

Q1 2020 Financial Summary for Investors and Analysts

Good Start to the year despite first COVID-19 impact

- 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
- 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

Overview Financials

Q1 2020 Overview

- 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

Q1 2020 Cash Flow Statement

- Profit after tax driven by higher EBIT and Allergopharma disposal¹ 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)

¹closed March 31st

Q1 2020 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)

Q1 2020 Business Overview

Healthcare

- **Strong General Medicine supported by COVID-19 pull-in effect and ongoing Mavenclad® uptake; improved margins from top line leverage**
- Net sales deviation YoY: organic +15.3%, FX -0.4%, portfolio 0.0%
- EBITDA pre deviation YoY: organic +40.9%, FX +1.3%, portfolio 0.0%
- 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

Life Science

- **Showing strong resilience, Process Solutions with double-digit growth, Research and Applied flat**
- Net sales deviation YoY: organic +5.6%, FX +0.9%, portfolio 0.0%
- EBITDA pre deviation YoY: organic +8.2%, FX -0.5%, portfolio -0.5%
- 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**
- Net sales deviation YoY: organic -5.4%, FX +2.4%, portfolio +52.1%
- EBITDA pre deviation YoY: organic -8.8%, FX +5.1%, portfolio +52.1%
- 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

2020 guidance

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

Previous Assumptions (disclosed in March)

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

Current assumptions (disclosed in 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

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:

- 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
 - EBITDA² supporting factors:
 - Increasing sales contribution from Mavenclad[®] and Bavencio[®]
 - Stringent M&S and R&D cost management in HC (decrease YoY absolute and as % of sales)
 - Ongoing strength in Life Science with above-market sales growth
 - Recovery of Semiconductor Solutions and cost savings from Bright Future program related initiatives
 - High level of cost consciousness and prioritization
 - Four quarters of Versum
 - EBITDA² 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 sales and earnings effect
- EPS pre: ~€5.50 – 6.35

¹CO guidance 2020: Slightly higher than last year

²EBITDA pre

Totals may not add up due to rounding

Qualitative outlook by business sector:

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

Additional financial guidance for 2020

- Corporate & Other EBITDA pre **slightly higher than last year**
- Interest result **~ -245 to -275 m**
- Effective tax rate **~24 % to 26%**
- Capex on PPE **~1.1 bn – 1.2 bn**
- Hedging / USD assumption **FY 2020 hedge ratio ~ 50%**
at EUR/USD ~1.18
- 2020 Ø EUR/USD assumption **~1.08 to 1.12**

Merck KGaA

Darmstadt, Germany

Group Q1 20

€ m	Q1 2019	Q1 2020	% YoY	Q1 2019	Q1 2020	% YoY	Q1 2019	Q1 2020	% YoY	Q1 2019	Q1 2020	% YoY	Q1 2019	Q1 2020	% YoY
Net sales	3 746	4 370	17%	1 481	1 701	15%	1 661	1 769	6%	604	900	49%			
% organic			8%			15%			6%			-5%			
% FX			1%			0%			1%			2%			
% portfolio			8%			0%			0%			52%			
EBIT	379	716	89%	128	422	>100%	313	345	10%	95	116	22%	-158	-168	7%
Depreciation and amortization	474	431	-9%	201	79	-61%	193	196	1%	62	135	>100%	17	22	27%
EBITDA	853	1 148	35%	329	501	52%	507	541	7%	157	251	60%	-140	-146	4%
Adjustments in EBITDA	76	34	-55%	3	-29	n.m.	9	11	28%	35	35	-2%	28	17	-41%
EBITDA pre	929	1 181	27%	332	472	42%	516	553	7%	193	286	48%	-112	-129	15%
Net financial debt	12 363 *	12 285	-1%												

* as per 31 December

Totals may not add up due to rounding

Group

P&L Group	Q1 2019	Q1 2020	% YoY
Net sales	3 746	4 370	17%
Cost of sales	-1 384	-1 654	20%
thereof: intangibles amortization	-43	-57	31%
Gross profit	2 362	2 716	15%
Marketing and selling expenses	-1 091	-1 059	-3%
thereof: intangibles amortization	-223	-159	-29%
Administration	-283	-289	2%
Impairment losses / reversals (IFRS9)	-4	6	n.m.
Other operating income/expenses	-79	-80	1%
Research and development	-527	-579	10%
EBIT	379	716	89%
Depreciation and amortization	474	431	-9%
EBITDA	853	1 148	35%
Adjustments in EBITDA	76	34	-55%
EBITDA pre	929	1 181	27%
Financial result	-113	-98	-13%
Profit before tax	266	617	>100%
Income tax	-67	-159	>100%
Income tax rate	25%	26%	
Profit after tax from continuing operations	199	458	>100%
Profit after tax from discontinued operation	-10	0	>-100%
Profit after tax	190	458	>100%
Non-controlling interests	-1	-2	100%
Net income	189	456	>100%
Number of theoretical shares in million	434,8	434,8	
EPS in €	0,43	1,05	>100%
EPS pre in €	1,13	1,50	33%

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Healthcare

P&L Healthcare	Q1 2019	Q1 2020	% YoY
Net sales	1 481	1 701	15%
Cost of sales	-325	-393	21%
thereof: intangibles amortization	-1	-1	-6%
Gross profit	1 156	1 307	13%
Marketing and selling expenses	-550	-423	-23%
thereof: intangibles amortization	-112	-7	-93%
Administration	-88	-79	-9%
Impairment losses / reversals (IFRS9)	-4	5	n.m.
Other operating income/expenses	-6	31	n.m.
Research and development	-380	-417	10%
EBIT	128	422	>100%
Depreciation and amortization	201	79	-61%
EBITDA	329	501	52%
Adjustments in EBITDA	3	-29	n.m.
EBITDA pre	332	472	42%

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Life Science

P&L Life Science	Q1 2019	Q1 2020	% YoY
Net sales	1 661	1 769	6%
Cost of sales	-719	-744	4%
thereof: intangibles amortization	-14	-15	4%
Gross profit	942	1 024	9%
Marketing and selling expenses	-470	-498	6%
thereof: intangibles amortization	-108	-104	-3%
Administration	-88	-89	2%
Impairment losses / reversals (IFRS9)	0	0	n.m.
Other operating income/expenses	-10	-18	80%
Research and development	-62	-75	22%
EBIT	313	345	10%
Depreciation and amortization	193	196	1%
EBITDA	507	541	7%
Adjustments in EBITDA	9	11	28%
EBITDA pre	516	553	7%

Totals may not add up due to rounding

