

# BACK TO PROFITABLE GROWTH

**Group FY 2019 results**

**- *Presentation for the media* -**

Stefan Oschmann, Chairman of the Executive Board & CEO  
Marcus Kuhnert, CFO

March 5, 2020

**Merck KGaA**  
Darmstadt, Germany



# 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.

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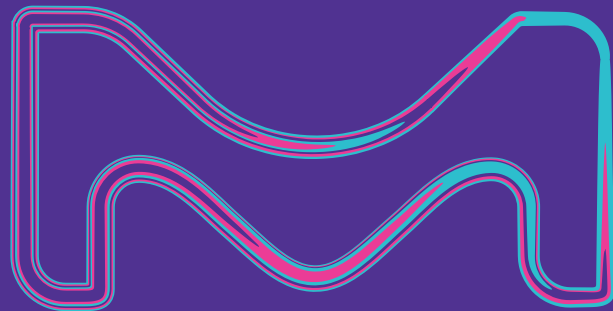
# Agenda

- 01** Strategic review
- 02** Financial overview
- 03** Outlook and guidance





# 01 STRATEGIC REVIEW



## Guidance delivered

2019 guidance

2019 results

net sales

€15.7 – 16.3 bn

€16.2 bn



EBITDA pre

€4,230 – 4,430

€4,385 m



EPS pre

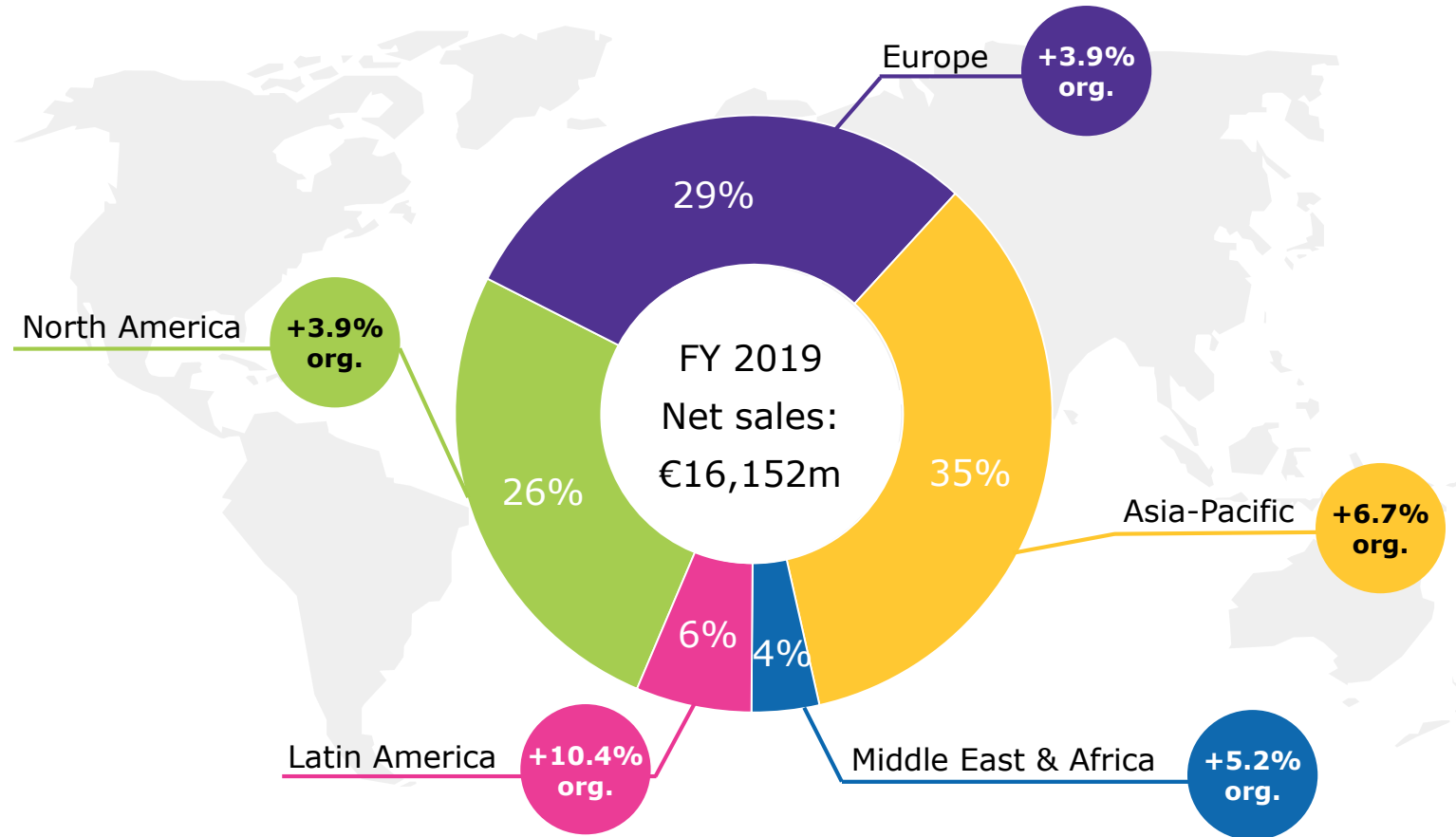
€5.30 – 5.65

€5.56



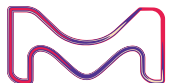
# All regions drive organic growth

## Regional breakdown of net sales [€ m]



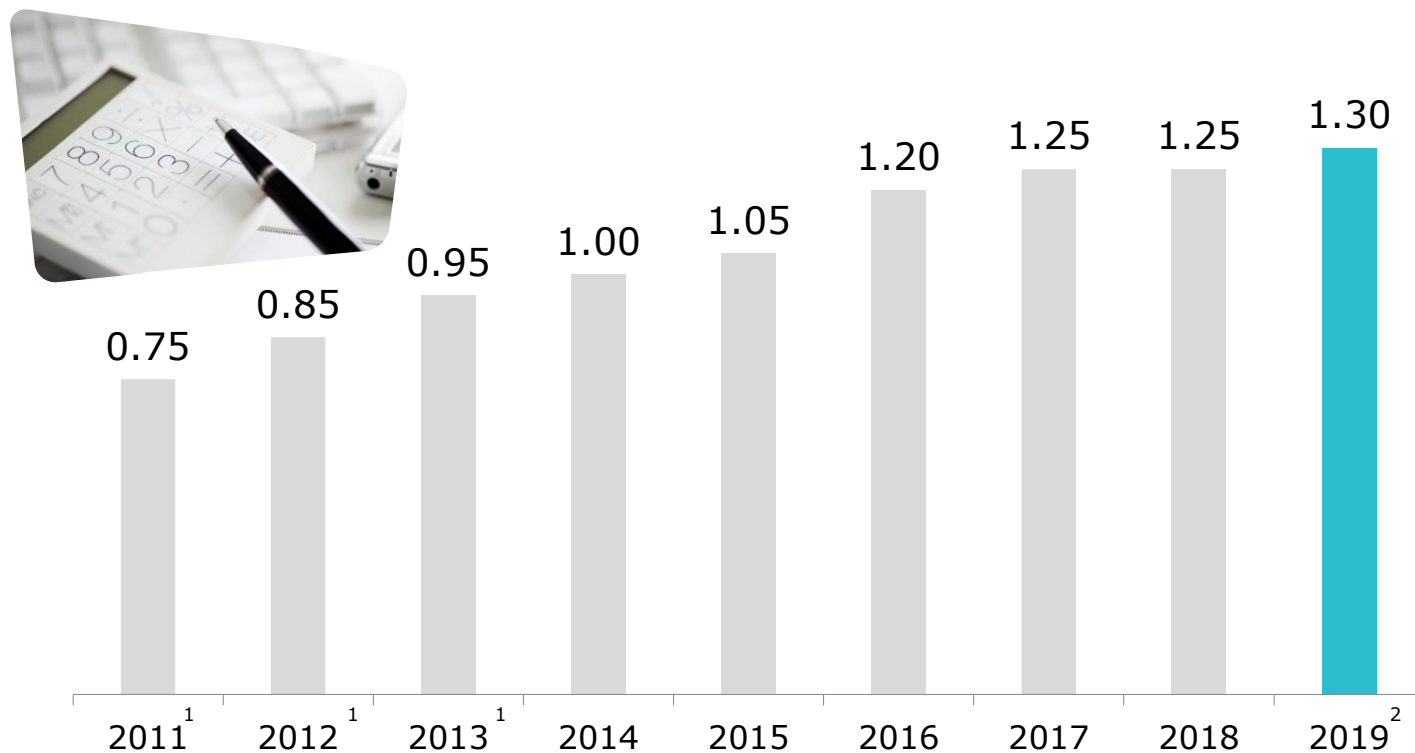
## Regional organic development

- Europe with solid growth driven by strong Life Science; Mavenclad<sup>®</sup> ramp-up offsetting Rebif<sup>®</sup> decline
- North America reflects strong Life Science; Mavenclad<sup>®</sup>, Fertility and Bavencio<sup>®</sup> mitigate ongoing Rebif<sup>®</sup> decline
- Strong APAC fueled by double-digit growth of Life Science and Healthcare, especially Glucophage<sup>®</sup> and Erbitux<sup>®</sup>; OLED mitigating liquid crystals decline
- LATAM with double-digit growth reflecting strong demand in Healthcare's core business and Life Science
- Middle East and Africa driven by solid demand in Neurology & Immunology and Fertility



# Sustainable dividend growth

## Dividend<sup>1</sup> development 2011-2019



## 2019 dividend

- Dividend of €1.30 (+4% YoY) per share proposed<sup>2</sup> for 2019
- Payout ratio of 23.4% of EPS pre in 2019; we aim at 20–25% of EPS pre
- Dividend yield<sup>3</sup> of 1.2%

<sup>1</sup>Adjusted for share split, which has been effective since June 30, 2014; <sup>2</sup>Final decision is subject to Annual General Meeting approval; <sup>3</sup>Calculated with 2019 year-end share price of € 105.35 per share.



# Healthcare: Mavenclad<sup>®</sup> and core business fuel strong organic growth

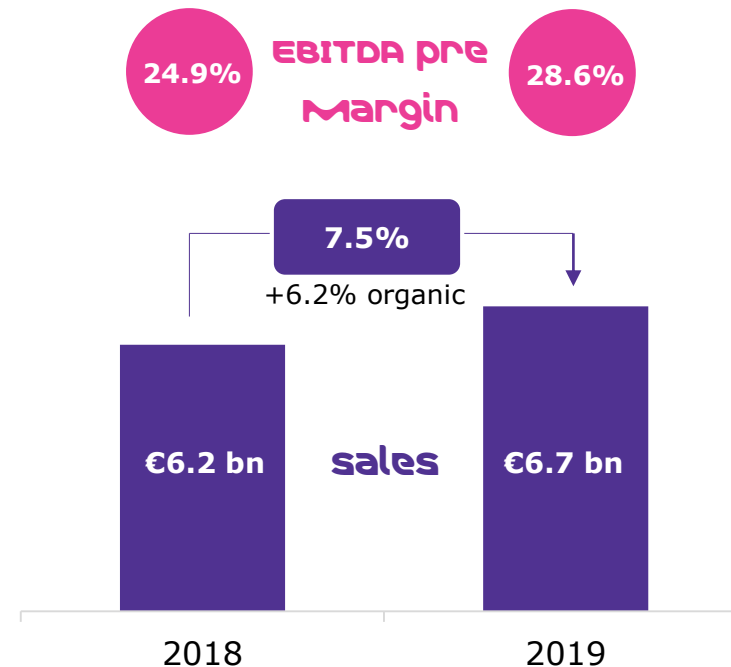
## Business Performance

- Strong organic sales growth of 6.2%
- Neurology & Immunology returns to growth over the full year with strong Mavenclad<sup>®</sup> performance (net sales FY2019: €321 m)
- Core business with organic growth of 2.1% driven by strong demand in General Medicine, Fertility portfolio and Erbitux<sup>®</sup>
- Higher EBITDA pre from strong top-line performance, stringent cost management and non-recurring income
- Strategic alliance with GlaxoSmithKline to develop and commercialize Bintrafusp alfa (M7824) announced in February 2019

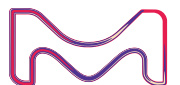


## Pipeline

- **Mavenclad<sup>®</sup>**: now approved in 75 countries
- **Bavencio<sup>®</sup>**:
  - Primary endpoint (OS) met in 1L urothelial carcinoma/Bladder 100 study<sup>1</sup>
  - Approved in combination with Inlyta<sup>®</sup> for 1L advanced renal cell carcinoma by US FDA, EMA & PMDA
- **Tepotinib**:
  - Filed in Japan in Q4 2019 under Sakigake
  - Granted Breakthrough Designation by FDA (NSCLC, MET exon 14 skipping alterations)
- **Bintrafusp alfa**: five pivotal studies (1L NSCLC vs pembrolizumab<sup>2</sup>, Stage III NSCLC<sup>3</sup>, 1L & 2L Biliary Tract<sup>4</sup>, & 2L Cervical<sup>5</sup>) on track, several safety run in & signal finding studies recently initiated or in planning<sup>6</sup>
- **Evobrutinib**: initiated pivotal Ph III program in Relapsing Multiple Sclerosis

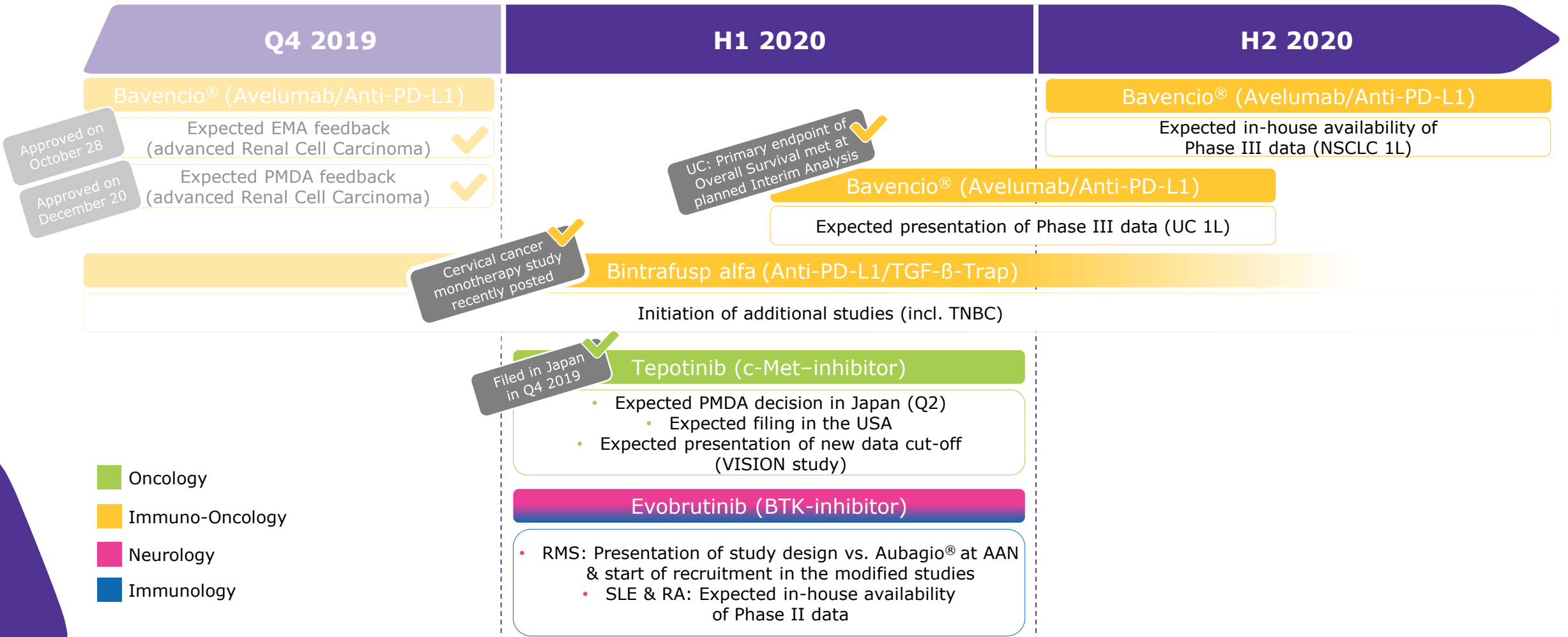


<sup>1</sup>PR published on January 6, 2020; <sup>2</sup>INTR@PID Lung 037; <sup>3</sup>INTR@PID Lung 005; <sup>4</sup>INTR@PID BTC 047 & 055; <sup>5</sup>NCT04246489 posted on www.clinicaltrials.gov in January 2020, not yet recruiting; <sup>6</sup>incl. INTR@PID Lung 024 and TNBC (Triple Negative Breast Cancer); Acronyms: FDA – US Food and Drug Administration; EMA – European Medicines Agency; OS – Overall Survival; PMDA – Pharmaceuticals and Medical Devices Agency Japan

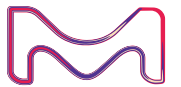




# Pipeline: Upcoming Healthcare catalysts mark progress across all therapeutic areas



Acronyms: AAN – American Academy of Neurology, EMA = European Medicines Agency, NSCLC = Non-Small-Cell Lung Carcinoma, PMDA = Pharmaceuticals and Medical Devices Agency of Japan, RA = Rheumatoid Arthritis, RRMS = Relapsing Multiple Sclerosis, SLE = Systemic Lupus Erythematosus, TNBC = Triple-Negative Breast Cancer, UC = Urothelial Cancer



# Life Science: Continued above-market performance

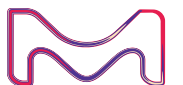
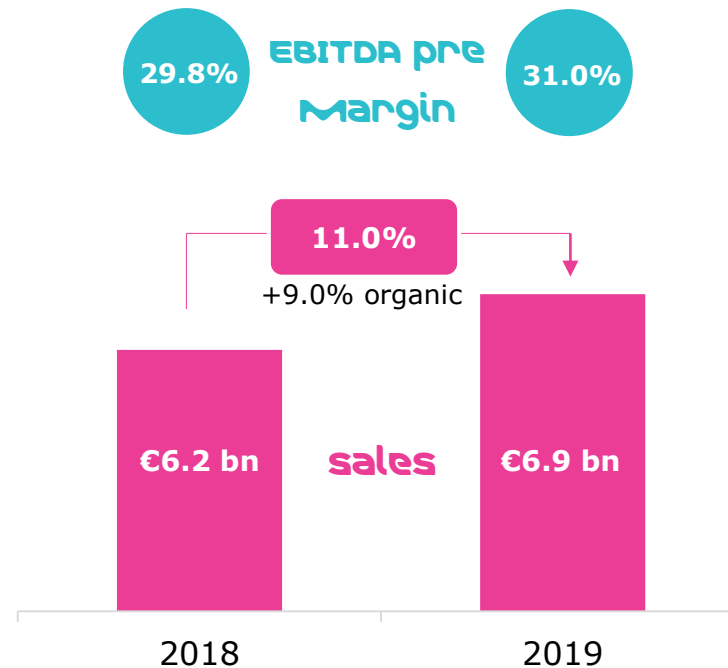
## Business Performance

- Above-market growth in Life Science driven by all businesses and regions
- Excellent performance across all businesses, with Process Solutions once again achieving double-digit organic growth
- Strong EBITDA pre growth reflects robust top-line growth, cost control, and investments in eCommerce and CAPEX



## Innovation

- Continued flow of new products in Process Solutions, supporting bioprocessing, single-use and FloDesign Sonics
- Strong growth in Applied Solutions with further development of Milli-Q Platform (IoT) and the launch of Steritest™ for Biomonitoring
- Further strengthening of eCommerce platform within Research Solutions, driven by new eCommerce platform development and partnership with Alibaba in China



# We are well-positioned to shape the pharmaceutical value chain of the future

## R&D

More targeted, more predictive, higher throughput

Genomics, transcriptomics, metabolomics

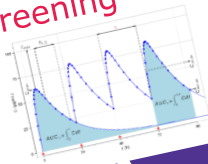


Discovery



mAb modalities

In silico modeling, high-content screening



Massively parallel upstream optimization



Preclinical

Machine learning, high-throughput biology, organ-on-a-chip



Flexible intensified manufacturing



Biomarkers, patient stratification



Clinical



Continuous bioprocessing

## Manufacturing

Intensified, precise, and real-time

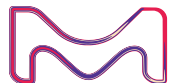
Surrogate endpoints



Launch and beyond



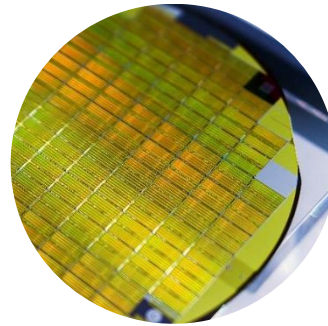
Rapid lot release testing



# Performance Materials: Acquisitions successfully closed – delivering on Bright Future transformation

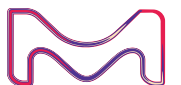
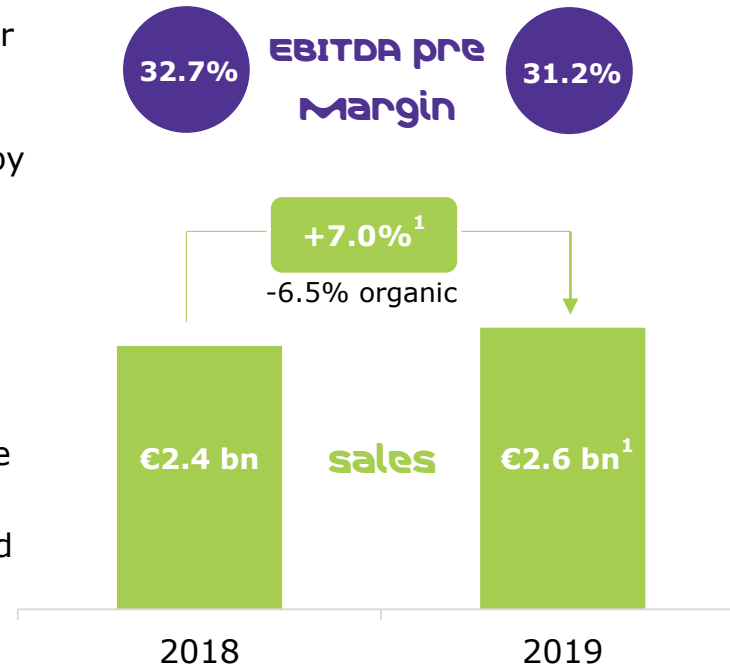
## Business Performance

- Semiconductor Solutions outperforming weaker market
- OLED with ongoing strong momentum driven by increasing demand in China
- Liquid crystals as expected: back to negative underlying trajectory with high comparables in prior year
- Organic EBITDA pre reflects ongoing LC decline and temporary market weakness in Semiconductor and Surface Solutions mitigated by Bright Future measures

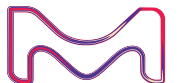
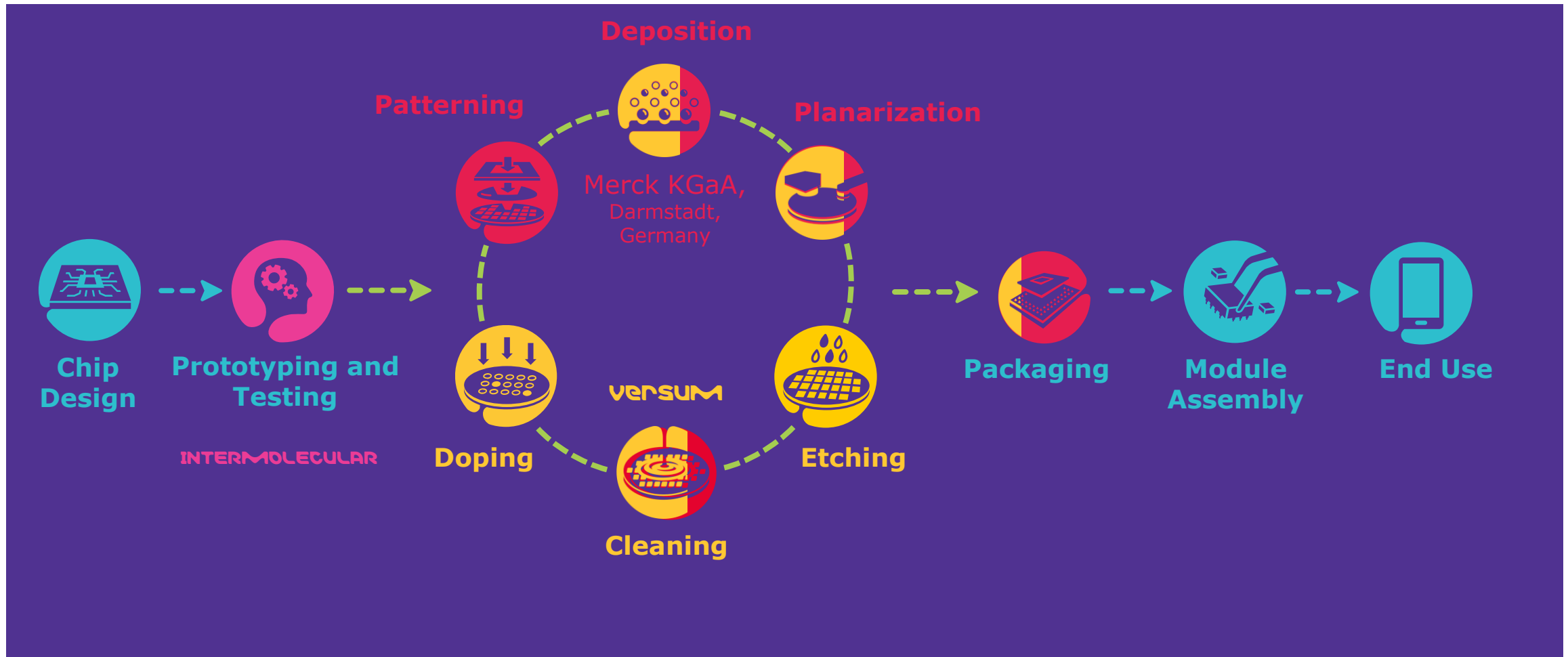


## Transformation

- Acquisitions of Versum Materials and Intermolecular successfully closed
  - Versum as leading supplier of high-purity semiconductor materials, gases and equipment
  - Intermolecular leading in advanced materials innovation
- Combined position creating a leading electronics materials player
- Innovation Hub in Guangzhou opened
- Site in Chilworth (UK) closed, overall transformation on track



# Semiconductor Solutions even stronger with Versum and Intermolecular





## 02 FINANCIAL OVERVIEW

# FY 2019 Financials: Overview

## Key figures

[€m]	FY 2018	FY 2019	Δ
Net sales	14,836	<b>16,152</b>	8.9%
EBITDA pre <i>Margin (in % of net sales)</i>	3,800 25.6%	<b>4,385</b> 27.1%	15.4%
EPS pre	5.10	<b>5.56</b>	9.0%
Operating cash flow	2,219	<b>2,856</b>	28.7%

[€m]	Dec. 31, 2018	Dec 31, 2019	Δ
Net financial debt	6,701	<b>12,363</b>	84.5%
Working capital	3,486	<b>3,944</b>	13.2%
Employees	51,749	<b>57,071</b>	10.3%

## Comments

- All business sectors drive net sales growth
- Increasing EBITDA pre & margin reflect strong top-line growth, milestone payments, deferred income and cost consciousness; LS with strong operating leverage
- Strong operating cash flow due to higher EBITDA pre, GSK upfront and milestone payments
- Working capital driven by increased inventory levels, Versum acquisition and FX
- Higher net financial debt and increased headcount reflect Versum acquisition



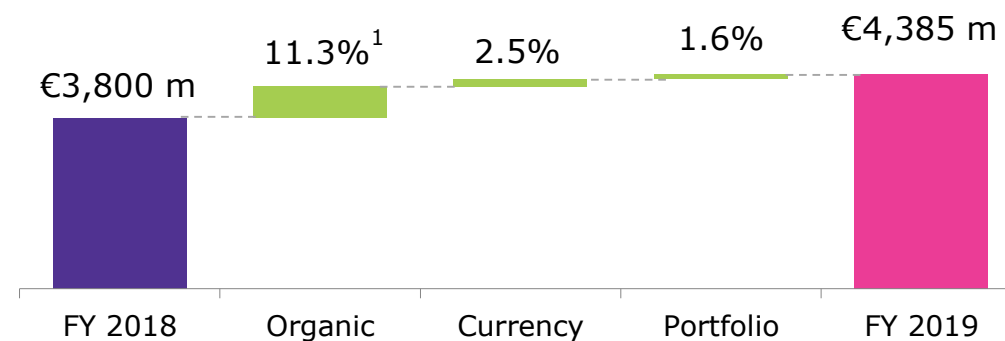
## Healthcare and Life Science fuel strong organic top- and bottom-line performance, supported by FX tailwinds and Portfolio

FY 2019 YoY net sales	Organic	Currency	Portfolio	Total
Healthcare	6.2%	1.3%	0.0%	<b>7.5%</b>
Life Science	9.0%	2.6%	-0.6%	<b>11.0%</b>
Performance Materials	-6.5%	3.1%	10.4%	<b>7.0%</b>
Group	5.3%	2.1%	1.4%	<b>8.9%</b>

- Healthcare with strong growth fueled by Mavenclad<sup>®</sup> ramp-up, strong demand for General Medicine and Erbitux<sup>®</sup> in China and solid Fertility portfolio
- All businesses and regions drive strong Life Science performance, especially Process Solutions with double-digit growth
- Performance Materials organic decline due to liquid crystals, soft market demand in Semiconductor and Surface Solutions; OLED with strong demand

<sup>1</sup>Thereof IFRS 16 effect with +3.7 percentage points (~ €140 m); Totals may not add up due to rounding

### FY YoY EBITDA pre



- Organic EBITDA pre fueled by strong top-line growth, milestone payments and deferred income in Healthcare, sustained strong performance of Life Science, more than offset ongoing liquid crystal price decline
- Positive FX impact on EBITDA pre due to U.S. dollar and major Asian currencies





# Reported Figures

## Reported results

[€m]	FY 2018	FY 2019	Δ
EBIT	1,727	<b>2,120</b>	22.8%
Financial result	-266	<b>-385</b>	44.6%
Profit before tax	1,461	<b>1,735</b>	18.8%
Income tax	-368	<b>-440</b>	19.7%
<i>Effective tax rate</i>	25.2%	<b>25.3%</b>	
Net income <sup>1</sup>	3,374	<b>1,320</b>	-60.9%
EPS [€]	7.76	<b>3.04</b>	-60.8%

## Comments

- Higher EBIT due to strong top-line contribution from LS and HC, cost consciousness, milestone payments and GSK deferred income
- Increase in financial result reflects higher interest expense due to Versum financing and revaluation of F-Star purchase option
- Effective tax rate within guidance range of ~24-26%
- Lower net income and EPS reflect last year's high base due to Consumer Health divestment

<sup>1</sup>From continuing and discontinued operations; Totals may not add up due to rounding

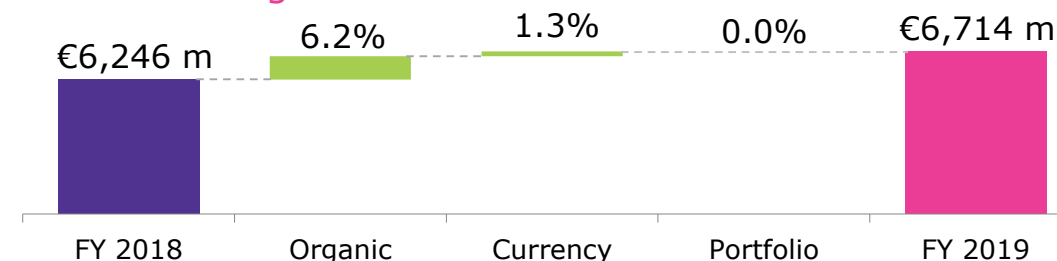


# Healthcare: Significant contribution from Mavenclad<sup>®</sup> and Bavencio<sup>®</sup>; solid core business

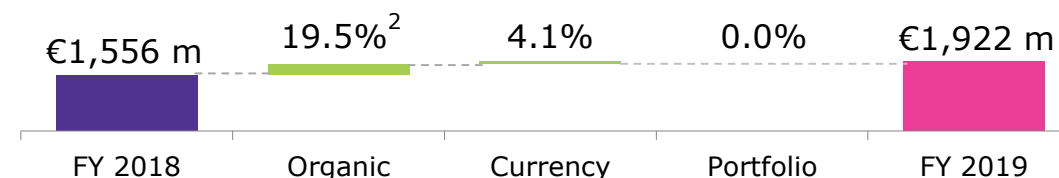
## Healthcare P&L

[€m]	FY 2018 <sup>1</sup>	FY 2019
Net sales	6,246	<b>6,714</b>
Marketing and selling	-2,349	<b>-2,305</b>
Administration	-329	<b>-344</b>
Research and development	-1,687	<b>-1,666</b>
EBIT	731	<b>1,149</b>
EBITDA	1,492	<b>1,896</b>
EBITDA pre	1,556	<b>1,922</b>
Margin (in % of net sales)	24.9%	<b>28.6%</b>

## Net sales bridge



## EBITDA pre bridge



## Comments

- Solid foundation due to growing core business, further supported by acceleration of Mavenclad<sup>®</sup> and Bavencio<sup>®</sup> launches
- Mavenclad<sup>®</sup> with continued strong uptake across all regions is offsetting strong Rebif<sup>®</sup> decline
- Bavencio<sup>®</sup> ramp-up on track; Erbitux<sup>®</sup> fueled by China reimbursement, still facing ongoing competition and price pressure in major markets
- M&S decrease due to resource reallocation from core business to new product launches and stringent cost management
- Higher EBITDA pre driven by strong top-line performance, cost management, non-recurring income [Bavencio<sup>®</sup> (~€90 m) milestone payments, GSK deferred income (~€90 m) and Peg-Pal (~€75 m)] and IFRS 16 effect, outweighing last years' Peg-Pal milestone (~€50 m)

<sup>1</sup>LY numbers have been modified, due to disclosure changes of adjustments; <sup>2</sup>Thereof IFRS 16 effect with +3.3 percentage points (~ €50 m); Totals may not add up due to rounding

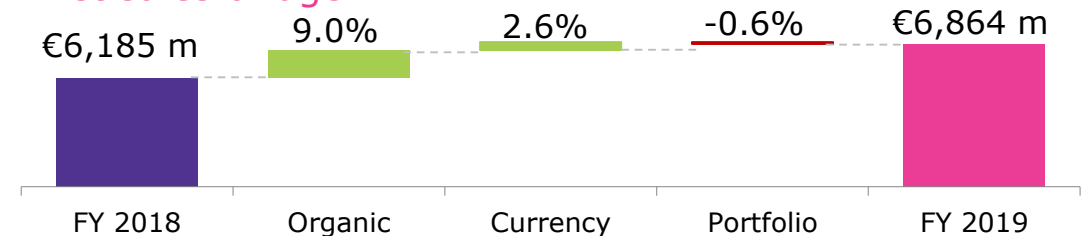


# Life Science: All businesses across all regions drive ongoing strong top- and bottom-line performance

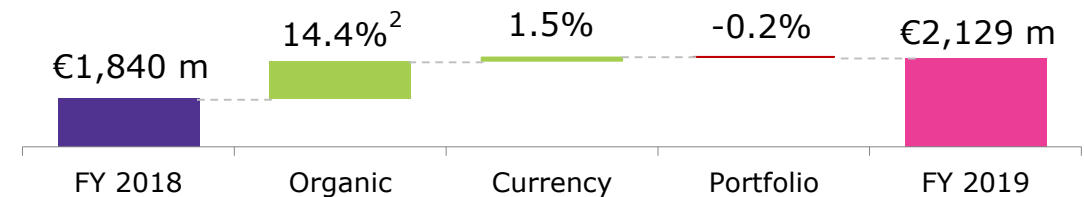
## Life Science P&L

[€m]	FY 2018 <sup>1</sup>	FY 2019
Net sales	6,185	<b>6,864</b>
Marketing and selling	-1,777	<b>-1,924</b>
Administration	-335	<b>-341</b>
Research and development	-251	<b>-276</b>
EBIT	1,036	<b>1,280</b>
EBITDA	1,755	<b>2,070</b>
EBITDA pre	1,840	<b>2,129</b>
<i>Margin (in % of net sales)</i>	29.8%	<b>31.0%</b>

## Net sales bridge



## EBITDA pre bridge

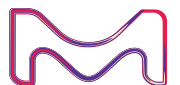


## Comments

- Process Solutions posts double-digit growth: BioProcessing as main contributor with ongoing strong demand across all major regions, especially in North America and China
- Solid organic growth of Applied Solutions driven by Advanced Analytical and Lab Water, fueled by all major regions

- Research Solutions closes year with moderate growth, driven by all businesses and regions, especially APAC and North America
- Higher M&S in line with volume growth
- EBITDA pre reflects operational leverage from strong top-line growth and IFRS 16 effect

<sup>1</sup>LY numbers have been modified, due to disclosure changes of adjustments; <sup>2</sup>Thereof IFRS 16 effect with +3.1 percentage points (~ €60 m); Totals may not add up due to rounding

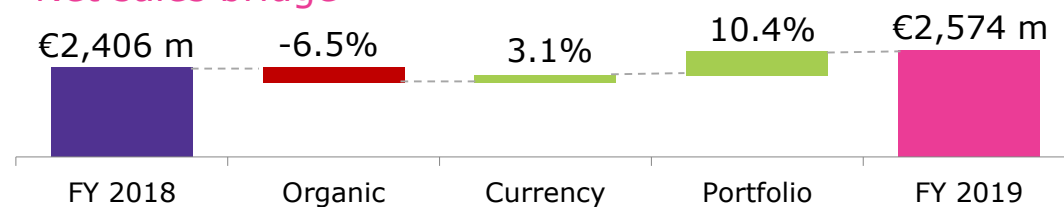


# Performance Materials: LC back to negative underlying trajectory amid softness in Semiconductor and Surface

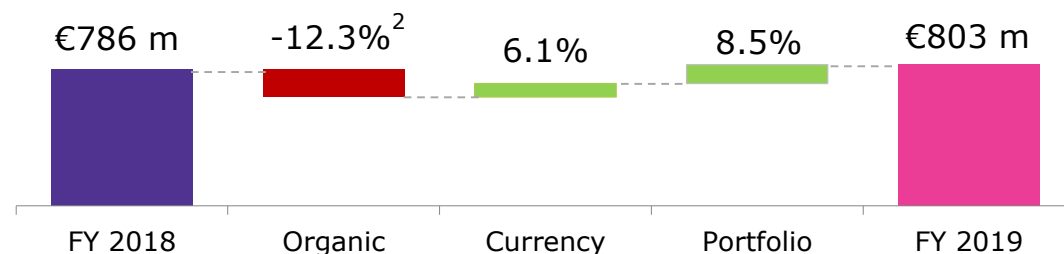
## Performance Materials P&L

[€m]	FY 2018 <sup>1</sup>	FY 2019
Net sales	2,406	<b>2,574</b>
Marketing and selling	-255	<b>-329</b>
Administration	-107	<b>-118</b>
Research and development	-242	<b>-267</b>
EBIT	508	<b>307</b>
EBITDA	769	<b>637</b>
EBITDA pre	786	<b>803</b>
Margin (in % of net sales)	32.7%	<b>31.2%</b>

## Net sales bridge



## EBITDA pre bridge



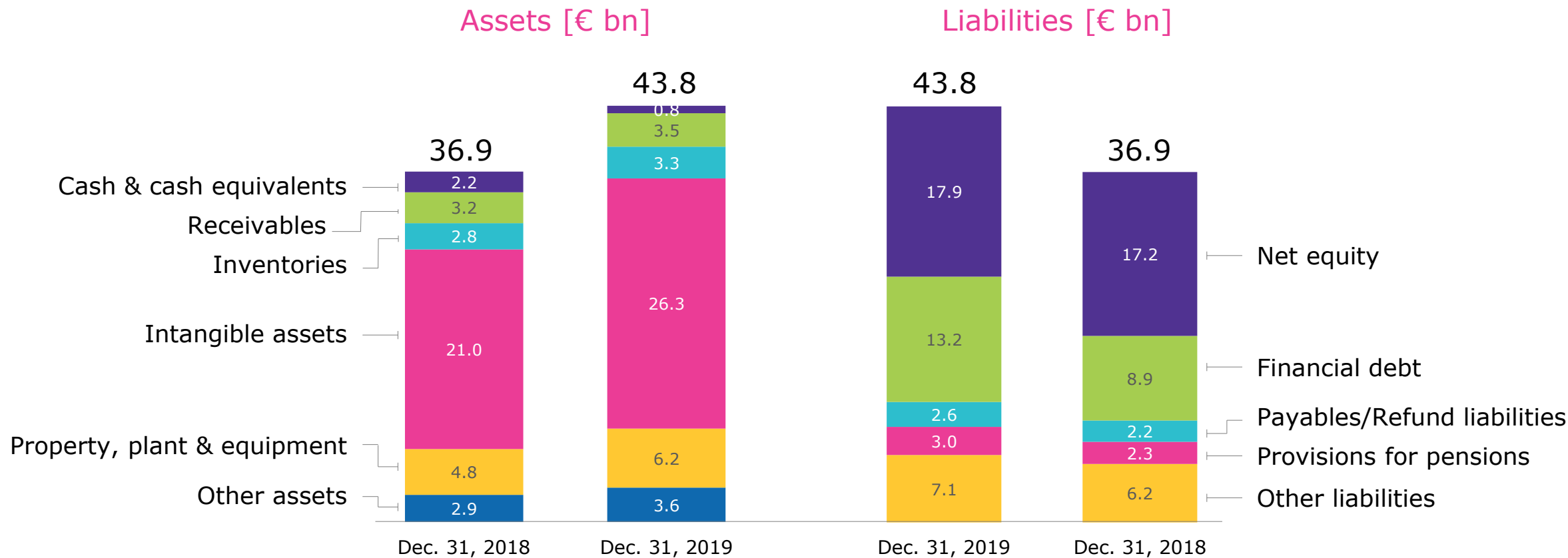
## Comments

- Moderate sales growth reflects portfolio effect from Versum and positive FX, overcompensating organic decline
- Display Solutions as expected: LC back to negative underlying trajectory with high comparison last year base, OLED again strong
- Semiconductor Solutions perform above the ongoing temporarily weak market demand
- Surface Solutions reflects ongoing weak demand of automotive market and increased industrials portfolio-focus amid Bright Future transformation
- M&S reflects Versum acquisition and diligent underlying cost management
- Provisions related to Bright Future program drives R&D increase; adjusted for EBITDA pre - decrease in R&D reflecting cost control
- Organic EBITDA pre due to reduced organic top line and negative business mix; Absolute EBITDA pre reflects Versum acquisition

<sup>1</sup>LY numbers have been modified, due to disclosure changes of adjustments; <sup>2</sup>Thereof IFRS 16 effect with +1.3 percentage points (~ €10 m); Totals may not add up due to rounding



# Balance sheet – Reflecting Versum acquisition

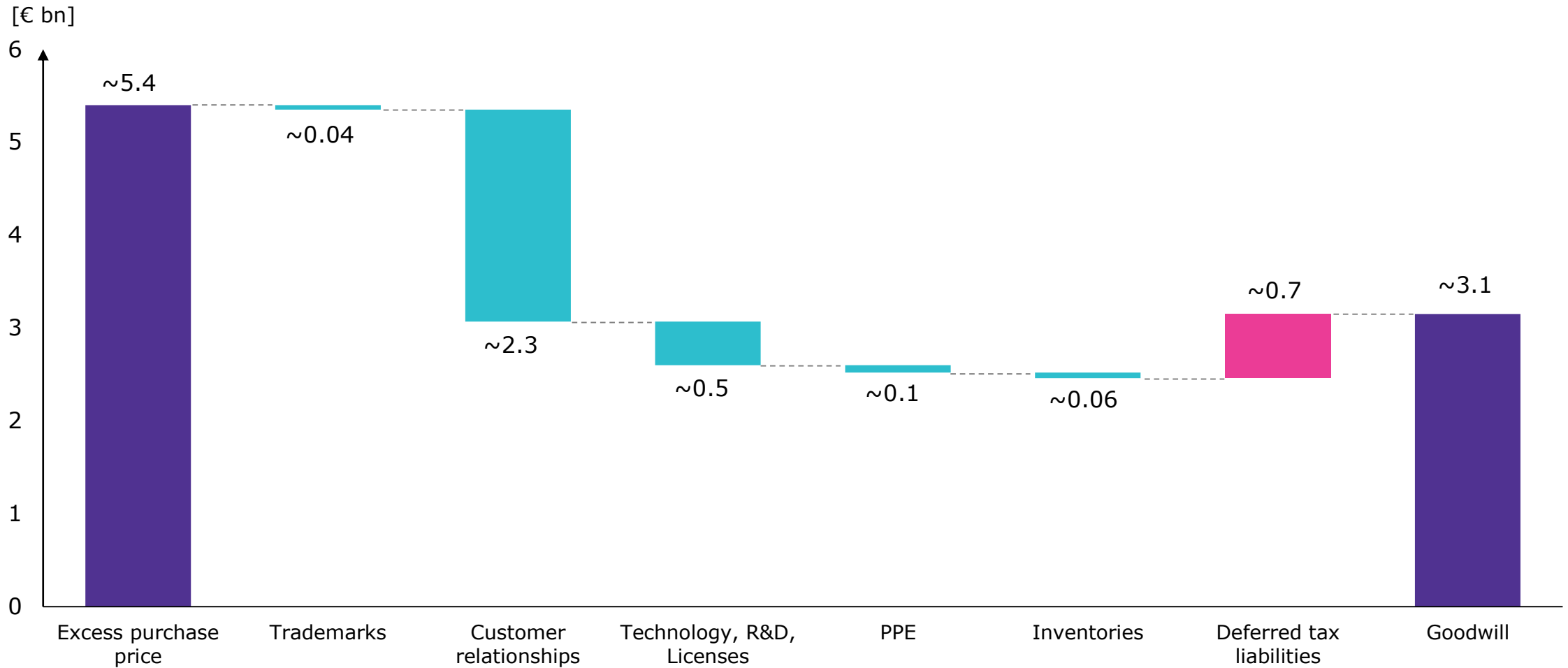


- First-time consolidation of Versum impacts balance sheet
- Intangible assets contain €17.1 bn goodwill, €7.0 bn customer relationships and trademarks

- Increase in equity mainly driven by profit after tax and FX translations, partially offset by dividends and actuarial loss (equity ratio of 40.9%)
- Financial debt increase reflects Versum financing

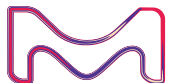


# Versum balance sheet effects



**Amortization of intangible assets from Versum PPA\*: ~€230 – 250 m p.a.**

Totals may not add up due to rounding; Preliminary numbers (in line with IFRS3); no major changes expected;  
 \*Purchase price allocation



# Cash Flow Statement

## FY 2019 – cash flow statement

[€m]	FY 2018	FY 2019	Δ
Profit after tax	3,396	<b>1,324</b>	-2,072
D&A	1,812	<b>1,944</b>	132
Changes in provisions	199	<b>153</b>	-45
Changes in other assets/liabilities	-288	<b>-391</b>	-103
Other operating activities	-2,722	<b>-4</b>	2,718
Changes in working capital	-178	<b>-169</b>	8
Operating cash flow	2,219	<b>2,856</b>	637
Investing cash flow	2,191	<b>-6,153</b>	-8,344
Thereof CAPEX on PPE	-879	<b>-782</b>	97
Financing cash flow	-2,825	<b>1,902</b>	4,727

## Cash flow drivers

- Last year's profit after tax driven by Consumer Health disposal, which was neutralized in other operating activities
- D&A increase mainly due to IFRS 16 reclassification
- Changes in other assets/liabilities due to Versum (share based payment and severance payments)
- Investing cash flow driven by Versum acquisition and Consumer Health disposal last year
- Higher financing cash flow reflects the issuance of new bonds (€3.5 bn) partially offset by repayment of due bonds (€1.3 bn); last year is driven by repayment of bank loans and commercial paper





# 03 OUTLOOK AND GUIDANCE

Merck KGaA  
Darmstadt, Germany



# Group COVID-19 Update



## Assumptions as of mid February

If COVID-19 outbreak peaks in Q1, eases in Q2 and the situation is back to normal in H2, the impact on the Group and its sectors is estimated to be the following:

### Group

- Around -1% on full year net sales mainly from China
- Impact in Q1, improvement in Q2, and normal business dynamics in H2 2020

### Healthcare

- Mid to high double-digit € million impact; mainly in Oncology and Fertility

### Life science

- Mid double-digit € million impact; all businesses affected, mainly Research Solutions

### Performance Materials

- Up to mid double-digit € million impact; main effect in Display Solutions

Full year effect of around -1% on net sales reflected in qualitative outlook for 2020



# Group

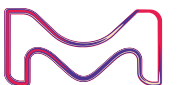
## Full-year 2020 guidance

### Net sales:

Solid organic sales growth, Versum growth contribution in the mid-single digits and slight FX headwinds of 0% to -3% YoY

### EBITDA pre:

Strong organic growth, mid-single digit growth from Versum  
Slight FX headwinds of 0% to -3% YoY



# Group 2020 business sector guidance<sup>1</sup>

## Healthcare



### Net sales

- Solid organic growth
- Base business organically stable
- New products with strong contribution

### EBITDA pre

- Solid organic growth
- Driven by Mavenclad and Bavencio contribution and continued cost discipline
- Moderate adverse FX impact

## Life Science



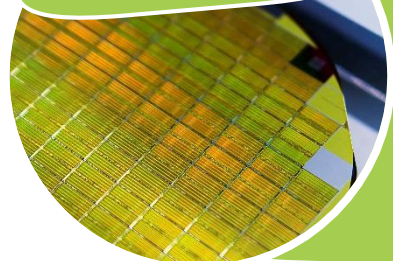
### Net sales

- Strong organic growth
- Process Solutions main growth driver but all businesses contributing

### EBITDA pre

- Strong organic growth
- Slight margin progression
- Slight adverse FX impact

## Performance Materials



### Net sales

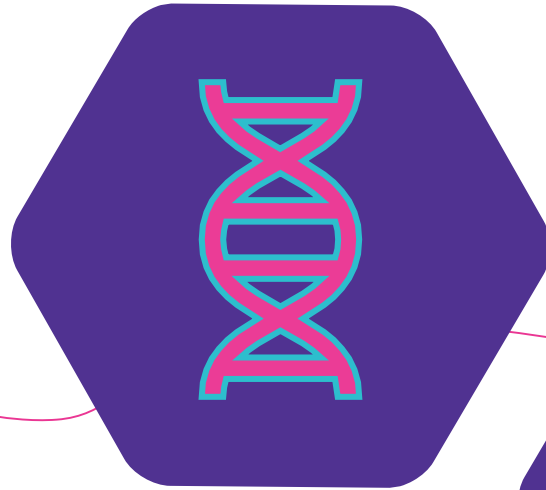
- Slight organic growth
- Strong contribution from Semiconductor Solutions
- Display declining, driven by LC
- Low- to mid-thirties contribution from Versum

### EBITDA pre

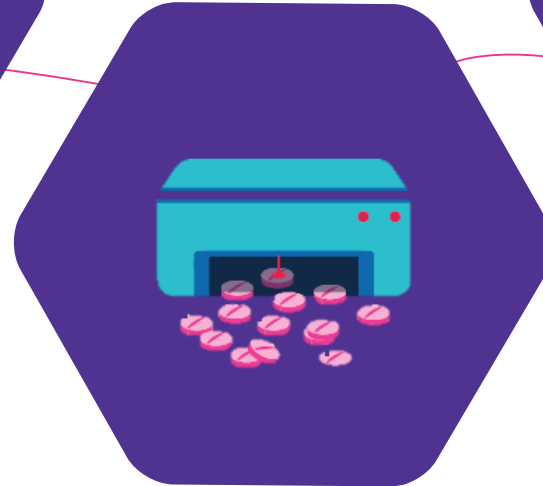
- Slight organic growth
- Semiconductor as well as cost management compensating LC price decline
- Slight adverse FX impact
- Low- to mid-thirties contribution from Versum



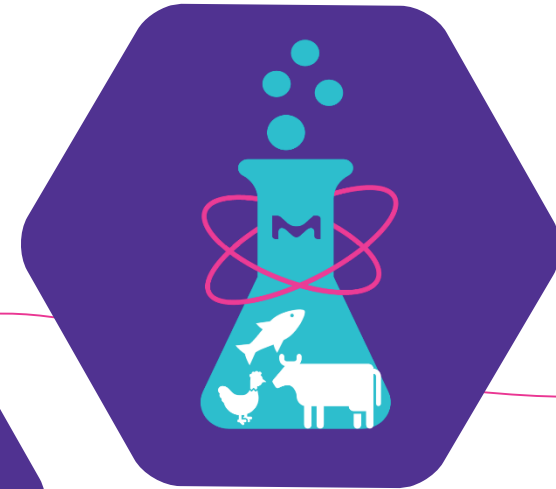
# Future technologies – three examples



**DNA  
Data Storage**



**3D Printing of  
Tablets**



**Clean Meat**

