



Biopharmaceuticals Investor & Analyst Day

Merck KGaA, Darmstadt, Germany –
financial perspective on value creation

Marcus Kuhnert
CFO

Merck KGaA
Darmstadt · Germany

Darmstadt, Germany – September 18, 2014



Disclaimer

Publication of Merck KGaA, Darmstadt, Germany. In the United States and Canada the subsidiaries of Merck KGaA, Darmstadt, Germany operate under the umbrella brand EMD.

To reflect such fact and to avoid any misconception of the reader of the publication certain logos, terms and business descriptions of the publication have been substituted or additional descriptions have been added. This version of the publication, therefore, slightly deviates from the otherwise identical version of the publication provided outside the United States and Canada.

Disclaimer

Remarks

All comparative figures relate to the corresponding last year's period.

Important information

This presentation does not constitute an offer of securities for sale or a solicitation of an offer to purchase securities in the United States. The shares referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent registration under the Securities Act or an available exemption from such registration.

Clinical candidates and early-stage products are currently under clinical investigation and have not been approved for use in the United States (US), Europe, Canada or elsewhere. The clinical candidates have not been proven to be safe or effective, and any claims of safety and effectiveness can be made only after regulatory review of the data and approval of the labeled claims.

Note regarding forward-looking statements

The information in this document may contain "forward-looking statements". Forward-looking statements may be identified by words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "will" or words of similar meaning and include, but are not limited to, statements about the expected future business of Merck KGaA, Darmstadt, Germany. These statements are based on the current expectations of management of Merck KGaA, Darmstadt, Germany and E. Merck KG, Darmstadt, Germany and are inherently subject to uncertainties and changes in circumstances. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in global, political, economic, business, competitive, market and regulatory forces. Merck KGaA, Darmstadt, Germany and E. Merck KG, Darmstadt, Germany do not undertake any obligation to update the content of this presentation and forward-looking statements to reflect actual results, or any change in events, conditions, assumptions or other factors.

All trademarks mentioned in the presentation are legally protected.

Agenda

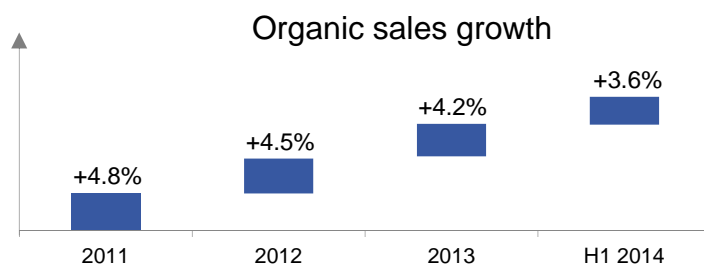
Strong value creation since 2011

The road to 2018

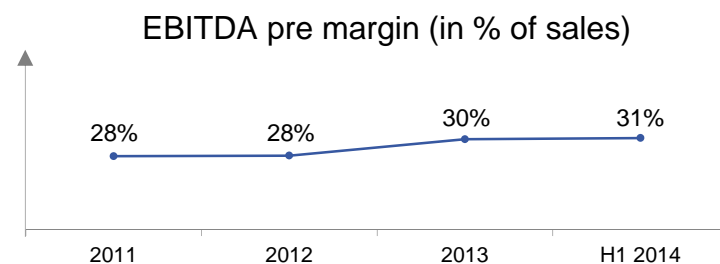
Deep dive – Biopharmaceuticals

Executive summary

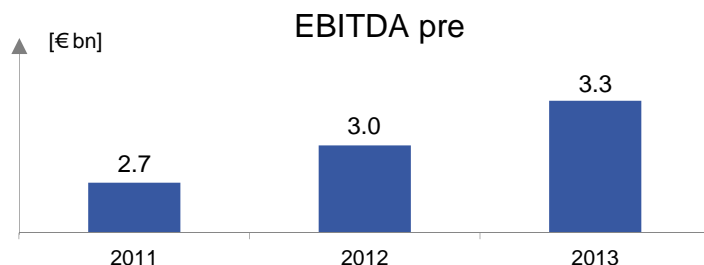
Strong increase in profitability and cash flow



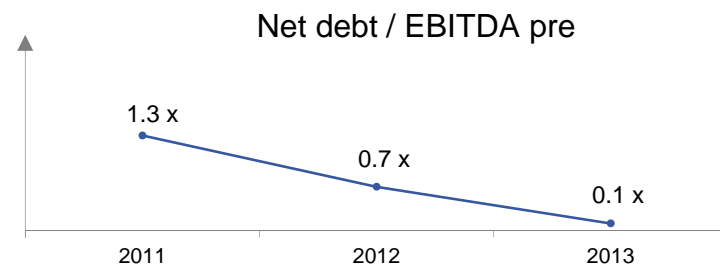
➡ Sound growth momentum in base business



➡ Profitability increase supported by efficiency program



➡ M&A and efficiency gains drive EBITDA pre progression

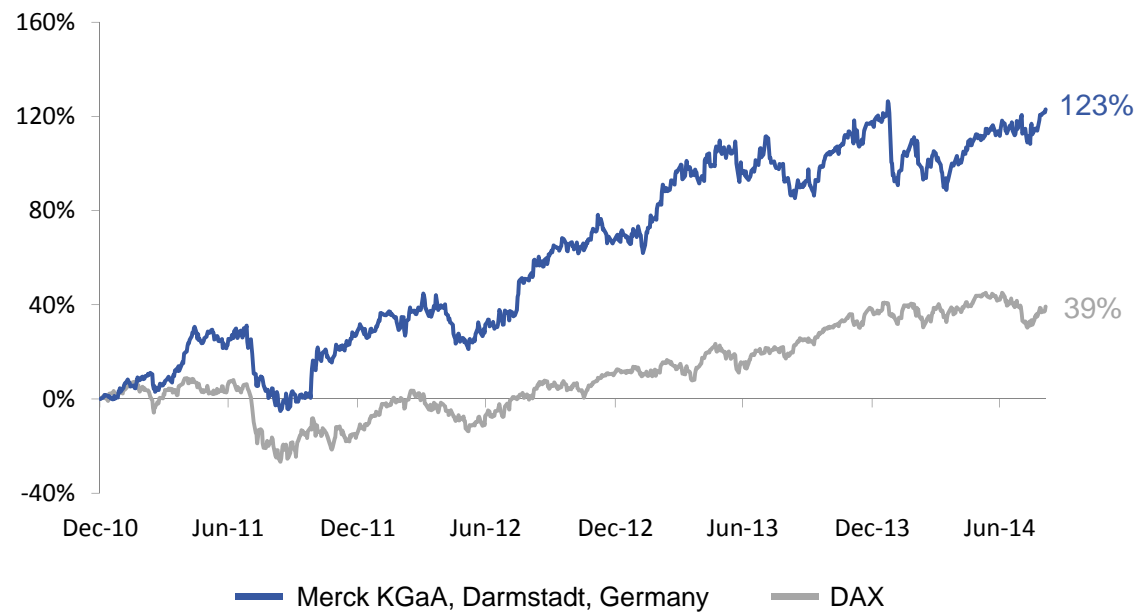


➡ Rapid deleveraging through strong cash generation

Share price development reflects good financial performance

Merck KGaA
Darmstadt · Germany

Relative share price performance versus DAX in % (2011 – Sept. 2014)



We have built a solid foundation for future growth

Merck KGaA
Darmstadt · Germany

- ▶ Consistent M&A strategy leading to an attractive portfolio
- ▶ Expanded footprint in Emerging Markets
- ▶ Good progress in cost management and restructuring
- ▶ Optimized organizational model
- ▶ Transformation of company culture on track





Agenda

Strong value creation since 2011

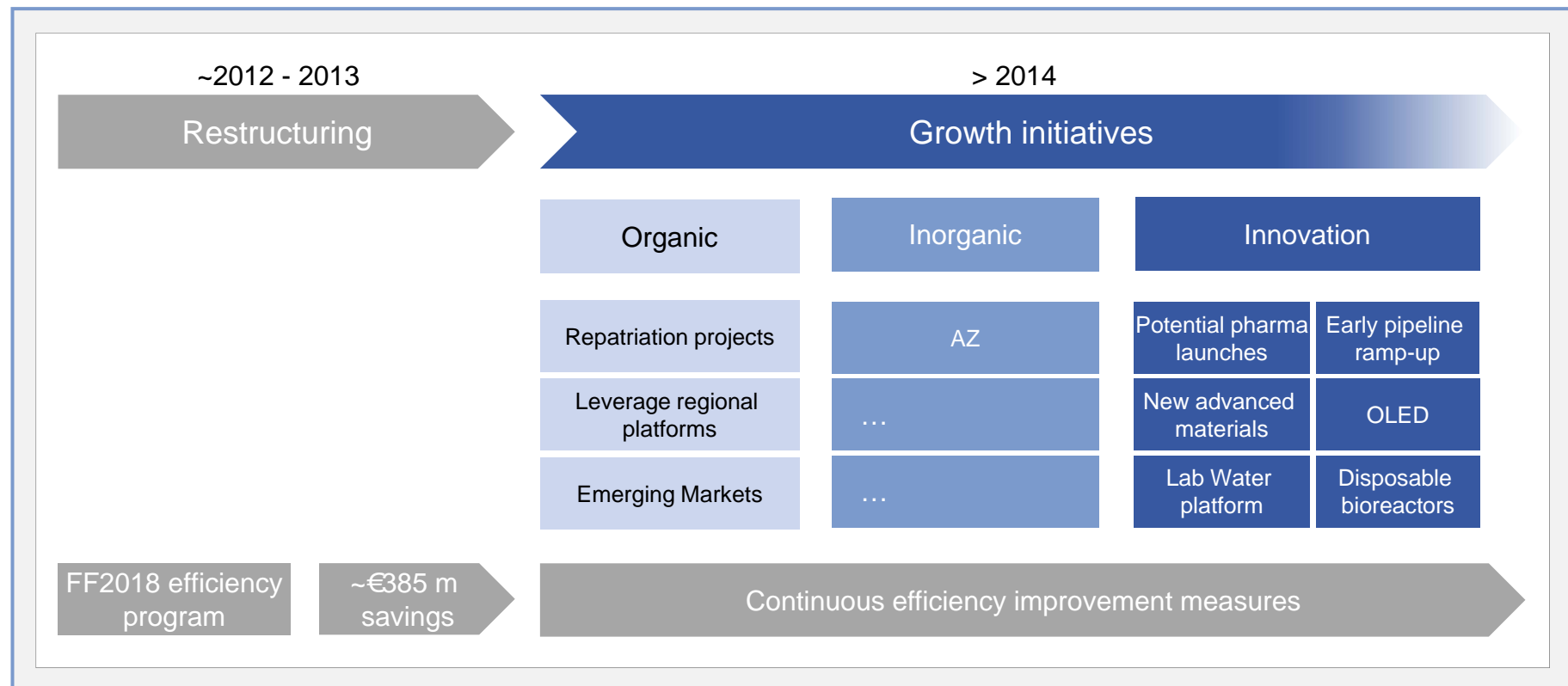
The road to 2018

Deep dive – Biopharmaceuticals

Executive summary

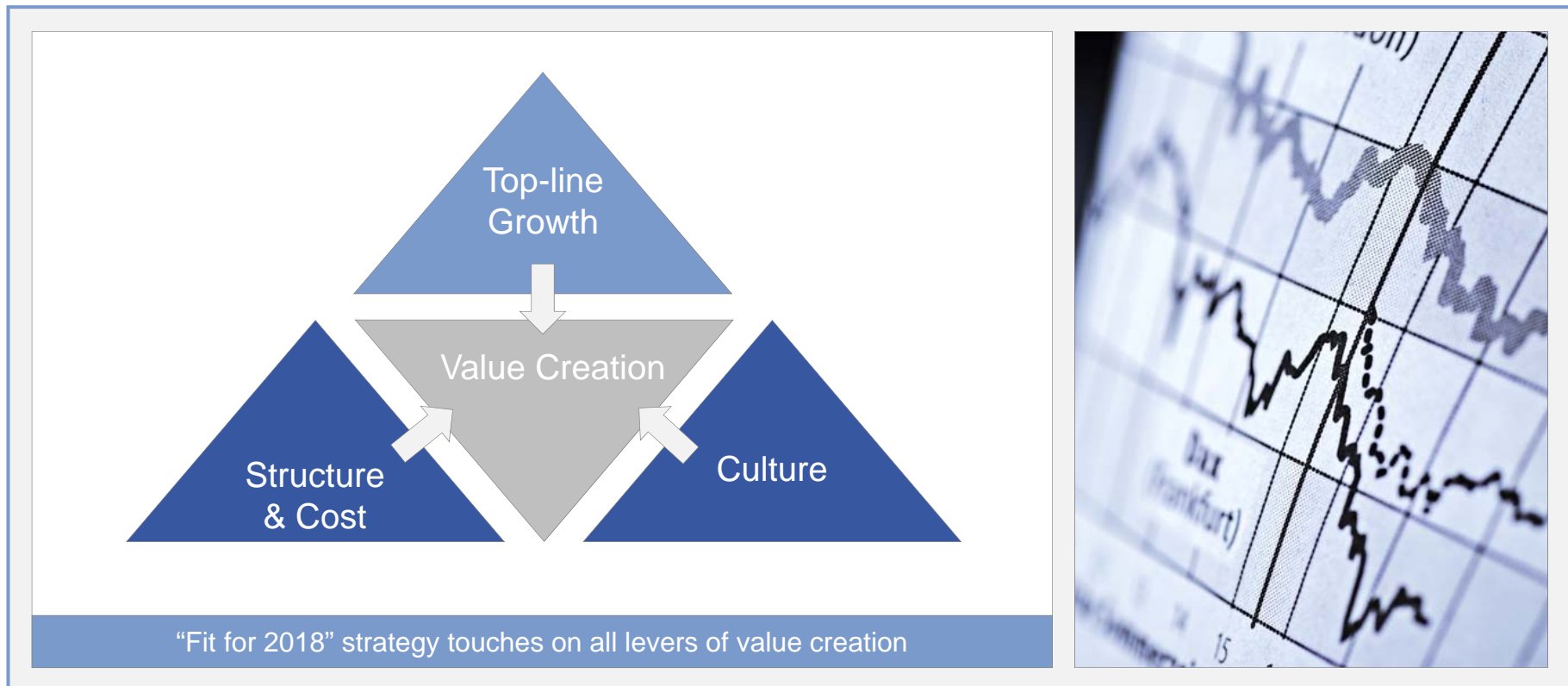
Strategic agenda beyond 2014 – Focus on growth

Merck KGaA
Darmstadt · Germany








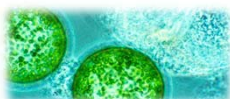




Levers of value creation

Merck KGaA
Darmstadt · Germany



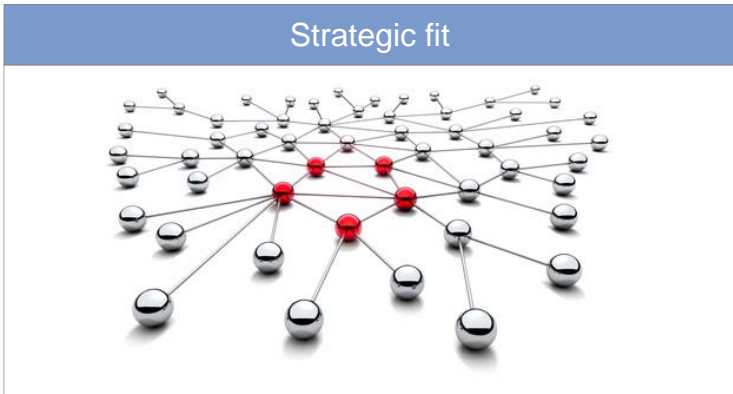

Focus on inorganic growth while sustaining organic momentum

Growth	Organic growth trend*		Inorganic perspective	
Structure & Cost	Biopharmaceuticals	 <ul style="list-style-type: none">▪ Emerging Markets growth▪ Rebid pressure▪ “Innovation” as potential upside 	<ul style="list-style-type: none">▪ Biopharma valuations very high▪ High risk from early stage and one-product calls 	
	Consumer Health	 <ul style="list-style-type: none">▪ Driven by strong brands and high EM exposure 	<ul style="list-style-type: none">▪ Focus on potential bolt-ons▪ Current transaction multiples not value accretive to our company	
	Performance Materials	 <ul style="list-style-type: none">▪ Rising demand for consumer electronics▪ Technology leadership 	<ul style="list-style-type: none">▪ First priority on integration of AZ▪ Small bolt-ons to add interesting technologies	
Culture	Life Science	 <ul style="list-style-type: none">▪ Resilient portfolio and sustainable market drivers 	<ul style="list-style-type: none">▪ Highly fragmented market with consolidation potential▪ Watch out: high valuations 	

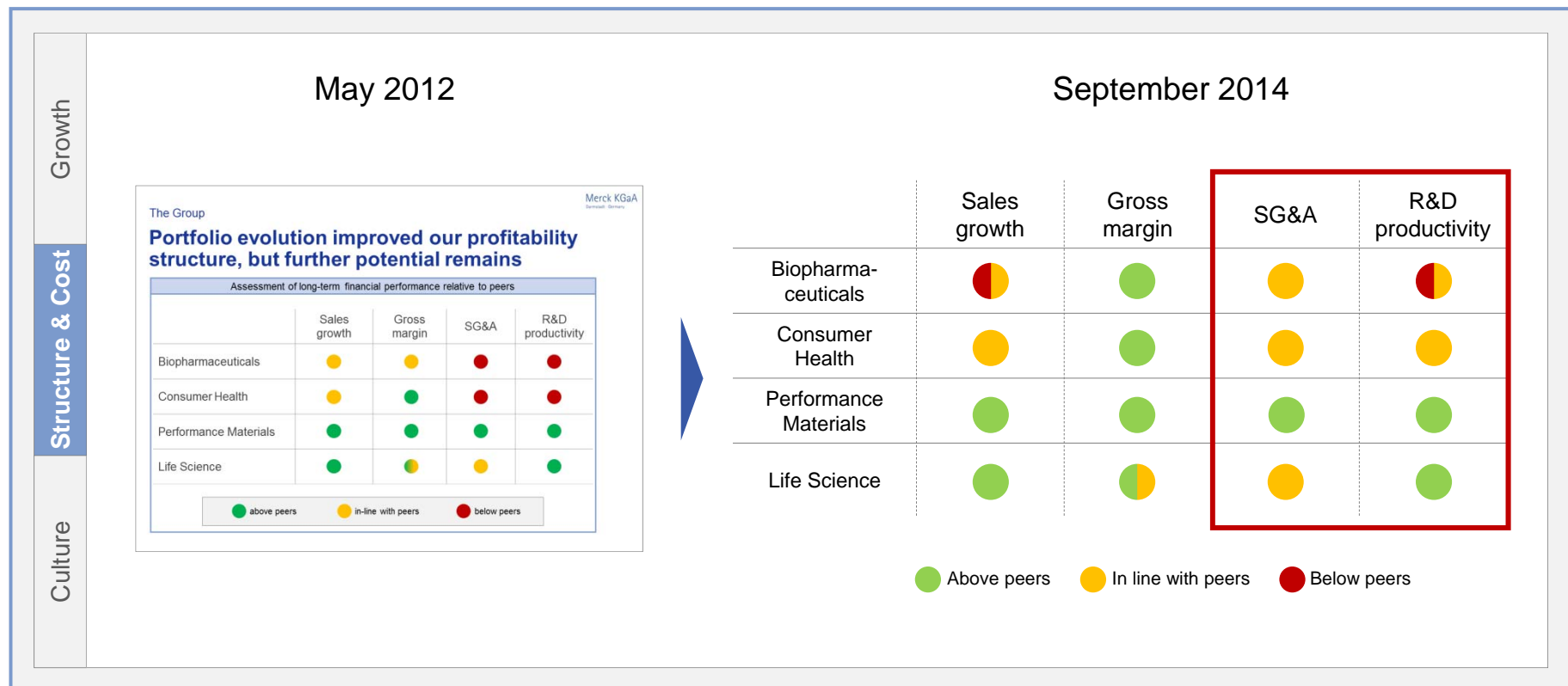
*Short to mid-term

Inorganic growth: Criteria for resource allocation

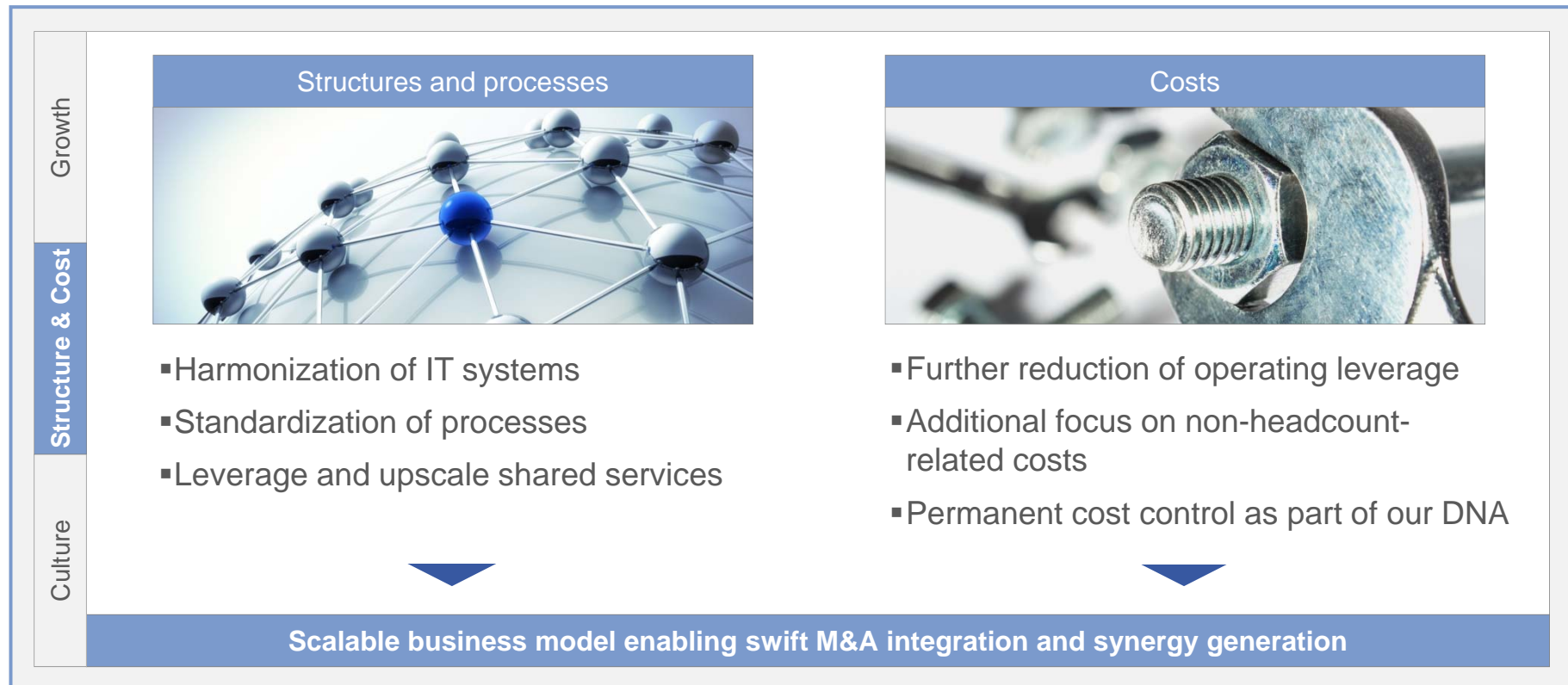
Merck KGaA
Darmstadt · Germany

Growth	Strategic fit		Financial discipline	
				
	<ul style="list-style-type: none">▪ Clear priorities linked to mid-term strategy▪ Strengthening the core business▪ Growing in attractive markets▪ Proven track record – strong ability to win		<ul style="list-style-type: none">▪ Commitment to earn cost of capital▪ Immediately EPS pre accretive▪ Preserve investment-grade rating▪ Swift deleveraging post acquisition	

Strong progress since 2012 but further room for efficiency improvements



Ongoing efficiency initiatives to reduce costs and to support our growth strategy



Foster company culture as an enabler for success

Merck KGaA
Darmstadt · Germany

Growth	Performance orientation	<ul style="list-style-type: none">▪ Setting ambitious targets▪ Holding people accountable▪ Differentiated compensation
	Strong leadership	<ul style="list-style-type: none">▪ Fair and constructive feedback culture▪ Empower teams to drive change▪ Execution-driven organization
	External focus	<ul style="list-style-type: none">▪ The “enemy” is outside!▪ Foster benchmarking▪ Continue open and transparent communication
Structure & Cost		
Culture		



Agenda

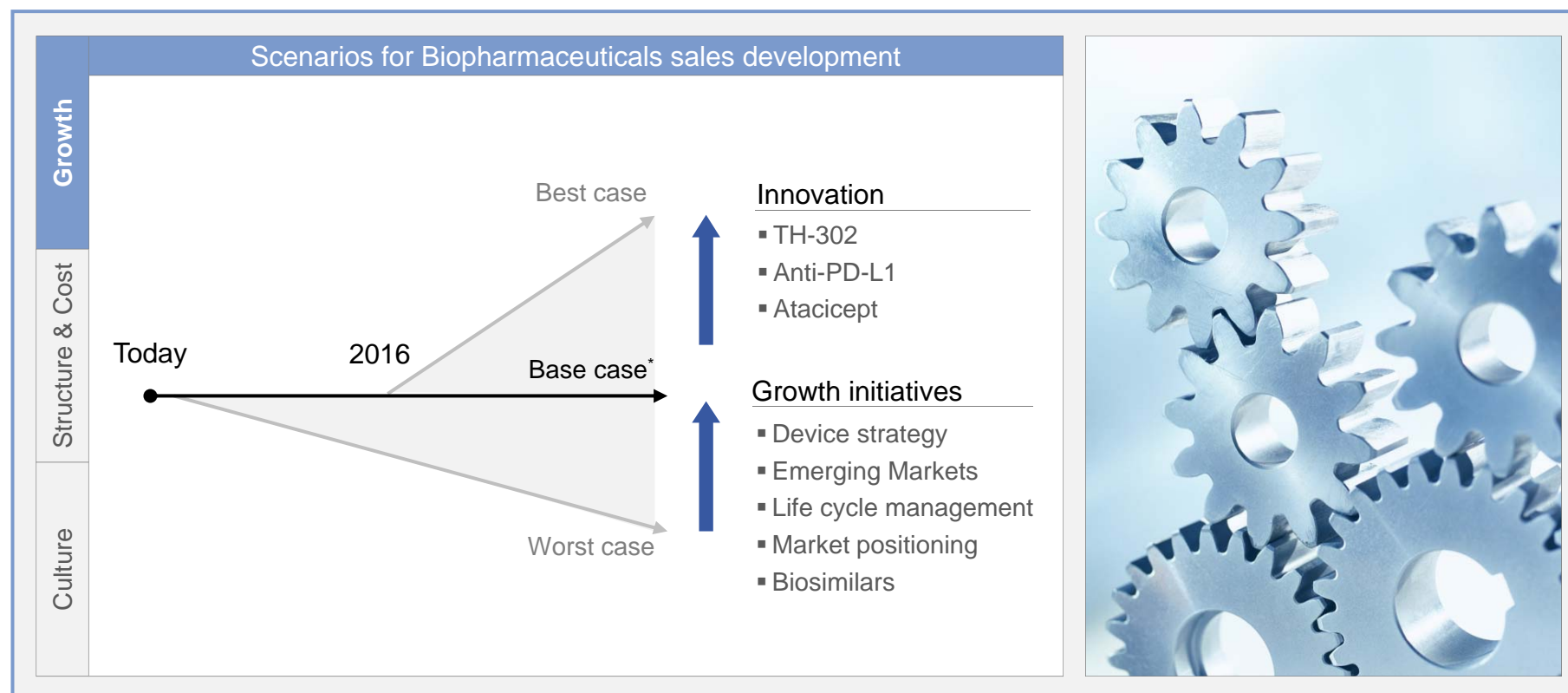
Strong value creation since 2011

The road to 2018

Deep dive – Biopharmaceuticals

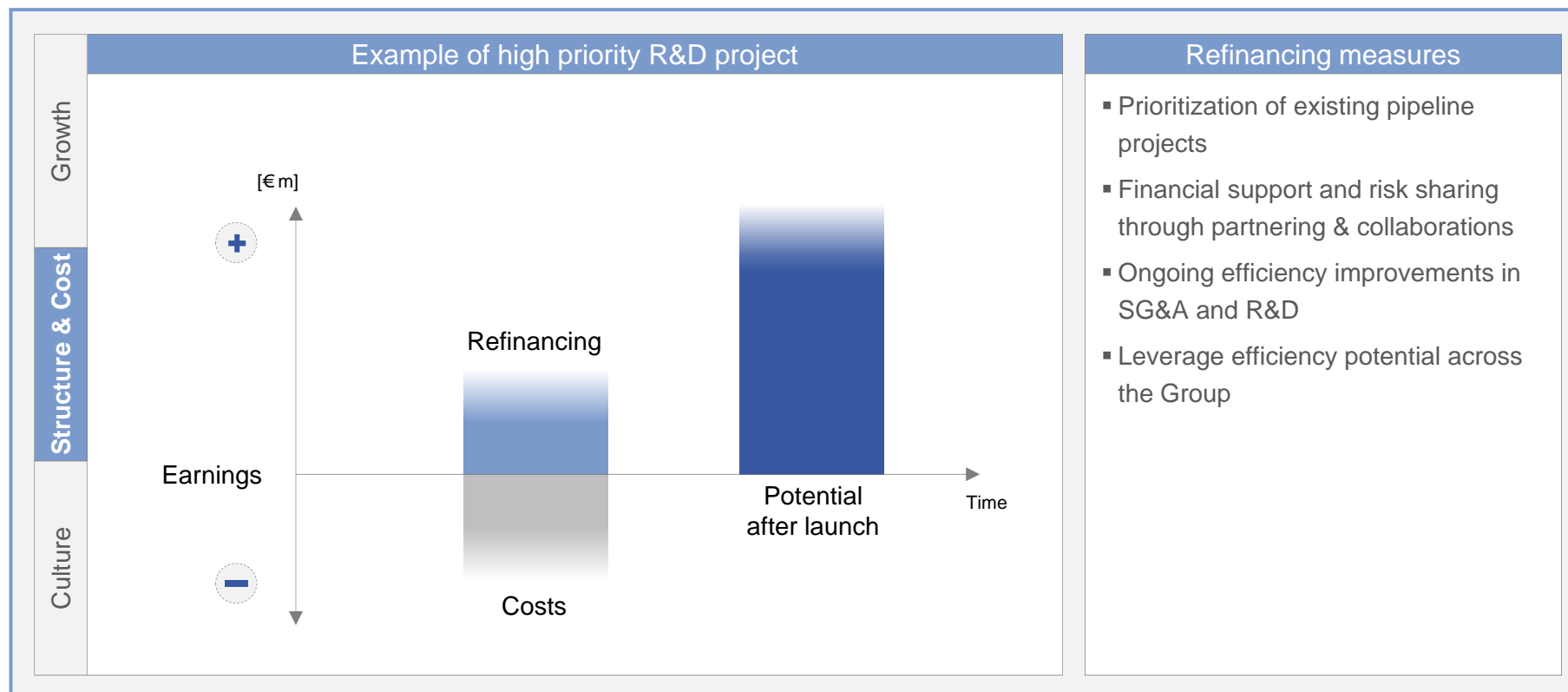
Executive summary

Growth initiatives will balance rising Rebif pressure – ‘Innovation projects’ provide upside potential



Illustration; * without pipeline contribution



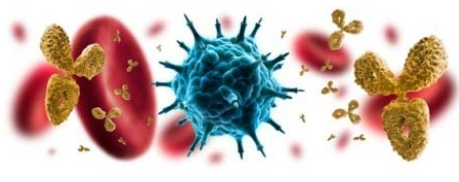



Cost discipline: R&D investments for promising innovation projects will not visibly impact bottom line



Illustration

Portfolio management: Differentiating across diverse business models

Merck KGaA
Darmstadt · Germany

Structure & Cost	Growth		
	General Medicine portfolio	Biologicals portfolio	Oncology & Immunology innovation portfolio
	 <ul style="list-style-type: none"> ▪ Limited risk with high cash generation ▪ Sustainable steady growth fueled by Emerging Markets 	 <ul style="list-style-type: none"> ▪ Moderate risk and reward profile ▪ Economies of scale due to state-of-the-art production capabilities ▪ Emerging Markets gain importance 	 <ul style="list-style-type: none"> ▪ High reward at high risk ▪ Innovation key success factor – high R&D spend ▪ Promising pipeline projects
Culture			
Mid-term, all parts of the portfolio need to earn their cost of capital			

Agenda

Strong value creation since 2011

The road to 2018

Deep dive – Biopharmaceuticals

Executive summary

Executive summary

Growth

Shift focus to acquisitions – strategic fit and financial discipline are key

Ongoing efficiencies

Lay the foundation for profitable growth and support M&A readiness and generation of synergies

Cultural change

Continue the way towards a performance-oriented culture

Priorities & Timing

There is no long term without a short term – promise and deliver!

Growth is main lever for value creation supported by efficiencies & culture



Merck KGaA

Darmstadt · Germany

Back-up information

Share price development reflects good financial performance, outpacing DAX and EU pharma peers

