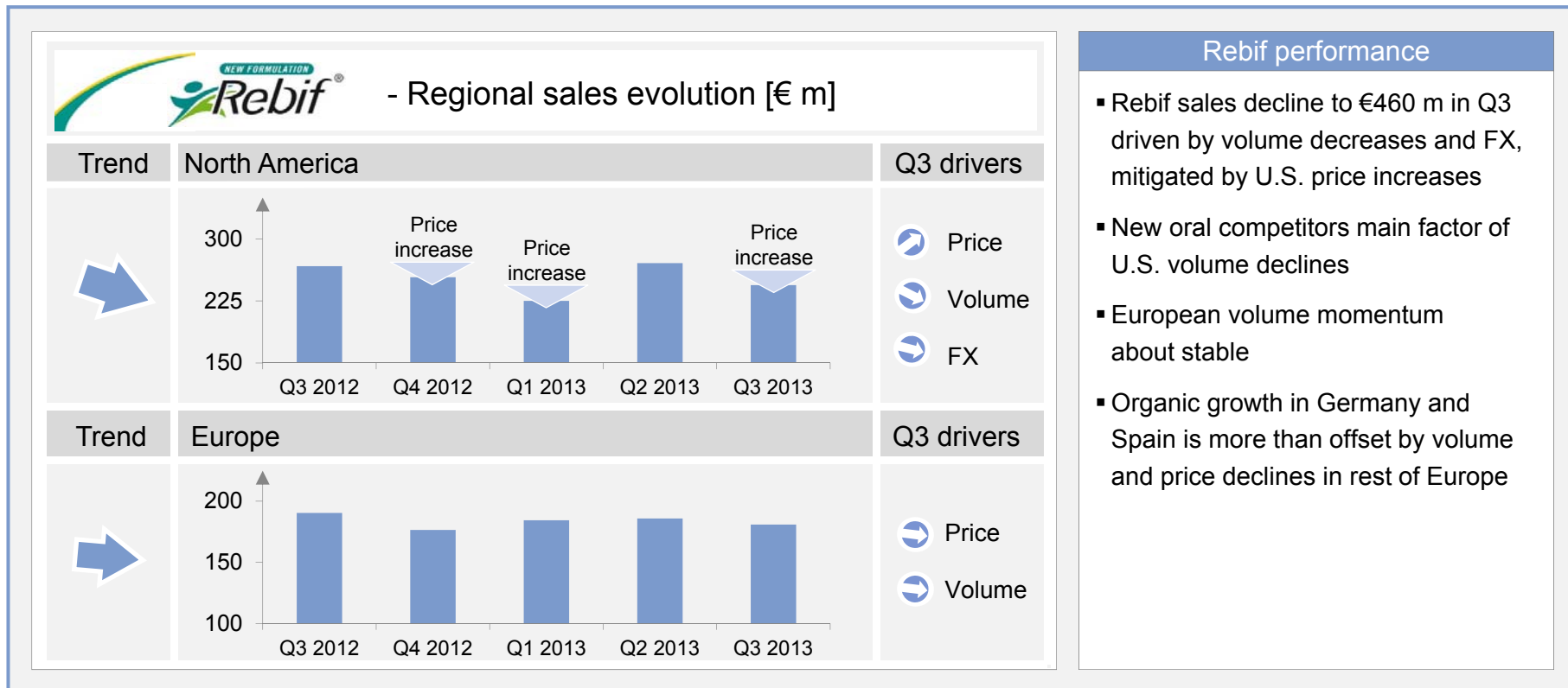
9M 2013 share of group sales



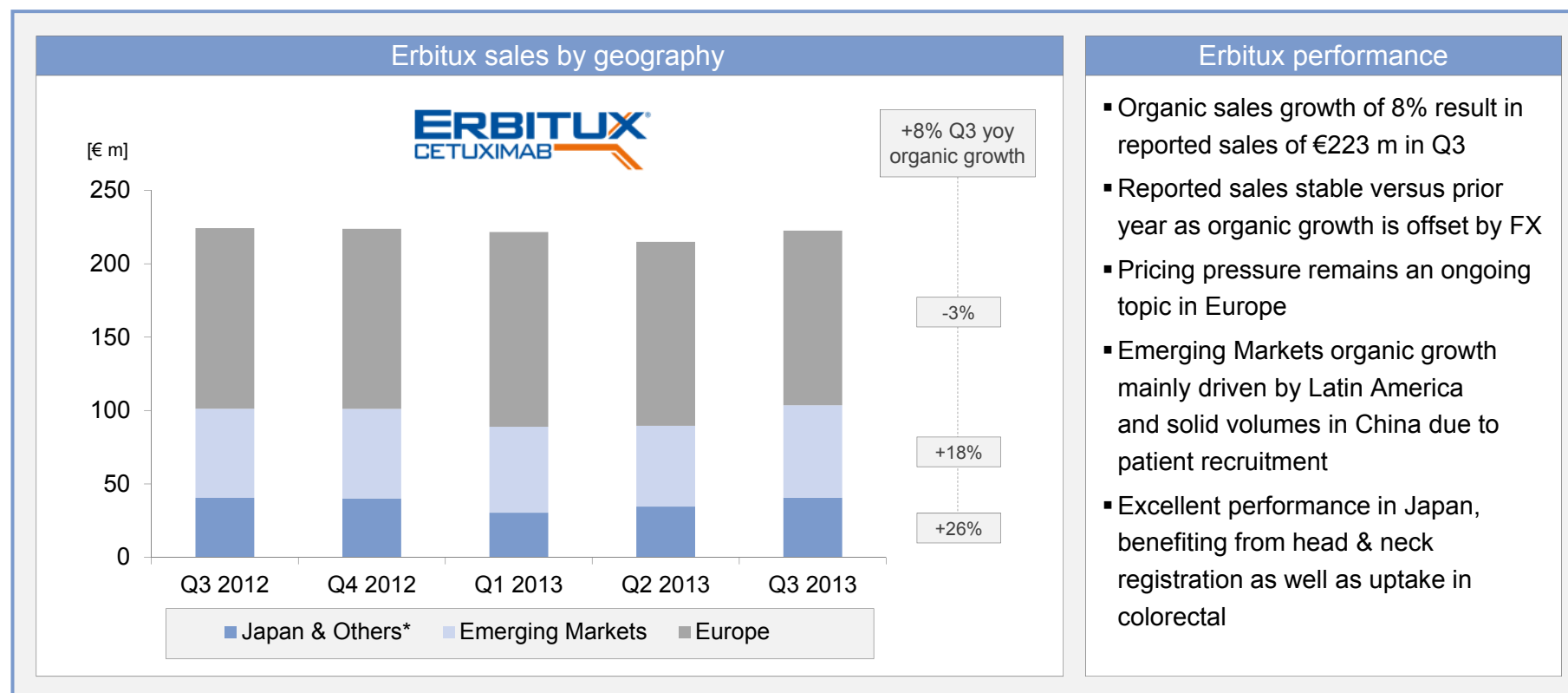
Biopharmaceuticals organic growth by product



Rebif – no change in guidance, organically stable compared to previous year

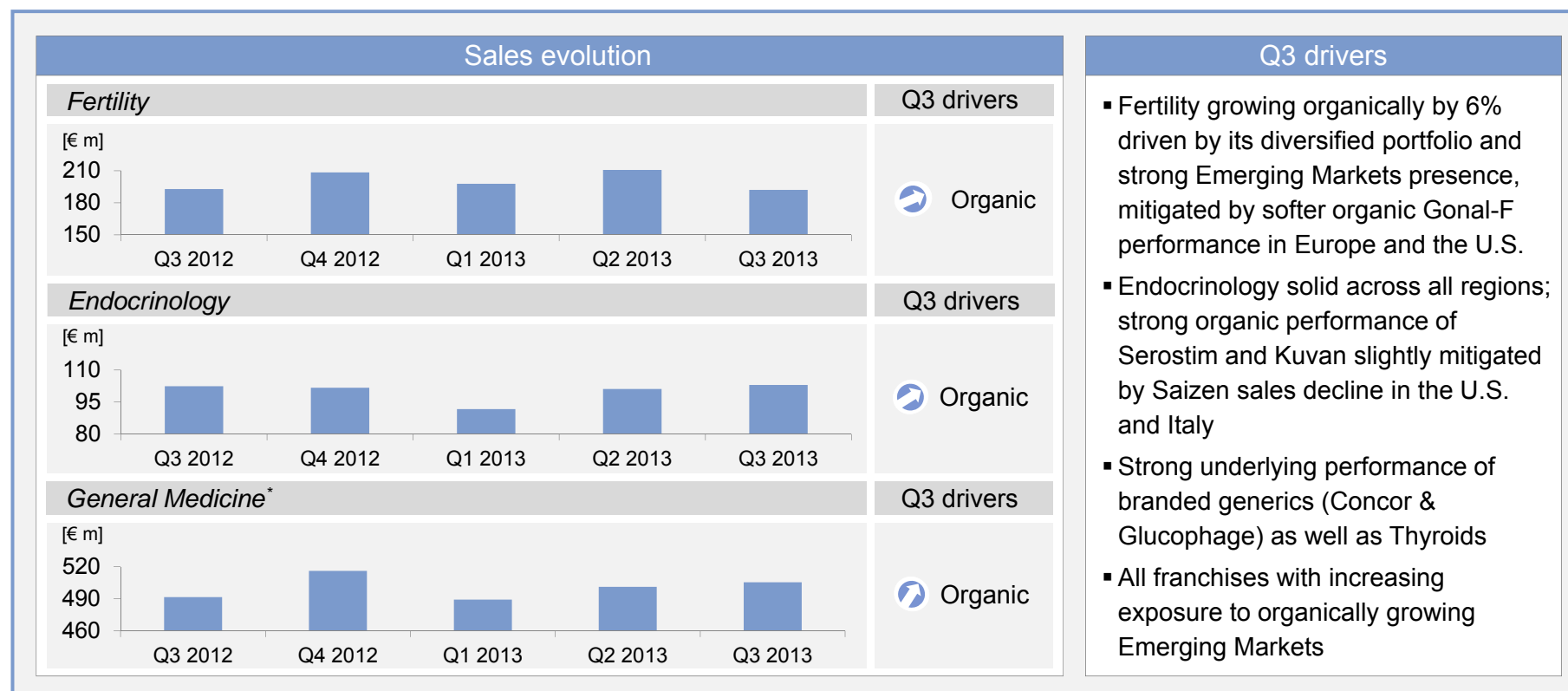


Erbitux – outstanding performance in Emerging Markets and Japan drive organic growth



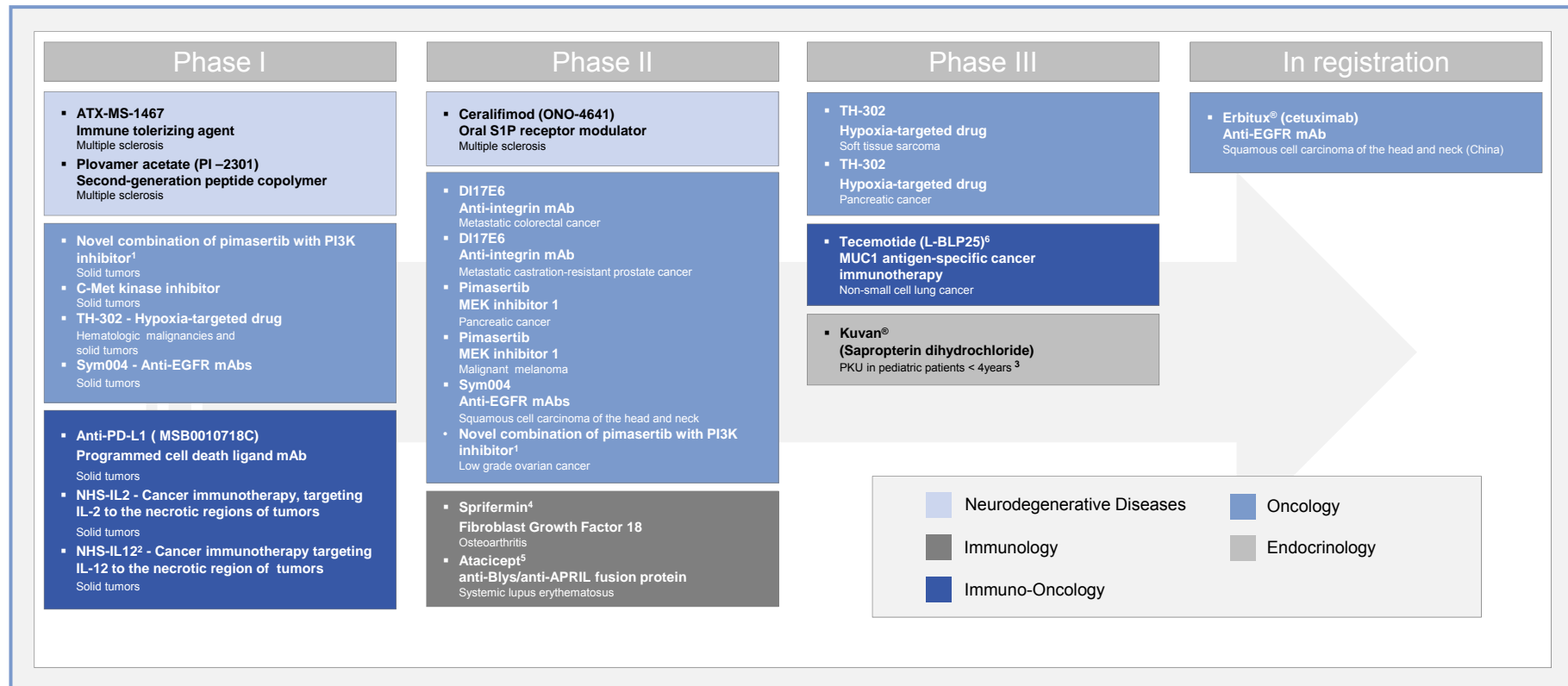
*Australia/Oceania, Africa

General Medicine continues to expand in Emerging Markets while Fertility and Endocrinology remain flat



*formerly "Cardiometabolic Care & General Medicine and Others"

Biopharmaceuticals pipeline

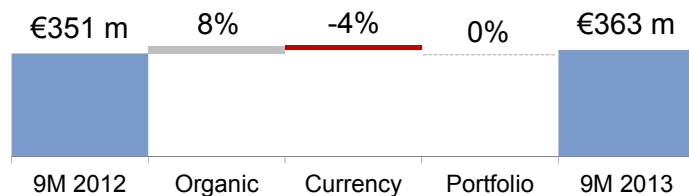


Pipeline as of Sept, 2013; ¹Combined with PI3K/mTOR inhibitor of Sanofi (SAR245409), conducted under the responsibility of Merck KGaA, Darmstadt, Germany
²Sponsored by the National Cancer Institute (NCI), USA; ³Phase IIIb post-approval request by EMA; ⁴FORWARD study on-going; ⁵ADDRESS II study in preparation
⁶START2 study in preparation. INSPIRE study ongoing

Consumer Health: Healthy organic growth and execution of efficiency measures drive profitability

[€ m]	9M 2013	9M 2012
Sales	363	351
Marketing and selling	-159	-159
Admin	-13	-15
R&D	-12	-14
EBIT	51	24
EBITDA	58	33
EBITDA pre	58	47
<i>Margin (% of sales)</i>	<i>15.9%</i>	<i>13.5%</i>

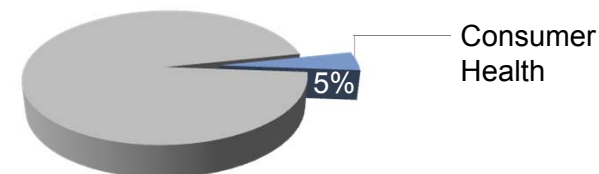
Sales bridge



Comments

- Higher sales on strong organic increase mitigated by adverse currency effects
- Solid organic growth in Emerging Markets and Europe, as key elements of top-line increase
- Strong performance of cough and cold and vitamin products, especially Bion 3 and Nasivin, mainly stemming from Europe
- Foster growth of core products through focused resource allocation
- Improved profitability driven by focus on strategic products, cost containment and exit from unprofitable markets lacking scale

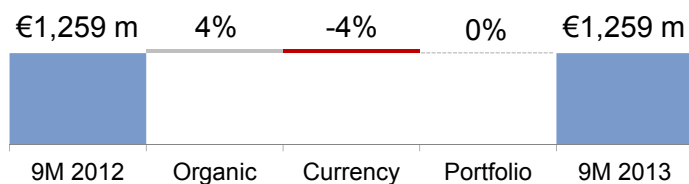
9M 2013 share of group sales



Performance Materials: Pigments restructuring and liquid crystals leadership increase profitability

[€ m]	9M 2013	9M 2012
Sales	1,259	1,259
Marketing and selling	-107	-106
Admin	-22	-24
R&D	-107	-102
EBIT	519	477
EBITDA	611	565
EBITDA pre	613	553
<i>Margin (% of sales)</i>	<i>48.7%</i>	<i>44.0%</i>

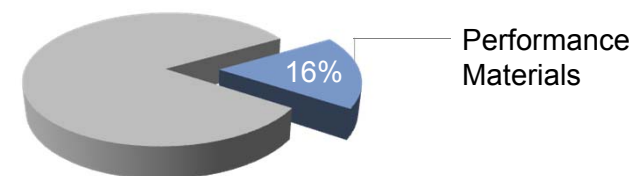
Sales bridge



Comments

- Sales stable as organic growth and currency headwinds offset each other
- Focus on improving existing and developing future technologies to maintain high market shares are elements of R&D increase
- Global display trends drive demand for large TVs and tablets resulting in shift towards PS-VA and IPS technologies
- Pigments supporting business with strong Xirallic volumes in Europe as well as implementation of efficiency measures
- Changes in product mix, good capacity utilization and cost control drive margin improvement

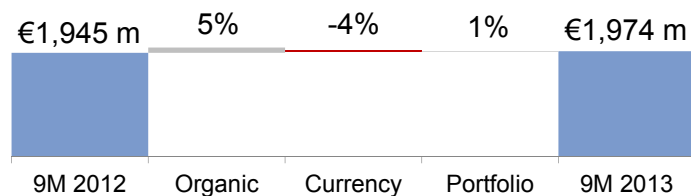
9M 2013 share of group sales



Life Science: Proven resilience amid U.S. sequestration and FX headwinds

[€ m]	9M 2013	9M 2012
Sales	1,974	1,945
Marketing and selling	-514	-502
Admin	-75	-78
R&D	-121	-122
EBIT	211	221
EBITDA	444	449
EBITDA pre	475	471
<i>Margin (% of sales)</i>	<i>24.1%</i>	<i>24.2%</i>

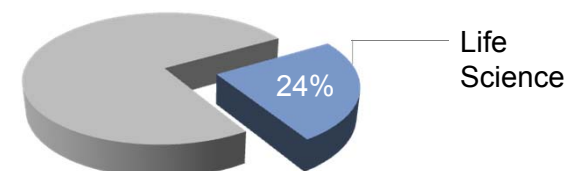
Sales bridge



Comments

- Price and volume increases are mitigated by FX mainly due to the devaluation of the Japanese yen
- Ongoing healthy demand from biopharmaceutical industry especially for single use products drive Process Solutions growth
- Mid-single digit Lab Solutions growth led by Biomonitoring and strong Lab Water performance in the U.S.
- Bioscience performance impacted by U.S. healthcare budget constraints, overshadowing good performance in Europe
- Slight increase in EBITDA pre on higher volumes and prices despite higher costs in marketing & selling as field force enlarges

9M 2013 share of group sales



Solid operating cash flow in 9M 2013

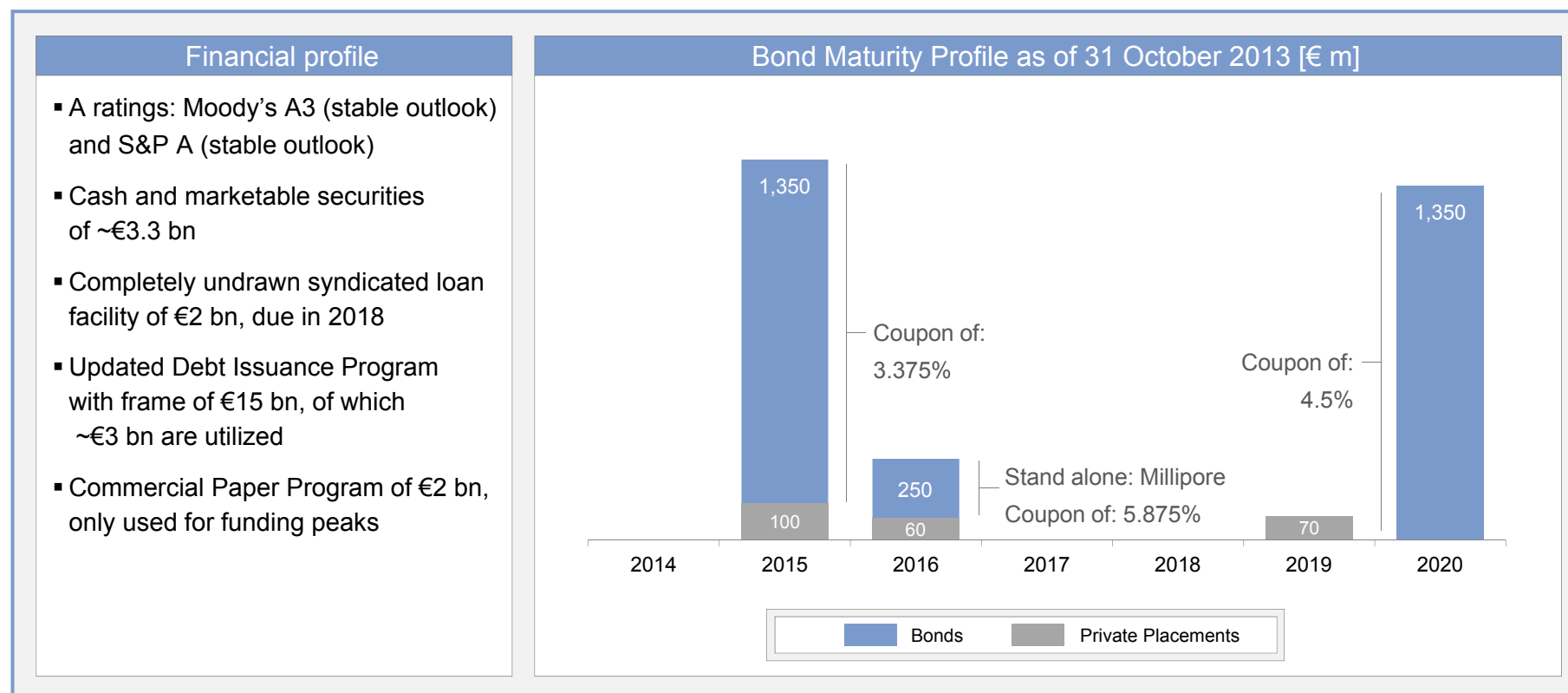
[€ m]	9M 2013	9M 2012	Δ	Cash flow drivers
Profit after tax	928	303	624	<ul style="list-style-type: none"> ▪ Higher profit after tax due to good operational business performance; prior year included restructuring ▪ Changes in provisions for 9M 2012 including provisions for restructuring measures ▪ Other assets and liabilities decrease due to lower tax payments ▪ Improvement in working capital management drives 2012 operating cash flow ▪ Investing cash flow up due to higher investment in marketable securities, despite cash-in from Geneva HQ sale ▪ Financing cash flow contains bond repayments in 2012 and 2013
D&A	997	1,037	-41	
Changes in provisions	35	551	-516	
Changes in other assets / liabilities	-56	-217	161	
Other operating activities	-47	-26	-21	
Operating cash flow before changes in WC	1,857	1,649	208	
Changes in working capital	-72	425	-497	
Operating cash flow	1,785	2,074	-289	
Investing cash flow	-612	-584	-27	
thereof Capex*	-235	-181	-54	
Financing cash flow	-966	-944	-23	

Changes in FX rates impact top and bottom lines

Sensitivities* of top 3 foreign currencies - Group, unhedged			Currency management
U.S. \$	Deviation 0.01 U.S. dollar increase versus euro	Impact Group Sales: decrease by ~€15 m Group EBITDA: decrease by ~€7 m	<ul style="list-style-type: none"> Exposure from booked revenues and invoices, receivables and liabilities, are hedged 100% Exposure from planned revenues hedged up to three years on a rolling basis Instruments are forward contracts affecting EBITDA pre of Corporate / Other and options affecting financial result
CH ₣	Deviation 0.01 Swiss franc increase versus euro	Impact Group Sales: negligible Group EBITDA: increase by ~€4 m	
JPN ¥	Deviation 1 Japanese yen increase versus euro	Impact Group Sales: decrease by ~€4 m Group EBITDA: decrease by ~€2 m	

*approximate numbers

Comfortable liquidity situation through broad mixture of financing sources



Corporate Responsibility has always been an integral part of our corporate culture



We continue to improve our culture of Corporate Responsibility

Targets on responsibility measure for products and people



Product safety

Goal	Establish a global hazard and risk communication system	Status	Implementation of REACH, GHS/CLP and GPS ongoing
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Diversity

Goal	Increase % of women in management to at least 25-30%	Status	<ul style="list-style-type: none"> ▪ 2010 = 22% ▪ 2011 = 23% ▪ 2012 = 24%
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Supply chain management

Goal	Sustainability in the supply chain	Status	Responsible Sourcing Principles - program ongoing
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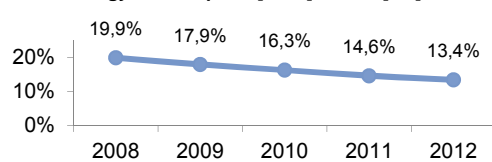


Occupational health and safety

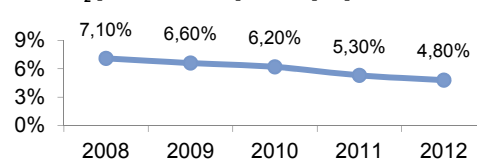
Goal	Reduce work accidents in entire Group; LTIR = 2.5	Status	<p>“BeSafe!” program 2011</p> <ul style="list-style-type: none"> ▪ 2011 LTIR = 2.0 ▪ 2012 LTIR = 2.3
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Environmental metrics

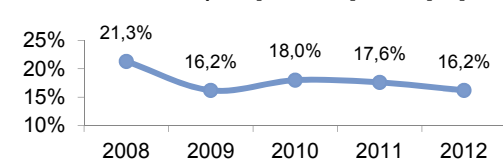
Energy consumption [GWh] / Sales [€m]



CO₂ [metric kilotons] / Sales [€m]



Water consumption [million m³] / Sales [€m]



Acronyms: REACH = Registration, Evaluation, Authorization and Restriction of Chemicals; GHS/CLP = Globally Harmonized System/Classification, Labeling and Packaging; GPS = Global Product Strategy; LTIR = Long Term Injury Rate

One-time items in Q3 2013

One-time items on EBIT				
[€ m]	Q3 2013		Q3 2012	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	36	15	94	11
Consumer Health	1	0	8	0
Performance Materials	-5	0	3	0
Life Science	13	0	7	0
Corporate & Other	4	0	-8	0
Total	49	15	104	11

One-time items in 9M 2013

One-time items on EBIT				
[€ m]	9M 2013		9M 2012	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	93	45	326	42
Consumer Health	0	0	14	0
Performance Materials	3	1	-11	0
Life Science	31	0	22	0
Corporate & Other	34	0	177	0
Total	161	46	528	42

Financial Calendar

Date	Event
March 6, 2014	Q4/FY 2013 Earnings Release
May 9, 2014	Annual General Meeting
May 15, 2014	Q1 2014 Earnings Release
August 7, 2014	Q2 2014 Earnings Release
November 13, 2014	Q3 2014 Earnings Release



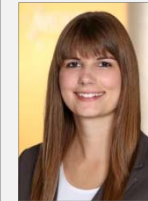
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