

Merck Q4/FY 2013 Financial Summary for Investors and Analysts

Merck – Another strong year of delivery:

- FY 2013 guidance delivered
- Stable sales of €10.7 bn due to organic growth in all divisions despite strong currency headwinds
- EBITDA pre at upper end of guidance, increase of 10% to €3,253 m
- EPS pre increased by 15% to €8.78
- Fit for 2018 accelerated: €325 m savings instead of planned €280 m
- Significant net financial debt reduction to now ~ €300 m
- Humira settlement leads to EBITDA pre reducing effect of ~€50m in 2014
- Underlying tax rate decreases to 23-25% going forward
- FY 2014 guidance: EBITDA pre on existing platform stable; slight organic sales growth

Overview Financials

Q4 2013 Overview

- Sales decline as organic improvement is more than offset by negative currency effects
- Adjusted EBITDA and EPS improve slightly on solid organic performance and tight cost management despite loss of royalty income
- Solid operating cash flow contains €200 m CTA* funding
- Cash-generating nature of business portfolio drives net debt reduction
- Improvement of working capital due to ongoing tight management

YE 2013 Balance Sheet

- Significant net debt reduction despite €200 m CTA* funding in Q4
- Improvement of financial profile led to rating upgrades: S&P to “A” and Moody’s to “A3” both with stable outlook

FY 2013 Cash flow Statement

- Higher profit after tax due to good operational business performance; prior year burdened by restructuring
- Changes in provisions contain cash-outs for restructuring and CTA* funding of €200 m
- Other assets and liabilities decrease due to lower tax payments
- Operating cash flow strength continued
- Investing cash flow contains cash-in from Geneva HQ sale (€251 m)
- Financing cash flow increases due to lower bond repayments

*CTA = Contractual Trust Arrangement

Q4 2013 Business Overview

Merck Serono

- **Solid operational performance despite FX headwinds and royalty income decrease**
- Sales deviation yoy: organic +4%, FX -7%
- Organic sales growth is more than offset by currency effects, leading to slight sales decline
- Ongoing good performance in Emerging Markets (CMC & GM*) and Japan (Erbix) key driver of organic growth
- Rebif stable in Q4 despite competitive pressure; 7% price increase posted end of December 2013
- Erbitux growing 8% organically supported by good trial data; label change preparations ongoing
- EBIT includes €127 m asset impairment for Humira settlement
- Despite lower royalties and FX headwinds margin improves as marketing and selling and R&D costs are well managed

Consumer Health

- **Strong FX headwinds and softer cough & cold season weigh on business performance**
- Sales deviation yoy: organic +0%, FX -6%
- Q4 sales down yoy and sequentially after strong Q3, burdened by significant FX headwinds and flat organic performance
- Weak cough and cold season due to mild winter
- Healthy organic growth in Europe, especially Germany, Belgium and Poland
- Continued momentum of strategic brands like Femibion, but modest performance of Seven Seas products
- Despite a more moderate Q4 performance Consumer Health has shown a very solid yearly profitability upgrade

Performance Materials

- **Reasonable performance amid strong FX headwinds and moderate destocking**
- Sales deviation yoy: organic -1%, FX -7%
- Sales decrease due to currency headwinds and further supply chain destocking in Liquid Crystals
- Customer intimacy and continuous innovation in PS-VA and IPS improve mix and expand market share
- Strongest yoy operational improvement in Pigments driven by restructuring and Xirallic performance
- Completion of savings program: €20 m realized by 2013; one year ahead of plan
- EBITDA pre softer amid FX headwinds and destocking

*CMC & GM = Cardiometabolic Care and General Medicine

Merck Millipore

- **A strong finish of the year**
- Sales deviation yoy: organic +7%, FX -7%
- Stable sales as strong organic growth is offset by strong FX effects
- All regions except North America (U.S. sequestration) contribute to organic growth
- Some Q1 pre-buying cannot be excluded
- Process and Lab Solutions with ongoing good performance due to biopharma demand as well as price and volume uptakes
- Challenging currency effects are being mitigated by stringent cost control in nearly all functional cost categories
- EBITDA and margin increase on robust profitable growth

2014 Outlook:

Merck Group:

- **EBITDA pre on existing platform stable**
- **Slight organic sales growth**

Outlook by division:

Merck Serono

- Sales organically stable; EBITDA pre slightly lower
- Rebif: Continuous competitive pressure; volume decline
- Erbitux: Moderate organic growth
- Emerging Markets growth

Consumer Health

- Moderate organic sales growth; moderate EBITDA pre increase
- Transfer of Neurobion and Floratil to Consumer Health (+~€265 m sales and +~€100 m EBITDA pre)

Performance Materials

- Slight organic sales growth; EBITDA pre at best stable
- Slight growth in Pigments

Merck Millipore

- Moderate organic sales growth; slight increase of EBITDA pre

Additional financial guidance

- Humira settlement
2014 EBITDA pre impact ~ -€50 m
- Merck Group royalty, license and commission income in 2015 ~€130 – 150 m
- Corporate EBITDA pre: around -€200 m
- Underlying tax rate: ~23% to 25%
- Biosimilars investment 2014: ~€100 m
- Capex on PPE and software: ~€500 m
- Hedging / USD assumption: 2014 and 2015 hedge ratio around 30% at EUR/USD ~1.30 – 1.35



Merck Group Q4

€ m	Group			Merck Serono			Consumer Health			Performance Materials			Merck Millipore			Corporate/Others		
	Q4 2012	Q4 2013	% YoY	Q4 2012	Q4 2013	% YoY	Q4 2012	Q4 2013	% YoY	Q4 2012	Q4 2013	% YoY	Q4 2012	Q4 2013	% YoY	Q4 2012	Q4 2013	% YoY
Sales	2,712	2,636	-3%	1,522	1,485	-2%	121	114	-6%	416	383	-8%	653	654	0%			
% organic			4%			4%			0%			-1%			7%			
% FX			-7%			-7%			-6%			-7%			-7%			
% portfolio			0%			0%			0%			0%			0%			
EBIT	312	264	-15%	220	141	-36%	-17	11	n.m.	133	134	1%	31	51	66%	-55	-72	31%
Depreciation and amortization	359	462	29%	226	339	50%	13	2	-85%	37	21	-43%	81	95	17%	2	5	>100%
EBITDA	671	726	8%	446	480	8%	-3	13	n.m.	170	155	-9%	112	145	30%	-53	-67	27%
One-time items on EBITDA	119	69	-42%	60	20	-66%	23	1	-94%	19	11	-39%	32	22	-30%	-15	14	n.m.
EBITDA (pre-one time items)	790	795	1%	506	500	-1%	20	15	-25%	188	167	-12%	143	168	17%	-68	-54	-21%

Merck Group FY

€ m	Group			Merck Serono			Consumer Health			Performance Materials			Merck Millipore			Corporate/Others		
	FY 2012	FY 2013	% YoY	FY 2012	FY 2013	% YoY	FY 2012	FY 2013	% YoY	FY 2012	FY 2013	% YoY	FY 2012	FY 2013	% YoY	FY 2012	FY 2013	% YoY
Sales	10,741	10,700	0%	5,996	5,954	-1%	473	477	1%	1,674	1,642	-2%	2,598	2,628	1%			
% organic			4%			4%			6%			3%			5%			
% FX			-5%			-5%			-5%			-5%			-5%			
% portfolio			0%			0%			0%			0%			0%			
EBIT	964	1,611	67%	548	893	63%	8	62	>100%	610	653	7%	252	262	4%	-453	-260	-43%
Depreciation and amortization	1,397	1,458	4%	932	993	7%	22	9	-60%	125	112	-10%	309	328	6%	8	16	94%
EBITDA	2,360	3,069	30%	1,480	1,886	27%	30	71	>100%	735	766	4%	561	590	5%	-445	-244	-45%
One-time items on EBITDA	605	184	-70%	345	69	-80%	37	1	-96%	7	14	89%	54	53	-1%	162	47	-71%
EBITDA (pre-one time items)	2,965	3,253	10%	1,825	1,955	7%	67	72	8%	742	780	5%	614	643	5%	-283	-197	-30%

Net financial debt* 1,926 307 -84%

* 2012 is Dec. 31

Merck Group

P&L Group	Q4 2012	Q4 2013	% YoY
Sales	2,712	2,636	-3%
Royalty, license and commission income	123	105	-14%
Total revenues	2,835	2,742	-3%
Cost of sales	-814	-777	-4%
Gross profit	2,021	1,965	-3%
Marketing and selling expenses	-609	-582	-4%
Royalty and commission expenses	-146	-130	-11%
Administration	-132	-155	18%
Other operating income/expenses	-248	-291	17%
Research and development	-355	-345	-3%
Amortization of intangible assets	-220	-197	-10%
EBIT	312	264	-15%
Depreciation and amortization	359	462	29%
EBITDA	671	726	8%
One-time items on EBITDA	119	69	-42%
EBITDA (pre-one time items)	790	795	1%
Financial result	-61	-63	4%
Profit before tax	251	201	-20%
Income tax	25	80	>100%
Income tax rate	-10%	-40%	
Profit after tax	276	281	2%
Non-controlling interest	-4	-1	-79%
Net income	272	281	3%
Number of theoretical shares in million	217.4	217.4	
EPS in €	1.25	1.29	3%
EPS (pre one-time items) in €	2.05	2.12	4%

Merck Serono

P&L MS	Q4 2012	Q4 2013	% YoY
Sales	1,522	1,485	-2%
Royalty, license and commission income	117	101	-14%
Total revenues	1,638	1,586	-3%
Cost of sales	-317	-307	-3%
Gross profit	1,321	1,279	-3%
Marketing and selling expenses	-341	-324	-5%
Royalty and commission expenses	-142	-125	-12%
Administration	-51	-57	12%
Other operating income/expenses	-132	-224	69%
Research and development	-271	-265	-2%
Amortization of intangible assets	-165	-143	-13%
EBIT	220	141	-36%
Depreciation and amortization	226	339	50%
EBITDA	446	480	8%
One-time items on EBITDA	60	20	-66%
EBITDA (pre-one time items)	506	500	-1%

Consumer Health

P&L CH	Q4 2012	Q4 2013	% YoY
Sales	121	114	-6%
Royalty, license and commission income	1	1	-4%
Total revenues	122	115	-6%
Cost of sales	-43	-42	-2%
Gross profit	80	73	-8%
Marketing and selling expenses	-59	-54	-9%
Royalty, license and commission income	-1	-1	11%
Administration	-5	-5	6%
Other operating income/expenses	-25	3	n.m.
Research and development	-6	-5	-13%
Amortization of intangible assets	-1	-1	-23%
EBIT	-17	11	n.m.
Depreciation and amortization	13	2	-85%
EBITDA	-3	13	n.m.
One-time items on EBITDA	23	1	-94%
EBITDA (pre-one time items)	20	15	-25%

Performance Materials

P&L PM	Q4 2012	Q4 2013	% YoY
Sales	416	383	-8%
Royalty, license and commission income	0	1	37%
Total revenues	416	384	-8%
Cost of sales	-172	-151	-12%
Gross profit	244	233	-4%
Marketing and selling expenses	-36	-33	-9%
Royalty and commission expenses	0	0	n.m.
Administration	-7	-6	-16%
Other operating income/expenses	-29	-19	-34%
Research and development	-35	-36	4%
Amortization of intangible assets	-3	-4	24%
EBIT	133	134	1%
Depreciation and amortization	37	21	-43%
EBITDA	170	155	-9%
One-time items on EBITDA	19	11	-39%
EBITDA (pre-one time items)	188	167	-12%

Merck Millipore

P&L MM	Q4 2012	Q4 2013	% YoY
Sales	653	654	0%
Royalty, license and commission income	5	3	-32%
Total revenues	658	657	0%
Cost of sales	-281	-276	-2%
Gross profit	377	380	1%
Marketing and selling expenses	-174	-169	-3%
Royalty and commission expenses	-4	-4	-10%
Administration	-23	-25	6%
Other operating income/expenses	-50	-45	-11%
Research and development	-44	-38	-12%
Amortization of intangible assets	-51	-49	-4%
EBIT	31	51	66%
Depreciation and amortization	81	95	17%
EBITDA	112	145	30%
One-time items on EBITDA	32	22	-30%
EBITDA (pre-one time items)	143	168	17%