

# Q1 2014 Results Conference Call

Sound operations yield organic growth

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**Merck KGaA**  
Darmstadt · Germany

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# Agenda

## **Executive overview**

Business and financial review Q1 2014

Guidance

# Highlights Q1 2014

▶ Solid organic sales growth of 4% is outweighed by currency headwinds of 5%

▶ Sound operational performance – all divisions post organic growth

▶ EBITDA pre increases despite royalty income reduction and FX headwinds

▶ 9% EPS pre increase to €2.31

▶ Net cash position established

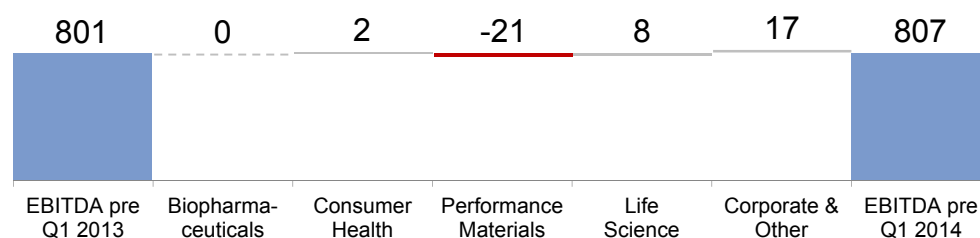
▶ Group 2014 EBITDA pre guidance: ~€3.3 – 3.4 bn (including AZ\*)

\*Including AZ Electronic Materials from May to December 2014

# All divisions post organic growth while currency headwinds continue

Q1 YoY sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	4%	-5%	0%	-1%
Consumer Health	6%	-6%	0%	-1%
Performance Materials	1%	-6%	0%	-5%
Life Science	4%	-6%	0%	-2%
<b>The Group</b>	<b>4%</b>	<b>-5%</b>	<b>0%</b>	<b>-2%</b>

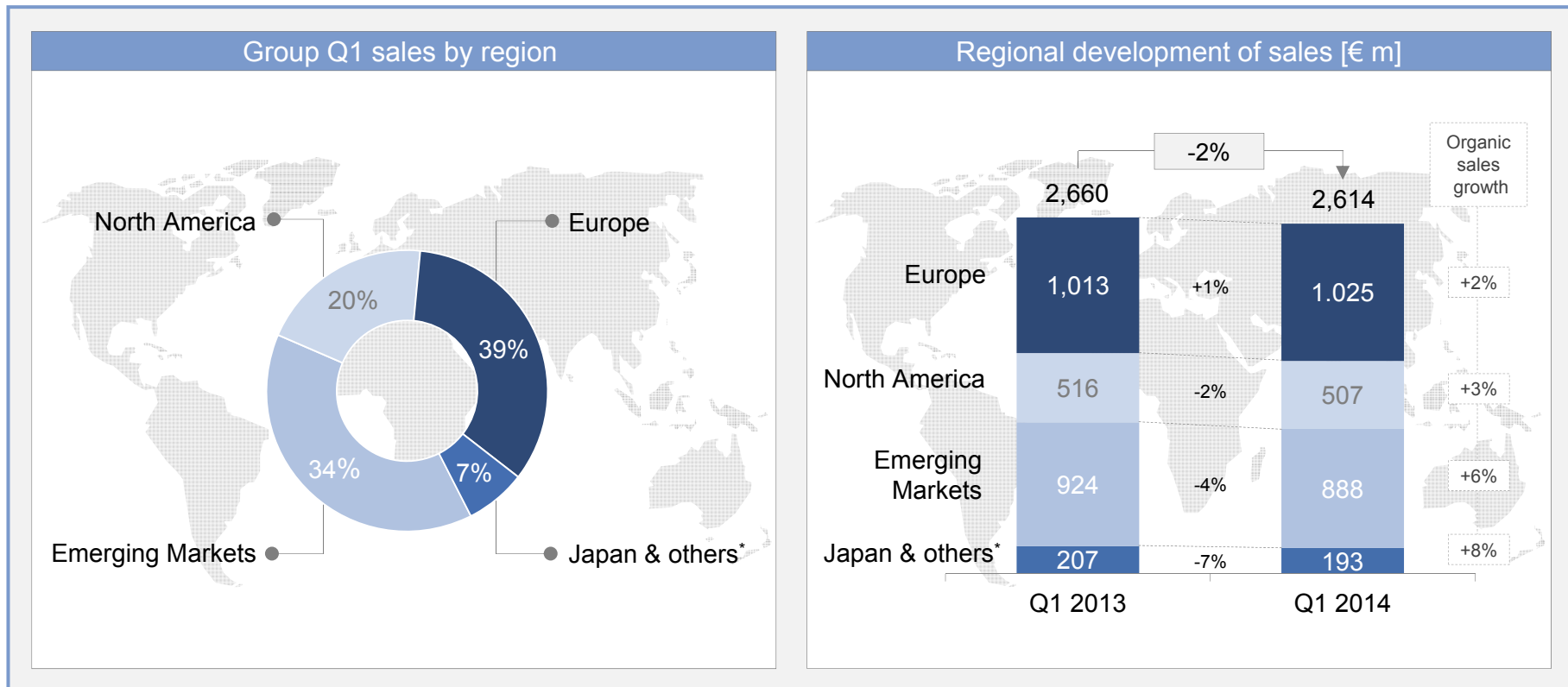
Q1 YoY EBITDA pre contributors [€ m]



- Biopharmaceuticals and Life Science remain strongest absolute contributors to organic sales growth
- Currency headwinds mainly driven by the U.S. dollar and the Japanese yen
- Life Science's EBITDA pre contribution linked to solid organic performance, while Performance Materials faces strong comparables
- Corporate & Other includes higher hedging gains this year versus last year

Totals may not add up due to rounding

# Organic growth across all regions



\*Australia/Oceania, Africa  
Totals may not add up due to rounding

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## Q1 2014: Stable financials amid royalty income reduction and currency headwinds

[€ m]	Q1 2014	Q1 2013	Δ	Q1 2014
<b>Sales</b>	<b>2,614</b>	<b>2,660</b>	<b>-2%</b>	<ul style="list-style-type: none"> <li>▪ Sales decline as organic improvement is outweighed by negative currency effects</li> <li>▪ EBITDA pre and EPS pre improve on solid organic performance despite loss of royalty income</li> <li>▪ 2013 operating cash flow reflects one-time tax refund and restructuring measures</li> <li>▪ Strong cash-generating nature of businesses yields first net cash position since June 2010</li> <li>▪ Continued tight management of working capital; slight increase due to sound organic business</li> </ul>
<b>EBITDA pre</b>	<b>807</b>	<b>801</b>	<b>1%</b>	
<i>Margin (% of sales)</i>	<i>30.9%</i>	<i>30.1%</i>		
<b>EPS pre [€]</b>	<b>2.31</b>	<b>2.11</b>	<b>9%</b>	
<b>Operating cash flow</b>	<b>409</b>	<b>516</b>	<b>-21%</b>	
[€ m]	March 31, 2014	Dec 31, 2013	Δ	
<b>Net financial position*</b>	<b>7</b>	<b>-307</b>	<b>n.m.</b>	
<b>Working capital</b>	<b>2,224</b>	<b>2,132</b>	<b>4%</b>	
<b>Employees</b>	<b>38,273</b>	<b>38,154</b>	<b>0%</b>	
<b>Net cash position established</b>				

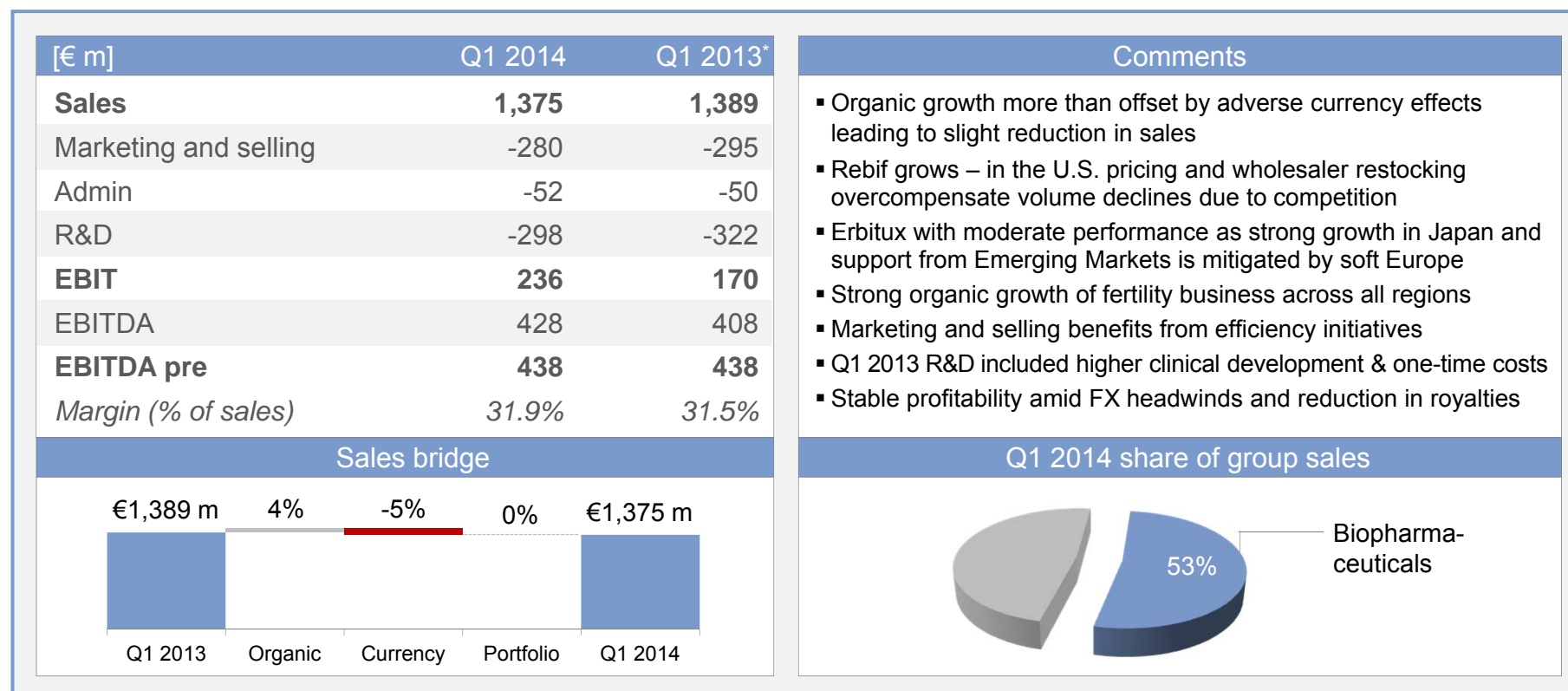
\* (+) = net cash, (-) = net debt

## Solid business performance, lower financial and restructuring expenses contribute to EPS increase

[€ m]	Q1 2014	Q1 2013	Δ	Reported results
<b>EBIT</b>	<b>468</b>	<b>399</b>	<b>17%</b>	<ul style="list-style-type: none"> <li>▪ EBIT increases on lower one-time costs and organic growth offsetting lower royalties and FX headwinds</li> <li>▪ Financial result improves on continued deleveraging and CTA* funding</li> <li>▪ 2013 tax rate contained favorable regional profit split</li> <li>▪ Net income increases in line with higher EBIT</li> </ul>
Financial result	-35	-59	-41%	
<b>Profit before tax</b>	<b>434</b>	<b>341</b>	<b>27%</b>	
Income tax	-106	-72	48%	
<i>Tax rate (%)</i>	<i>24.5%</i>	<i>21%</i>		
<b>Net income</b>	<b>325</b>	<b>266</b>	<b>22%</b>	
<b>EPS (€)</b>	<b>1.50</b>	<b>1.22</b>	<b>23%</b>	

Contractual Trust Arrangement

# Biopharmaceuticals: Solid performance supported by key franchises despite royalty income reduction

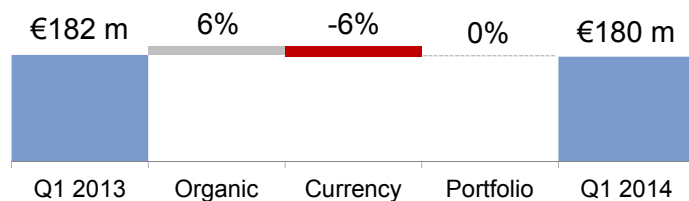


\*Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health

# Consumer Health: Neurobion and Femibion drive quarterly performance

[€ m]	Q1 2014	Q1 2013*
<b>Sales</b>	<b>180</b>	<b>182</b>
Marketing and selling	-68	-69
Admin	-6	-6
R&D	-5	-6
<b>EBIT</b>	<b>37</b>	<b>37</b>
EBITDA	39	39
<b>EBITDA pre</b>	<b>41</b>	<b>39</b>
<i>Margin (% of sales)</i>	22.9%	21.6%

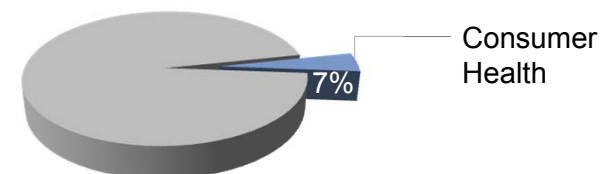
Sales bridge



Comments

- Stable sales as solid organic growth driven by Emerging Markets is offset by FX headwinds
- Latin America grows organically due to performance of new strategic brands Neurobion and Floratil
- Europe moderate as growth of Femibion is partially countered by soft demand for cough and cold products due to milder winter
- Marketing and selling stable, while shift in promotional spending towards strategic brands continues
- Increase in profitability supported by solid organic growth as well as continued cost discipline

Q1 2014 share of group sales



\*Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health

# Performance Materials: Solid performance amid high comparables and strong currency headwinds

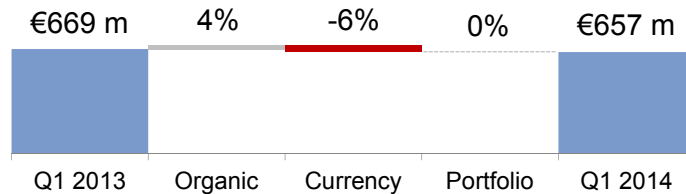
[€ m]	Q1 2014	Q1 2013	Comments
<b>Sales</b>	<b>402</b>	<b>421</b>	<ul style="list-style-type: none"> <li>▪ Sales lower as slight organic growth is more than offset by FX</li> <li>▪ LC* organically flat, facing tough comparables due to last year's strong demand and subsidy program for consumers in China</li> <li>▪ LC* flagship technologies benefitting from ongoing demand</li> <li>▪ Pigments supported organically due to coating industry demand for Xirallic products and strong performance of cosmetic actives</li> <li>▪ R&amp;D increases slightly on investments in future technologies</li> <li>▪ EBITDA pre down facing a strong base and FX headwinds</li> </ul>
Marketing and selling	-33	-35	
Admin	-8	-7	
R&D	-37	-36	
<b>EBIT</b>	<b>152</b>	<b>173</b>	
EBITDA	179	203	
<b>EBITDA pre</b>	<b>186</b>	<b>207</b>	
<i>Margin (% of sales)</i>	46.3%	49.2%	
<b>Sales bridge</b>			
<p>€421 m    1%    -6%    0%    €402 m</p> <p>Q1 2013    Organic    Currency    Portfolio    Q1 2014</p>			
<b>Q1 2014 share of group sales</b>			
<p>15%    Performance Materials</p>			

Liquid Crystals

# Life Science: Growth in Process Solutions improves profitability

[€ m]	Q1 2014	Q1 2013
<b>Sales</b>	<b>657</b>	<b>669</b>
Marketing and selling	-169	-169
Admin	-29	-27
R&D	-38	-41
<b>EBIT</b>	<b>87</b>	<b>72</b>
EBITDA	164	151
<b>EBITDA pre</b>	<b>170</b>	<b>162</b>
<i>Margin (% of sales)</i>	<i>25.8%</i>	<i>24.2%</i>

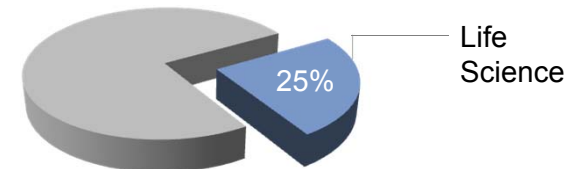
Sales bridge



Comments

- Sales decrease slightly as organic growth is more than offset by FX mainly driven by the Japanese yen and the U.S. dollar
- Process Solutions growth driven by biopharma demand mainly stemming from Emerging Markets and Europe
- U.S. budget sequestration continues to weigh on Bioscience
- Demand for water purification solutions in Emerging Markets drive solid organic growth in Lab Solutions
- Profitability increases due to solid demand and ongoing cost discipline

Q1 2014 share of group sales



# Balance sheet: Deleveraging continues

[€ m]	March 31, 2014	Dec 31, 2013		March 31, 2014	Dec 31, 2013
<b>Current assets</b>	<b>7,739</b>	<b>7,385</b>	<b>Net equity</b>	<b>11,243</b>	<b>11,069</b>
Cash and cash equivalents	2,495	981	<b>Current liabilities</b>	<b>5,113</b>	<b>3,899</b>
Marketable securities and financial assets	1,241	2,411	Current financial liabilities	1,812	440
Trade accounts receivable	2,044	2,021	Trade accounts payable	1,331	1,364
Inventories	1,512	1,474	Other current liabilities	1,093	1,135
Other current assets	352	361	Income tax liabilities	452	465
Income tax receivables	89	110	Current provisions	425	495
Assets held for sale	5	27	<b>Non-current liabilities</b>	<b>4,653</b>	<b>5,851</b>
<b>Non-current assets</b>	<b>13,270</b>	<b>13,434</b>	Non-current financial liabilities	1,917	3,257
Intangible assets	9,688	9,867	Other non-current liabilities	9	6
Property, plant and equipment	2,612	2,647	Non-current provisions	1,019	1,011
Non-current financial assets	80	78	Prov. for pensions / other	1,084	911
Other non-current assets	92	106	Deferred tax liabilities	623	666
Deferred tax assets	798	736	<b>Total liabilities and equity</b>	<b>21,009</b>	<b>20,819</b>
<b>Total assets</b>	<b>21,009</b>	<b>20,819</b>			

- Cash and cash equivalents increase in preparation for AZ acquisition
- Reclassification of 2015 bond (€1,350 m) from non-current to current liabilities

Totals may not add up due to rounding

# Underlying cash flow strength

[€ m]	Q1 2014	Q1 2013	Δ	Cash flow drivers
<b>Profit after tax</b>	<b>327</b>	<b>269</b>	<b>58</b>	<ul style="list-style-type: none"> <li>▪ Higher profit after tax due to solid business performance and lower one-time items</li> <li>▪ D&amp;A lower as last year included restructuring related impairment and amortization for Avonex intangible</li> <li>▪ Changes in provisions lower as prior year included higher restructuring, LTIP<sup>2</sup> and litigation provisions</li> <li>▪ Changes in other assets and liabilities contains tax refunds last year</li> <li>▪ Underlying operating cash flow solid</li> <li>▪ Investing cash flow reflects disposal of financial assets in preparation for acquisition of AZ Electronic Materials</li> </ul>
D&A	302	354	-53	
Changes in provisions	-47	23	-70	
Changes in other assets / liabilities	-74	72	-146	
Other operating activities	5	-8	13	
<b>Operating cash flow before changes in WC</b>	<b>513</b>	<b>711</b>	<b>-198</b>	
Changes in working capital	-105	-195	-90	
<b>Operating cash flow</b>	<b>409</b>	<b>516</b>	<b>-107</b>	
<b>Investing cash flow</b>	<b>1,100</b>	<b>-324</b>	<b>1,424</b>	
thereof Capex <sup>1</sup>	-57	-37	-20	
<b>Financing cash flow</b>	<b>7</b>	<b>-107</b>	<b>114</b>	

<sup>1</sup>Only PPE without intangibles; <sup>2</sup>Long Term Incentive Plan  
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**Guidance**

# Full year 2014 guidance




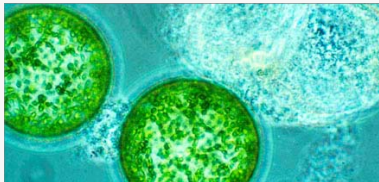
Group guidance for 2014, including AZ <sup>1</sup>	
<b>Sales:</b>	~ €10.9 – 11.1 bn
<b>EBITDA pre:</b>	~ €3.3 – 3.4 bn
<b>EPS pre<sup>2</sup>:</b>	~ €9.00 – 9.50



<sup>1</sup>The AZ Electronic Materials acquisition was closed on May 2, 2014 and will be consolidated as of this date

<sup>2</sup>Based on number of shares before the share split that was approved in the Annual General Meeting on 9 May 2014

# Guidance details

Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
			
Sales	Sales	Sales	Sales
Organically stable	Moderate organic growth	Slight organic growth	Moderate organic growth
EBITDA pre	EBITDA pre	EBITDA pre*	EBITDA pre
~ €1.75 – 1.85 bn	~ €170 – 180 m	~ €830 – 880 m	~ €640 – 670 m
<b>Group 2014 guidance*: ~ €3.3 to €3.4 billion EBITDA pre</b>			

\*Including AZ Electronic Materials from May to December 2014


# Merck KGaA

Darmstadt · Germany

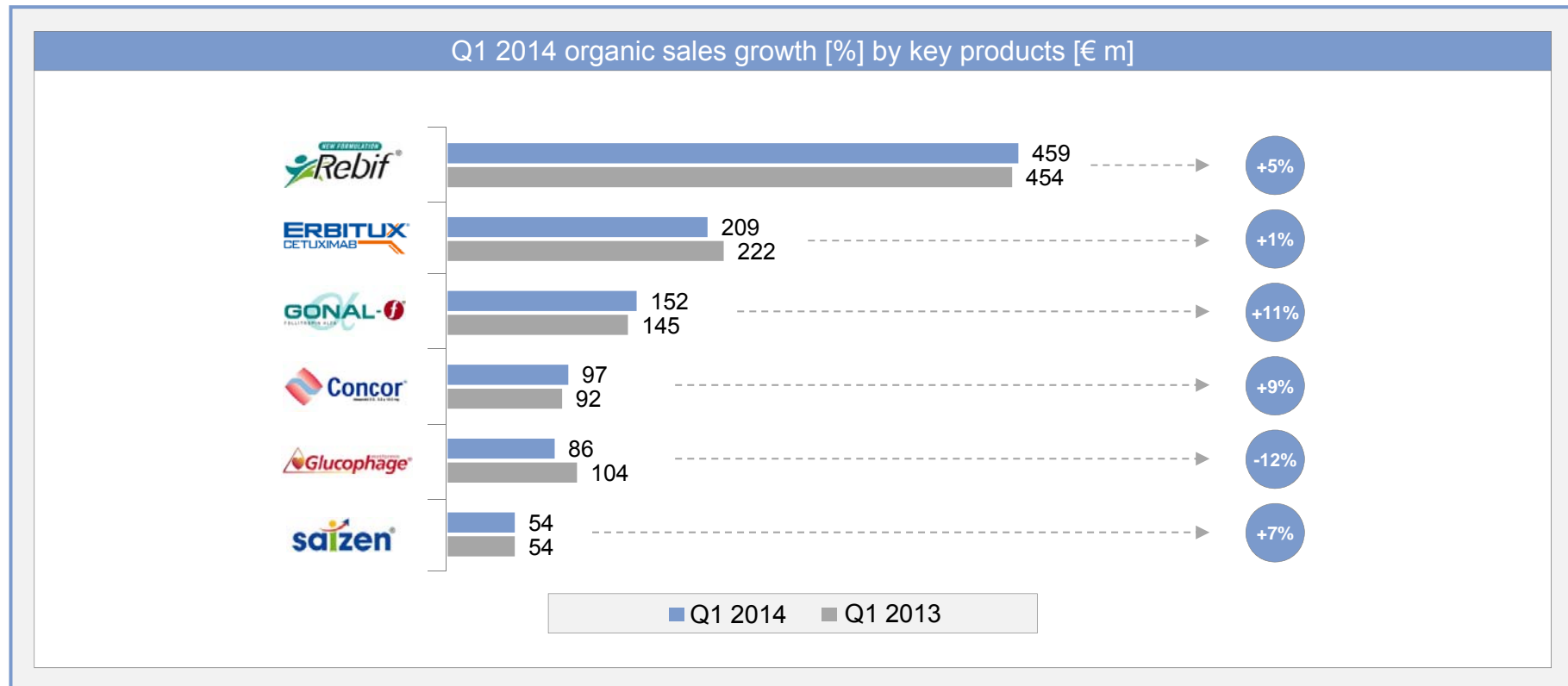
# Appendix

# Additional financial guidance

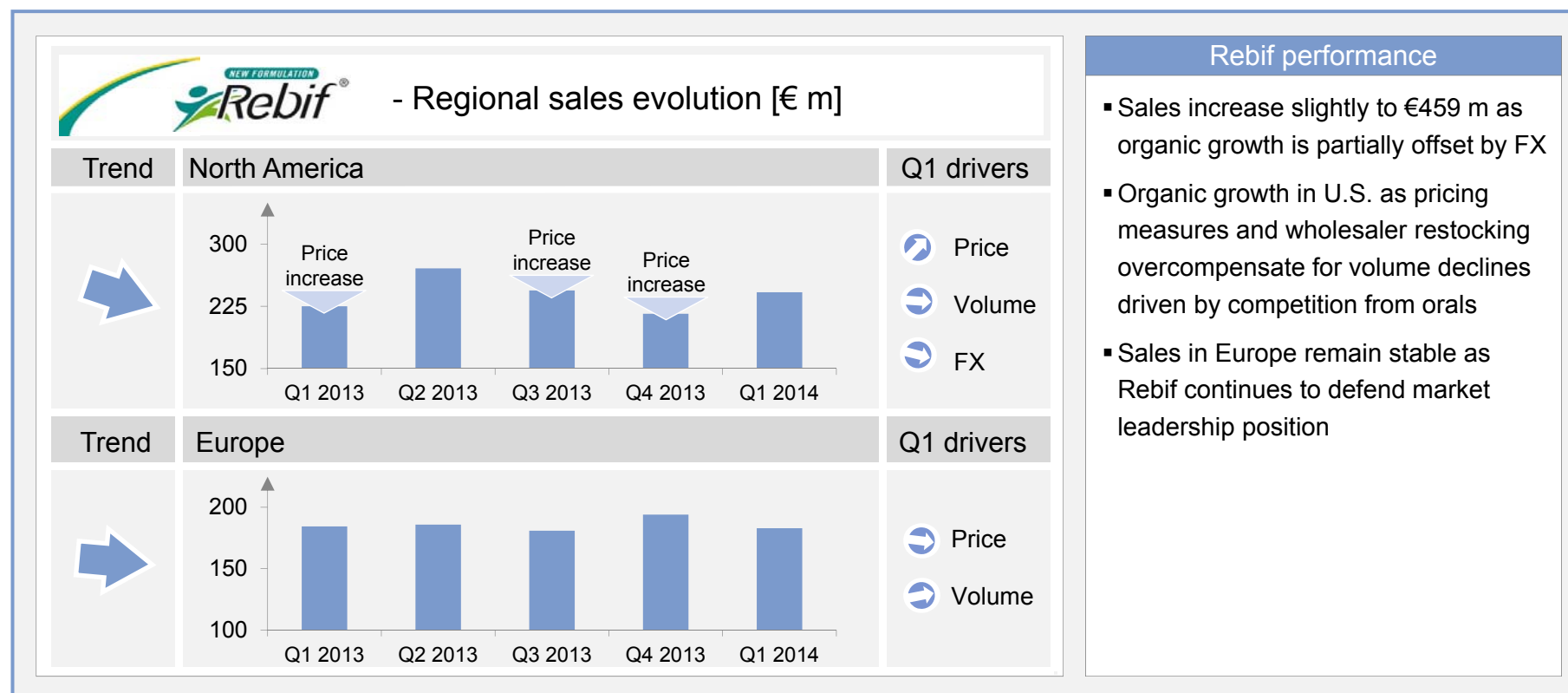
Further financial details	
Group royalty, license and commission income in 2015	~€130 – 150 m
Corporate EBITDA pre	~€ -170 – 200 m
Underlying tax rate	~23% to 25%
Capex on PPE and software	~€500 m
Hedging / USD assumption	2014 & 2015 hedge rate ~30% at EUR/USD ~1.30 to 1.35



# Biopharmaceuticals organic growth by product

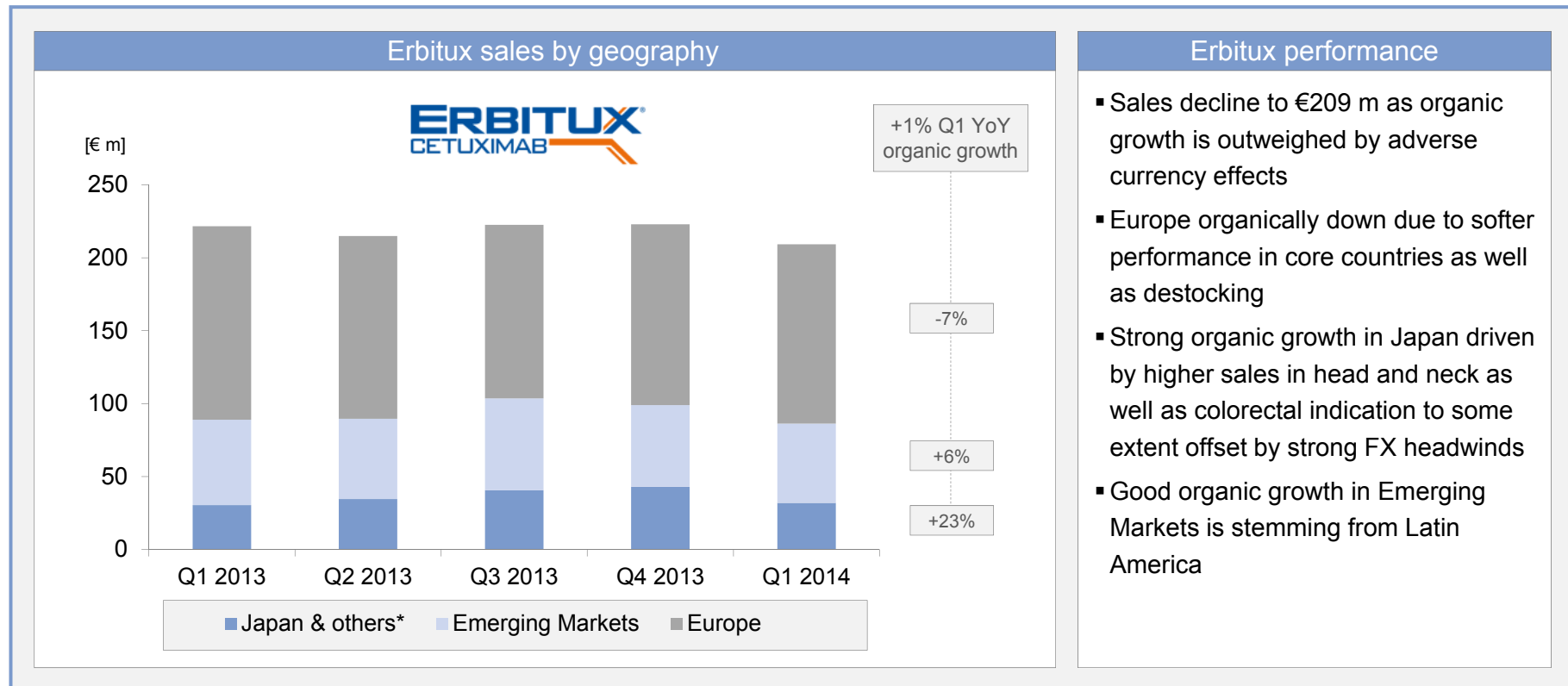


# Rebif – defending market leadership in Europe; competitive pressure in the U.S.





# Erbitux – Japan continues to drive organic growth

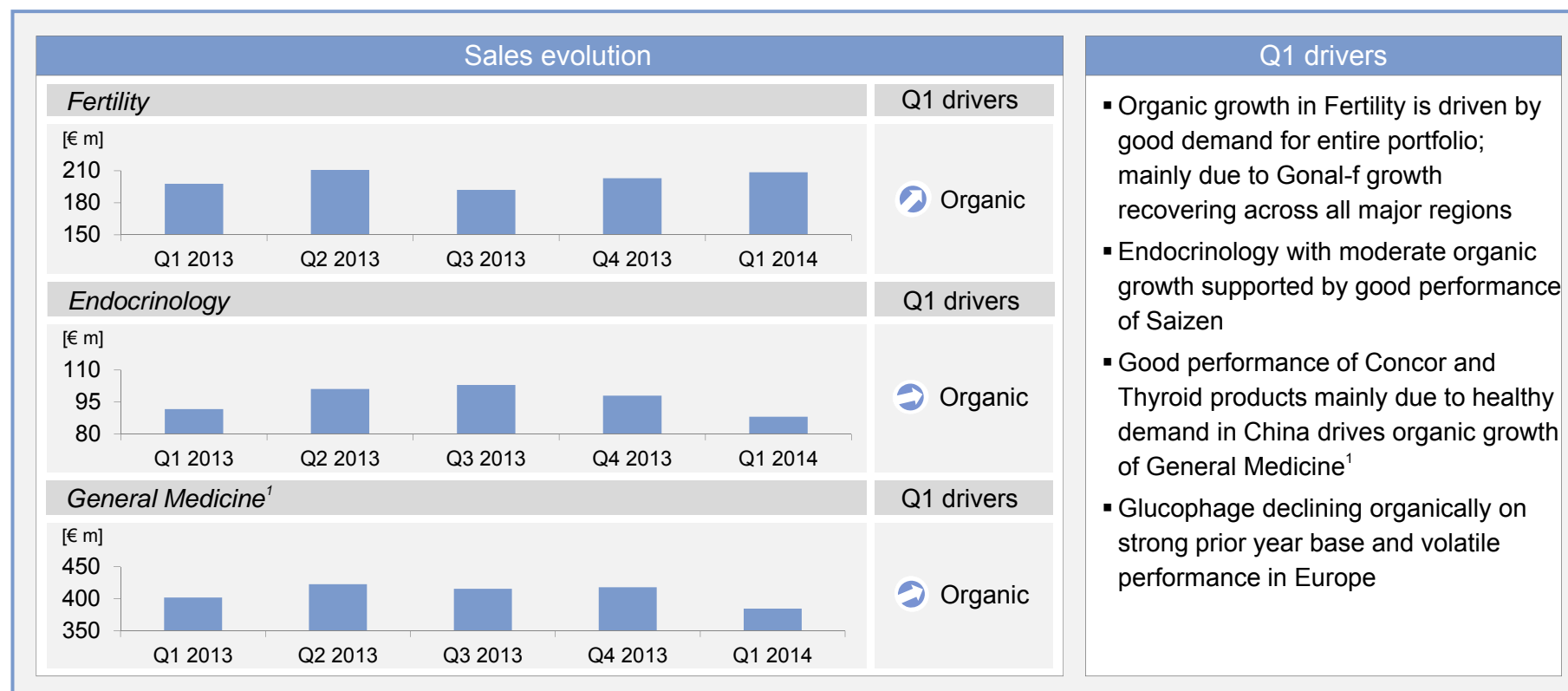


## Erbitux performance

- Sales decline to €209 m as organic growth is outweighed by adverse currency effects
- Europe organically down due to softer performance in core countries as well as destocking
- Strong organic growth in Japan driven by higher sales in head and neck as well as colorectal indication to some extent offset by strong FX headwinds
- Good organic growth in Emerging Markets is stemming from Latin America

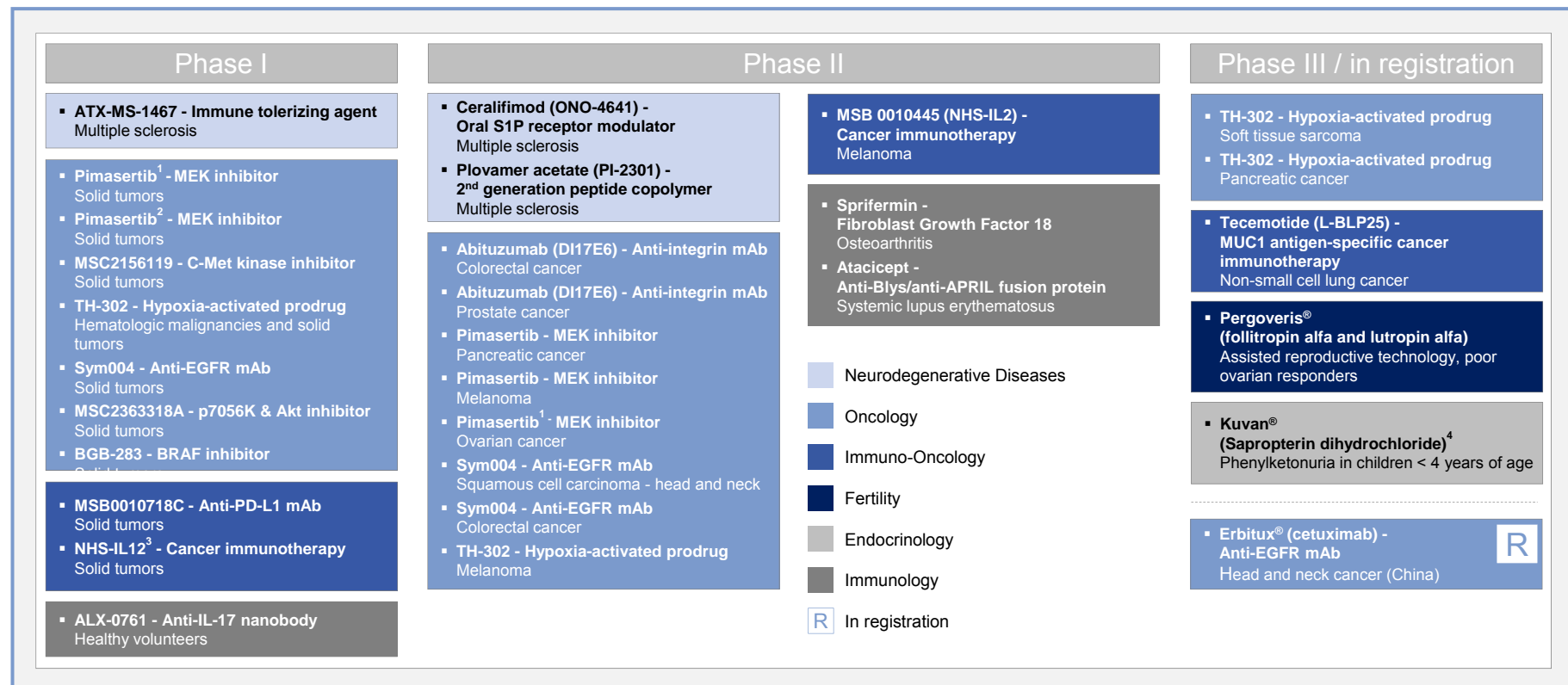
\*Australia/Oceania, Africa

# Strong growth in Fertility while Endocrinology and General Medicine grow more moderately



<sup>1</sup>includes "Cardiometabolic Care & General Medicine and Others"

# Biopharmaceuticals pipeline



Pipeline as of April 30, 2014; <sup>1</sup>Novel combination with PI3K/mTOR inhibitor (SAR245409) from Sanofi, conducted under the responsibility of Merck KGaA, Darmstadt, Germany  
<sup>2</sup>Novel combination with hDM2 inhibitor (SAR405838) from Sanofi, conducted under the responsibility of Sanofi; <sup>3</sup>Sponsored by the National Cancer Institute (USA);  
<sup>4</sup>Post-approval request by the European Medicines Agency

# One-time items in Q1 2014

One-time items on EBIT				
[€ m]	Q1 2014		Q1 2013	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	11	1	56	27
Consumer Health	2	0	0	0
Performance Materials	8	0	4	0
Life Science	6	0	10	0
Corporate & Other	11	0	3	0
<b>Total</b>	<b>38</b>	<b>1</b>	<b>74</b>	<b>27</b>

Totals may not add up due to rounding

# Financial calendar

Date	Event
August 7, 2014	Q2 2014 Earnings release
November 13, 2014	Q3 2014 Earnings release
March 3, 2015	Q4 2014 Earnings release
April 17, 2015	Annual General Meeting 2015
May 19, 2015	Q1 2015 Earnings release



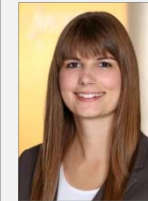
# Investor Relations contact details



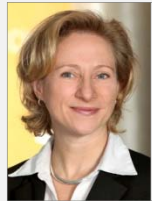
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