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## News Release

August 13, 2014

### Merck Reports Organic Growth in all Four Businesses in Second Quarter

- Sales rise in the second quarter by 1.9%, AZ acquisition compensates for negative foreign exchange effects
- EBITDA pre one-time items up 2.3% to € 846 million despite lower royalty, license and commission income; EBITDA pre margin improves to 30.3%
- All businesses contribute to double-digit organic sales growth in Emerging Markets
- Net income down -4.1% due to one-time effects of AZ inventory revaluation
- Full-year forecast confirmed – despite negative foreign exchange effects and lower royalty, license and commission income

Darmstadt, Germany, August 13, 2014 – Merck, a leading company for top-quality high-tech products in the pharmaceutical and chemical sectors, generated organic sales growth of 3.4% in the second quarter of 2014. In addition, the company reported an acquisition-related sales increase of 3.0%, which was countered by negative foreign exchange effects of -4.5%. Overall, sales thus increased moderately by € 52 million or 1.9% to € 2.8 billion in the second quarter (Q2 2013: € 2.7 billion). Despite considerably lower royalty, license and commission income, EBITDA pre one-time items grew to € 846 million, equivalent to an EBITDA margin pre one-time items of 30.3% (Q2 2013: 30.1%).

“We had a solid second quarter,” said Karl-Ludwig Kley, Chairman of the Executive Board of Merck. “This was primarily due to our healthy operating business. Especially in Emerging Markets, all our divisions performed well. Merck’s stronger focus on this

## News Release

attractive region is visibly paying off. The completed acquisition of AZ is also having a positive effect on Group sales and EBITDA pre one-time items.”

**Royalty, license and commission income** fell sharply by -30.4% to € 68 million in the second quarter (Q2 2013: € 97 million). This was mainly due to the decline in royalty and license income in the Merck Serono division. **Total revenues**, in other words sales plus royalty, license and commission income, nevertheless increased by 0.8% to € 2.9 billion (Q2 2013: € 2.8 billion), reflecting the strength of the operating business.

The **operating result (EBIT)** of the Merck Group declined by € -24 million to € 441 million in the second quarter. This was largely attributable to the higher level of one-time items, especially from acquisitions, lower royalty, license and commission income, as well as negative foreign exchange effects in comparison with the year-ago period. The operating business and the efficiency improvement measures implemented within the scope of the "Fit for 2018" transformation and growth program had a positive effect.

After adjusting for depreciation, amortization and one-time items, **EBITDA pre one-time items**, the key financial indicator used to steer operating business, grew by 2.3% to € 846 million (Q2 2013: € 826 million), resulting in an **EBITDA margin pre one-time items** relative to sales of 30.3% (Q2 2013: 30.1%). Taking into account the 1:2 share split, earnings per share pre one-time items amounted to € 1.16 in the second quarter of 2014 (Q2 2013: € 1.13).

In the second quarter of 2014, **net income** was € 303 million (Q2 2013: € 316 million). Acquisition-related one-time items, lower royalty, license and commission income as well as negative foreign exchange effects were responsible for the decline. Taking into account the share split, this led to **earnings per share** of € 0.70 (Q2 2013: € 0.73).

**Business free cash flow** of the Merck Group amounted to € 632 million in the second quarter (Q2 2013: € 784 million), declining by € -152 million or -19.3%. This was caused by higher inventories and trade accounts receivable.

## News Release

Owing to the payment of the purchase price for AZ among other things, **net financial debt** increased to € 2.2 billion (December 31, 2013: € 307 million). At 52.2% (December 31, 2013: 53.2%), the equity ratio remained at a consistently high level.

### Emerging Markets are a key driver of organic growth

From a regional perspective, dynamic business in Emerging Markets contributed first and foremost to the organic sales growth of the Merck Group. Very strong growth of 11.1% was mainly driven by the Merck Serono and Merck Millipore divisions. Including negative foreign exchange effects of -8.5% and increases of 5.9% from the AZ acquisition, Merck generated sales of € 1.0 billion in the Emerging Markets region (Q2 2013: € 967 million), equivalent to an increase of 8.5%. The Emerging Market region's share of Group sales thus grew to 37% in the second quarter (Q2 2013: 35%), exceeding Europe (36%) despite stronger foreign exchange effects.

All four divisions of the Merck Group delivered organic sales growth in the second quarter. In particular, Consumer Health generated a good organic sales increase of € 15 million, equivalent to a growth rate of 8.5%. Delivering an absolute increase of € 44 million (3.0%), Merck Serono made the largest contribution to organic sales growth.

### First half of 2014 characterized by strong business in Emerging Markets

In the first six months of 2014, sales of the Merck Group increased by 0.1% to € 5.4 billion (January-June 2013: € 5.4 billion). Of this amount, 3.6% was attributable to organic growth, 1.5% to acquisitions or divestments, and -5.0% to negative exchange rate effects. All four divisions generated positive organic growth rates in the first six months of 2014. Regionally, Group sales showed the strongest organic growth in the Emerging Markets and Rest of World regions, with growth rates in the first half of 8.4% and 4.0%, respectively. Europe generated slight organic growth of 1.1%, whereas sales in North America slipped organically by -0.5%.

In the first half of 2014, the Merck Group reported EBITDA pre one-time items of € 1.65 billion (January-June 2013: € 1.63 billion). This represented a slight increase over the good half-year result reported in 2013. The EBITDA margin pre one-time items rose by

## News Release

half a percentage point to 30.6%, indicating a further improvement in Merck's high profitability vs. the first half of 2013 (January-June 2013: 30.1%). Taking into account the share split, earnings per share pre one-time items for the first half of 2014 increased by 5.9% to € 2.32 (January-June 2013: € 2.19).

### **Nearly all franchises contributed to the growth of Merck Serono**

In the second quarter, the Merck Serono biopharmaceutical division delivered organic sales growth of 3.0%, to which nearly all the business franchises contributed. Owing to negative exchange rate effects amounting to -4.4%, the division's sales declined slightly by -1.4% to € 1.4 billion (Q2 2013: € 1.5 billion). From a regional perspective, Merck Serono performed particularly well in the Emerging Markets, where organic sales grew by 16.7%.

**Rebif**, which is used to treat relapsing forms of multiple sclerosis, posted an organic sales decline of -2.8% in the second quarter due to the increasingly difficult competitive situation. Including negative exchange rate effects of -4.2%, Rebif sales decreased by a total of -7.0% to € 464 million (Q2 2013: € 499 million). This decline was mainly the result of the competitive situation in North America and Europe.

Sales of the oncology drug **Erbix** showed very strong organic growth of 11.3% in the second quarter. Including a foreign exchange impact of -4.9%, sales increased 6.5% to € 229 million (Q2: 2013: € 215 million). The portfolio for the treatment of thyroid disorders, as well as Gonaf, the leading recombinant hormone used in the treatment of infertility, performed particularly well in the second quarter of 2014.

**Royalty, license and commission income** of Merck Serono fell sharply by -30.8% to € 64 million (Q2 2013: € 93 million) in the second quarter. EBITDA pre one-time items was € 452 million, corresponding to a decline of -4.8%. The EBITDA margin pre one-time items was thus 31.3% (Q2 2013: 32.4%).

“At Merck Serono, we want to further expand our business with existing medicines this year. To this end, we are focusing on Emerging Markets with a high number of

## News Release

underserved patients. The past quarters have already confirmed the success of this approach,” said Kley.

### **Consumer Health delivers strong increases thanks to successful focus on strategic brands**

In the second quarter, the Consumer Health division, which manufactures and markets over-the-counter pharmaceuticals, generated strong organic sales growth of 8.5%, which was the highest percentage increase of all four divisions. Including adverse exchange rate effects of -5.2%, sales increased by 3.3% to € 185 million (Q2 2013: € 179 million). Organic sales growth was mainly driven by the profitable strategic brands Neurobion, Floratil and Femibion as well as by local brands in Germany. In particular, Consumer Health achieved very strong organic growth of 14.2% in the Emerging Markets region. As in the first quarter of 2014, weaker demand for Bion and Nasivin was compensated for by strong sales volumes of the vitamin supplement Femibion and local brands in Germany and France. Adjusted for one-time effects from restructuring measures, EBITDA pre one-time items rose by 16.7% to € 41 million. The EBITDA pre margin increased by 2.6 percentage points to 22.4% (Q2 2013: 19.8%).

“The realignment of Consumer Health is reflected by the increase in profitability,” said Kley. “Focusing on strategic brands and key markets has put us on the right path, which we will continue to resolutely pursue.”

### **Performance Materials benefits AZ acquisition**

Sales by the Performance Materials division, which comprises Merck's entire specialty chemicals business, rose in the second quarter by 17.3% to € 506 million (Q2 2013: € 431 million). This positive development was mainly driven by the acquisition of AZ Electronic Materials, which led to a divisional sales increase of 20.5% or € 89 million. Organic growth of 1.8% was achieved thanks to the contributions by the existing Liquid Crystals, Pigments & Cosmetics and Advanced Technologies business units. However, this was canceled out by negative foreign exchange effects of -5.1%.

## News Release

The results of operations were also significantly influenced by the consolidation as of May 2, 2014 of **AZ Electronic Materials**, which is being managed as an independent business unit during the integration phase. The decline in the operating result (EBIT) as well as EBITDA of Performance Materials by -19.2% to € 138 million and by -13.2% to € 178 million, respectively, was due among other things to the revaluation of the AZ inventories, which increased cost of sales. EBITDA pre one-time items increased by 8.3% to € 226 million. The EBITDA margin pre one-time items decreased to 44.8% (Q2 2013: 48.5%).

“The acquisition of AZ Electronic Materials already had a positive effect on EBITDA pre one-time items of both the division and the Merck Group in the second quarter. Priority is now on the rapid integration of AZ, the major aspects of which we want to complete by year-end,” said Kley. “We are glad to have gained the new colleagues from AZ, who will help us to offer customers even more comprehensive solutions.”

### **Merck Millipore increases earnings with Process Solutions driving growth**

Despite a challenging market environment characterized by increasing competitive pressure, the Merck Millipore life science tools business generated solid organic sales growth of 4.0% in the second quarter of 2014. However, this was canceled out by negative foreign exchange effects of -4.2%. All business areas contributed to organic growth. The **Process Solutions** business area, which markets products and services for the pharmaceutical production value chain, among other things, generated organic sales growth of 8.3%, which was the highest rate within the Merck Millipore division. This increase was driven by higher demand from the pharmaceutical industry for products used in biopharmaceutical manufacturing, particularly filtration systems and single-use solutions. With its broad range of products for researchers and scientific laboratories, **Lab Solutions** recorded slight organic sales growth of 0.4%. The **Bioscience** business area, which primarily markets products and services for pharmaceutical and academic research laboratories, recorded a moderate organic sales increase of 2.0%. Across-the-board health care spending cuts in the United States continued to soften demand. However, this was compensated for also by higher demand from diagnostic laboratories for cell analysis products.

## News Release

In the second quarter, EBITDA pre one-time items of Merck Millipore climbed 6.3% to € 166 million amid unfavorable exchange rate developments. Consequently, the EBITDA margin pre one-time items rose by 1.8 percentage points to 25.2% in the second quarter (Q2 2013: 23.4%). This increase was especially due to the good price and volume development and ongoing cost control.

“For Merck Millipore as well, 2014 will be a year of growth initiatives. Here we will be leveraging our market share gains in North America, further growth in Asia and Latin America, and using new products to generate additional sales,” said Kley.

### Full-year forecast confirmed

Owing to business performance in the first half of 2014, Merck confirms its forecast for the full year. Merck continues to expect for 2014 slight organic sales growth, which will be canceled out by the aforementioned negative foreign exchange effects. Due to the successful acquisition of AZ Electronic Materials, Merck assumes that sales will increase to around € 10.9 – 11.1 billion (2013: € 10.7 billion).

With respect to EBITDA pre one-time items, organic growth and the planned efficiency increases should be able to offset the effects of the decline in royalty, license and commission income as well as the negative impact of foreign currency. Merck expects EBITDA pre one-time items to grow moderately as a result of the acquisition of AZ Electronic Materials.

Based on the number of shares following the share split, which was approved by the Annual General Meeting on May 9, 2014 and implemented on June 30, 2014, the forecast for earnings per share pre one-time items is € 4.50 – € 4.75. Business free cash flow is forecast to decrease slightly in 2014 due to investments in growth projects, as well as against the background of the high level of repayments of overdue trade accounts receivable of southern European hospitals in the previous year.

For the **Merck Serono** division, slight organic sales growth over the previous year is assumed. It can be expected that the well-balanced product portfolio as well as organic

## News Release

growth in the Emerging Markets region will offset the declines in sales of Rebif resulting from the competitive situation in the United States and Europe. EBITDA pre one-time items of Merck Serono should decrease slightly in 2014 as forecast, particularly as a result of the expected decline in royalty, license and commission income, which will have a net effect of approximately € -100 million versus 2013. For the **Consumer Health** division, Merck forecasts moderate organic sales growth in 2014. Merck expects that all regions and especially the core strategic brands will contribute to sales growth. EBITDA pre one-time items should likewise increase moderately in 2014 as a result of positive sales developments. Merck assumes that the **Performance Materials** division will achieve slight organic sales growth in 2014. Overall, the acquisition of AZ Electronic Materials will lead to a substantial increase in the sales of the Performance Materials division despite negative foreign exchange effects. EBITDA pre one-time items of the division should therefore also increase considerably in 2014. The integration costs resulting from the acquisition of AZ Electronic Materials are estimated to amount to around € 50 million, approximately € 10 million of which will be incurred in 2014. For **Merck Millipore**, moderate organic sales growth is expected in 2014, which will however be partly offset by foreign exchange effects. Based on forecast sales growth, EBITDA pre one-time items should increase slightly in 2014.

### Forecast for FY 2014

€ million	Sales	EBITDA pre one-time items	Business free cash flow
<b>Merck Group including AZ</b>	<b>approx. 10,900 – 11,100</b>	<b>approx. 3,300 – 3,400</b>	<b>approx. 2,700 – 2,800</b>
Merck Serono	slight organic growth	approx. 1,750 – 1,830	approx. 1,500 – 1,600
Consumer Health	moderate organic growth	approx. 170 – 180	approx. 150 – 170
Performance Materials incl. AZ	slight organic growth	approx. 850 – 880	approx. 720 – 770
Merck Millipore	moderate organic growth	approx. 640 – 670	approx. 460 – 490
Corporate and Other		approx. -160 – -190	approx. -200 – -230

Earnings per share pre one-time items ~ € 4.50 – € 4.75 (based on the number of shares following the share split, which was approved by the Annual General Meeting on May 9, 2014).



## News Release

### Overview of key figures for the Merck Group

			Change	Jan.-June	Jan.-June	Change
€ million	Q2 2014	Q2 2013	in %	2014	2013	in %
Total revenues	2,863.1	2,841.1	0.8	5,527.9	5,601.6	-1.3
Sales	2,795.5	2,743.9	1.9	5,409.4	5,404.3	0.1
Operating result (EBIT)	441.0	465.4	-5.2	909.3	864.8	5.1
Margin (% of sales)	15.8	17.0		16.8	16.0	
EBITDA	767.0	793.1	-3.3	1,537.2	1,546.9	-0.6
Margin (% of sales)	27.4	28.9		28.4	28.6	
EBITDA pre one-time items	845.7	826.4	2.3	1,652.7	1,627.5	1.6
Margin (% of sales)	30.3	30.1		30.6	30.1	
Earnings per share (€) <sup>1</sup>	0.70	0.73	-4.1	1.45	1.34	8.2
Earnings per share pre one-time items (€) <sup>1</sup>	1.16	1.13	2.7	2.32	2.19	5.9
Business free cash flow	632.2	783.8	-19.3	1,316.3	1,376.7	-4.4
Net income	303.3	316.0	-4.0	628.5	582.0	8.0
€ million	June 30, 2014	Dec. 31, 2013				
Net financial debt	2,220	307				

<sup>1</sup>Taking into account the share split; previous year's figures have been adjusted accordingly.

#### Note to editors:

- Interactive online version of the [Half-year Financial Report](#) of 2014
- More information incl. digital press kit can be found [here](#)
- Merck on [Facebook](#), [Twitter](#), [Linkedin](#)
- Merck **photos and video footage** can be found [here](#)
- **Merck stock symbols**  
*Reuters: MRCG, Bloomberg: MRK GY, Dow Jones: MRK.DE*  
*Frankfurt Stock Exchange: ISIN: DE 000 659 9905 – WKN: 659 990*



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Merck is a leading company for innovative and top-quality high-tech products in the pharmaceutical and chemical sectors. With its four divisions Merck Serono, Consumer Health, Performance Materials and Merck Millipore, Merck generated total revenues of € 11.1 billion in 2013. Around 39,000 Merck employees work in 66 countries to improve the quality of life for patients, to further the success of customers and to help meet global challenges. Merck is the world's oldest pharmaceutical and chemical company – since 1668, the company has stood for innovation, business success and responsible entrepreneurship. Holding an approximately 70 percent interest, the founding family remains the majority owner of the company to this day. Merck, Darmstadt, Germany is holding the global rights to the Merck name and brand. The only exceptions are Canada and the United States, where the company is known as EMD.