



# FOCUS ON DELIVERY

Merck KGaA, Darmstadt, Germany Q3 2017 results

*– Presentation for the media –*

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November 9, 2017



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# Agenda

**01** Executive summary

**02** Financial overview

**03** Guidance



01

## EXECUTIVE SUMMARY

## Highlights

### Operations

- ▶ Healthcare – pipeline progressing; initial launches of Mavenclad & Bavencio in Europe
- ▶ Life Science – solid organic growth amid unfavorable mix effect from softer key accounts
- ▶ Performance Materials – strong growth of non-LC businesses; LC normalization continues

### Financials

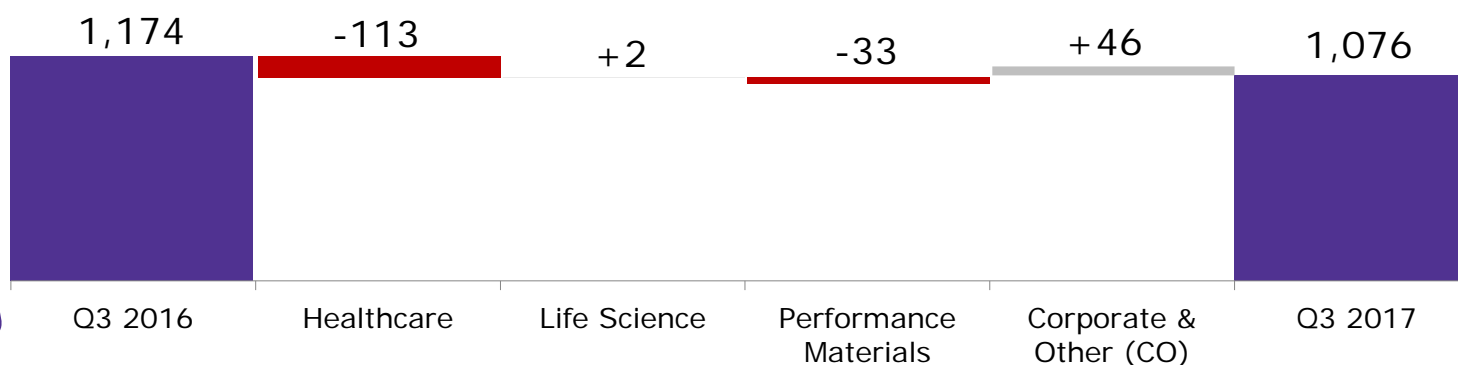
- ▶ Organic sales growth of 4.2%; EBITDA pre down 8.3% to €1,076 m
- ▶ Deleveraging on track, net debt/EBITDA pre reduced to 2.3x
- ▶ EBITDA pre guidance confirmed despite FX headwinds

# Investments in Healthcare and softness in Liquid Crystals burden EBITDA pre

## Q3 2017 YoY net sales

	Organic	Currency	Portfolio	Total
Healthcare	5.8%	-3.4%	-1.2%	<b>1.2%</b>
Life Science	4.8%	-3.9%	0.4%	<b>1.3%</b>
Performance Materials	-1.5%	-3.8%	0.0%	<b>-5.3%</b>
Group	4.2%	-3.7%	-0.4%	<b>0.1%</b>

## Q3 YoY EBITDA pre contributors [€ m]

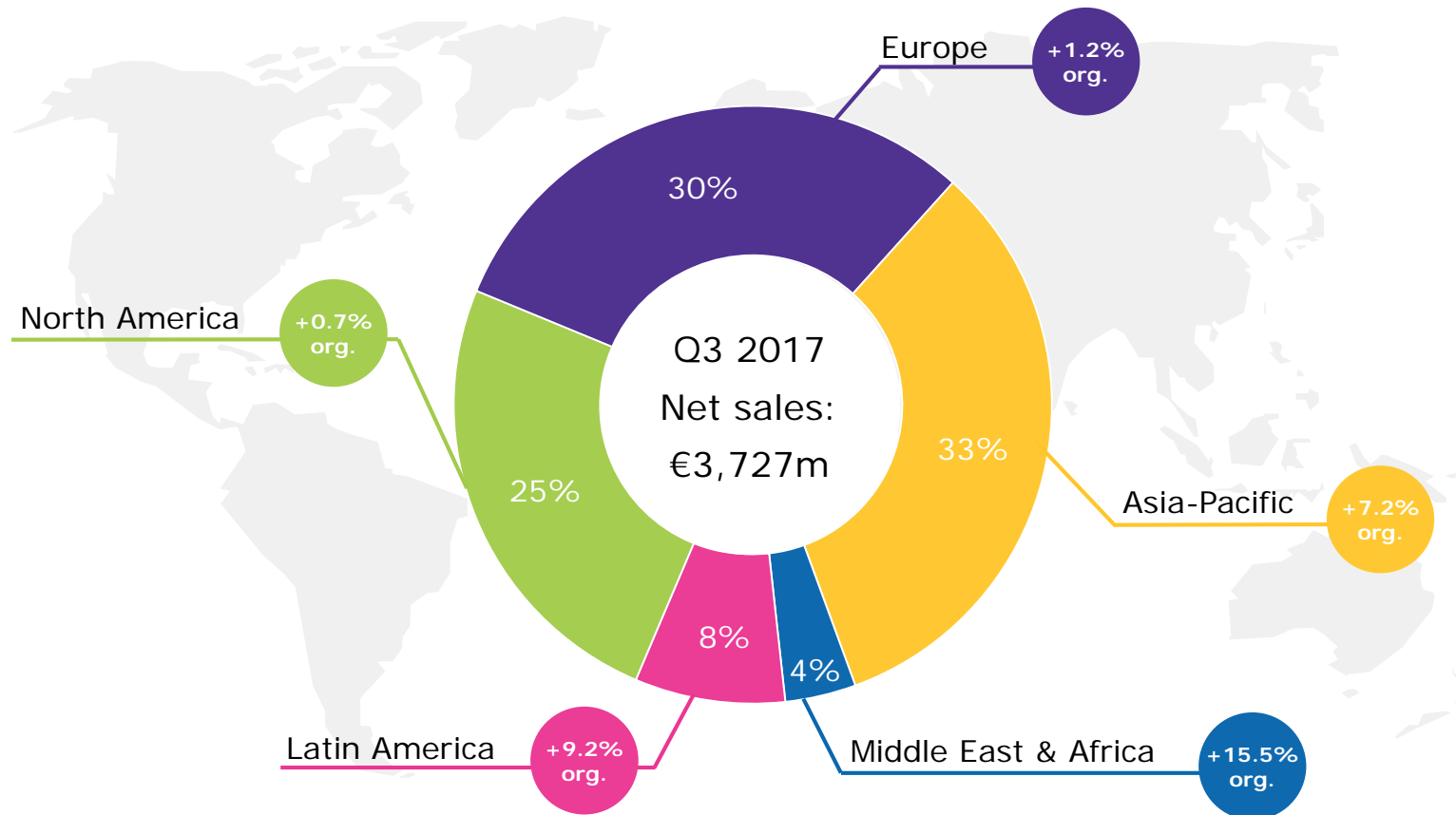


<sup>1</sup>Integrated Circuit Materials; <sup>2</sup>Long Term Incentive Plan  
Totals may not add up due to rounding

- Healthcare reflects strong growth in General Medicine, Consumer Health and Fertility
- Solid organic growth in Life Science driven by all businesses
- Organic growth of ICM<sup>1</sup>, Pigments and OLED is outweighed by ongoing market share normalization in Liquid Crystals
- FX headwinds across all businesses
- Healthcare contains investments in M&S and R&D, partially offset by milestone payments for Bavencio
- Life Science reflects organic growth offset by negative business mix and FX
- Performance Materials lower due to LC normalization, usual price declines and FX
- CO contains FX hedging gains and LTIP<sup>2</sup> benefits

# Organic growth in all regions

## Regional breakdown of net sales [€ m]



## Regional organic development

- Growth in Europe reflects solid demand in Life Science, almost offset by competition for Rebif, Erbitux and Gonal-f
- North America benefits from Life Science growth and Bavencio more than offsetting ongoing Rebif decline
- Strong growth in APAC driven by General Medicine, Fertility and Life Science outweighing LC normalization
- Very strong performance in LATAM and MEA across all major businesses





02

## FINANCIAL OVERVIEW

## Q3 2017: Overview of key figures

### Key figures

[€m]	Q3 2016	Q3 2017	Δ
Net sales	3,724	<b>3,727</b>	0.1%
EBITDA pre	1.174	<b>1,076</b>	-8.3%
<i>Margin (in % of net sales)</i>	31.5%	28.9%	
EPS pre	1.70	<b>1.51</b>	-11.2%
Operating cash flow	1,067	<b>758</b>	-29.0%

[€m]	Dec. 31, 2016	Sept. 30, 2017	Δ
Net financial debt	11,513	<b>10,483</b>	-8.9%
Working capital	3,486	<b>3,755</b>	7.7%
Employees	50,414	<b>52,843</b>	4.8%

### Comments

- EBITDA pre decline reflects investments in Healthcare and ongoing LC market share normalization
- EPS pre down due to lower EBITDA pre
- Lower operating cash flow driven by lower profit & changes in working capital
- Net financial debt benefits from healthy cash flow and Biosimilars divestment
- Working capital reflects increased receivables in Healthcare, higher inventories in all businesses
- Higher headcount related to growth initiatives in Healthcare and Life Science

## Reported figures reflect divestment of Biosimilars business

### Reported results

[€m]	Q3 2016	Q3 2017	Δ
EBIT	676	<b>901</b>	33.3%
Financial result	-67	<b>-65</b>	-2.1%
Profit before tax	609	<b>836</b>	37.2%
Income tax	-149	<b>-187</b>	25.6%
<i>Effective tax rate (%)</i>	24.4%	<b>22.4%</b>	
Net income	457	<b>645</b>	41.1%
EPS (€)	1.05	<b>1.48</b>	41.0%

### Comments

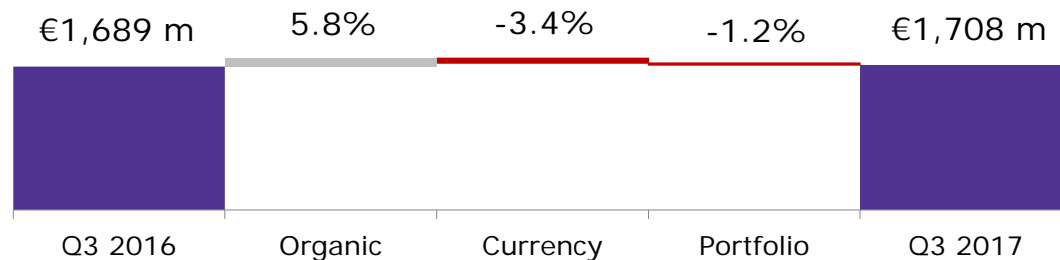
- EBIT up due to Biosimilars divestment, despite lower EBITDA pre
- Lower effective tax rate reflects divestment of Biosimilars business

# Healthcare: Investments in future growth weigh on profitability

## Healthcare P&L

[€m]	Q3 2016	Q3 2017
Net sales	1,689	<b>1,708</b>
Marketing and selling	-623	<b>-666</b>
Administration	-65	<b>-71</b>
Research and development	-322	<b>-423</b>
EBIT	375	<b>581</b>
EBITDA	560	<b>752</b>
EBITDA pre	565	<b>453</b>
Margin (in % of net sales)	33.5%	<b>26.5%</b>

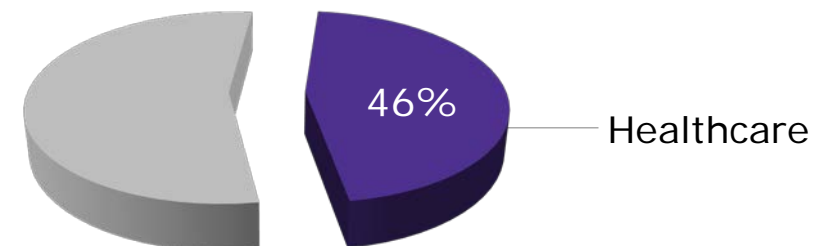
## Net sales bridge



## Comments

- Rebif declines due to competition in U.S. & EU, partially offset by U.S. pricing
- Organic decline of Erbitux due to competition and price pressure in EU
- Fertility portfolio back to growth, despite Gonal-f still facing tough base LY
- Consumer Health with double-digit growth driven by strategic brands in all growth markets
- Marketing & selling reflects Bavencio and Mavenclad launches
- R&D costs visibly ramping up, LY contained ~€40 m provision releases
- EBITDA pre reflects higher R&D and launch costs, exceeding income from milestone payments for Bavencio and organic growth

## Q3 2017 share of group net sales

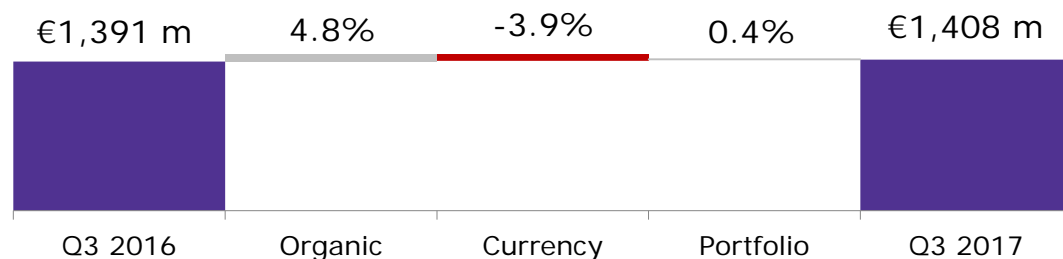


# Life Science: Solid organic growth amid negative mix and FX headwinds

## Life Science P&L

[€m]	Q3 2016	Q3 2017
Net sales	1,391	<b>1,408</b>
Marketing and selling	-414	<b>-412</b>
Administration	-56	<b>-59</b>
Research and development	-63	<b>-60</b>
EBIT	216	<b>220</b>
EBITDA	399	<b>401</b>
EBITDA pre	424	<b>426</b>
Margin (in % of net sales)	30.5%	<b>30.2%</b>

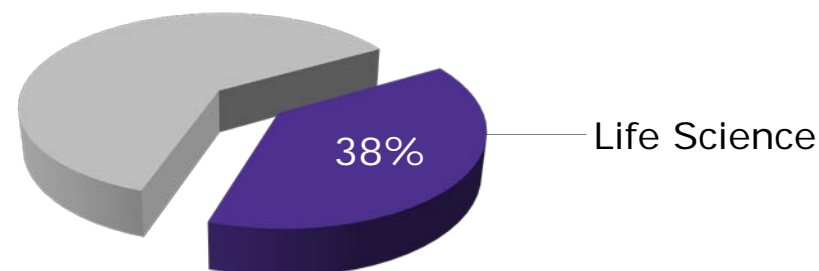
## Net sales bridge



## Comments

- Process Solutions posts solid organic growth due to strong demand for single-use products & services, while key accounts remain soft
- Applied Solutions shows good organic growth, driven by strong demand in Biomonitoring and Lab Water
- Research Solutions benefits from strong demand for specialty lab chemicals across all regions partially fueled by eCommerce
- Profitability reflects organic growth, offset by negative business mix and FX headwinds

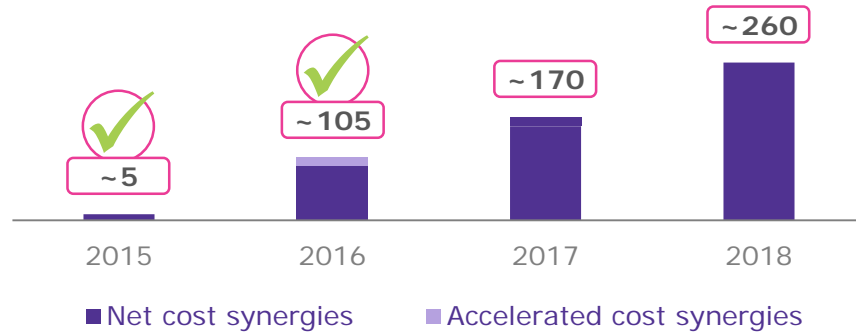
## Q3 2017 share of group net sales



# Integration of Sigma and synergy generation progressing well

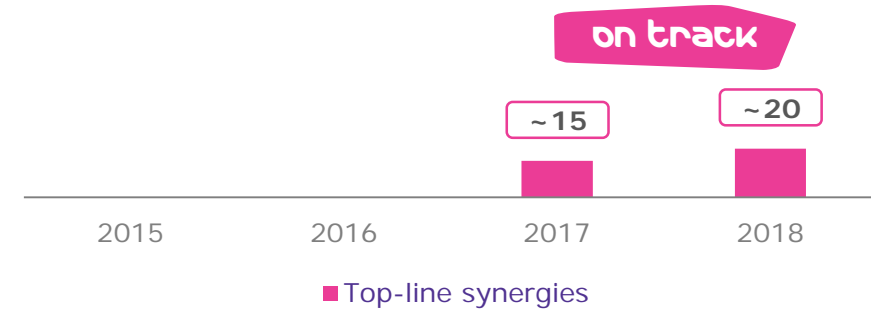
on track to deliver planned synergies of ~ €280 M until 2018

## cost synergies



- **Network consolidation and operational transformation ongoing**
  - Consolidated 10 manufacturing and distribution sites
  - Announced consolidation of 5 further sites
- **Combination of customer service centers and offshoring of transactional tasks**

## Topline synergies



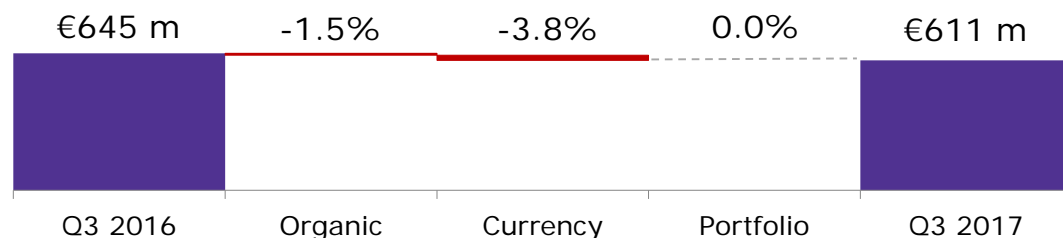
- **Continued integration of sigmaaldrich.com**
  - ~80% of relevant products in U.S. and EU are available online
  - >1/3 of Merck KGaA, Darmstadt, Germany eCommerce orders now contain products from both legacy companies
- **Complete offering in Process Solutions**

# Performance Materials: LC market share normalization impacts profitability

## Performance Materials P&L

[€m]	Q3 2016	Q3 2017
Net sales	645	<b>611</b>
Marketing and selling	-59	<b>-56</b>
Administration	-14	<b>-18</b>
Research and development	-55	<b>-57</b>
EBIT	213	<b>191</b>
EBITDA	274	<b>246</b>
EBITDA pre	282	<b>249</b>
<i>Margin (in % of net sales)</i>	43.7%	<b>40.7%</b>

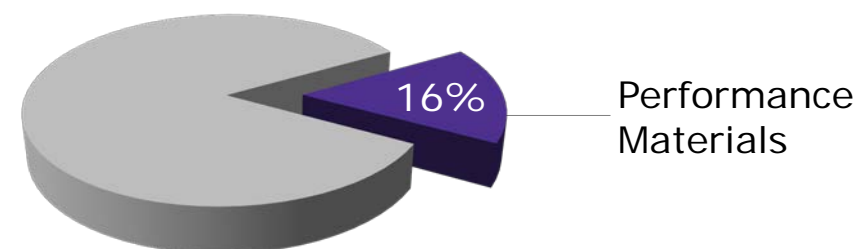
## Net sales bridge



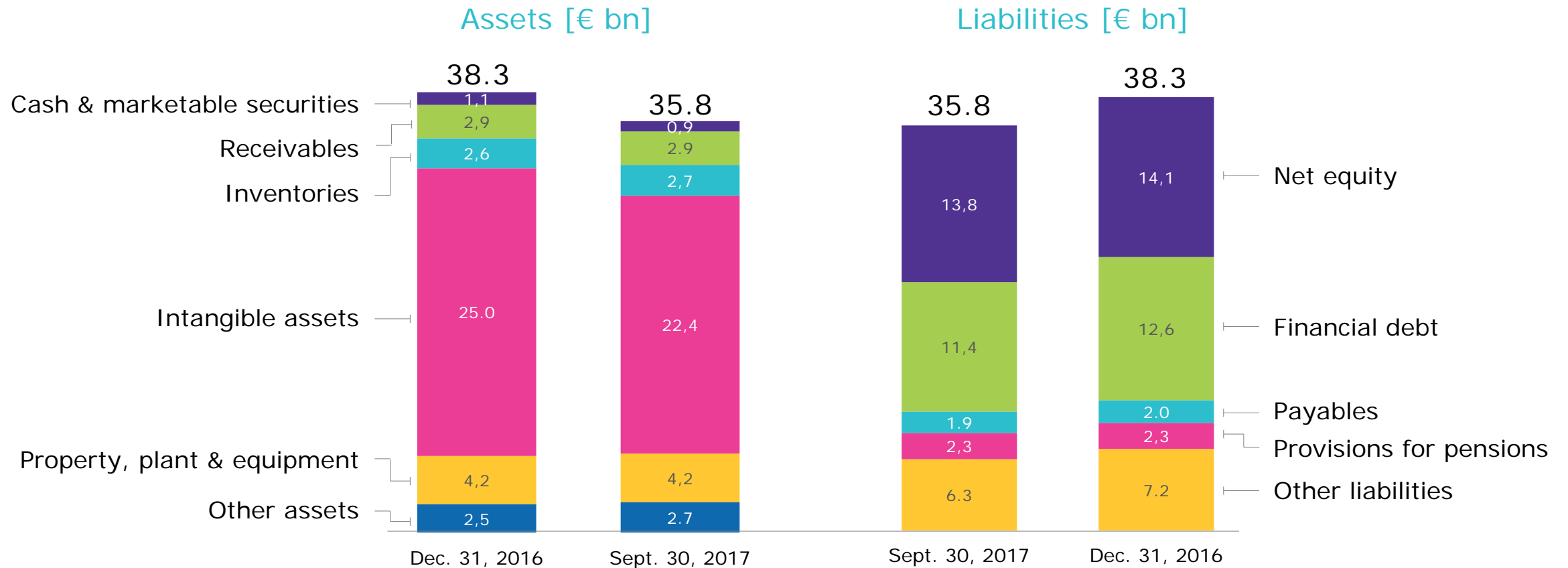
## Comments

- Organic growth of Integrated Circuit Materials, Pigments and OLED not fully offsetting Liquid Crystals market share normalization
- Liquid Crystals facing usual price reductions without volume growth, only innovative UB-FFS technology continues to see strong demand
- OLED continues to grow on industry capacity expansion & investments
- Strong growth in ICM mainly driven by demand for dielectrics
- Growth of Pigments due to strong demand for decorative pigments in cosmetic and coating applications
- Profitability reflects business mix, usual Liquid Crystals price decline & FX

## Q3 2017 share of group net sales



# Balance sheet: Deleveraging in progress after Sigma acquisition



- Total assets decrease, while equity ratio increases to 38.5%
- Reduction in intangible assets mainly reflects FX (-€2 bn)
- Lower net equity reflects negative FX mitigated by 9M profit

- Lower financial debt due to bond repayments and FX
- Other liabilities decrease driven by profit transfer to E. Merck KG, Darmstadt, Germany



## Cash flow: Strong focus on cash generation

### Q3 2017 – cash flow statement

[€m]	Q3 2016	Q3 2017	Δ
Profit after tax	460	<b>649</b>	189
D&A	434	<b>419</b>	-15
Changes in provisions	4	<b>-50</b>	-54
Changes in other assets/liabilities	36	<b>99</b>	63
Other operating activities	1	<b>-328</b>	-329
Changes in working capital	131	<b>-31</b>	-162
Operating cash flow	1,067	<b>758</b>	-309
Investing cash flow	-223	<b>-90</b>	133
thereof Capex on PPE	-171	<b>-197</b>	-26
Financing cash flow	-702	<b>-844</b>	-142

### Cash flow drivers

- Profit after tax includes gain from Biosimilars divestment, which is neutralized in other operating activities
- Changes in provisions reflects swing in LTIP provision adjustment
- Changes in working capital include higher receivables from Glucophage repatriation & higher inventories; LY contained factoring
- Investing cash flow contains higher Capex and Biosimilars cash proceeds ~€150 m
- Financing cash flow reflects €700 m euro-bond repayment in September and bank loan reduction LY



# 03 GUIDANCE

## Full-year 2017 guidance broadly confirmed

▶ Net sales: ~ €15.3 – 15.7 bn ◀

▶ EBITDA pre: ~ €4,400 – 4,600 m ◀

▶ EPS pre: ~ €6.15 – 6.50 ◀



## 2017 business sector guidance



### Net sales

- Slight organic growth
- Ongoing organic Rebif decline
- Other franchises growing; repatriation of Glucophage/China supportive

### EBITDA pre

~ €1,900 – 2,000 m



### Net sales

- Organic growth slightly above market, driven by Process Solutions
- First minor contribution of top-line synergies

### EBITDA pre

~ €1,780 – 1,850 m



### Net sales

- Slight to moderate organic decline
- Volume increases in all businesses
- Continuation of Liquid Crystal market share normalization in China

### EBITDA pre

~ €950 – 1,050 m



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## **APPENDIX**

# Additional financial guidance 2017

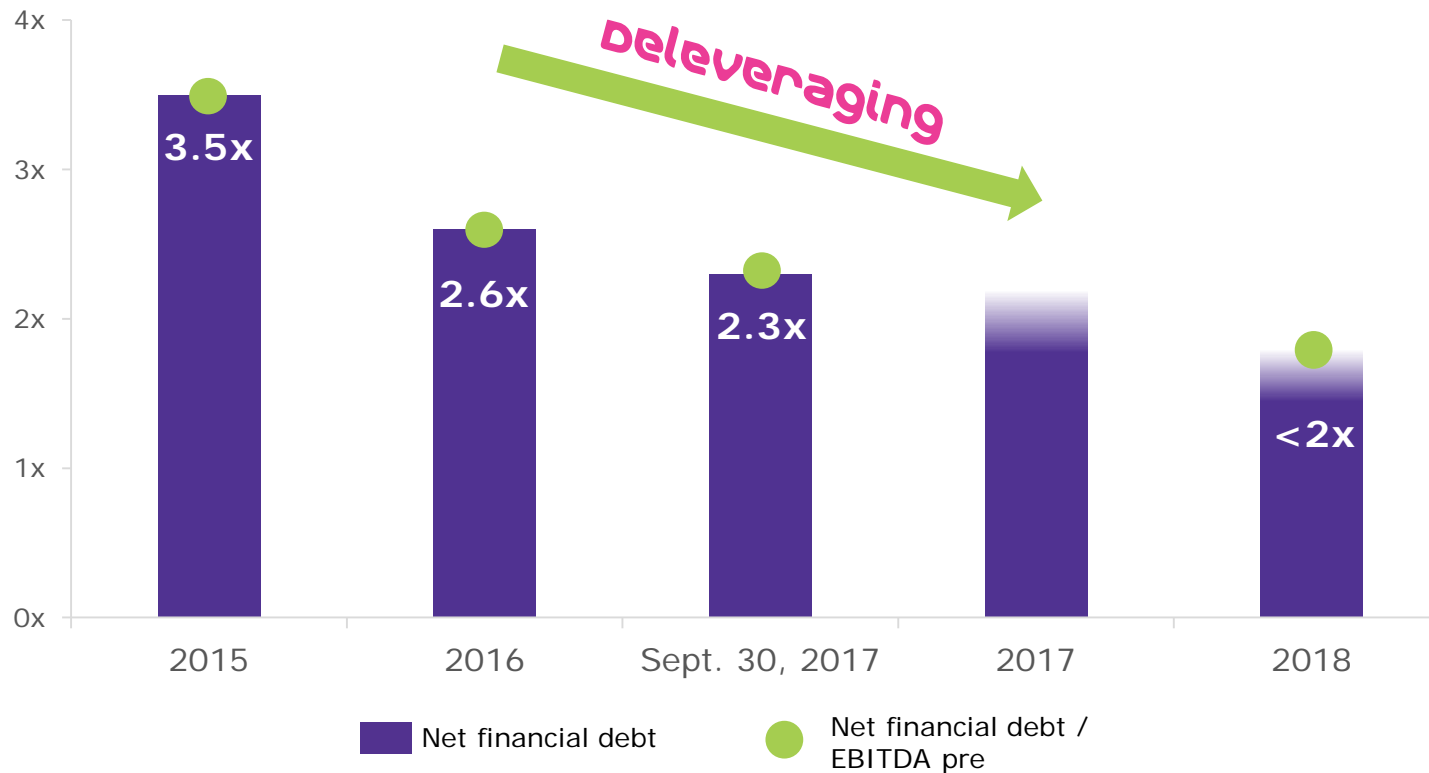
## Further financial details

Corporate & Other EBITDA pre	~ -€300– -350 m
Interest result	~ -€250 – -260 m
Effective tax rate	~ 23% to 25%
Capex on PPE	~ €850 – 900 m
Hedging/USD assumption	<b>Q4 2017 - 2018 hedge ratio ~ 60% at EUR/USD ~ 1.17 to 1.19</b>
2017 Ø EUR/USD assumption	~ 1.12 – 1.14

# Strong focus on cash generation to ensure swift deleveraging

## Net financial debt\* and leverage development

[Net financial debt/  
EBITDA pre]



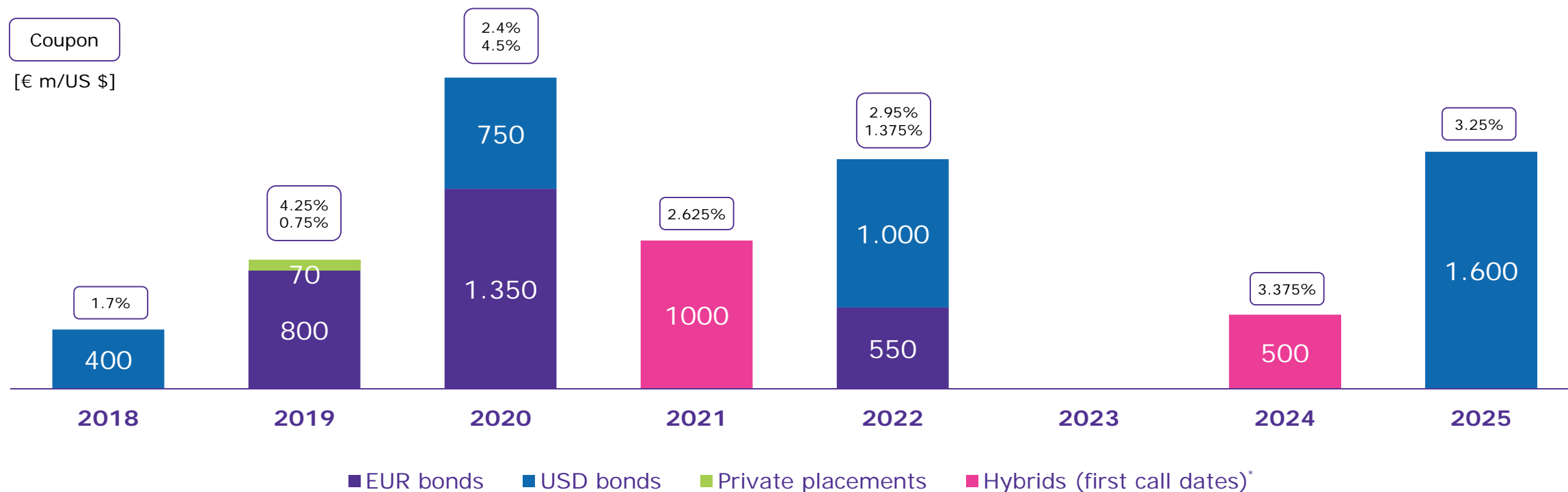
## Focus on deleveraging

- 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)



# Well-balanced maturity profile reflects Sigma-Aldrich financing transactions

Maturity profile as of Sept. 30, 2017



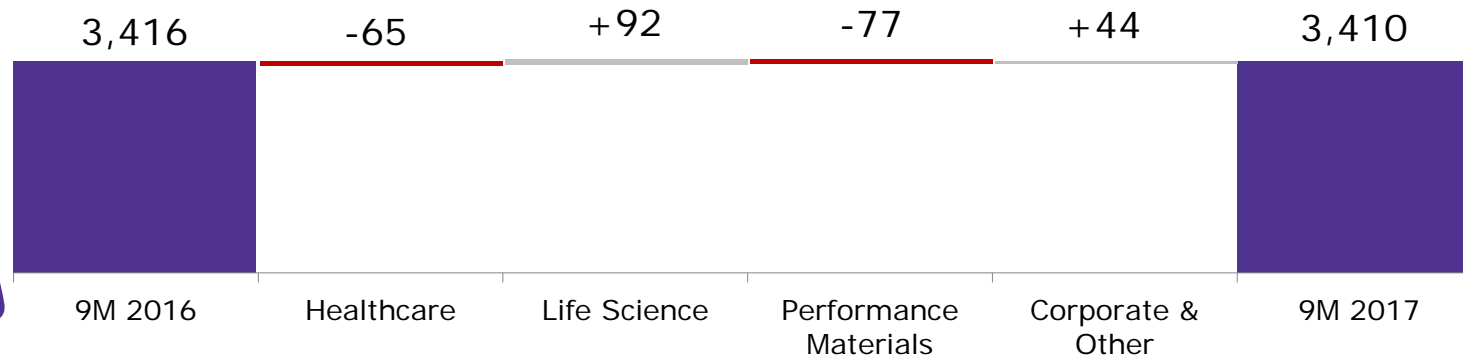
**Financing structure enables flexible and swift deleveraging**

# Life Science and Healthcare drive organic growth

## 9M 2017 YoY net sales

	Organic	Currency	Portfolio	Total
Healthcare	4.2%	-0.5%	-1.1%	<b>2.7%</b>
Life Science	4.1%	-0.5%	0.4%	<b>4.0%</b>
Performance Materials	-1.8%	0.8%	0.0%	<b>-1.1%</b>
Group	3.2%	-0.2%	-0.4%	<b>2.5%</b>

## 9M YoY EBITDA pre contributors [€ m]



- Healthcare reflects strong growth in General Medicine, especially Glucophage in China
- Organic performance in Life Science driven by all business units
- Performance Materials organically lower as market share normalization in LC outweighs growth of other businesses
- HC lower due to higher costs for M&S and R&D outweighing organic growth, approval milestones & royalty income swap
- Life Science driven by synergy realization and organic growth amid negative mix
- Performance Materials burdened by negative business mix & usual price declines
- CO contains positive FX hedging result

## 9M 2017: Overview of key figures

### Key figures

[€m]	9M 2016	9M 2017	Δ
Net sales	11,194	11,479	2.5%
EBITDA pre	3,416	<b>3,410</b>	-0.2%
<i>Margin (in % of net sales)</i>	30.5%	29.7%	
EPS pre	4.79	<b>4.85</b>	1.3%
Operating cash flow	1,731	<b>2,055</b>	18.7%

[€m]	Dec. 31, 2016	Sept. 30, 2017	Δ
Net financial debt	11,513	<b>10,483</b>	-8.9%
Working capital	3,486	<b>3,755</b>	7.7%
Employees	50,414	<b>52,843</b>	4.8%

### Comments

- Flat EBITDA pre reflects organic growth, milestones & royalty income swap offset by LC decline and HC investments
- EPS pre increases due to improved financial result
- Healthy operating cash flow; LY burdened by high tax payments
- Net financial debt reflects strong focus on operating cash flow
- Working capital reflects increased receivables in Healthcare, higher inventories in all businesses
- Higher headcount related to growth initiatives in Healthcare and Life Science

## Reported figures reflect solid business performance and exceptionals

### Reported results

[€m]	9M 2016	9M 2017	Δ
EBIT	2,075	<b>2,283</b>	10.0%
Financial result	-256	<b>-207</b>	-19.3%
Profit before tax	1,819	<b>2,076</b>	14.2%
Income tax	-451	<b>-482</b>	-6.8%
<i>Effective tax rate (%)</i>	24.8%	<b>23.2%</b>	
Net income	1,360	<b>1,587</b>	16.7%
EPS (€)	3.13	<b>3.65</b>	16.6%

### Comments

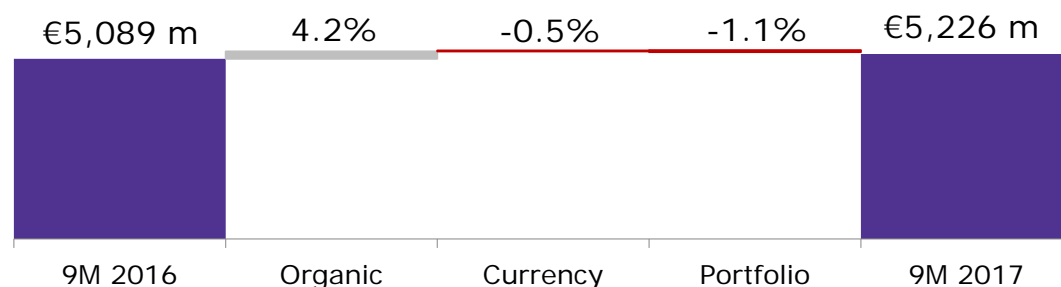
- EBIT increases despite lower EBITDA pre driven by proceeds from Biosimilars divestment
- Improved financial result reflects deleveraging; LY negatively impacted by LTIP\* effect
- Effective tax rate within guidance range of ~23% to 25%

# Healthcare: Solid organic growth amid pipeline investments

## Healthcare P&L

[€m]	9M 2016	9M 2017
Net sales	5,089	<b>5,226</b>
Marketing and selling	-1,878	<b>-2,033</b>
Administration	-202	<b>-226</b>
Research and development	-1,078	<b>-1,188</b>
EBIT	1,314	<b>1,375</b>
EBITDA	1,947	<b>1,847</b>
EBITDA pre	1,631	<b>1,566</b>
Margin (in % of net sales)	32.0%	<b>30.0%</b>

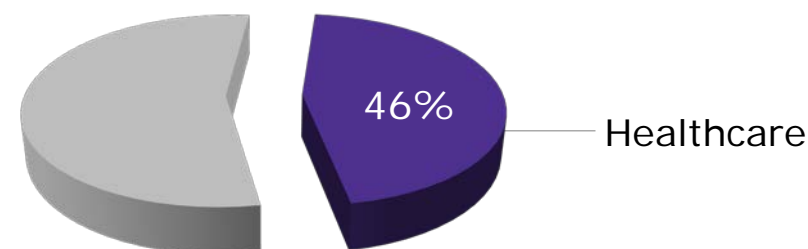
## Net sales bridge



## Comments

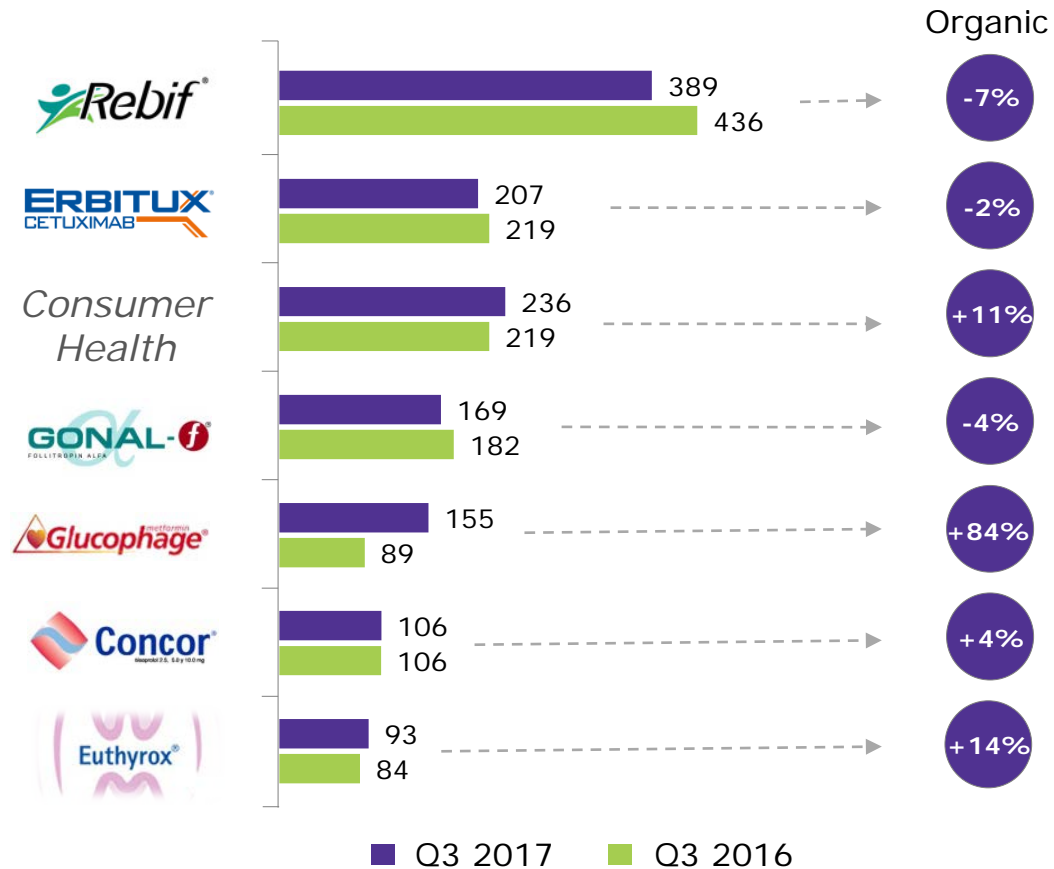
- Rebif declines due to competition in U.S. & EU, while U.S. pricing and Q2 inventory stocking support performance
- Erbitux shows organic decline - volume increase in growth markets outweighed by competition and price reductions in Europe
- General Medicine portfolio posts double-digit organic growth driven by strong performance in growth markets and repatriation in China
- Marketing & selling reflects investments for launches and costs for Glucophage repatriation in China
- R&D costs increase due to pipeline development
- Profitability benefits from royalty swap, Bavencio milestones and organic performance, but more than offset by higher R&D and M&S costs

## 9M 2017 share of group net sales

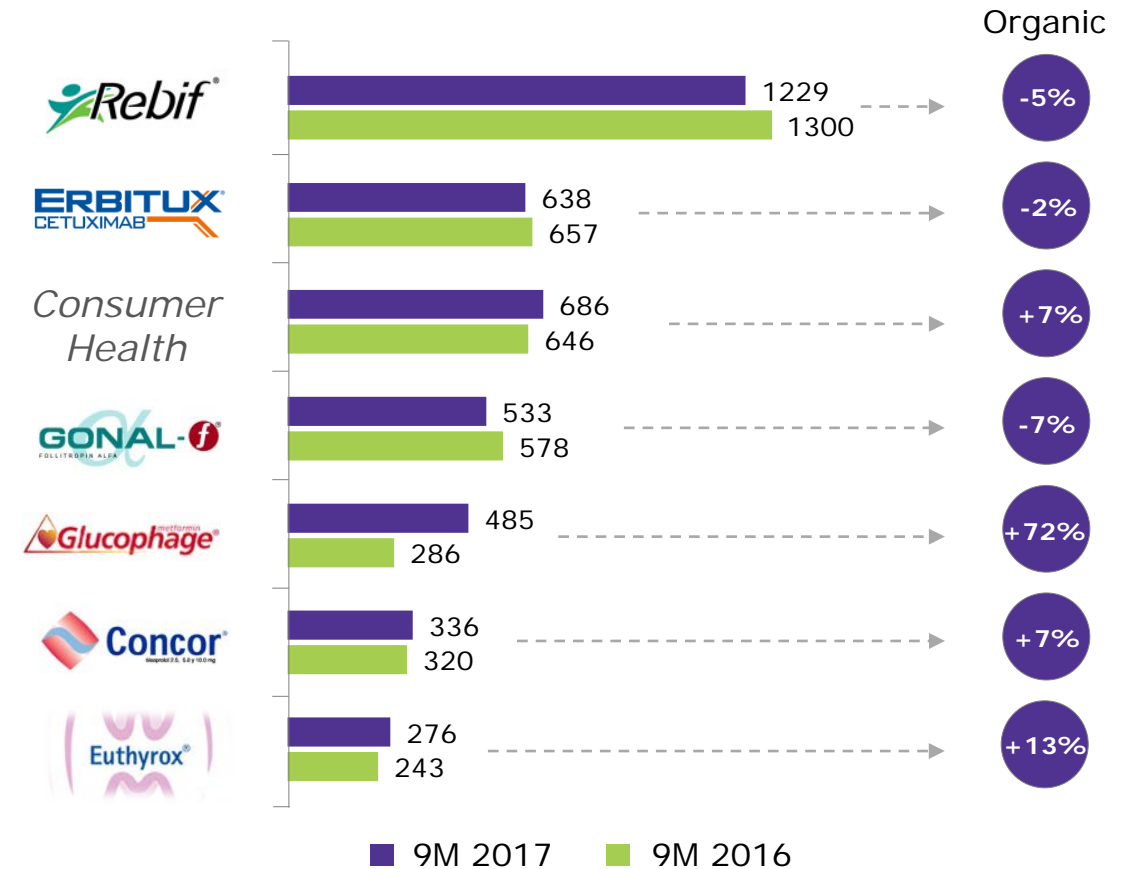


# Healthcare organic growth by franchise/product

Q3 2017 organic sales growth [%]  
by key product [€ m]



9M 2017 organic sales growth [%]  
by key product [€ m]



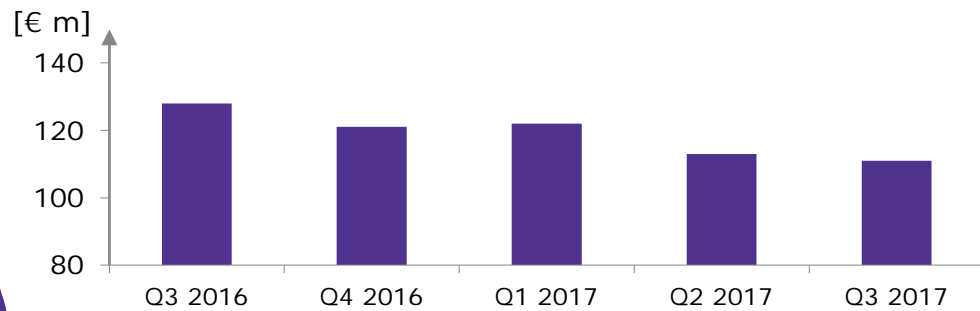
# Rebif: Competitive landscape in U.S. and Europe

## Rebif sales evolution

### North America



### Europe



### Q3 drivers

-5.1% org.

- Price
- Volume
- FX

### Q3 drivers

-12.1% org.

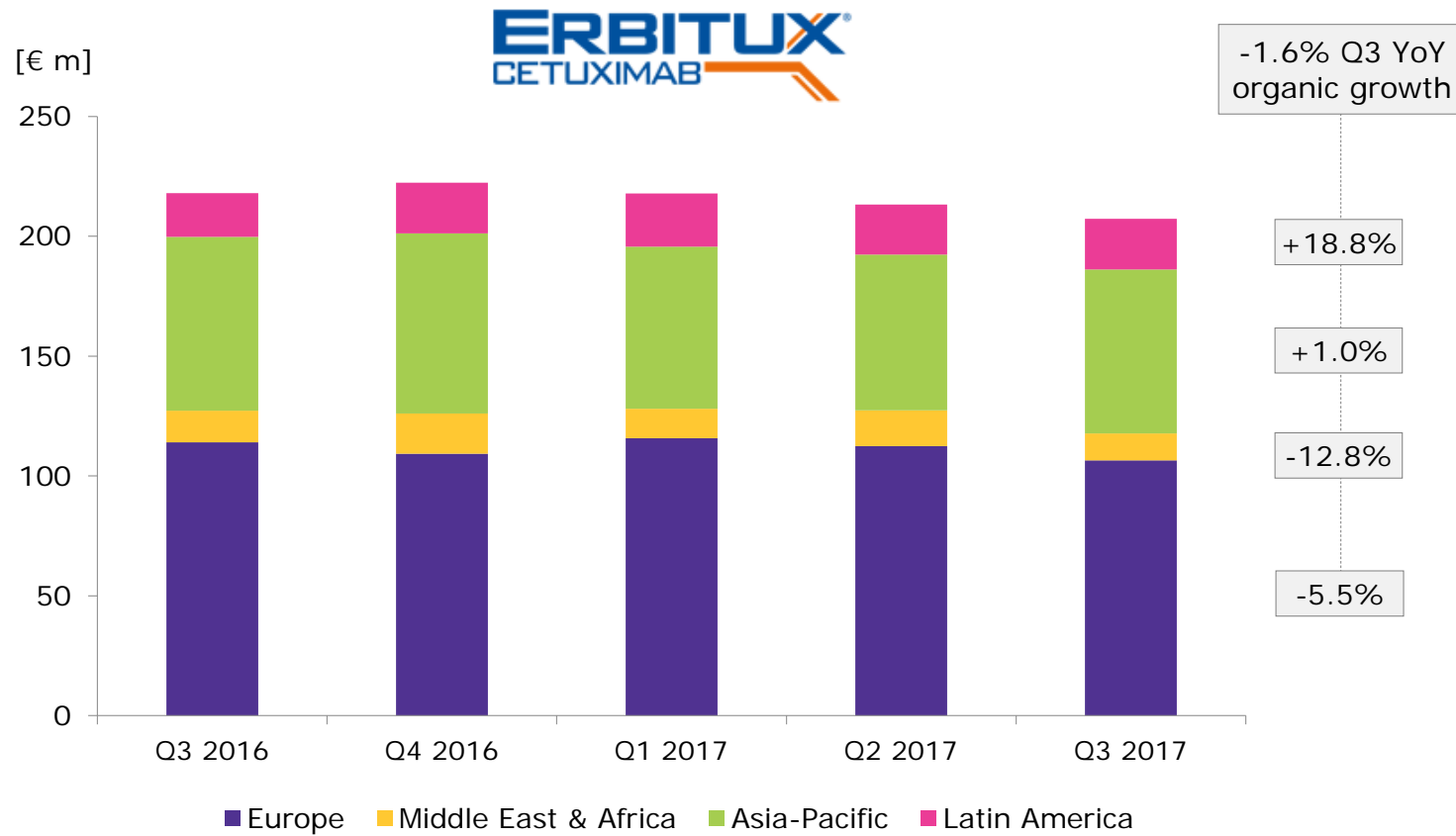
- Price
- Volume

## Q3 2017 Rebif performance

- Rebif sales of €389 m in Q3 2017 reflect organic decline of -6.9% & FX headwinds
- Competition-driven U.S. volume erosion mitigated by price increases
- Market shares within interferons stable due to high retention rates and long-term track record
- Competition from orals and occasional price adjustments cause ongoing organic decline in Europe

# Erbitux: A challenging market environment

## Erbitux sales by region



## Q3 2017 Erbitux performance

- Sales decline to €207 m driven by slight organic decline and FX headwinds
- Europe impacted by competition, price reductions and shrinking market size due to increasing immuno-oncology trials
- APAC with slight growth driven by new reimbursement uptake in Taiwan
- LATAM strong especially in Brazil; MEA affected by tender phasing

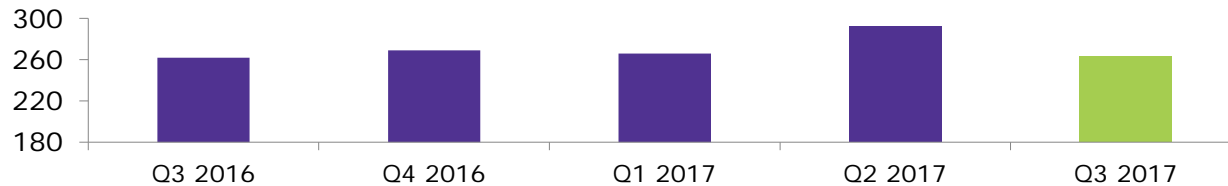


# Strong organic growth of General Medicine driven by all major products

## Sales evolution

### Fertility

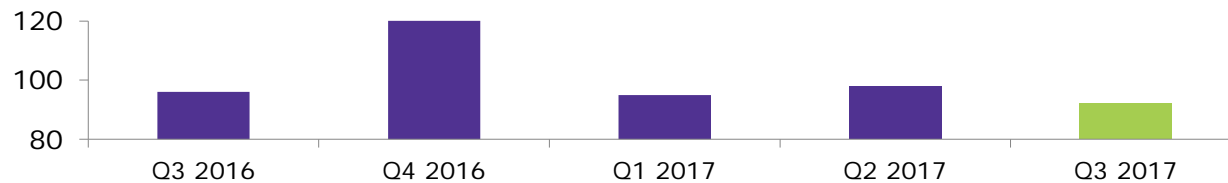
[€ m]



➤ Organic  
+4.4% org.

### Endocrinology

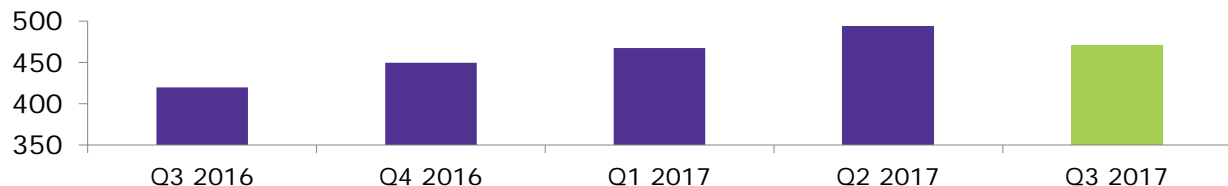
[€ m]



➤ Organic  
0.5% org.

### General Medicine\*

[€ m]



➤ Organic  
17.1% org.

## Q3 2017 organic drivers

- Gonal-f still negative against high base LY and competition from biosimilars in Europe more than offsetting growth in China
- Rest of Fertility portfolio continues to grow double-digit, all regions contributing
- Endocrinology flat as growth in LATAM and EU is offset by lower demand in U.S.
- General Medicine benefits from Glucophage repatriation in China
- Euthyrox and Concor post healthy growth mainly driven by higher volumes in EU

# Clinical pipeline

## Phase I

**M2698**  
p70S6K & Akt inhibitor  
Solid tumors

**M3814**  
DNA-PK inhibitor  
Solid tumors

**M9831 (VX-984)**  
DNA-PK inhibitor  
Solid tumors

**M6620 (VX-970)**  
ATR inhibitor  
Solid tumors

**M4344 (VX-803)**  
ATR inhibitor  
Solid tumors

**M3541**  
ATM inhibitor  
Solid tumors

**M8891**  
MetAP2 inhibitor  
Solid tumors

**M7583**  
BTK inhibitor  
Hematological malignancies

**avelumab**  
anti-PD-L1 mAb  
Solid tumors

**avelumab**  
anti-PD-L1 mAb  
Hematological malignancies

**M9241 (NHS-IL12)<sup>4</sup>**  
Cancer immunotherapy  
Solid tumors

**M7824**  
anti-PD-L1/TGFbeta trap  
Solid tumors

**M4112**  
Cancer immunotherapy  
Solid tumors

**M1095 (ALX-0761)<sup>5</sup>**  
anti-IL-17 A/F nanobody  
Psoriasis

**M6495**  
anti-ADAMTS-5 nanobody  
Osteoarthritis

**M5717**  
PeEF2 inhibitor  
Malaria

## Phase II

**tepotinib**  
c-Met kinase inhibitor  
Non-small cell lung cancer

**tepotinib**  
c-Met kinase inhibitor  
Hepatocellular cancer

**avelumab - anti-PD-L1 mAb**  
Merkel cell cancer 1L<sup>1</sup>

**sprifermin**  
fibroblast growth factor 18  
Osteoarthritis

**atacept**  
anti-Blys/anti-APRIL fusion protein  
Systemic lupus erythematosus

**atacept**  
anti-Blys/anti-APRIL fusion protein  
IgA nephropathy

**abrituzumab – anti-CD51 mAb**  
Systemic sclerosis with interstitial lung disease

**evobrutinib**  
BTK inhibitor  
Rheumatoid arthritis

**evobrutinib**  
BTK inhibitor  
Systemic lupus erythematosus

**evobrutinib**  
BTK inhibitor  
Multiple sclerosis

## Phase III

**avelumab - anti-PD-L1 mAb**  
Non-small cell lung cancer 1L<sup>1</sup>

**avelumab - anti-PD-L1 mAb**  
Non-small cell lung cancer 2L<sup>2</sup>

**avelumab - anti-PD-L1 mAb**  
Gastric cancer 1L-M<sup>1M</sup>

**avelumab - anti-PD-L1 mAb**  
Gastric cancer 3L<sup>3</sup>

**avelumab - anti-PD-L1 mAb**  
Ovarian cancer platinum resistant/refractory

**avelumab - anti-PD-L1 mAb**  
Ovarian cancer 1L<sup>1</sup>

**avelumab - anti-PD-L1 mAb**  
Urothelial cancer 1L-M<sup>1M</sup>

**avelumab - anti-PD-L1 mAb**  
Renal cell cancer 1L<sup>1</sup>

**avelumab - anti-PD-L1 mAb**  
Locally advanced head and neck cancer

Pipeline as of November 1<sup>st</sup>, 2017

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.

## Registration

**cladribine tablets**  
lymphocyte targeting agent  
Relapsing multiple sclerosis<sup>6</sup>

- Oncology
- Immuno-Oncology
- Immunology
- Neurology
- General Medicine

<sup>1</sup> First Line treatment; <sup>1M</sup> First Line maintenance treatment; <sup>2</sup> Second Line treatment; <sup>3</sup> Third Line treatment; <sup>4</sup> Sponsored by the National Cancer Institute (USA);

<sup>5</sup> As announced on March 30 2017, in an agreement with Avillion, anti-IL-17 A/F nanobody will be developed by Avillion for plaque psoriasis and commercialized by Merck KGaA, Darmstadt, Germany;

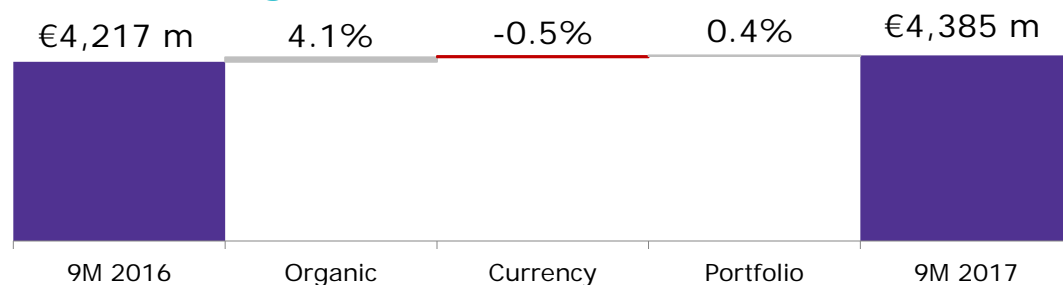
<sup>6</sup> As announced on August 25 2017, the European Commission has granted marketing authorization for cladribine tablets for the treatment of highly active relapsing multiple sclerosis in the 28 countries of the European Union in addition to Norway, Liechtenstein and Iceland.

# Life Science: Ongoing synergy realization drives margin progression

## Life Science P&L

[€m]	9M 2016	9M 2017
Net sales	4,217	<b>4,385</b>
Marketing and selling	-1,248	<b>-1,303</b>
Administration	-176	<b>-194</b>
Research and development	-190	<b>-190</b>
EBIT	486	<b>677</b>
EBITDA	1,026	<b>1,242</b>
EBITDA pre	1,233	<b>1,325</b>
Margin (in % of net sales)	29.2%	<b>30.2%</b>

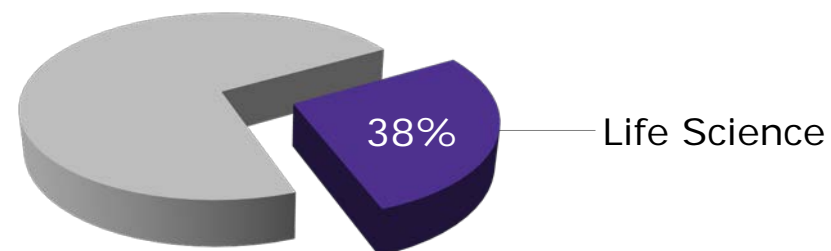
## Net sales bridge



## Comments

- Process Solutions benefits from robust demand for single-use, services & virus removal, against tough comps & softer key accounts business
- Applied Solutions delivers good organic growth, due to strong demand for pharma & analytical testing, diagnostics and water purification
- Research Solutions posts slight organic growth driven by specialty chemicals business & diagnostic customers outweighing soft U.S. academia
- 9M 2016 EBIT affected by inventory step-up for Sigma-Aldrich
- Profitability reflects ongoing synergy realization and organic growth partially offset by negative business mix effects

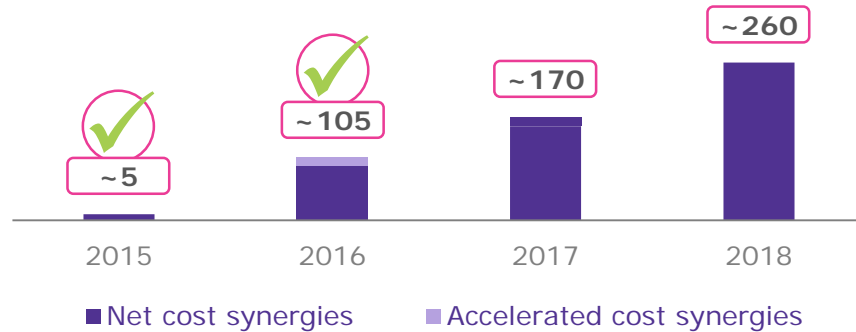
## 9M 2017 share of group net sales



# Integration of Sigma and synergy generation progressing well

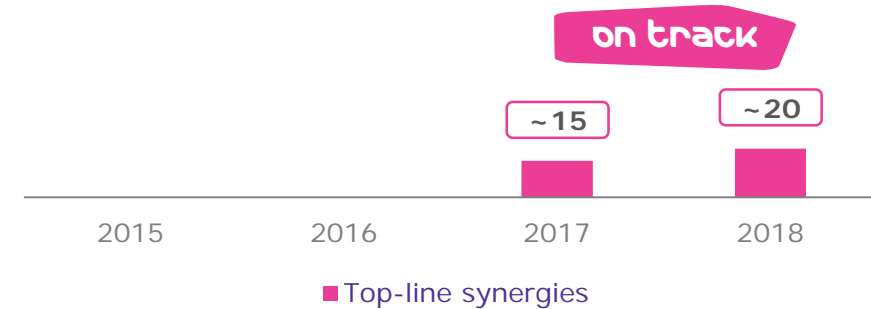
on track to deliver planned synergies of ~ €280 M until 2018

## cost synergies



- **Network consolidation and operational transformation ongoing**
  - Consolidated 10 manufacturing and distribution sites
  - Announced consolidation of 5 further sites
- **Combination of customer service centers and offshoring of transactional tasks**

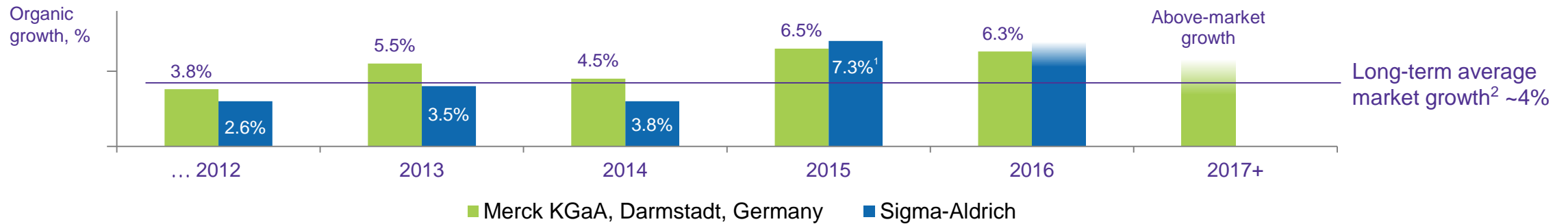
## Topline synergies



- **Continued integration of sigmaaldrich.com**
  - ~80% of relevant products in U.S. and EU are available online
  - >1/3 of Merck KGaA, Darmstadt, Germany eCommerce orders now contain products from both legacy companies
- **Complete offering in Process Solutions**

# Performance consistently at or above market during integration

## Merck KGaA, Darmstadt, Germany and Sigma-Aldrich organic growth rates versus market growth



## Q3 2017 EBITDA pre margins versus peers<sup>2</sup>



**Industry leading Margins**

<sup>1</sup>Growth for 9M 2015 (organic growth of \$152 m on prior 9M 2014 sales of \$2,080 m); <sup>2</sup>Source: Merck KGaA, Darmstadt, Germany market intelligence and broker research; <sup>3</sup>Excluding corporate costs; including proportionate corporate costs EBITDA pre margin would be ~ 27-28%

# Focus on strategic growth initiatives will secure long-term growth

Strategic initiative



END TO END



SINGLE-USE



GENE EDITING &  
CELL THERAPY

Ambition

Offer **process development** services with our complete bioprocessing portfolio especially to small biotechs

Establish leadership in the fast-growing **single-use** bioprocessing segment through standardization and capacity expansion

Develop tools for **gene editing** and manufacturing services for **cell therapy**

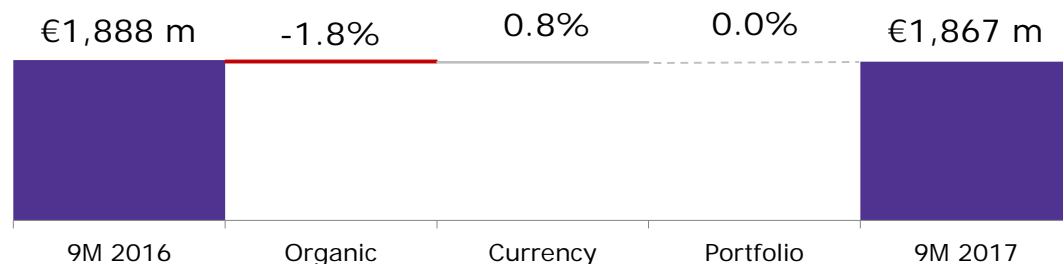
Strategic initiatives are key contributors to €1 bn new product sales ambition in 2022

# Performance Materials: Liquid Crystals sales decline burdens profitability

## Performance Materials P&L

[€m]	9M 2016	9M 2017
Net sales	1,888	<b>1,867</b>
Marketing and selling	-175	<b>-181</b>
Administration	-45	<b>-54</b>
Research and development	-157	<b>-173</b>
EBIT	613	<b>553</b>
EBITDA	808	<b>734</b>
EBITDA pre	829	<b>752</b>
Margin (in % of net sales)	43.9%	<b>40.2%</b>

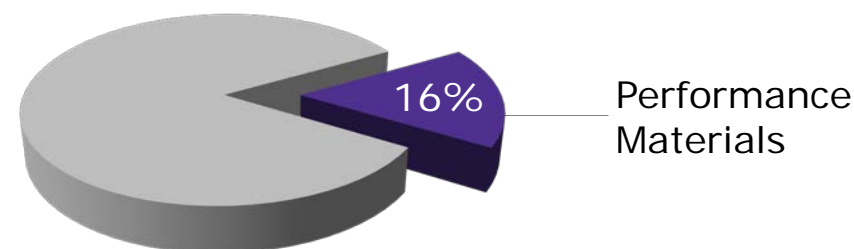
## Net sales bridge



## Comments

- Organic growth of Integrated Circuit Materials, Pigments and OLED cannot offset Liquid Crystal market share normalization
- Ongoing Liquid Crystal market share normalization drives sales decline
- OLED continues to grow on industry capacity expansion & investments
- Strong growth of Integrated Circuit Materials driven by all major material classes, esp. strong dielectrics demand for complex chips
- Healthy growth of Pigments due to solid demand for decorative pigments especially in automotive applications
- Profitability reflects negative business mix, usual Liquid Crystal price reductions as well as higher R&D for future growth projects

## 9M 2017 share of group net sales



## Healthy operating cash flow driven by higher profit and tax effects

### 9M 2017 – cash flow statement

[€m]	9M 2016	9M 2017	Δ
Profit after tax	1,368	<b>1,595</b>	227
D&A	1,386	<b>1,247</b>	-139
Changes in provisions	-42	<b>22</b>	64
Changes in other assets/liabilities	-396	<b>-101</b>	295
Other operating activities	-421	<b>-349</b>	72
Changes in working capital	-165	<b>-359</b>	-194
Operating cash flow	1,731	<b>2,055</b>	324
Investing cash flow	-53	<b>-794</b>	-741
thereof Capex on PPE	-456	<b>-569</b>	-113
Financing cash flow	-1,631	<b>-1,318</b>	313

### Cash flow drivers

- Profit after tax includes gains from Kuvan (LY) & Biosimilars divestment, which are neutralized in other operating activities
- D&A reduction reflects write-up of Vevey site (~ -€70 m) and Xalkori impairment (~ €70 m) LY
- Changes in other assets/liabilities driven by positive tax effects
- Investing cash flow contains Vertex and F-star licensing deals as well as increased Capex outweighing Biosimilars divestment
- Financing cash flow reflects repayment of \$250 m and €700 m bond (Q1/Q3); LY with higher repayment of debt



# Exceptionals in Q3 2017

## Exceptionals in EBIT

[€m]	Q3 2016		Q3 2017	
	Exceptionals	thereof D&A	Exceptionals	thereof D&A
Healthcare	6	0	-317	-17
Life Science	25	0	24	0
Performance Materials	8	0	2	0
Corporate & Other	25	0	29	0
Total	63	0	-261	-17

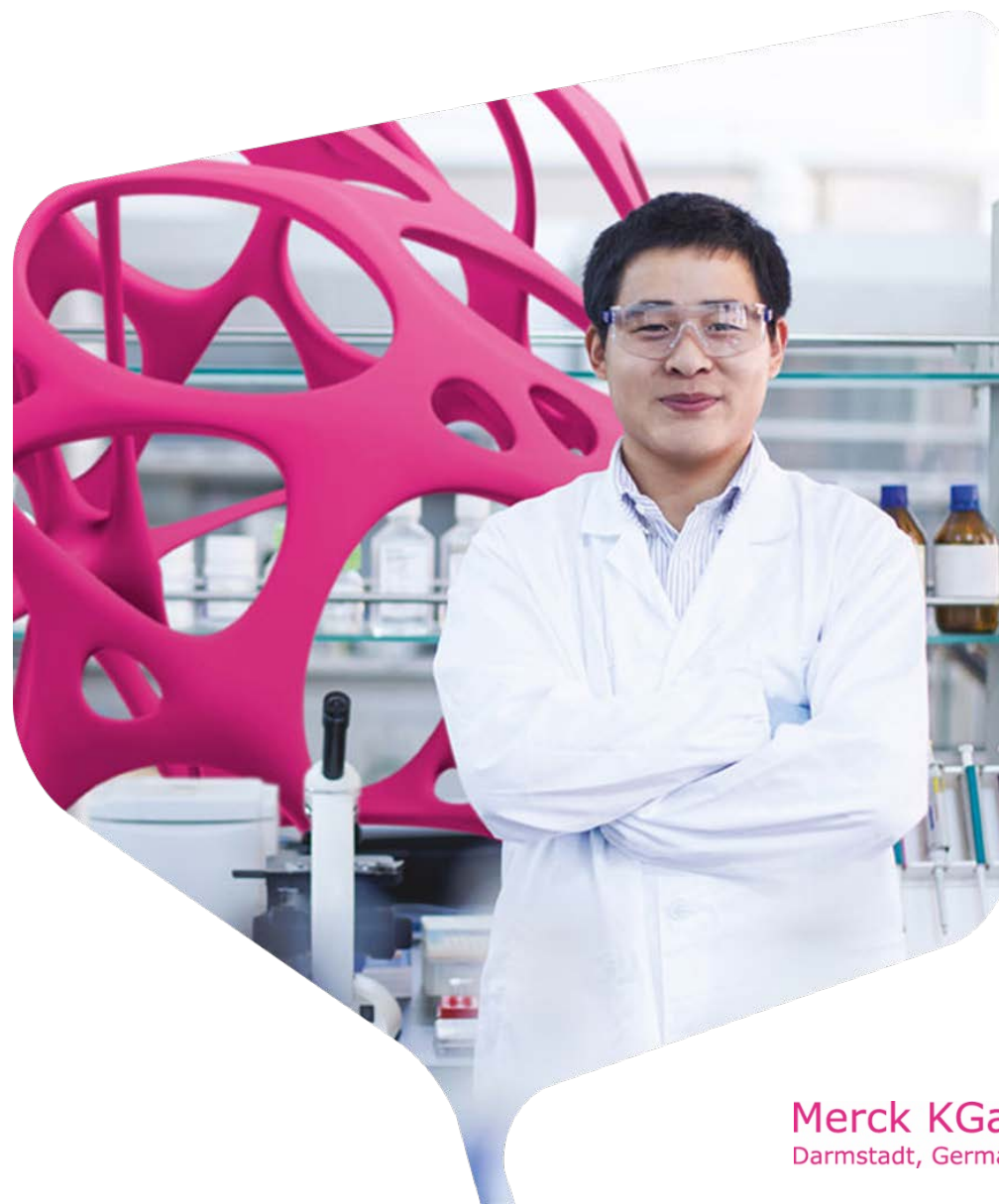
# Exceptionals in 9M 2017

## Exceptionals in EBIT

[€m]	9M 2016		9M 2017	
	Exceptionals	thereof D&A	Exceptionals	thereof D&A
Healthcare	-245	71	-366	-84
Life Science	207	0	86	3
Performance Materials	21	0	25	7
Corporate & Other	42	0	60	0
Total	25	71	-195	-74

## Financial calendar

Date	Event
March 8, 2018	Q4 2017 Earnings release
April 27, 2018	Annual General Meeting
May 15, 2018	Q1 2018 Earnings release
August 9, 2018	Q2 2018 Earnings release



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