

# Merck KGaA, Darmstadt, Germany - Cheuvreux German Corporate Conference

Matthias Zachert

Chief Financial Officer

Frankfurt, January 21, 2013

Merck KGaA  
Darmstadt · Germany



**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.

## 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 resulting from the proposed transaction. 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 factors relating to satisfaction of the conditions to the proposed transaction, and 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

- **Business overview and strategy recap**
- Financial overview
- Guidance

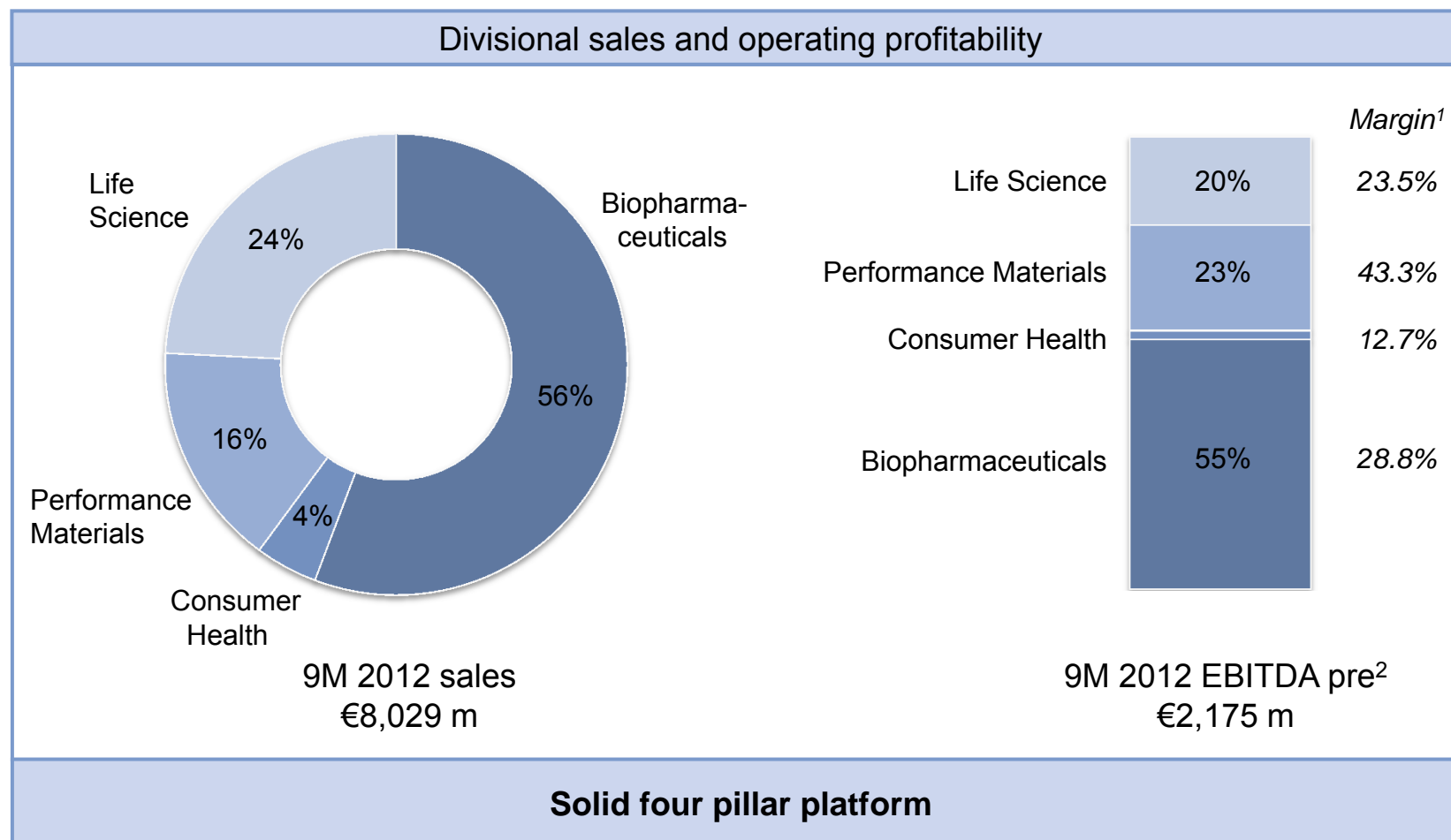
The Group

# Balanced portfolio of four divisions

Merck KGaA, Darmstadt, Germany			
Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
 <p>Leading in certain specialty pharma markets</p>	 <p>Present in OTC niche markets</p>	 <p>No. 1 in display materials</p>	 <p>Top 3 in life science tools</p>
<ul style="list-style-type: none"> <li>▪ Life cycle management</li> <li>▪ Biologics</li> <li>▪ Emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Vitamins</li> <li>▪ Supplements</li> <li>▪ Strong presence in Latin America and Europe</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customer intimacy</li> <li>▪ Innovation power</li> <li>▪ Cost and technology leadership</li> </ul>	<ul style="list-style-type: none"> <li>▪ Global presence</li> <li>▪ Innovation</li> <li>▪ End-to-end solutions for pharma industry</li> </ul>

The Group

# Strong businesses with attractive margins

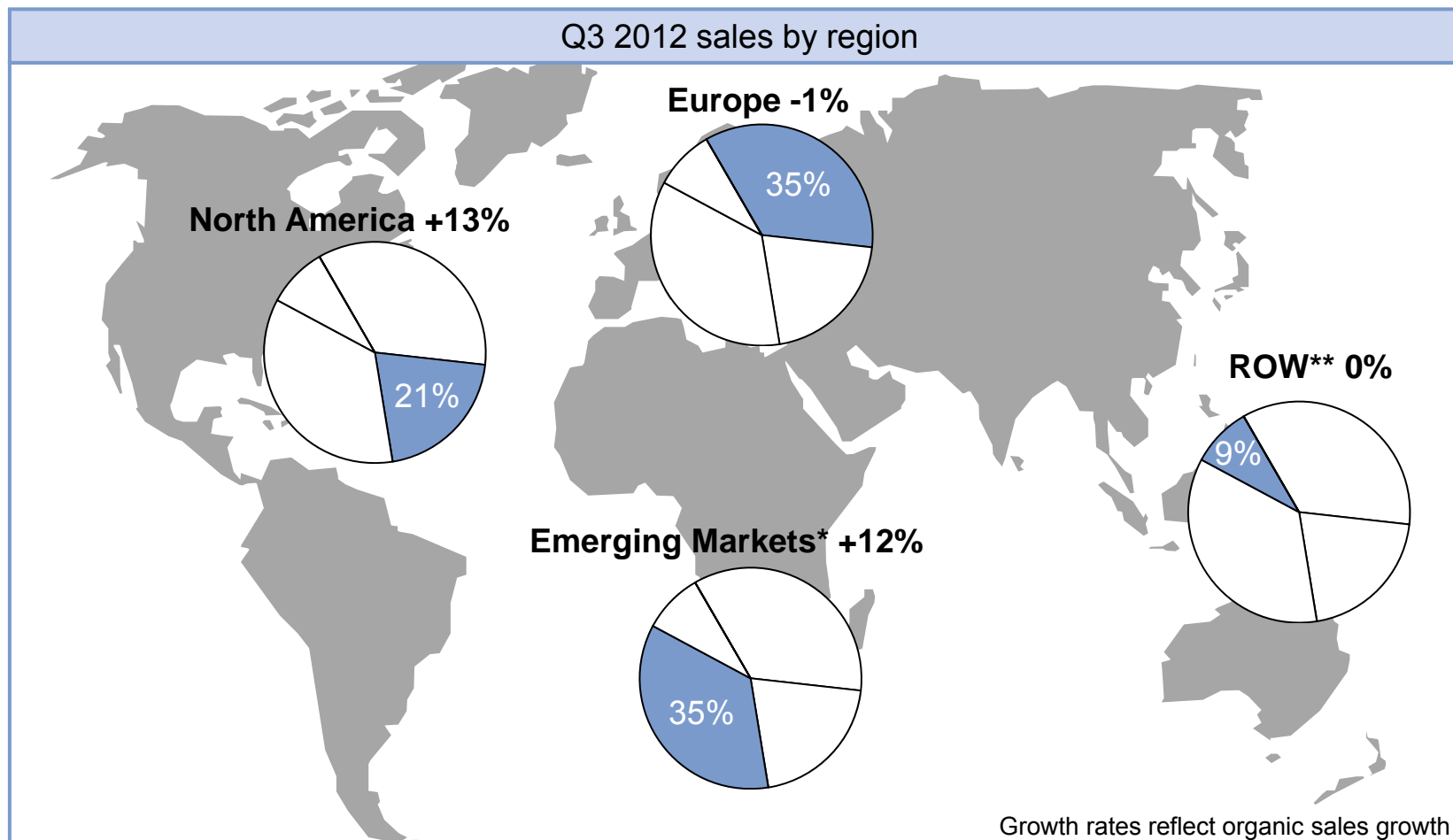


<sup>1</sup> EBITDA pre one-time items as % of sales

<sup>2</sup> Including Corporate and Others (- € 161 million)

The Group

## Q3: North America strong, Emerging Markets now surpasses Europe in absolute sales

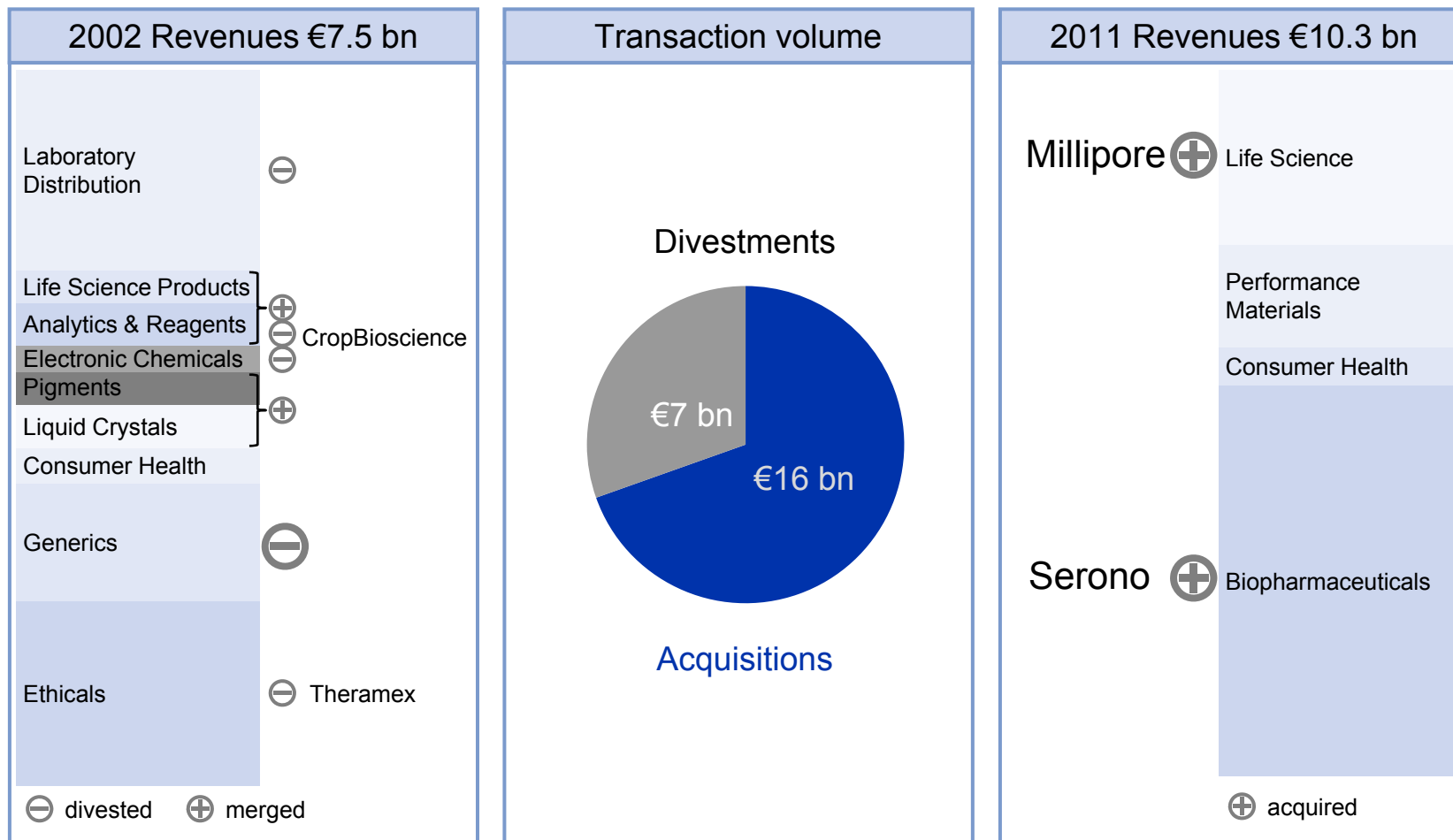


\* Emerging Markets = Latin America + Asia (w/o Japan)

\*\* ROW = Japan, Oceania, Australia, Africa

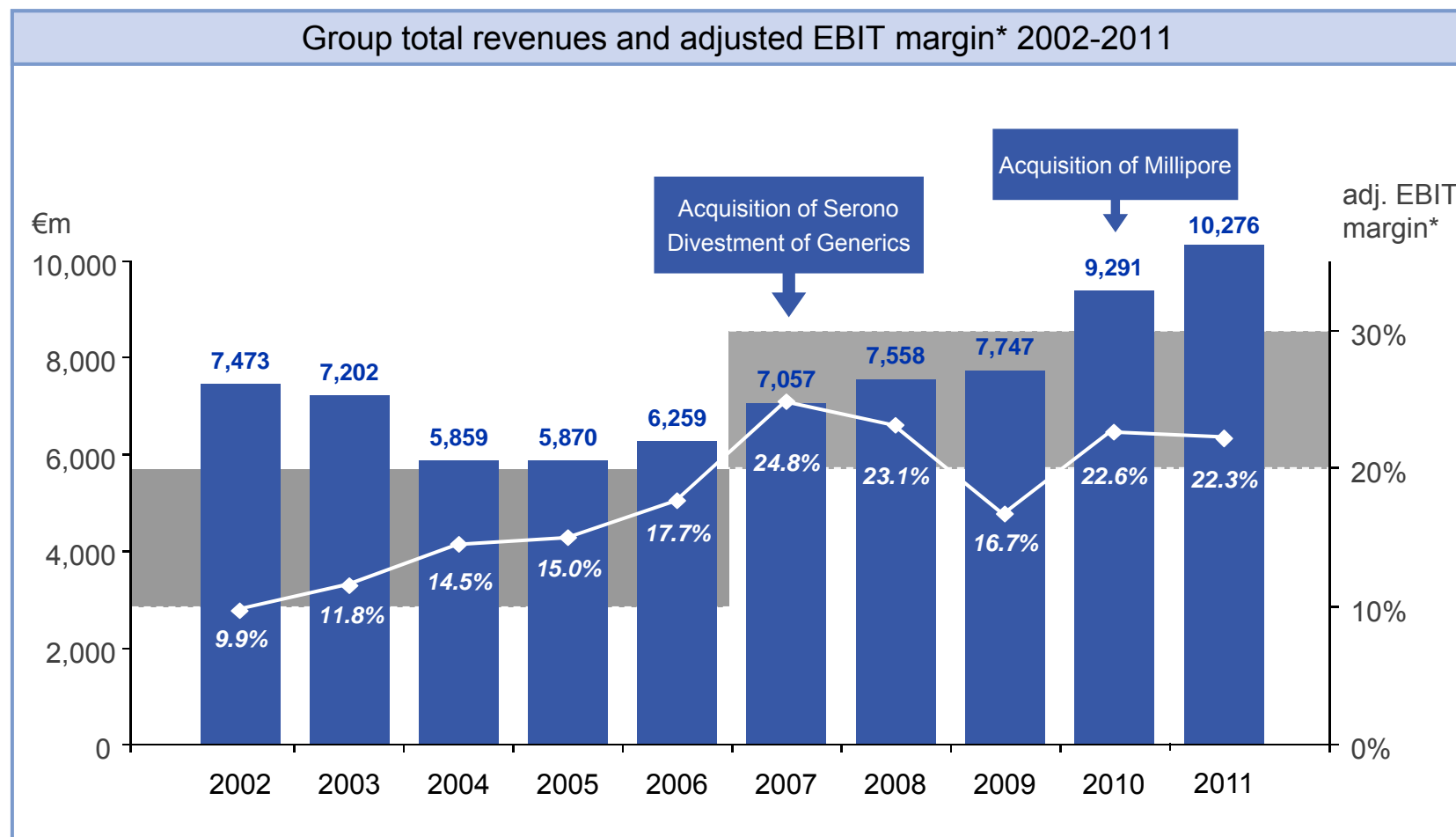
The Group

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



The Group

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






















\* adjusted EBIT\*\* divided by total revenues

\*\* adjusted EBIT is EBIT less costs related to acquisitions (amortization and impairments of intangible assets, and integration costs) and less exceptionals

Transforming the company

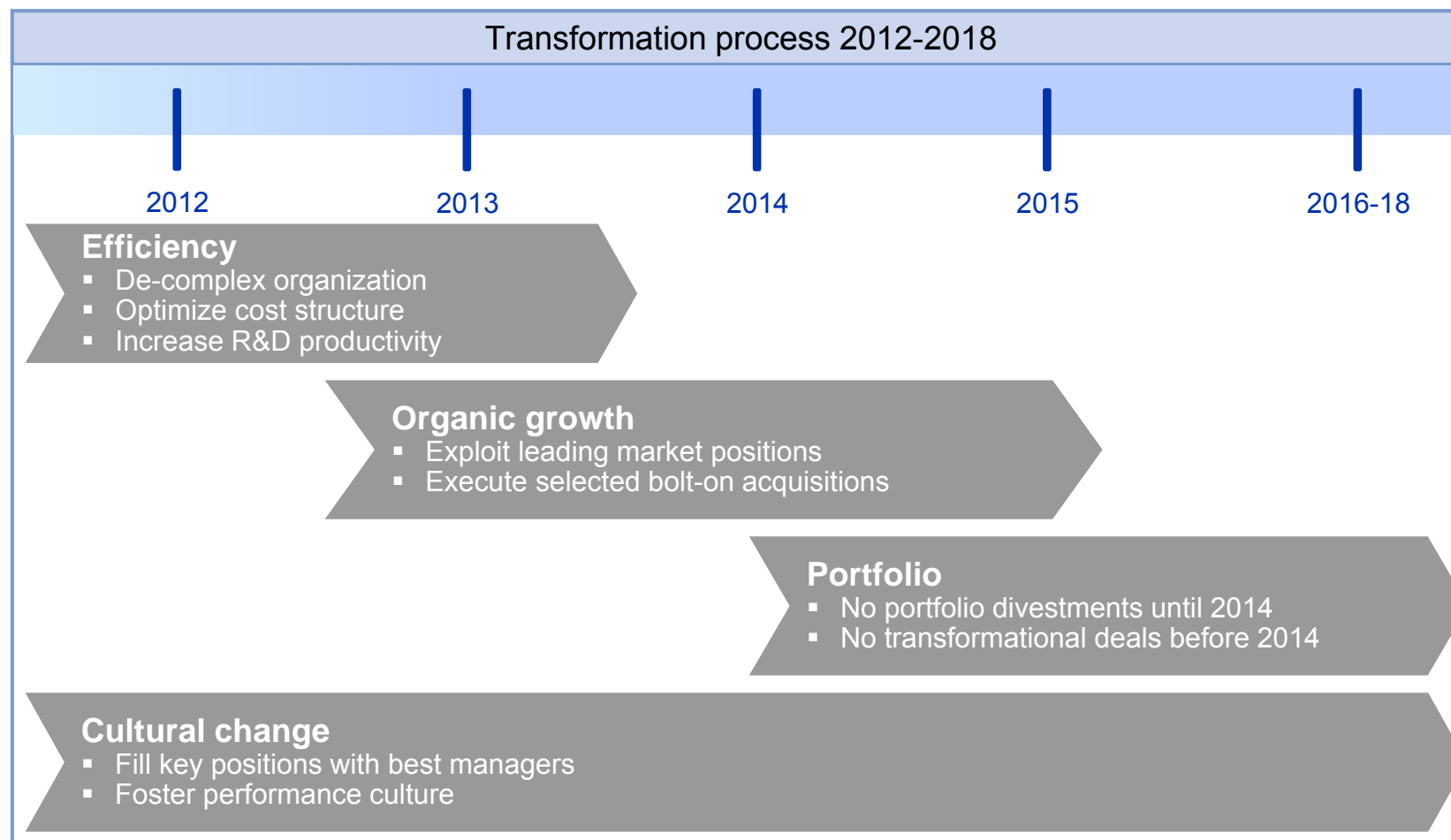
# Portfolio evolution improved our profitability structure, but further potential remains

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

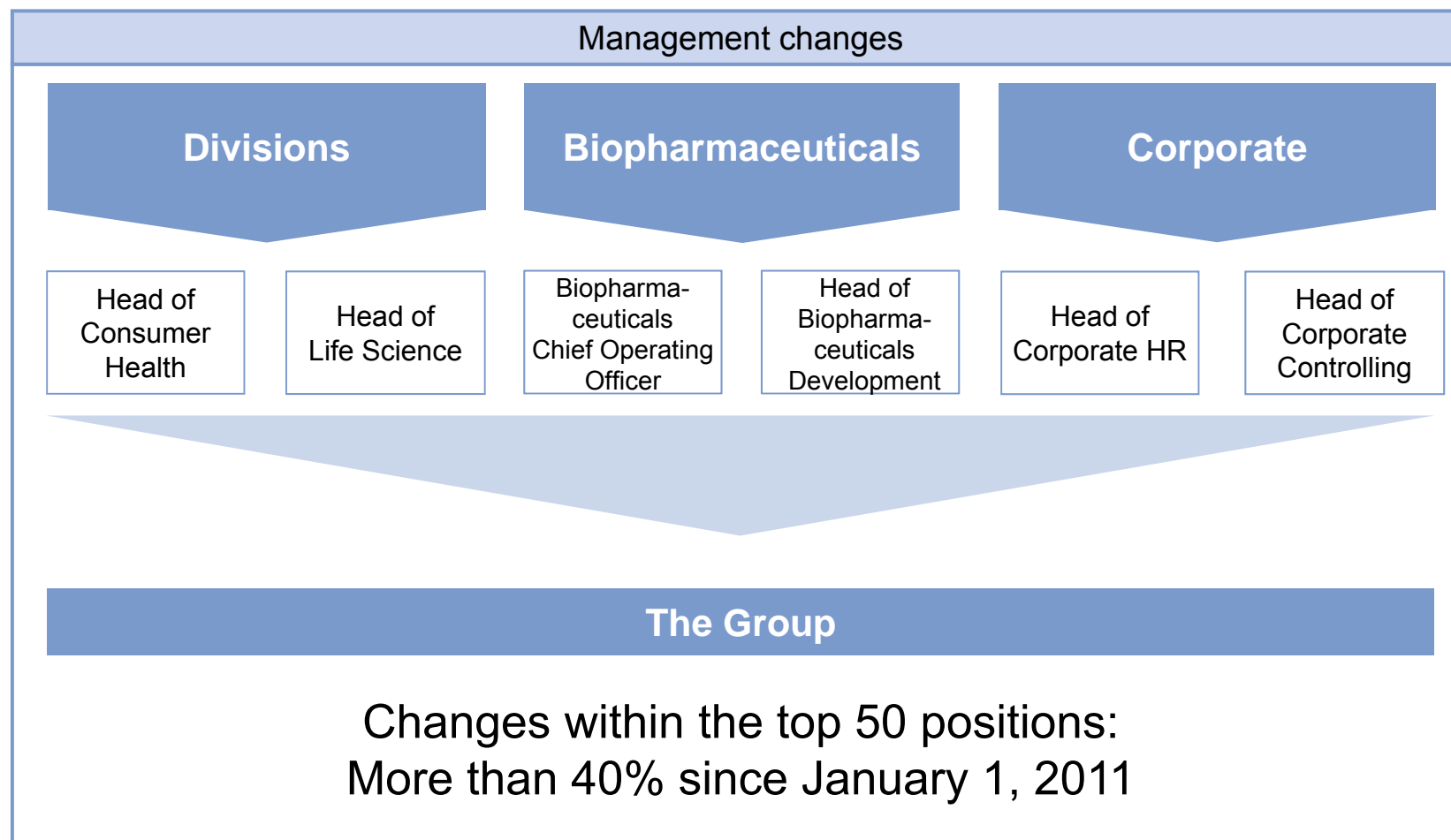
Transforming the company

## We now focus on efficiency



Transforming the company

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



Transforming the company

## Restructuring costs and net savings targets

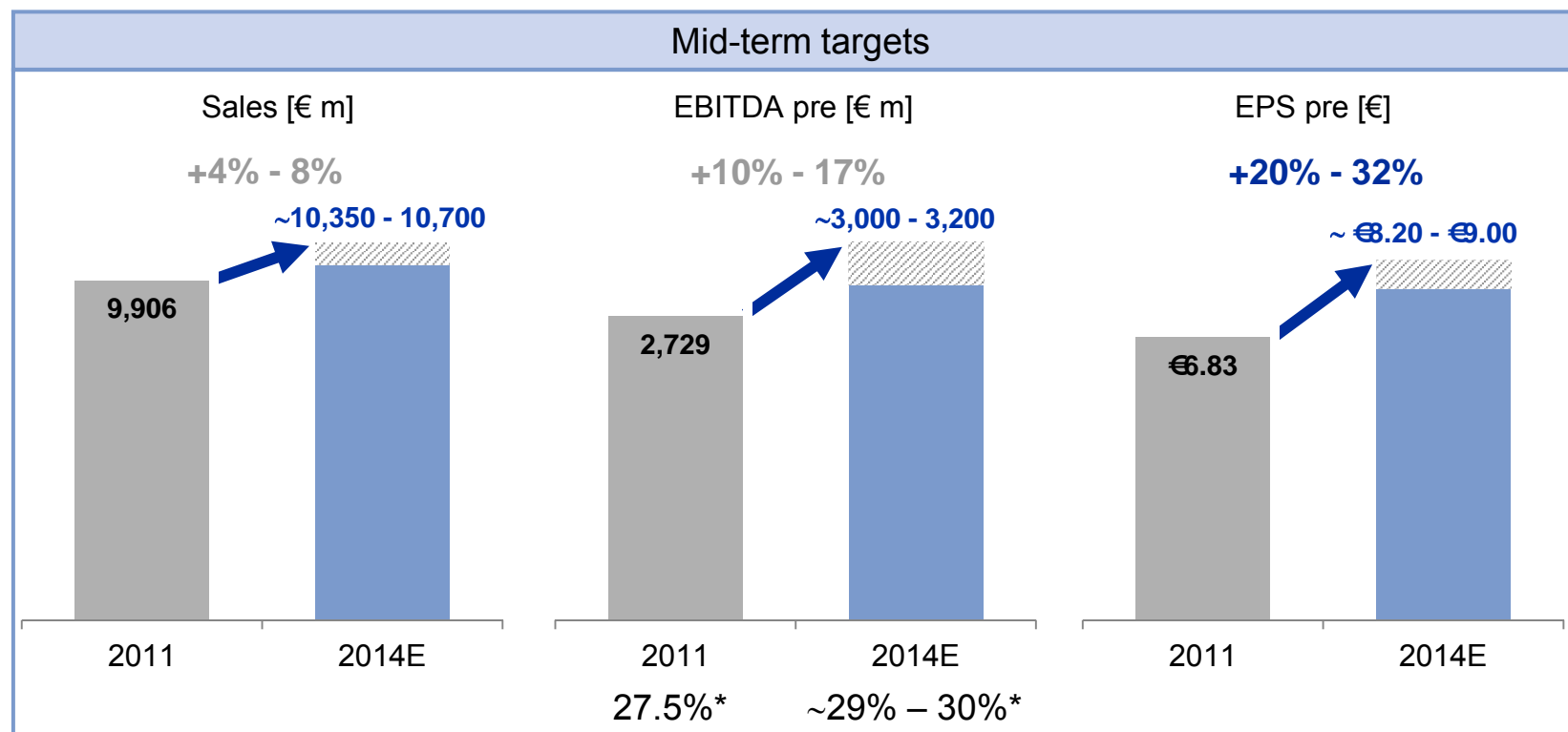
Net annual savings [€m]							Total savings
2012	2013	2014	2015	2016	2017		
Biopharmaceuticals	50	200	300				<b>300</b>
Consumer Health	5	15	25				<b>25</b>
Life Science				10	30	40	<b>40</b>

One-time costs [€m]				
	2012	2013	2014	2015
Biopharmaceuticals	400	150	50	
Consumer Health	30	10		
Life Science		70	70	20
<b>Total</b>	<b>430</b>	<b>230</b>	<b>120</b>	<b>20</b>

Total savings of  
€365 million  
lead to a  
structurally  
improved Group  
profitability

The Group

# We strive for realistic Group targets



<b>Assumptions</b>	<ul style="list-style-type: none"> <li>▪ FX: EUR/USD = 1.35; EUR/CHF = 1.20</li> <li>▪ Unchanged economic environment</li> </ul>
--------------------	--

\* as % of sales

# Agenda

- Business overview and strategy recap
- **Financial overview**
- Guidance

Transformation shows first results

## 9M 2012: Execution drives solid numbers

[€ m]	9M 2012	9M 2011	Δ
<b>Sales</b>	<b>8,029</b>	<b>7,381</b>	<b>9%</b>
<b>EBITDA pre</b> <i>Margin (% of sales)</i>	<b>2,175</b> 27.1%	<b>2,043</b> 27.7%	<b>6%</b>
<b>EPS pre [€]</b>	<b>5.56</b>	<b>5.12</b>	<b>9%</b>
<b>Operating cash flow</b>	<b>2,074</b>	<b>1,217</b>	<b>70%</b>

[€ m]	Sep 2012	Dec 2011	Δ
<b>Net financial debt</b>	<b>2,127</b>	<b>3,484</b>	<b>-39%</b>
<b>Working capital</b>	<b>2,518</b>	<b>2,919</b>	<b>-14%</b>
<b>Employees</b>	<b>39,545</b>	<b>40,676</b>	<b>-3%</b>

Comments
<ul style="list-style-type: none"> <li>▪ 9.0% sales growth reflects 4.1% organic growth, 4.3% FX benefit and 0.4% growth from acquisitions</li> <li>▪ EBITDA pre increase driven by strong top-line result and tight cost management</li> <li>▪ Good operational performance and improvements in working capital management drive higher free cash flow</li> </ul>

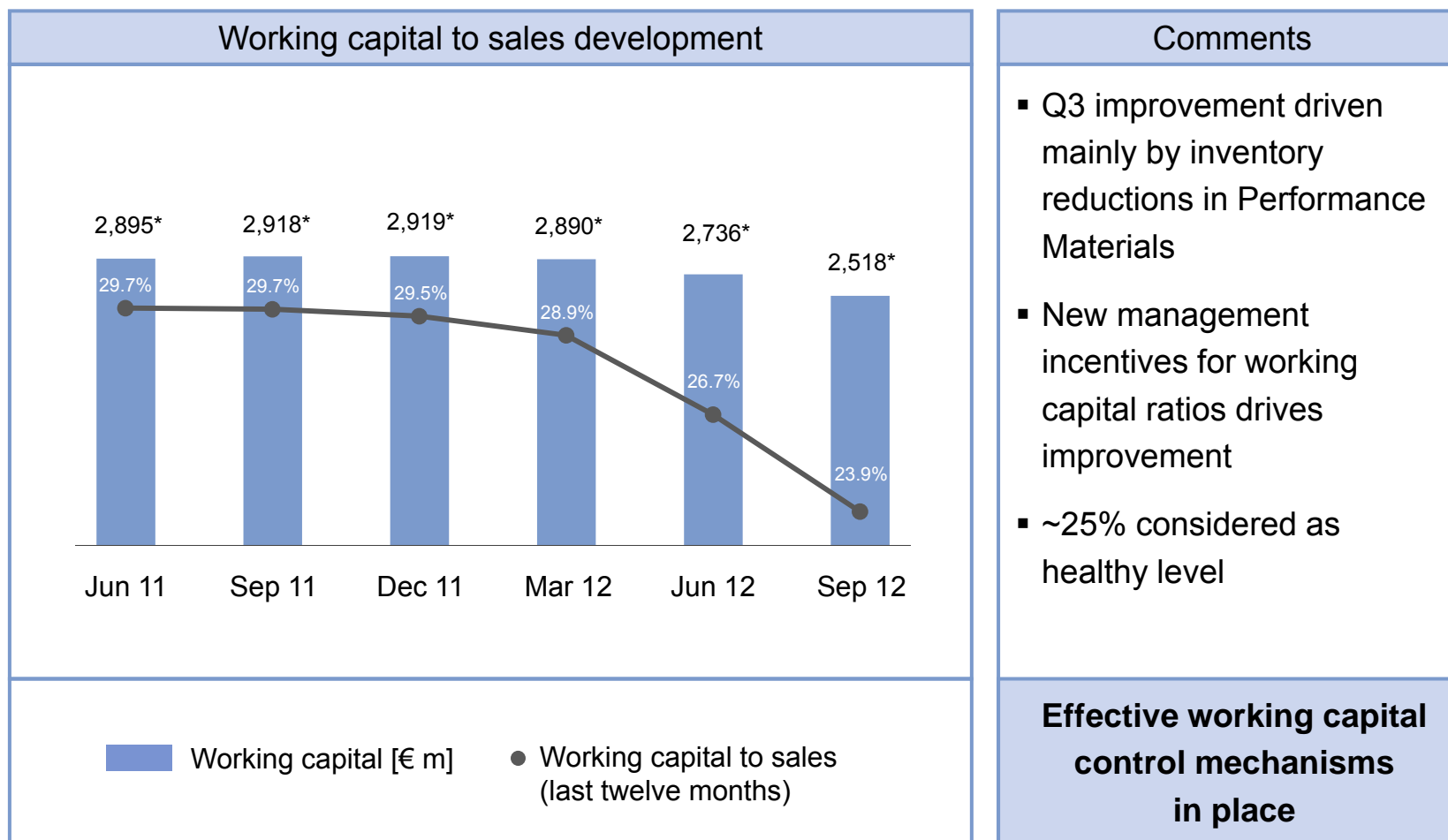
The Group

## De-leveraging continues

[€ m]	Sep 30 2012	Dec 31 2011	Δ	Comments
<b>Total Assets</b>	<b>22,273</b>	<b>22,122</b>	<b>1%</b>	<ul style="list-style-type: none"> <li>▪ Strong operating business leads to increased cash &amp; other liquid funds</li> <li>▪ Financial debt down due to bond repayment of €500 m in March 2012</li> <li>▪ Ongoing debt de-leveraging</li> </ul>
Equity	10,566	10,494	1%	
Cash & other liquid funds	2,928	2,055	42%	
Intangible Assets	11,178	11,764	-5%	
Financial Debt	5,055	5,539	-9%	
Pension Provisions	1,280	1,140	12%	
Net Financial Debt	2,127	3,484	-39%	

The Group

# We are effectively balancing profitability increase with improvements in working capital



\* Total working capital

The Group

## Despite lower profit, we deliver strong free cash flow through working capital management

[€ m]	9M 2012	9M 2011	Δ	Comments
<b>Profit after tax</b>	<b>303</b>	<b>482</b>	<b>-179</b>	<ul style="list-style-type: none"> <li>▪ Working capital improvement coming from inventory and receivables reduction</li> <li>▪ Increased provisions due to restructuring program and litigation</li> <li>▪ 2012 YTD free cash flow grows 35% despite difficult comparison                             <ul style="list-style-type: none"> <li>▪ Free cash flow 9M 2011 benefitted from €471 m divestment gains from Théramex and Crop BioScience</li> </ul> </li> </ul>
Depreciation & Amortization	1,037	1,254	-216	
Changes in working capital	425	-237	661	
Changes in provisions	551	23	528	
Changes in other assets / liab.	-217	-122	-95	
Other operating activities	-26	-183	157	
<b>Net cash flow operating</b>	<b>2,074</b>	<b>1,217</b>	<b>857</b>	
Capital expenditures	-181	-246	65	
Others	-33	409	-442	
<b>Free cash flow</b>	<b>1,860</b>	<b>1,380</b>	<b>480</b>	

Sum of items may not foot due to rounding

# Agenda

- Business overview and strategy recap
- Financial overview
- **Guidance**

The Group

## Guidance FY 2012

2012 Divisional EBITDA pre Guidance [€ m]		Group Guidance [€ bn]	
Biopharmaceuticals	1,750 – 1,800	Total revenues	10.9-11.0
Consumer Health	~ 60	<b>EBITDA pre</b>	<b>2.90 – 2.95</b>
Performance Materials	~ 700	(including €55 m efficiency savings)	
Life Science	590 – 600		
Corporate	-200		

### Assumptions

- Current economic environment unchanged
- Reported numbers will still be burdened by one-time costs, while the majority of costs have been taken in Q2
- Underlying tax rate around 25-26%
- Q4 2012: €/US\$ = 1.29; €/CHF = 1.20

# Merck KGaA

Darmstadt · Germany

# Appendix

Biopharmaceuticals

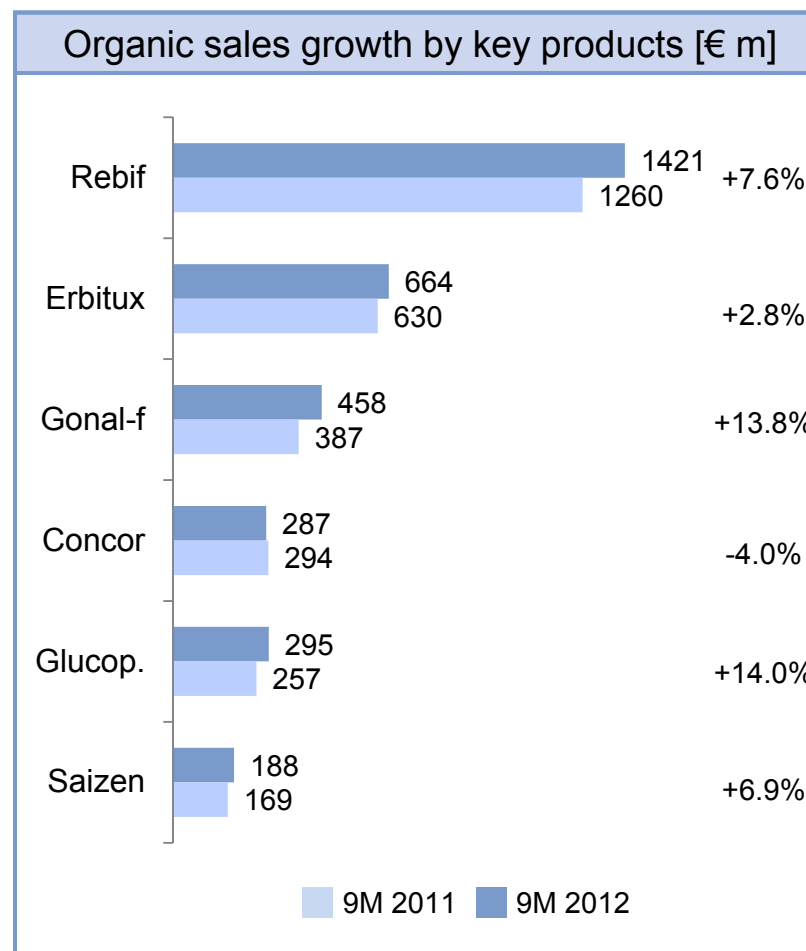
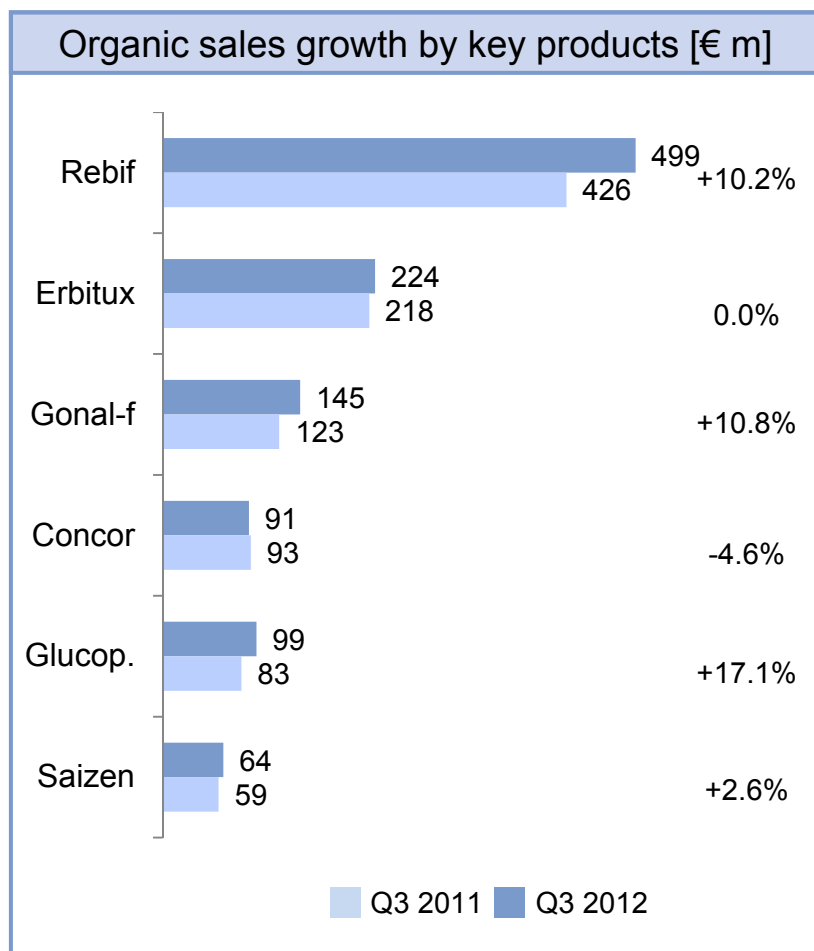
# Solid YTD results driven by good business performance and tight cost controls

[€ m]	9M 2012	9M 2011	Δ	Comments
<b>Total Revenues</b>	<b>4,767</b>	<b>4,376</b>	<b>9%</b>	<ul style="list-style-type: none"> <li>▪ Sales grow 9%, organic sales growth of 5%; and a 3% benefit from changes in foreign exchange rates</li> <li>▪ Main organic sales drivers are North America (Rebif), and Emerging Markets (notably Glucophage, Gonal-f, Concor)</li> <li>▪ Gross profit impacted by higher production costs and start-up costs (LSB)</li> <li>▪ Other operating result includes €280 m restructuring costs</li> </ul>
Sales	4,474	4,115	9%	
Royalty income	293	261	12%	
<b>Gross Profit</b>	<b>3,891</b>	<b>3,636</b>	<b>7%</b>	
<i>Margin (% of sales)</i>	<i>87.0%</i>	<i>88.4%</i>		
Marketing & Selling	-1,030	-1,061	-3%	
Royalty and Comm. Exp.	-420	-347	21%	
Administration	-191	-190	1%	
Other Expenses / Income	-541	-317	71%	
R&D	-916	-903	1%	
Amortization	-494	-626	-21%	
<b>EBIT</b>	<b>298</b>	<b>192</b>	<b>55%</b>	
Depreciation & Amortization	706	942	-25%	
One-time items	284	26	>100%	
<b>EBITDA pre</b>	<b>1,289</b>	<b>1,161</b>	<b>11%</b>	
<i>Margin (% of sales)</i>	<i>28.8%</i>	<i>28.2%</i>		

Sum of items may not foot due to rounding

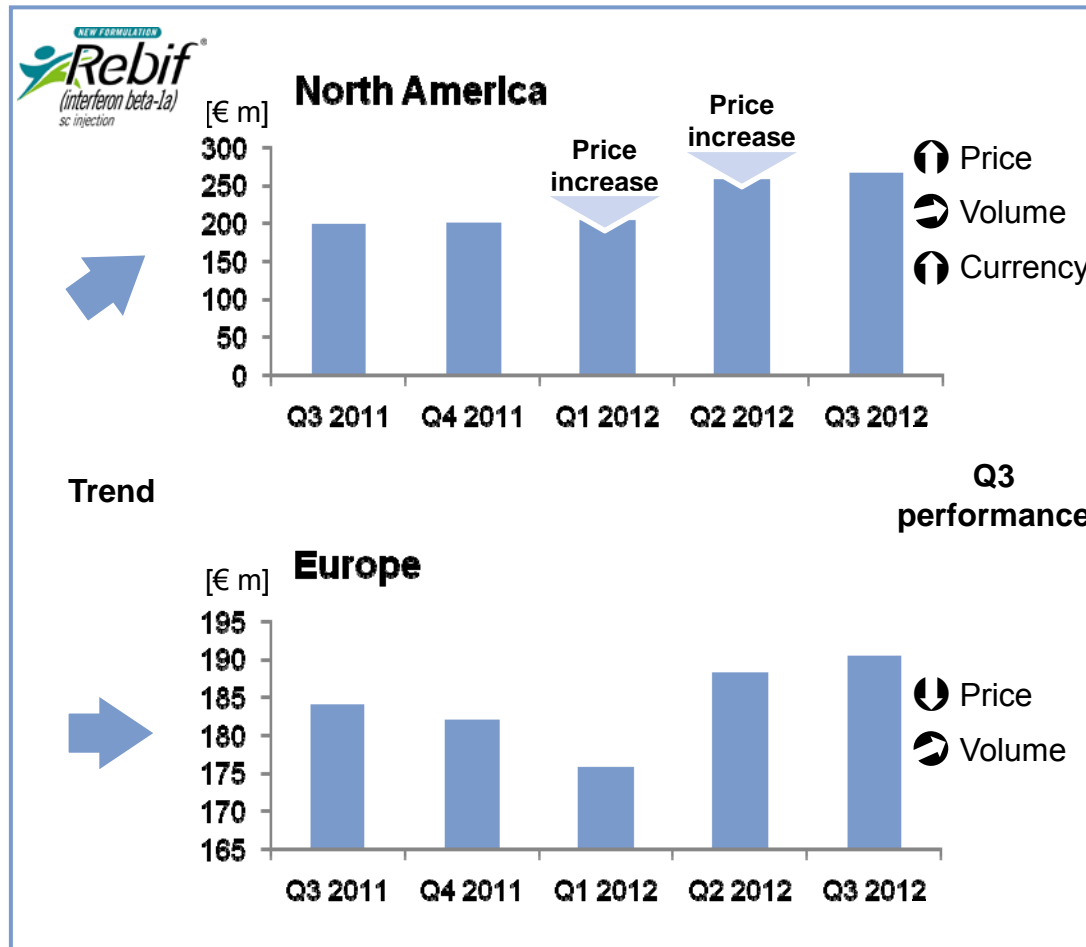
Biopharmaceuticals

# Rebif drives growth



Biopharmaceuticals – Rebif

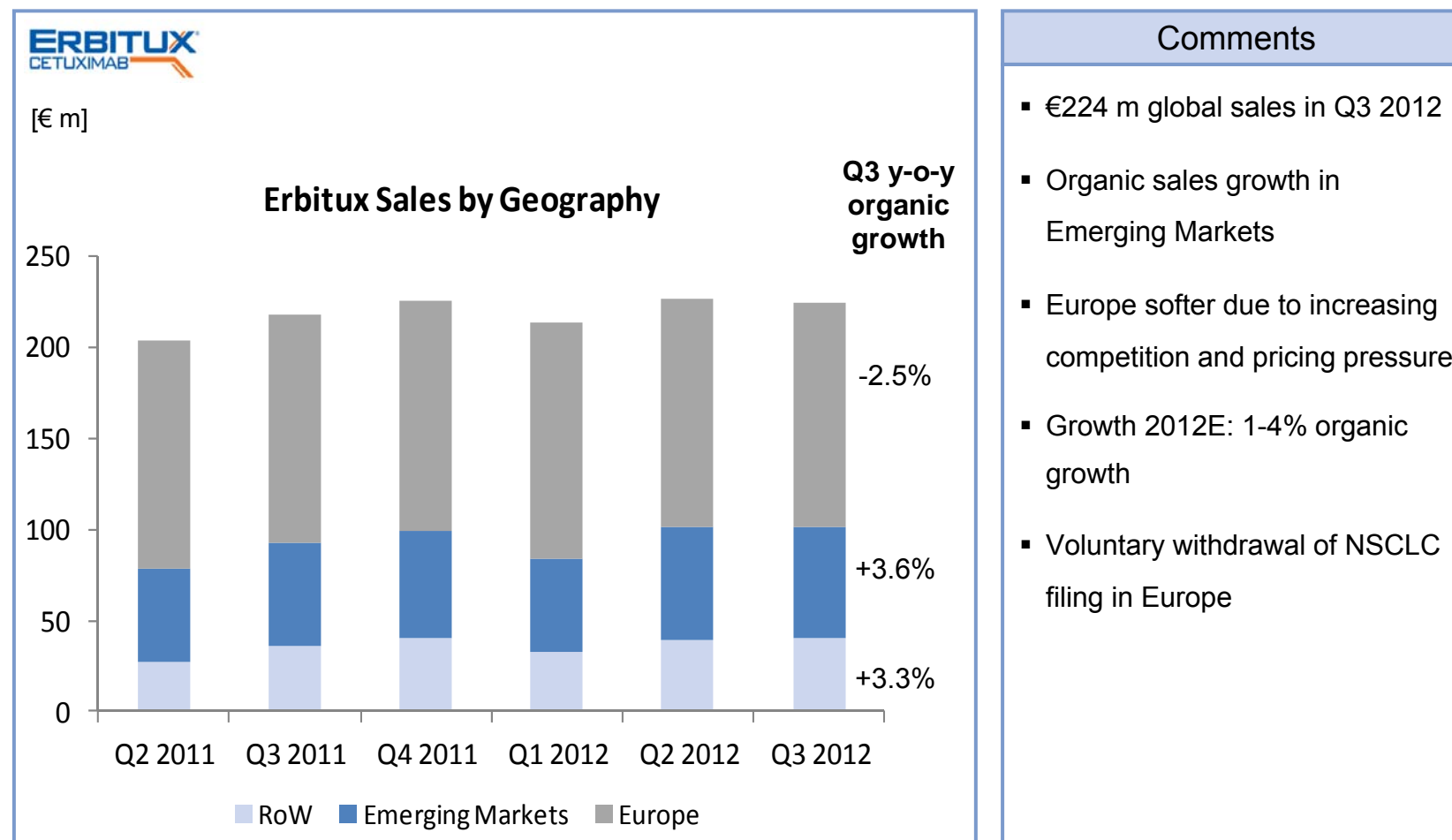
# US price increases remain major growth driver



Comments
<ul style="list-style-type: none"> <li>~ €500 m global sales in Q3 2012</li> <li>Small volume growth in North America (organic growth 20.1%) and Europe (organic growth 2.1%)</li> <li>Performance in North America benefitting from two price increases passed earlier in 2012</li> <li>Growth 2012E: ~5% organic sales growth</li> </ul>

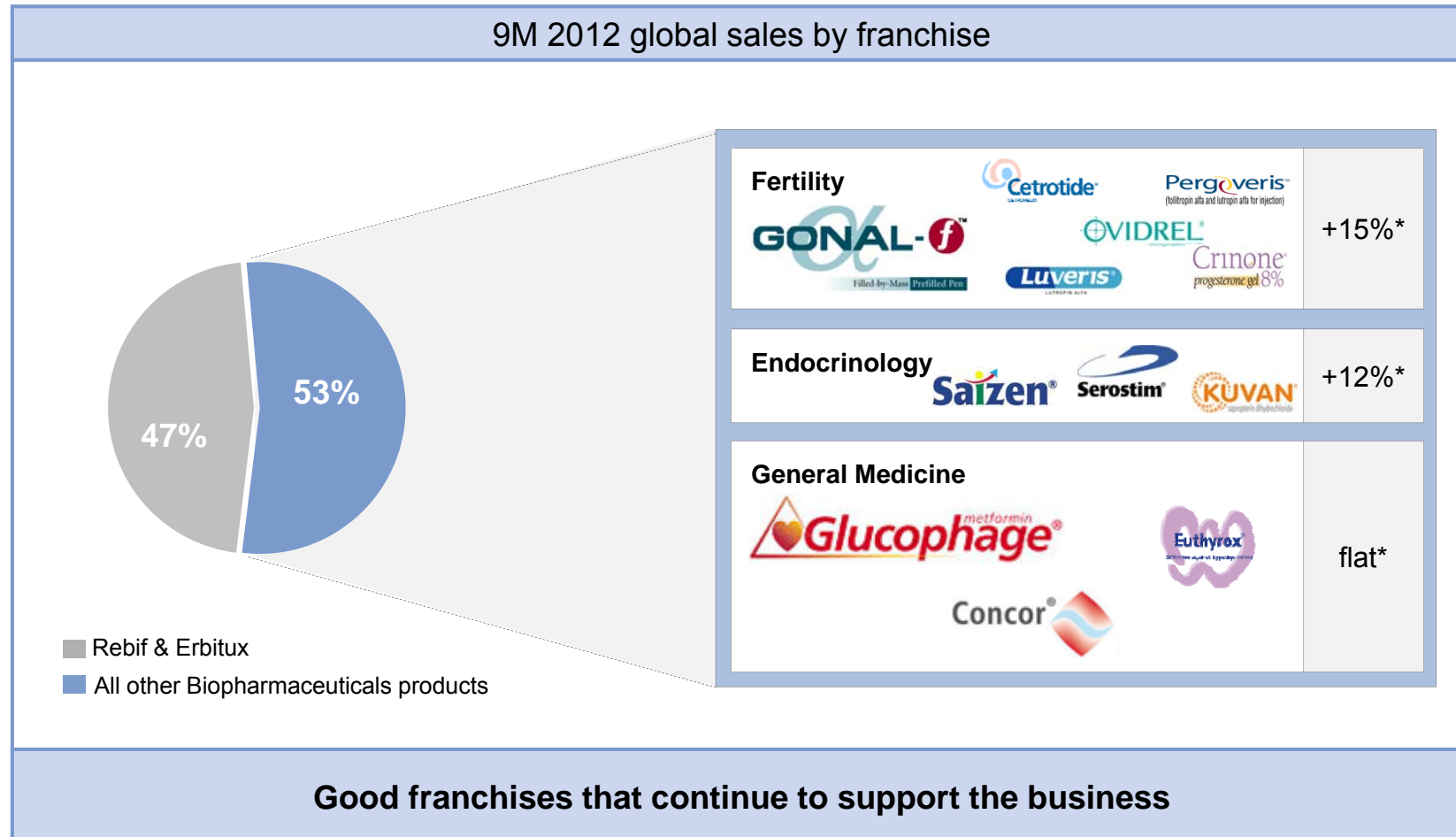
Biopharmaceuticals – Erbitux

# Emerging Markets and Australia drive growth, ongoing weakness in Europe



Biopharmaceuticals – Global franchises

# Despite patent expiry many of our products continue to grow



\* Organic sales growth YTD Sept 12

Biopharmaceuticals – Pipeline

# Upcoming pipeline newsflow

Project	Indication	Current phase	Timing	Event
Cilengitide	Glioblastoma	Phase III	H1 2013	Head-line result (CENTRIC)
TH-302	Soft tissue sarcoma	Phase III	H1 2013	Futility analysis
ONO-4641	Multiple sclerosis	Phase II	2013	Phase III 'go/no go' decision
Atacicept	Systemic lupus erythematosus	Phase II	H1 2013	Publication of results (APRIL SLE)



## L-BLP25 (Stimuvax): phase III START trial

### L-BLP25: mode of action

- MUC1 antigen-specific cancer immunotherapy
- Designed to stimulate the body's immune system to identify and target cells expressing the cell surface glycoprotein MUC1
- MUC1 is expressed in many cancers, such as non-small cell lung cancer (NSCLC)

### Head-line results START

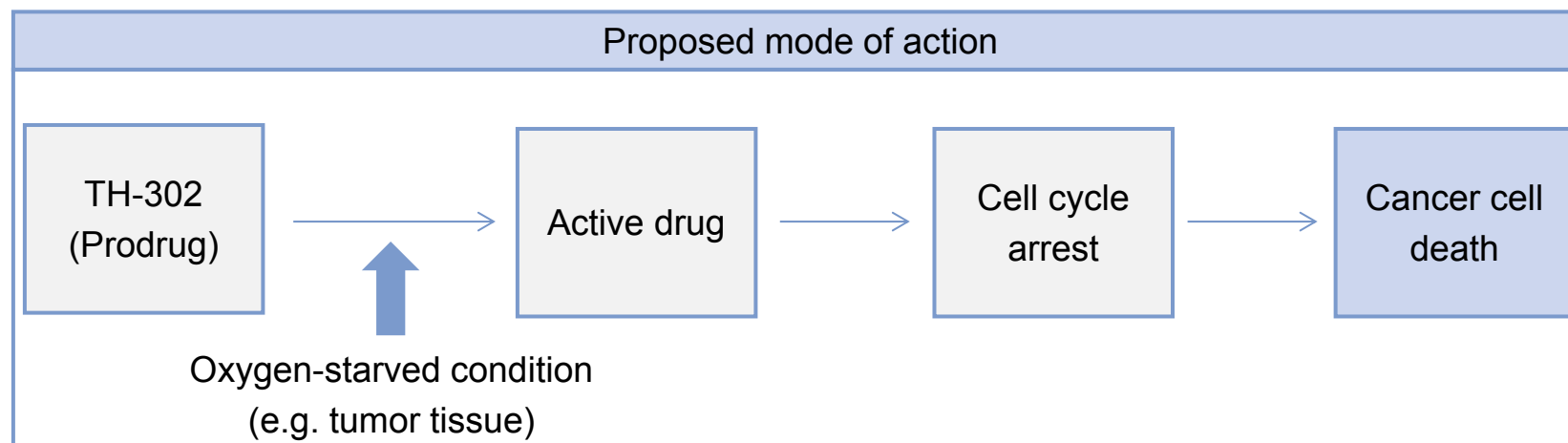
- START trial did not meet primary endpoint of prolongation of overall survival in patients with unresectable, locally-advanced stage IIIA or IIIB NSCLC
- Notable treatment effect was observed in certain subgroups

### Next steps

- Analyse the full data
- Discuss data with scientific experts and regulatory authorities
- Decide on potential next steps, including new trials
- Present data at scientific conferences

**Primary endpoint of START not met, notable treatment effect in some subgroups**

# TH-302: first-in-class potential in oncology



## Phase III in soft tissue sarcoma (STS)

- Global trial, 450 patients (study 406)
- Recruiting patients since late 2011
- SPA<sup>1</sup> and orphan drug designation<sup>2</sup>
- Niche indication, approximately 26,000 patients diagnosed annually<sup>2</sup>

## Phase III in pancreatic cancer

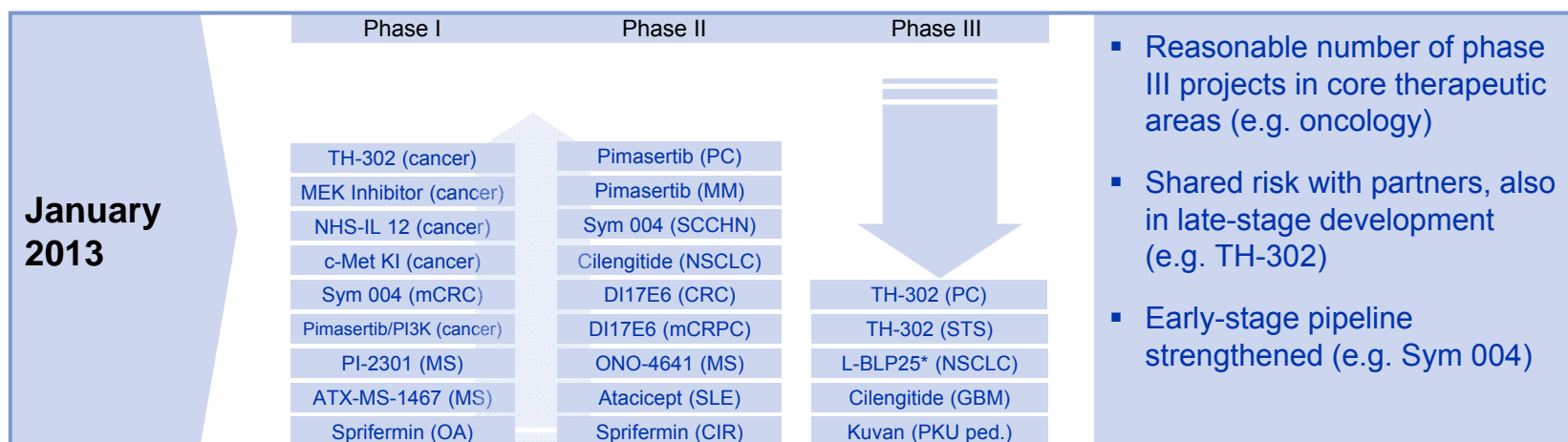
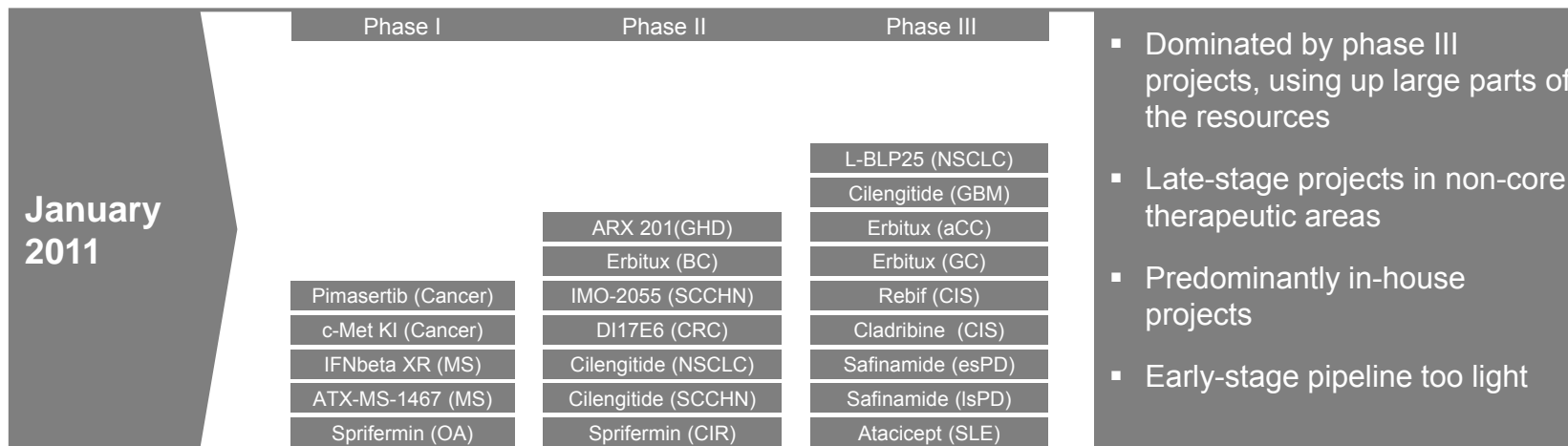
- Global trial, 660 patients (MAESTRO)
- About to start recruitment
- SPA<sup>1</sup> in place
- Approximately 277,000 patients diagnosed worldwide every year

<sup>1</sup> Special protocol assessment: written agreement with the US Food and Drug Agency that the design and planned analysis of a study can adequately address objectives in support of a regulatory submission. However, FDA's determinations for marketing application approval are made after a complete review of a marketing application and are based on the entire data in the application

<sup>2</sup> US + EU

Biopharmaceuticals – Pipeline

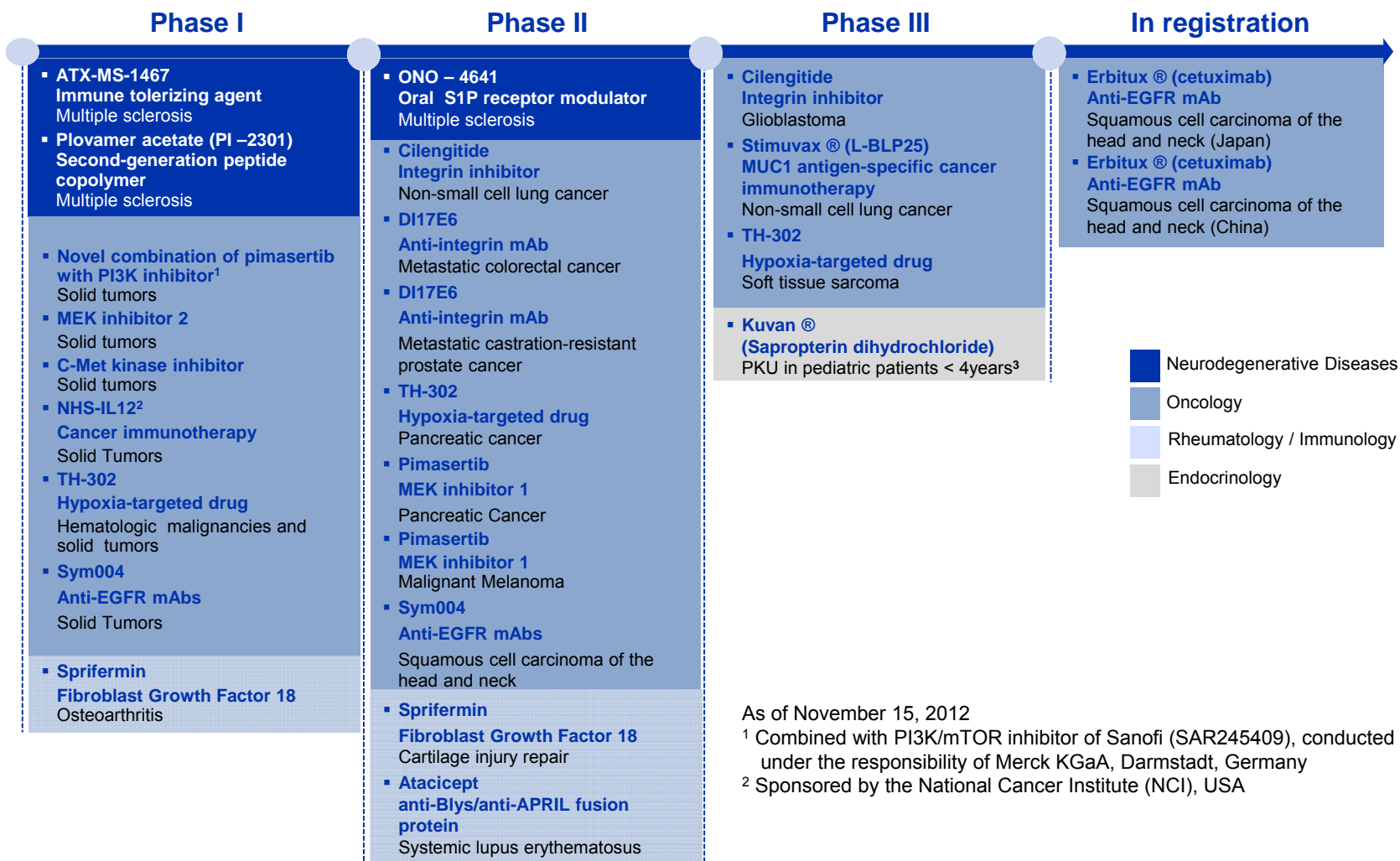
# Rebuilding our pipeline with an emphasis on phase I and II projects



\* START trial did not meet primary endpoint. INSPIRE study ongoing. Formerly also known as Stimuvax;

## Biopharmaceuticals

# Pipeline



Consumer Health

## Profitability increase despite weak top-line - driven by strong cost containment

[€ m]	9M 2012	9M 2011	Δ	Comments
<b>Total Revenues</b>	<b>353</b>	<b>368</b>	<b>-4%</b>	<ul style="list-style-type: none"> <li>▪ Organic sales decline 6%, FX benefit of 2%</li> <li>▪ Sales decline primarily due to weak performance in Europe</li> <li>▪ Other operating result includes €14 m restructuring costs</li> <li>▪ EBITDA pre margin improvement due primarily to lower sales promotion costs</li> </ul>
Sales	351	366	-4%	
Royalty income	2	1	22%	
<b>Gross Profit</b>	<b>237</b>	<b>253</b>	<b>-6%</b>	
<i>Margin (% of sales)</i>	<i>67.5%</i>	<i>69.0%</i>		
Marketing & Selling	-159	-174	-9%	
Royalty and Comm. Exp.	0	-2	-80%	
Administration	-17	-17	0%	
Other Expenses / Income	-21	-5	>100%	
R&D	-14	-16	-15%	
Amortization	-3	-3	9%	
<b>EBIT</b>	<b>22</b>	<b>34</b>	<b>-36%</b>	
Depreciation & Amortization	9	8	10%	
One-time items	14	0	>100%	
<b>EBITDA pre</b>	<b>45</b>	<b>42</b>	<b>6%</b>	
<i>Margin (% of sales)</i>	<i>12.7%</i>	<i>11.6%</i>		

Sum of items may not foot due to rounding

Performance Materials

## Favorable FX and strong performance of Liquid Crystals drive top-line performance

[€ m]	9M 2012	9M 2011	Δ	Comments
<b>Total Revenues</b>	<b>1,260</b>	<b>1,124</b>	<b>12%</b>	<ul style="list-style-type: none"> <li>▪ 4% organic sales growth driven by Liquid Crystals, FX benefit of 8%</li> <li>▪ Gross profit impacted by lower prices and increased production costs due to volume growth</li> <li>▪ M&amp;S rise below sales growth</li> <li>▪ Other operating result 9M 2011 benefits from €157 m gain of Crop BioScience divestment</li> </ul>
Sales	1,259	1,122	12%	
Royalty income	1	2	-60%	
<b>Gross Profit</b>	<b>715</b>	<b>660</b>	<b>8%</b>	
<i>Margin (% of sales)</i>	<i>56.8%</i>	<i>58.8%</i>		
Marketing & Selling	-106	-99	7%	
Royalty and Comm. Exp.	-2	-3	-47%	
Administration	-27	-25	9%	
Other Expenses / Income	-9	128	n.m.	
R&D	-102	-100	3%	
Amortization	-1	-11	-89%	
<b>EBIT</b>	<b>468</b>	<b>550</b>	<b>-15%</b>	
Depreciation & Amortization	88	87	2%	
One-time items	-11	-119	-91%	
<b>EBITDA pre</b>	<b>545</b>	<b>518</b>	<b>5%</b>	
<i>Margin (% of sales)</i>	<i>43.3%</i>	<i>46.2%</i>		

Sum of items may not foot due to rounding

Life Science

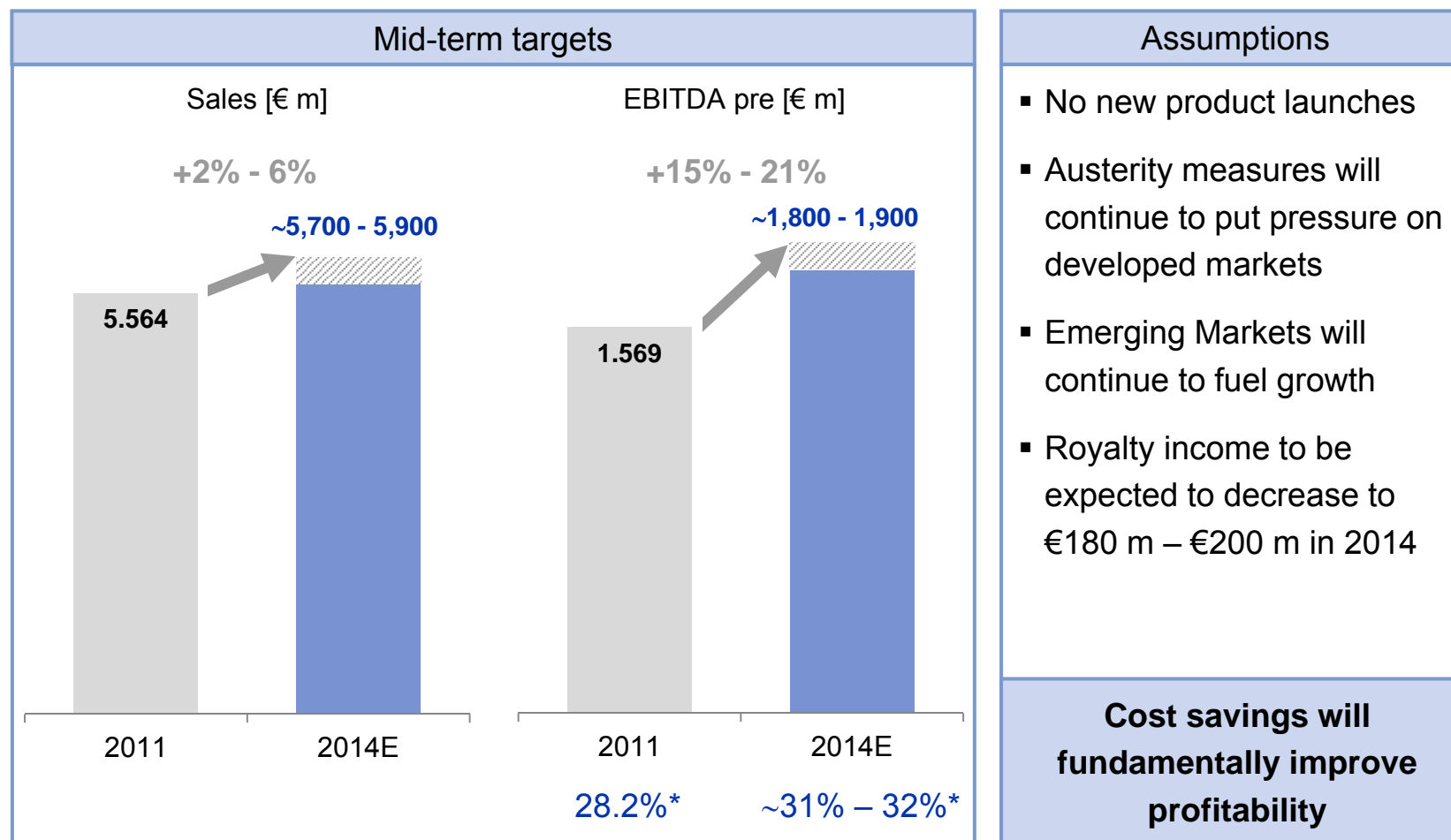
## Solid organic sales performance delivers profitable growth

[€ m]	9M 2012	9M 2011	Δ	Comments
<b>Total Revenues</b>	<b>1,959</b>	<b>1,783</b>	<b>10%</b>	<ul style="list-style-type: none"> <li>▪ Sales grow 9%; organic sales growth of 3%, acquisition benefit of 2%, and a 5% favorable benefit from changes in foreign exchange rates</li> <li>▪ All business units contribute to organic sales growth, lead by Process Solutions</li> <li>▪ Gross margin increase of 150 basis points supported by FX changes and improved operational efficiency</li> <li>▪ EBITDA pre grows, but down as a % of sales due primarily to R&amp;D investments</li> </ul>
Sales	1,945	1,778	9%	
Royalty income	14	5	>100%	
<b>Gross Profit</b>	<b>1,154</b>	<b>1,028</b>	<b>12%</b>	
<i>Margin (% of sales)</i>	<i>59.3%</i>	<i>57.8%</i>		
Marketing & Selling	-502	-443	13%	
Royalty and Comm. Exp.	-11	-11	5%	
Administration	-87	-79	10%	
Other Expenses / Income	-71	-80	-11%	
R&D	-122	-97	25%	
Amortization	-153	-141	9%	
<b>EBIT</b>	<b>207</b>	<b>178</b>	<b>16%</b>	
Depreciation & Amortization	228	214	7%	
One-time items	22	28	-21%	
<b>EBITDA pre</b>	<b>457</b>	<b>419</b>	<b>9%</b>	
<i>Margin (% of sales)</i>	<i>23.5%</i>	<i>23.6%</i>		

Sum of items may not foot due to rounding

Pharma

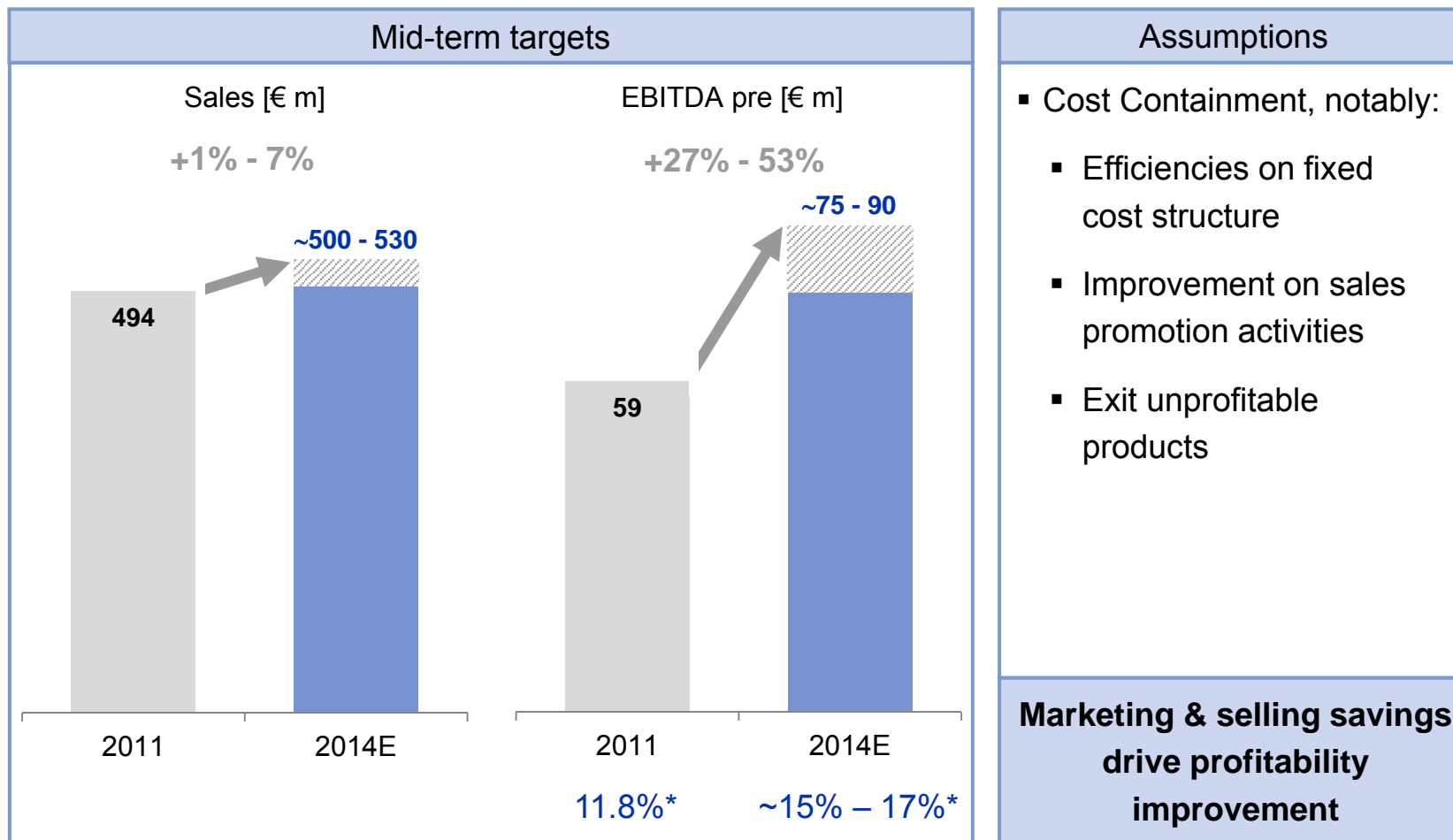
# Biopharmaceuticals mid-term financial targets



\* % of sales

Pharma

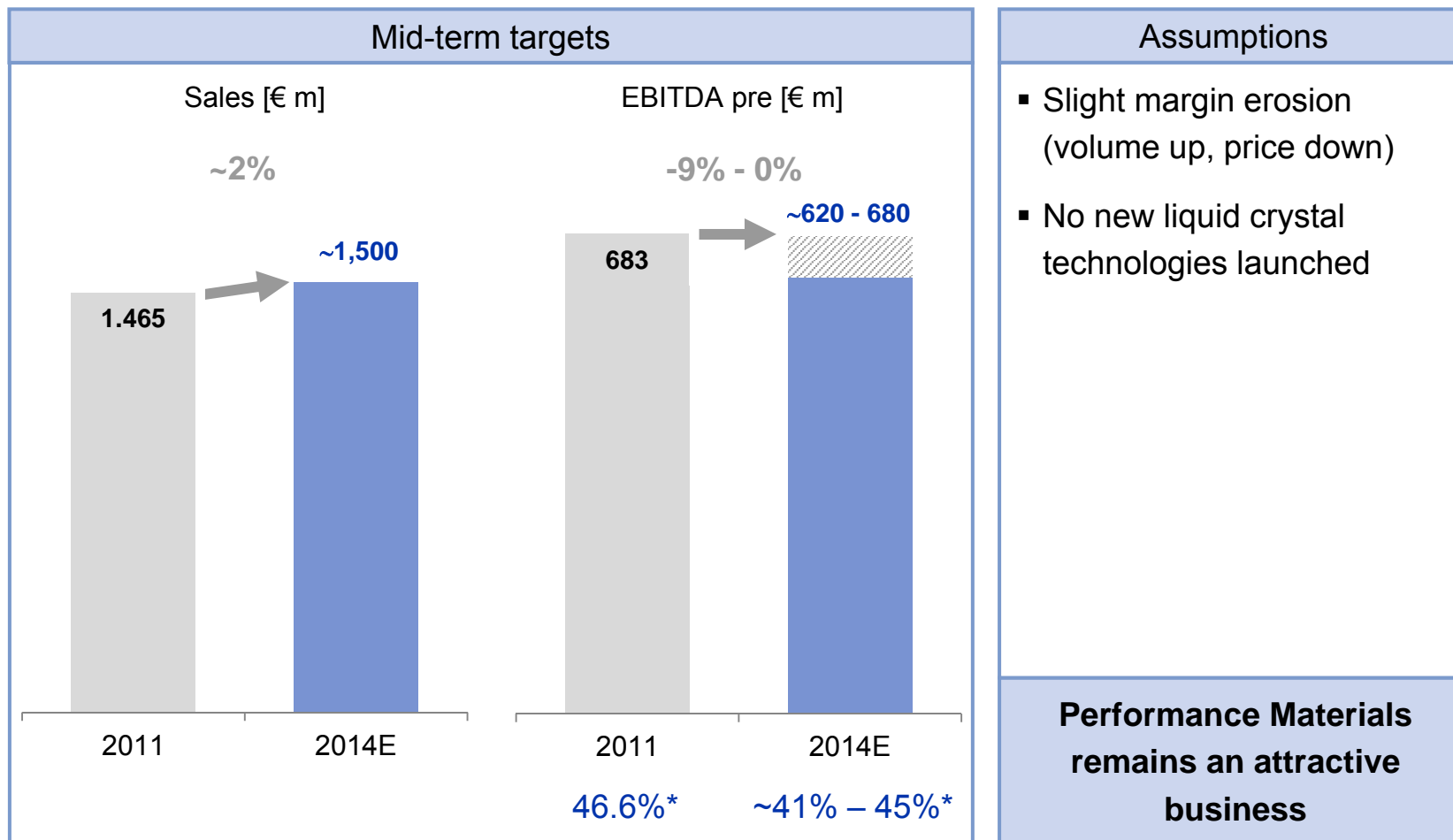
# Consumer Health mid-term financial targets



\* % of sales

Chemicals

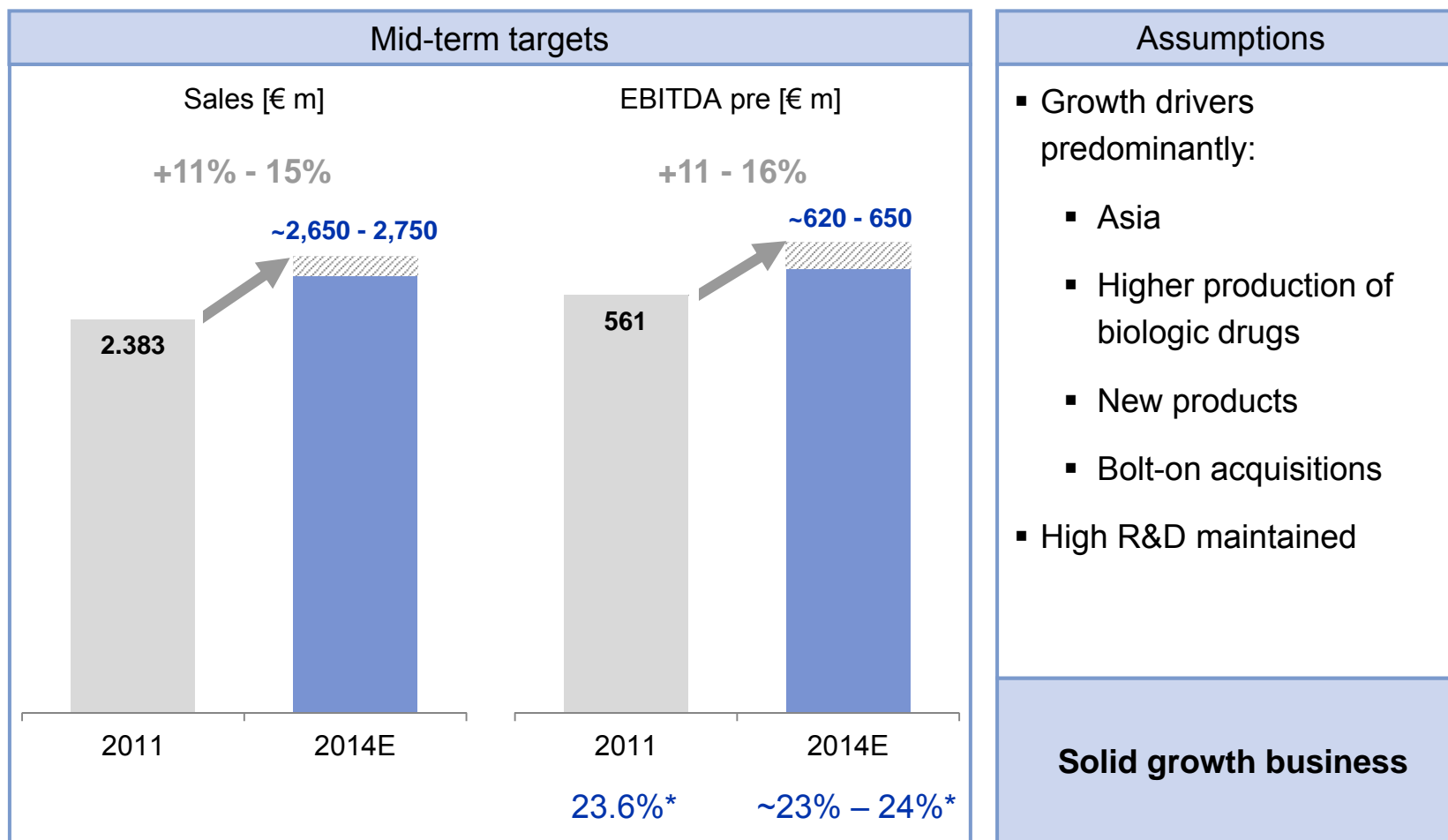
# Performance Materials mid-term financial targets



\* % of sales

Chemicals

# Life Science mid-term financial targets



\* % of sales

The Group

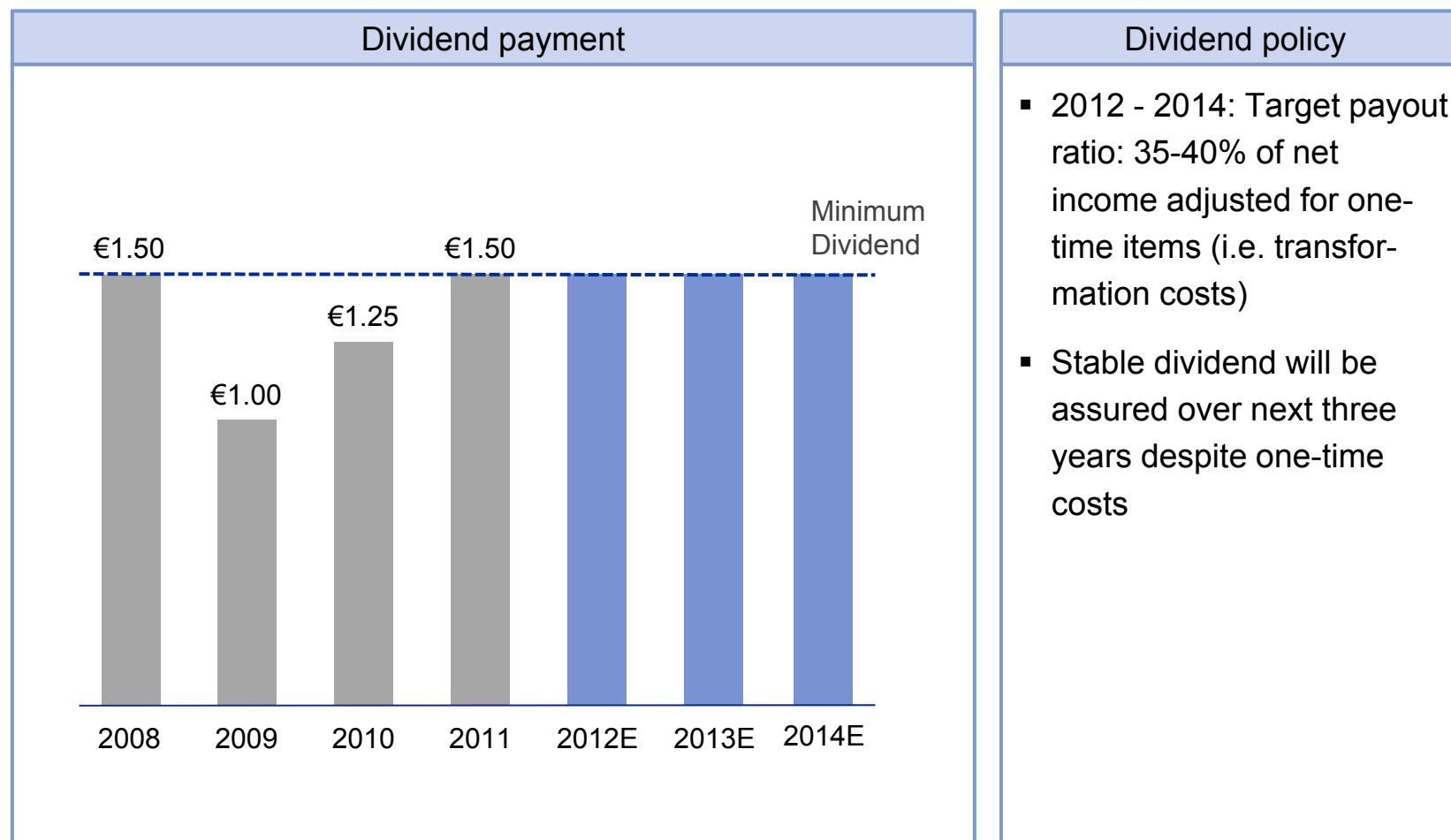
## Ensure effective cash allocation 2012/2013

Cash allocation	
Deleveraging	<ul style="list-style-type: none"><li>▪ 12/2012: €500m bond (interest rate = 3.75%)</li><li>▪ 09/2013: €750m bond (interest rate = 4.875%)</li></ul>
Restructuring	<ul style="list-style-type: none"><li>▪ One-time costs* 2012-2014: ~€780 m</li></ul>
External Growth	<ul style="list-style-type: none"><li>▪ Bolt-on acquisitions 2012/2013</li><li>▪ In-licensing deals in pharma</li><li>▪ No large, transformational transactions</li></ul>
Dividend	<ul style="list-style-type: none"><li>▪ Stable dividend payment: 35-40% payout ratio (on adjusted net income, i.e. before one-time costs)</li></ul>

\*Includes Life Science one-time-costs disclosed at the 2012 Life Science Information Day

The Group

## Reliable dividend policy



The Group

## 2012 Q3 Reconciliation to adjusted results

[€ m]	Q3 2012	Q3 2011
<b>EBIT</b>	<b>318</b>	<b>332</b>
<b>Depreciation &amp; Amortization</b>	<b>343</b>	<b>314</b>
Regular depreciation & amortization	115	102
Amortization of purchased intangible assets	217	212
Impairments	11	0
<b>EBITDA</b>	<b>661</b>	<b>646</b>
<b>One-time items</b>	<b>93</b>	<b>6</b>
M&A costs	0	0
Restructuring costs	43	0
Integration/IT related costs	7	6
Costs from discontinuing businesses	43	0
Other one-time costs	0	0
<b>EBITDA pre</b>	<b>754</b>	<b>652</b>
Regular depreciation & amortization	-115	-102
Financial result	-58	-72
Profit before tax pre	581	478
<b>EPS pre [in€]</b>	<b>1.98</b>	<b>1.62</b>

Sum of items may not foot due to rounding

The Group

## 2012 YTD Reconciliation to adjusted results

[€ m]	9M 2012	9M 2011
<b>EBIT</b>	<b>652</b>	<b>836</b>
<b>Depreciation &amp; Amortization</b>	<b>1,037</b>	<b>1,254</b>
Regular depreciation & amortization	348	318
Amortization of purchased intangible assets	647	618
Impairments	42	319
<b>EBITDA</b>	<b>1,689</b>	<b>2,091</b>
<b>One-time items</b>	<b>486</b>	<b>-48</b>
M&A costs	0	0
Restructuring costs	409	0
Integration/IT related costs	23	27
Costs from discontinuing businesses	54	-147
Other one-time costs	0	72
<b>EBITDA pre</b>	<b>2,175</b>	<b>2,043</b>
Regular depreciation & amortization	-348	-318
Financial result	-194	-219
Profit before tax pre	1,633	1,506
<b>EPS pre [in€]</b>	<b>5.56</b>	<b>5.12</b>

Sum of items may not foot due to rounding

# Contacts

## Investor Relations contact detail

**Constantin Fest**

Head of Investor Relations  
+49 6151 72-5271

**Eva Schaefer-Jansen**

Equity Holders  
+49 6151 72-5642

**Dr. Thomas Kornek**

Equity Holders  
+49 6151 72-7434

**Claudia Nickolaus**

Bondholders, SRI  
+49 6151 72-2584

**Alessandra Heinz**

Assistant Investor Relations  
+49 6151 72-3321

**Silke Meyer**

Assistant Investor Relations  
+49 6151 72-3744

**Eva Sterzel**

Communication Tools & Services  
+49 6151 72-5355

Fax: +49 6151 72-913321  
[investor.relations@emdgroup.com](mailto:investor.relations@emdgroup.com)  
[www.emdgroup.com](http://www.emdgroup.com)