

Delivering on Efficiency to Create Value

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Merck KGaA

Darmstadt · Germany



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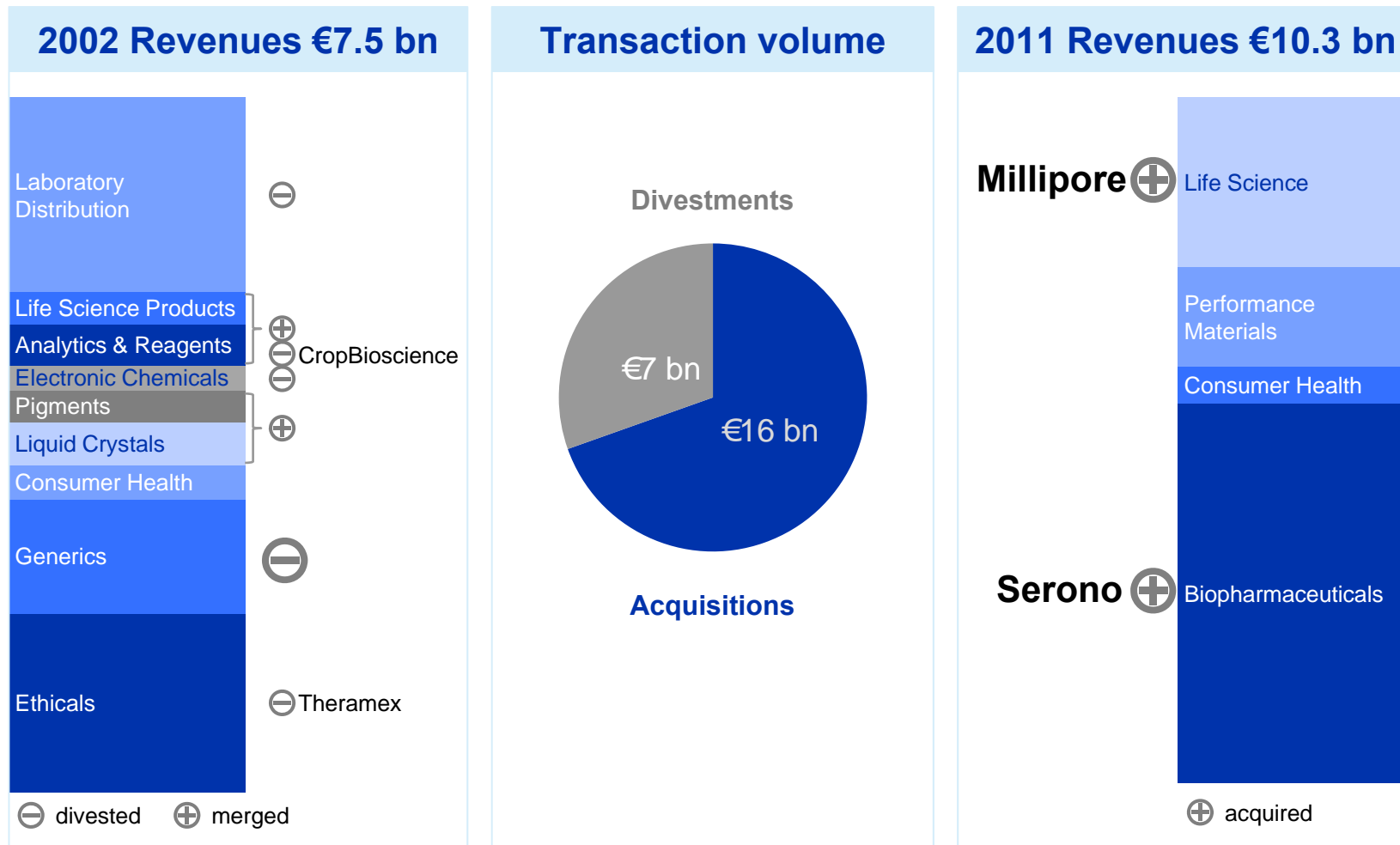
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Agenda

- 1. Company Overview**
2. Biopharmaceuticals strengths and revenue trends
3. Transforming Biopharmaceuticals
4. Conclusion and summary

The Group

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



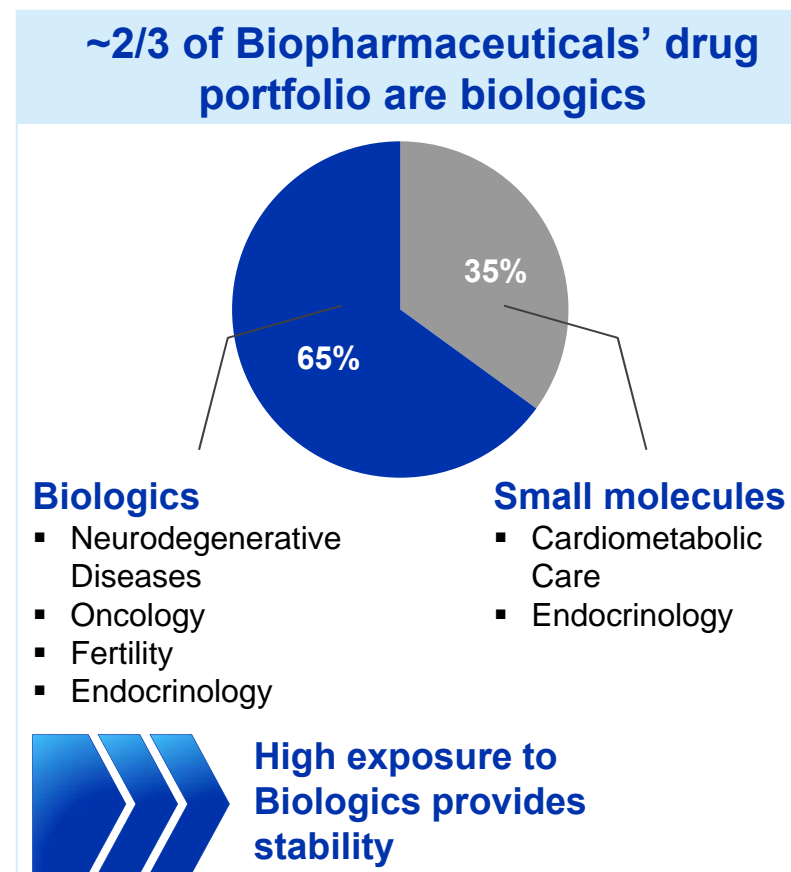
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Biopharmaceuticals

Biopharmaceuticals has many operational strengths

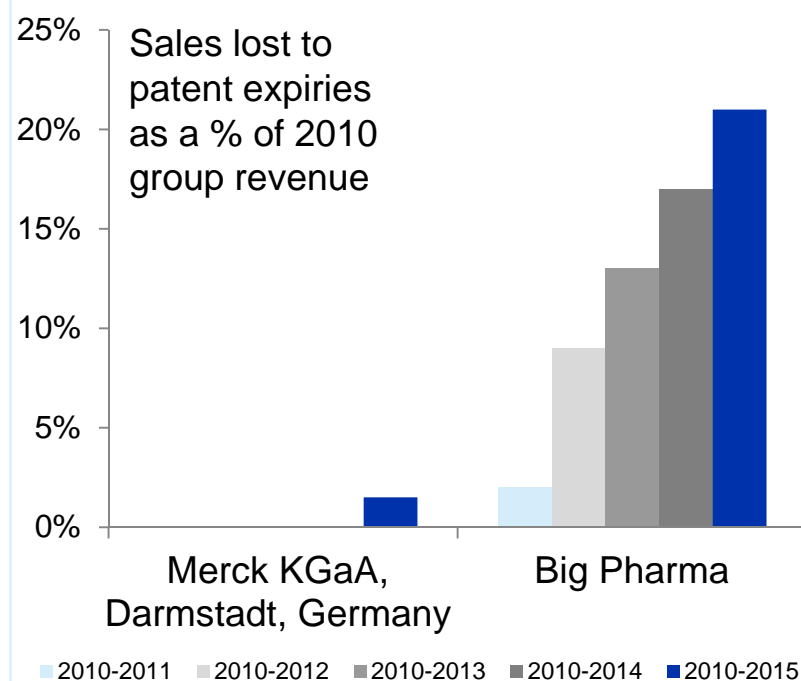
- Leadership positions and attractive franchises
- High exposure to biologic drugs
- Well-established products and brands in key areas and markets
- Global footprint - high percentage of revenues derived from emerging markets positively benefits overall growth profile



Biopharmaceuticals

Lack of patent cliff provides resiliency to revenue streams

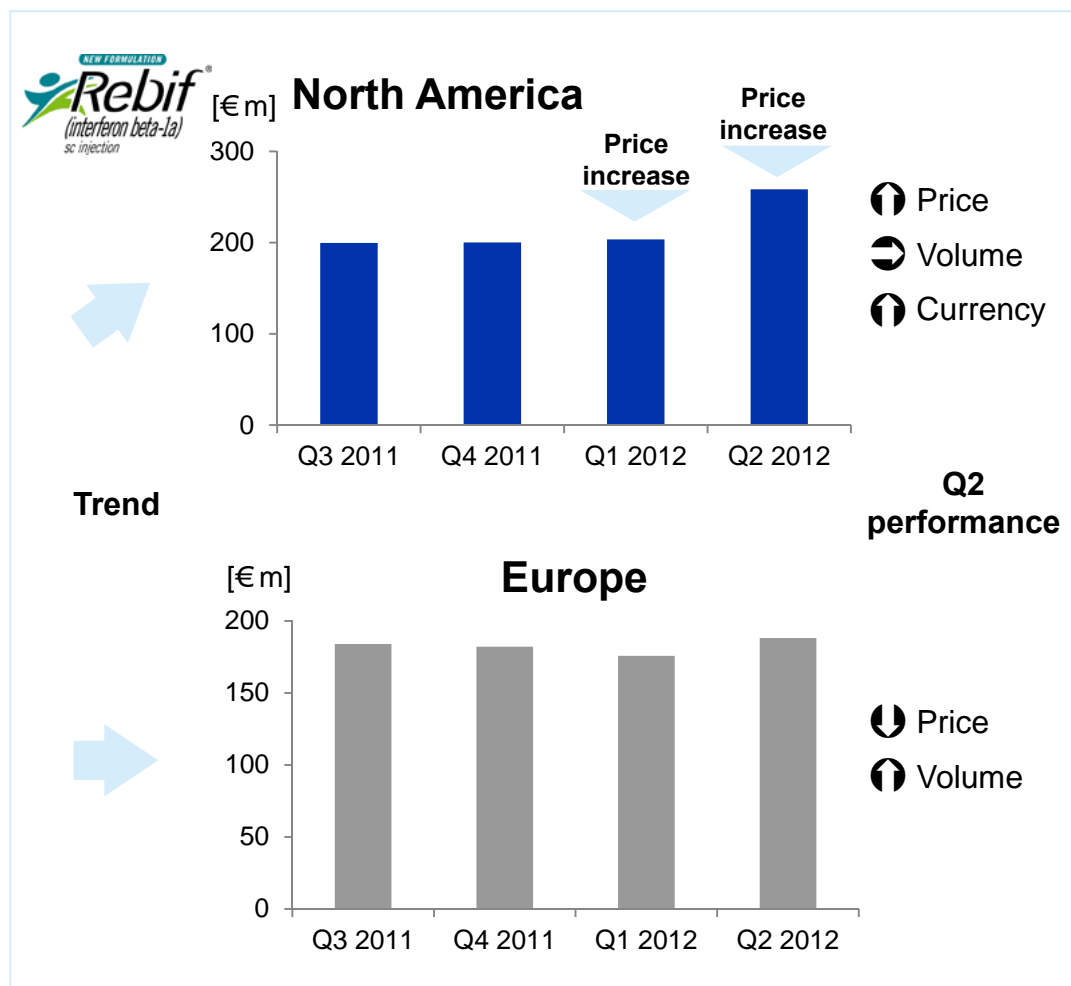
Significantly less exposure to patent cliff compared to industry



- Key products protected for next three years - patent expiries:
 - Rebif
 - First formulation: EU 2015, US 2022
 - HSA-free* formulation: patent application pending; tentative expiry date 2024 (US, EU)
 - Erbitux
 - Data exclusivity: EU 2014, Japan 2016 (Post Marketing Surveillance)
 - Gonal-f
 - EU 2009, USA 2015
- Strong brands such as Gonal-f provide additional protection

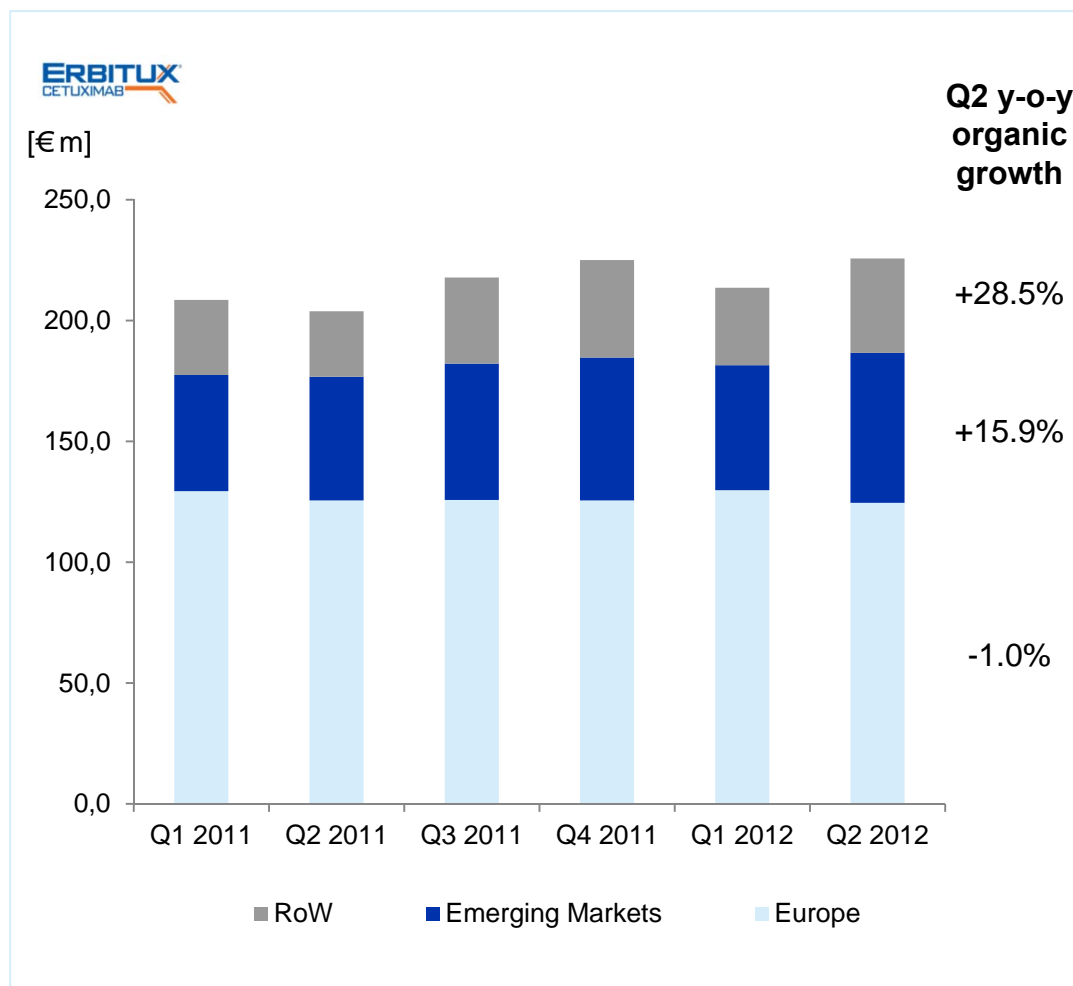
Source: Sell-side research on Merck KGaA, Darmstadt, Germany, June 23, 2011; corporate reports; Big Pharma incl. AstraZeneca, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Merck & Co., Pfizer, Roche, Sanofi
*human serum albumin - free

Growth in the United States drives overall sales



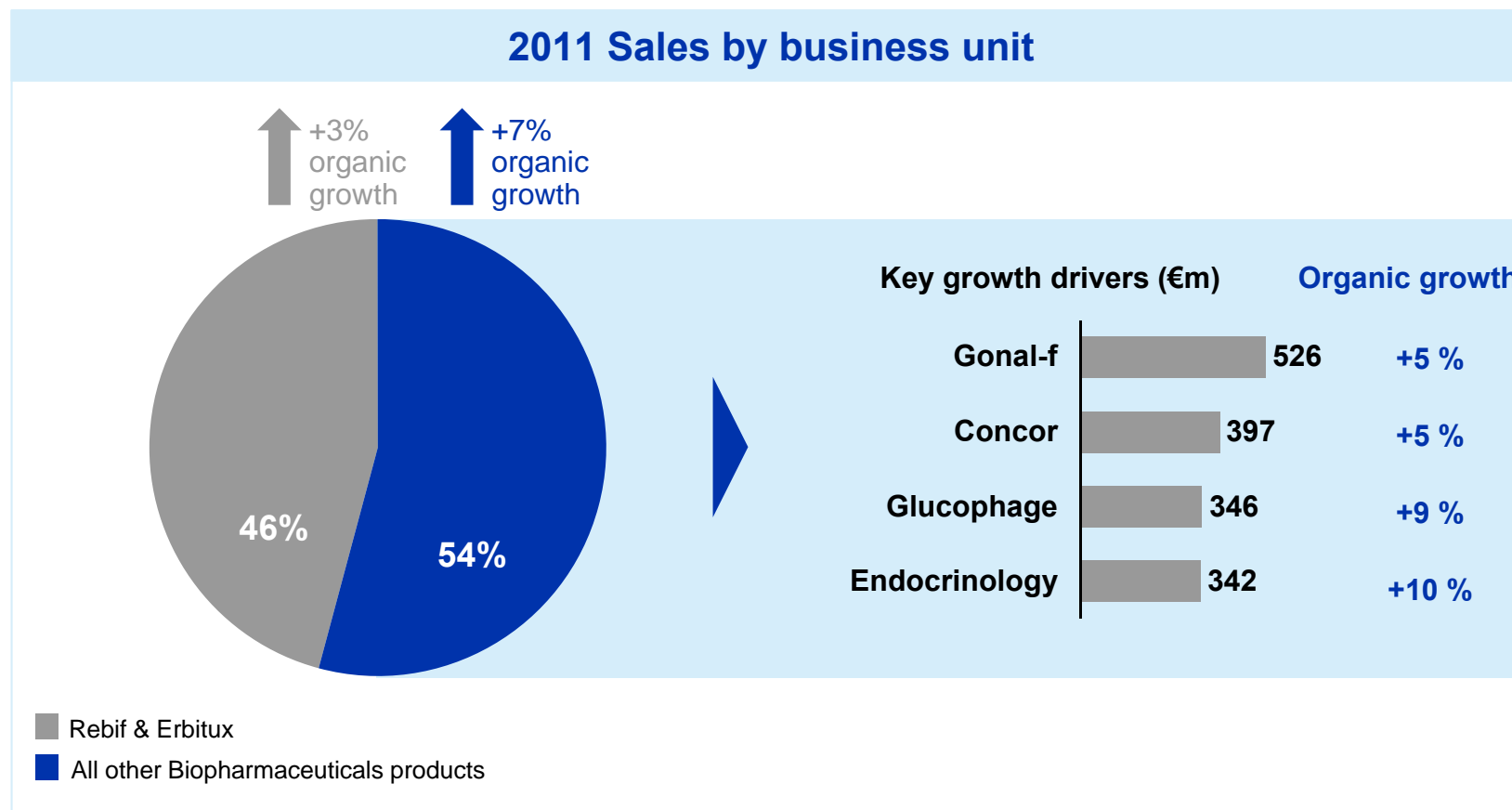
- Global sales of €922 m in H1 2012 (+6 % organic)
- Strong performance in US
 - Market shares stabilizing
- Sales in Europe slightly declining
 - Pricing pressures partly off-set by volume increase
- Growth 2012E: ~3 % organic sales growth

Emerging Markets strong, European sales weaker due to scale-down in Southern EU



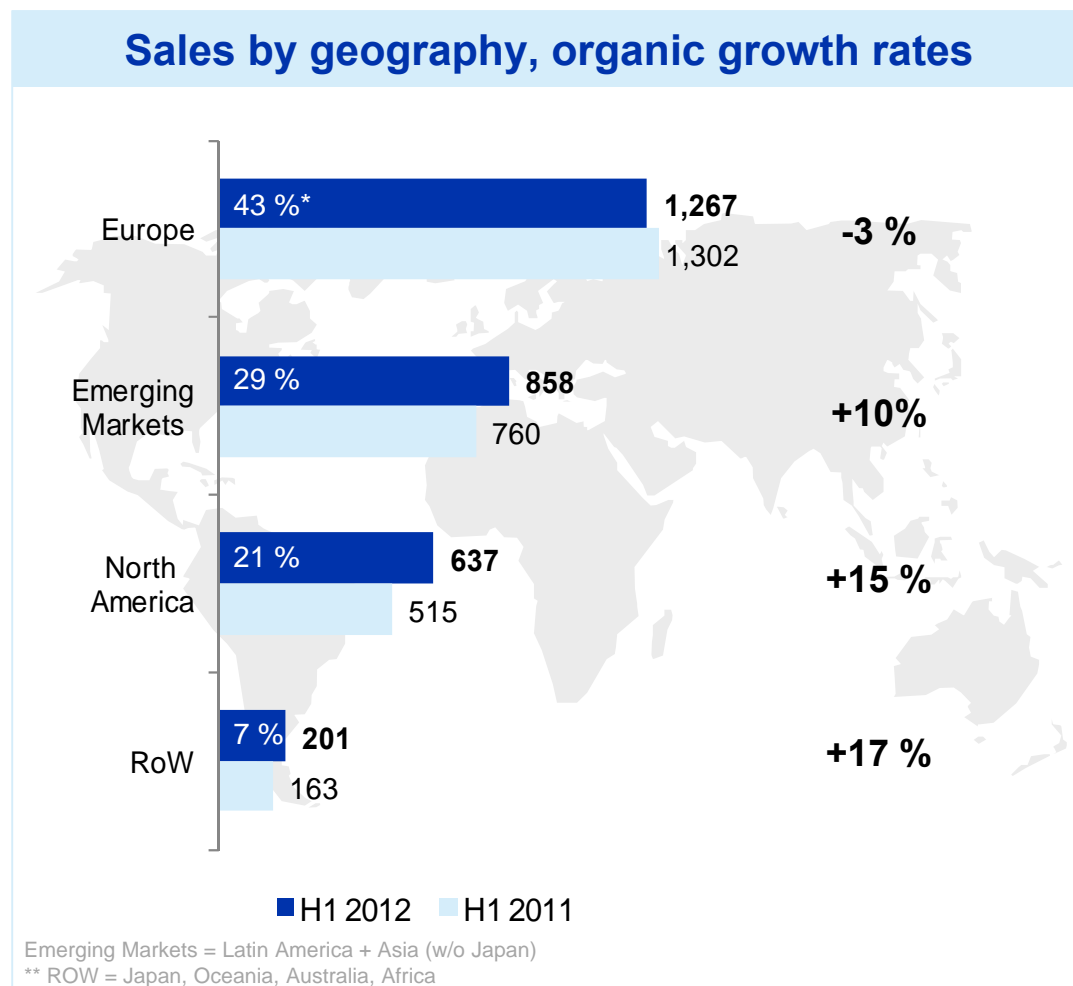
- Global sales of €439 m in H1 2012 (+4 % organic)
- Patient shares above 50% in KRAS wt mCRC and SCCHN in key EU markets
- Growth 2012E: 1 – 4 % organic growth
- Filing for approval of Erbitux in head and neck cancer accepted for priority review in Japan

Over half of our portfolio is generating strong performance and will continue to grow



We have good assets that will continue to grow

Emerging Markets is an increasing share of our sales and will drive attractive growth



- **Emerging Markets**, mainly driven by Fertility and CMC/GM franchises
- **North America** benefitting especially from price increases in US
- More than off-setting ongoing price erosion in **Europe**, triggered by general austerity measures and tighter budget control

* Percentage of total sales

Good underlying business momentum

[€ m]	H1 2012	H1 2011	Δ
Sales	2,964	2,740	8%
EBITDA	632	742	-15%
One-time items	201	26	
EBITDA pre	833	768	8%
<i>% of sales</i>	<i>28.1%</i>	<i>28.0%</i>	

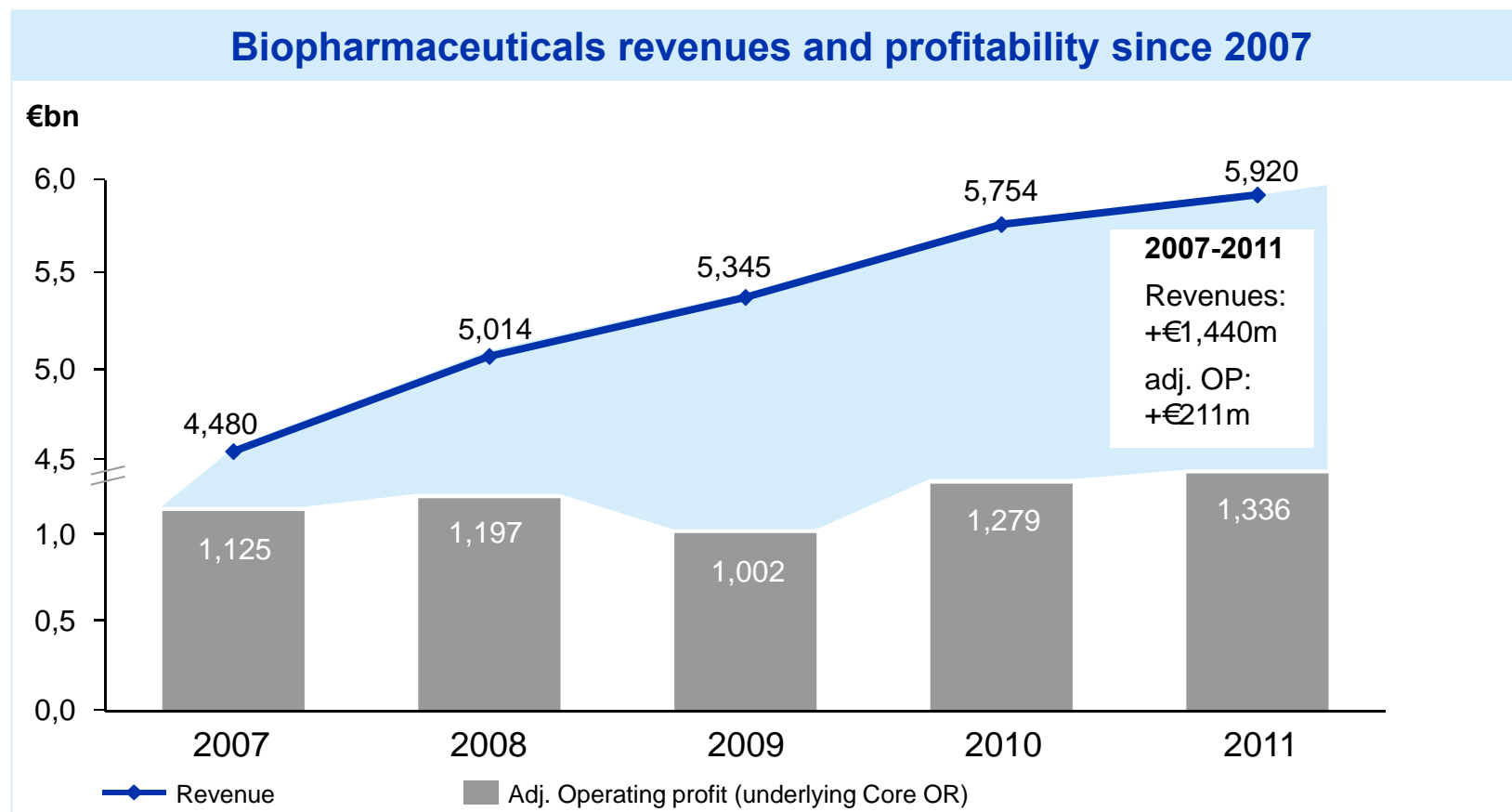
- Healthy organic sales growth (+5%)
- Reported EBITDA affected by restructuring costs
- EBITDA pre growth spurred by
 - Tight control of marketing and selling spending
 - Controlled spending in R&D
- Efficiency gains yet to come

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Biopharmaceuticals

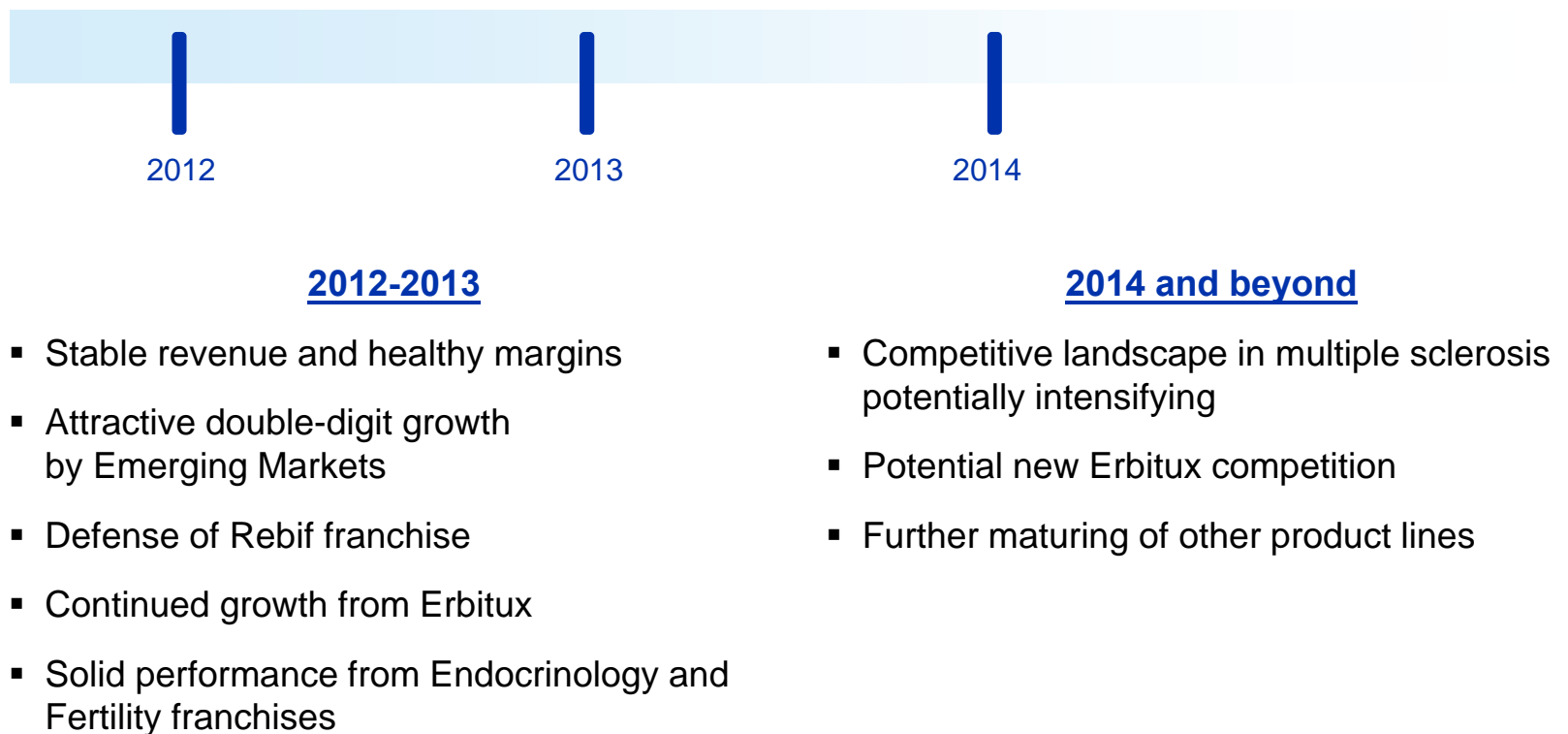
Our ability to drive improved profitability is critical to ensure our future competitiveness



Lack of effective operating leverage despite good top-line growth

Biopharmaceuticals

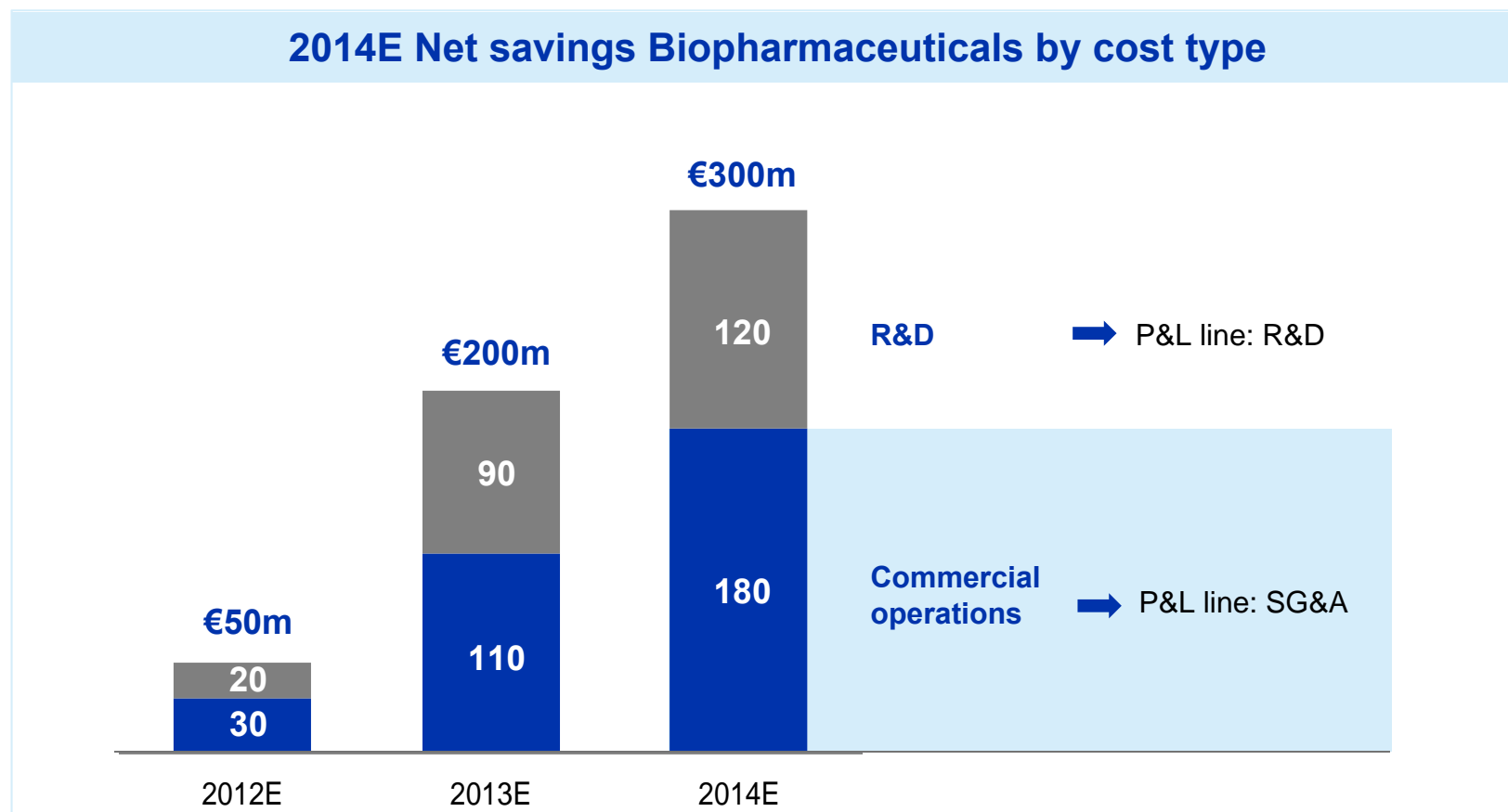
We have a sense of urgency to deliver on efficiency



We have a two year window to deliver on efficiency

Biopharmaceuticals

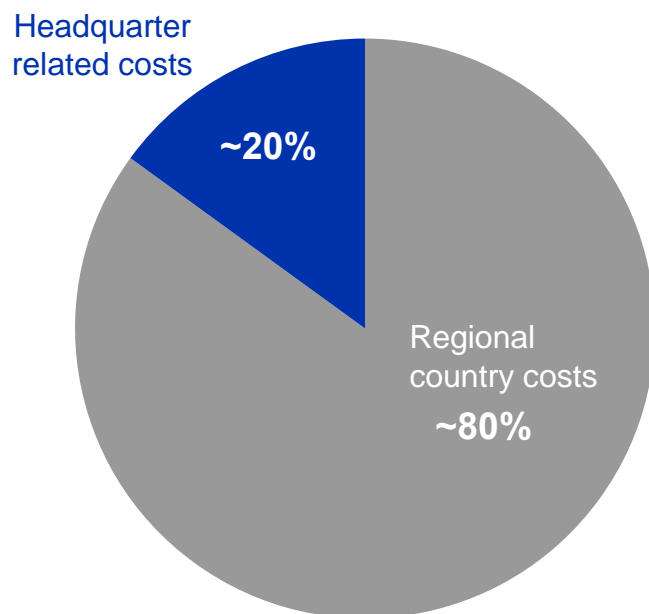
Breakdown of Biopharmaceuticals net cost savings through 2014



€300 m of net cost savings by 2014

Commercial operations will drive ~60% of Biopharmaceuticals' net cost savings

2014E Net savings in SG&A split into:



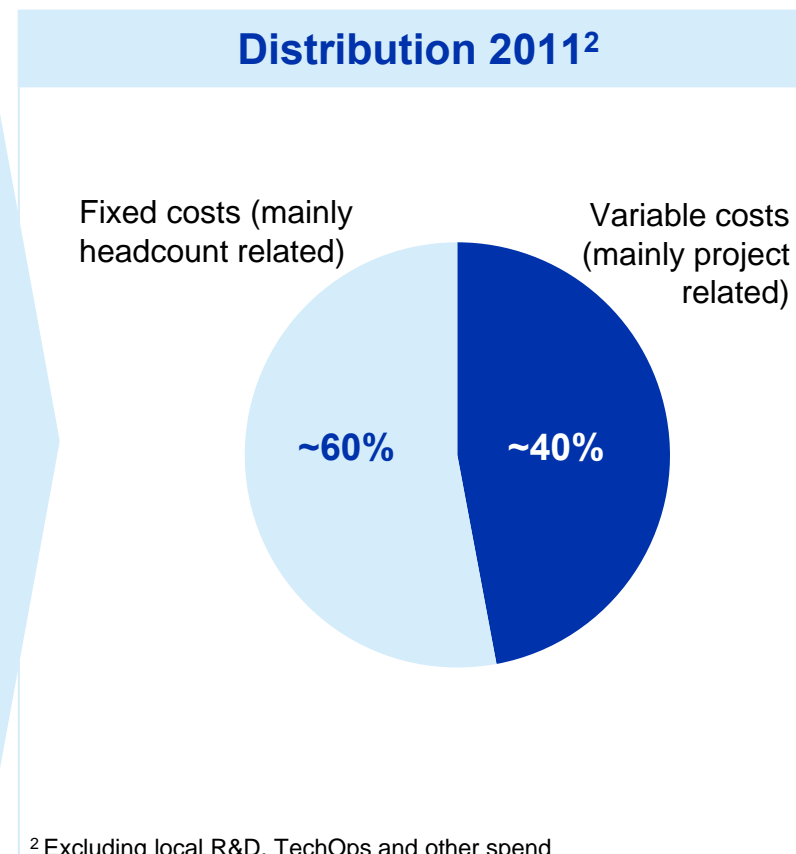
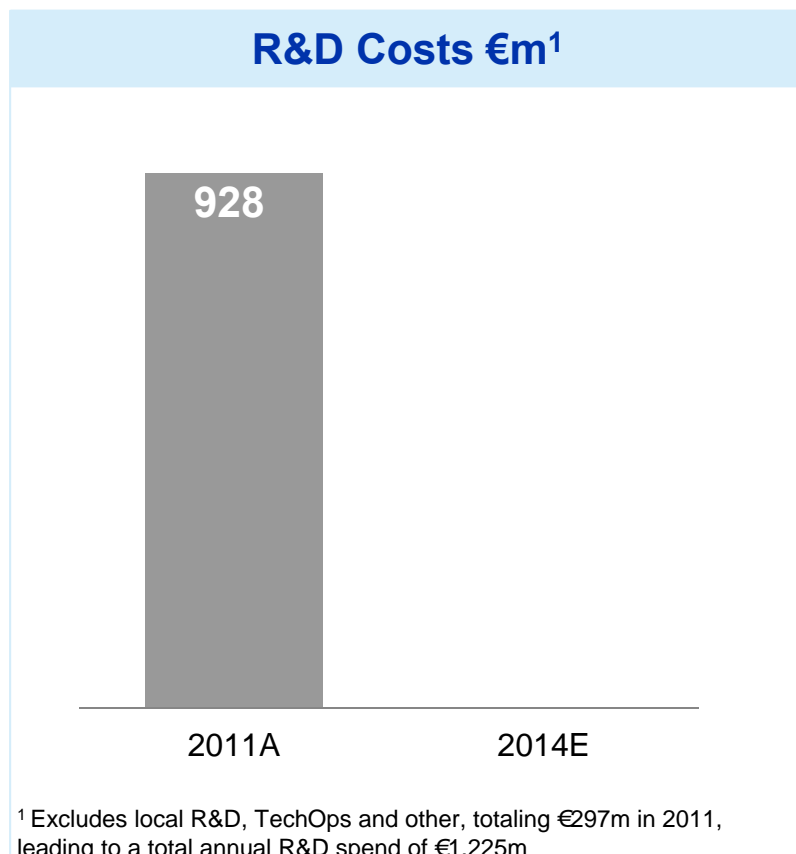
Cost savings in commercial operations:

- Trim headquarter costs
- Eliminate double functions across the whole organization
- Downsize resources in administration and marketing along with the globalization of the organization
- Ensure appropriate levels of customer facing contacts



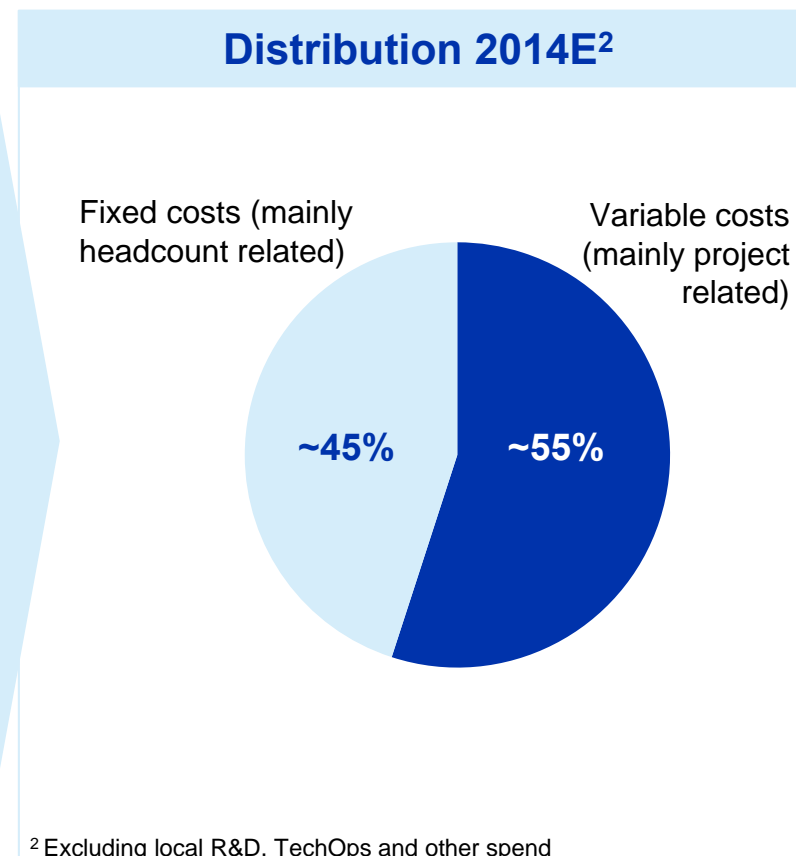
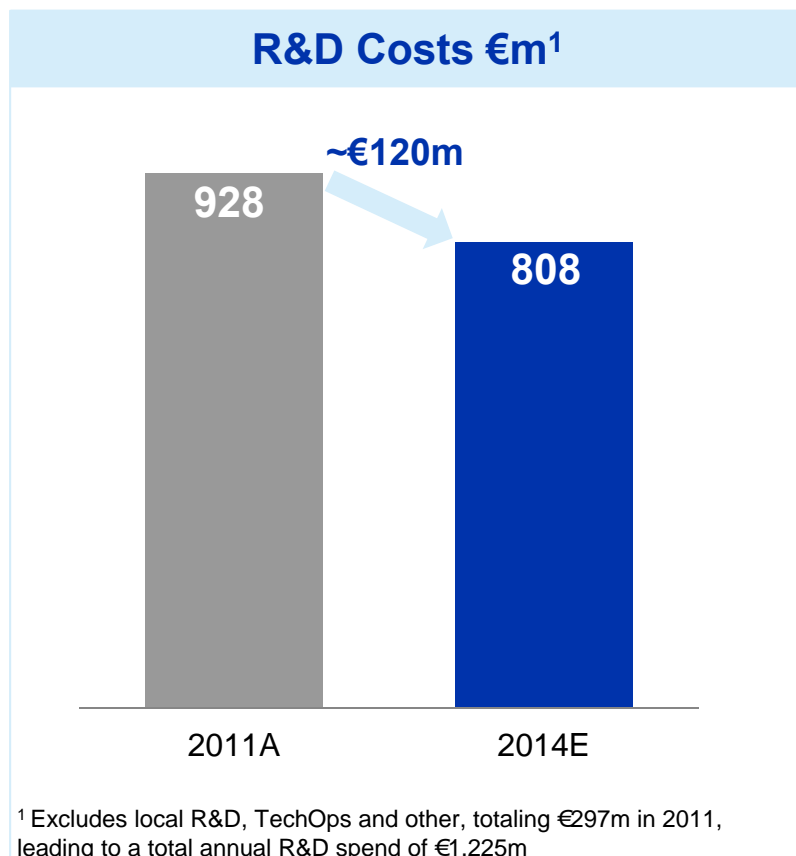
€180 m of cost savings from Commercial Operations by 2014

We plan to deliver increased output with substantially fewer R&D personnel



Headcount decrease drives fixed cost base reduction

We plan to deliver increased output with substantially fewer R&D personnel



Headcount decrease drives fixed cost base reduction

Biopharmaceuticals - Pipeline

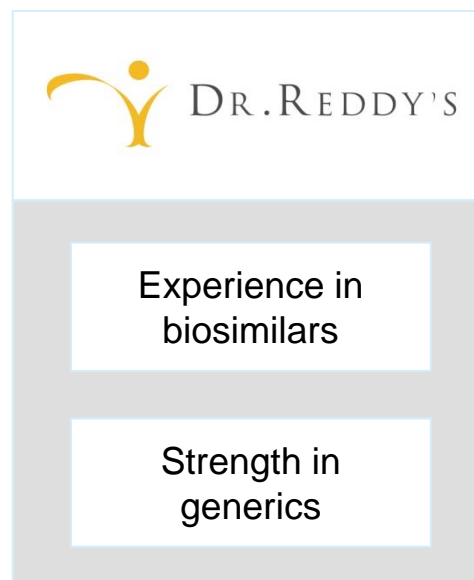
We have begun the process of rebuilding our pipeline also through partnering activities

Phase I	Phase II	Phase III		
TH-302 (cancer)			<ul style="list-style-type: none"> Renewed in-licensing activity following the arrival of new Biopharmaceuticals management Interested in predominantly phase I/II projects, also niche indications that are less attractive to big pharma Biopharmaceuticals offers strong expertise, particular in neurology and oncology Flexible approach to collaboration details Recent deals with Ono Pharmaceuticals, Threshold Pharmaceuticals and Symphogen 	
Pimasertib (cancer)	Sym 004 (SCCHN)			
Pimasertib/PI3K (cancer)	Sym 004 (mCRC)			
MEK Inhibitor (cancer)	TH-302 (PC)			
c-Met KI (cancer)	Pimasertib (PC)			
NHS-IL 12 (cancer)	Cilengitide (NSCLC)			
PI-2301 (MS)	DI17E6 (mCRC)			
Fc-IFNbeta (MS)	DI17E6 (mCRPC)	TH-302 (STS)		
IFNbeta XR (MS)	ONO-4641 (MS)	Stimuvax (NSCLC)		
ATX-MS-1467 (MS)	Atacept (SLE)	Cilengitide (GBM)		
Sprifermin (OA)	Sprifermin (CIR)	Kuvan (PKU ped.)		
				<ul style="list-style-type: none"> recently in-licensed existing portfolio



Pipeline has further improved, but significant work remains

Alliance with Dr. Reddy's: entering growing biosimilars market

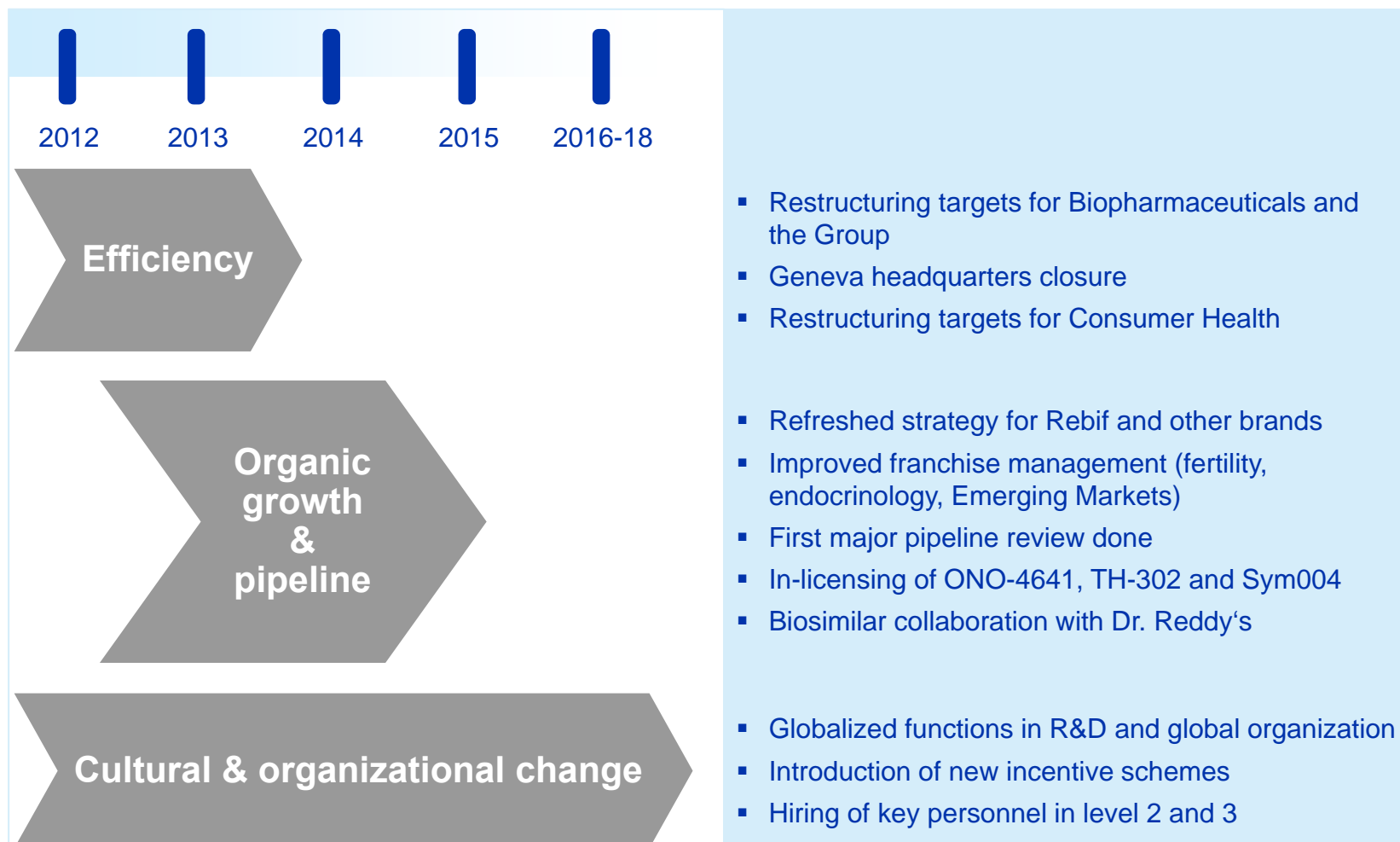


Creation of a powerful biosimilars platform

- Rationale:**
- Biosimilars market is attractive
 - Focus on monoclonal antibodies in oncology
 - Co-development agreement of Biopharmaceuticals and Dr. Reddy's
 - Co-promotion rights in US and global marketing rights ex-US
 - Dr. Reddy's responsible for Phase I, Biopharmaceuticals for Phase III in manufacturing
 - Our biopharma expertise and emerging market set-up combined with a strong generics player experienced in biosimilars

Restructuring update

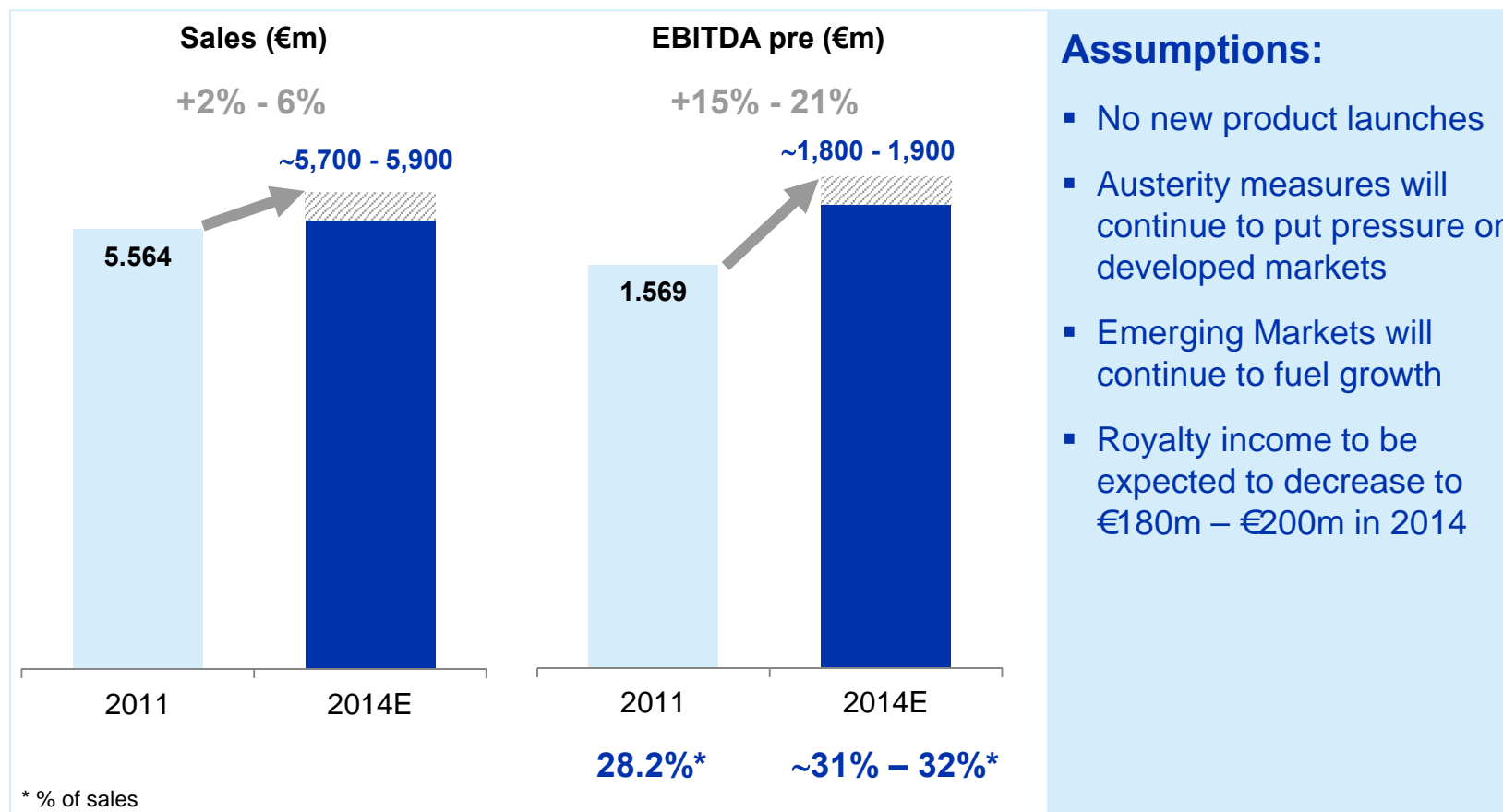
We have made significant progress in implementing efficiency measures



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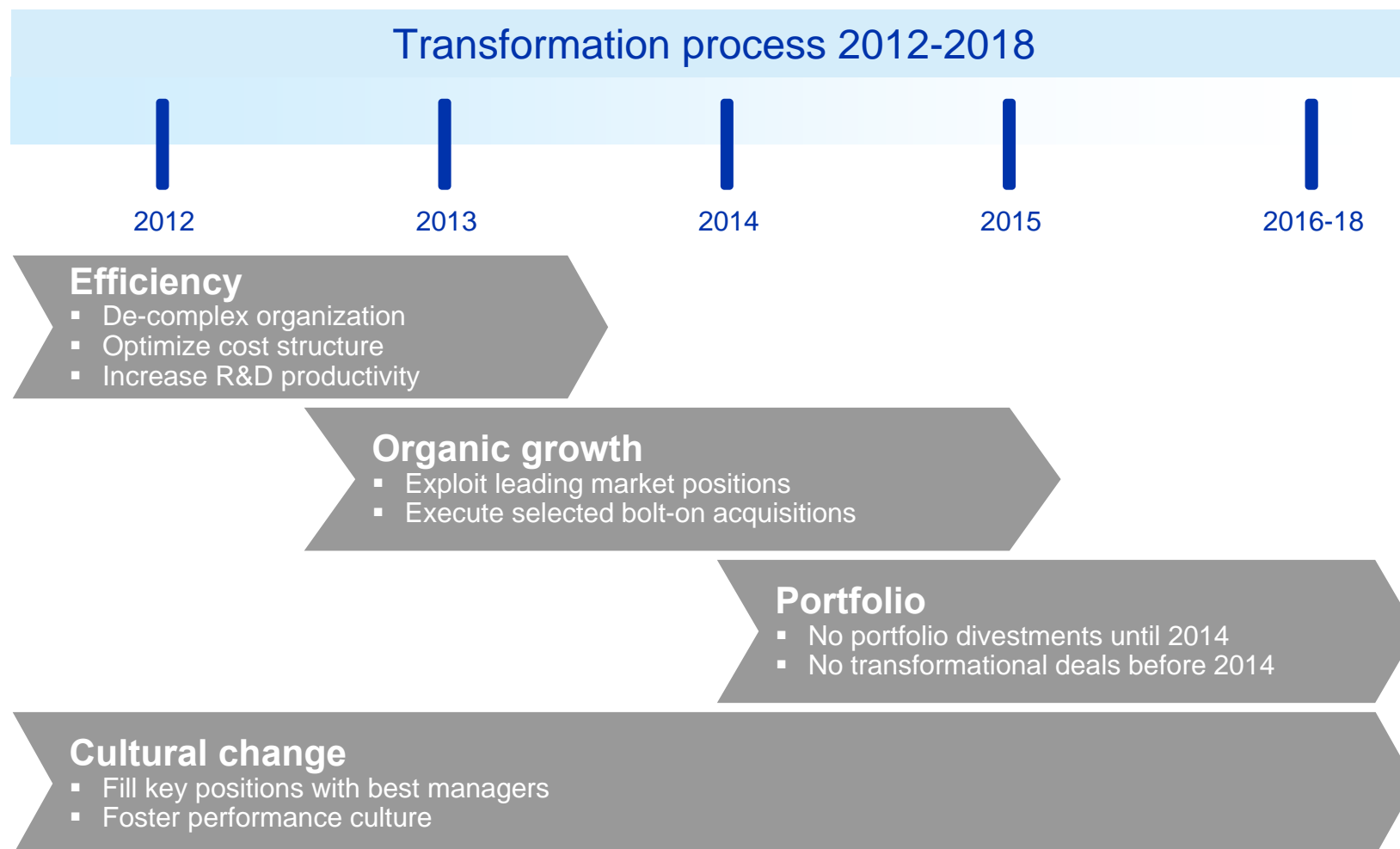
Biopharmaceuticals mid-term financial targets



Cost savings will fundamentally improve profitability

The Group

We now focus on efficiency



Conclusion

1 We are launching a major restructuring to improve our productivity

2 We will deliver on our savings and profitability targets

3 We are rebuilding our pipeline and we are off to a good start

4 We will create value through efficiency and additional value could be created from new product launches