

Merck FY/Q4 2015 Financial Summary for Investors and Analysts

A strong year:

- Sigma acquisition closed – integration on track – 2015 synergies realized
- Avelumab: Six Phase III trials initiated – breakthrough designation for Merck cell
- Strong development of innovative UB-FFS technology and dynamic growth of OLED
- Launch of the new brand and opening of Innovation Center
- Organic growth across all businesses
- Healthy operating cash flow of €2.2 bn – deleveraging already started
- Delivery of targets: Net sales €12.8 bn, EBITDA pre €3.63 bn, EPS pre €4.87

Overview Financials

Q4 2015 Overview

- EBITDA pre increase driven by good organic performance, Sigma and FX
- Margin reflects Healthcare investments and corporate initiatives
- EPS pre burdened by higher financial result
- Operating cash flow healthy, prior year contains Pfizer upfront payment
- Net financial debt reflects Sigma
- Working capital increase driven by first time consolidation of Sigma and FX
- ~9,000 employees from Sigma added

FY 2015 Cash Flow Statement

- D&A increase due to AZ and Sigma
- Changes in provisions reflect last year's release due to litigation settlement
- Higher tax and interest payments drive changes in other assets/liabilities; 2014 contains Pfizer upfront payment
- Investing cash flow mainly reflects AZ (2014) and Sigma (2015)
- Financing cash flow impacted by Sigma financing and repayments of bonds; LY reflects part of AZ purchase price

YE 2015 Balance Sheet

- First time consolidation of Sigma impacts balance sheet
- Intangible assets contain* €8.6 bn goodwill, €4.7 bn customer relationships and €1 bn trademarks
- FX development accounts for ~€1 bn total equity increase
- Financial debt increase reflects bond and loans for Sigma financing

Q4 2015 Business Overview

Healthcare

- **Dynamic development of organic growth drivers**
- Net sales deviation YoY: organic +2.6%, FX -1.5%, portfolio 0%
- GM, Fertility and Consumer Health continue to drive organic growth
- Rebif shows continuous volume decline in Europe, while U.S. price increases mitigate erosion in North America
- Erbitux stronger due to Q4 pickup in tender business as well as good demand in APAC countries, EU remains competitive
- Marketing & selling reflect repatriations in Russia, Japan and China as well as ramp-up of oncology sales force, Xalkori amortization and FX
- R&D spend impacted by phasing of avelumab trials and shift of Biosimilar Phase III trials to 2016

Life Science

- **Strong year-end performance thanks to growth in all businesses**
- Net sales deviation YoY: organic +8.1%, FX +6.0%, portfolio +39.5%
- Process Solutions posts double-digit organic growth across all businesses, main contributors are single-use & virus filtration
- Moderate organic growth in Lab Solutions led by U.S. Pharma demand for biomonitoring and lab water consumables
- Bioscience sees organic growth due to sound demand for cell analysis and protein detection systems, partially offset by research content
- Lower EBIT contains integration costs & one-time effects from consolidation of Sigma
- EBITDA pre reflects first Sigma contribution, favorable product mix and pricing but also higher admin

Performance Materials

- **Solid performance amid challenging market conditions**
- Net sales deviation YoY: organic -0.8%, FX +10.4%, portfolio +1.8%
- Strong increase in sales reflects FX and Sigma's High-Tech business
- LC with slight organic decline vs. high base, as TN-TFT & typical price declines outweigh volume gains in flagship technologies
- Display industry supply chain inventories remain at high level
- Strong growth in OLED materials driven by ramp-up of market demand
- Pigments and Integrated Circuit Materials growing
- Healthy profitability; further ramp-up of OLED and increase in legal provisions and receivable allowances weigh on Q4 margin

2016 guidance

Merck Group:

- Net sales: Growth in the low double-digits from Sigma and slight organic growth from existing business
- EBITDA pre: Increase in the low double-digits
 - Supporting factors
 - Sigma-Aldrich contribution will be sizeable including cost synergies of ~€90m in the first full year
 - Rebif/Pfizer end of co-promotion agreement in December 2015 (net effect ~+€250m)
 - Organic net sales growth of all three businesses
 - Burdening factors
 - R&D costs in Healthcare to increase in 2016:
 - Immuno-Oncology: +€150-200m YoY
 - Onc/Immunology: mid to high double-digit €m
 - Cost for launch preparation (Ave, Clad) in the mid to high double-digit €m range
 - Healthcare margins impacted by product mix effects
 - Kuvan divestment leads to lower recurring EBITDA pre (net effect mid-double digit €m YoY)

Outlook by business sector (including Sigma-Aldrich):

Healthcare

- **EBITDA pre:**
 - **High single-digit to mid-teens decline due to R&D investments, negative product mix and Kuvan divestment**
- Net sales:
 - Slight organic growth
 - Continued organic Rebif decline
 - Other franchises growing

Life Science

- Net sales:
 - Moderate organic growth
 - Main driver Process Solutions
 - High-double digit contribution from Sigma
- EBITDA pre:
 - High double-digit increase
 - Contribution of Sigma and organic growth of legacy business

Performance Materials

- Net sales:
 - Slight organic growth
 - Volume increases in all businesses
- EBITDA pre:
 - Slight organic increase, at least at prior year level

Additional financial guidance

- Corporate & Other EBITDA pre ~ -€370 – -400 m
- Interest result ~ -€270 – -300 m
- Underlying tax rate ~23% to 25%
- Capex on PPE ~€750 – 800 m
- Hedging / USD assumption 2016 & 2017 hedge rate ~40-45%
at EUR/USD ~1.10 to 1.15
- 2016 Ø EUR/USD assumption ~1.07 – 1.12



Merck Group Q4

€m	Group			Healthcare			Life Science			Performance Materials			Corporate/Others		
	Q4 2014	Q4 2015	% YoY	Q4 2014	Q4 2015	% YoY	Q4 2014	Q4 2015	% YoY	Q4 2014	Q4 2015	% YoY	Q4 2014	Q4 2015	% YoY
Net sales	2,999	3,464	16%	1,717	1,737	1%	706	1,085	54%	576	642	12%			
% organic			3%			3%			8%			-1%			
% FX			3%			-1%			6%			10%			
% portfolio			10%			0%			39%			2%			
EBIT	424	298	-30%	278	213	-24%	55	34	-38%	170	193	14%	-80	-142	78%
Depreciation and amortization	380	505	33%	237	310	31%	80	126	58%	59	64	8%	5	6	16%
EBITDA	804	803	0%	515	522	1%	135	161	19%	229	257	12%	-75	-136	82%
Exceptionals in EBITDA	74	130	76%	15	1	-91%	28	111	>100%	10	6	-42%	21	12	-41%
EBITDA pre	878	933	6%	530	524	-1%	163	271	67%	239	263	10%	-54	-124	>100%
Net financial debt*	559	12,654	>100%												

* as per 31 December

Totals may not add up due to rounding

Merck Group FY

€m	Group			Healthcare			Life Science			Performance Materials			Corporate/Others		
	FY 2014	FY 2015	% YoY	FY 2014	FY 2015	% YoY	FY 2014	FY 2015	% YoY	FY 2014	FY 2015	% YoY	FY 2014	FY 2015	% YoY
Sales	11,363	12,845	13%	6,621	6,934	5%	2,682	3,355	25%	2,060	2,556	24%			
% organic			3%			2%			6%			1%			
% FX			6%			3%			8%			13%			
% portfolio			4%			0%			10%			10%			
EBIT	1,762	1,843	5%	1,106	1,097	-1%	289	301	4%	611	878	44%	-245	-432	76%
Depreciation and amortization	1,361	1,511	11%	840	874	4%	310	373	21%	192	242	26%	19	21	11%
EBITDA	3,123	3,354	7%	1,946	1,970	1%	599	674	13%	804	1,120	39%	-226	-411	82%
Exceptionals in EBITDA	265	276	4%	54	31	-42%	60	182	>100%	91	12	-87%	60	51	-15%
EBITDA pre	3,388	3,630	7%	2,000	2,002	0%	659	856	30%	895	1,132	27%	-166	-360	>100%
Net financial debt*	559	12,654	>100%												

* as per 31 December

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Merck Group

P&L Group	Q4 2014	Q4 2015	% YoY
Net sales	2,999	3,464	16%
Cost of sales	-988	-1,149	16%
thereof: intangibles amortization	-39	-43	10%
Gross profit	2,010	2,314	15%
Marketing and selling expenses	-942	-1,106	17%
thereof: intangibles amortization	-177	-222	26%
Administration	-169	-217	28%
Other operating income/expenses	-51	-298	>100%
Research and development	-424	-395	-7%
EBIT	424	298	-30%
Depreciation and amortization	380	505	33%
EBITDA	804	803	0%
Exceptionals in EBITDA	74	130	76%
EBITDA pre	878	933	6%
Financial result	-63	-134	>100%
Profit before tax	361	164	-54%
Income tax	-79	-42	-46%
Income tax rate	22%	26%	
Profit after tax discontinued operations	0	6	n.m.
Profit after tax	282	127	-55%
Non-controlling interests	-2	-2	-4%
Net income	280	126	-55%
Number of theoretical shares in million	434.8	434.8	
EPS in €	0.64	0.29	-55%
EPS pre in €	1.14	1.13	-1%

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Healthcare

P&L HC	Q4 2014	Q4 2015	% YoY
Net sales	1,717	1,737	1%
Cost of sales	-394	-334	-15%
thereof: intangibles amortization	0	0	n.m.
Gross profit	1,323	1,402	6%
Marketing and selling expenses	-657	-728	11%
thereof: intangibles amortization	-135	-143	6%
Administration	-63	-64	2%
Other operating income/expenses	6	-115	n.m.
Research and development	-331	-283	-15%
EBIT	278	213	-24%
Depreciation and amortization	237	310	31%
EBITDA	515	522	1%
Exceptionals in EBITDA	15	1	-91%
EBITDA pre	530	524	-1%

Totals may not add up due to rounding

Life Science

P&L LS	Q4 2014	Q4 2015	% YoY
Net sales	706	1,085	54%
Cost of sales	-314	-518	65%
thereof: intangibles amortization	-12	-13	12%
Gross profit	392	567	45%
Marketing and selling expenses	-235	-324	38%
thereof: intangibles amortization	-39	-73	89%
Administration	-30	-63	>100%
Other operating income/expenses	-29	-88	>100%
Research and development	-43	-59	36%
EBIT	55	34	-38%
Depreciation and amortization	80	126	58%
EBITDA	135	161	19%
Exceptionals in EBITDA	28	111	>100%
EBITDA pre	163	271	67%

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Performance Materials

P&L PM	Q4 2014	Q4 2015	% YoY
Net sales	576	642	12%
Cost of sales	-279	-297	6%
thereof: intangibles amortization	-27	-29	8%
Gross profit	296	345	16%
Marketing and selling expenses	-49	-54	10%
thereof: intangibles amortization	-4	-6	59%
Administration	-15	-15	1%
Other operating income/expenses	-13	-30	>100%
Research and development	-48	-52	7%
EBIT	170	193	14%
Depreciation and amortization	59	64	8%
EBITDA	229	257	12%
Exceptionals in EBITDA	10	6	-42%
EBITDA pre	239	263	10%

Totals may not add up due to rounding