

Q1 2013 Roadshow Presentation

A solid start to the year

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May 2013

Merck KGaA

Darmstadt · Germany



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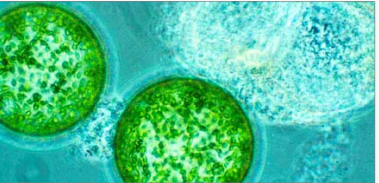
Business overview

Transforming the company

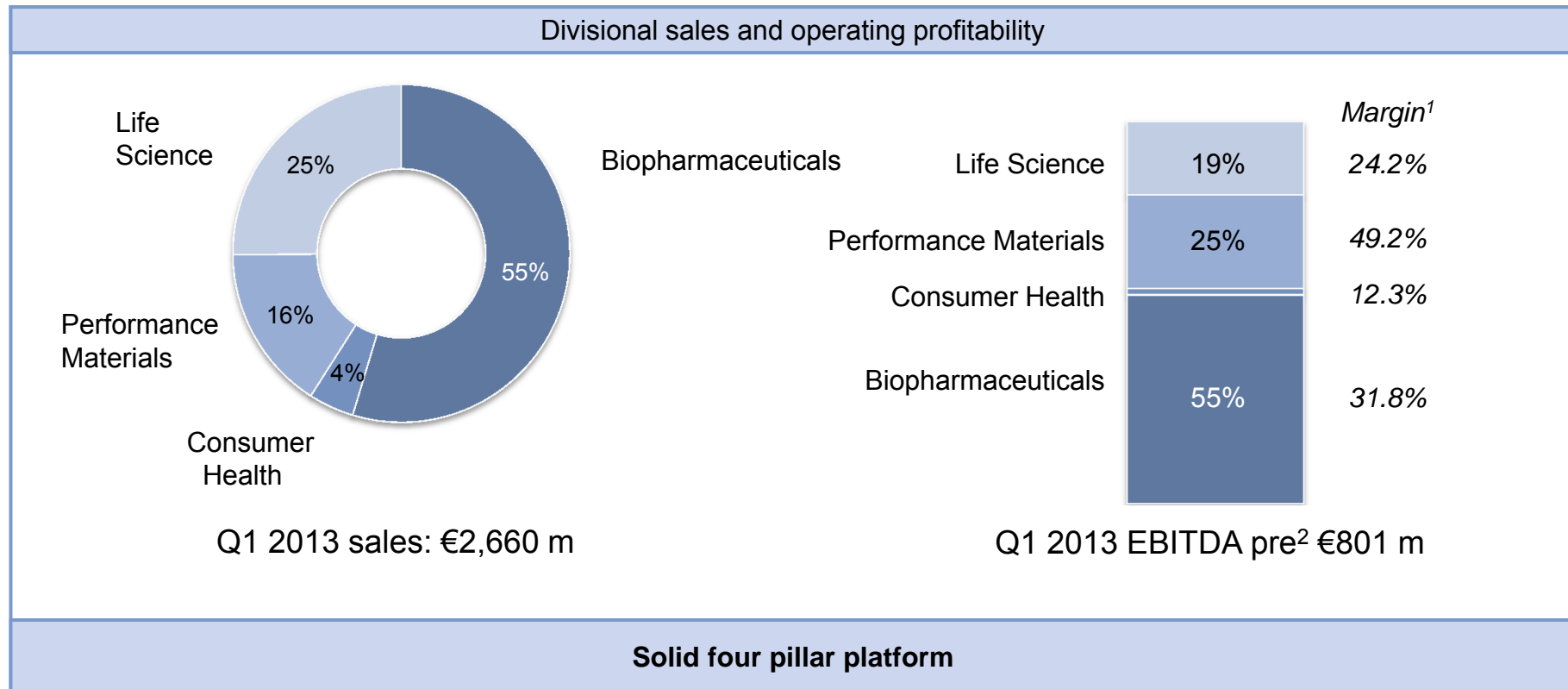
Financial review

Guidance

A balanced portfolio of four divisions

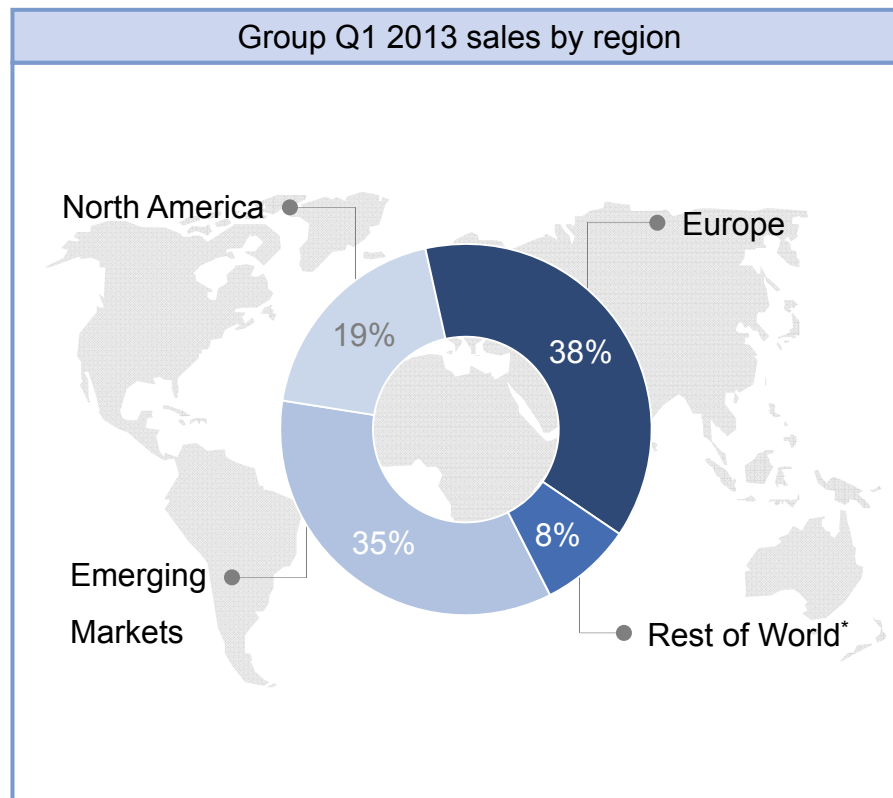
Merck KGaA, Darmstadt, Germany			
Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
			
Leading in certain specialty pharma markets	Present in OTC niche markets	No. 1 in display materials	Top 3 in life science tools
<ul style="list-style-type: none">▪ Life cycle management▪ Biologics▪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

Strong businesses with attractive margins

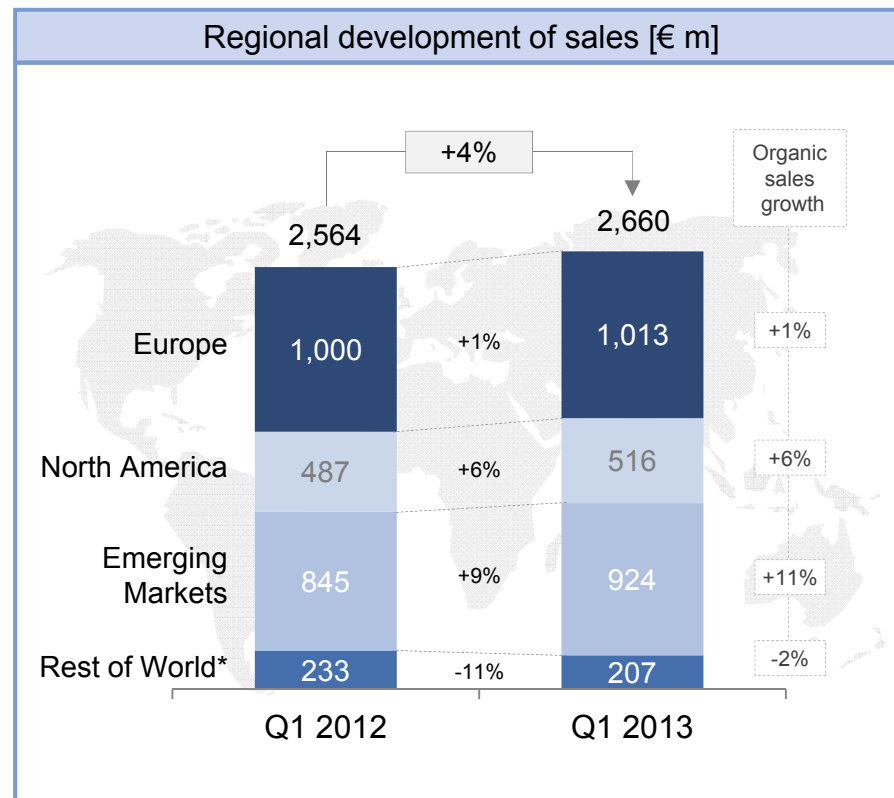


¹ EBITDA pre one-time items as % of sales
² Including Corporate and Others (- € 45.3 million)

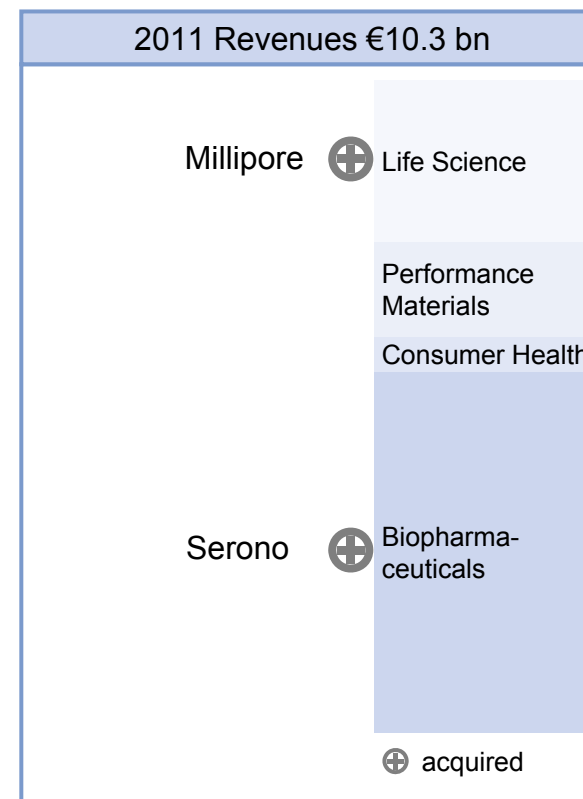
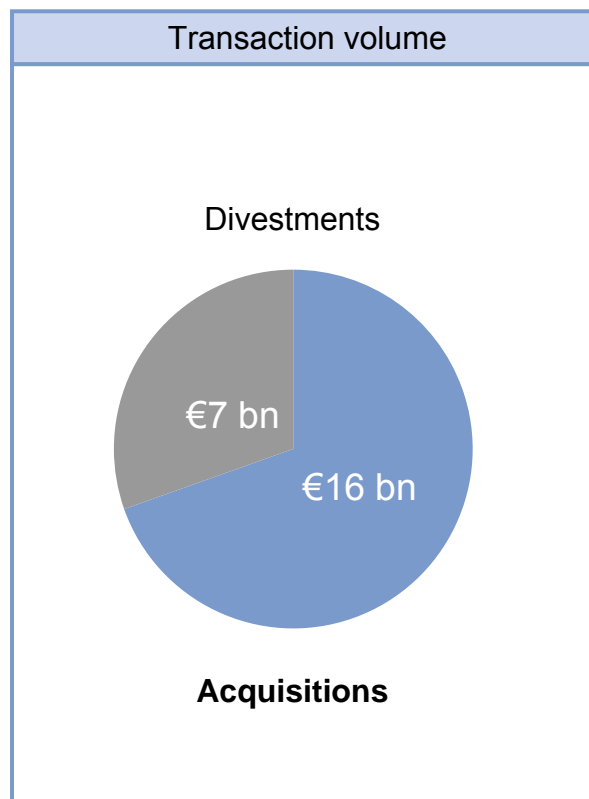
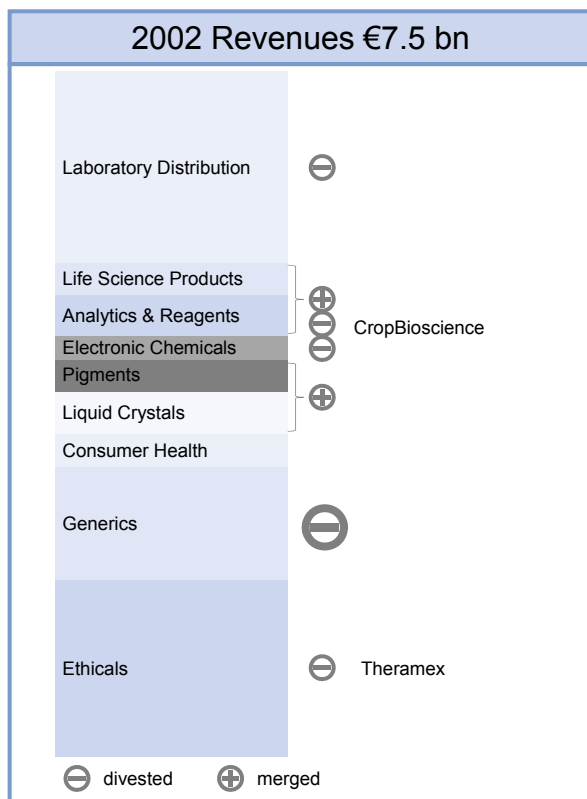
Emerging Markets key driver of absolute and relative sales growth



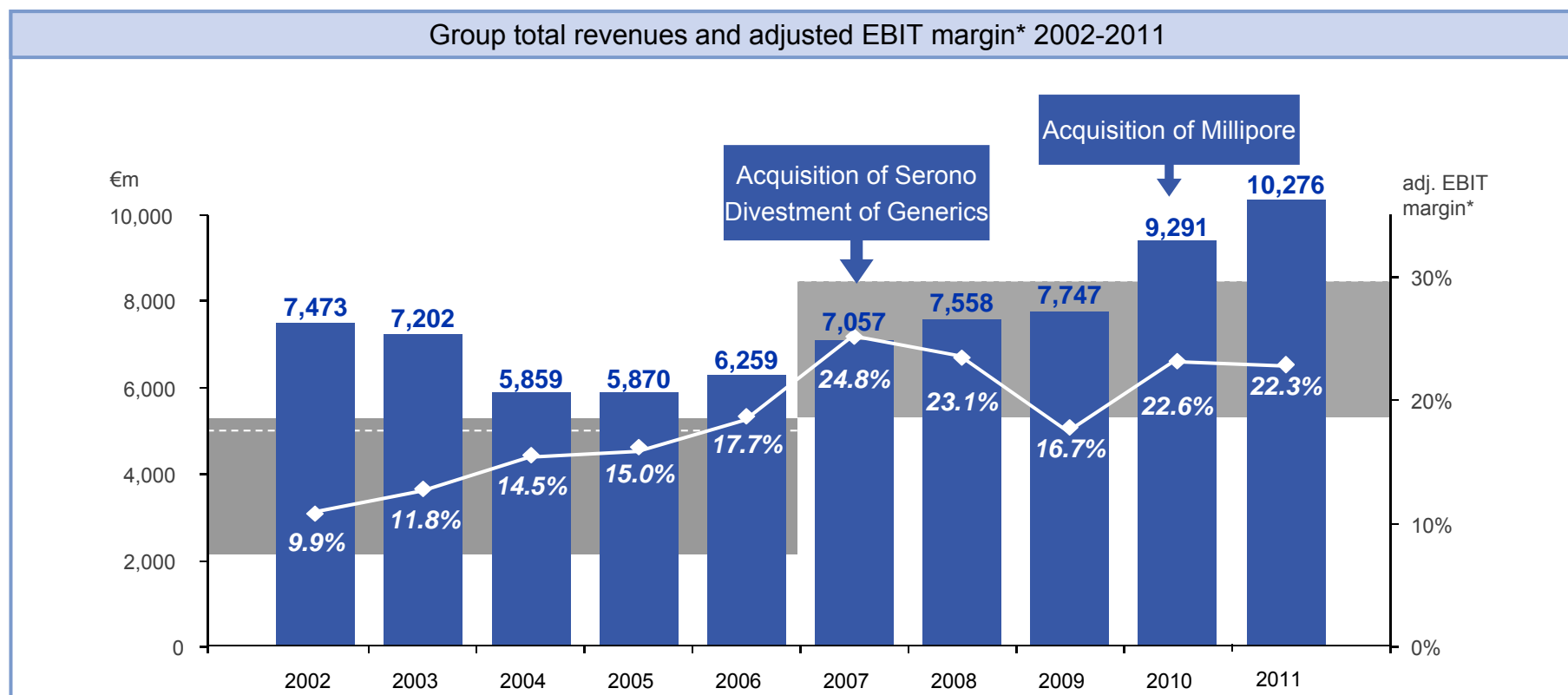
* Japan, Oceania, Australia, Africa



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



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

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Business overview




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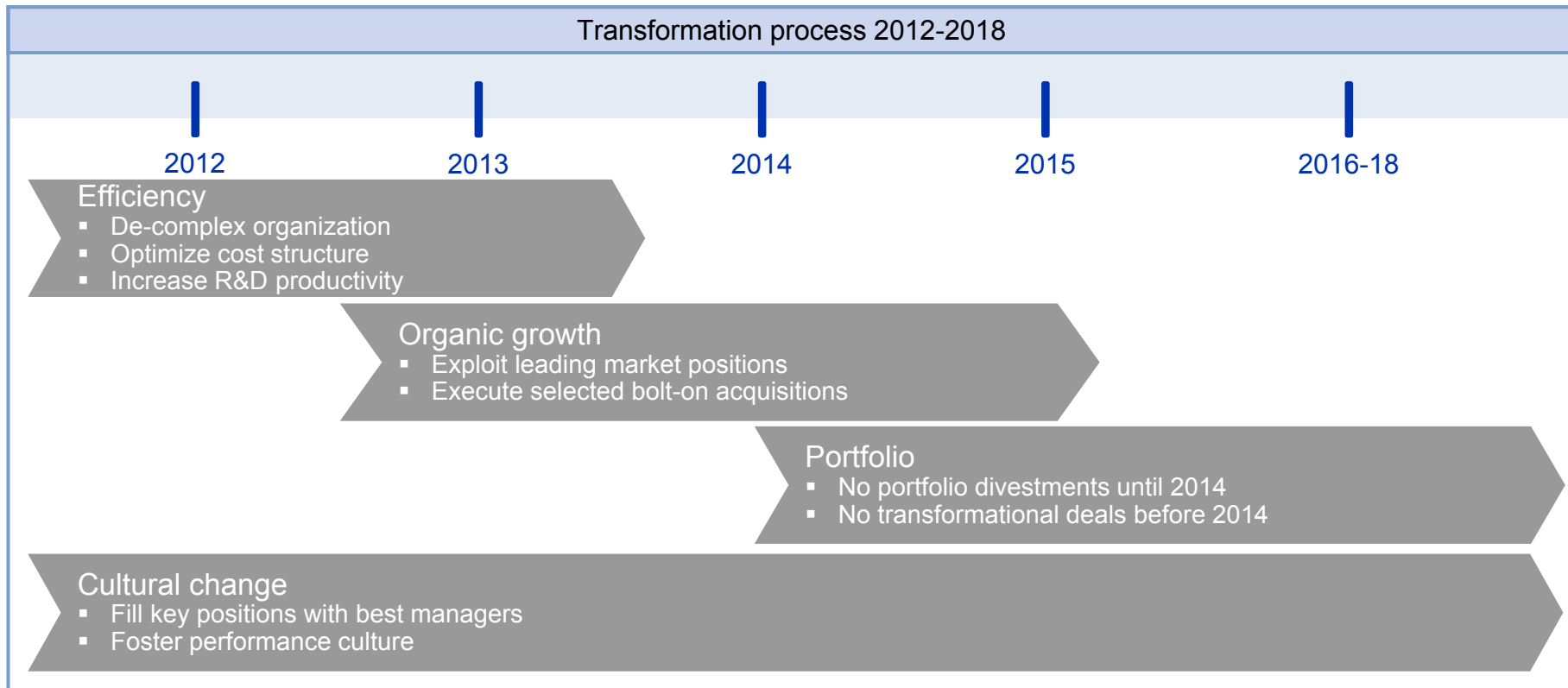
Guidance

Portfolio evolution improved our profitability structure, but further potential remains

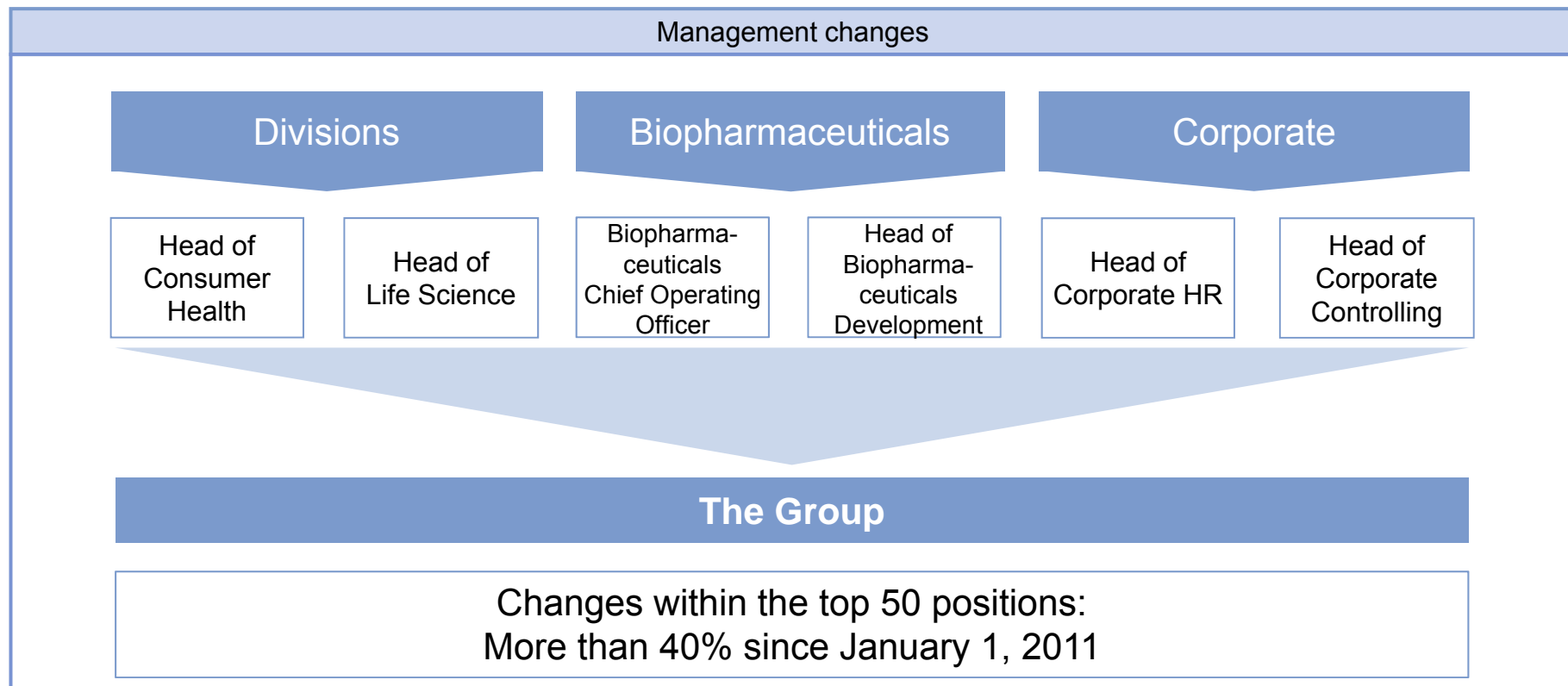
Assessment of long-term financial performance relative to peers				
	Sales growth	Gross margin	SG&A	R&D productivity
Biopharmaceuticals				
Consumer Health				
Performance Materials				
Life Science				

 above peers
 in-line with peers
 below peers

We now focus on efficiency



New management in key positions and across the entire organization



Fit for 2018: Faster implementation and new initiatives added

Net annual savings								
Previous disclosure	Savings	2012	2013	2014	2015	2016	2017	Total
	Biopharmaceuticals	50	200	300				300
	Consumer Health	5	15	25				25
	Life Science				10	30	40	40
	Total	55	215	325	335	355	365	365
	Costs*	430	230	120	20			800
New disclosure	Savings	2012	2013	2014	2015	2016	2017	Total
	Biopharmaceuticals	100	250	300				300
	Consumer Health	10	15	25				25
	Perform. Materials	5	10	20				20
	Life Science		5	10	20	30	40	40
	Total	115	280	355	365	375	385	385
		Costs*	463	229	110	15		

*Fit for 2018 one-time costs on EBIT (also including related one-time D&A = Fit for 2018 impairments)

Details
<ul style="list-style-type: none"> Biopharmaceuticals with swift implementation of initiatives: <ul style="list-style-type: none"> €50 m savings pulled forward Earlier personnel departures in Geneva Consumer Health and Life Science savings also accelerated €20 m additional savings from Pigments & Cosmetics reorganization
<p>Strict implementation to yield ~€385 savings until 2017</p>

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Q1 2013: A strong quarter

[€ m]	Q1 2013	Q1 2012	Δ
Sales	2,660	2,564	4%
EBITDA pre <i>Margin (% of sales)</i>	801 30.1%	674 26.3%	19%
EPS pre [€]	2.11	1.66	27%
Operating cash flow	516	472	9%
[€ m]	March 2013	Dec 2012	Δ
Net financial debt	1,567	1,926	-19%
Working capital	2,562	2,360	9%
Employees	38,311	38,847	-1%

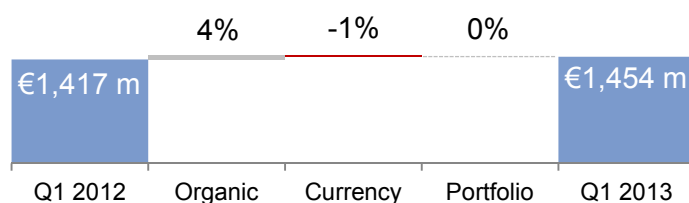
Q1 2013 dynamics
<ul style="list-style-type: none"> ▪ Biopharmaceuticals and Performance Materials key contributors to sales growth ▪ Visible improvement in EBITDA pre and margin driven by organic growth, higher production yields and improved cost structure ▪ Strong EPS pre performance ▪ Cash-generating nature of business enables continued net debt reduction

Solid start to the year: good organic sales increase, higher productivity and supportive mix

Biopharmaceuticals: Organic growth and higher productivity deliver strong business performance

[€ m]	Q1 2013	Q1 2012
Sales	1,454	1,417
Marketing and selling	-312	-332
Admin	-52	-52
R&D	-324	-303
EBIT	195	161
EBITDA	433	393
EBITDA pre	463	403
<i>Margin (% of sales)</i>	<i>31.8%</i>	<i>28.4%</i>

Sales bridge

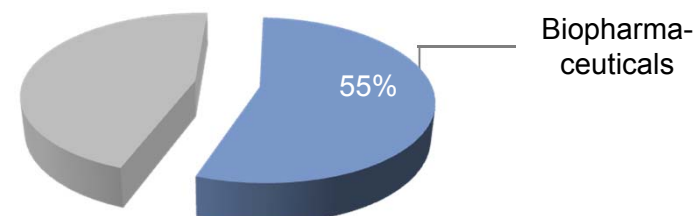


Totals may not add up due to rounding

Comments

- Organic growth leads to sales increase, mitigated by FX
- Rebif with solid pricing in the U.S. (Rebidose introduction) but sluggish volumes as prenotified destocking unfolds
- Erbitux shows good volumes in Emerging Markets while softness in Europe persists
- Marketing and selling improves on continued Fit for 2018 implementation
- Higher R&D due to early oncology projects and one time costs; higher investments in local R&D (for life cycle management)
- Profitability increases on organic growth as well as higher yield

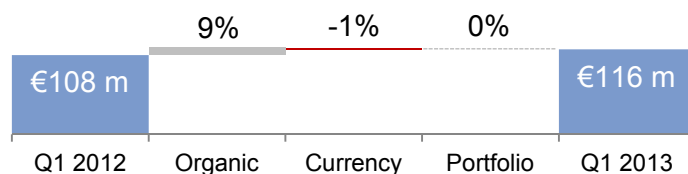
Q1 2013 share of group sales



Consumer Health: Seasonal demand meets improved cost base

[€ m]	Q1 2013	Q1 2012
Sales	116	108
Marketing and selling	-51	-52
Admin	-4	-5
R&D	-4	-5
EBIT	12	6
EBITDA	14	9
EBITDA pre	14	9
<i>Margin (% of sales)</i>	<i>12.3%</i>	<i>8.7%</i>

Sales bridge

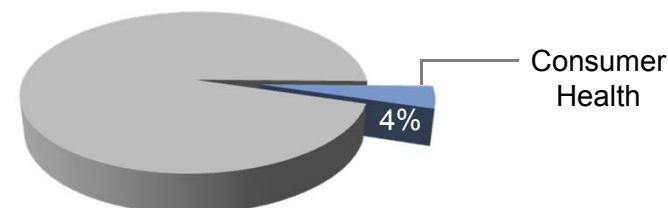


Totals may not add up due to rounding

Comments

- Sales increase on strong organic growth slightly mitigated by currency
- Cough and cold benefits seasonally, more so due to extended winter period in Europe
- Strong performance of strategic brands, especially Nasivin and Bion 3
- Business starts improving on Fit for 2018 initiatives but short-term volatility should still be expected
- Profitability increases thanks to healthy demand and an improved cost base

Q1 2013 share of group sales

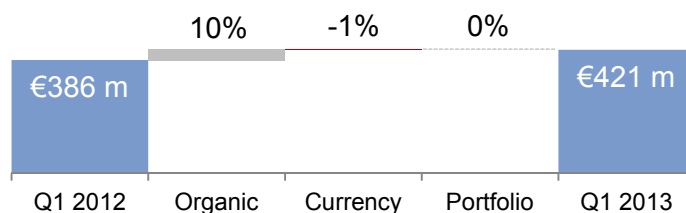


Performance Materials: Ongoing strength in Liquid Crystals and first successful Pigments quarter

[€ m]	Q1 2013	Q1 2012
Sales	421	386
Marketing and selling	-35	-33
Admin	-7	-8
R&D	-36	-35
EBIT	173	132
EBITDA	203	163
EBITDA pre	207	163
<i>Margin (% of sales)</i>	<i>49.2%</i>	<i>42.3%</i>

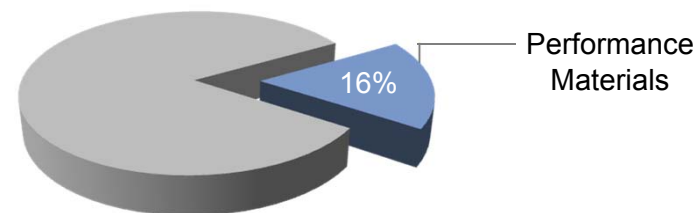
Comments
<ul style="list-style-type: none"> Strong demand for Liquid Crystals fuels organic growth with volume increases being slightly mitigated by pricing PS-VA and IPS overcompensate more modest TFT and VA performance due to their superior technology Improved cost structure in the Pigments and Cosmetics business meets seasonally strongest volume quarter Profitability increases as strong demand with good capacity utilization coincides with an improved cost structure

Sales bridge

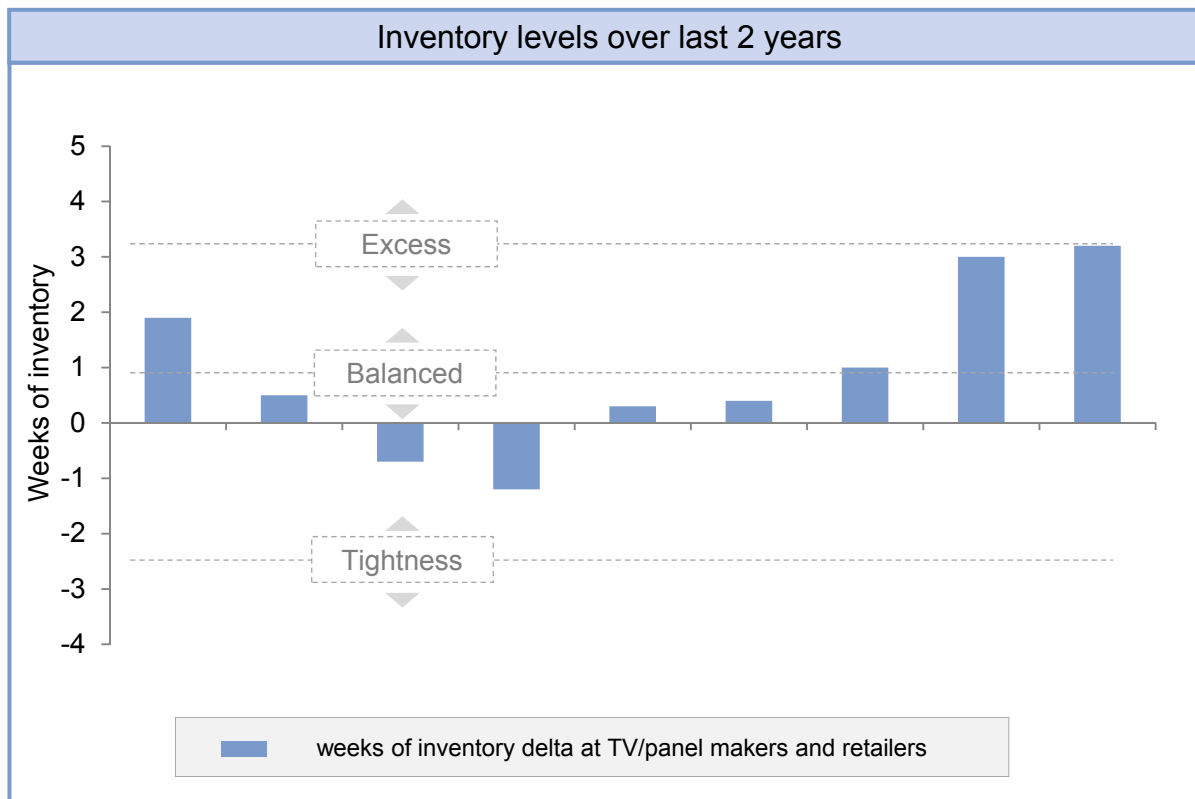


Totals may not add up due to rounding

Q1 2013 share of group sales



Supply chain levels are expected to burden Liquid Crystals demand in the second half of the year



Comments

- Downstream inventory levels high
- Precise forecast when potential destocking will occur cannot be made

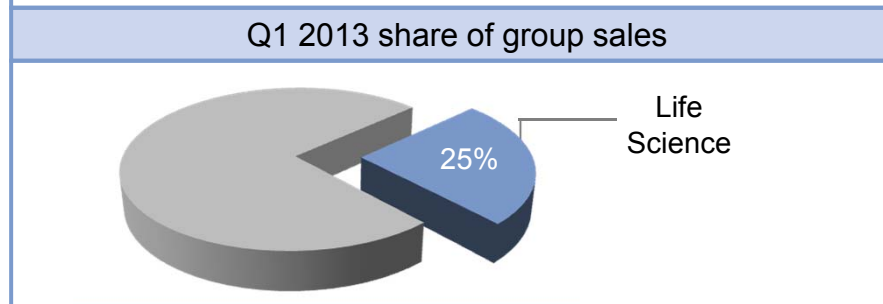
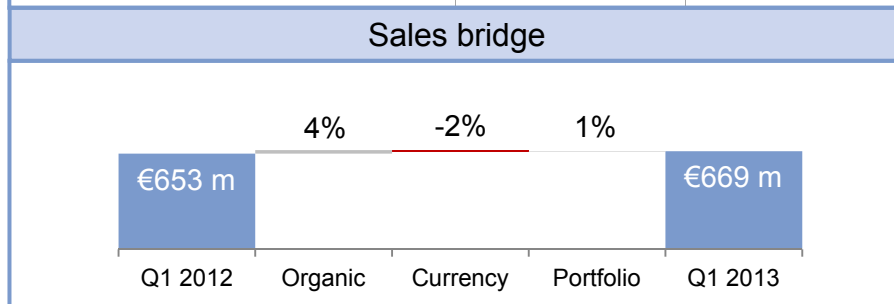
Destocking will occur but underlying trends remain intact

Illustration, source: GfK; February 2013

Life Science: Stable performance amid continued investments

[€ m]	Q1 2013	Q1 2012
Sales	669	653
Marketing and selling	-169	-167
Admin	-27	-25
R&D	-41	-38
EBIT	72	83
EBITDA	151	159
EBITDA pre	162	166
<i>Margin (% of sales)</i>	<i>24.2%</i>	<i>25.4%</i>

Comments
<ul style="list-style-type: none"> ▪ Volume and price increases as well as positive portfolio effects are mitigated by FX ▪ Process Solutions drives turnover increase; healthy demand stemming predominantly from biopharma production activities ▪ Growth in Lab Solutions being led by Biomonitoring activities with healthy demand from pharma and food/beverage markets ▪ Sluggish performance of Bioscience activities amid U.S. sequestration ▪ Increased R&D and marketing and selling investments weigh on profitability



Totals may not add up due to rounding

Balance sheet strength

[€ m]	March 2013	Dec 2012	Δ	Comments
Total assets	21,954	21,643	1%	<ul style="list-style-type: none"> ▪ Cash-generating nature of business drives increase in cash and other liquid funds ▪ Ongoing deleveraging: net financial debt down by €359 m ▪ Pension provisions increase due to discount rate reduction
Equity	10,514	10,415	1%	
Cash and other liquid funds	2,901	2,528	15%	
Intangible assets	10,825	10,945	-1%	
Financial debt	4,468	4,454	0%	
Pension provisions	1,308	1,212	8%	
Net financial debt	1,567	1,926	-19%	

Strong operating cash-generation continues

[€ m]	Q1 2013	Q1 2012	Δ	Comments
Profit after tax	269	175	94	<ul style="list-style-type: none"> ▪ Profit after tax reflects good business performance ▪ Sales expansion main element of working capital increase ▪ Changes in investing and financing cash flow driven by March 2012 €500 m bond repayment
D&A	354	343	12	
Changes in provisions	23	24	-1	
Changes in other assets / liabilities	72	-52	124	
Other operating activities	-8	-7	-1	
Operating cash flow before changes in WC	710	483	227	
Changes in working capital	-195	-11	-184	
Operating cash flow	516	472	44	
Investing cash flow	-324	318	-642	
thereof Capex*	-37	-51	13	
Financing cash flow	-107	-638	531	

Cash flow strength

Totals may not add up due to rounding

* Only PPE w/o intangibles

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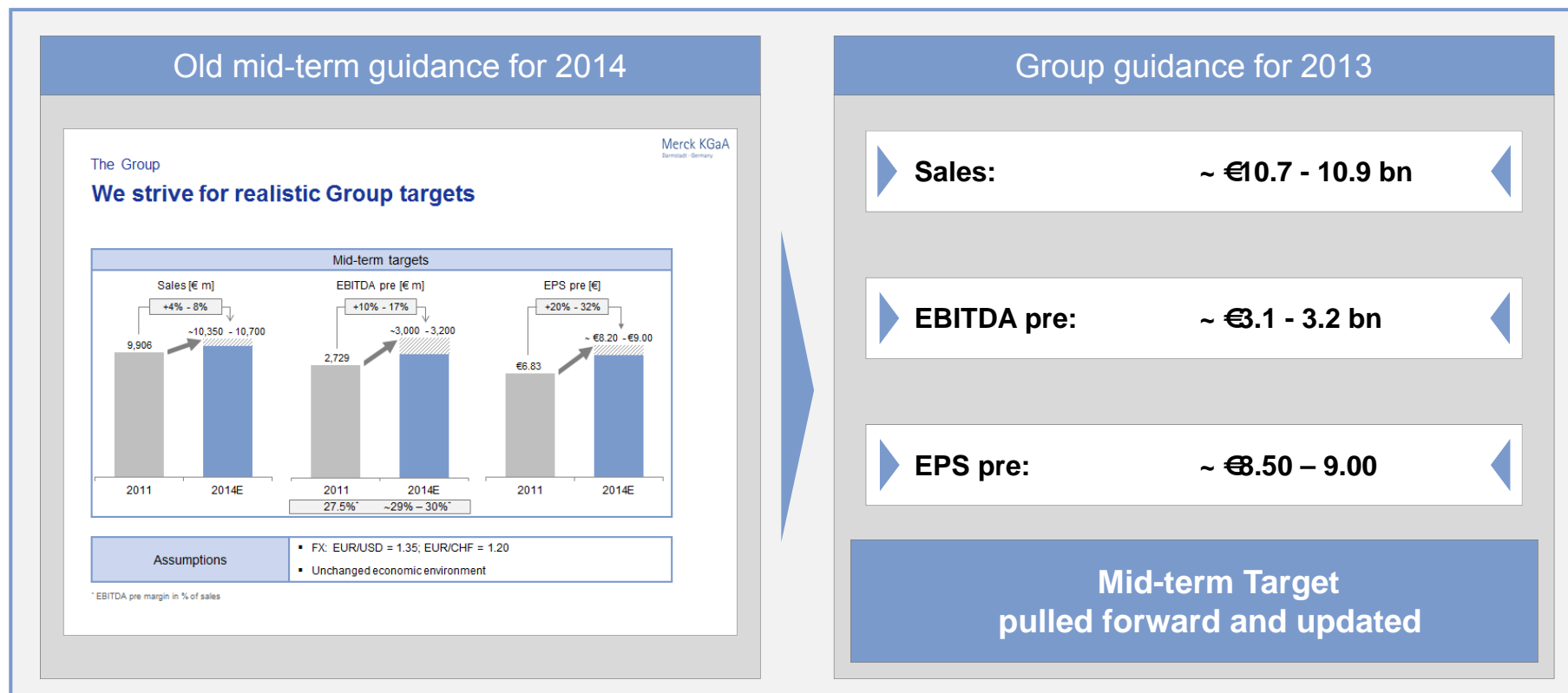
Business overview

Transforming the company




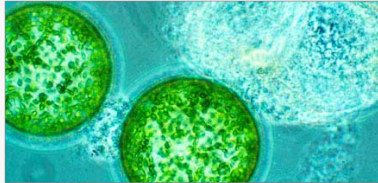
Financial review

Guidance

With successful acceleration of transformation we aim to deliver our mid-term targets already in 2013



2013 guidance details

Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
			
Sales	Sales	Sales	Sales
Moderate organic growth	Stable	Stable	Moderate organic growth
EBITDA pre	EBITDA pre	EBITDA pre	EBITDA pre
~ €1.9 – 2.0 bn	~ €70 – 75 m	~ €700 – 740 m	~ €620 – 640 m
Group 2013 guidance: ~€3.1 to 3.2 billion EBITDA pre			

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Appendix

Additional financial guidance

Further financial details

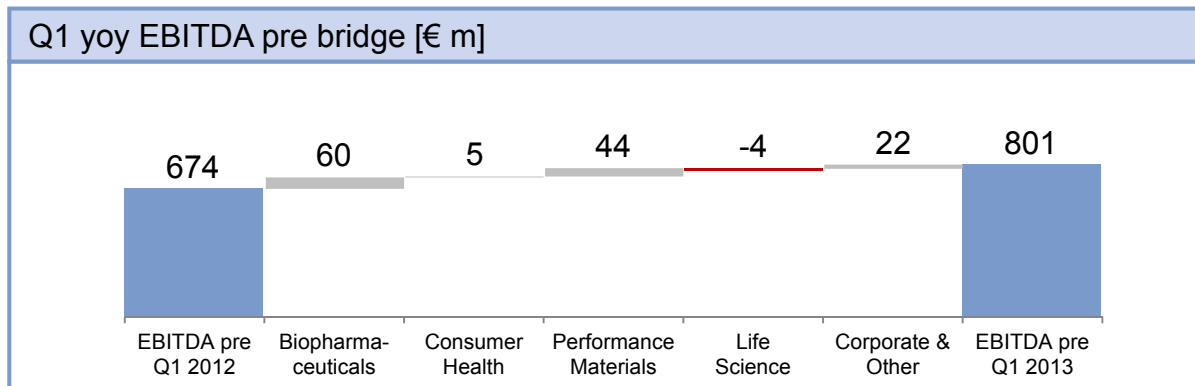
- Royalty, license and commission income : To decline to ~€180-200 m in 2014
- Corporate EBITDA pre : ~€-210 m
- Underlying tax ratio : ~25% to 26%
- Capex on PPE : ~€450 m
- Hedging / USD assumption : 2013 and 2014 hedge ratio between ~30% to 35% at EUR/USD ~1.30 – 1.35



Biopharmaceuticals and Performance Materials largest contributors to top- and bottom-line improvement

Q1 yoy sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	4%	-1%	0%	3%
Consumer Health	9%	-1%	0%	8%
Performance Materials	10%	-1%	0%	9%
Life Science	4%	-2%	1%	2%
The Group	5%	-1%	0%	4%

- All divisions realize solid organic growth
- Biopharmaceuticals biggest absolute contributor to organic growth, followed by Performance Materials
- FX turns negative for all divisions



- EBITDA pre driven by Biopharmaceuticals and Performance Materials
- Investments in future products and technologies weigh on Life Science
- Corporate & Other included hedging losses in 2012

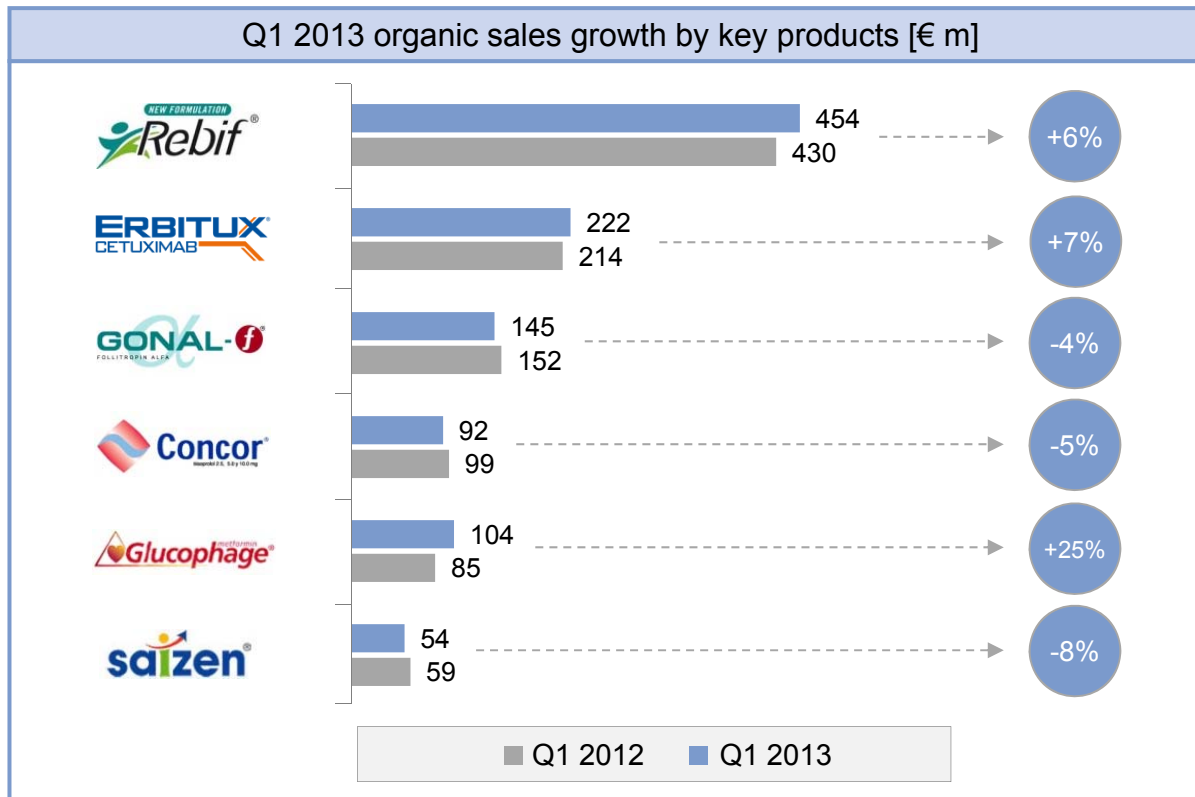
Totals may not add up due to rounding

Business performance, lower financial and tax expenses drive strong net income expansion

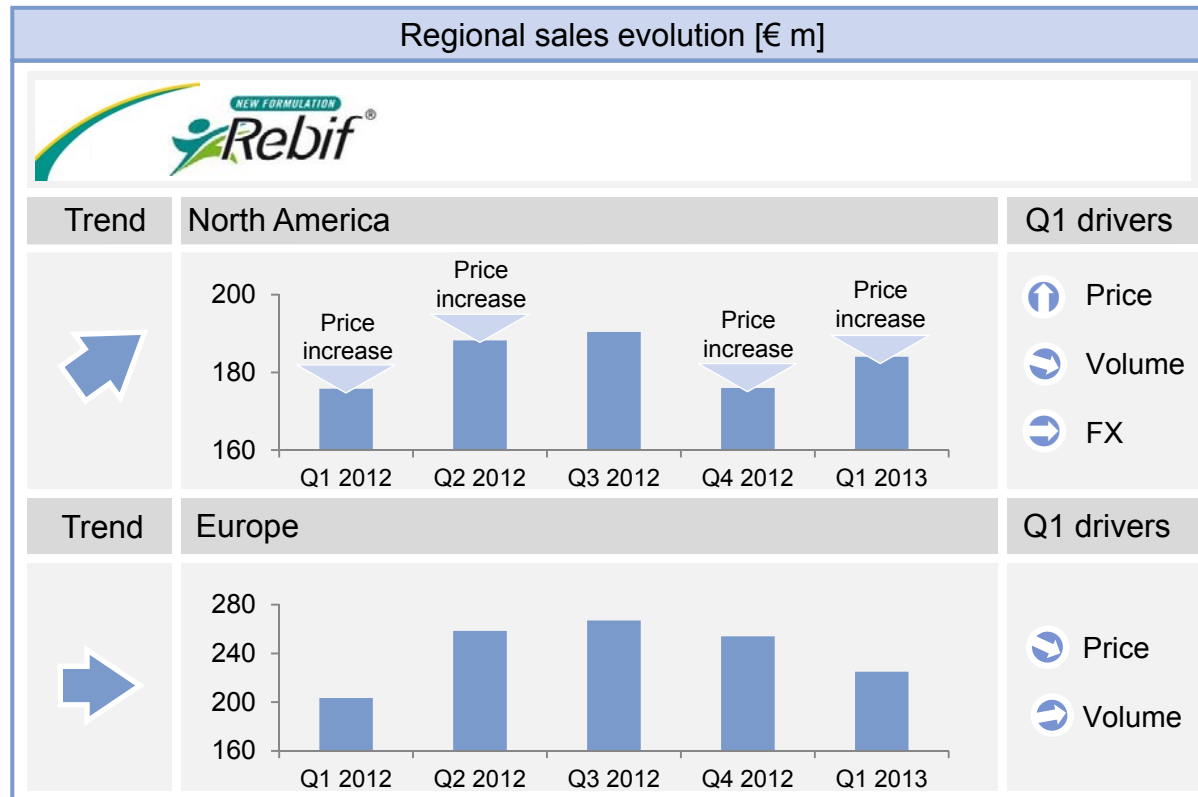
[€ m]	Q1 2013	Q1 2012	Δ	Comments
EBIT	399	311	29%	<ul style="list-style-type: none"> ▪ Top-line growth, mix and yield variances increase EBIT ▪ Gross debt reduction benefits financial result, lowers interest cost ▪ Favorable regional profit split and one-time tax credits lower tax ratio; guidance unchanged at 25% to 26% ▪ Strong increase in reported net income due to EBIT growth, tax and financial result improvement
Financial result	-59	-66	-11%	
Profit before tax	341	244	39%	
Income tax	-72	-69	3%	
Tax ratio (%)	21.0	28.4		
Net income	266	173	54%	
EPS (€)	1.22	0.79	54%	

Totals may not add up due to rounding

Biopharmaceuticals organic growth performance by product

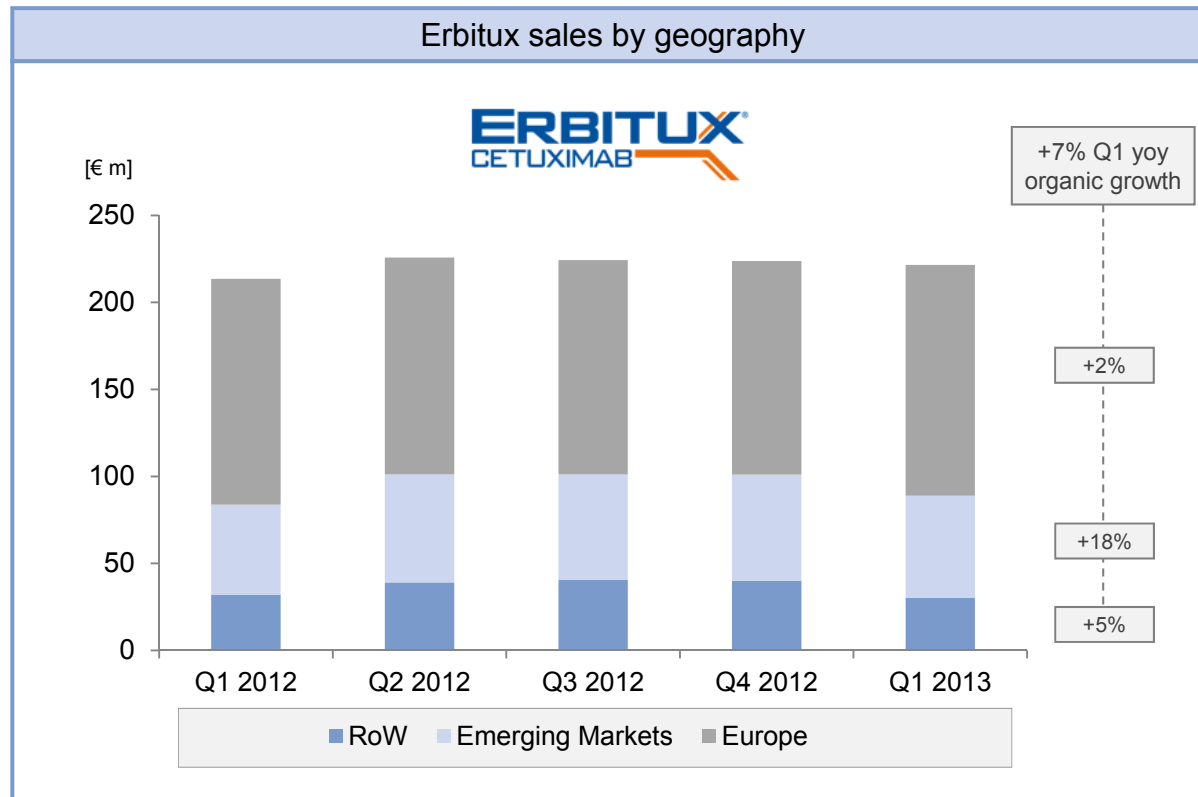


Rebif – U.S. pricing yields strong organic growth



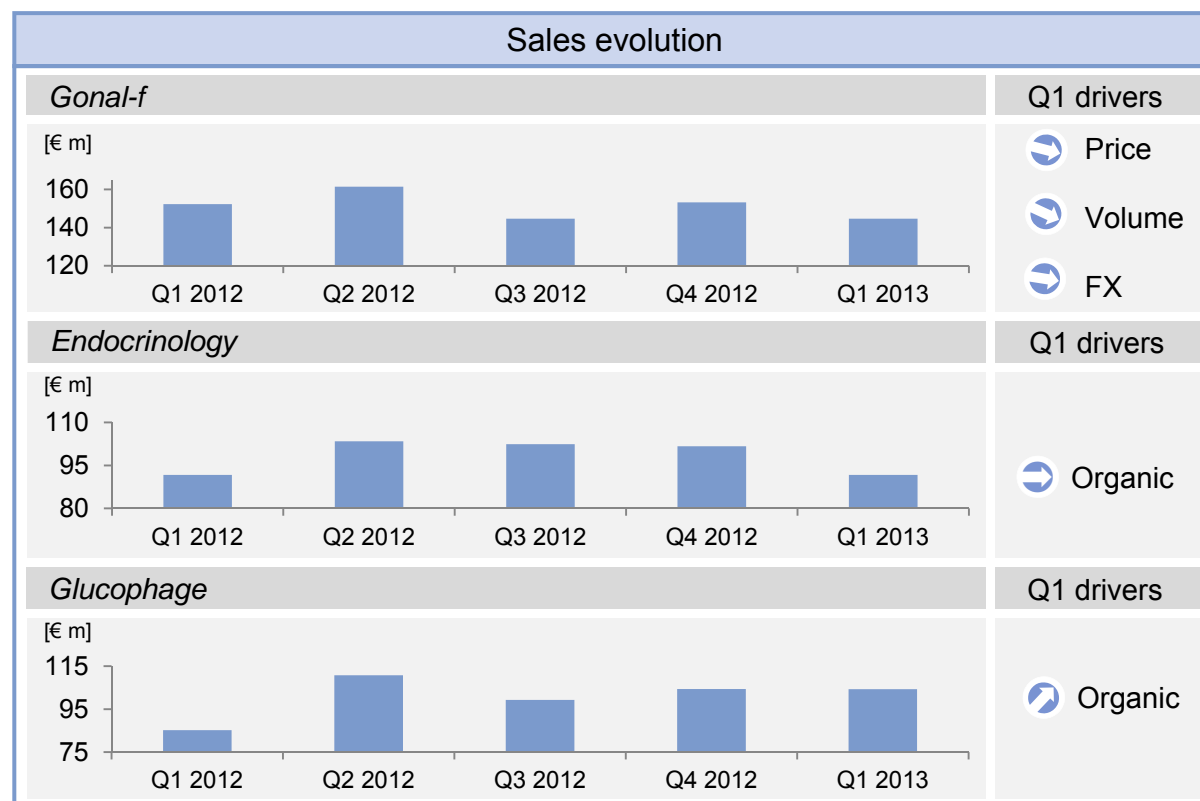
- Rebif performance
- €454 m global sales with 6% organic growth
 - North America benefits from pricing (Rebidose) while volume decreases as prenotified destocking unfolds
 - Volume increase in Europe somewhat mitigated by pricing pressure
 - Court decision: co-promotion agreement with Pfizer effective until 2015

Erbitux – Emerging Markets drive solid performance



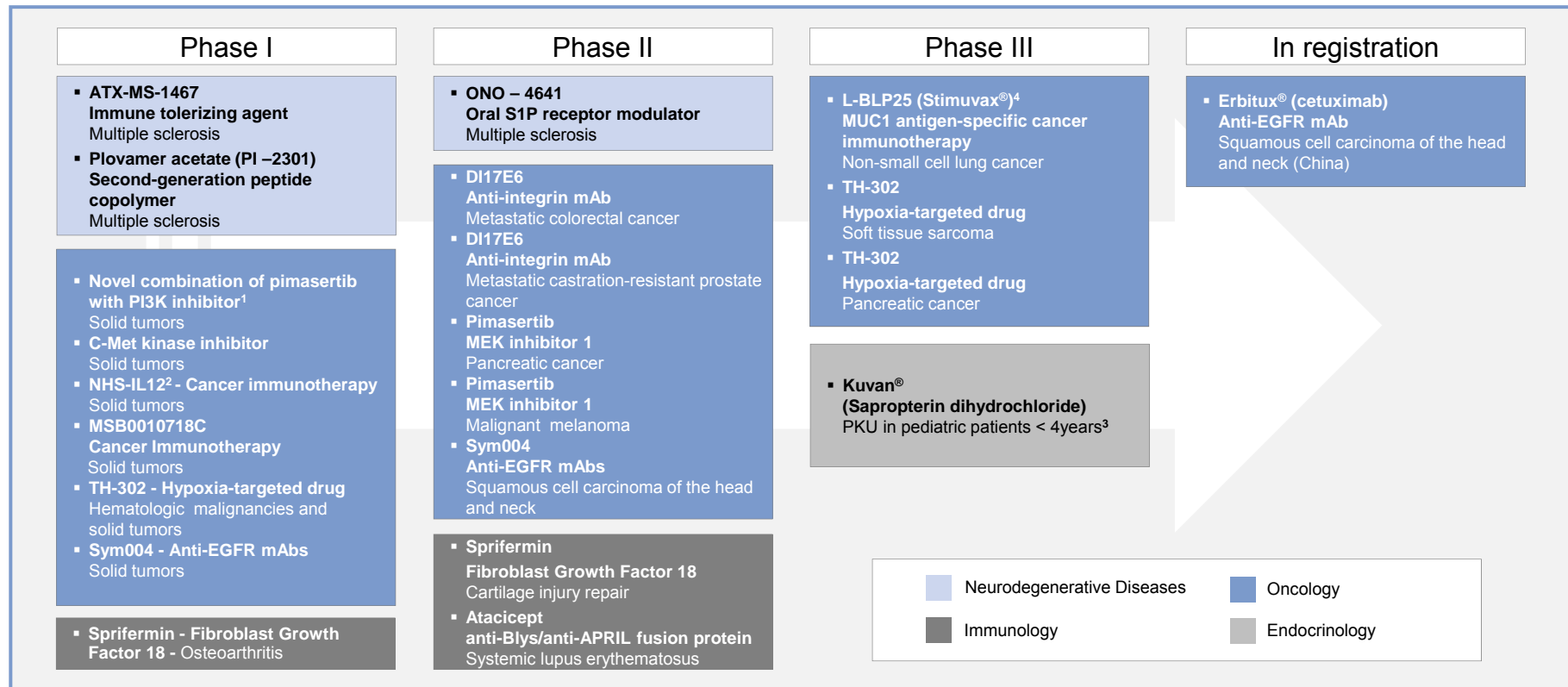
- Erbitux performance
- Global sales of €222 m reflect 7% organic sales growth and -3% FX impact
 - Emerging Markets and Russia as main growth drivers
 - Ongoing difficult market environment in Europe
 - Organic growth in Japan overcompensated by FX impact

Strong performance of Glucophage; Gonal-f and Endocrinology softer



- | Q1 growth |
|---|
| <ul style="list-style-type: none"> -4% organic sales in Gonal-f due to high U.S. inventory levels being adjusted in Q1 2013 and facing tougher comps from the successful 2012 family-of-pens roll-out Moderate performance in Endocrinology; organic sales decline of Saizen almost offset by good performance of Serostim, Egrifta and Kuvan Glucophage with strong organic sales growth, notably in Latin America and Russia |


Biopharmaceuticals pipeline



Pipeline as of May, 2013; ¹ Combined with PI3K/mTOR inhibitor of Sanofi (SAR245409), conducted under the responsibility of Merck KGaA, Darmstadt, Germany
² Sponsored by the National Cancer Institute (NCI), USA; ³ Phase IIIb post-approval request by EMA ⁴ START trial did not meet primary endpoint. INSPIRE study ongoing

Biopharmaceuticals pipeline newsflow

Project	Indication	Current phase	Timing	Event
TH-302	Soft tissue sarcoma	Phase III	Mid-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	Non-small cell lung cancer	Phase III	2013	Decision on continuation of development program



Phase II of cost allocation elimination implemented

2012 reclassification - elimination of corporate cost allocation to divisions					
[€ m]	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2012
Biopharmaceuticals	-9	-10	-10	-10	-39
Consumer Health	-1	-1	-1	-1	-3
Performance Materials	-3	-3	-3	-3	-11
Life Science	-5	-5	-4	-5	-19
Corporate Other	+18	+19	+17	+18	+72
		- less cost	+ cost added		

Totals may not add up due to rounding

Rationale
<ul style="list-style-type: none"> With 2013, phase II of cost allocation elimination implemented Phase I eliminated allocations from corporate to divisions Phase II eliminates allocation to countries
<p>Elimination enables increased accountability of divisional business managers</p>

One-time items in Q1 2013 and Q1 2012

One-time items				
[€ m]	Q1 2013		Q1 2012	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	56	27	18	9
Consumer Health	0	0	1	0
Performance Materials	4	0	1	0
Life Science	10	0	7	0
Corporate & Other	3	0	2	0
Total	74	27	30	9

Totals may not add up due to rounding

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