

**Merck KGaA, Darmstadt, Germany**

**Q1 2013 A solid start to the year**

**UBS Global Healthcare Conference**

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New York, May 2013

**Merck KGaA**

Darmstadt · Germany



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# Agenda




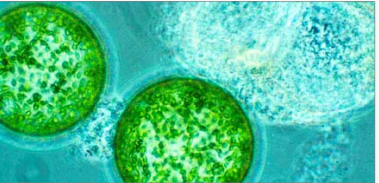
## **Business overview**

Transforming the company

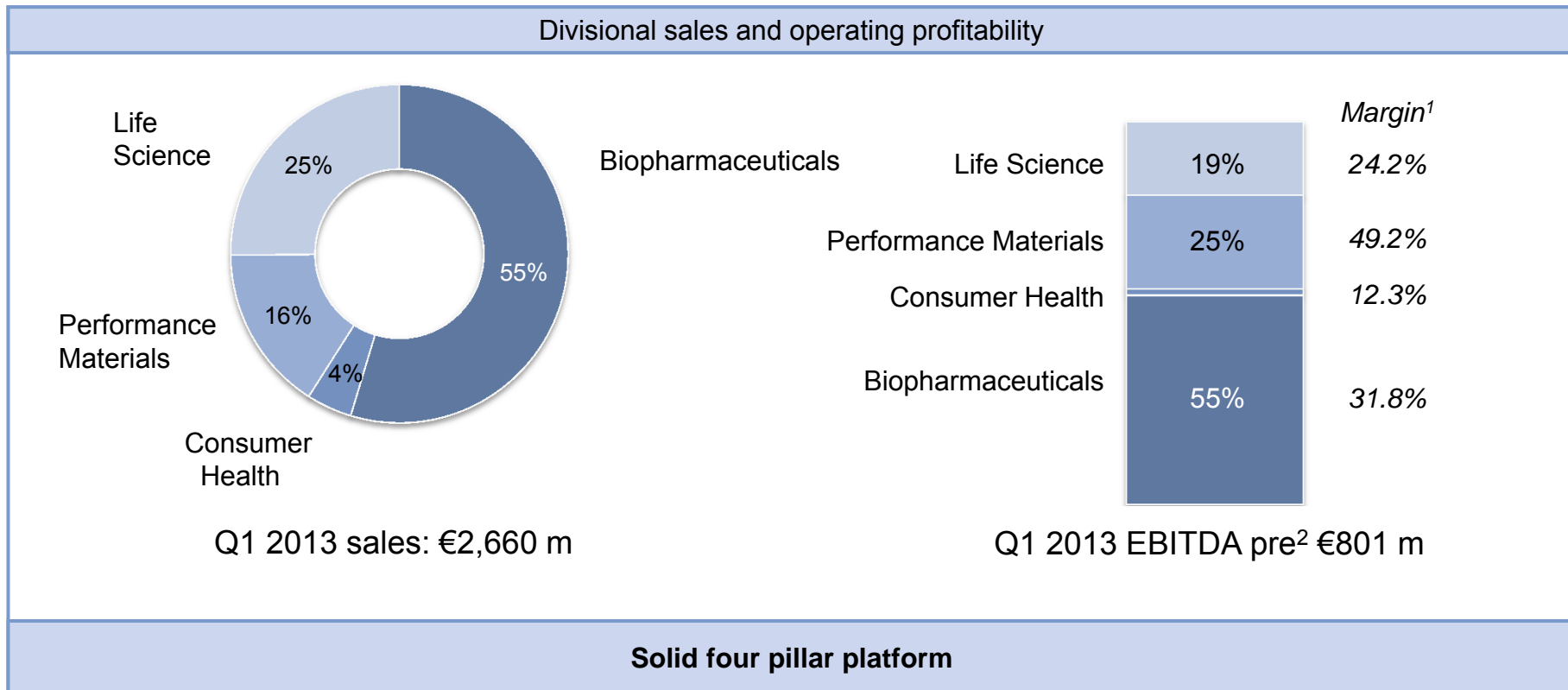
Financial review

Guidance

# A balanced portfolio of four divisions

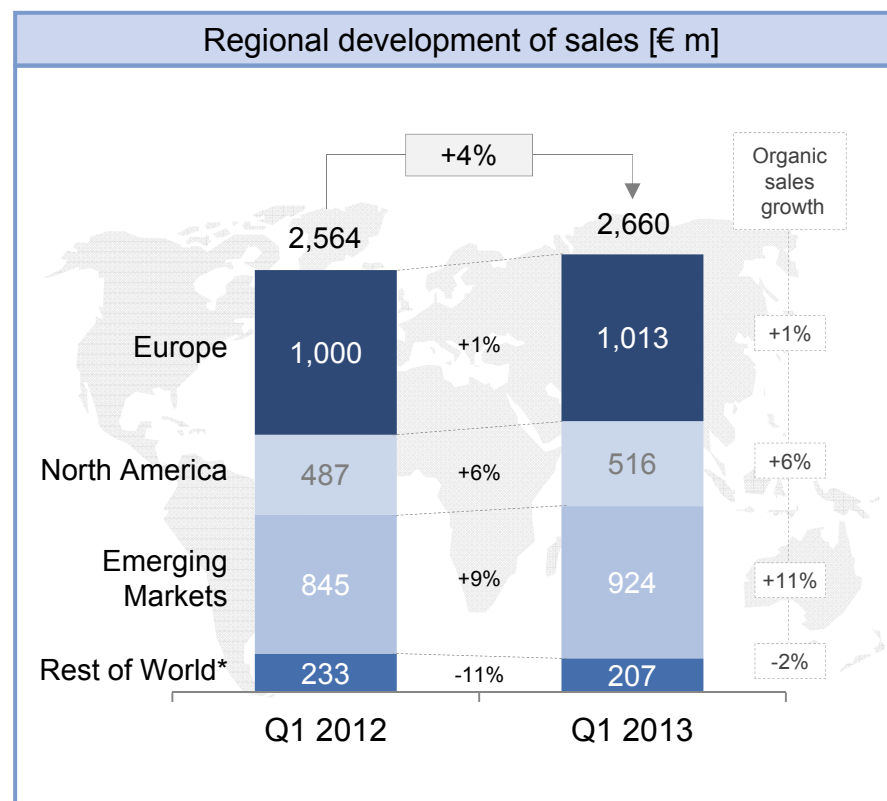
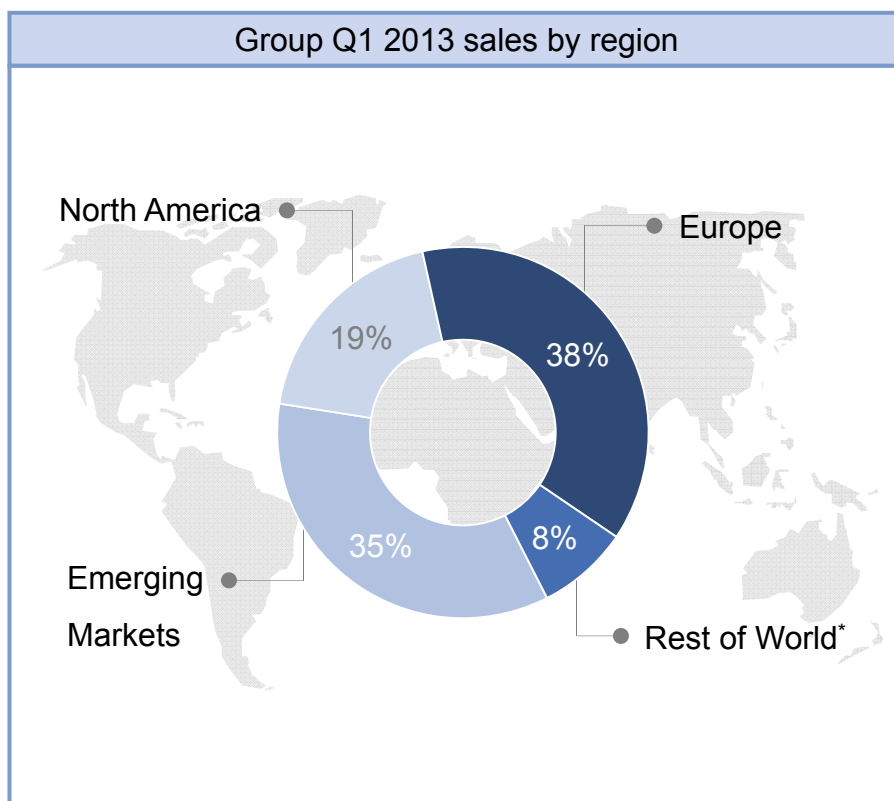
Merck KGaA, Darmstadt, Germany			
Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
			
Leading in certain specialty pharma markets	Present in OTC niche markets	No. 1 in display materials	Top 3 in life science tools
<ul style="list-style-type: none"><li>▪ Life cycle management</li><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>

# Strong businesses with attractive margins



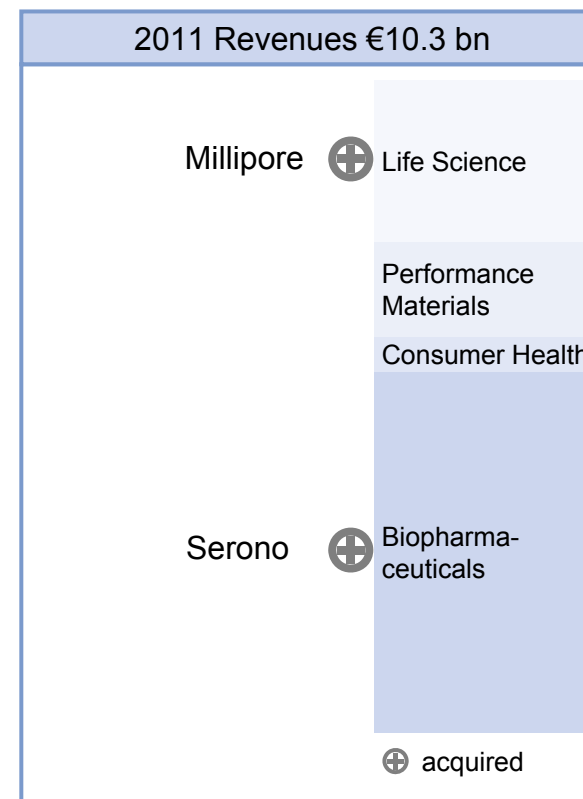
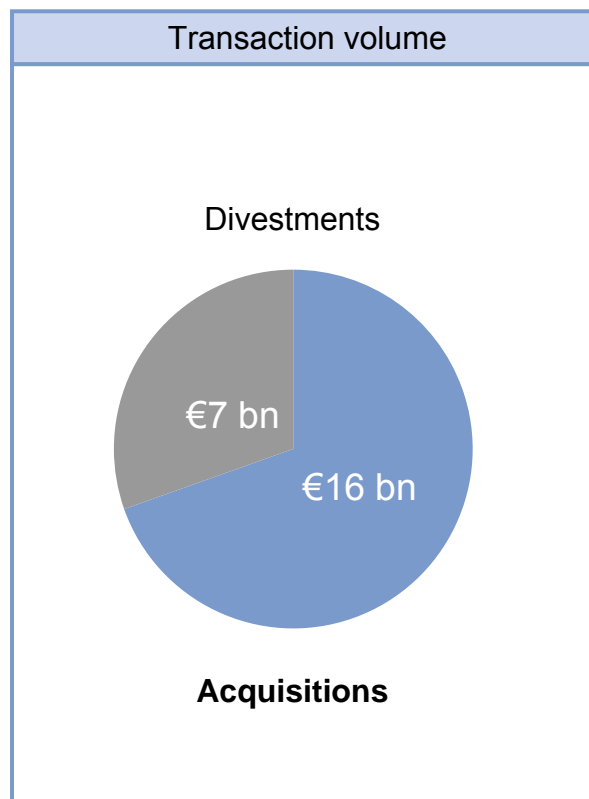
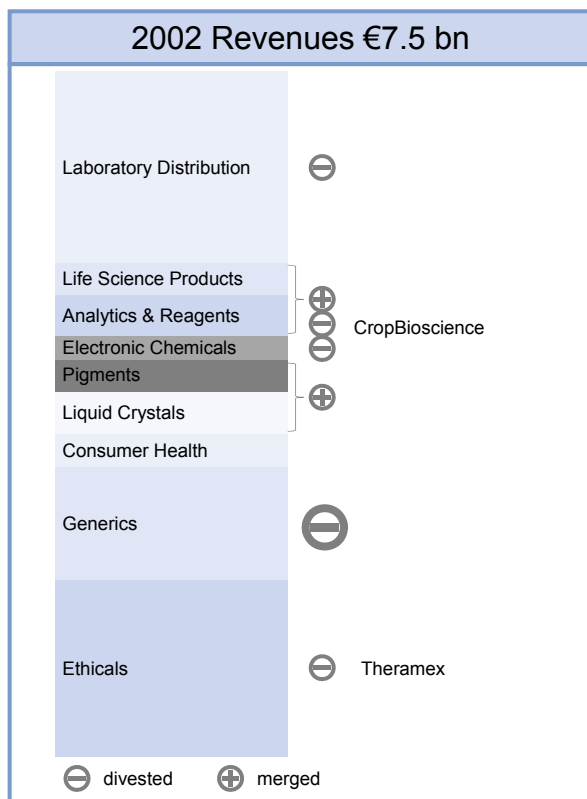
<sup>1</sup> EBITDA pre one-time items as % of sales  
<sup>2</sup> Including Corporate and Others (- € 45.3 million)

# Emerging Markets key driver of absolute and relative sales growth

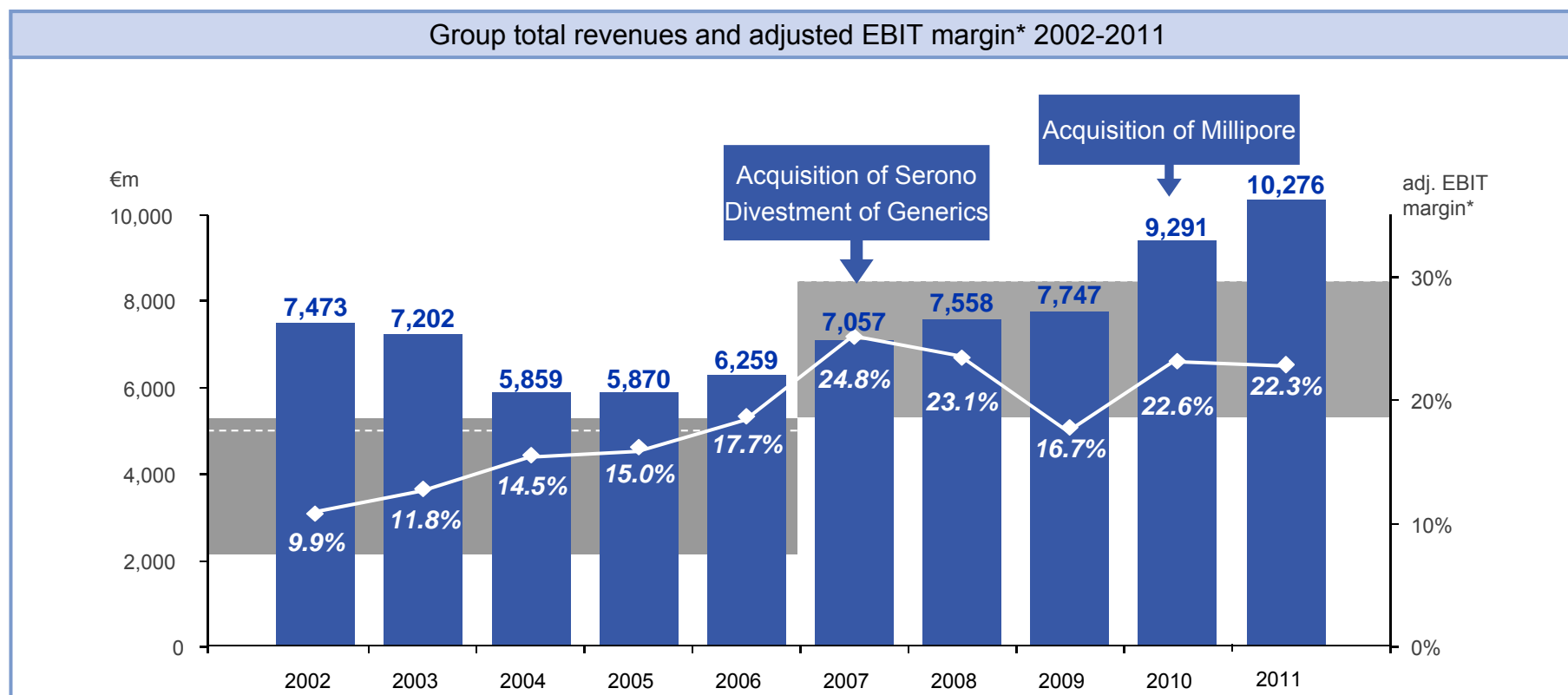


\* Japan, Oceania, Australia, Africa

# 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

# Agenda

















Business overview




**Transforming the company**

Financial review

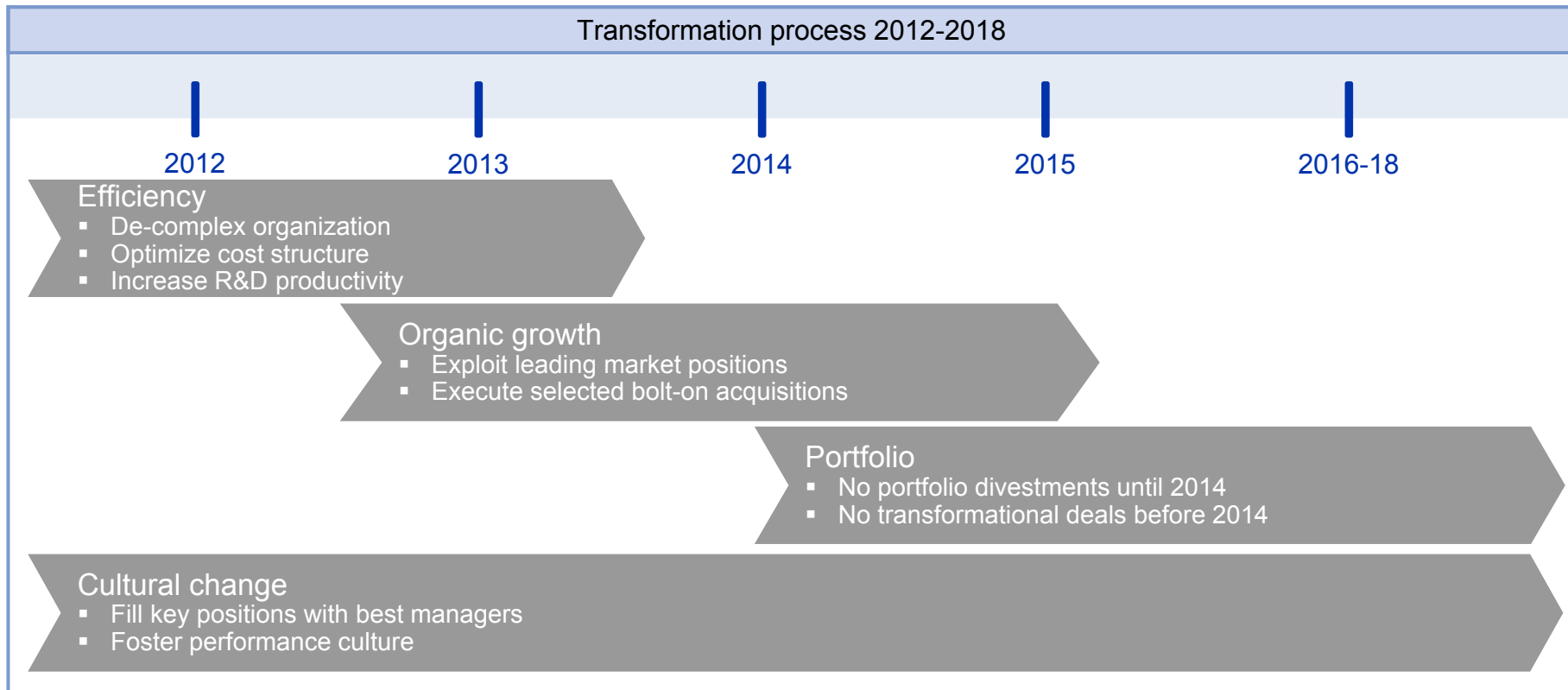
Guidance

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

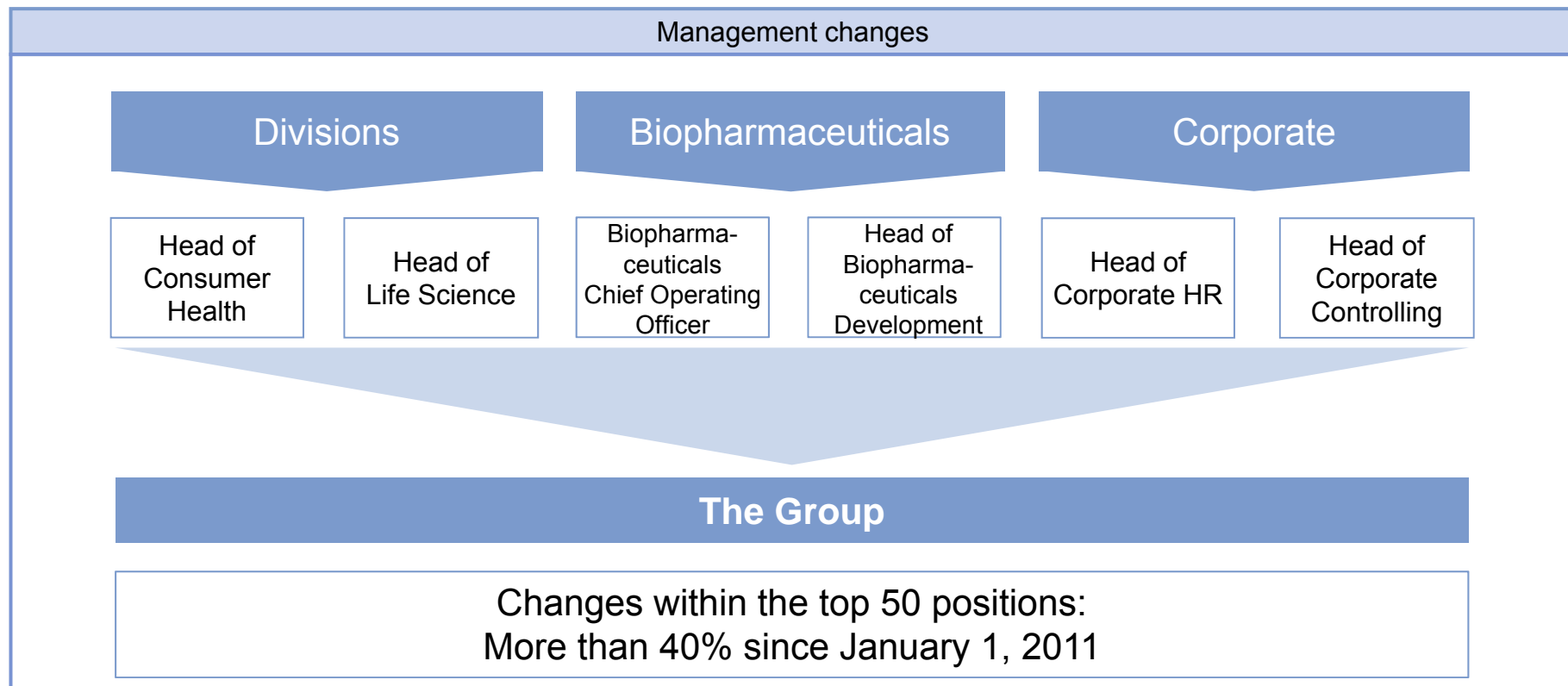
Assessment of long-term financial performance relative to peers				
	Sales growth	Gross margin	SG&A	R&D productivity
Biopharmaceuticals				
Consumer Health				
Performance Materials				
Life Science				

 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
	<b>Total</b>	<b>55</b>	<b>215</b>	<b>325</b>	<b>335</b>	<b>355</b>	<b>365</b>	<b>365</b>
	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
	<b>Total</b>	<b>115</b>	<b>280</b>	<b>355</b>	<b>365</b>	<b>375</b>	<b>385</b>	<b>385</b>
	Costs*	463	229	110	15			817

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

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## Q1 2013: A strong quarter

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

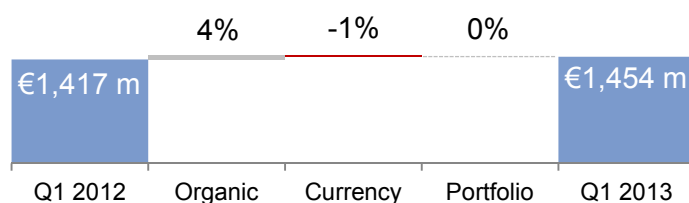
Q1 2013 dynamics
<ul style="list-style-type: none"> <li>▪ Biopharmaceuticals and Performance Materials key contributors to sales growth</li> <li>▪ Visible improvement in EBITDA pre and margin driven by organic growth, higher production yields and improved cost structure</li> <li>▪ Strong EPS pre performance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

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

Sales bridge

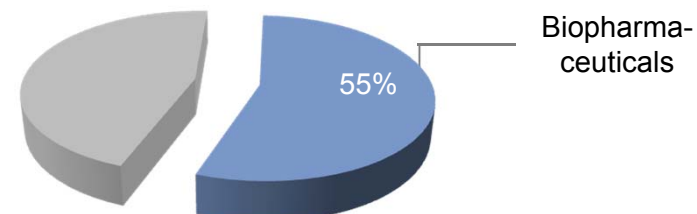


Totals may not add up due to rounding

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

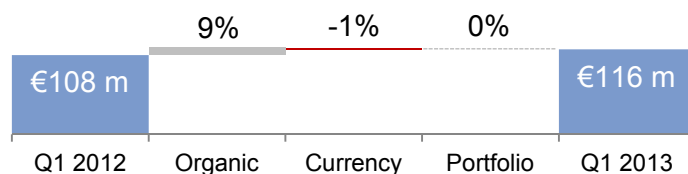
Q1 2013 share of group sales



## Consumer Health: Seasonal demand meets improved cost base

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

Sales bridge

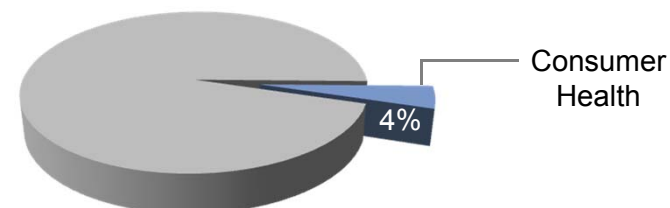


Totals may not add up due to rounding

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

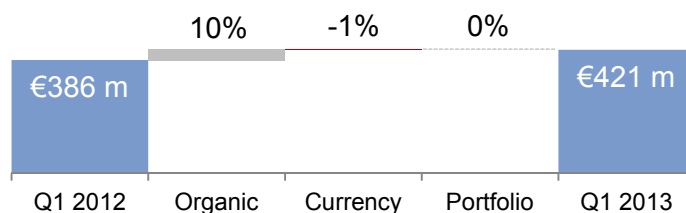


# Performance Materials: Ongoing strength in Liquid Crystals and first successful Pigments quarter

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

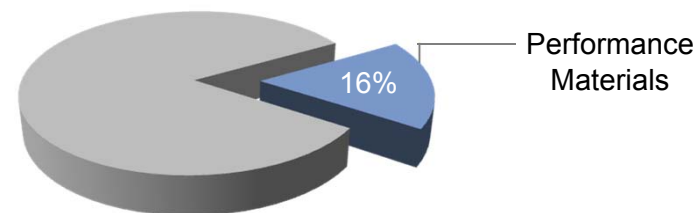
Comments
<ul style="list-style-type: none"> <li>Strong demand for Liquid Crystals fuels organic growth with volume increases being slightly mitigated by pricing</li> <li>PS-VA and IPS overcompensate more modest TFT and VA performance due to their superior technology</li> <li>Improved cost structure in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

Sales bridge

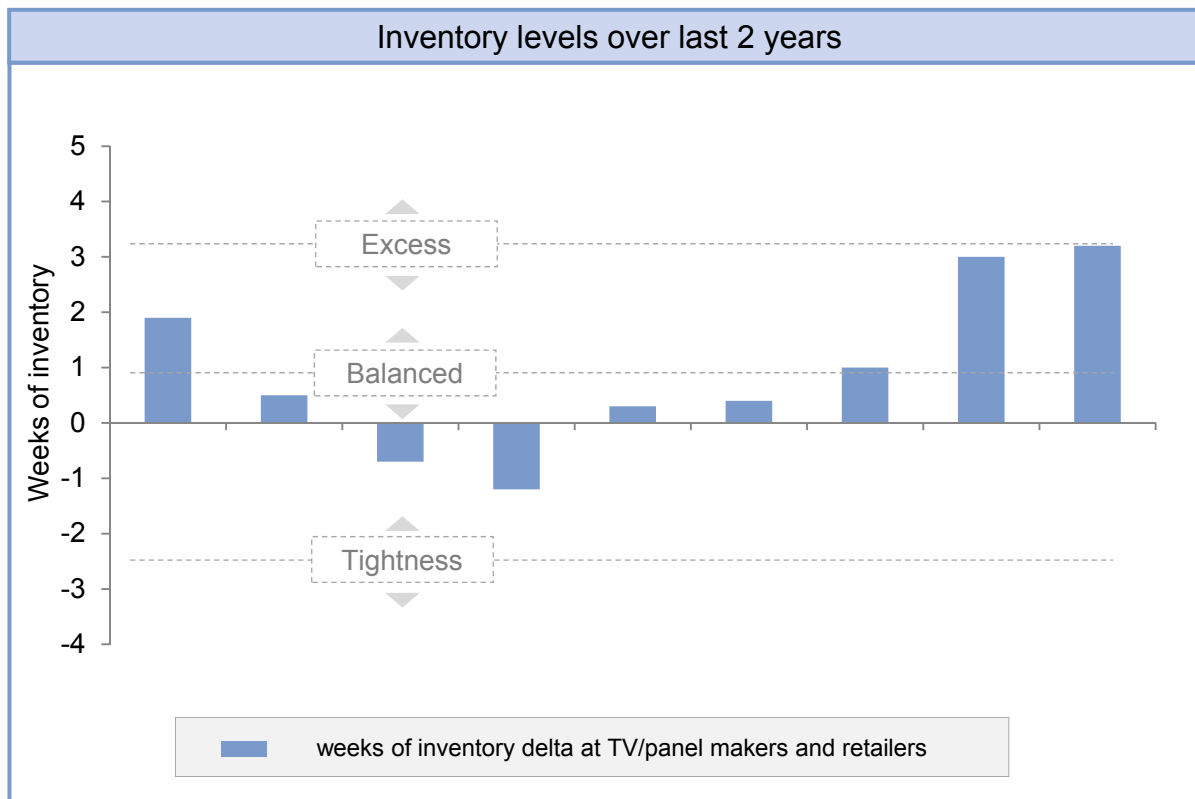


Totals may not add up due to rounding

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

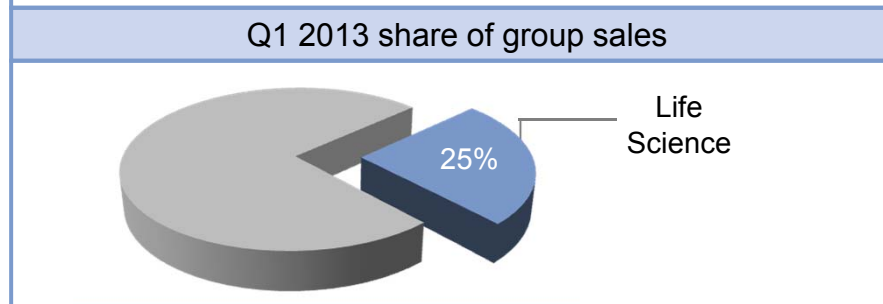
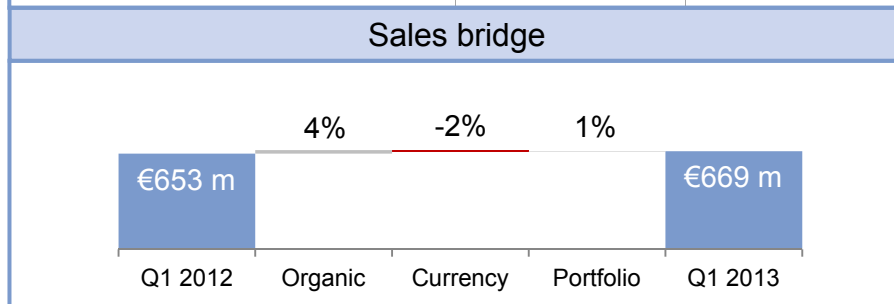
**Destocking will occur but underlying trends remain intact**

Illustration, source: GfK; February 2013

# Life Science: Stable performance amid continued investments

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

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



Totals may not add up due to rounding

## Balance sheet strength

[€ m]	March 2013	Dec 2012	Δ	Comments
<b>Total assets</b>	<b>21,954</b>	<b>21,643</b>	<b>1%</b>	<ul style="list-style-type: none"> <li>▪ Cash-generating nature of business drives increase in cash and other liquid funds</li> <li>▪ Ongoing deleveraging: net financial debt down by €359 m</li> <li>▪ Pension provisions increase due to discount rate reduction</li> </ul>
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
<b>Profit after tax</b>	<b>269</b>	<b>175</b>	<b>94</b>	<ul style="list-style-type: none"> <li>▪ Profit after tax reflects good business performance</li> <li>▪ Sales expansion main element of working capital increase</li> <li>▪ Changes in investing and financing cash flow driven by March 2012 €500 m bond repayment</li> </ul>
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	
<b>Operating cash flow before changes in WC</b>	<b>710</b>	<b>483</b>	<b>227</b>	
Changes in working capital	-195	-11	-184	
<b>Operating cash flow</b>	<b>516</b>	<b>472</b>	<b>44</b>	
<b>Investing cash flow</b>	<b>-324</b>	<b>318</b>	<b>-642</b>	
thereof Capex*	-37	-51	13	
<b>Financing cash flow</b>	<b>-107</b>	<b>-638</b>	<b>531</b>	

## Cash flow strength

Totals may not add up due to rounding

\* Only PPE w/o intangibles

# Agenda

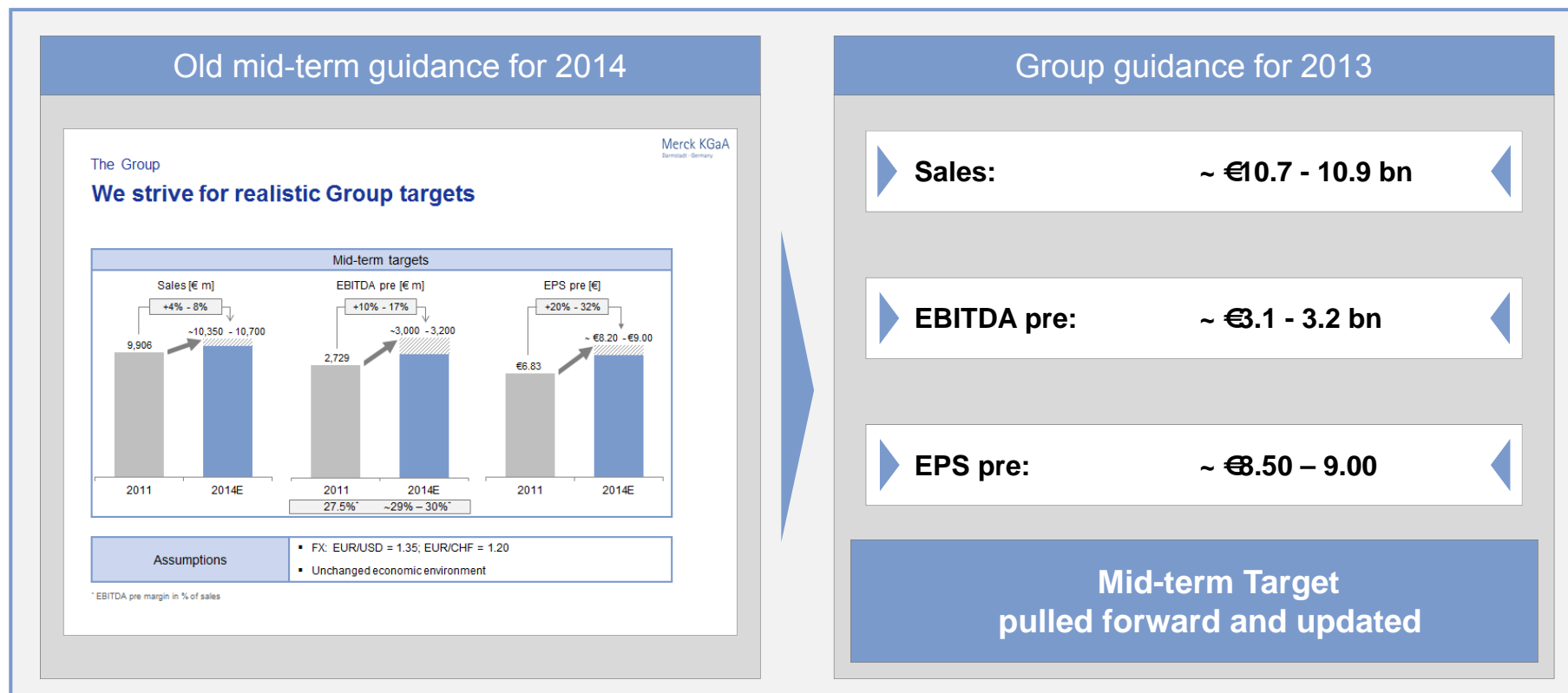
Business overview

Transforming the company




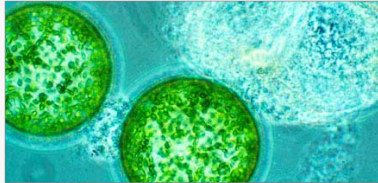
Financial review

**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
<b>Group 2013 guidance: ~€3.1 to 3.2 billion EBITDA pre</b>			

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# Appendix

## Additional financial guidance

### Further financial details

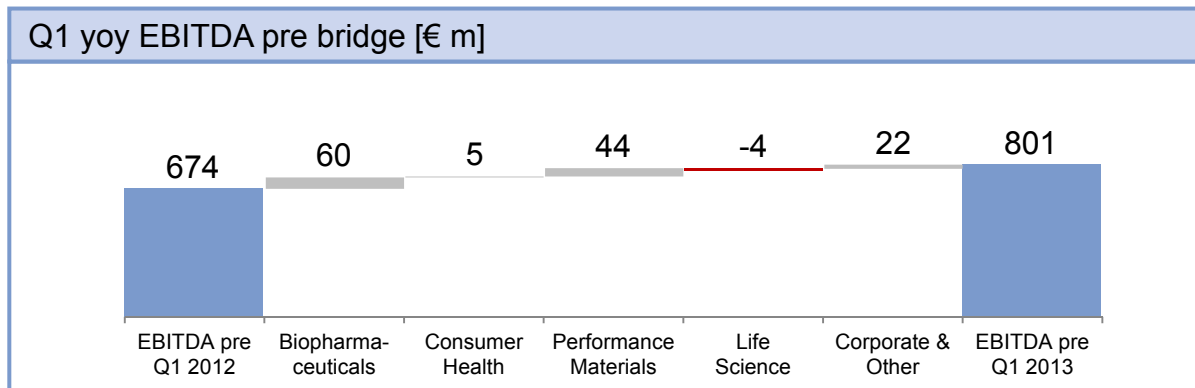
- Royalty, license and commission income : To decline to ~€180-200 m in 2014
- Corporate EBITDA pre : ~€-210 m
- Underlying tax ratio : ~25% to 26%
- Capex on PPE : ~€450 m
- Hedging / USD assumption : 2013 and 2014 hedge ratio between ~30% to 35% at EUR/USD ~1.30 – 1.35



# 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%
<b>The Group</b>	<b>5%</b>	<b>-1%</b>	<b>0%</b>	<b>4%</b>

- 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

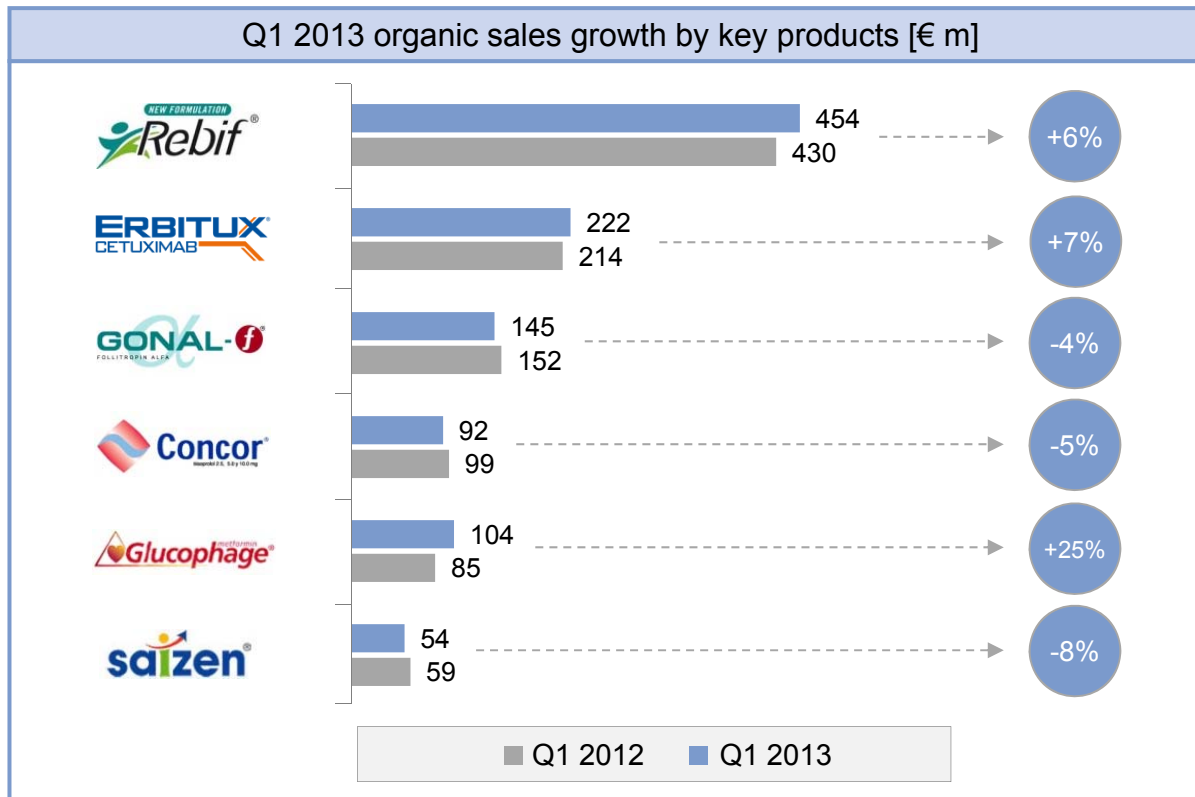
Totals may not add up due to rounding

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

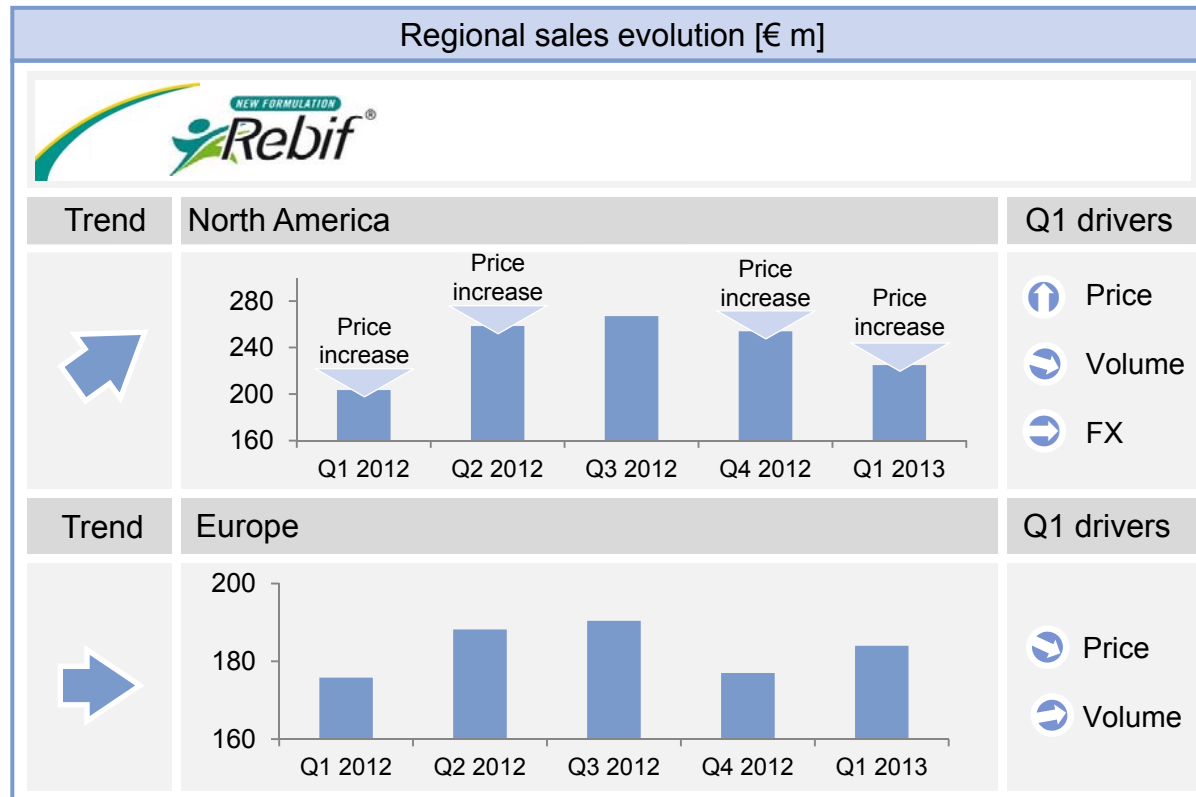
[€ m]	Q1 2013	Q1 2012	Δ	Comments
<b>EBIT</b>	<b>399</b>	<b>311</b>	<b>29%</b>	<ul style="list-style-type: none"> <li>▪ Top-line growth, mix and yield variances increase EBIT</li> <li>▪ Gross debt reduction benefits financial result, lowers interest cost</li> <li>▪ Favorable regional profit split and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

Totals may not add up due to rounding

# Biopharmaceuticals organic growth performance by product

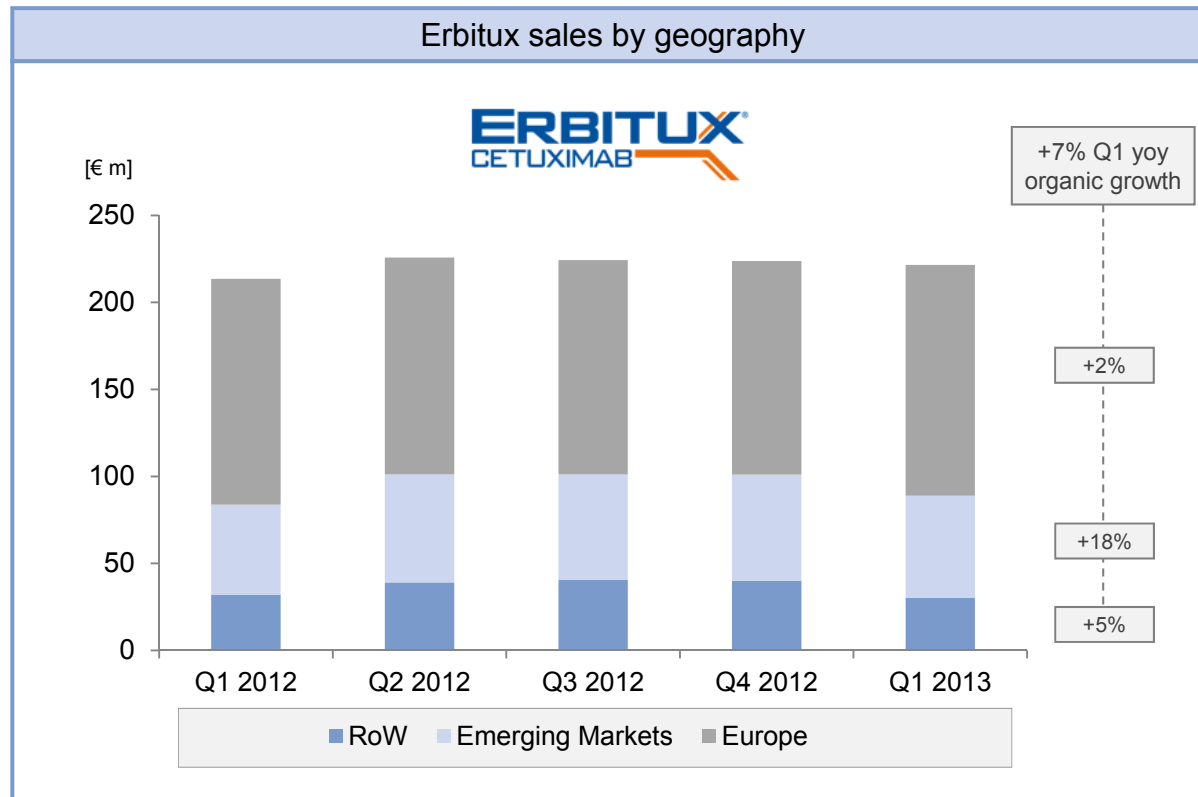


# Rebif – U.S. pricing yields strong organic growth



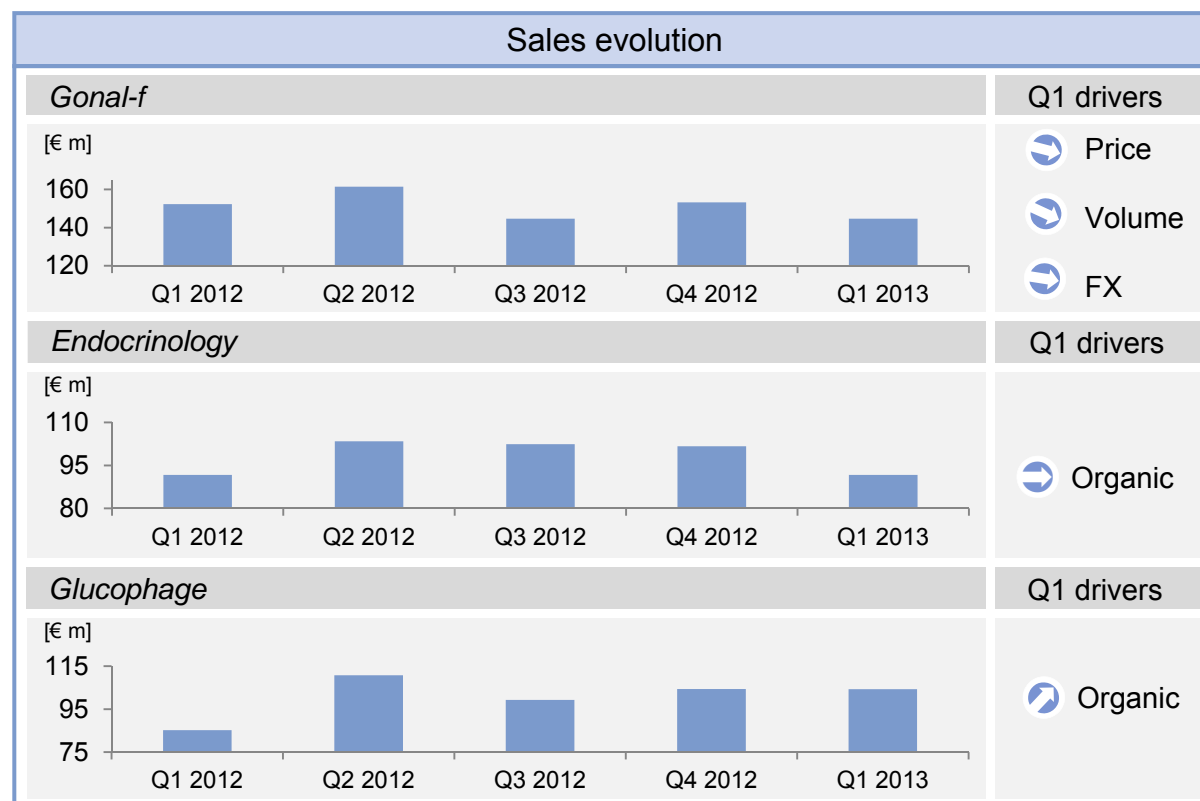
- Rebif performance
- €454 m global sales with 6% organic growth
  - North America benefits from pricing (Rebidose) while volume decreases as prenotified destocking unfolds
  - Volume increase in Europe somewhat mitigated by pricing pressure
  - Court decision: co-promotion agreement with Pfizer effective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

# Erbitux – Emerging Markets drive solid performance



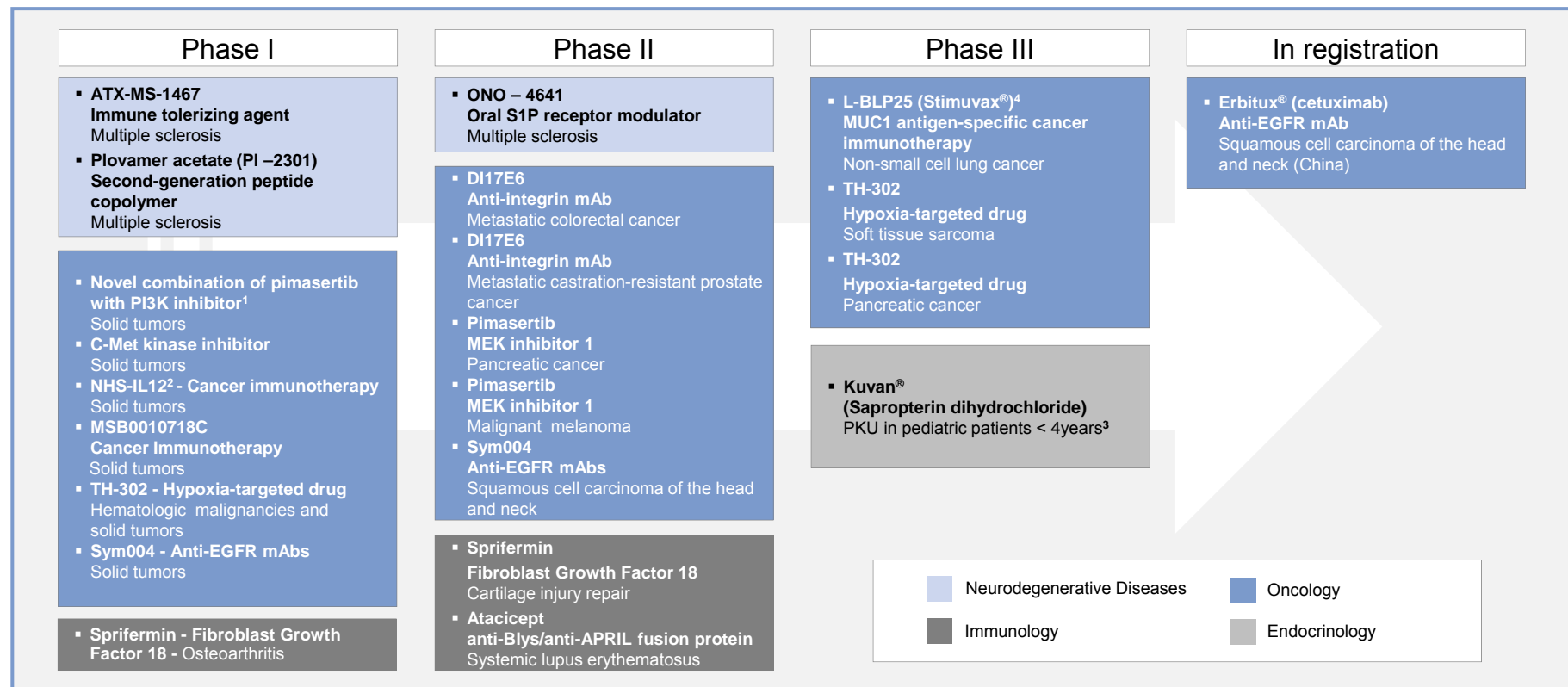
- Erbitux performance**
- Global sales of €222 m reflect 7% organic sales growth and -3% FX impact
  - Emerging Markets and Russia as main growth drivers
  - Ongoing difficult market environment in Europe
  - Organic growth in Japan overcompensated by FX impact

# Strong performance of Glucophage; Gonal-f and Endocrinology softer



- | Q1 growth   |
|---|
| <ul style="list-style-type: none"> <li>-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</li> <li>Moderate performance in Endocrinology; organic sales decline of Saizen almost offset by good performance of Serostim, Egrifta and Kuvan</li> <li>Glucophage with strong organic sales growth, notably in Latin America and Russia</li> </ul> |


# Biopharmaceuticals pipeline



Pipeline as of May, 2013; <sup>1</sup> Combined with PI3K/mTOR inhibitor of Sanofi (SAR245409), conducted under the responsibility of Merck KGaA, Darmstadt, Germany  
<sup>2</sup> Sponsored by the National Cancer Institute (NCI), USA; <sup>3</sup> Phase IIIb post-approval request by EMA <sup>4</sup> 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"> <li>With 2013, phase II of cost allocation elimination implemented</li> <li>Phase I eliminated allocations from corporate to divisions</li> <li>Phase II eliminates allocation to countries</li> </ul>
<p><b>Elimination enables increased accountability of divisional business managers</b></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
<b>Total</b>	<b>74</b>	<b>27</b>	<b>30</b>	<b>9</b>

Totals may not add up due to rounding

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