



MERCK KGAA, DARMSTADT, GERMANY

AGREEMENT TO SELL CONSUMER HEALTH TO PROCTER & GAMBLE

Stefan Oschmann, CEO
Belén Garijo, CEO Healthcare
Marcus Kuhnert, CFO

April 19, 2018



Disclaimer

Publication of Merck KGaA, Darmstadt, Germany. In the United States and Canada the group of companies affiliated with Merck KGaA, Darmstadt, Germany operates under individual business names (EMD Serono, Millipore Sigma, EMD Performance Materials). To reflect such fact and to avoid any misconceptions 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

Cautionary Note Regarding Forward-Looking Statements and financial indicators

This communication may include “forward-looking statements.” Statements that include words such as “anticipate,” “expect,” “should,” “would,” “intend,” “plan,” “project,” “seek,” “believe,” “will,” and other words of similar meaning in connection with future events or future operating or financial performance are often used to identify forward-looking statements. All statements in this communication, other than those relating to historical information or current conditions, are forward-looking statements. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond control of Merck KGaA, Darmstadt, Germany, which could cause actual results to differ materially from such statements.

Risks and uncertainties include, but are not limited to: the risks of more restrictive regulatory requirements regarding drug pricing, reimbursement and approval; the risk of stricter regulations for the manufacture, testing and marketing of products; the risk of destabilization of political systems and the establishment of trade barriers; the risk of a changing marketing environment for multiple sclerosis products in the European Union; the risk of greater competitive pressure due to biosimilars; the risks of research and development; the risks of discontinuing development projects and regulatory approval of developed medicines; the risk of a temporary ban on products/production facilities or of non-registration of products due to non-compliance with quality standards; the risk of an import ban on products to the United States due to an FDA warning letter; the risks of dependency on suppliers; risks due to product-related crime and espionage; risks in relation to the use of financial instruments; liquidity risks; counterparty risks; market risks; risks of impairment on balance sheet items; risks from pension obligations; risks from product-related and patent law disputes; risks from antitrust law proceedings; risks from drug pricing by the divested Generics Group; risks in human resources; risks from e-crime and cyber attacks; risks due to failure of business-critical information technology applications or to failure of data center capacity; environmental and safety risks; unanticipated contract or regulatory issues; a potential downgrade in the rating of the indebtedness of Merck KGaA, Darmstadt, Germany; downward pressure on the common stock price of Merck KGaA, Darmstadt, Germany and its impact on goodwill impairment evaluations, as well as the impact of future regulatory or legislative actions.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included elsewhere, including the Report on Risks and Opportunities Section of the most recent annual report and quarterly report of Merck KGaA, Darmstadt, Germany. Any forward-looking statements made in this communication are qualified in their entirety by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. Except to the extent required by applicable law, we undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

This presentation contains certain financial indicators such as EBITDA pre exceptionals, net financial debt and earnings per share pre exceptionals, which are not defined by International Financial Reporting Standards (IFRS). These financial indicators should not be taken into account in order to assess the performance of Merck KGaA, Darmstadt, Germany in isolation or used as an alternative to the financial indicators presented in the consolidated financial statements and determined in accordance with IFRS. The figures presented in this statement have been rounded. This may lead to individual values not adding up to the totals presented.

Agenda

- 01** Strategic rationale
- 02** Transaction details
- 03** Implications for Merck KGaA, Darmstadt, Germany
- 04** Executive Summary
- 05** Back-up

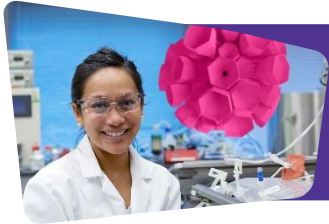


01

STRATEGIC RATIONALE

Group

Continue to transform to a science and technology focused company



Healthcare

Delivering

- Portfolio management and prioritization has been and will be a key driver for us
- Healthcare is successfully developing into a highly innovative specialty pharma leader
- Lack of capacity to secure appropriate investment levels to fully capture Consumer Health's growth opportunities
- Disposal agreement accelerates deleveraging and increases flexibility to strengthen all businesses



Life Science

On track



Performance Materials

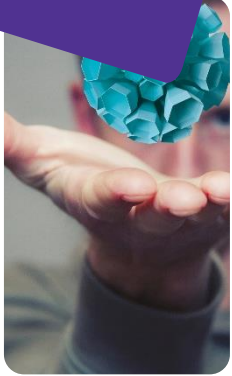
Managing

Merck KGaA, Darmstadt, Germany is set to deliver sustainable profitable growth through innovation, clear differentiation, and value-creating portfolio management

Consumer Health

Solid performance and significant growth potential

High-quality brands



- Well-recognized consumer brands in attractive categories: vitamins, pain, cold
- Differentiated and compelling consumer brand positioning

Growth markets



- Global €100 bn OTC* market forecast to grow ~5% until 2025
- Strong demand drivers

Global presence



- Broad geographic footprint
- Well-balanced presence in 44 markets
- >50% of sales from growth markets

Scientific heritage



- Scientific heritage and unique brand images
- Fosters trust and emotional connections with consumers and healthcare practitioners

Strong sales force



- Strong commercial brand-building
- Multi-channel go-to-market approach

Strong product pipeline



- Proven product development capabilities
- Driving portfolio upgrades and growth

Strong team



- Highly engaged organization
- ~3,300 employees globally

Attractive financials



- Sales ~€911 m in 2017
- Organic CAGR 2013-2017 ~6%
- Solid margin

Consumer Health

P&G* provides Merck KGaA, Darmstadt, Germany Consumer Health with strong basis for expansion

P&G profile



- Fast growing CHC* business with strong U.S. presence and global footprint
- Well-known, trusted brands at scale: Vicks, Prilosec (digestive)
- Strong consumer and consumer health capabilities



Implications for combined business

- Transaction creates unique global player
- Merck KGaA, Darmstadt, Germany Consumer Health adds
 - strong growth profile (6% annual growth)
 - sizeable business with local category leaders
 - complementary, premium brands with strong medical value proposition
 - strong Emerging Markets share
 - highly skilled team (eg. regulatory and premium brand management expertise, field force)

P&G provides strong platform for sustainable growth of combined at global scale



02

TRANSACTION DETAILS

Consumer Health disposal agreement

Transaction highlights

1

Strong buyer: P&G committed to combine two leading and complementary OTC businesses and will be a great home for our employees as capabilities will be key to fully capture growth opportunities

2

Full sale: Agreement foresees the sale of the complete Consumer Health business across 44 countries to P&G

3

All-cash transaction: €3.4 bn all-cash disposal price will accelerate deleveraging with closing expected by the end of Q4 2018

4

Attractive valuation: Implicit multiples are above recent industry transactions and imply significant value generation with net proceeds exceeding going concern

disposal of
consumer
health
to P&G

Consumer Health disposal agreement

Key transaction details



Key financial conditions

- Full sale, all-cash
- Disposal proceeds (EV) €3.4 bn¹, debt/cash-free
- Expected disposal gain up to €3 bn, taxed at 15-20%
- Break-up fee in place



Attractive valuation

- Multiples above recent industry transactions
- EV/sales² ~3.7x
- Pro-forma² EV/EBITDA pre ~19.5x
- EV/EBITDA² ~21.8x



Comprehensive Consumer Health business

- 2017 net sales €911 m²
- >900 products worldwide
- 2 production sites in Austria and India
- ~3,300 employees globally
- Comprehensive transitional agreements in place



Closing conditions and transaction structure

- Closing expected by the end of Q4 2018
- Subject to customary closing conditions including regulatory approvals
- Divestment takes place as a combination of share and asset deals
- Indian business will be fully sold due to local-entity listing, but non-Consumer Health activities will be bought back



03

**IMPLICATIONS FOR
MERCK KGAA,
DARMSTADT,
GERMANY**

Consumer Health disposal agreement

Implications for 2018 financials and guidance

Financials

- Consumer Health will be shown as “discontinued operations” from Q2 2018 onwards
- For Q1 2018, Consumer Health will be included, as negotiations were still ongoing as of March 31, 2018
- Financial statements for 2017 and Q1 2018 will be restated¹ for the Q2 2018 reporting²

Guidance

- Guidance in March 2018 was provided on a constant portfolio assumption and is still valid
- Upcoming quantitative guidance at Q1 2018 results release² will reflect the Consumer Health divestment
- Disposal has no impact on average group tax rate of 24-26%



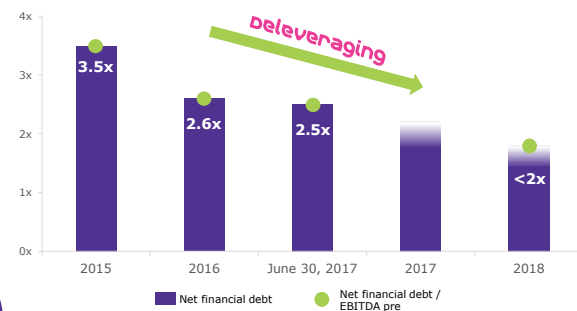
Group

Consumer Health divestment will accelerate deleveraging and raise flexibility

Strong focus on cash generation to ensure swift deleveraging

Net financial debt* and leverage development

[Net financial debt/
EBITDA pre]



Focus on deleveraging

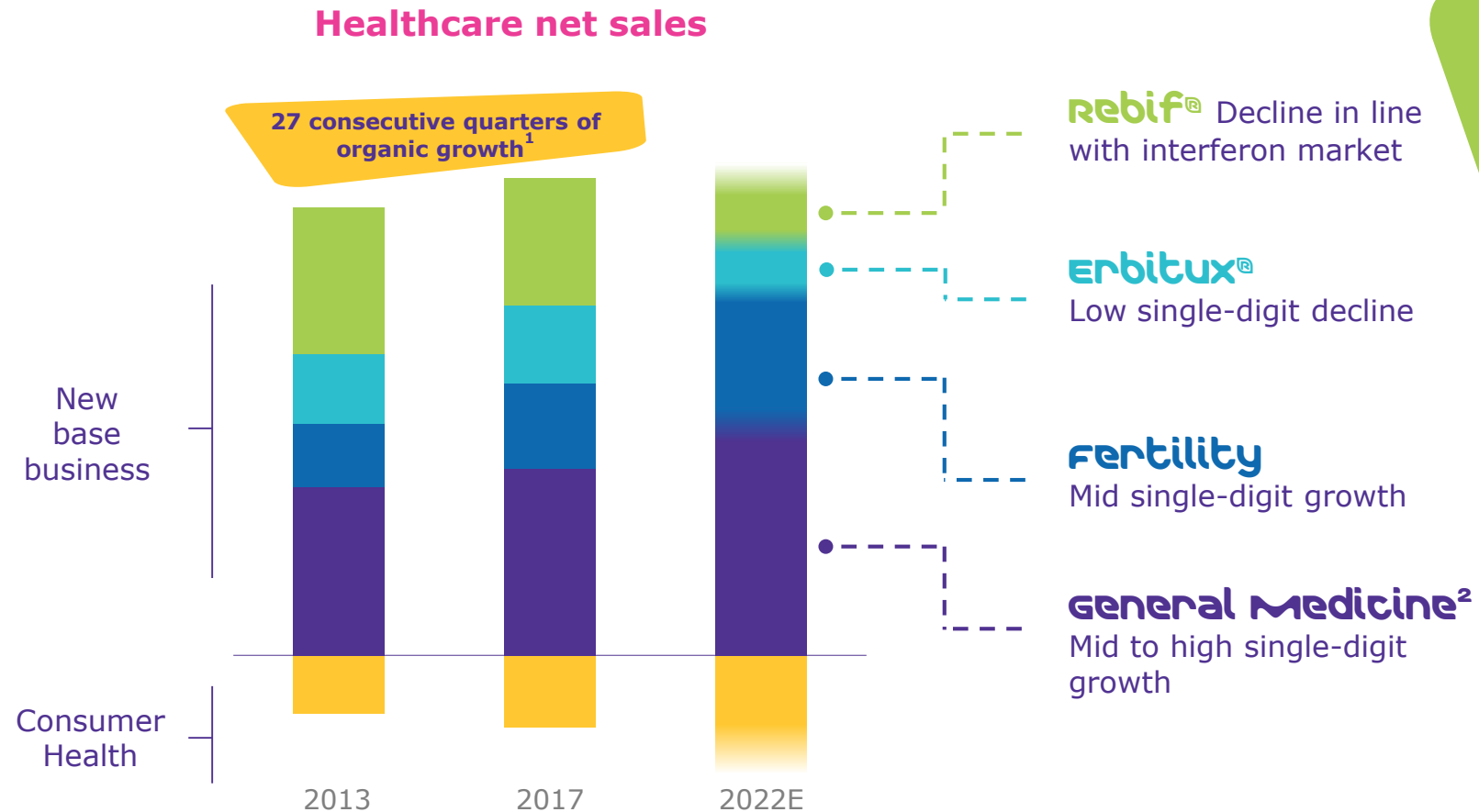
- Commitment to swift deleveraging to ensure a strong investment grade credit rating and financial flexibility
- Strong cash flow will be used to drive down leverage to expected <2x net debt/EBITDA pre in 2018
- Larger acquisitions (>€500 m) ruled out for the next two years (or financed by divestments)



- 1 Cash inflow expected at closing of transaction; future annual capex will decline by low double-digit €m
- 2 Commitment to swift deleveraging remains unchanged
- 3 Increased flexibility to strengthen all our businesses
- 4 Target leverage for 2018 of <2x net debt / EBITDA pre confirmed
- 5 Larger acquisitions (>€500 m) remain ruled out until end 2018

Healthcare

Ambition for stable base business until 2022 is maintained



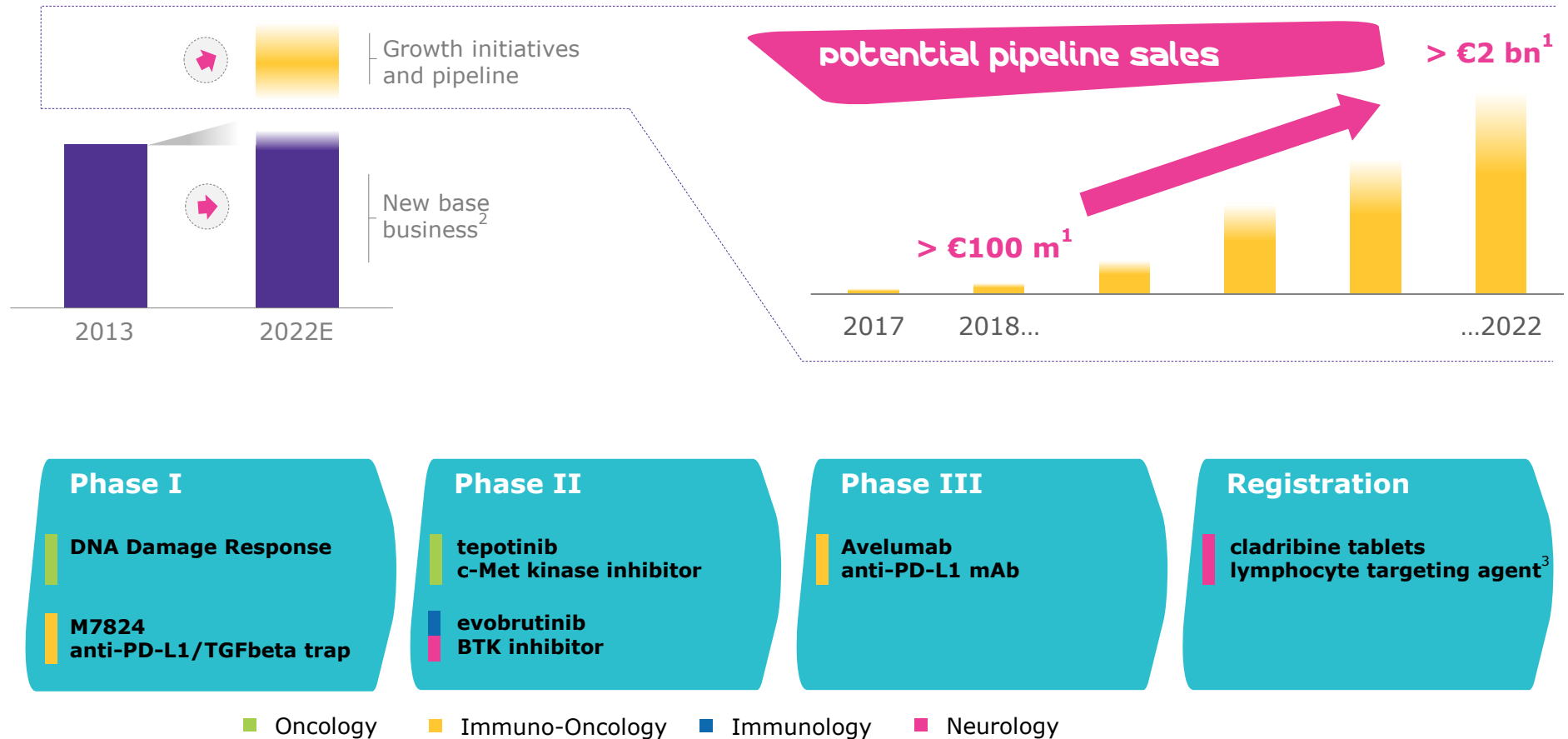
- Despite Consumer Health divestment, Healthcare's 2022 net sales ambition is maintained
- Keeping base business organically at least stable until 2022
- Healthcare to develop into highly innovative specialty pharma leader and to focus on R&D pipeline delivery

Healthcare

Well on track to deliver the pipeline

Deliver the pipeline

Key investments³



¹Illustrations; risk adjusted; ²after Consumer Health divestment; ³illustrative pipeline as of February 15, 2018; pipeline products are under clinical investigation and have not been proven to be safe and effective - there is no guarantee any product will be approved in the sought-after indication; ⁴As announced on August 25 2017, the European Commission has granted marketing authorization for cladribine tablets for the treatment of highly active relapsing multiple sclerosis in the 28 countries of the European Union in addition to Norway, Liechtenstein and Iceland.



04

EXECUTIVE SUMMARY

Group Executive Summary

Active portfolio management

▶ We are regularly reviewing our portfolio and prioritizing activities to focus and deliver sustainable profitable growth

Consumer Health entering next phase

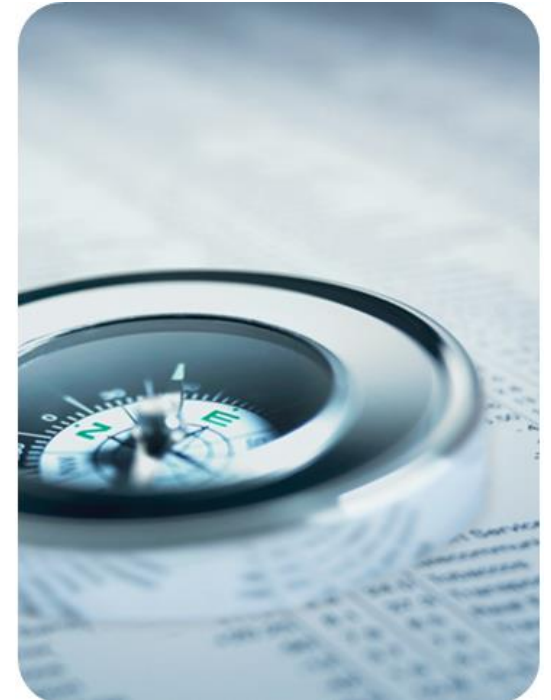
▶ Divestment of Consumer Health to a strong and trusted partner will enable Consumer Health to reveal its true potential and to fully capture growth opportunities

Attractive valuation

▶ Agreement values Consumer Health at attractive multiples and above recent comparable industry transactions

Accelerate deleveraging

▶ Proceeds will be used to accelerate deleveraging and will help to strengthen all our businesses





05 BACK-UP

Financials






Consumer Health 2017 headline financials¹

€m	Q1	Q2	Q3	Q4	2017
Net sales	230	221	236	225	911
Organic sales growth % YoY	+5.0%	+4.2%	+11.0%	+10.0%	+7.6%
EBITDA pre	49	31	58	46	183 ²
EBITDA pre margin	21.5%	13.9%	24.6%	20.2%	20.1%
EBITDA	49	28	58	20	155
EBIT	46	24	54	15	140

¹Indication – the actual 2017 restatement for Q2 2018 may differ as restatement process is currently ongoing; other business sectors may also see minor adjustments due to contractual agreements; Merck's KGaA, Darmstadt, Germany profit after tax attributable to non-controlling interests will also decline due to sale of Indian business; ²EBITDA pre has to be adjusted for share to Indian minorities to arrive at a pro-forma economically transferred EBITDA pre of €173 m

Financials

Precedent OTC transactions*

Date	Acquirer	Target	Description	Enterprise value (€mm)	EV/ LTM Sales	EV/ LTM EBITDA	LTM EBITDA margin
Dec-17	Nestlé	Atrium Innovations	Vitamins, probiotics, and nutritional supplements	1,941	3.3x	 16,3x	20%
Feb-17	Reckitt Benckiser	Mead Johnson	Infant and children's nutrition products	16,480	4.8x	 17,6x	27%
Nov-14	Perrigo	Omega	European OTC	3,618	2.9x	 16,8x	17%
May-14	Bayer	MSD Consumer Health	OTC consumer care products	10,406	6.5x	 21,0x	31%
Nov-12	Reckitt Benckiser	Schiff Nutrition	Leading provider of VMS products in the US	1,094	3.6x	 16,5x	22%

Consumer Health

Strong brands in attractive OTC categories

**Mother's
& Family
Health**



Dedicated to the specific health needs of women, children and their families

femibion **Sangobion**
Nasivin 

**Energy &
Well-being**



Our brands supporting people facing daily health and life challenges

Vivera **Floratil**
VIGANTOLETTEN® 

Mobility



Our mobility brands

 **Neurobion**
Franchise **Kytta**®
 **Dolo-Neurobiön**®

CONSTANTIN FEST



Head of Investor Relations
+49 6151 72-5271
constantin.fest@emdgroup.com

SVENJA BUNDSCHUH



Assistant Investor Relations
+49 6151 72-3744
svenja.bundschuh@emdgroup.com

ALESSANDRA HEINZ



Assistant Investor Relations
+49 6151 72-3321
alessandra.heinz@emdgroup.com

ANNETT WEBER



Institutional Investors /
Analysts
+49 6151 72-63723
annett.weber@emdgroup.com

NILS VON BOTH



Institutional Investors /
Analysts
+49 6151 72-7434
nils.von.both@emdgroup.com

EVA STERZEL



Retail Investors / AGM /
CMDs / IR Media
+49 6151 72-5355
eva.sterzel@emdgroup.com

PATRICK BAYER



Institutional Investors /
Analysts
+49 6151 72-5642
patrick.bayer@emdgroup.com

EMAIL: investor.relations@emdgroup.com

WEB: www.emdgroup.com/investors

FAX: +49 6151 72-913321

