

Q2 2017 Financial Summary for Investors and Analysts

Driving future growth

- Healthcare – sound core business and positive CHMP* opinion for Mavenclad & Bavencio
- Life Science – solid growth dynamics against tough comps; Sigma integration on track
- Performance Materials – Liquid Crystal market share normalization increasingly visible
- Sales growth of 2.3%; EBITDA pre down 5.6% to €1,093 m
- Operating cash flow of €1.3bn in H1 2017 shows strong focus on cash generation
- FY 2017 guidance – net sales: €15.3 – 15.7 bn & EBITDA pre: €4,400 – 4,600 m

Overview Financials

Q2 2017 Overview

- EBITDA pre & margin reduction reflect investments in Healthcare and ongoing LC market share normalization
- EPS pre stable despite EBITDA pre decrease due to improved financial result
- Strong increase in operating cash flow driven by lower tax payments
- Net financial debt reflects strong operating cash flow amid dividend payment
- Working capital reflects increased receivables mainly due to Glucophage repatriation
- Higher headcount due to investments in growth markets and takeover of temporary workers

Q2 2017 Balance Sheet

- Total assets decrease, while equity ratio increases to 37.4%
- Reduction in intangible assets reflects D&A (-€0.6 bn) and FX (-€1.5 bn)
- Lower net equity reflects negative FX mitigated by H1 profit
- Other liabilities decrease driven by profit transfer to E. Merck KGaA, Darmstadt, Germany as well as bonus payments

Q2 2017 Cash flow Statement

- D&A reduction reflects write up of Vevey site (~ -€70 m) and Xalkori impairment (~ €70 m) LY
- Changes in other assets/liabilities driven by lower tax payments
- Investing cash flow contains higher Capex & payments for F-star cooperation
- Capex mainly driven by investments in Healthcare and Sigma integration
- Financing cash flow reflects dividend payment, LY with higher redemption of debt

*Committee for Medicinal Products for Human Use

Q2 2017 Business Overview

Healthcare

- **Investments in future growth weigh on profitability**
- Net sales deviation YoY: organic +2.6%, FX +0.1%, portfolio -1.0%
- Rebif organically lower as competition in U.S. & E.U. as well as tender phasing in Russia outweigh pricing and positive inventory effect in the U.S.
- Organic decline of Erbitux due to competitive and price pressure in EU outpaces growth in China & LATAM, but also facing strong base LY
- Fertility slightly lower, mainly due to Gonal-f with record quarter LY
- Marketing & selling reflects pre-launch investments for Bavencio and Mavenclad and Glucophage in China after full repatriation
- R&D investment picking up, expected further ramp-up in H2
- EBITDA pre reflects higher investments and negative mix effects exceeding income from milestone payment for Bavencio

Life Science

- **Solid organic growth and synergy realization drive EBITDA pre**
- Net sales deviation YoY: organic +4.2%, FX +0.1%, portfolio +0.3%
- Growth of Process Solutions picks up due to ongoing strength in single-use, service activities and improved small molecule business
- Applied Solutions shows moderate organic growth, driven by bio-monitoring products for pharma & pick up of Lab Water
- Research Solutions benefits from strong demand in China, U.S. slightly improving while Europe remains soft
- Q2 2016 EBIT affected by inventory step-up for Sigma-Aldrich
- Profitability reflects organic growth and synergies

Performance Materials

- **Ongoing LC market share normalization burdens profitability**
- Net sales deviation YoY: organic -3.2%, FX +1.8%, portfolio 0.0%
- Organic growth of Integrated Circuit Materials, Pigments and OLED not fully offsetting Liquid Crystal market share normalization
- LC volume development temporarily below usual price reductions
- OLED continues to grow on industry capacity expansion & investments
- Strong growth in ICM mainly driven by demand for dielectric materials (AZ) and deposition materials (SAFC from Sigma)
- Growth of Pigments due to solid demand for decorative pigments, while LYs demand for insect repellents sets tough comps for active cosmetics
- Profitability reflects negative business mix, typical LC price reductions as well as higher R&D for future growth projects

Guidance for 2017

Group:

- EBITDA pre: ~ €4,400 – 4,600 m
- Net sales: ~ €15.3 – 15.7 bn
- EPS pre: ~ €6.15 – 6.50

Outlook by business sector:

Healthcare

- Net sales: Slight organic growth; ongoing organic Rebif decline; other franchises growing – repatriation of Glucophage/China supportive
- EBITDA pre: ~ €1,900 – 2,000m

Life Science

- Net sales: Organic growth slightly above market, driven by Process Solutions; first minor contribution of top-line synergies
- EBITDA pre: ~ €1,780 – 1,850m

Performance Materials

- Net sales: Slight to moderate organic decline; volume increases in all businesses; continuation of Liquid Crystal market share normalization in China
- EBITDA pre: ~ €950 – 1,050m

Additional financial guidance

- Corporate & Other EBITDA pre ~ ~~-€~~350 – -400 m
- Interest result ~ ~~-€~~250 – -260 m
- Underlying tax rate ~23% to 25%
- Capex on PPE ~~~€~~50 – 900 m
- Hedging/USD assumption **2017 hedge rate ~60%**
at EUR/USD ~1.11 to 1.13
- 2017 Ø EUR/USD assumption ~~~€~~1.09 – 1.13

Merck KGaA

Darmstadt, Germany

Group Q2 2017

€m	Group			Healthcare			Life Science			Performance Materials			Corporate/Others		
	Q2 2016	Q2 2017	% YoY	Q2 2016	Q2 2017	% YoY	Q2 2016	Q2 2017	% YoY	Q2 2016	Q2 2017	% YoY	Q2 2016	Q2 2017	% YoY
Net sales	3.805	3.891	2%	1.754	1.783	2%	1.430	1.495	5%	621	612	-1%			
% organic			2%			3%			4%			-3%			
% FX			0%			0%			0%			2%			
% portfolio			0%			-1%			0%			0%			
EBIT	550	628	14%	298	348	17%	166	221	34%	193	167	-13%	-105	-109	3%
Depreciation and amortization	519	380	-27%	261	117	-55%	178	190	7%	74	64	-14%	6	9	47%
EBITDA	1.069	1.008	-6%	558	465	-17%	343	411	20%	267	231	-13%	-99	-100	0%
Exceptionals in EBITDA	89	86	-4%	-1	15	n.m.	74	43	-41%	7	8	28%	10	19	89%
EBITDA pre	1.158	1.093	-6%	557	480	-14%	417	454	9%	273	239	-12%	-89	-80	-10%
Net financial debt*	11.513	11.248	-2%												

* as per 31 December

Totals may not add up due to rounding

Group

P&L Group	Q2 2016	Q2 2017	% YoY
Net sales	3.805	3.891	2%
Cost of sales	-1.315	-1.331	1%
thereof: intangibles amortization	-45	-45	1%
Gross profit	2.489	2.560	3%
Marketing and selling expenses	-1.114	-1.217	9%
thereof: intangibles amortization	-256	-258	1%
Administration	-209	-257	23%
Other operating income/expenses	-119	63	n.m.
Research and development	-497	-521	5%
EBIT	550	628	14%
Depreciation and amortization	519	380	-27%
EBITDA	1.069	1.008	-6%
Exceptionals in EBITDA	89	86	-4%
EBITDA pre	1.158	1.093	-6%
Financial result	-121	-71	-42%
Profit before tax	429	557	30%
Income tax	-115	-134	16%
Income tax rate	27%	24%	
Profit after tax discontinued operations	0	0	n.m.
Profit after tax	314	423	35%
Non-controlling interests	-2	-2	-27%
Net income	312	421	35%
Number of theoretical shares in million	434,8	434,8	
EPS in €	0,72	0,97	35%
EPS pre in €	1,55	1,54	-1%

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Healthcare

P&L Healthcare	Q2 2016	Q2 2017	% YoY
Net sales	1.754	1.783	2%
Cost of sales	-350	-402	15%
thereof: intangibles amortization	0	0	n.m.
Gross profit	1.405	1.381	-2%
Marketing and selling expenses	-643	-710	10%
thereof: intangibles amortization	-143	-140	-2%
Administration	-66	-78	17%
Other operating income/expenses	-19	144	n.m.
Research and development	-378	-389	3%
EBIT	298	348	17%
Depreciation and amortization	261	117	-55%
EBITDA	558	465	-17%
Exceptionals in EBITDA	-1	15	n.m.
EBITDA pre	557	480	-14%

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Life Science

P&L Life Science	Q2 2016	Q2 2017	% YoY
Net sales	1.430	1.495	5%
Cost of sales	-679	-648	-5%
thereof: intangibles amortization	-15	-15	0%
Gross profit	751	848	13%
Marketing and selling expenses	-413	-443	7%
thereof: intangibles amortization	-108	-114	5%
Administration	-58	-65	12%
Other operating income/expenses	-50	-52	4%
Research and development	-65	-67	4%
EBIT	166	221	34%
Depreciation and amortization	178	190	7%
EBITDA	343	411	20%
Exceptionals in EBITDA	74	43	-41%
EBITDA pre	417	454	9%

Totals may not add up due to rounding

Performance Materials

P&L Performance Materials	Q2 2016	Q2 2017	% YoY
Net sales	621	612	-1%
Cost of sales	-287	-284	-1%
thereof: intangibles amortization	-29	-30	1%
Gross profit	334	328	-2%
Marketing and selling expenses	-59	-64	9%
thereof: intangibles amortization	-5	-4	-20%
Administration	-14	-19	29%
Other operating income/expenses	-15	-20	35%
Research and development	-53	-59	10%
EBIT	193	167	-13%
Depreciation and amortization	74	64	-14%
EBITDA	267	231	-13%
Exceptionals in EBITDA	7	8	28%
EBITDA pre	273	239	-12%

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