

## FY/Q4 2019 Financial Summary for Investors and Analysts

### Back to profitable growth

- Healthcare – Launches on track (Mavenclad® & Bavencio® guidance delivered); core business<sup>1</sup> remains stable; N&I back to growth since Q3
- Life Science – Ongoing strong momentum across all businesses and regions; Process Solutions as strongest driver (org. +15.1%)
- Performance Materials – acquisitions closed; integration on track; expected LC decline materialized and soft Semiconductor and Surface market; OLED again strong
- Full-year organic sales growth of +5.3%; full-year organic EBITDA pre growth of +11.3%<sup>2</sup>
- Delivered on guidance: Net sales €16.2 bn, EBITDA pre €4.4 bn, EPS pre €5.56
- Net financial debt to EBITDA pre at 2.8 on Dec. 31 2019 – deleveraging in focus

### Overview Financials

#### Q4 2019 Overview

- All business sectors drive net sales growth
- EBITDA pre & margin reflect strong top-line growth, GSK deferred income, milestone payments, cost consciousness, strong operating leverage in LS and Versum contribution
- Working capital driven by increased inventory levels, Versum acquisition and FX
- Higher net financial debt and increased headcount reflect Versum acquisition

#### Q4 2019 Cash Flow Statement

- Last year's profit after tax driven by Consumer Health disposal, neutralized in other operating activities
- D&A increase mainly due to IFRS 16 reclassification
- Changes in provisions reflects last year's LTIP<sup>3</sup> adjustment
- Changes in other assets/liabilities driven by neutralization of non-cash relevant tax provisions, mitigated by milestone payment
- Investing cash flow driven by Versum acquisition and last year's Consumer Health divestment
- Higher financing cash flow due to last year's repayment of bank loans and commercial paper

<sup>1</sup>Core business excludes Mavenclad® and Bavencio® net sales;

<sup>2</sup>Thereof IFRS 16 effect with +3.7 percentage points (~ €140 m); N&I – Neurology & Immunology; <sup>3</sup>LTIP = Long-term incentive plan

## YE 2019 Balance Sheet

- 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

## Q4 2019 Business Overview

### Healthcare

- **Mavenclad® and Bavencio® deliver guidance; moderate growth of core business**
- Net sales deviation YoY: organic +8.4%, FX +2.0%, portfolio +0.0%
- EBITDA pre deviation YoY: organic +29.0%<sup>2</sup>, FX +6.4%, portfolio +0.0%
- Strong growth in Healthcare reflects growth of core business and acceleration of Mavenclad® uptake
- Rapid uptake of Mavenclad® (+43% vs. Q3) across all regions, especially in the U.S. and Europe
- Double-digit growth of Erbitux® mainly driven by China reimbursement (NRDL); Bavencio® as expected
- M&S decrease due to stringent cost management and resource prioritization across franchises
- Lower R&D due to rigorous project prioritization
- Higher EBITDA pre driven by strong top-line performance, cost consciousness, deferred income, milestone payments [Bavencio® (~€55 m)] and IFRS 16

### Life Science

- **Life Science with strong operating leverage**
- Net sales deviation YoY: organic +7.8%, FX +2.3%, portfolio -0.6%
- EBITDA pre deviation YoY: organic +13.7%<sup>3</sup>, FX +2.6%, portfolio -0.5%
- Process Solutions with ongoing strong demand, BioProcessing as main contributor
- Solid organic growth for Applied Solutions - all businesses contributing, especially lab water
- Moderate organic growth of Research Solutions driven by all businesses, especially China
- Higher M&S reflects strong volume growth and continued investments in eCommerce
- EBITDA pre and margin increase driven by sustained strong top-line, operating leverage and IFRS 16

### Performance Materials

- **Expected LC decline has materialized amid continued market slowdown in Semiconductor and Surface**
- Net sales deviation YoY: organic -15.2%, FX +2.3%, portfolio +39.7%
- EBITDA pre deviation YoY: organic -12.9%<sup>4</sup>, FX +5.1%, portfolio +35.2%

- Display Solutions as expected: LC returns to negative underlying trajectory against last year's high base, OLED again strong
- Semiconductor Solutions continues to perform above weaker market
- Surface Solutions reflects ongoing weak demand in automotive market
- M&S reflects Versum acquisition, while underlying diligent cost management continues
- Provisions related to Bright Future program and Versum drive R&D increase; underlying reduction reflecting strong cost control
- Organic EBITDA pre decline from reduced organic top-line and negative business mix mitigated by Bright Future measures; 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 +3.7 percentage points (~ €15 m); NRDL = National reimbursement drug list;

<sup>3</sup>Thereof IFRS 16 effect with +3.9 percentage points (~ €20 m);

<sup>4</sup>Thereof IFRS 16 effect with +1.6 percentage points (~ €5 m);

Totals may not add up due to rounding

## 2020 guidance

### Group:

- 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
  - EBITDA\* supporting factors:
    - Increasing sales contribution from Mavenclad® and Bavencio®
    - Stringent M&S and R&D cost management (decrease YoY as % of sales)
    - Ongoing strength in Life Science with above-market sales growth and 20 - 30 bps underlying margin progression
    - Post-trough recovery of Semiconductor Solutions and cost savings from Bright Future program related initiatives
    - High level of cost consciousness and prioritization
    - Three quarters of Versum portfolio contribution
  - EBITDA\* reducing factors:
    - No more support from Pfizer deferred income (€191 m in 2019)
    - Lower income from pipeline management
    - Continued decline of Liquid Crystals and Rebif®
    - COVID-19 related top-line effect – risk assessment ongoing

<sup>1</sup>EBITDA pre

**Qualitative outlook by business sector:**

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

<sup>1</sup>Divisional guidances are only support to the group guidance and do not have to add up;

**Additional financial guidance for 2020**

▪ Corporate & Other EBITDA pre <sup>1</sup>	~ - €400 – -€440 m
▪ Interest result	~ - 235 – -260 m
▪ Effective tax rate	~24 % – 26%
▪ Capex on PPE	~1.1 bn – 1.2 bn
▪ Hedging / USD assumption	<b>FY 2020 hedge ratio ~ 50%</b> <b>at EUR/USD ~1.18</b>
▪ 2020 Ø EUR/USD assumption	~ 1.11 – 1.16

<sup>1</sup>CO guidance 2020: -€400 m to -€440 m (assuming FX adjusted CO costs -€380 m to -€420 m)

# Merck KGaA

Darmstadt, Germany

## Group Q4

€ m	Group			Healthcare			Life Science			Performance Materials			Corporate/Others		
	Q4 2018	Q4 2019	% YoY	Q4 2018	Q4 2019	% YoY	Q4 2018	Q4 2019	% YoY	Q4 2018	Q4 2019	% YoY	Q4 2018	Q4 2019	% YoY
Net sales	3,888	4,381	13%	1,630	1,800	10%	1,628	1,783	10%	629	798	27%			
<b>% organic</b>			<b>4%</b>			<b>8%</b>			<b>8%</b>			<b>-15%</b>			
% FX			2%			2%			2%			2%			
% portfolio			6%			0%			-1%			40%			
EBIT	341	515	51%	190	351	85%	232	329	42%	98	14	-86%	-179	-180	0%
Depreciation and amortization	504	553	10%	213	190	-11%	190	204	8%	84	135	60%	17	23	40%
EBITDA	844	1,067	26%	403	541	34%	422	534	27%	183	149	-18%	-163	-157	-4%
Adjustments in EBITDA	105	138	32%	11	20	77%	52	15	-71%	8	94	>100%	34	10	-71%
<b>EBITDA pre</b>	<b>950</b>	<b>1,206</b>	<b>27%</b>	<b>414</b>	<b>561</b>	<b>35%</b>	<b>474</b>	<b>549</b>	<b>16%</b>	<b>191</b>	<b>243</b>	<b>27%</b>	<b>-129</b>	<b>-147</b>	<b>14%</b>
Net financial debt*	6,701	12,363	85%												

\* as per 31 December

Totals may not add up due to rounding

## Group FY

€ m	Group			Healthcare			Life Science			Performance Materials			Corporate/Others		
	FY 2018	FY 2019	% YoY	FY 2018	FY 2019	% YoY	FY 2018	FY 2019	% YoY	FY 2018	FY 2019	% YoY	FY 2018	FY 2019	% YoY
Sales	14,836	16,152	9%	6,246	6,714	7%	6,185	6,864	11%	2,406	2,574	7%			
<b>% organic</b>			<b>5%</b>			<b>6%</b>			<b>9%</b>			<b>-6%</b>			
% FX			2%			1%			3%			3%			
% portfolio			1%			0%			-1%			10%			
EBIT	1,727	2,120	23%	731	1,149	57%	1,036	1,280	24%	508	307	-39%	-548	-617	13%
Depreciation and amortization	1,801	1,946	8%	761	747	-2%	719	789	10%	261	330	26%	60	80	35%
EBITDA	3,528	4,066	15%	1,492	1,896	27%	1,755	2,070	18%	769	637	-17%	-488	-537	10%
Adjustments in EBITDA	272	318	17%	63	25	-60%	85	59	-31%	17	166	>100%	107	68	-37%
<b>EBITDA pre</b>	<b>3,800</b>	<b>4,385</b>	<b>15%</b>	<b>1,556</b>	<b>1,922</b>	<b>24%</b>	<b>1,840</b>	<b>2,129</b>	<b>16%</b>	<b>786</b>	<b>803</b>	<b>2%</b>	<b>-381</b>	<b>-469</b>	<b>23%</b>
Net financial debt*	6,701	12,363	85%												

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**Group**

<b>P&amp;L Group</b>	<b>Q4 2018</b>	<b>Q4 2019</b>	<b>% YoY</b>
<b>Net sales</b>	<b>3,888</b>	<b>4,381</b>	<b>13%</b>
Cost of sales	-1,456	-1,690	16%
thereof: intangibles amortization	-45	-57	28%
<b>Gross profit</b>	<b>2,431</b>	<b>2,690</b>	<b>11%</b>
Marketing and selling expenses	-1,188	-1,228	3%
thereof: intangibles amortization	-244	-257	5%
Administration	-368	-334	-9%
Impairment losses / reversals (IFRS9)	3	-5	n.m.
Other operating income/expenses	102	22	-79%
Research and development	-639	-630	-1%
<b>EBIT</b>	<b>341</b>	<b>515</b>	<b>51%</b>
Depreciation and amortization	504	553	10%
EBITDA	844	1,067	26%
Adjustments in EBITDA	105	138	32%
<b>EBITDA pre</b>	<b>950</b>	<b>1,206</b>	<b>27%</b>
Financial result	-84	-76	-10%
<b>Profit before tax</b>	<b>257</b>	<b>439</b>	<b>71%</b>
Income tax	-64	-103	60%
Income tax rate	25%	23%	
Profit after tax from continuing operations	193	336	74%
Profit after tax from discontinued operation	2,266	-15	n.m.
Profit after tax	2,458	321	-87%
Non-controlling interests	-12	-3	-74%
<b>Net income</b>	<b>2,446</b>	<b>318</b>	<b>-87%</b>
Number of theoretical shares in million	434.8	434.8	
EPS in €	5.63	0.73	-87%
EPS pre in €	1.22	1.54	26%

Totals may not add up due to rounding

## Healthcare

P&L Healthcare	Q4 2018	Q4 2019	% YoY
<b>Net sales</b>	<b>1,630</b>	<b>1,800</b>	<b>10%</b>
Cost of sales	-385	-441	15%
thereof: intangibles amortization	-1	-1	14%
<b>Gross profit</b>	<b>1,246</b>	<b>1,359</b>	<b>9%</b>
Marketing and selling expenses	-634	-595	-6%
thereof: intangibles amortization	-134	-107	-20%
Administration	-89	-90	1%
Impairment losses / reversals (IFRS9)	5	-1	n.m.
Other operating income/expenses	154	140	-9%
Research and development	-493	-462	-6%
<b>EBIT</b>	<b>190</b>	<b>351</b>	<b>85%</b>
Depreciation and amortization	213	190	-11%
<b>EBITDA</b>	<b>403</b>	<b>541</b>	<b>34%</b>
Adjustments in EBITDA	11	20	77%
<b>EBITDA pre</b>	<b>414</b>	<b>561</b>	<b>35%</b>

Totals may not add up due to rounding

## Life Science

P&L Life Science	Q4 2018	Q4 2019	% YoY
<b>Net sales</b>	<b>1,628</b>	<b>1,783</b>	<b>10%</b>
Cost of sales	-739	-771	4%
thereof: intangibles amortization	-15	-15	1%
<b>Gross profit</b>	<b>889</b>	<b>1,012</b>	<b>14%</b>
Marketing and selling expenses	-473	-490	4%
thereof: intangibles amortization	-107	-103	-4%
Administration	-106	-102	-4%
Impairment losses / reversals (IFRS9)	-3	-4	47%
Other operating income/expenses	-4	-9	>100%
Research and development	-71	-78	9%
<b>EBIT</b>	<b>232</b>	<b>329</b>	<b>42%</b>
Depreciation and amortization	190	204	8%
<b>EBITDA</b>	<b>422</b>	<b>534</b>	<b>27%</b>
Adjustments in EBITDA	52	15	-71%
<b>EBITDA pre</b>	<b>474</b>	<b>549</b>	<b>16%</b>

Totals may not add up due to rounding

## Performance Materials

P&L Performance Materials	Q4 2018	Q4 2019	% YoY
<b>Net sales</b>	<b>629</b>	<b>798</b>	<b>27%</b>
Cost of sales	-334	-477	43%
thereof: intangibles amortization	-29	-41	42%
<b>Gross profit</b>	<b>296</b>	<b>321</b>	<b>8%</b>
Marketing and selling expenses	-72	-136	89%
thereof: intangibles amortization	-3	-47	>100%
Administration	-34	-39	15%
Impairment losses / reversals (IFRS9)	0	0	n.m.
Other operating income/expenses	-32	-58	81%
Research and development	-59	-73	24%
<b>EBIT</b>	<b>98</b>	<b>14</b>	<b>-86%</b>
Depreciation and amortization	84	135	60%
<b>EBITDA</b>	<b>183</b>	<b>149</b>	<b>-18%</b>
Adjustments in EBITDA	8	94	>100%
<b>EBITDA pre</b>	<b>191</b>	<b>243</b>	<b>27%</b>

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## Consensus deviation

	Actual	Consensus (mean)	Difference to estimate
[€m]	FY 2019A	FY 2019 E	%
<b>Group</b>			
Sales	16 151.7	16 077.7	0.5%
EBITDA (pre one-time items)	4 384.8	4 337.5	1.1%
EBITDA-margin (pre one-time items, %)	27.1	27.0	0.2%
EPS (pre one-time items, €)	5.56	5.54	0.3%
<b>Healthcare</b>			
Sales	6 713.8	6 641.9	1.1%
Rebif	1 273.0	1 251.2	1.7%
Bavencio	102.6	118.4	-13.4%
Mavenclad	320.9	303.4	5.8%
EBITDA (pre one-time items)	1 921.7	1 894.7	1.4%
EBITDA-margin (pre one-time items, %)	28.6	28.5	0.1%
<b>Performance Materials</b>			
Sales	2 573.6	2 596.0	-0.9%
EBITDA (pre one-time items)	803.4	792.0	1.4%
EBITDA-margin (pre one-time items, %)	31.2	30.5	0.7%
<b>Life Science</b>			
Sales	6 864.3	6 832.6	0.5%
EBITDA (pre one-time items)	2 128.9	2 111.4	0.8%
EBITDA-margin (pre one-time items, %)	31.0	30.9	0.1%

	Actual	Consensus (mean) 11.02.2020	Difference to estimate
[€m]	Q4 2019A	Q4 2019 E	%
<b>Group</b>			
Sales	4 380.8	4 306.5	1.7%
EBITDA (pre one-time items)	1 205.7	1 158.6	4.1%
EBITDA-margin (pre one-time items, %)	27.5	26.9	0.6%
EPS (pre one-time items, €)	1.54	1.53	0.6%
<b>Healthcare</b>			
Sales	1 800.3	1 728.3	4.2%
Rebif	325.6	303.4	7.3%
Bavencio	28.6	44.1	-35.2%
Mavencicad	127.2	110.1	15.5%
EBITDA (pre one-time items)	561.1	533.9	5.1%
EBITDA-margin (pre one-time items, %)	31.2	30.9	0.2%
<b>Performance Materials</b>			
Sales	797.9	820.0	-2.7%
EBITDA (pre one-time items)	243.0	232.0	4.8%
EBITDA-margin (pre one-time items, %)	30.5	28.2	2.2%
<b>Life Science</b>			
Sales	1 782.6	1 751.5	1.8%
EBITDA (pre one-time items)	548.7	531.3	3.3%
EBITDA-margin (pre one-time items, %)	30.8	30.3	0.4%