

# Q1 2015 Results Conference Call

A solid quarter in a challenging year 2015

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# Agenda

**Executive summary**

Financial review

Outlook and guidance

## Operations

- ▶ Healthcare stable despite Rebif decline
- ▶ First avelumab\* Phase III in NSCLC initiated
- ▶ Continued success with innovative UB-FFS technology

## Financials

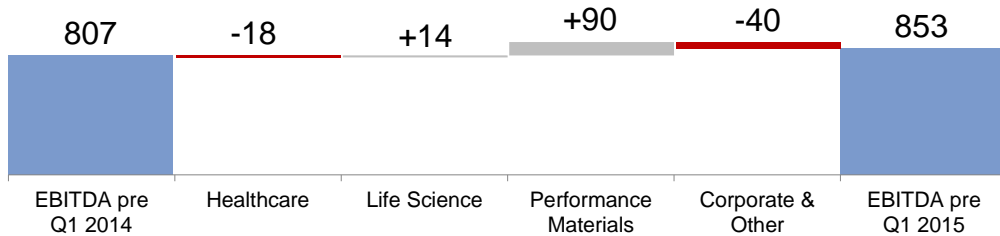
- ▶ Sales growth of 15.7% driven by AZ, organic performance and FX tailwinds
- ▶ EBITDA pre increases by 5.7% to €853 m
- ▶ Guidance 2015:      Sales €12.3 – 12.5 bn      EBITDA pre €3.45 – 3.55 bn

\*Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as Anti-PD-L1 mAb (MSB0010718C)

# Top-line growth supported by FX

Q1 2015 YoY net sales	Organic	Currency	Portfolio	Total
Healthcare	0.3%	7.1%	0.0%	7.4%
Life Science	3.4%	9.8%	-0.8%	12.4%
Performance Materials	1.6%	14.8%	37.0%	53.4%
<b>Group</b>	<b>1.3%</b>	<b>8.9%</b>	<b>5.5%</b>	<b>15.7%</b>

## FY YoY EBITDA pre contributors [€ m]



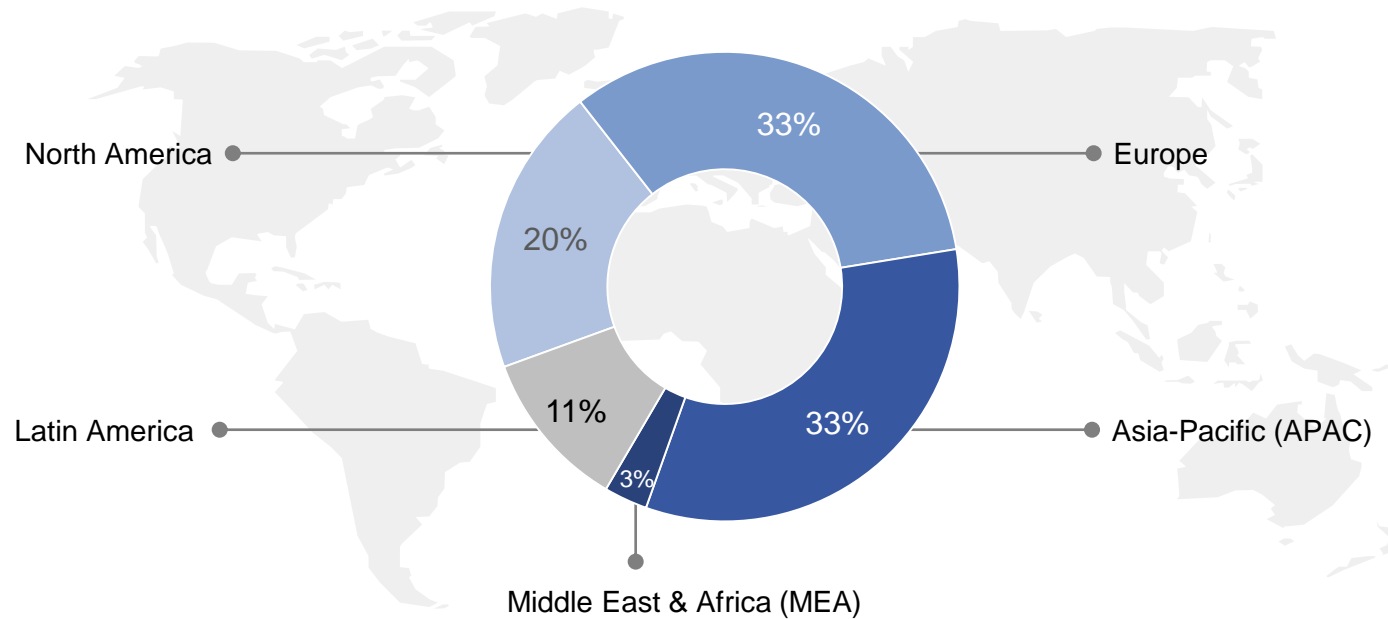
- Healthcare stable; Rebif declines, but offset by growth of other franchises
- Life Science benefits from ongoing biopharma demand
- Performance Materials driven by AZ, LC volume growth (incl. UB-FFS) and FX tailwinds

- Healthcare affected by Humira royalty loss, Rebif decline and higher R&D costs
- Increase in Life Science dampened by significant USD cost base
- Performance Materials contains AZ and FX benefits
- Hedging losses reduce Corporate EBITDA pre

# New regional split: APAC and Europe largest regions

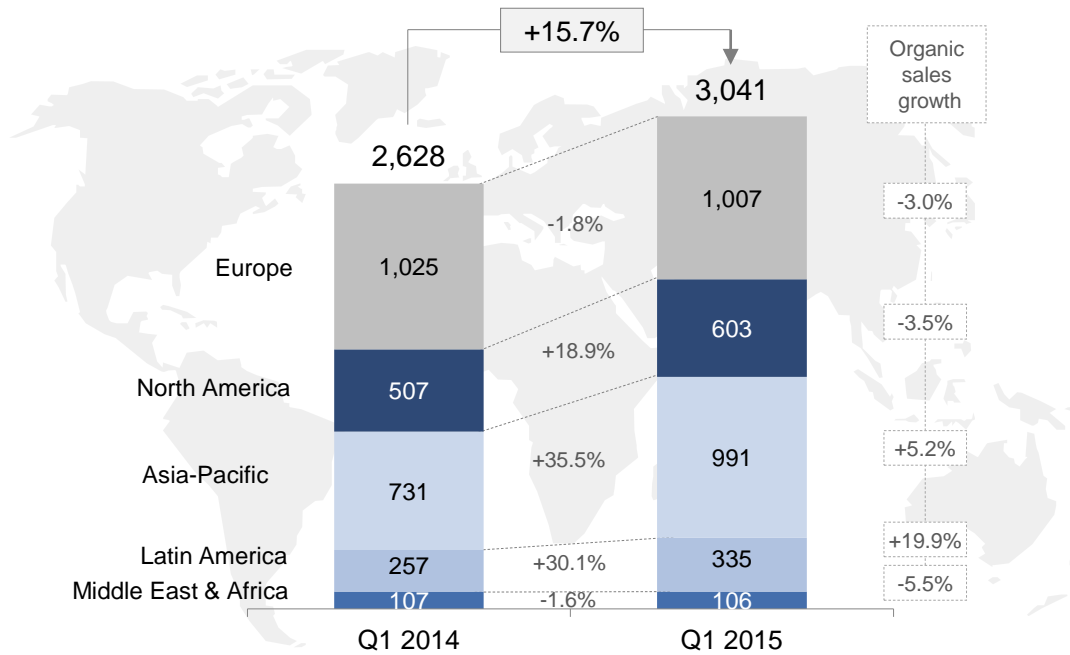
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Group Q1 2015 net sales by region [in %]



# Europe and North America influenced by Rebif decline, offset by APAC and Latin America

Regional development of net sales [€ m]



Regional details

- Reported sales growth includes AZ contribution especially in Asia-Pacific and North America
- Europe mainly impacted by increasing competition for Rebif
- Organic decline in North America due to Rebif erosion mitigated by bio-pharma demand for purification products
- China main organic driver in APAC with fertility products as key contributor
- Organic growth in Latin America driven by General Medicine and Consumer Health products



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# Q1 2015 overview

[€ m]	Q1 2014	Q1 2015	Δ
<b>Net sales</b>	<b>2,628</b>	<b>3,041</b>	<b>15.7%</b>
<b>EBITDA pre</b>	<b>807</b>	<b>853</b>	<b>5.7%</b>
<i>Margin (% of sales)</i>	<i>30.7%</i>	<i>28.0%</i>	
<b>EPS pre [€]</b>	<b>1.15</b>	<b>1.12</b>	<b>-2.6%</b>
<b>Operating cash flow</b>	<b>409</b>	<b>279</b>	<b>-31.8%</b>
[€ m]	Dec 31, 2014	March 31, 2015	Δ
<b>Net financial debt</b>	<b>559</b>	<b>78</b>	<b>-86.0%</b>
<b>Working capital</b>	<b>2,356</b>	<b>2,700</b>	<b>14.6%</b>
<b>Employees</b>	<b>39,639</b>	<b>39,842</b>	<b>0.5%</b>

Q1 2015
<ul style="list-style-type: none"> <li>▪ EBITDA pre increases, while margin softens due to royalty loss, Rebif decline, higher R&amp;D and LTIP*</li> <li>▪ EPS pre decrease mainly driven by financial result</li> <li>▪ Operating cash flow burdened by higher tax and interest payments</li> <li>▪ Reduced net financial debt due to operating cash flow and net cash position in USD (FX)</li> <li>▪ Working capital increase mainly attributable to FX</li> </ul>

Totals may not add up due to rounding; \*Long Term Incentive Plan

# Reported EPS reflects Sigma financing costs

[€ m]	Q1 2014	Q1 2015	Δ
<b>EBIT</b>	<b>468</b>	<b>480</b>	<b>2.5%</b>
Financial result	-35	-101	>100%
<b>Profit before tax</b>	<b>434</b>	<b>379</b>	<b>-12.5%</b>
Income tax	-106	-94	-11.4%
<i>Tax rate (%)</i>	<i>24.5%</i>	<i>24.8%</i>	
<b>Net income</b>	<b>325</b>	<b>282</b>	<b>-13.4%</b>
<b>EPS (€)</b>	<b>0.75</b>	<b>0.65</b>	<b>-13.3%</b>

## Reported results

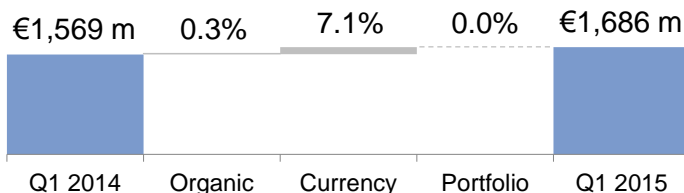
- EBIT reflects D&A from AZ and costs for acquisitions
- Financial result impacted by higher interest expenses (hybrid & USD bond) and LTIP\*
- Tax rate in line with guidance range of 23-25%

Totals may not add up due to rounding; \*Long Term Incentive Plan

# Healthcare: The start of an investment year

[€ m]	Q1 2014	Q1 2015
<b>Net sales</b>	<b>1,569</b>	<b>1,686</b>
Marketing and selling	-609	-660
Admin	-58	-66
R&D	-303	-348
<b>EBIT</b>	<b>273</b>	<b>268</b>
EBITDA	467	449
<b>EBITDA pre</b>	<b>479</b>	<b>461</b>
<i>Margin (% of sales)</i>	<i>30.5%</i>	<i>27.3%</i>

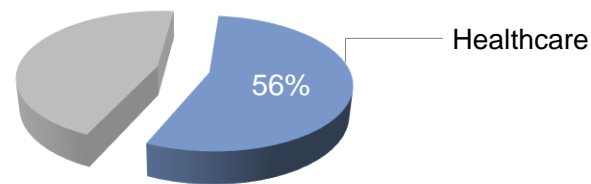
## Net sales bridge



## Comments

- Expected decline of Rebif driven by volume losses in EU & U.S.
- Erbitux negative, mainly affected by tender phasing and EU pricing
- Fertility and General Medicine portfolio remain growth drivers
- Consumer Health organically strong, driven by new marketing concept and ongoing demand for Neurobion in Latin America
- Higher M&S due to investments in growth markets and FX
- R&D reflects ramp-up of avelumab\* development; first PhIII trial started
- EBITDA pre and margin lower, as loss of Humira royalties, Rebif decline and investments outweigh currency tailwinds

## Q1 2015 share of group net sales



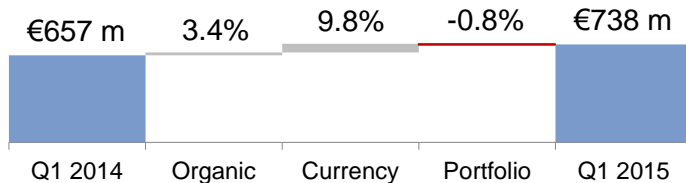
Healthcare includes Biopharmaceuticals, Consumer Health, Biosimilars and Allergopharma;

\*Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as Anti-PD-L1 mAb (MSB0010718C)

# Life Science: A solid quarter

[€ m]	Q1 2014	Q1 2015
<b>Net sales</b>	<b>657</b>	<b>738</b>
Marketing and selling	-210	-233
Admin	-29	-31
R&D	-38	-45
<b>EBIT</b>	<b>87</b>	<b>83</b>
EBITDA	164	164
<b>EBITDA pre</b>	<b>170</b>	<b>184</b>
<i>Margin (% of sales)</i>	<i>25.8%</i>	<i>25.0%</i>

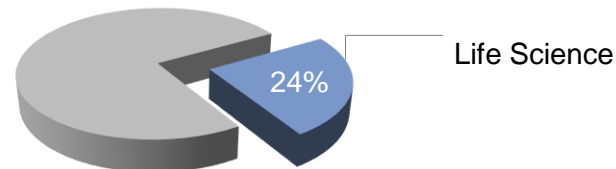
Net sales bridge



Comments

- Process Solutions drives divisional growth mainly due to strong demand from biopharma for single-use and purification products
- Lab Solutions with moderate growth especially in lab water consumables and biomonitoring
- Bioscience flat as good development of protein detection products is offset by low demand for antibodies
- EBIT decline due to double-digit acquisition costs
- EBITDA pre benefits from organic growth and FX tailwinds, partially offset by investments in marketing and selling

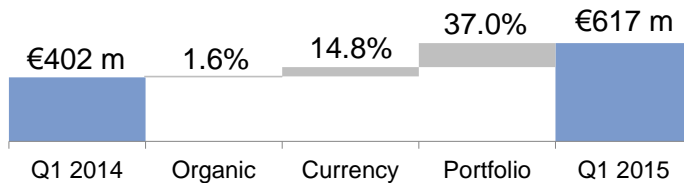
Q1 2015 share of group net sales



# Performance Materials: Healthy market trends amid significant currency tailwinds

[€ m]	Q1 2014	Q1 2015
<b>Net sales</b>	<b>402</b>	<b>617</b>
Marketing and selling	-36	-46
Admin	-8	-18
R&D	-38	-47
<b>EBIT</b>	<b>152</b>	<b>214</b>
EBITDA	179	273
<b>EBITDA pre</b>	<b>186</b>	<b>277</b>
<i>Margin (% of sales)</i>	<i>46.3%</i>	<i>44.8%</i>

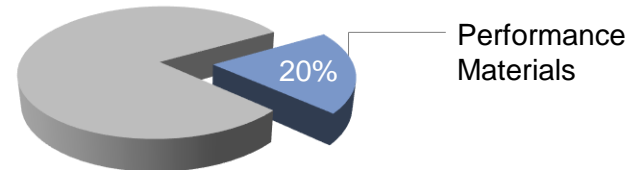
Net sales bridge



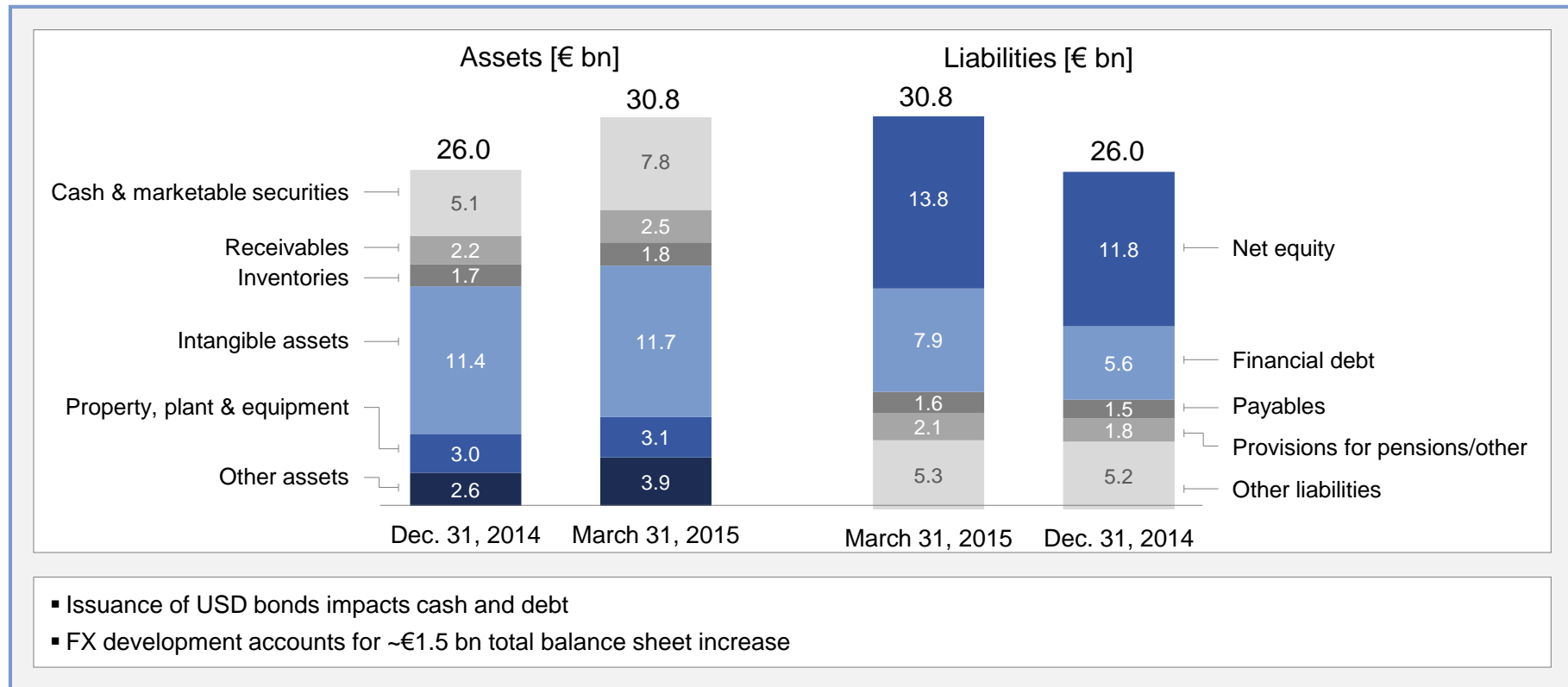
Comments

- Strong sales reflect portfolio effect, organic growth and FX tailwinds
- Liquid Crystals volume trends remain largest organic contributor
- New UB-FFS mode main driver in LC; ongoing demand for high-end TVs benefits flagship technologies (PS-VA & IPS)
- Pigments supported by coating industry demand for Xirallic products
- Significant EBITDA pre increase driven by AZ and FX
- EBITDA pre margin reflects mix effect from AZ

Q1 2015 share of group net sales



# Balance sheet reflects Sigma financing measures



Totals may not add up due to rounding

# Operating cash flow burdened by one-time tax payment relating to Pfizer upfront

[€ m]	Q1 2014	Q1 2015	Δ
<b>Profit after tax</b>	<b>327</b>	<b>285</b>	<b>-42</b>
D&A	302	325	23
Changes in provisions	-47	90	137
Changes in other assets/liabilities	-32	-231	-199
Other operating activities	5	-20	-25
Changes in working capital	-147	-172	-25
<b>Operating cash flow</b>	<b>409</b>	<b>279</b>	<b>-130</b>
<b>Investing cash flow</b>	<b>1,100</b>	<b>392</b>	<b>-708</b>
thereof Capex on PPE	-57	-75	-18
<b>Financing cash flow</b>	<b>7</b>	<b>2,288</b>	<b>2,281</b>

## Cash flow drivers

- D&A increase attributable to AZ
- Higher LTIP\* and currency adjustments in litigation provisions drive increase in changes in provisions
- Changes in other assets & liabilities reflect higher tax and interest payments
- LY's investing cash flow contains sale of current financial assets for AZ
- Financing cash flow reflects USD bond issuance and repayment of eurobond

Totals may not add up due to rounding; \*Long Term Incentive Plan



# Agenda

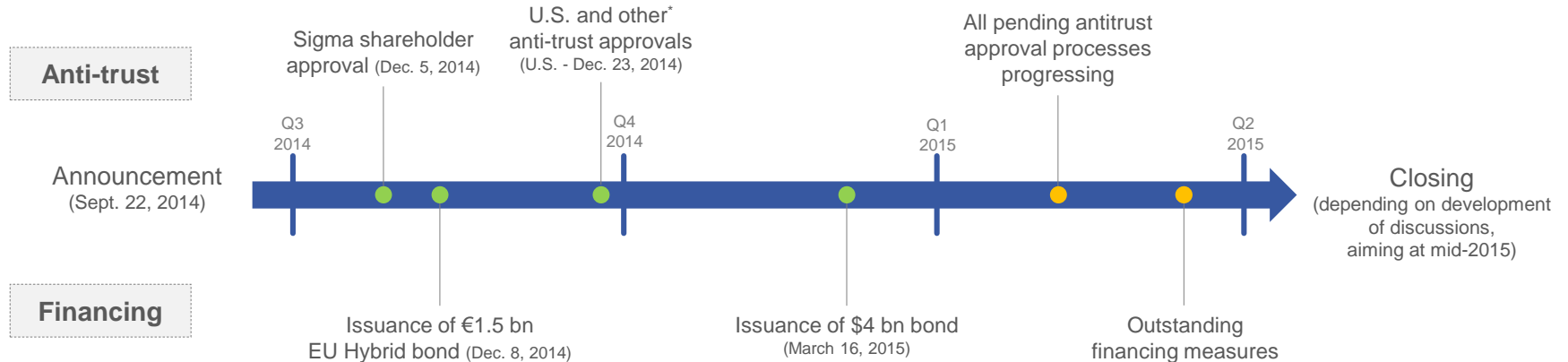
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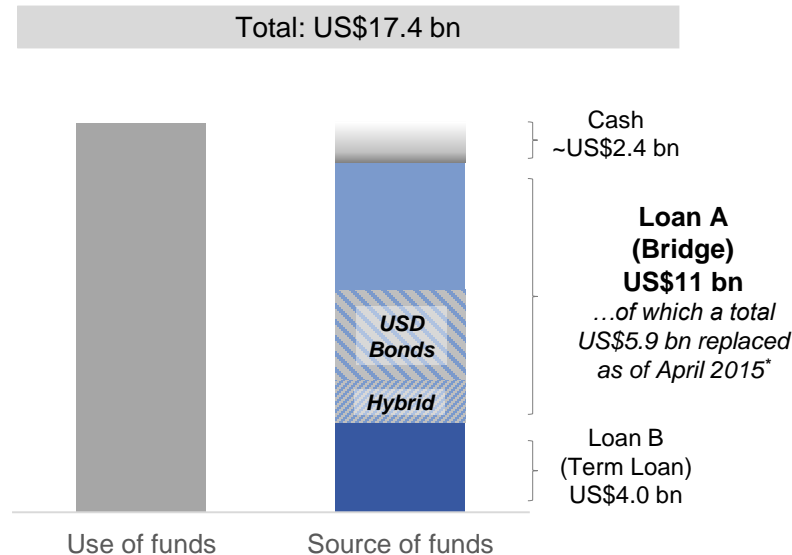


\*Russia, Serbia, Ukraine, Taiwan and South Africa

# Solid structure to finance Sigma-Aldrich transaction

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## Financing structure



## Update on funding structure

- Acquisition 100% cash & debt financed
- Intention to replace the bridge until closing of acquisition through various capital markets transactions
- Accomplished transactions:
  - Dec. 2014: ~\$1.9 bn hybrid bond
  - March 2015 ~\$4 bn USD bond
- Strong combined cash flows available for rapid deleveraging
- Strong investment grade rating maintained
- Expected financing costs below 2%

\*FX rate for hybrid bond EUR/USD 1.30 according to financing concept at signing

# High cost base in strong currencies and hedging losses partially offset FX tailwinds

## Healthcare



### Sales

- Global presence
- ~40% of sales in Europe

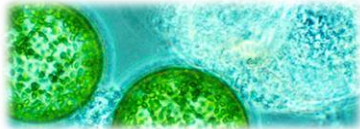
### Costs

- High Swiss franc cost base due to manufacturing sites
- R&D hub and notable sales force in U.S.

### FX impact



## Life Science



### Sales

- Balanced regional sales split between EU, NA and RoW

### Costs

- Extensive manufacturing and research footprint in the U.S.
- Global customer proximity requires broad-based sales force

### FX impact



## Performance Materials



### Sales

- ~80% of sales in Asia-Pacific
- Industry is USD-driven

### Costs

- Main production sites in Germany
- Several R&D and mixing facilities in Asia

### FX impact



# Full year 2015 guidance

## Group guidance\* for 2015, on existing platform



**Net sales:**

**~ €12.3 – 12.5 bn**



**EBITDA pre:**

**~ €3,450 – 3,550 m**



**EPS pre:**

**~ €4.60 – 4.80**



\*Without Sigma-Aldrich contribution

## Healthcare



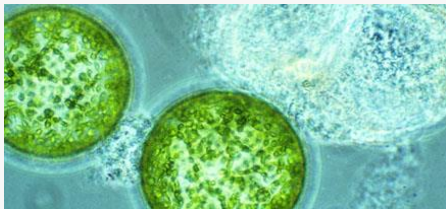
Net sales

Organically stable

EBITDA pre

~ €1.9 – 2.0 bn

## Life Science\*



Net sales

Moderate organic growth

EBITDA pre

~ €730 - 760 m

## Performance Materials



Net sales

Slight organic growth

EBITDA pre

~ €1.05 – 1.1 bn

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# Appendix



# Additional financial guidance 2015

## Further financial details

Group royalty, license and commission income in 2015 ~€300 m

Corporate & Other EBITDA pre ~ -€280 – -330 m

Underlying tax rate ~23% to 25%

Capex on PPE ~€550 m

Hedging / USD assumption 2015 & 2016 hedge rate ~30%  
at EUR/USD ~1.24 to 1.26

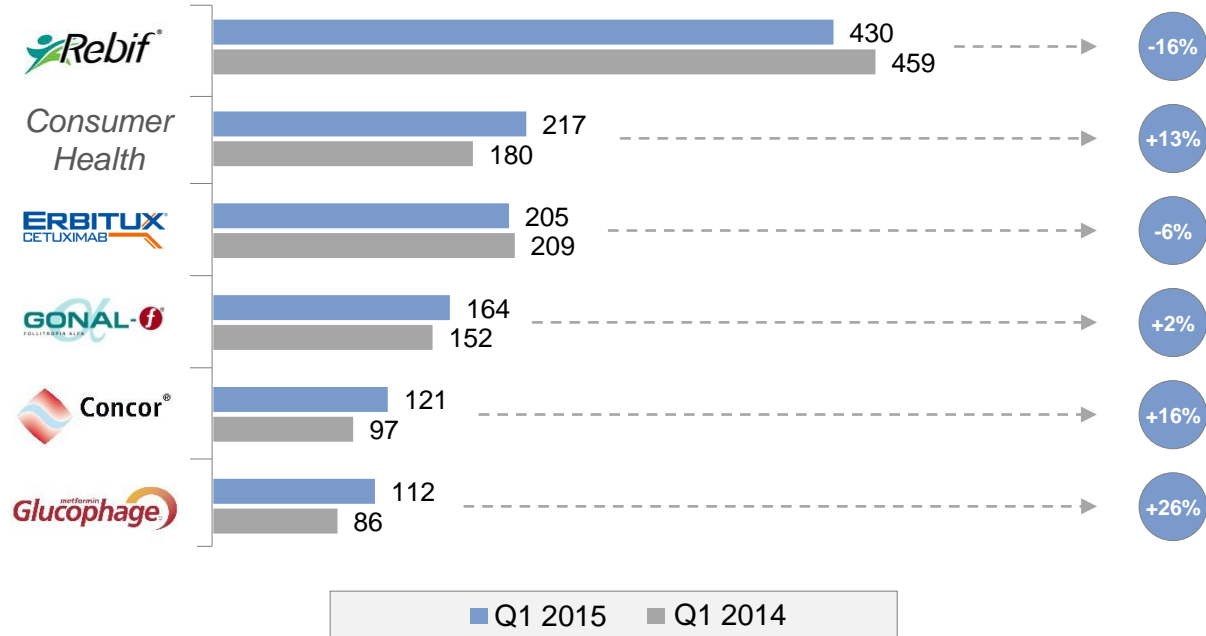
2015 Ø EUR/USD assumption ~1.10 – 1.15



# Healthcare organic growth by franchise/product

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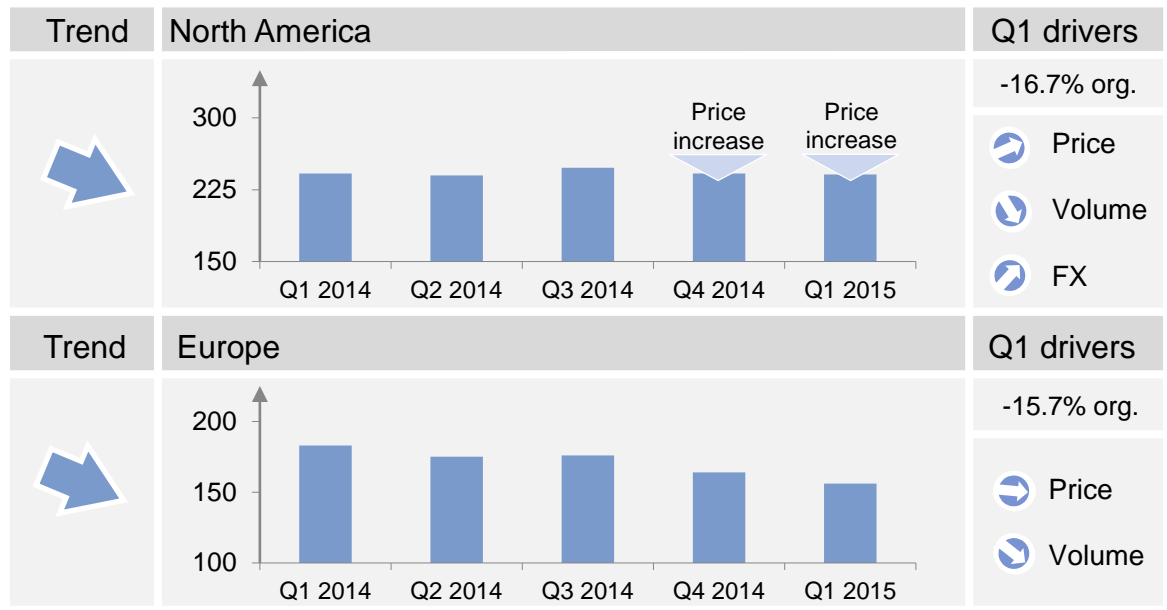
Q1 2015 organic sales growth [%] by key products [€ m]



# Rebif: Defending the franchise – competitive pressure in the U.S. and Europe



- Regional sales evolution [€ m]

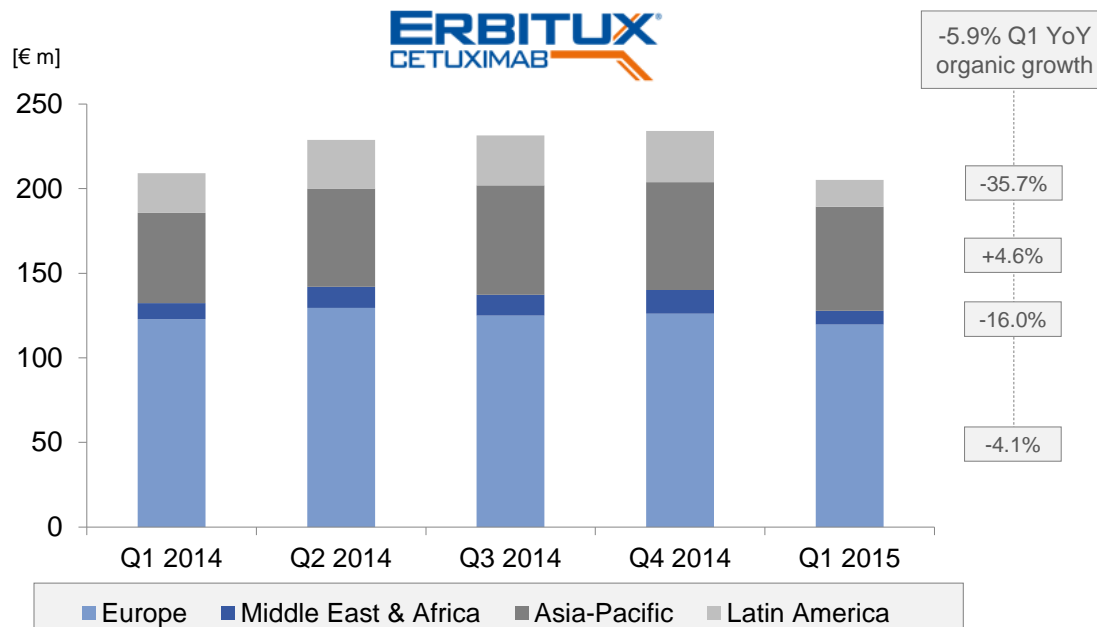


## Rebif performance

- Rebif sales of €430 m in Q1
- Organic decline of -15.9% is driven by lower volumes slightly mitigated by U.S. pricing
- U.S. influenced by some destocking; last year included positive wholesaler restocking effect in U.S.
- Competition from orals main factor of U.S. and European volume decline
- Recent price increases support the U.S.

# Erbitux: A challenging quarter

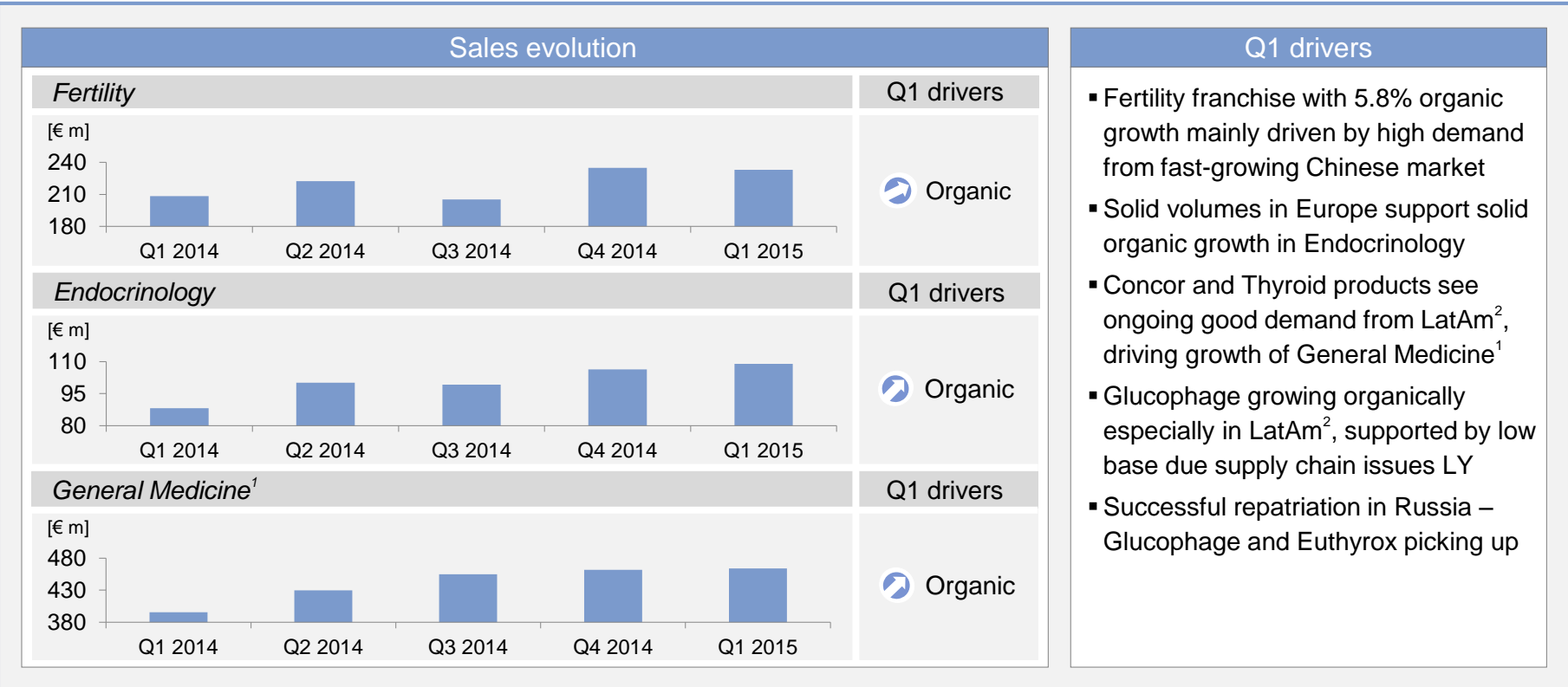
Erbitux sales by region



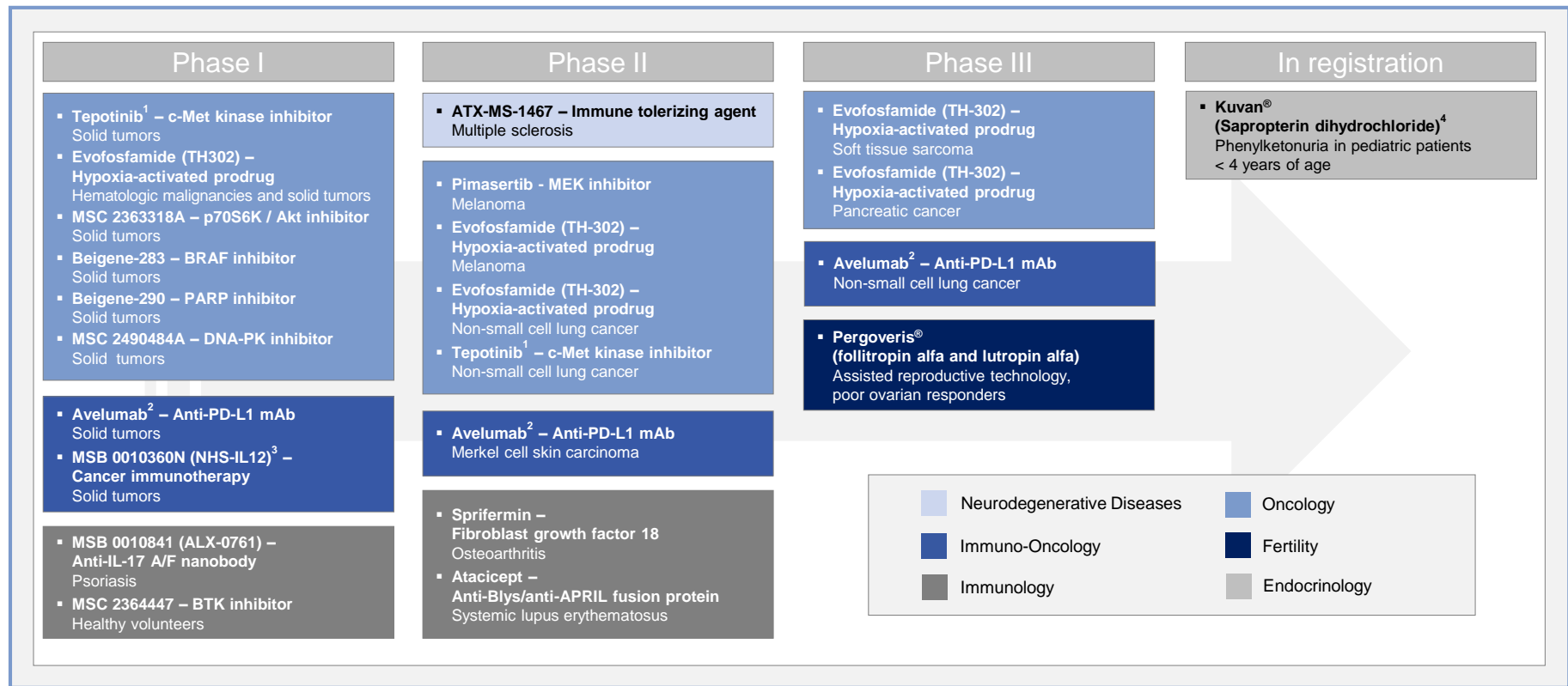
Erbitux performance

- Sales decrease to €205 m as FX is more than offset by organic decline
- Europe facing tough environment with price declines in some countries
- Phasing of tender business in several strategic markets burdens organic growth
- Growth in China due to successful listing in further provinces drives Asia-Pacific

# Strong growth in General Medicine, Fertility and Endocrinology



<sup>1</sup>includes "Cardiometabolic Care & General Medicine and Others"; <sup>2</sup>Latin America



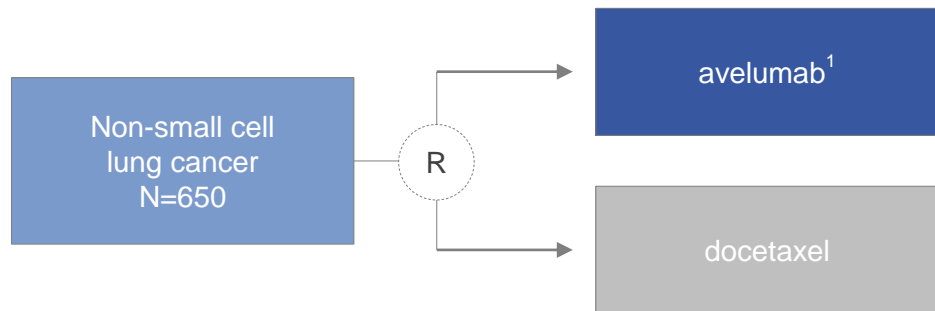
Pipeline as of 30 April, 2015; <sup>1</sup>Tepotinib is the proposed International Nonproprietary Name (INN) for the c-Met kinase inhibitor (MSC 2156119J); <sup>2</sup>Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as Anti-PD-L1 mAb (MSB0010718C); <sup>3</sup>Sponsored by the National Cancer Institute (USA); <sup>4</sup>Post-approval request by the European Medicines Agency

# First avelumab Phase III initiated

## Phase III (avelumab<sup>1</sup> NSCLC<sup>2</sup>) – Study design

### JAVELIN Lung 200 avelumab<sup>1</sup> in non-small cell lung cancer

Open-label, multicenter trial in subjects with NSCLC that has progressed after a platinum-containing doublet



#### Study setup:

- Primary endpoint: Overall survival in patients with PD-L1+ stage IIIb/IV NSCLC
- Secondary endpoints include: Overall survival, progression-free survival, overall response rate and will be assessed across the entire study population irrespective of PD-L1 status
- Study recruitment across 290 sites in over 30 countries

#### Strategic rationale:

- High unmet medical need with a low 5-year patient survival rate
- Extensive market potential despite competitive environment
- Potential for future combinations

<sup>1</sup>Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as Anti-PD-L1 mAb (MSB0010718C); <sup>2</sup>Non Small Cell Lung Cancer

## Avelumab\*

### ▪ Ovarian cancer

- Avelumab\*, an anti-PD-L1 antibody, in patients with previously treated, recurrent or refractory ovarian cancer: a phase Ib, open-label expansion trial

### ▪ Lung cancer

- Avelumab\*, an anti-PD-L1 antibody, in advanced NSCLC patients: a phase 1b, open-label expansion trial in patients progressing after platinum-based chemotherapy

### ▪ Gastric cancer

- A phase I dose expansion trial of avelumab\* (MSB0010718C), an anti-PD-L1 antibody, in Japanese patients with advanced gastric cancer

### ▪ Metastatic Merkel cell carcinoma

- A phase II, open-label, multicenter trial to investigate the clinical activity and safety of avelumab\* (MSB0010718C) in patients with metastatic Merkel cell carcinoma

### ▪ Safety and efficacy update

- Phase I expansion cohort trial to investigate the safety and clinical activity of avelumab\* (MSB0010718C) in patients with metastatic or locally advanced solid tumors



\*Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as Anti-PD-L1 mAb (MSB0010718C)



# Exceptional items in Q1 2015

Exceptional items in EBIT				
[€ m]	Q1 2014		Q1 2015	
	Exceptional items	thereof D&A	Exceptional items	thereof D&A
Healthcare	13	1	12	0
Life Science	6	0	20	0
Performance Materials	8	0	4	0
Corporate & Other	11	0	12	0
<b>Total</b>	<b>38</b>	<b>1</b>	<b>48</b>	<b>0</b>

Totals may not add up due to rounding

Date	Event
August 06, 2015	Q2 2015 Earnings release
November 12, 2015	Q3 2015 Earnings release
March 08, 2016	Q4 2015 Earnings release
April 29, 2016	Annual General Meeting



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