

# Elevating the Profitability of a Structurally Healthy Portfolio

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**Merck KGaA**  
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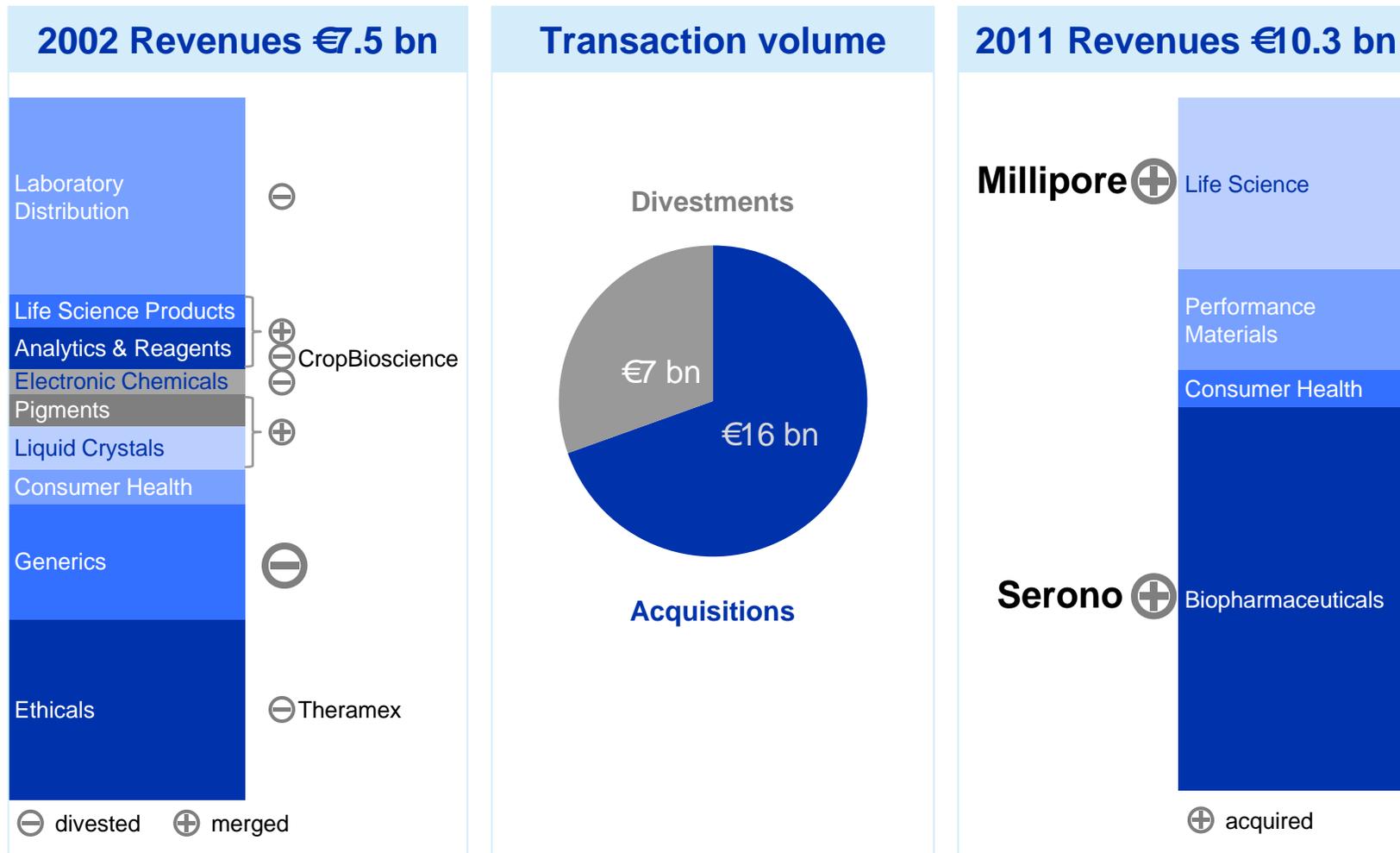
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# Agenda

- 1. Business portfolio strengthened**
2. Turning to efficiency
3. Exploiting opportunities for growth
4. Driving cultural change

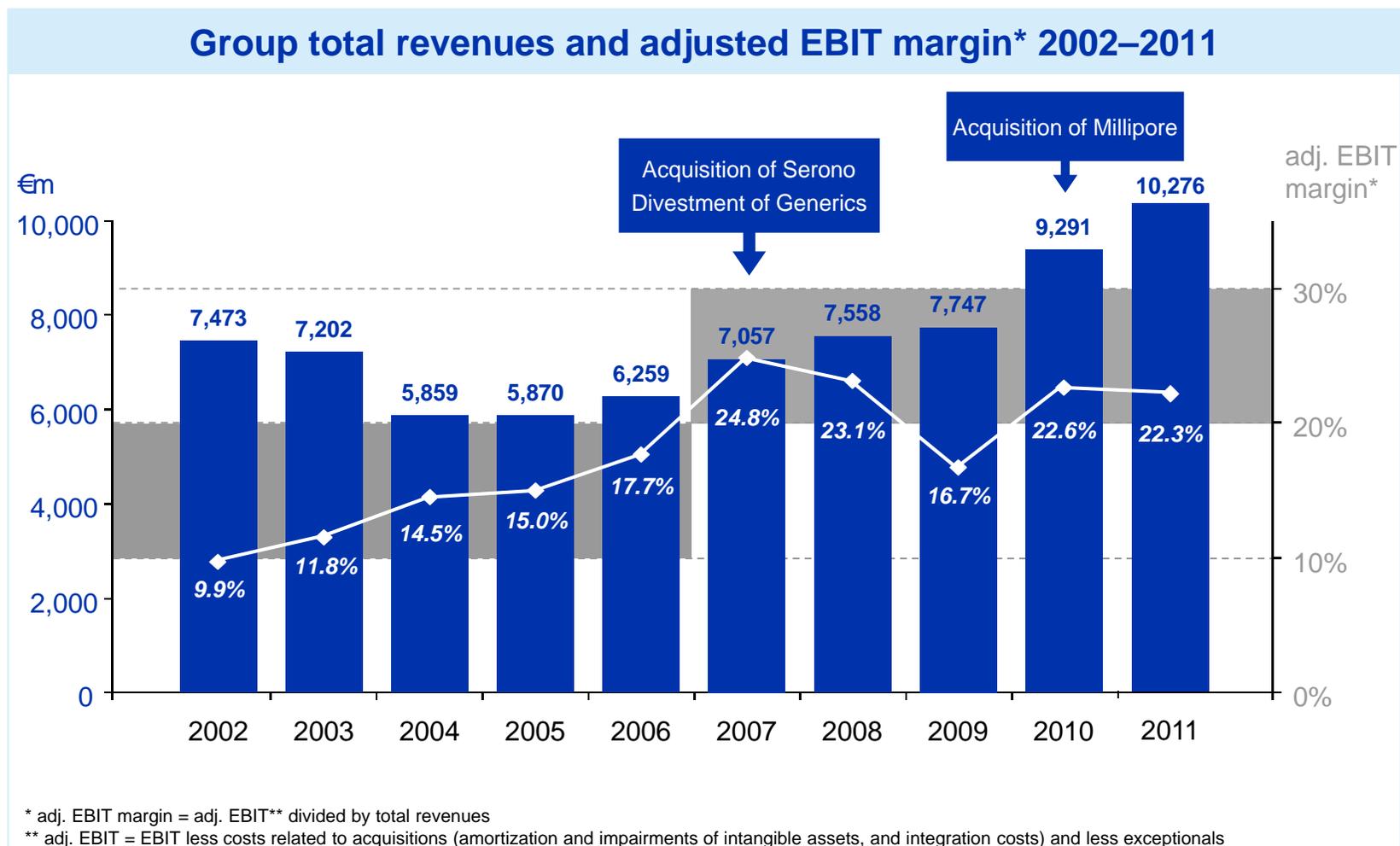
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# We have added scale while strengthening the attractiveness of assets in our portfolio



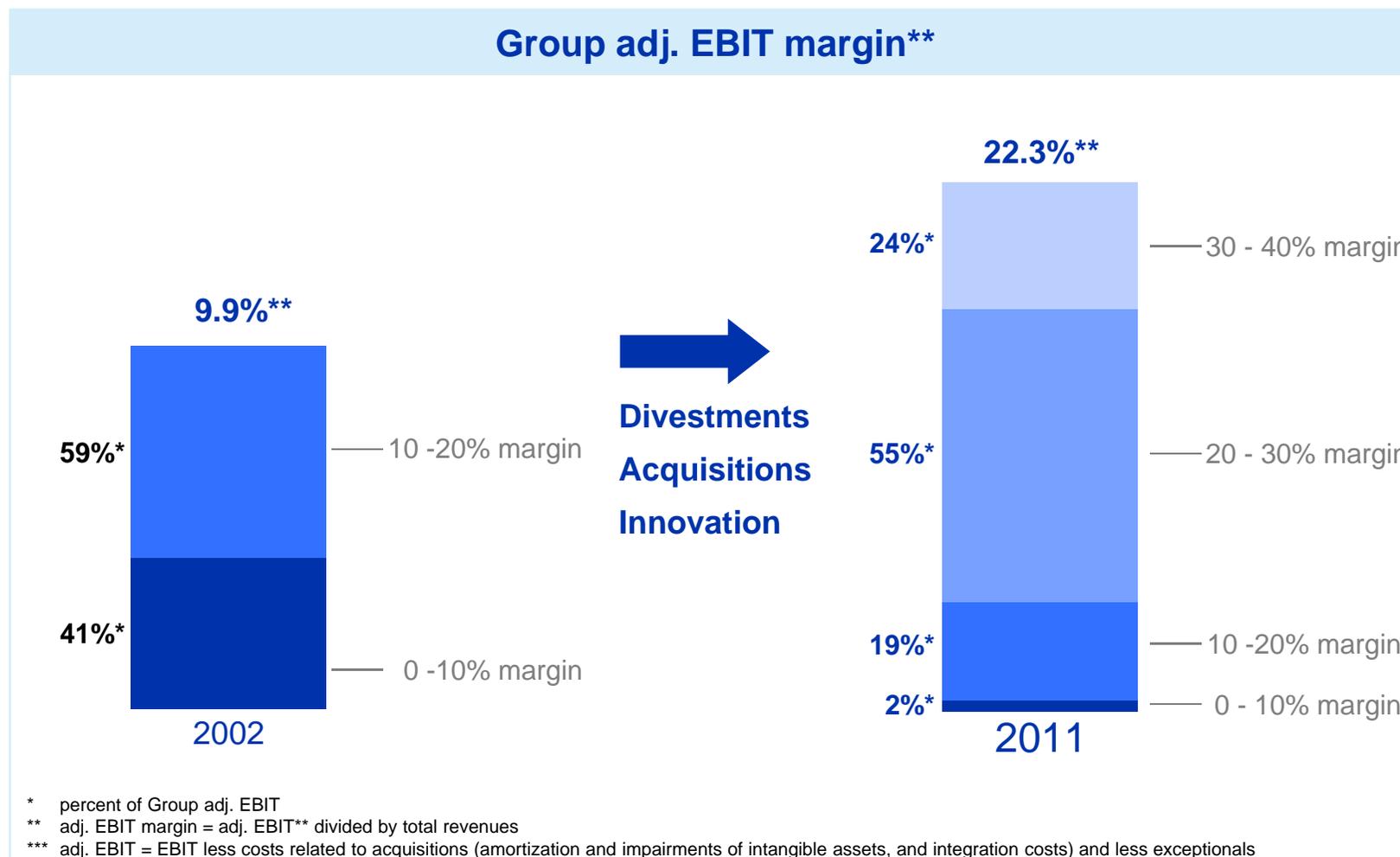
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# Our stronger portfolio has enabled us to fundamentally improve our profitability



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# We have established a structurally healthier portfolio

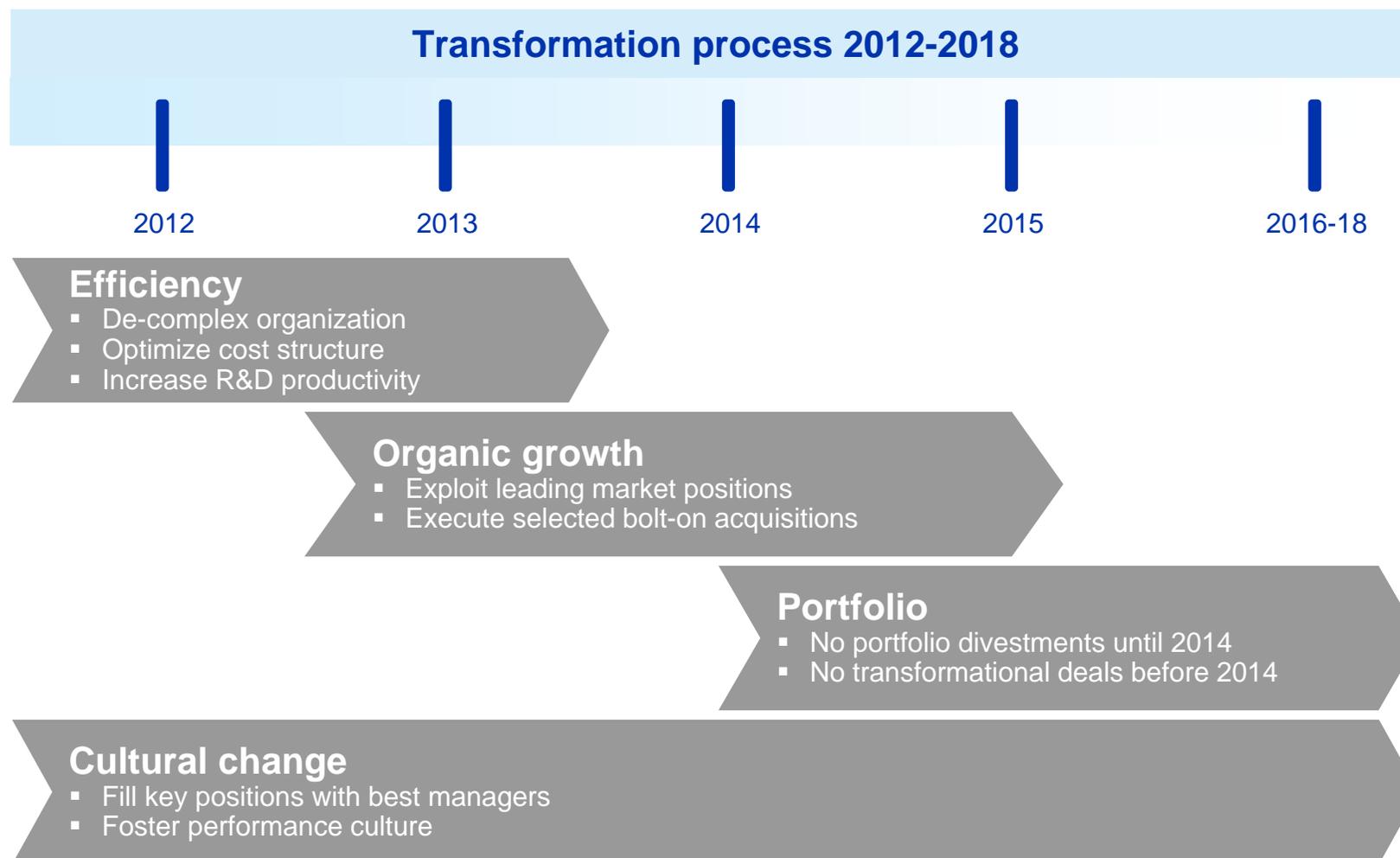


# Portfolio evolution improved our profitability structure, but further potential remains

| Assessment of long-term financial performance relative to peers  |   |   |   |   |
|--|---|---|---|---|
|  | Sales growth  | Gross margin  | SG&A  | R&D productivity  |
| Biopharmaceuticals   |    |    |    |    |
| Consumer Health  |    |    |    |    |
| Performance Materials  |  |  |  |  |
| Life Science   |  |  |  |  |
|  above peers  in-line with peers  below peers |   |   |   |   |

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## We now focus on efficiency



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# A leader in biopharma striving for operational improvement

## Industry attractiveness

- Specialty biopharma growth ~ 5%
- Attractive value for products that address unmet medical needs
- Increased access to healthcare in emerging markets

## Strength of our position

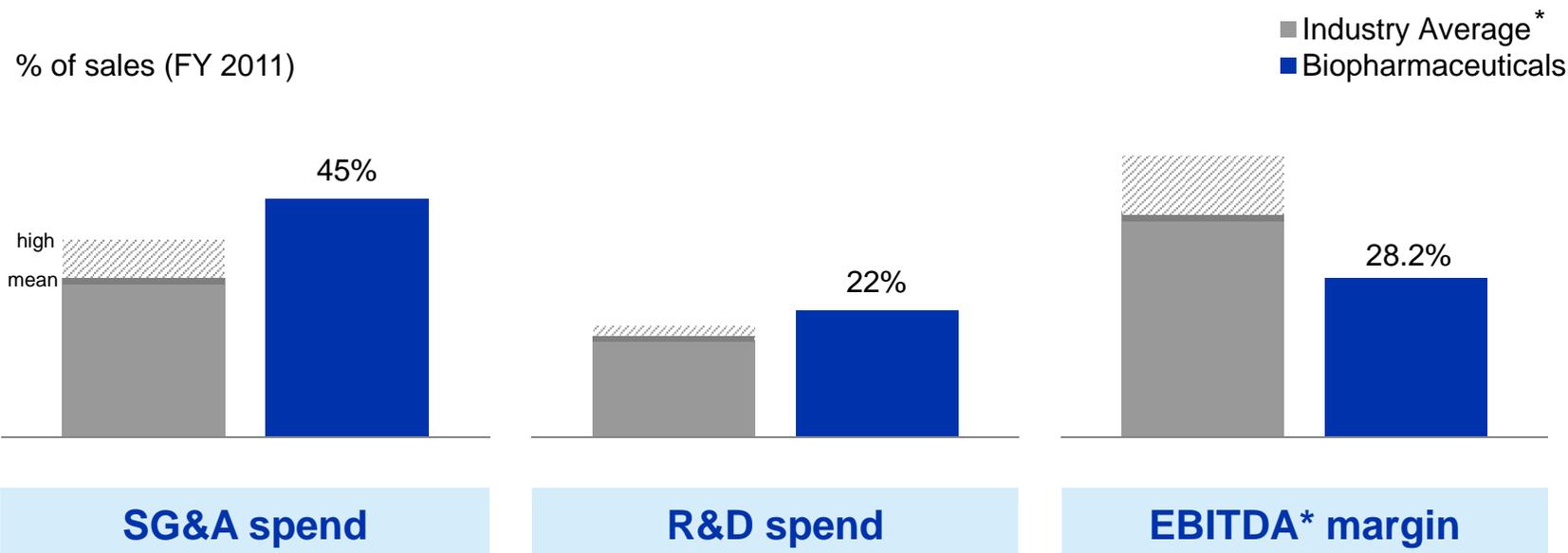
- Global leader in multiple sclerosis and fertility
- Interesting oncology portfolio
- Good position in emerging markets
- Resilient revenue stream
- Strong life cycle management

## 2012 CEO priorities for division:

- Deliver on restructuring program
- Generate R&D productivity
- Rebuild pipeline through:
  - internal research
  - early in-licensing deals
- Maximize the return of the current portfolio

## Biopharmaceuticals

# Catching up with industry standards



### SG&A spend

- Eliminate duplications between headquarters in Darmstadt and Geneva
- Focus investments on markets and products with highest return profiles
- Centralize businesses

### R&D spend

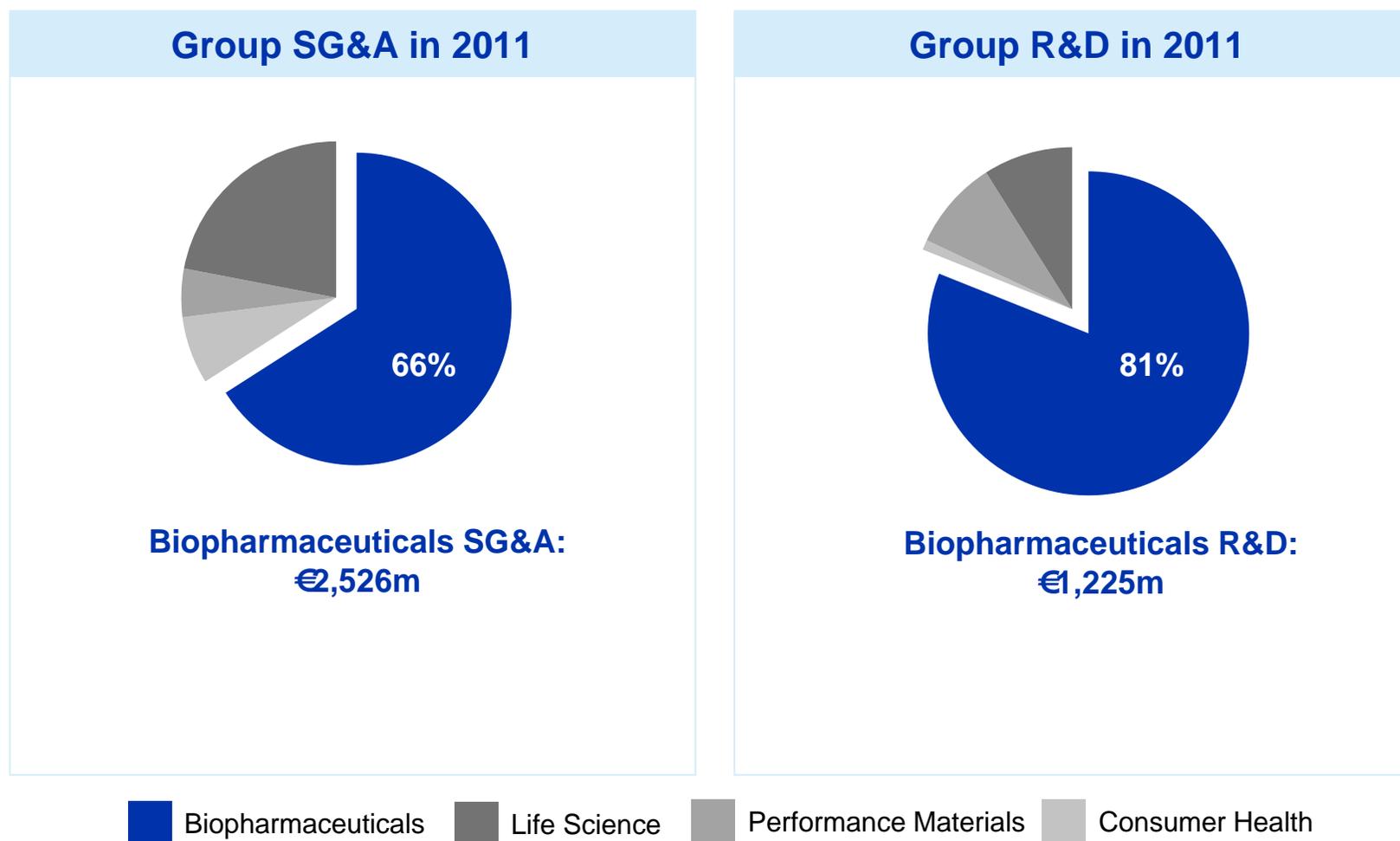
- Eliminate duplications between headquarters and local R&D operations
- Faster decision making
- Increase efficiency and output

### EBITDA\* margin

Source: sell-side analyst research  
\* EBITDA pre one-time items

## Biopharmaceuticals

# Division represents the largest savings potential within the group



# A solid business with considerable potential for improvement

## Industry attractiveness

- OTC market growing 4-6%
- Aging population in developed markets
- Demand from emerging markets remains robust

## Strength of our position

- Trusted brands
- Strong positions in core markets: France, Germany, UK
- Untapped potential
- High gross margin (~ 70%)

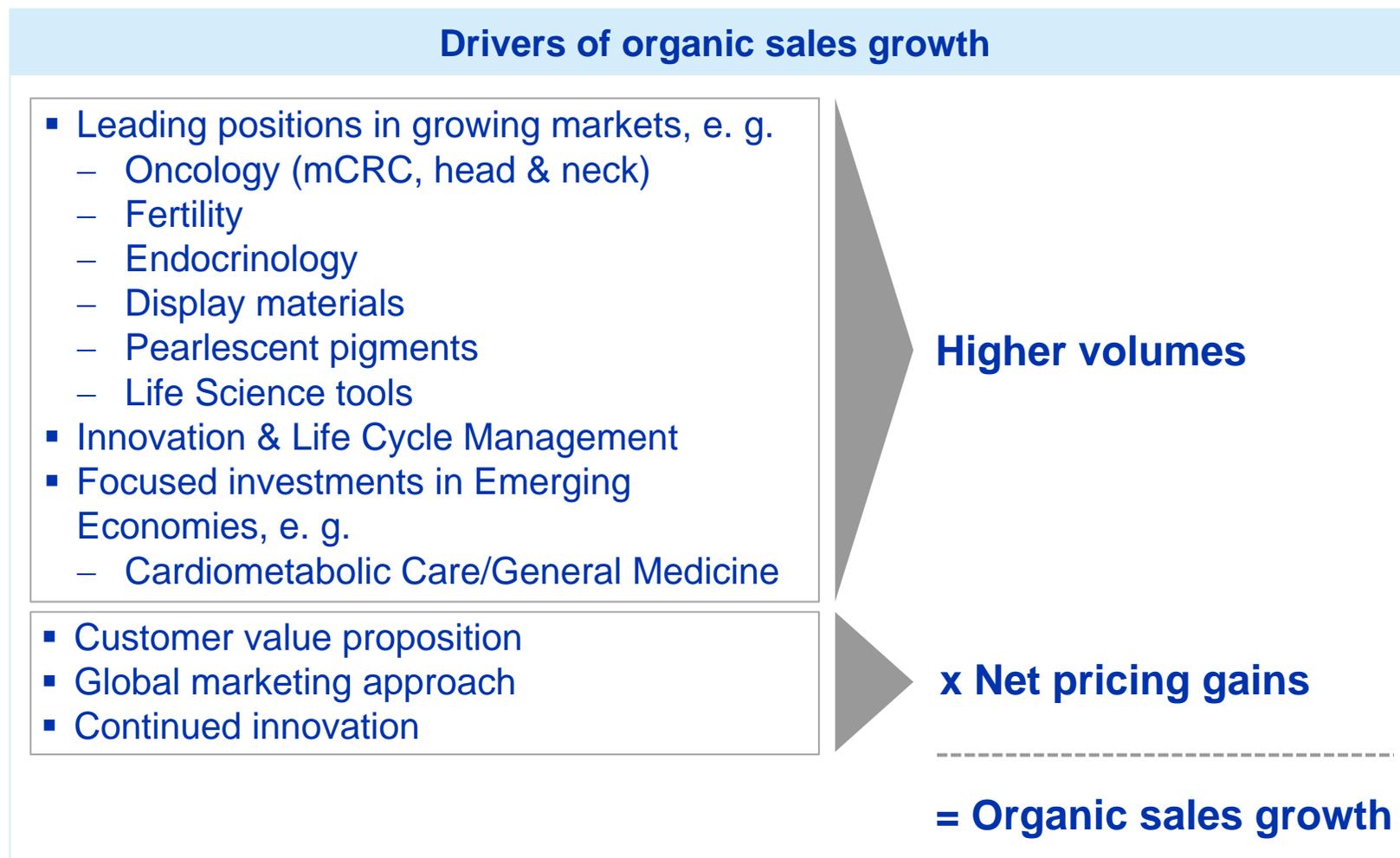
## 2012 CEO priorities for division:

- Deliver improved profitability
- Grow in-line with market while focusing on profitability in 2012 and 2013
- Strengthen presence in core markets and Asia

# Agenda

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# We can build on drivers of organic sales growth



# A leader in life science tools

## Industry attractiveness

- Life science tools market projected to grow 4-7% annually
- Volumes of biologic drugs will continue to grow rapidly
- Growing complexity of science is creating a strong market for laboratory tools providers: systems biology
- High margin / moderate risk

## Strength of our position

- Top 3 supplier in the industry
- #1 market share for consumables used to manufacture biologic drugs
- 50 year track record of quality and innovation
- Global reach

## 2012 CEO priorities for division:

- Continue to deliver solid organic revenue growth
- Continue bolt-on acquisitions to augment organic growth
- Deliver returns on increased R&D and SG&A investments

# Market leader in niche specialty materials business

## Industry attractiveness

- Healthy LCD area growth: ~ 14% in 2012
- Strong emerging market volumes: +21%
- Ongoing replacement cycle: iPad3, smart TVs
- Continuous need for innovation
- Very high margins

## Strength of our position

- Global #1 in Liquid Crystals
- Global #1 in Pearlescent Effect Pigments
- Strong track record of innovation
- Global scale enables lower throughput cost vs. competition

## 2012 CEO priorities for division:

- Launch new Liquid Crystal products and improve on existing technologies
- Foster growth in new businesses
  - solid state lighting
  - reactive mesogens
- Deliver operational improvement in Pigments & Cosmetics business unit

## Near-term priority is on unleashing the profit potential of the current portfolio

### Group portfolio assessment and implications

- We have a strong business portfolio today
  - We will focus on unlocking the full value of our portfolio; we will then turn to portfolio management again, if needed
- 
- No material divestments until 2014
  - No transformational deals should be assumed before 2014

# Agenda

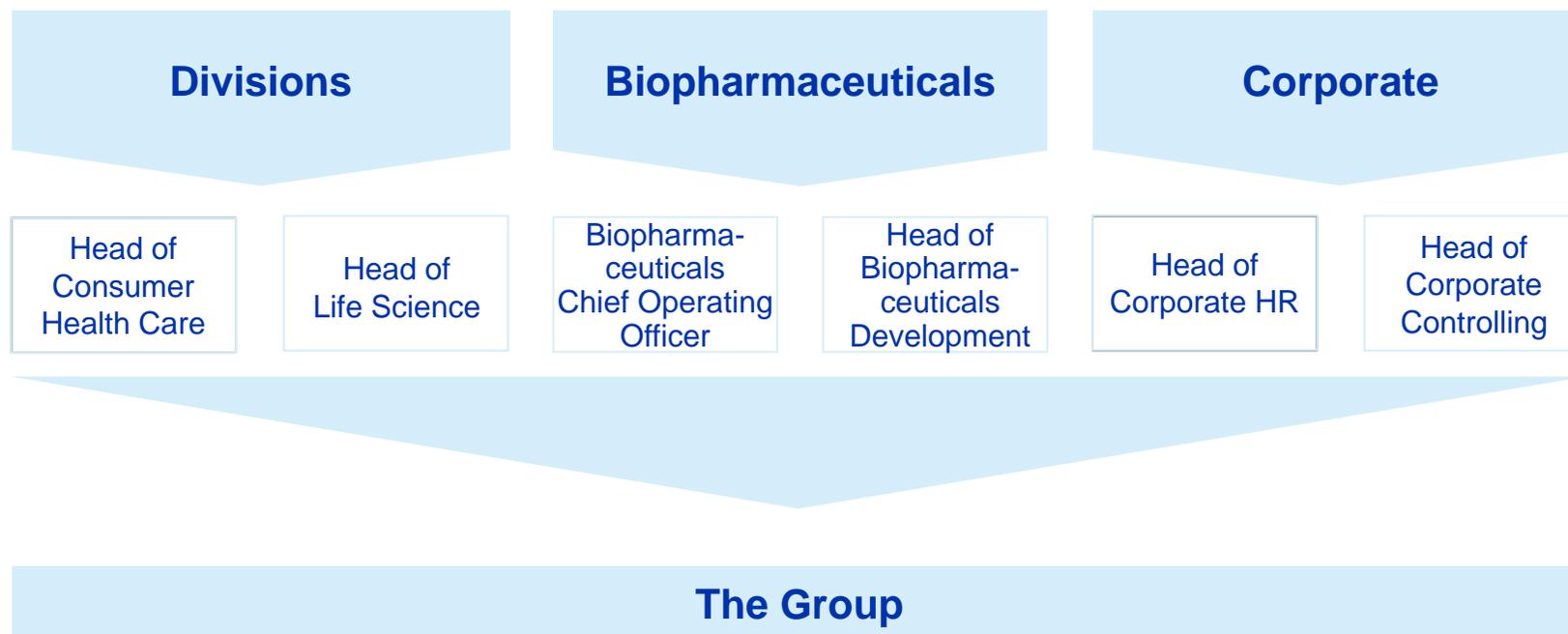
1. Business portfolio strengthened
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4. **Driving cultural change**

# We drive cultural change at all levels



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## New management in key positions and across the entire organization



**Changes within the top 30 positions:  
34% since Jan 1, 2011, including three new board members**



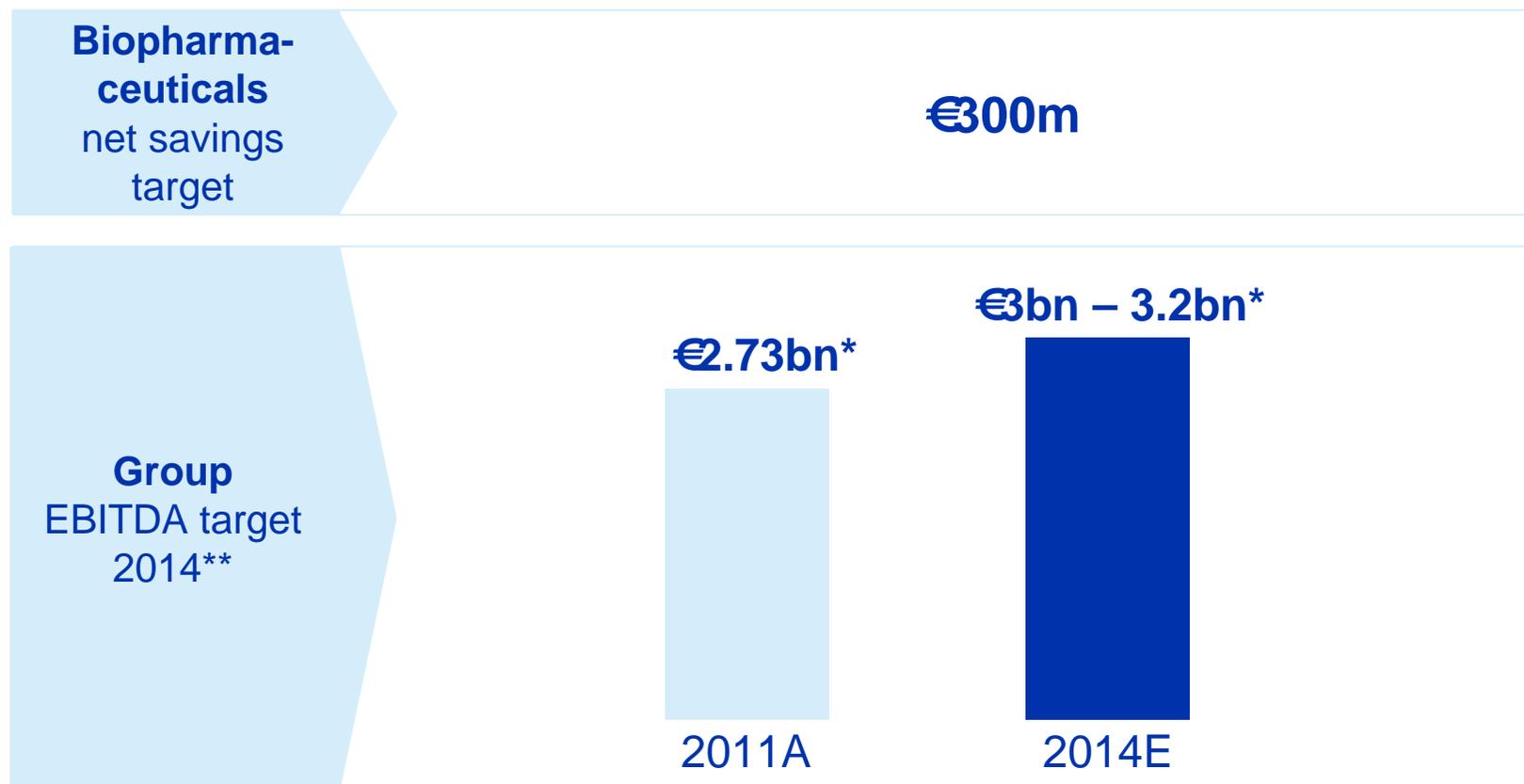
**New roles and new people to drive businesses forward**

## We have aligned our compensation system to drive cultural change

| Old plan  | New Plan  |
|---|---|
| <p data-bbox="257 550 683 598"><b>Annual Cash Bonus</b></p> <ul data-bbox="257 630 1048 989" style="list-style-type: none"><li data-bbox="257 630 1048 726">▪ Individuals measured against many KPIs</li><li data-bbox="257 758 1048 853">▪ Limited upside for individual outperformance: 0-150%</li><li data-bbox="257 885 1048 989">▪ Bonus largely driven by collective group targets</li></ul> <p data-bbox="257 1021 492 1069"><b>Stock Plan</b></p> <ul data-bbox="257 1101 1048 1141" style="list-style-type: none"><li data-bbox="257 1101 1048 1141">▪ No incentives linked to stock</li></ul> | <p data-bbox="1108 550 1534 598"><b>Annual Cash Bonus</b></p> <ul data-bbox="1108 630 1883 989" style="list-style-type: none"><li data-bbox="1108 630 1883 726">▪ Greater differentiation between over and underperformers</li><li data-bbox="1108 758 1883 853">▪ Greater upside and downside: 0-200%</li><li data-bbox="1108 885 1883 989">▪ Bonus based on individual and divisional performance</li></ul> <p data-bbox="1108 1021 1344 1069"><b>Stock Plan</b></p> <ul data-bbox="1108 1101 1883 1276" style="list-style-type: none"><li data-bbox="1108 1101 1883 1141">▪ Stock based plan</li><li data-bbox="1108 1173 1883 1276">▪ Mandatory one-time co-invest of 10% annual gross salary</li></ul> |

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# Capturing savings will enable us to deliver attractive operating profitability



\* EBITDA pre one-time items

\*\* does not reflect financial impact of new product launches in Biopharmaceuticals

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## Conclusion

1

We have built an attractive and balanced portfolio

2

We will focus until 2014 on efficiency and organic growth

3

We will not consider transformational acquisitions before 2014

4

We will foster a performance culture to drive the transformation process