

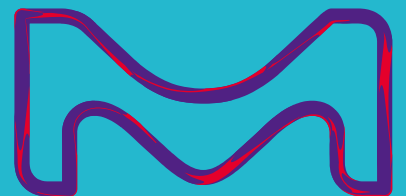
**Merck KGaA**  
Darmstadt, Germany

# **Annual General Meeting 2020**

## **Speech by Dr. Stefan Oschmann**

**Chairman of the Executive Board and CEO**

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Check against delivery.

*Brief introductory video of the  
"Deutsche Philharmonie Merck"*

Dear Shareholders,

Holding a speech in an empty room is unusual, especially for this type of event. Showing this film is therefore a nice way to start this meeting. Not only I, but many other people found it very touching.

According to our publications and reports, "The *Deutsche Philharmonie Merck* is the musical ambassador of our company." I find the message of this film very fitting. After all, we are maintaining physical distance, also to our customers and partners. But the solidarity and commitment of our employees these days is something I've never experienced in my professional life before.

I would also like to warmly welcome you to our Annual General Meeting. It's the first one of this kind for our company.

Now that everything appears to be completely different in 2020, what will you be hearing about in the next 30 minutes?

I will report to you on our company, as is normally the case. On our results of 2019. On our objectives for 2020. And on our progress



along the journey to becoming THE vibrant science and technology company.

Yet as you all know, one topic has been occupying the whole world for months and continues to overshadow everything else: the coronavirus. What impact is it having on our company?

I will refer to the potential financial impact later. First I will discuss the precautions we're taking within our company. In this situation, we are pursuing three distinct goals:

First, we want our employees to remain healthy and their workplaces to be safe. We are doing everything to ensure this; it is our number-one priority. We set up a crisis management team early on. First in China, then worldwide as well. We introduced rules on hygiene, physical distancing and travel. And we are clearly complying with all the regulations. Wherever possible, our employees have been working from home. Around the world, they are currently returning to the office step by step.

For some companies, this was a culture shock. It worked well for us, not least because for years we have been promoting flexible, remote working globally. From day one, we had the required technology and openness in place. That has paid off.

Second, we are ensuring business continuity. We are doing everything in our power, so that patients receive life-saving



medicines and customers receive their deliveries. More on this shortly.

And third, we're already thinking about the post-virus world. Our colleagues in China are setting an example. They planned the return to normal business operations early on, which is why they have mastered the situation so well to date. The entire Group is currently learning from this. Overall, our regions and businesses are communicating and collaborating more strongly than ever. I am certain that we will permanently benefit from this.

We're also addressing another aspect permanently: our costs. We have been lowering them in a targeted manner since 2018, for instance those of service providers, office communication, events, and business travel. To this end, we completed multiple savings packages in 2019. Last year, we saved more than we had expected to. All of this is also paying off now – literally.

In brief: this is about forward-thinking. To date, we have gotten through the crisis quite well. We have not had to apply for short-time work. And the number of infected employees has remained very low.

We are particularly proud of one thing. We are combatting the virus on many fronts. Hand-in-hand with our customers. With partners working on aid and research projects. And with the scientific community.



I'd like to name four examples here:

Researchers across the world are searching for vaccines and active ingredients and are using our products as well as our expertise in entirely new research and production processes. Many scientists tell us that they spend 20 hours a day in the lab. The same applies to our people who are supporting them in the race against time.

Patients across the world count on help, also from our medicines. Cancer, cardiovascular diseases, diabetes – people with conditions like these are especially at risk in the present situation. They rely on the availability of their medicines. Even when the borders are closed. Our colleagues are doing everything they can these days and this is a lot harder than it sounds. Every day I read the reports and speak with our employees. They are doing a fantastic job.

People across the world want to keep in touch. Especially now, just as we wish to with you today. This is only possible thanks to smart materials and solutions used to produce fast and power-saving computers and smartphones. These materials are our hallmark – especially since our acquisitions of Versum Materials and Intermolecular last year. That was exactly the right decision, at exactly the right time.

Not least, we're supporting the crisis response effort – also well beyond our businesses. We are donating two million masks to



Germany, France and the United States, among others. We are manufacturing and donating disinfectant in places from Darmstadt to Rio de Janeiro. In addition, we're supporting aid and research projects worldwide.

I could report on this alone at length to you. Here are just three examples.

First, the Bill & Melinda Gates Foundation. We are working with them as well as a number of companies. The aim is to accelerate the development and manufacture of vaccines and active ingredients to fight the virus.

Second, we are supporting research by the World Health Organization (WHO) by donating Rebif, our well-established medicine for multiple sclerosis. A clinical study is investigating whether it can also be used to treat Covid-19.

And third, in 2018, our anniversary year, I announced a new research award. We presented the Future Insight Prize for the first time in 2019.

It involves a grant of € 1 million. The topic was pandemic preparedness, in other words how can an outbreak be predicted and fought?



Experts have been saying for years that a virus like this one would be coming. And with it, great dangers to human health, the economy and society around the world.

Now, unfortunately precisely this has happened. No one could have guessed it would happen now. But Pardis Sabeti and James Crowe need the grant today more than ever. These two top researchers from the United States are doing tremendous work in the battle against the virus.

All these examples have one thing in common: Our employees are behind them, making the daily work and the special projects possible. Well over 57,000 people work for us in 66 countries. They are what make the success of our company possible in the first place.

Thank you very much, dear colleagues, for your tremendous commitment especially in times like these. Thank you for being considerate. Thank you for your perseverance and your dedication. Thanks for holding up the flag for safety, reliability and quality.

Before I move on to my next point, one more thought. This Annual General Meeting is a little different, not only from a technical perspective. I am speaking to you today much more than usual about the present.



The first reason is obvious: The world is in a state of emergency. We are reporting to you on how we are dealing with this.

The second reason is even more important to me. The pandemic has far-reaching consequences. We will not be unaffected by them. But they will not derail us. Quite the opposite, in fact. Our compass is clearer than ever before.

In 2019, I said the following to you: “We want to become the vibrant science and technology company.” We are developing the therapies of tomorrow. We are creating new possibilities for scientists. And we are driving the digital transformation forward.

We’re doing all of this now. And the crisis is confirming to us that we’re focusing on the right things, namely the very forces everyone’s hopes are pinned to now: science and technology.

In light of everything going on at the moment, the results of 2019 are no longer really in the limelight. This isn’t fair because there are a lot of good things to report about the past fiscal year.

Here is the most important message: We made good progress with our plans for the future. We again grew profitably and we achieved all our targets.

Our debt level rose in 2019, primarily owing to the acquisition of Versum Materials. As always, we intend to quickly reduce our debt.





That's another reason why we're paying such close attention to our costs. Even before Covid-19. But certainly more so today.

Overall, 2019 was a successful year for us. Our share price also developed well, rising by 17%.

As shareholders, we want you to again benefit from this success. Yet in times like these it's clear that you're benefiting from more than just a good year. You're benefiting from our clear focus on sustainable growth. Our strong positioning with three future-oriented business sectors. Our presence in highly attractive markets. All these qualities represent our company. We can be relied on. That's important to us. Therefore, today we propose to the Annual General Meeting the payment of a dividend of € 1.30 per share.

Reliability. That's a very important concept these days. The Covid-19 crisis will be followed by an economic crisis. That much is certain. And certainly you also want to know: What does this mean for our company?

Two weeks ago, we reported on the first quarter of 2020. We got off to a strong start. The crisis only had a low impact on our businesses. Our medicines for cardiovascular diseases and diabetes were in higher demand, also due to the virus. The Semiconductor Materials business recovered, as expected in 2019. At the same time, we're currently also seeing market weakness and the measures in many



countries, for instance in the Fertility franchise or in pigments for cars and cosmetics.

And, we anticipate that the effects will amplify in the coming months. We adapted our financial targets for 2020.

In contrast to March, we now assume that the virus will significantly burden the global economy. We assume that the consequences will affect all the business sectors of our company, especially Healthcare and Performance Materials.

How the situation actually develops is of course uncertain. But we assume the following:

First: In China, the pandemic reached its peak at the end of the first quarter. Since then, the situation has been easing significantly.

Second: Europe and the United States will not see the peak until the second quarter. The situation will normalize by the end of the third quarter.

And third: In principle, a second disease wave is possible, but we are not assuming this at this point in time.

Therefore, our forecast for 2020 is as follows: Sales: a slight to moderate organic increase. Earnings before interest, taxes depreciation and amortization as well as adjustments: organically



stable; also due to the economic situation. And not least: slight currency headwinds.

What does this mean for our growth plans? And what are our ambitions for 2020?

The following applies to the Group as a whole: We will sharpen our focus on costs even further. I've already mentioned that relevant projects have been underway globally for some time. Now we're hitting the accelerator and leaving no stones unturned.

As regards our businesses: We're staying the course and doing everything in our power in order to achieve our strategic goals for sustainable growth.

In Healthcare, our focus continues to lie on becoming a specialty innovator of medicines for difficult-to-treat diseases. At the end of March, we divested our Allergopharma business – another important step in this direction.

Now we're driving our new projects forward.

One example is Bavencio. Our new medicine has meanwhile been approved for advanced renal cell carcinoma in combination with another drug in the United States, Europe and Japan. Unfortunately, Bavencio did not meet our expectations in a certain type of head and neck cancer. But that is also part of research. By contrast, we see good prospects in advanced bladder cancer, where we are



investigating Bavencio as a first-line treatment. So the key question is: Does Bavencio have what it takes to become the treatment of choice?

To date, the clinical study has been extremely positive. On Sunday we will present the latest results to the medical community at the ASCO (American Society of Clinical Oncology) meeting. We have submitted an application for FDA approval in the United States and expect a decision in the coming months.

We're also making good progress with tepotinib and bintrafusp alfa for the treatment of cancer.

For more than 20 years, our drug discovery activities have also focused on multiple sclerosis, or MS for short. This is a long time if you consider that research in this field hardly existed until the mid-1990s.

MS is a chronic and inflammatory disease of the brain and spinal cord, in other words, the central nervous system. It mainly affects young adults between the ages of 20 and 40. Globally, MS afflicts around 2.5 million people, and twice as many women as men. In most cases, MS is a relapsing disease. There is no cure for it yet and it can have an extreme impact on the lives of patients with side effects such as visual disturbances, numbness, paralysis, and physical disability. Its course differs in almost every patient, which is why it is also referred to as the "disease with 1,000 faces".



Great strides have been made in recent decades. Yet there is still a lot left to do in order to offer patients even better and well-tolerated treatment options. And to give them a choice. After all, MS is a life-long condition.

Various treatment options are therefore important. Tailored to the different forms of the disease, as well as to different needs and personal circumstances. We are working intensively on this. The regulatory approval of Mavenclad in the United States in March 2019 was a milestone. Our new medicine is now approved in nearly 80 countries.

Evobrutinib is an important new compound that we are currently investigating in clinical trials. We discovered this active ingredient in our own laboratories. Now we're pioneering its development in relapsing MS. The clinical studies have been progressing well to date. So well in fact that we've meanwhile replaced the comparator medicine in the current studies in relapsing MS. We are thus raising the bar even higher for the expectations we have of our new active ingredient. What is the mode of action of evobrutinib?

In MS, the body's immune system attacks itself. More specifically, it considers our nerve cell sheaths to be foreign, and attacks them as it would a pathogen. Inflammation occurs.



The attackers are various cells. All are part of the endogenous immune response. They receive certain signals which our active ingredient blocks. The data so far have shown this quite clearly.

Evobrutinib does this not only for one type of immune cell, but for multiple groups. This is what makes it special. It blocks the signals and prevents inflammation. Additionally, it strengthens cells that repair tissue.

Clinical studies for MS take a long time. We are expecting key results by the end of 2023. However, we are already collecting extensive data now. These point to two very important strengths: high efficacy and good tolerability.

Let's move to Life Science – our business with products and services primarily for pharmaceutical manufacturers and the scientific community. As you know, tremendous growth opportunities lie here. Drug discovery and development are still very complex. Many steps take a long time – far too long. And they're expensive – too expensive.

Experts agree: New technologies and forms of collaboration will change this. We are very well-positioned to take the lead here. We're investing to do so, also here in Darmstadt, where we're building a new, € 140 million plant for membrane production. Membranes are needed for pharmaceutical manufacturing, among other things. In 2019, I reported to you that we've earmarked € 1



billion for investments here at the site through to 2025. The new membrane plant is part of these investment plans.

Our site in Carlsbad, California is another example. In April, we announced that we will be investing € 100 million in a new production facility there. This will double our capacity for manufacturing viral vectors and gene therapies.

Both technologies are highly complex manufacturing processes. And they are becoming increasingly important for a still very young area of medicine that uses and modifies genetic information to treat and prevent disease or to produce active pharmaceutical ingredients. This bears great potential in the fight against cancer and other serious diseases.

The same applies to CRISPR, otherwise known as gene-editing scissors. It's one of our strengths, an area in which we have 16 years of experience. Just recently, we gained a further two key patents in the United States.

New research approaches also raise new questions, including ethical ones. We take our responsibility in this area very seriously. Among other things, we have established an ethics board at our company. It comprises recognized experts from various disciplines, including medical doctors, ethicists, theologians, and legal experts from around the world. The recommendations of the ethics board serve as a guidepost for our approach to bioethical challenges.



As I mentioned earlier, a major guidepost these days is also the question: How do we support the fight against the pandemic?

Our colleagues in Life Science are on the front lines here. From detecting the virus in tests and investigating its properties, to developing manufacturing platforms for vaccines and active ingredients. With more than 200 products, our company is needed at every stage.

We are working with vaccine developers to conquer Covid-19. More than 45 of them in total. One is The Jenner Institute of Oxford University in the United Kingdom.

We have been supporting researchers there to prepare large-scale manufacturing of their vaccine candidate. We reduced the process development time from one year down to around two months. The vaccine candidate is still in the laboratories of The Jenner Institute. However, this preparatory step is highly important to ultimately be able to rapidly make large quantities of the new vaccine, if approved, available to patients.

Our colleagues are making great contributions even through small things. One example is "Proteinase K". Or "ProK" for short.

This raw material is used in very small quantities. It is extracted from a fungus. This may sound banal. But it's anything but simple. On top of that, it's very important. That's because ProK is part of





many Covid-19 tests. Our raw material is used to “clean up” patient samples to help make sure the test can run and that the result is as accurate as possible. ProK has two proven strengths here and these are especially important in such tests. It performs its task superbly and it’s also extremely robust. Since the outbreak of Covid-19, we’ve nearly tripled the amount of ProK that we manufacture and we’ve recently added a production unit in the United States to complement those already in Darmstadt and Israel.

As regards Performance Materials, I’ve already mentioned the ultimate growth objective: We want to become a leading manufacturer of electronic materials.

The chances of that have never been better, thanks to the successful acquisitions of Versum Materials and Intermolecular. Together, we offer integral solutions in a growing market.

As a result of the acquisitions, around 2,400 colleagues have become part of our company. We now want them to become well-integrated members of our company, a task that we are intensively focusing on. Among other things, the new and the previous colleagues have set up their new organization so as to fully exploit the advantages of combining the businesses and to enable both new and previous strengths to come to the fore.

The strengths of digital technology have never been as obvious as they are today. But with video conferences from home replacing the office and online streaming services seeing double-digit growth



rates, we have to ask ourselves the following question: can data networks handle this?

They can, for now. Because one thing is certain: in the coming years, the quantity of data will explode. And with it, power consumption.

To give you an idea: A search query on the Internet consumes about 0.3 watt hours. Accordingly, about 220 search queries would bring the equivalent of one liter of water to the boil. If this number of search queries in day-to-day life seem exaggerated to you, consider this: In 2019 Google performed around 4.5 million searches – every minute of the day.

Making full use of artificial intelligence in the future will lead to the consumption of unimaginable amounts of energy.

Today, supercomputers can roughly match the computing power of the human brain, if you use at least five of the world's fastest computers together.

But the energy they need to do this is enough to supply a small town with electricity. Our brain, on the other hand, gets by with the power requirement of an energy-saving lamp. Experts estimate that in about ten years' time, information and communication technology could account for more than 20% of global energy consumption. Approximately twice as much as today. The inner workings of computers will count even more in the future. Less so the programs.



It will be about new materials and technology capable of significantly raising computing power and lowering consumption.

No doubt, this is a Herculean task. Yet it is also a major opportunity for us. Because when it comes to new materials for increasingly powerful and energy-saving electronics, there is no way around our company.

To ensure that this remains so, we are already setting the course today by investing in the computers of tomorrow. I'd like to highlight one example here. Just recently we announced that we acquired an interest in a start-up in China that develops entirely new computer chips that are decisive in artificial intelligence applications, for instance autonomous driving or robots.

What's fundamentally new here is that the structure and technology of these components mimic the brain, a phenomenon referred to as neuromorphic computing. They offer many advantages, for instance in image and voice recognition, as well as impressively low energy consumption.

This investment is the first one by our newly established seed fund in China and it's our third in the advanced computing technologies space in less than one year. Our Innovation team has also been working very intensively on this topic since the beginning of the year. It is collaborating closely with our Semiconductor Material experts and plans to launch its own projects centering on the computers of tomorrow.



As you can tell, we are keeping our eyes open and are increasingly strengthening our collaborative networks, also within our company. That holds true for numerous new initiatives.

And it also applies to the topic of sustainability.

Those of you who read our reports know that responsibility has never been mere lip service to us. It has always been a company value that we practice. We make contributions beyond our businesses in the form of donations and many projects.

One example is the battle against the tropical parasitic disease schistosomiasis. We have already donated more than 1 billion tablets for treatment. We are working on a new formulation of the active ingredient for pre-school children. And we are seeking new forms of treatment. Until schistosomiasis has been eliminated. That is our goal.

At the same time, we are convinced that through our core business, we also help to solve major future challenges.

Whether through new therapies for serious diseases, our contributions in the fight against the coronavirus or materials for increasingly faster and energy-efficient computers. Or as I already mentioned in 2019: completely new ways of producing meat in more sustainable ways.



Particularly when it comes to the environment, mere restraint will not solve the massive problems. Here too, researchers and developers around the world will make the next giant leap forward. We see ourselves as part of this community and will do our part to contribute to it. That is why we are also supporting the Sustainable Development Goals of the United Nations. These include “Good Health and Well-being”, “Quality Education” as well as “Affordable and Clean Energy”.

The aim now is to purposefully embed the various aspects of sustainability at our company in the strategies of our businesses. We’ve been working on this since the end of 2019. And in 2020 we will also set a new climate target.

Climate change is an important example, but just one of many. Science and technology – these are forces that the global community needs. Regardless of whether the virus or non-communicable diseases are concerned, access to affordable health solutions, food for a growing global population. And much more. Without the positive force of science and new technologies, none of these challenges can be met.

We will do our part, also to be able to continue to grow in the future. We are dedicated to human progress. Today more than ever before.



In conclusion, it is important to me to reiterate that as a company, we will also get through the current global crisis. Like many previous ones in our 352-year history. Thanks to good preparation, a strong positioning, a clear compass, and unique solidarity. We want to become THE vibrant science and technology company. And are well on our way to achieving this aim. We would be delighted if you would continue to accompany us on this journey and we thank you for your trust.

