

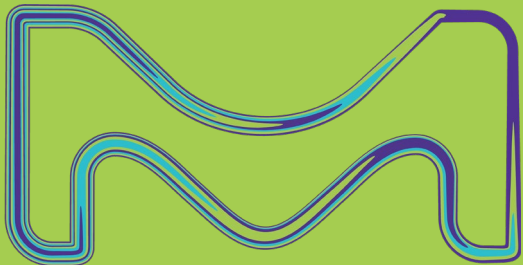
TOP LINE reflects COVID-19 impact, BOTTOM line well Managed

Q2 2020 results

Presentation for the media

Stefan Oschmann, CEO
Marcus Kuhnert, CFO

August 6, 2020



Merck KGaA
Darmstadt, Germany

Disclaimer

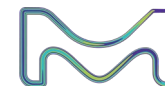
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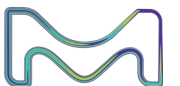


Agenda

01 Executive summary

02 Financial overview

03 Guidance



EXECUTIVE SUMMARY

01



Highlights



Operations

Healthcare: Oncology and General Medicine growing despite pandemic, Fertility demand lowered as anticipated, recovery of Mavencad[®] ramp-up started in June, Bavencio[®] U.S. launch in UC 1L; M5049 Covid-19 study initiated

Life Science: supporting fight against Covid-19, Process Solutions growing 20%, Research & Applied end markets continue to be negatively impacted but recovery started in June

Performance Materials: Semiconductor Solutions growing 12% organically not yet offsetting Display and Surface Solutions decline; Versum performance & integration on track



Financials

Q2 organic sales: decline of -2.5%;

Q2 organic EBITDA pre: decline of -11.5%
(against elevated comps)

EBITDA pre guidance slightly upgraded:

Net sales: €16.9 – 17.7 bn

EBITDA pre: €4,450 – 4,850 m

EPS pre: €5.60 – 6.25

Net financial debt to EBITDA pre at 2.8 on June 30, 2020 – continued focus on deleveraging



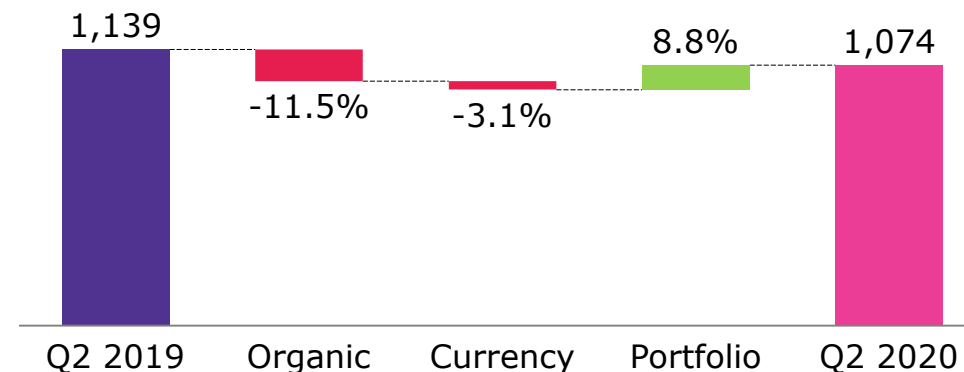
Versum portfolio effect and Process Solutions drive sales growth despite Covid-19 related organic decline in Healthcare and Performance Materials

Q2 YoY Net Sales

	Organic	Currency	Portfolio	Total
Healthcare	-7.4%	-2.3%	-0.9%	-10.6%
Life Science	6.3%	-0.4%	0.0%	5.9%
Performance Materials	-13.7%	1.8%	50.1%	38.1%
Group	-2.5%	-0.9%	7.1%	3.7%

- Healthcare decline largely driven by Covid-19 impact on Fertility; Covid-19 also slowing down growth of Mavencad® as well as General Medicine & Endocrinology (incl. destocking post Q1 pull-in)
- Process Solutions growing 20% and overcompensating flat Applied Solutions and declining Research Solutions where demand was impacted by Covid-19 related lockdowns
- Semiconductor Solutions organic growth continues at an even higher pace – however, Covid-19 impact on Display and Surface Solutions results in overall organic decline

Q2 YoY EBITDA pre

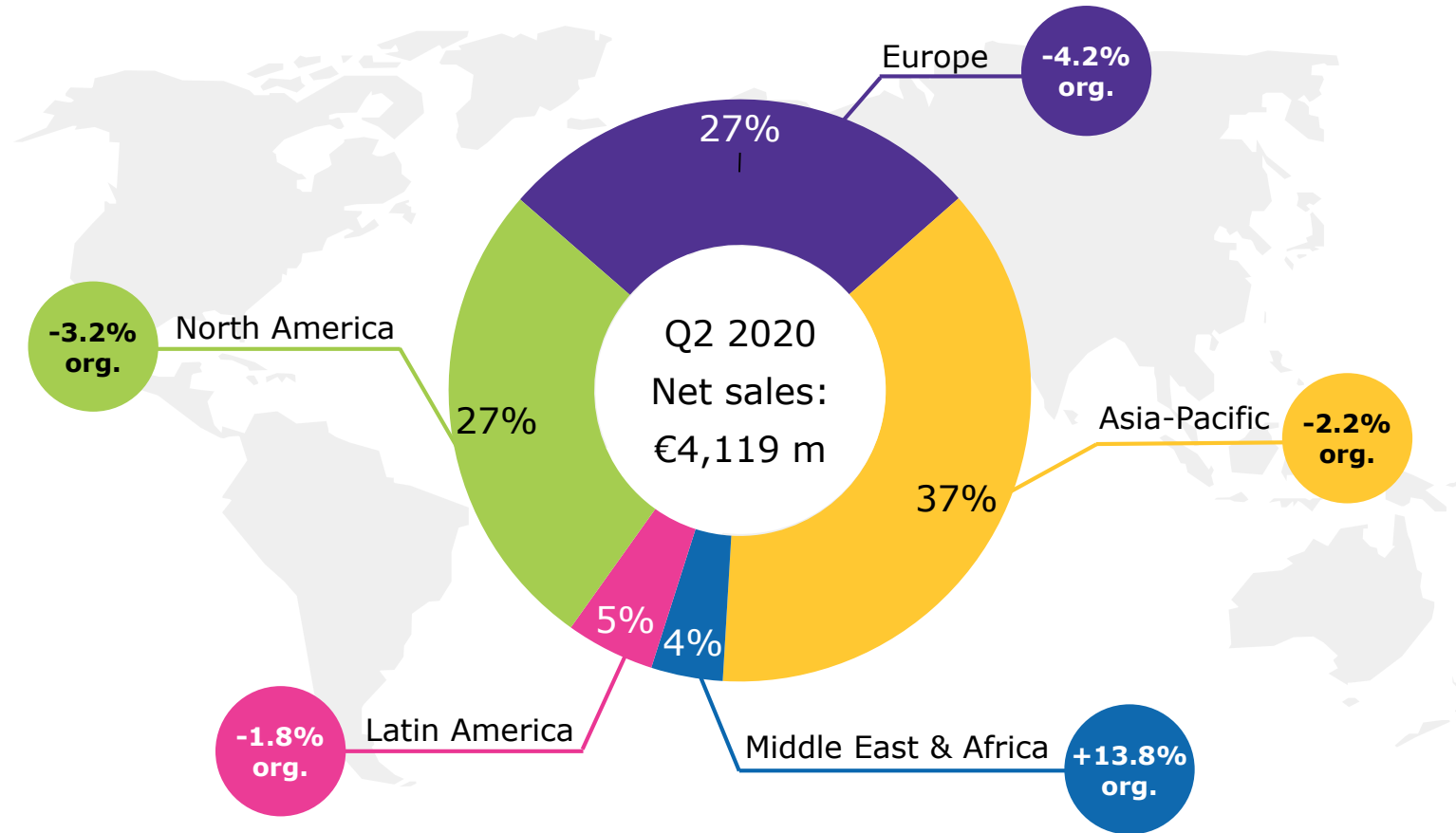


- EBITDA pre declining faster than sales organically, largely due to non-recurring Healthcare income (~ €165 m higher in Q2 2019)
- Margin accretive Versum portfolio effect
- FX tailwinds from U.S. and Taiwan dollar did not offset currency headwinds from some emerging markets



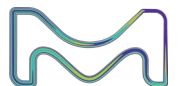
All regions impacted by Covid-19; signs of recovery in APAC dragged down by Display Solutions & Fertility

Regional breakdown of net sales [€m]



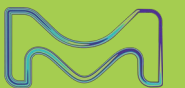
Regional organic development

- Moderate decline in APAC as double-digit growth in Life Science and Semiconductor Solutions offset a large part of Covid-19-driven decline in Display, Fertility and Surface Solutions
- In Europe Neurology & Immunology as well as Research Solutions were also declining due to Covid-19
- North America saw significant declines in Research Solutions and Fertility, also Applied Solutions slightly down
- Strong General Medicine & Endocrinology growth in MEA and LATAM (where it could not fully offset effects of Covid-19 in Fertility)



Financial Overview

02



Q2 2020: Overview

Key figures

[€m]	Q2 2019	Q2 2020	Δ
Net sales	3,971	4,119	3.7%
EBITDA pre	1,139	1,074	-5.7%
Margin (in % of net sales)	28.7%	26.1%	-2.6pp
EPS pre	1.54	1.30	-15.6%
Operating cash flow	743	502	-32.4%

[€m]	Dec. 31, 2019	June 30, 2020	Δ
Net financial debt	12,363	12,560	1.6%
Working capital	3,944	4,474	13.4%
Employees	57,071	57,523	0.8%

Comments

- Versum portfolio effect and strong growth in Process Solutions drive sales above last year, despite materializing Covid-19 impact across most business units
- EBITDA pre and margin decline driven by lower non-recurring income components and under absorption of fixed costs due to lower sales from the Covid-19 impact
- EPS pre declining due to a lower financial result and EBITDA pre
- Lower operating cash flow driven primarily by GSK upfront payment in 2019 and higher working capital in 2020



Reported figures

Reported results

[€m]	Q2 2019	Q2 2020	Δ
EBIT	618	491	-20.6%
Financial result	-61	-102	67.4%
Profit before tax	557	389	-30.2%
Income tax	-136	-100	-26.7%
<i>Effective tax rate</i>	24.4%	25.7%	1.2pp
Net income	471	290	-38.5%
EPS (€)	1.08	0.67	-38.0%

Comments

- EBIT decline driven by lower non-recurring income, higher depreciation & amortization from Versum PPA and impairments in Performance Materials
- Financial result impacted by LTIP and higher interest expenses related to Versum financing
- Effective tax rate within guidance range of ~24-26%
- Lower net income and EPS reflects lower EBIT and higher negative financial result

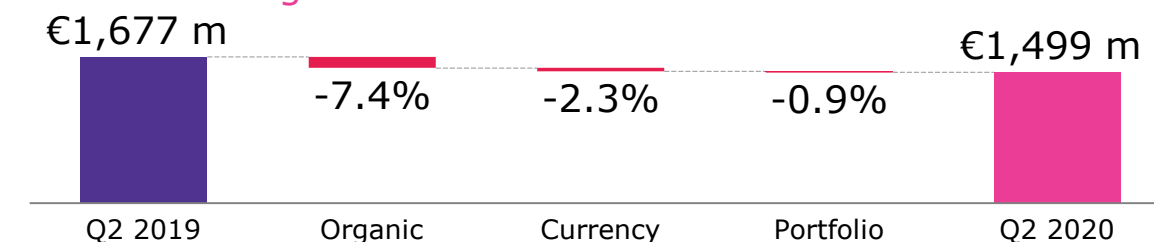


Healthcare: Savings in M&S and R&D offset impact from lowered Fertility demand and Mavenclad® drag amid Covid-19

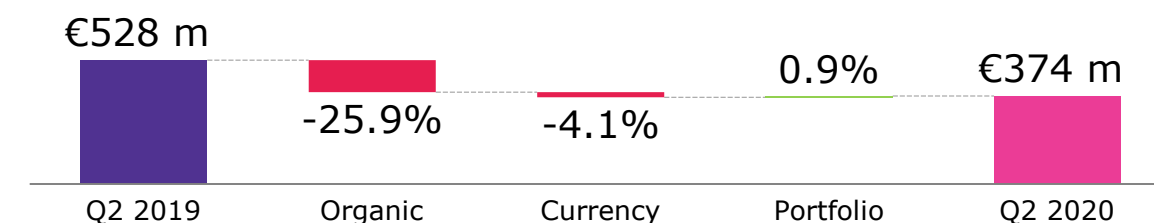
Healthcare P&L

[€m]	Q2 2019	Q2 2020
Net sales	1,677	1,499
Marketing and selling	-599	-409
Administration	-84	-81
Research and development	-395	-366
EBIT	345	269
EBITDA	523	359
EBITDA pre	528	374
<i>Margin (in % of net sales)</i>	31.5%	24.9%

Net sales bridge



EBITDA pre bridge



Comments

- Mavenclad® 36% growth versus Q2 2019, especially in U.S.; however demand declines versus Q1 2020 due to Covid-19 as expected; Rebif® returning to the anticipated underlying trajectory
- Fertility heavily impacted across all regions due to temporary shutdown of a majority of clinics
- Erbitux® organically slightly growing; Bavencio® growing strongly versus last year, but sequentially impacted by Covid-19
- M&S decrease due to rigorous cost management, further supported by significant reduction of in person face-to-face activities during pandemic, last year elevated by now expired amortization of Rebif®
- R&D reflecting ongoing stringent cost control
- EBITDA pre declining faster than sales, driven largely by tough comps from Peg-Pal and Bavencio® milestones in Q2 2019

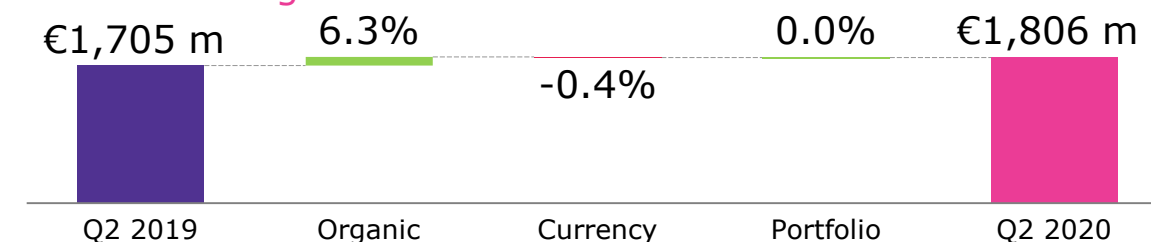


Life Science: Strong resilience continues in Q2; Process growing 20%, Applied & Research impacted by Covid-19 but recovery visible in June

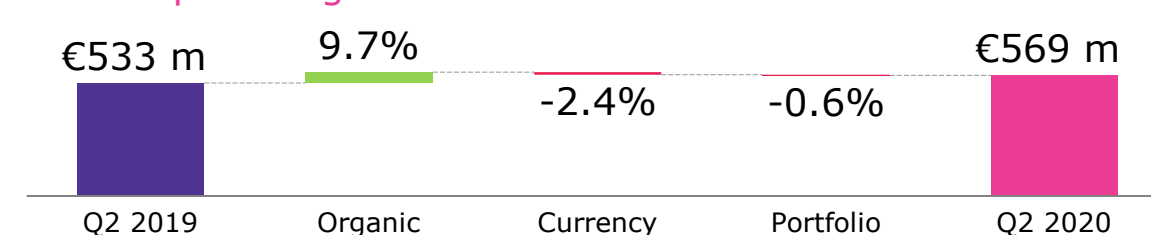
Life Science P&L

[€m]	Q2 2019	Q2 2020
Net sales	1,705	1,806
Marketing and selling	-490	-488
Administration	-68	-100
Research and development	-69	-75
EBIT	322	386
EBITDA	518	584
EBITDA pre	533	569
<i>Margin (in % of net sales)</i>	31.3%	31.5%

Net sales bridge



EBITDA pre bridge



Comments

- 19.8% organic growth of Process Solutions mainly driven by downstream and single use, with Covid-19 demand contributing
- Applied Solutions about stable due to Covid-19-related effects across the full portfolio albeit clear signs of recovery in June
- Research Solutions impacted significantly mainly due to temporary slowdown in academia from Covid-19-related lab closures, also showing clear signs of recovery in June
- Lower M&S from overall cost-consciousness and lower travel expenses, partially offset by increased freight costs
- Admin increase largely driven by EBITDA pre adjustments (€12 m) and Covid-19-related cost for additional safety precautions
- Increased R&D driven by investments in strategic projects
- EBITDA pre growing faster than sales, reflecting operational leverage from strong top-line growth

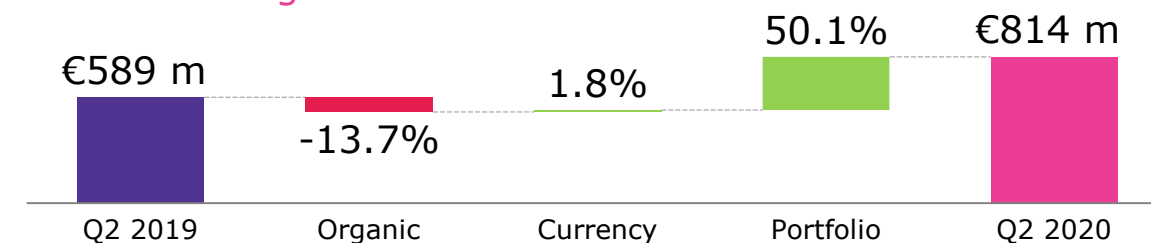


Performance Materials: Versum portfolio effect and accelerating Semi growth more than offset declining Display and Surface amid Covid-19

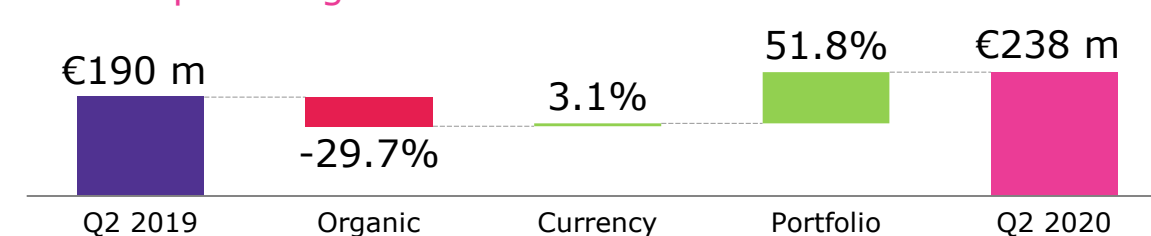
Performance Materials P&L

[€m]	Q2 2019	Q2 2020
Net sales	589	814
Marketing and selling	-66	-134
Administration	-25	-44
Research and development	-74	-68
EBIT	100	-30
EBITDA	161	219
EBITDA pre	190	238
<i>Margin (in % of net sales)</i>	32.3%	29.3%

Net sales bridge

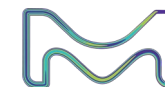


EBITDA pre bridge

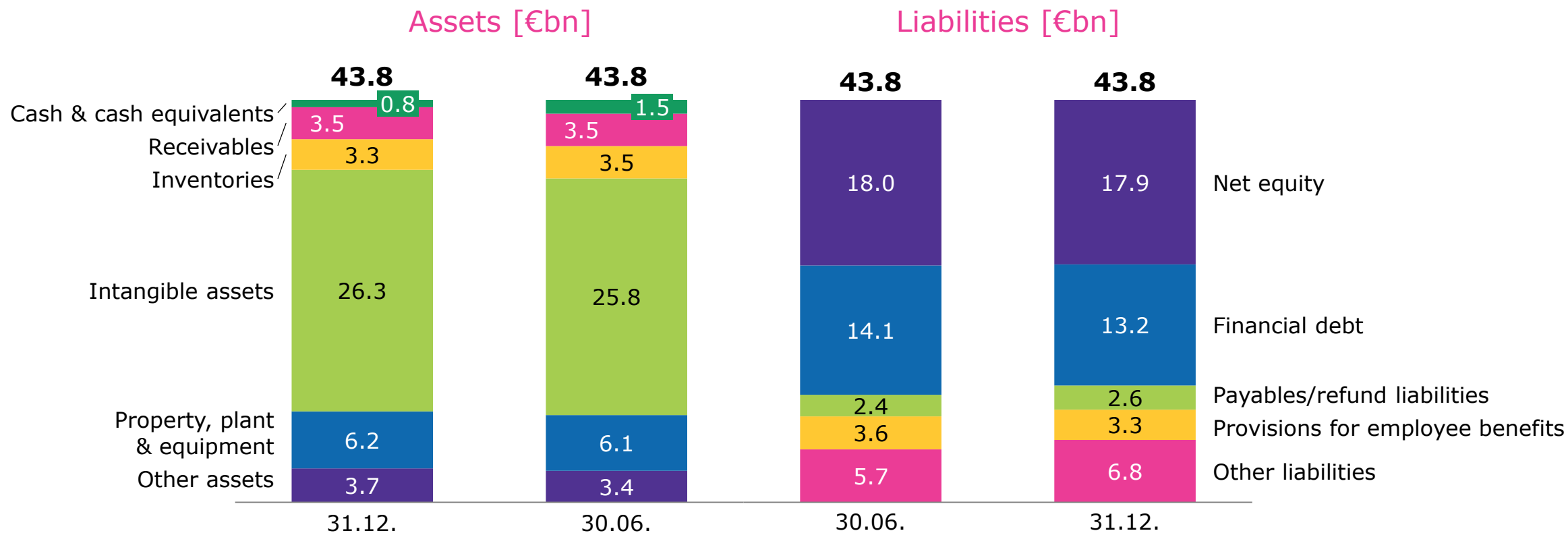


Comments

- Sales growth of 38% reflects portfolio effect from Versum and positive FX, overcompensating organic decline
- Semiconductor Solutions: further accelerating strong organic growth, cyclical recovery and outperformance continuing
- Display Solutions: Covid-19 weighs on LC's negative underlying trajectory against still elevated comps in Q2 2019; OLED also impacted
- Surface Solutions: declining significantly amid a heavy Covid-19 impact on automotive and cosmetic end markets
- M&S reflects consolidation of Versum acquisition and diligent underlying cost management as part of the Bright Future transformation and countermeasures to Covid-19
- R&D declining from an elevated Q2 2019 base including Bright Future provisions (EBITDA pre adjustments); Q2 2020 includes Versum consolidation and shows underlying Bright Future cost management
- Increase in EBITDA pre largely reflects portfolio effect from Versum



Balance sheet



- Stable balance sheet since Dec. 31, 2019
- Continuously higher cash level in order to secure liquidity in the face of the Covid-19 pandemic
- Equity ratio of 41.1%
- Financial debt increase reflects bonds issued in January (€1.5 bn) and utilization of available credit lines to increase liquidity reserve; bond repayments in March (€2.0 bn)



Cash flow statement

Q2 2020 – cash flow statement

[€m]	Q2 2019	Q2 2020	Δ
Profit after tax	471	289	-182
D&A	453	559	106
Changes in provisions	-47	-54	-7
Changes in other assets/liabilities	-26	-166	-141
Other operating activities	-51	-13	37
Changes in working capital	-58	-112	-54
Operating cash flow	743	502	-240
Investing cash flow	-870	-216	654
thereof Capex on PPE	-162	-194	-33
Financing cash flow	1,244	-302	-1,546

Cash flow drivers

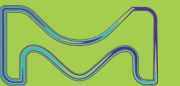
- Profit after tax driven by lower EBIT
- Higher depreciation & amortization from Versum PPA and impairments in Performance Materials
- Provisions reflect reduced litigation provisions and fluctuations in LTIP*
- Changes in other assets and liabilities primarily driven by GSK upfront payment in Q2 2019 that was deferred
- Increased working capital driven by Versum consolidation, higher inventories to secure supply in the face of Covid-19 and growing receivables
- Investing and financing cash flows returning to normal levels

*Long Term Incentive Plan
Totals may not add up due to rounding



guidance

03



Our assumptions on the development of the Covid-19 pandemic have remained largely the same since May

Previous assumptions

(communicated in May)

Current assumptions

(communicated in August)



Impact **across all regions**



Impact **across all regions**



Cases expected to **peak in Q2**

Situation **eases in H2**

Pandemic crisis **lasts for FY**



Recovery progressing during H2



Stressed health systems

Some countries have **less effective** response than China



Some countries **struggle to contain** virus resulting in stressed health systems
Effective **vaccines** not broadly available



However, **no major resurgences**

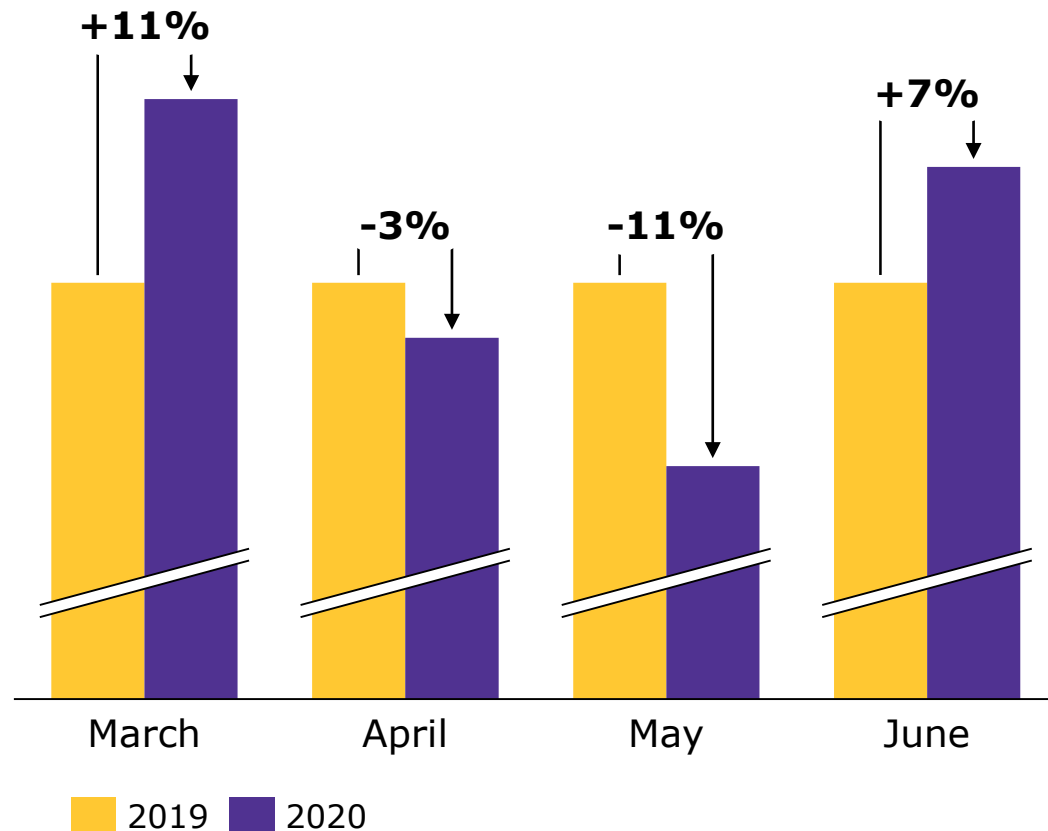


Additional flares, but **not triggering new widespread lockdowns**



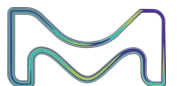
Active crisis management and resilient product portfolio allowed quick 8-week recovery time

Organic sales growth - Group



Increased visibility of Covid-19 impact

- Strongest correlation with mandatory **workplace closures**
 - **Fertility**: closure of clinics
 - **N&I**: closure of practices, limited visits
 - **Research Solution**: closure of research labs
 - **Display Solutions**: closure of electronic retail
- **Company well positioned in essential industries:**
 - Governments moved from mandatory **workplace closures** to mandatory **workplace measures**
 - Immediate restoration of business
- Other changes of a longer-lasting nature (Display or Automotive end markets)



Covid-19 guidance given in May overall accurate, improved visibility warrants slight upgrade

Group:

- **Up to** mid single-digit percentage sales impact full year
- **Countermeasures in place:** confirm 50 to 60% of net sales impact to hit EBITDA pre
- **Recovery visible** in June, **expected to continue** in Q3 and Q4



Healthcare assumptions:

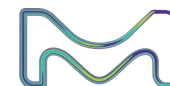
- Biggest impact in Fertility behind, as **clinics are opening up again**
- Mavencad® **recovery visible in June**
- Other businesses **normalizing**

Life Science assumptions:

- **Net upside** from Covid-19-related demand in Process Solutions
- **Recovery as of June** in Applied Solutions
- **Research** showed **largest impact**, recovering in June as well

Performance Materials assumptions:

- **Strong growth** in Semiconductor expected to continue despite Covid-19
- Some **ease of impact** from Covid-19 in Display **versus Q2**
- Slight **ease on Surface's end markets** expected **versus Q2**



Group

Full-year 2020 guidance

Net sales:

Slight to moderate organic growth, Versum growth contribution in mid single-digit percentage range;
FX between 0% to -2% YoY;

~€16.9 – 17.7 bn

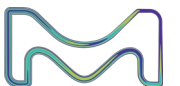
EBITDA pre:

Slight to moderate organic growth, mid single-digit percentage range growth from Versum;
FX headwinds of -2% to -4% YoY;

~€4,450 – 4,850 m

EPS pre:

~€5.60 – 6.25



Group

2020 business sector guidance¹

Healthcare



Net sales

- Slight organic growth
- Covid-19 significantly impacting Fertility performance
- Sustained performance of new products

EBITDA pre

- Organically about stable
- Significant adverse FX impact

Life Science



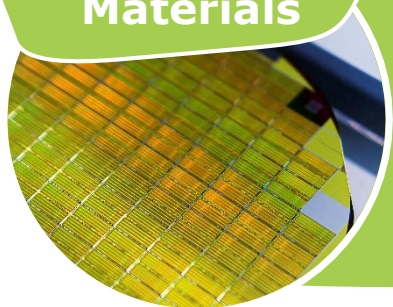
Net sales

- Strong organic growth
- Process Solutions trend offsetting slowdown in Research and Applied Solutions

EBITDA pre

- Strong organic growth
- Moderate adverse FX impact

Performance Materials



Net sales

- Moderate to strong organic decline
- Semiconductor Solutions growing strongly, while Covid-19 weighing on Display and Surface
- Mid-thirties percentage contribution from Versum

EBITDA pre

- Organic decline in the low-teens %
- Slight support from FX
- Mid-thirties percentage contribution from Versum

¹Business Sector guidances are only support to the Group guidance and do not have to add up

