

GOOD START TO THE YEAR DESPITE FIRST COVID-19 IMPACT

Q1 2020 results

Presentation for the media

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Agenda

01 Executive summary

02 Financial overview

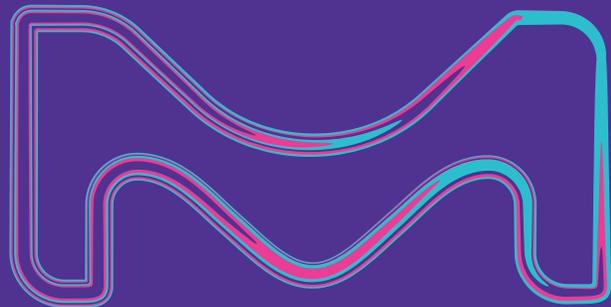
03 Guidance





01

EXECUTIVE SUMMARY



Merck KGaA
Darmstadt, Germany

Highlights



Operations

Healthcare: double-digit growth fueled by Mavenclad[®] ramp-up and General Medicine

Life Science: Process Solutions with double digit growth while Academia and Applied end markets reflect temporary demand slow down in Asia due to Covid-19

Performance Materials: Strong uptake of Semiconductor Solutions offset by Display and Surface Solutions decline; Versum integration on track



Financials

Q1 organic sales growth of +7.6%;
Q1 organic EBITDA pre growth of +14.5%

Guidance:

Net sales: €16.8 – 17.8 bn

EBITDA pre: €4,350 – 4,850 m

EPS pre: €5.50 – 6.35

Net financial debt to EBITDA pre at 2.6 on March 31, 2020 – continued focus on deleveraging



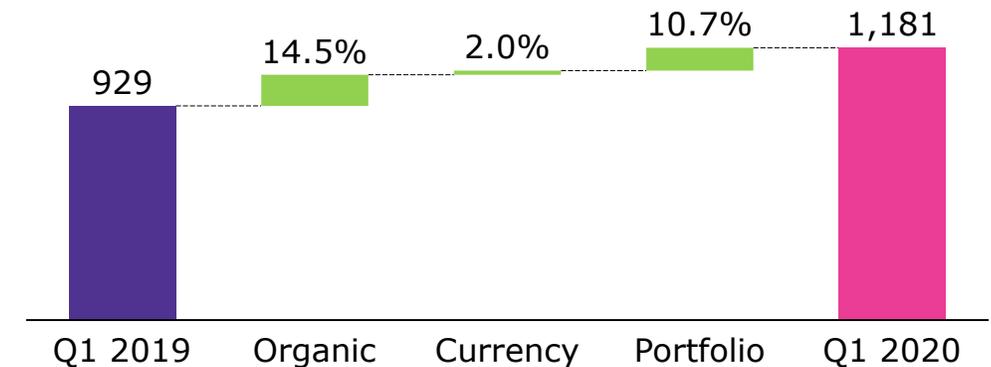
Healthcare and Life Science fuel strong organic top- and bottom-line performance; significant portfolio effect from Versum

Q1 YoY Net Sales

	Organic	Currency	Portfolio	Total
Healthcare	15.3%	-0.4%	0.0%	14.9%
Life Science	5.6%	0.9%	0.0%	6.5%
Performance Materials	-5.4%	2.4%	52.1%	49.0%
Group	7.6%	0.6%	8.4%	16.7%

- Healthcare with double-digit growth from strong General Medicine (in parts supported by Covid-19 driven pull-in effect), continued Mavenclad® ramp-up, and strong demand for Oncology
- Life Science reflects double-digit growth of Process Solutions overcompensating temporarily lower demand for Applied and Research Solutions amidst Covid-19 pandemic
- Performance Materials shows expected strong uptake of Semiconductor Solutions offset by declining market demand in Display and in Surface Solutions impacted by Covid-19

Q1 YoY EBITDA pre

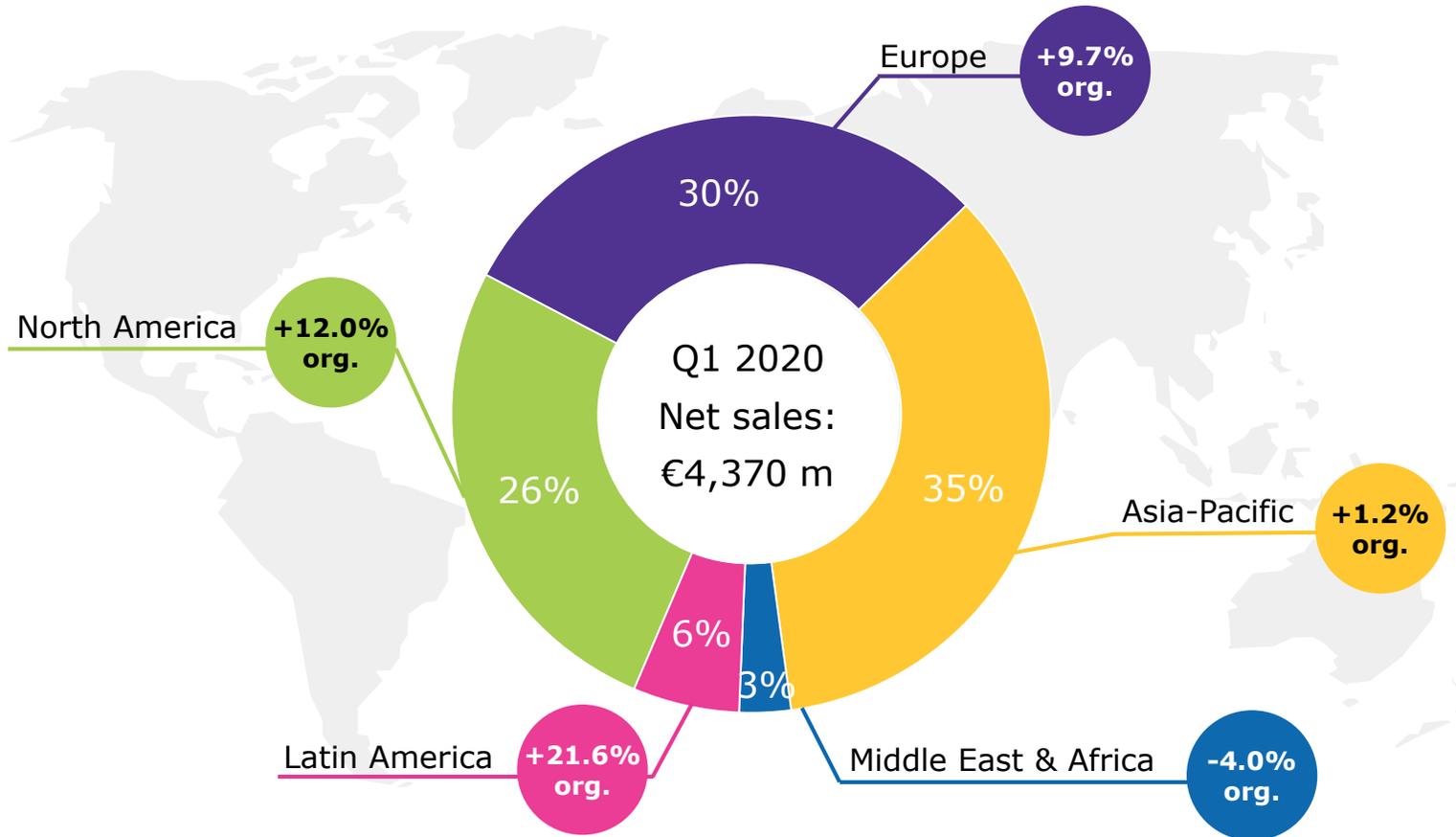


- EBITDA pre growing twice as fast as net sales organically fueled by strong top-line growth, and cost management further benefitting from reduced travel & events during Covid-19 pandemic
- Positive FX tailwinds on EBITDA pre mainly from U.S. dollar and major Asian currencies



Organic growth driven by North America, Europe and Latin America

Regional breakdown of net sales [€ m]



Regional organic development

- About stable APAC due to double-digit growth of General Medicine, more than offsetting Covid-19 related flat Life Science and decline in Display Solutions
- Strong Europe driven by double-digit growth in General Medicine and Process Solutions and support from Mavenclad[®]
- North America reflects robust demand in Life Science and strong uptake of Mavenclad[®]
- Double-digit growth in LATAM from strong Healthcare & Life Science demand
- Middle East and Africa with moderate decline due to phasing in Healthcare





02 FINANCIAL OVERVIEW

Merck KGaA
Darmstadt, Germany

Q1 2020: Overview

Key figures

[€m]	Q1 2019	Q1 2020	Δ
Net sales	3,746	4,370	16.7%
EBITDA pre	929	1,181	27.2%
<i>Margin (in % of net sales)</i>	24.8%	27.0%	
EPS pre	1.13	1.50	32.7%
Operating cash flow	493	516	4.9%

[€m]	Dec. 31, 2019	March 31, 2020	Δ
Net financial debt	12,363	12,285	-0.6%
Working capital	3,944	4,392	11.3%
Employees	57,071	57,451	0.7%

Comments

- Net sales driven by organic growth of Healthcare and Life Science, further fueled by portfolio effect from Versum
- EBITDA pre & margin increase due to strong operating leverage in Healthcare and Life Science
- EPS pre growing faster than EBITDA pre supported by better financial result
- Higher operating cash flow reflects strong business performance partially compensated by trade account receivables build-up due to Covid-19
- Working capital follows business activity



Reported figures

Reported results

[€m]	Q1 2019	Q1 2020	Δ
EBIT	379	716	89.0%
Financial result	-113	-98	-12.5%
Profit before tax	266	617	131.9%
Income tax	-67	-159	137.4%
<i>Effective tax rate (%)</i>	25.2%	25.8%	
Net income	189	456	141.9%
EPS (€)	0.43	1.05	144.2%

Comments

- Higher EBIT driven by strong top line growth in Healthcare and Life Science as well as consolidation of Versum and divestment gain from Allergopharma*
- Financial result benefits from comparison with last years' revaluation of F-Star purchase option (-€45 m) partially offset by the current year higher interest expense related to Versum financing
- Effective tax rate within guidance range of ~24-26%
- Higher net income and EPS reflects higher EBIT and better financial result

* closed March 31st, 2020

Totals may not add up due to rounding

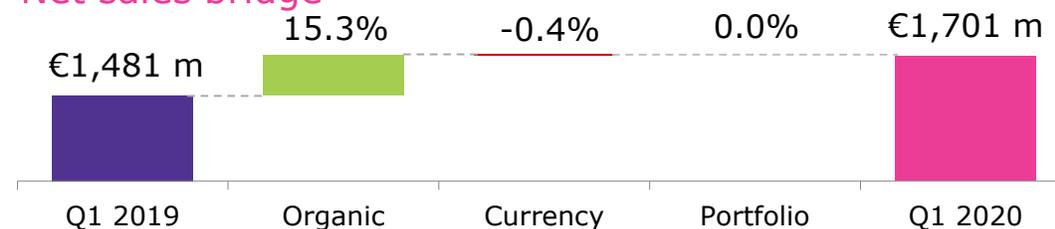


Healthcare: Strong General Medicine supported by Covid-19 pull-in effect and ongoing Mavenclad[®] uptake; improved margins from top line leverage

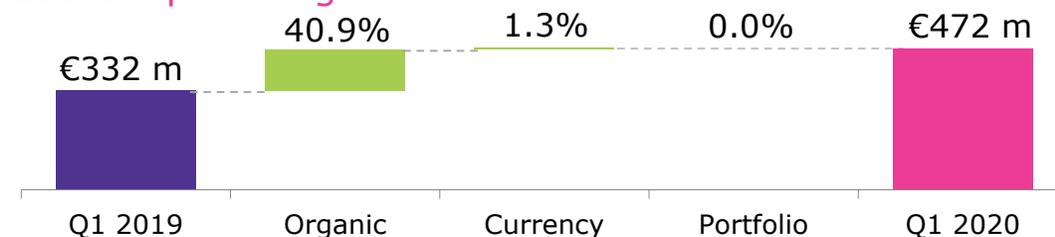
Healthcare P&L

[€m]	Q1 2019	Q1 2020
Net sales	1,481	1,701
Marketing and selling	-550	-423
Administration	-88	-79
Research and development	-380	-417
EBIT	128	422
EBITDA	329	501
EBITDA pre	332	472
Margin (in % of net sales)	22.4%	27.8%

Net sales bridge



EBITDA pre bridge



Comments

- Strong demand in General Medicine supported by Covid-19 pull-in and phasing
- Mavenclad[®] growth vs. Q1 2019, especially in U.S.; however about flat vs. Q4 2019 due to Covid-19, while Rebif[®] posts less pronounced decline explained by U.S. inventory effects, and Russia tender phasing
- Strong growth of Erbitux[®] particularly in Europe offsetting weaker China amidst Covid-19; Bavencio[®] developing as expected
- Moderate Fertility decline from Covid-19 impact most pronounced in China; strong first quarter in U.S.
- M&S decrease due to stringent cost management, resource prioritization across franchises and expired amortization of Rebif[®]
- R&D cost control offset by Avelumab H&N study termination accrual (-€15 m)
- Higher EBITDA pre driven by strong top-line performance and rigorous cost management

Totals may not add up due to rounding

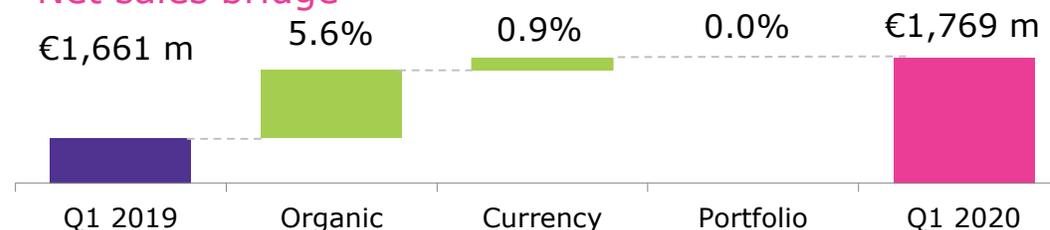


Life Science: Showing strong resilience, Process Solutions with double-digit growth, Research and Applied flat

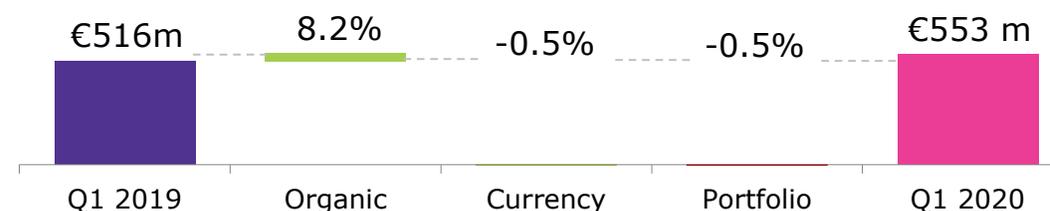
Life Science P&L

[€m]	Q1 2019	Q1 2020
Net sales	1,661	1,769
Marketing and selling	-470	-498
Administration	-88	-89
Research and development	-62	-75
EBIT	313	345
EBITDA	507	541
EBITDA pre	516	553
<i>Margin (in % of net sales)</i>	<i>31.0%</i>	<i>31.2%</i>

Net sales bridge



EBITDA pre bridge



Comments

- Double-digit growth of Process Solutions mainly driven by downstream and single use, with Covid-19 demand contributing
- About stable Applied Solutions reflects high comps and decline in lab water due to inaccessibility of labs
- Research Solutions flat: increased demand of bulk chemicals offset by temporary slowdown in academia due to Covid-19

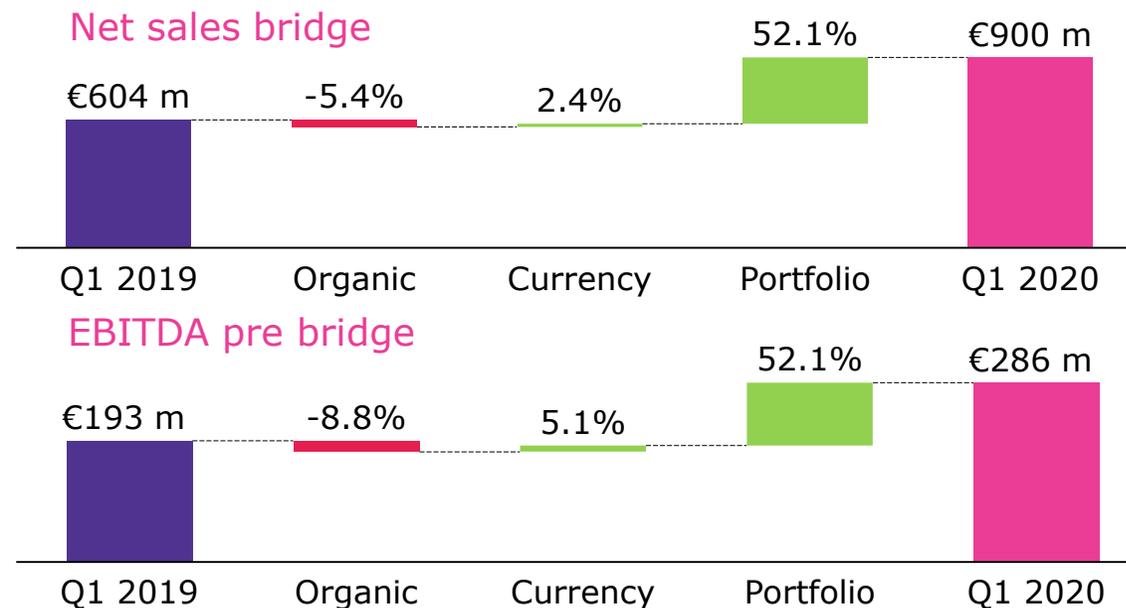
- Higher M&S reflecting increased logistics cost
- Increased R&D driven by investments in strategic projects
- EBITDA pre reflects operational leverage from strong top-line growth



Performance Materials: Strong Semi more than offset by LC's accelerated underlying negative trajectory and declining Surface amid Covid-19

Performance Materials P&L

[€m]	Q1 2019	Q1 2020
Net sales	604	900
Marketing and selling	-66	-136
Administration	-23	-38
Research and development	-72	-71
EBIT	95	116
EBITDA	157	251
EBITDA pre	193	286
<i>Margin (in % of net sales)</i>	31.9%	31.7%

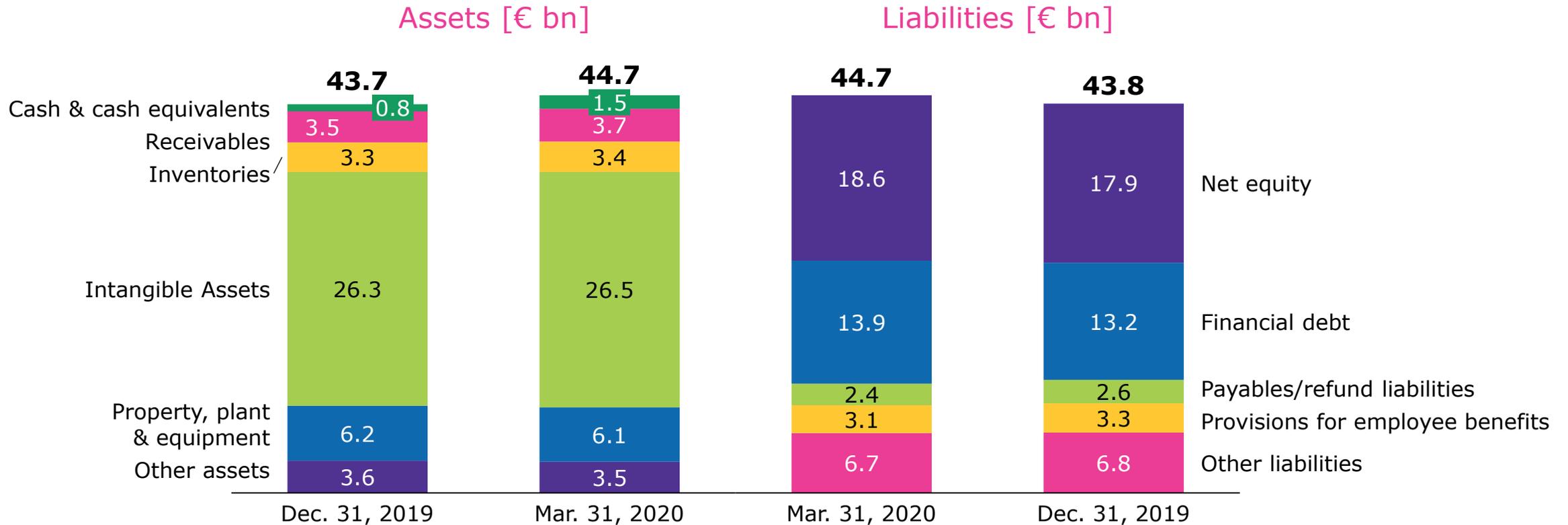


Comments

- Sales growth of nearly 50% reflects portfolio effect from Versum and positive FX, overcompensating organic decline
 - Display Solutions: LC's negative underlying trajectory with high comps, not yet significantly impacted by Covid-19; OLED impacted
 - Semiconductor Solutions showing strong growth, both organically as well as for Versum portfolio; recovery started already in Q1
 - Surface Solutions decline driven by impact of Covid-19 on the Automotive and Cosmetics industries
 - M&S reflects consolidation of Versum acquisition and diligent underlying cost management in framework of Bright Future transformation
 - R&D staying flat due to Bright Future related provisions in Q1 2019, while Q1 2020 includes Versum consolidation
 - Increase in EBITDA pre largely reflects consolidation effect from Versum
- Totals may not add up due to rounding



Balance sheet



- Balance sheet reflects consolidation of Versum since Dec. 31 2019
- Higher cash (+€750 m) is driven by securing liquidity given the Covid-19 pandemic
- Increase in equity mainly driven by profit after tax and FX translations (equity ratio of 41.6%)
- Financial debt increase reflects new bonds (€1.5 bn) and utilization of available credit lines partially offset by due bonds repayment (€2.0 bn)



Cash flow statement

Q1 2020 – cash flow statement

[€m]	Q1 2019	Q1 2020	Δ
Profit after tax	190	458	268
D&A	474	431	-42
Changes in provisions	100	16	-84
Changes in other assets/liabilities	-89	-23	66
Other operating activities	-4	-10	-6
Changes in working capital	-178	-356	-178
Operating cash flow	493	516	24
Investing cash flow	-329	-288	41
thereof Capex on PPE	-209	-341	-132
Financing cash flow	-3	542	545

Cash flow drivers

- Profit after tax driven by higher EBIT and Allergopharma disposal* gain, neutralized in other operating activities
- D&A lower mainly from expired Rebif[®] amortization, compensated by Versum
- Changes in provisions reflect last year's build up for transformation programs
- Increased working capital driven by trade accounts receivables in Life Science partially impacted by Covid-19
- Higher financing cash flow reflecting new bond issuance (€1.5 bn) and utilization of available credit lines, partially offset by repayment of due bonds (€2.0 bn)

* closed March 31st

Totals may not add up due to rounding





03 GUIDANCE

Our assumptions regarding the development of Covid-19 have changed significantly post pandemic classification by WHO and subsequent events

Previous Assumptions (as of mid Feb)

- Impact mainly in **China**
- Outbreak **peaks in Q1**
- Situation **eases in Q2**
- Situation **normal in H2**

Current assumptions (as of mid May)

- Impact **across all regions**
 - Cases expected to **peak in Q2**
 - Situation **eases in H2**
 - Pandemic crisis **lasts for FY**
- +
- **Stressed** health systems
 - Some countries have a **less effective** response than China
 - However, **no major resurgences**



Group

Covid-19 Update: new assumptions on financial impact of Covid-19



GROUP

- **Mid single-digit percentage Sales impact**
 - Global impact across many businesses
 - Strong Q2 impact, also from Q1 pull-in
 - Lasting until at least Q3

Healthcare

- **Highest** anticipated impact in absolute terms
- Biggest impact anticipated in Fertility due to discretionary nature of treatment

Life science

- **Lowest** anticipated impact in absolute terms
- Process Solutions largely unaffected, main impact in Applied and Research Solutions

performance materials

- Semiconductor expected to show strong growth despite Covid-19
- Covid-19 additionally weighs on Display decline
- High impact on Surface's end markets

We assume a top-line impact of around mid single digit and thereof 50% to 60% hitting EBITDA pre



Group

Full-year 2020 guidance

Net sales:

Slight to moderate organic sales growth, Versum growth contribution in the mid-single digits %
FX between +1% to -2% YoY

~€16.8 – 17.8 bn

EBITDA pre:

Organically about stable, mid-single digit % growth from Versum
FX headwinds of 0% to -3% YoY

~€4,350 – 4,850 m¹

EPS pre:

~€5.50 – 6.35

¹CO guidance 2020: Slightly higher than last year



Group 2020 business sector guidance¹

Healthcare



Net sales

- Organically about stable
- Covid-19 significantly impacting fertility performance
- Sustained performance of new products

EBITDA pre

- Slight organic decline due to Covid-19
- Slight to moderate adverse FX impact

Life Science



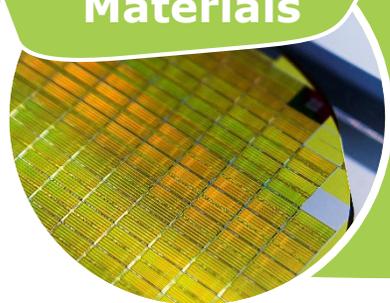
Net sales

- Strong organic growth
- Process Solutions strength offsets weakness in academic and applied end markets

EBITDA pre

- Strong organic growth
- Neutral to moderate adverse FX impact

Performance Materials



Net sales

- Moderate to strong organic decline
- Covid-19 weighing on Display and Surface, while Semiconductor Solutions growing strongly
- Display declining, driven by LC
- Low to mid-thirties % contribution from Versum

EBITDA pre

- Low- to mid-teens % organic decline
- Moderate support from FX
- Low to mid-thirties % contribution from Versum

¹Divisional guidances are only support to the group guidance and do not have to add up



