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Q3 2013 Financial Summary for Investors and Analysts

Merck KGaA, Darmstadt, Germany – Solid performance and acceleration of savings:

- Sales rise organically by 5% to €2,659 m; more than offset by FX impact of -7%
- Biopharmaceuticals shows strong organic sales growth of 5% driven by Emerging Markets 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
- Strong EBITDA pre increase of 10% 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

Overview Financials

Q3 2013 Overview

- 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

Q3 2013 Balance Sheet

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

Q3 2013 Cash flow Statement

- 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

Q3 2013 Business Overview

Biopharmaceuticals

- **Good organic growth combined with strong margin improvement**
- Sales deviation yoy: organic +5%, FX -7%
- 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

Consumer Health

- **Turnaround fully on track**
- Sales deviation yoy: organic +15%, FX -8%
- High organic sales growth driven by Germany, France & emerging markets as well as a soft comparable base, mitigated by FX
- Strategic brands (Kytta, Bion 3, Nasivin) show strong growth due to improved resource allocation and tightly managed expenses
- Restructuring efforts of product pruning and market exits continue to improve the business model
- Profitability improvement driven by sales growth while costs are kept under control

Performance Materials

- **Liquid crystal mix and leaner Pigments & Cosmetics drive margin expansion**
- Sales deviation yoy: organic -2%, FX -7%
- 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

Life Science

- **Resilient portfolio delivers solid sales and profitability despite difficult environment**
- Sales deviation yoy: organic +6%, FX -7%, portfolio +1%
- Volume and price increases in Process and Lab Solutions compensate for U.S. sequestration pressure in Bioscience (-8% reported)
- Solid organic performance and portfolio effects are offset by FX headwinds especially from the Japanese yen and the 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 resilience maintaining high profit and cash contribution

2013 Outlook

The Group:

- **Upgrade of EBITDA pre group guidance: EBITDA pre ~ €3.2 – 3.25 bn**
- Sales ~ €10.7 – 10.9 bn
- EPS pre ~ €8.50 – 9.00

Outlook by division:

Biopharmaceuticals

- Moderate organic sales growth
- EBITDA pre ~ €1.9 - 2.0 bn

Consumer Health

- Moderate organic sales growth (previously stable)
- EBITDA pre ~ €73 – 77 m (previously ~€70 – 75 m)

Performance Materials

- Stable sales
- EBITDA pre ~ €750 – 770 m (previously ~€730 – 750 m)

Life Science

- Moderate organic sales growth
- EBITDA pre ~ €620 – 640 m

Additional financial guidance

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

The Group Q3

€ m	Group			Serono			Consumer Health			Performance Materials			Millipore			Corporate/Others		
	Q3 2012	Q3 2013	% YoY	Q3 2012	Q3 2013	% YoY	Q3 2012	Q3 2013	% YoY	Q3 2012	Q3 2013	% YoY	Q3 2012	Q3 2013	% YoY	Q3 2012	Q3 2013	% YoY
Sales	2,722	2,659	-2%	1,511	1,483	-2%	122	131	7%	446	406	-9%	643	639	-1%			
% organic			5%			5%			15%			-2%			6%			
% FX			-7%			-7%			-8%			-7%			-7%			
% portfolio			0%			0%			0%			0%			1%			
EBIT	318	482	51%	152	274	80%	8	21	156%	164	177	8%	68	67	-2%	-74	-57	-23%
Depreciation and amortization	343	315	-8%	230	205	-11%	3	2	-33%	31	26	-17%	76	78	2%	2	4	55%
EBITDA	661	796	20%	383	480	25%	11	23	107%	194	202	4%	145	145	0%	-72	-53	-26%
One-time items on EBITDA	-93	-34	-63%	-83	-22	-74%	-8	-1	n.m.	-3	5	n.m.	-7	-12	67%	8	-4	-153%
EBITDA (pre-one time items)	754	831	10%	466	501	8%	19	24	25%	197	197	0%	152	157	3%	-80	-49	-39%
Net financial debt*	1,926	536	-72%															

* 2012 is Dec. 31

The Group 9M

€ m	Group			Serono			Consumer Health			Performance Materials			Millipore			Corporate/Others		
	9M 2012	9M 2013	% YoY	9M 2012	9M 2013	% YoY	9M 2012	9M 2013	% YoY	9M 2012	9M 2013	% YoY	9M 2012	9M 2013	% YoY	9M 2012	9M 2013	% YoY
Sales	8,029	8,064	0%	4,474	4,468	0%	351	363	3%	1,259	1,259	0%	1,945	1,974	2%			
% organic			4%			4%			8%			4%			5%			
% FX			4%			-4%			-4%			-4%			-4%			
% portfolio			0%			0%			0%			0%			1%			
EBIT	652	1,347	107%	328	752	130%	24	51	109%	477	519	9%	221	211	-4%	-398	-187	-53%
Depreciation and amortization	1,037	997	-4%	706	655	-7%	9	7	-22%	88	91	4%	228	233	2%	6	11	75%
EBITDA	1,689	2,343	39%	1,034	1,407	36%	33	58	74%	565	611	8%	449	444	-1%	-392	-177	-55%
One-time items on EBITDA	-486	-115	-76%	-284	-48	-83%	-14	0	n.m.	11	-3	n.m.	-22	-31	41%	-177	-34	-81%
EBITDA (pre-one time items)	2,175	2,458	13%	1,318	1,455	10%	47	58	22%	553	613	11%	471	475	1%	-215	-143	-34%
Net financial debt*	1,926	536	-72%															

* 2012 is Dec. 31

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Kai Beckmann, Stefan Oschmann, Bernd Reckmann,
Matthias Zachert

The Group

P&L Group	Q3 2012	Q3 2013	% YoY
Sales	2,722	2,659	-2%
Royalty, license and commission income	119	92	-23%
Total revenues	2,841	2,752	-3%
Cost of sales	-788	-723	-8%
Gross profit	2,053	2,028	-1%
Marketing and selling expenses	-598	-560	-6%
Royalty and commission expenses	-162	-144	-11%
Administration	-142	-137	-3%
Other operating income/expenses	-245	-128	-48%
Research and development	-371	-379	2%
Amortization of intangible assets	-218	-198	-9%
Investment result	0	0	n.m.
EBIT	318	482	51%
Depreciation and amortization	343	315	-8%
EBITDA	661	796	20%
One-time items on EBITDA	-93	-34	-63%
EBITDA (pre-one time items)	754	831	10%
Financial result	-58	-52	-11%
Profit before tax	260	430	65%
Income tax	-71	-87	23%
Income tax rate	27%	20%	
Profit after tax	189	343	82%
Non-controlling interest	-3	-3	-7%
Net income	185	340	83%
Number of theoretical shares in million	217.4	217.4	
EPS in €	0.85	1.56	83%
EPS (pre one-time items) in €	1.98	2.29	16%

Biopharmaceuticals

P&L MS	Q3 2012	Q3 2013	% YoY
Sales	1,511	1,483	-2%
Royalty, license and commission income	112	85	-24%
Total revenues	1,623	1,568	-3%
Cost of sales	-288	-267	-7%
Gross profit	1,335	1,301	-3%
Marketing and selling expenses	-339	-301	-11%
Royalty and commission expenses	-157	-139	-11%
Administration	-59	-51	-14%
Other operating income/expenses	-176	-94	-46%
Research and development	-287	-297	4%
Amortization of intangible assets	-165	-144	-13%
Investment result	0	0	n.m.
EBIT	152	274	80%
Depreciation and amortization	230	205	-11%
EBITDA	383	480	25%
One-time items on EBITDA	-83	-22	-74%
EBITDA (pre-one time items)	466	501	8%

Consumer Health

P&L CH	Q3 2012	Q3 2013	% YoY
Sales	122	131	7%
Royalty, license and commission income	1	0	-37%
Total revenues	123	131	7%
Cost of sales	-41	-44	8%
Gross profit	82	88	6%
Marketing and selling expenses	-53	-55	4%
Royalty, license and commission income	0	-1	>100%
Administration	-5	-4	-16%
Other operating income/expenses	-11	-2	-78%
Research and development	-5	-4	-13%
Amortization of intangible assets	-1	-1	-50%
Investment result	0	0	n.m.
EBIT	8	21	156%
Depreciation and amortization	3	2	-33%
EBITDA	11	23	107%
One-time items on EBITDA	-8	-1	n.m.
EBITDA (pre-one time items)	19	24	25%

Performance Materials

P&L PM	Q3 2012	Q3 2013	% YoY
Sales	446	406	-9%
Royalty, license and commission income	1	0	-66%
Total revenues	447	407	-9%
Cost of sales	-189	-149	-21%
Gross profit	257	258	0%
Marketing and selling expenses	-38	-35	-9%
Royalty and commission expenses	-1	0	-75%
Administration	-9	-7	-18%
Other operating income/expenses	-11	1	n.m.
Research and development	-35	-37	5%
Amortization of intangible assets	0	-3	n.m.
Investment result	0	0	n.m.
EBIT	164	177	8%
Depreciation and amortization	31	26	-17%
EBITDA	194	202	4%
One-time items on EBITDA	-3	5	n.m.
EBITDA (pre-one time items)	197	197	0%

Life Science

P&L MM	Q3 2012	Q3 2013	% YoY
Sales	643	639	-1%
Royalty, license and commission income	6	6	18%
Total revenues	648	645	0%
Cost of sales	-269	-263	-2%
Gross profit	379	383	1%
Marketing and selling expenses	-166	-171	3%
Royalty and commission expenses	-4	-4	14%
Administration	-26	-25	-4%
Other operating income/expenses	-21	-26	25%
Research and development	-43	-40	-6%
Amortization of intangible assets	-52	-50	-4%
Investment result	0	0	n.m.
EBIT	68	67	-2%
Depreciation and amortization	76	78	2%
EBITDA	145	145	0%
One-time items on EBITDA	-7	-12	67%
EBITDA (pre-one time items)	152	157	3%