

Q3 2017 Financial Summary for Investors and Analysts

Focus on Delivery

- 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
- 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

Overview Financials

Q3 2017 Overview

- 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 and 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

Q3 2017 Balance Sheet

- 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

Q3 2017 Cash flow Statement

- 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 and higher inventories; LY contained factoring
- Investing cash flow contains higher Capex and Biosimilars cash proceeds ~€150m
- Financing cash flow reflects €700m euro- bond repayment in September and bank loan reduction LY

Q3 2017 Business Overview

Healthcare

- **Investments in future growth weigh on profitability**
- Net sales deviation YoY: organic +5.8%, FX -3.4%, portfolio -1.2%
- 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 Mavencic 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

Life Science

- **Solid organic growth amid negative mix and FX headwinds**
- Net sales deviation YoY: organic +4.8%, FX -3.9%, portfolio +0.4%
- 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

Performance Materials

- **LC market share normalization impacts profitability**
- 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 and 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 and FX

Guidance for 2017

Group:

- EBITDA pre: ~ ~~€~~4,400 – 4,600 m
- Net sales: ~ €15.3 – 15.7 bn
- EPS pre: ~ ~~€~~6.15 – 6.50

Outlook by business sector:

Healthcare

- Net sales: Slight organic growth, ongoing organic Rebif decline, other franchises growing; repatriation of Glucophage/China supportive
- EBITDA pre: ~ €1,900 – 2,000m

Life Science

- Net sales: Organic growth slightly above market, driven by Process Solutions, first minor contribution of top-line synergies
- EBITDA pre: ~ €1,780 – 1,850m

Performance Materials

- Net sales: Slight to moderate organic decline, volume increases in all businesses, continuation of Liquid Crystal market share normalization in China
- EBITDA pre: ~ ~~€~~950 – 1,050m

Additional financial guidance

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

Merck KGaA

Darmstadt, Germany

Group Q3 2017

€ m	Group			Healthcare			Life Science			Performance Materials			Corporate/Others		
	Q3 2016	Q3 2017	% YoY	Q3 2016	Q3 2017	% YoY	Q3 2016	Q3 2017	% YoY	Q3 2016	Q3 2017	% YoY	Q3 2016	Q3 2017	% YoY
Net sales	3.724	3.727	0%	1.689	1.708	1%	1.391	1.408	1%	645	611	-5%			
% organic			4%			6%			5%			-2%			
% FX			-4%			-3%			-4%			-4%			
% portfolio			0%			-1%			0%			0%			
EBIT	676	901	33%	375	581	55%	216	220	2%	213	191	-11%	-128	-91	-29%
Depreciation and amortization	434	419	-4%	185	171	-7%	183	181	-1%	60	56	-8%	6	11	72%
EBITDA	1.110	1.320	19%	560	752	34%	399	401	1%	274	246	-10%	-122	-80	-34%
Exceptionals in EBITDA	63	-244	n.m.	5	-300	n.m.	25	24	-1%	8	2	-68%	25	29	16%
EBITDA pre	1.174	1.076	-8%	565	453	-20%	424	426	0%	282	249	-12%	-97	-51	-47%
Net financial debt*	11.513	10.483	-9%												

* as per 31 December

Totals may not add up due to rounding

Group

P&L Group	Q3 2016	Q3 2017	% YoY
Net sales	3.724	3.727	0%
Cost of sales	-1.251	-1.299	4%
thereof: intangibles amortization	-49	-43	-13%
Gross profit	2.473	2.428	-2%
Marketing and selling expenses	-1.098	-1.135	3%
thereof: intangibles amortization	-254	-251	-1%
Administration	-205	-220	7%
Other operating income/expenses	-51	372	n.m.
Research and development	-443	-545	23%
EBIT	676	901	33%
Depreciation and amortization	434	419	-4%
EBITDA	1.110	1.320	19%
Exceptionals in EBITDA	63	-244	n.m.
EBITDA pre	1.174	1.076	-8%
Financial result	-67	-65	-2%
Profit before tax	609	836	37%
Income tax	-149	-187	26%
Income tax rate	24%	22%	
Profit after tax	460	649	41%
Non-controlling interests	-4	-4	11%
Net income	457	645	41%
Number of theoretical shares in million	434,8	434,8	
EPS in €	1,05	1,48	41%
EPS pre in €	1,70	1,51	-11%

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Healthcare

P&L Healthcare	Q3 2016	Q3 2017	% YoY
Net sales	1.689	1.708	1%
Cost of sales	-349	-379	9%
thereof: intangibles amortization	0	-1	n.m.
Gross profit	1.339	1.329	-1%
Marketing and selling expenses	-623	-666	7%
thereof: intangibles amortization	-140	-139	0%
Administration	-65	-71	10%
Other operating income/expenses	45	413	>100%
Research and development	-322	-423	32%
EBIT	375	581	55%
Depreciation and amortization	185	171	-7%
EBITDA	560	752	34%
Exceptionals in EBITDA	5	-300	n.m.
EBITDA pre	565	453	-20%

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Life Science

P&L Life Science	Q3 2016	Q3 2017	% YoY
Net sales	1.391	1.408	1%
Cost of sales	-608	-632	4%
thereof: intangibles amortization	-18	-14	-20%
Gross profit	783	776	-1%
Marketing and selling expenses	-414	-412	-1%
thereof: intangibles amortization	-109	-108	-1%
Administration	-56	-59	7%
Other operating income/expenses	-34	-24	-29%
Research and development	-63	-60	-4%
EBIT	216	220	2%
Depreciation and amortization	183	181	-1%
EBITDA	399	401	1%
Exceptionals in EBITDA	25	24	-1%
EBITDA pre	424	426	0%

Totals may not add up due to rounding

Performance Materials

P&L Performance Materials	Q3 2016	Q3 2017	% YoY
Net sales	645	611	-5%
Cost of sales	-295	-287	-2%
thereof: intangibles amortization	-31	-28	-10%
Gross profit	350	323	-8%
Marketing and selling expenses	-59	-56	-6%
thereof: intangibles amortization	-5	-4	-18%
Administration	-14	-18	27%
Other operating income/expenses	-8	-3	-70%
Research and development	-55	-57	2%
EBIT	213	191	-11%
Depreciation and amortization	60	56	-8%
EBITDA	274	246	-10%
Exceptionals in EBITDA	8	2	-68%
EBITDA pre	282	249	-12%

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