

Merck Q3 2012 Earnings Presentation

Good numbers while transforming the company

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Darmstadt, November 15, 2012



Disclaimer

Remarks

All comparative figures relate to the corresponding last year's period.

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Agenda

- 1. Q3 Operational Update**

2. Q3 Financial Update

3. Guidance

Solid underlying performance

Key Business Highlights

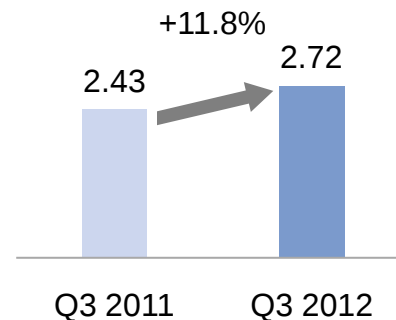
- Good numbers while transforming the company
- Strong performance driven by Merck Serono and Performance Materials
- Emerging Markets surpasses Europe as Merck's largest geographic region (absolute sales)
- Continued progress being made on Fit for 2018 program

Key Financial Highlights

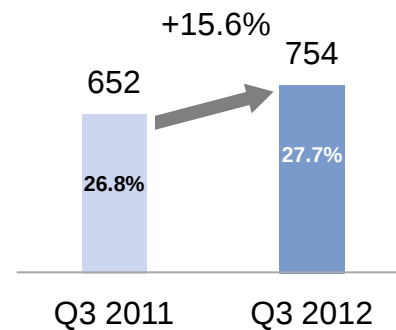
- Strongest quarter in 2012 with 6% organic sales growth, supported by a 6% FX benefit
- EBITDA pre of €754 m is highest in the past two years
- Net financial debt down to €2.1 bn as a result of record free cash flow

Q3 2012 Financials

Sales [€ bn]

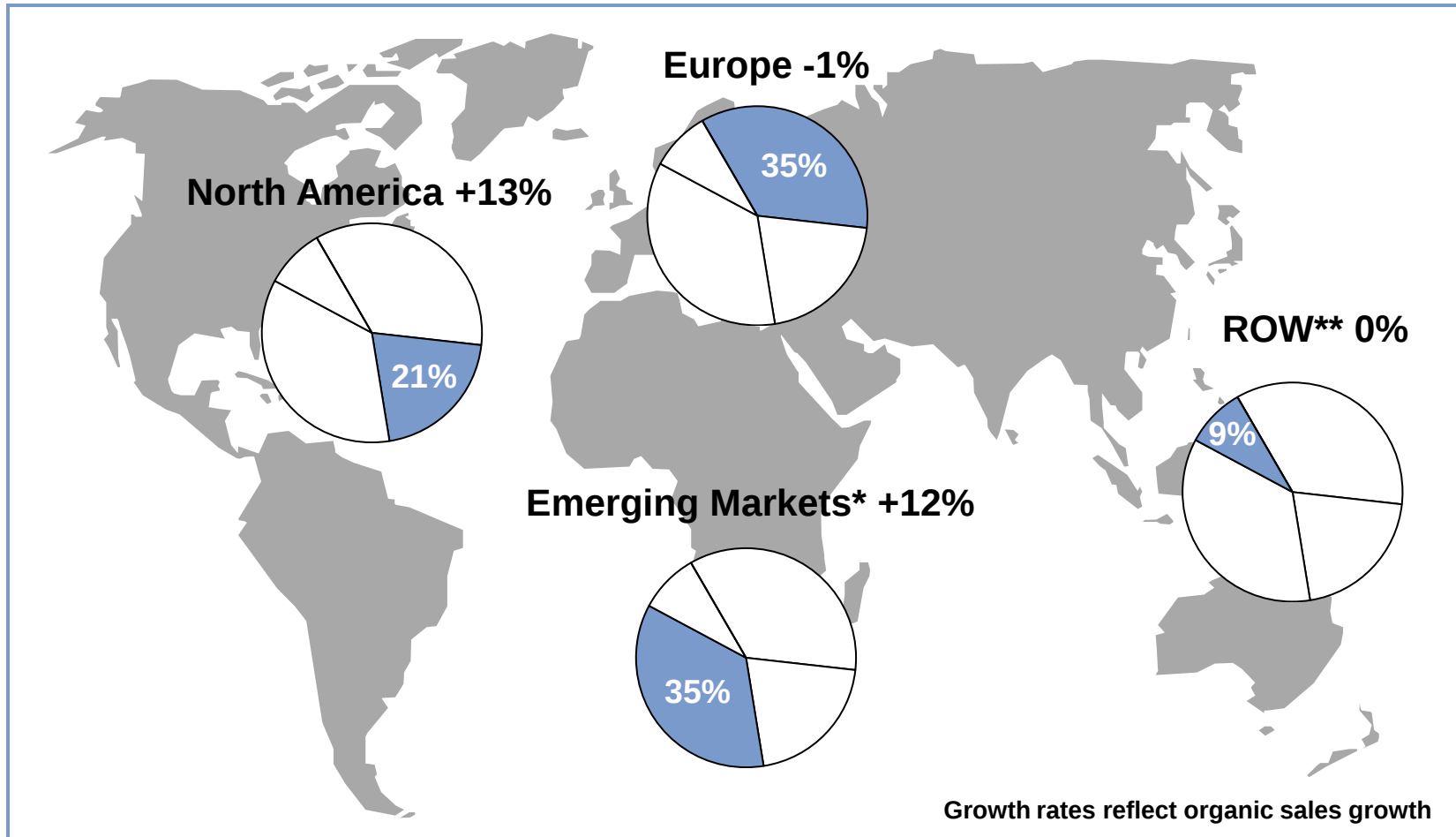


EBITDA pre* [€ m]



* EBITDA pre one-time items, margin shown as a % of sales

Q3: North America strong, Emerging Markets now surpasses Europe in absolute sales



* Emerging Markets = Latin America + Asia (w/o Japan)

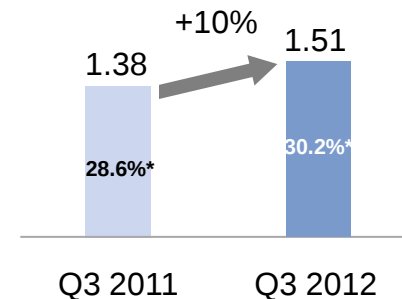
** ROW = Japan, Oceania, Australia, Africa

Divisional overview - Pharmaceuticals

Merck Serono

- Solid organic sales growth of 5% reflects strong underlying volumes and price increases
- Rebif sales grow 10% organically for second straight quarter, Fertility & Endocrinology remain strong
- Significant improvement in profit margins is the result of more effective resource allocation and first savings from cost efficiency program

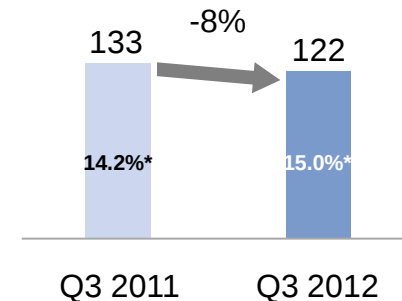
Sales [€ bn]



Consumer Health

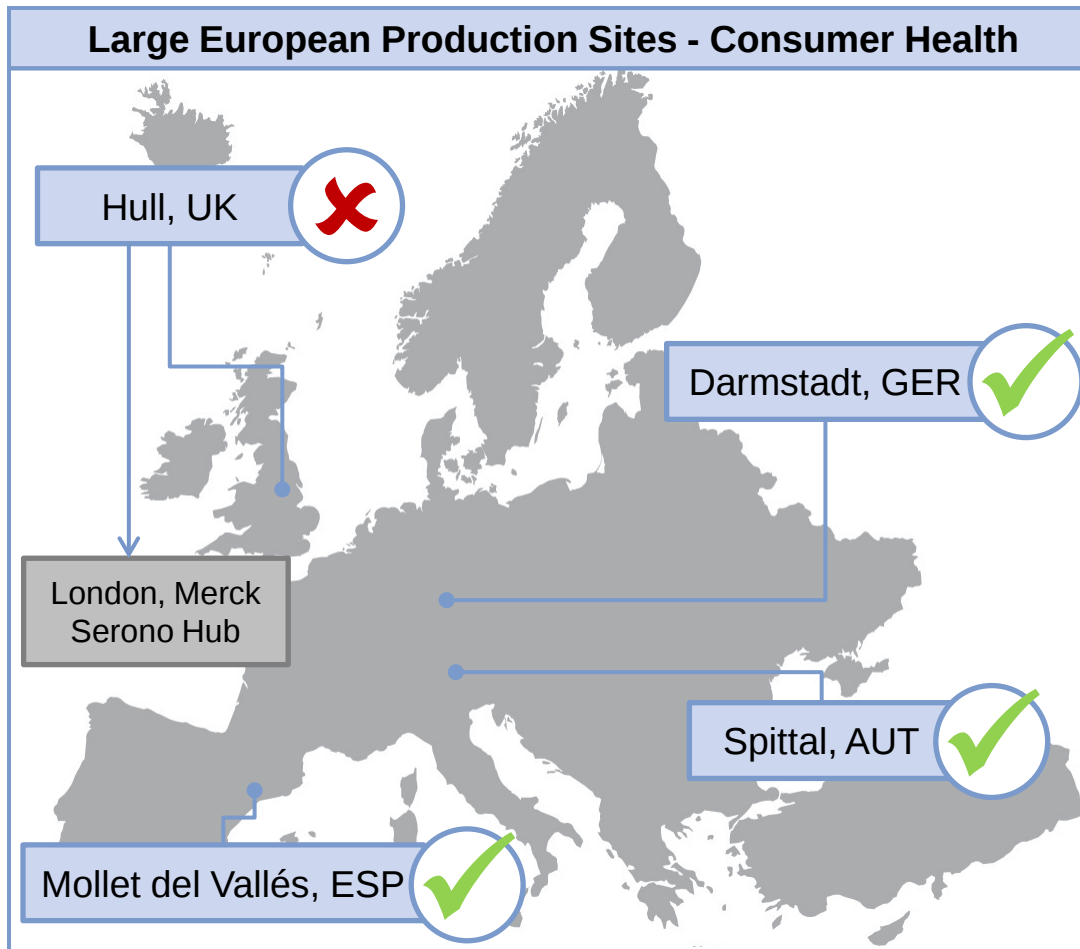
- Weak top-line performance due to change of business model and soft European markets
- EBITDA pre margin increases to 15% as the division more successfully manages its business
- Division implements further initiatives as part of its efficiency program

Sales [€ m]



* EBITDA pre one-time items, margin shown as a % of sales

Seven Seas restructuring: proposal to close Hull, UK production plant



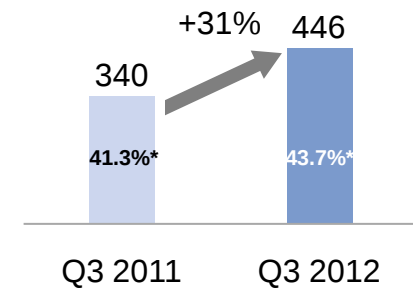
Summary
▪ <u>Proposal:</u> Outsource all manufacturing and packing of Seven Seas products, while reducing the overall product portfolio ▪ <u>Rationale:</u> Underutilization of the plant, no state-of-the-art production processes ▪ <u>Target:</u> Improve the production set up and profitability of the Consumer Health business

Divisional overview – Chemicals & Life Science

Performance Materials

- Organic sales growth of 20% led by record sales of Liquid Crystals (partly pre-ordering)
- Strong growth in China driven by expanding domestic LCD market
- PS-VA and IPS are strongest performing products
- EBITDA pre margin improves despite pricing pressure and weakness in pigments

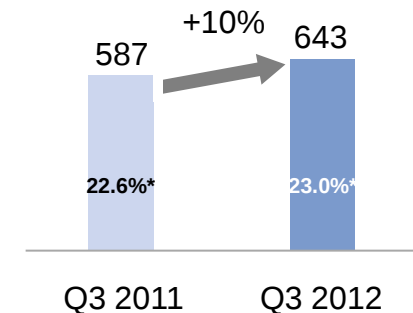
Sales [€ m]



Merck Millipore

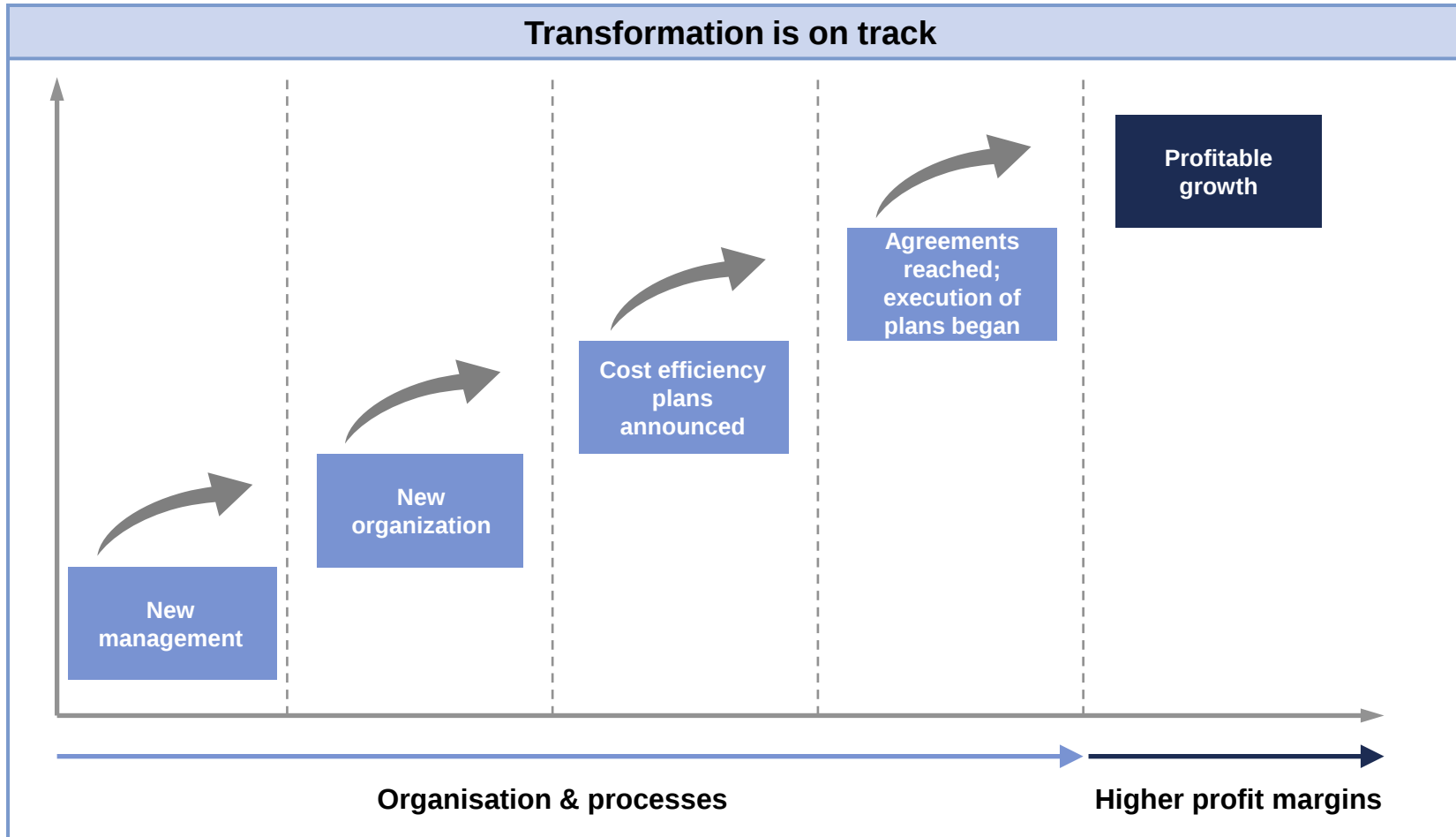
- Solid organic sales growth of 3% driven by Process Solutions and Lab Solutions
 - Global biotech customers drive demand
- High R&D investments and bolt-on acquisition to expand capabilities in cell culture media
- EBITDA pre margin higher despite investments

Sales [€ m]



* EBITDA pre one-time items, margin shown as a % of sales

Transformation is on track



Agenda

1. Q3 Operational Update
- 2. Q3 Financial Update**
3. Guidance

Q3 2012: Execution drives solid numbers

[€ m]	Q3 2012	Q3 2011	Δ
Sales	2,722	2,434	12%
EBITDA pre <i>Margin (% of sales)</i>	754 27.7%	652 26.8%	16%
EPS pre [€]	1.98	1.62	22%
Operating cash flow	908	640	42%

[€ m]	Sep 2012	Dec 2011	Δ
Net financial debt	2,127	3,484	-39%
Working capital	2,518	2,919	-14%
Employees	39,545	40,676	-3%

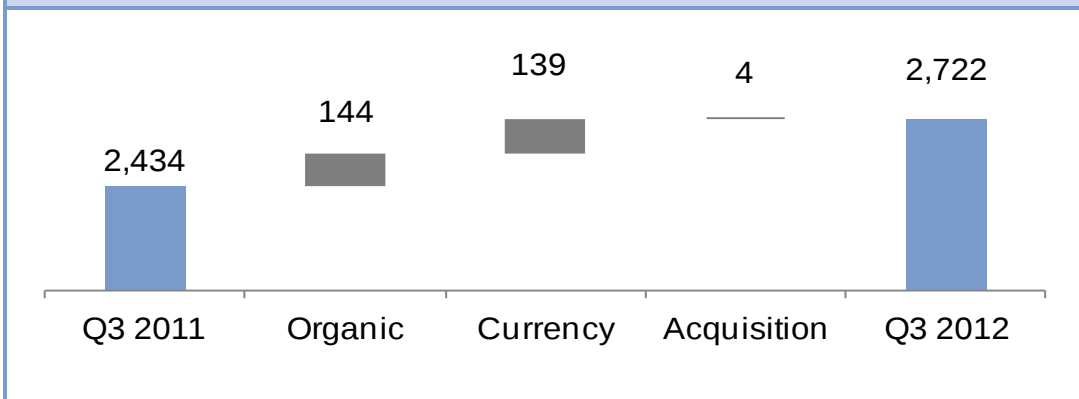
Comments

- 12% sales growth reflects 6% organic growth and 6% FX benefit
- EBITDA pre increase driven by strong top-line and cost control
- Improvements in working capital management drives higher free cash flow

Strong organic growth further supported by FX contribution

Q3 yoy sales	Organic	Currency	Acq.	Total
Merck Serono	5%	5%	0%	10%
Consumer Health	-10%	3%	0%	-8%
Perf. Materials	20%	11%	0%	31%
Merck Millipore	3%	6%	1%	10%
MERCK GROUP	6%	6%	0%	12%

Q3 sales bridge [€ m]



Q3 drivers

- 12% higher sales due to 6% organic and 6% FX contribution
- Exceptional performance from Performance Materials, mainly Liquid Crystals
- Merck Serono & Merck Millipore post solid numbers consistent with trends seen earlier in the year

Sales supported by underlying volume growth and FX (mainly US\$)

Healthy top-line and cost efficiency measures drive margin expansion

[€ m]	Q3 2012	Q3 2011	Δ
Total Revenues	1,623	1,469	10%
Sales	1,511	1,375	10%
Royalty and Comm. Income	112	94	20%
Gross Profit	1,335	1,226	9%
<i>Margin (% of sales)</i>	<i>88.4%</i>	<i>89.2%</i>	
Marketing & Selling	-339	-343	-1%
Royalty and Comm. Exp.	-157	-128	22%
Administration	-67	-64	5%
Other Expenses / Income	-178	-52	>100%
R&D	-287	-297	-3%
Amortization	-165	-164	1%
EBIT	143	178	-20%
Depreciation & Amortization	230	215	7%
One-time items	83	0	n.m.
EBITDA pre	456	393	16%
<i>Margin (% of sales)</i>	<i>30.2%</i>	<i>28.6%</i>	

Comments
▪ Sales growth of 10% reflects 5% organic growth, mainly driven by Rebif, Glucophage, Gonal-f ▪ Royalty income growth notably due to Humira and FX ▪ Gross margin impacted by higher production costs and start-up costs (LSB) ▪ Tight cost control on marketing & selling expenses ▪ Other operating expenses include €83 m one-time costs primarily relating to Fit for 2018 program

Significant savings mitigate top-line decrease

[€ m]	Q3 2012	Q3 2011	Δ
Total Revenues	123	133	-7%
Sales	122	133	-8%
Royalty and Comm. Income	1	0	>100%
Gross Profit	82	91	-9%
<i>Margin (% of sales)</i>	<i>67.4%</i>	<i>68.5%</i>	
Marketing & Selling	-53	-57	-7%
Royalty and Comm. Exp.	0	-1	-83%
Administration	-6	-6	5%
Other Expenses / Income	-11	-3	>100%
R&D	-5	-6	-22%
Amortization	-1	-1	2%
EBIT	7	17	-56%
Depreciation & Amortization	3	2	53%
One-time items	8	0	>100%
EBITDA pre	18	19	-2%
<i>Margin (% of sales)</i>	<i>15.0%</i>	<i>14.2%</i>	

Comments
▪ Sales decrease 10% organically, 3% benefit from FX ▪ Sales decrease affected by weaker performance in Europe, particularly in France/Germany ▪ Division in process of changing its business model as communicated in Q2 2012 ▪ Marketing & selling down due to lower sales promotion spending ▪ EBITDA pre margin expands despite top-line shortfall, reflecting good execution of cost savings initiatives

Quarter driven by exceptional Liquid Crystals performance

[€ m]	Q3 2012	Q3 2011	Δ
Total Revenues	447	342	31%
Sales	446	340	31%
Royalty and Comm. Income	1	2	-59%
Gross Profit	257	196	31%
<i>Margin (% of sales)</i>	<i>57.7%</i>	<i>57.6%</i>	
Marketing & Selling	-38	-33	15%
Royalty and Comm. Exp.	-1	-1	72%
Administration	-9	-8	14%
Other Expenses / Income	-12	-5	>100%
R&D	-35	-34	3%
Amortization	0	0	-21%
EBIT	161	115	40%
Depreciation & Amortization	31	25	22%
One-time items	3	0	>100%
EBITDA pre	195	140	39%
<i>Margin (% of sales)</i>	<i>43.7%</i>	<i>41.3%</i>	

Comments
▪ 20% organic sales growth, 11% FX benefit ▪ Demand from LCD panel manufacturers healthy as industry prepares for holidays ▪ China emerging as important country for Liquid Crystals and expanding market opportunity ▪ Pigments & Cosmetics grows organically due to weak comparable Q3 2011 ▪ EBITDA pre margin expands despite pricing pressure and lower profitability in pigments

Profitable growth supported by FX and ongoing investments in R&D

[€ m]	Q3 2012	Q3 2011	Δ
Total Revenues	648	588	10%
Sales	643	587	10%
Royalty and Comm. Income	6	2	>100%
Gross Profit	379	341	11%
<i>Margin (% of sales)</i>	<i>59.0%</i>	<i>58.1%</i>	
Marketing & Selling	-166	-150	11%
Royalty and Comm. Exp.	-4	-4	1%
Administration	-29	-26	9%
Other Expenses / Income	-22	-24	-8%
R&D	-43	-33	28%
Amortization	-52	-47	9%
EBIT	64	55	15%
Depreciation & Amortization	76	71	8%
One-time items	7	6	26%
EBITDA pre	148	132	12%
<i>Margin (% of sales)</i>	<i>23.0%</i>	<i>22.6%</i>	

Comments
▪ All business units, especially Process Solutions, contribute to 3% organic sales growth, 6% FX, 1% acquisition effect ▪ Strong performance in Asia, moderate development in US, soft in Southern Europe ▪ Gross margin up due to price/volume increase, and improved operational efficiency ▪ Increased SG&A expense due to negative FX impact ▪ EBITDA pre reflects improved gross profit

De-leveraging continues

[€ m]	Sep 30 2012	Dec 31 2011	Δ
Total Assets	22,273	22,122	1%
Equity	10,566	10,494	1%
Cash & other liquid funds	2,928	2,055	42%
Intangible Assets	11,178	11,764	-5%
Financial Debt	5,055	5,539	-9%
Pension Provisions	1,280	1,140	12%
Net Financial Debt	2,127	3,484	-39%

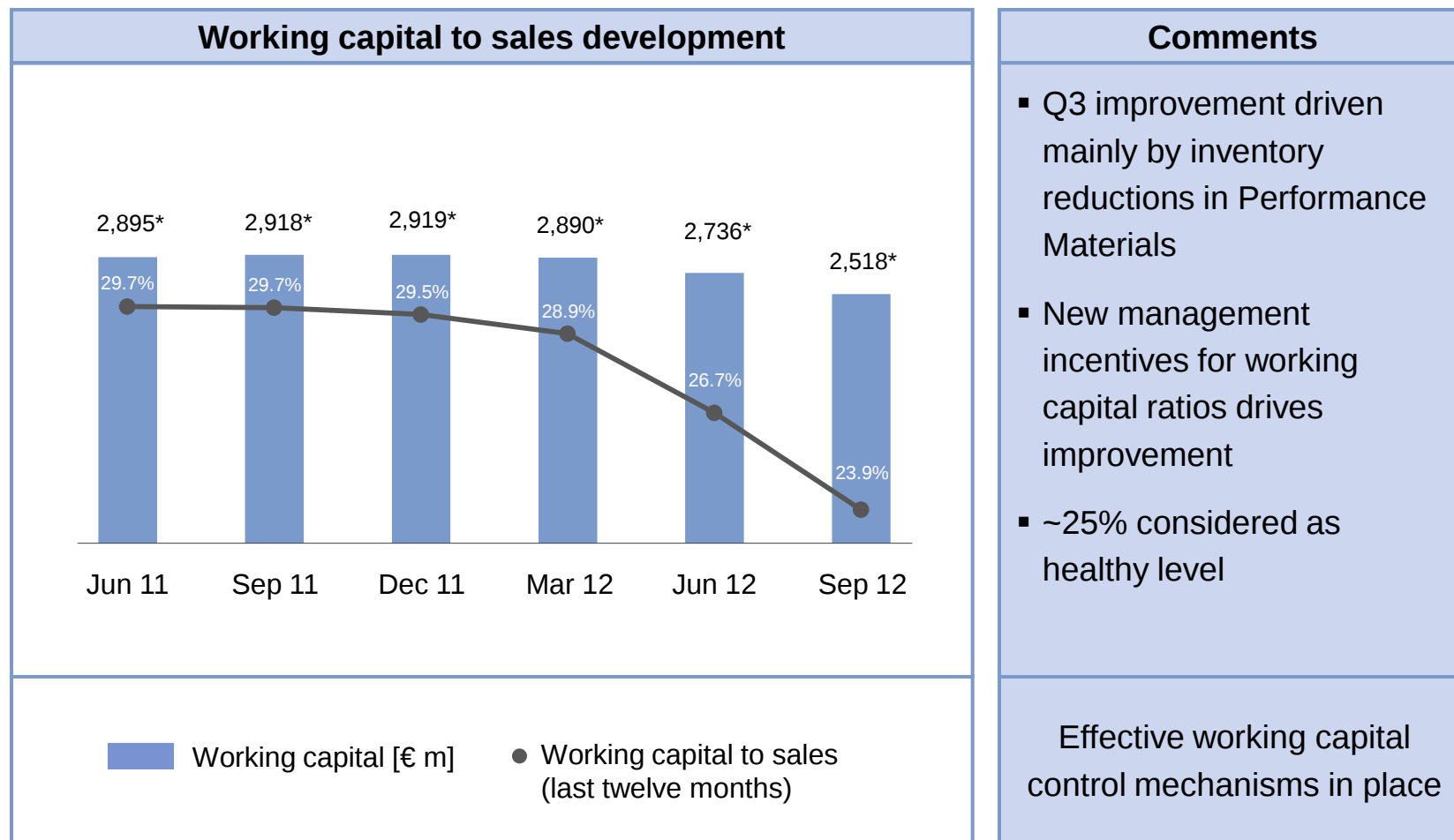
Comments
▪ Strong operating business leads to increased cash & other liquid funds ▪ Financial debt down due to bond repayment of €500 m in March 2012 ▪ Ongoing debt de-leveraging

Free cash flow driven by substantial reduction of inventories and receivables

[€ m]	Q3 2012	Q3 2011	Δ
Profit after tax	189	227	-38
Depreciation & Amortization	343	314	29
Changes in working capital	203	-21	224
Changes in provisions	121	18	103
Changes in other assets / liab.	54	89	-34
Other operating activities	-1	14	-15
Operating cash flow	908	640	269
Capital expenditures	-64	-85	21
Others	-29	-73	44
Free cash flow	815	482	333

Comments
▪ Working capital management further improved ▪ Provisions increase mainly due to higher restructuring, bad debt and legal provisions (mainly Lundbeck case) ▪ Lower capex reflects more stringent capital hurdles as pre-requisite for investment

We are effectively balancing profitability increase with improvements in working capital



* Total working capital

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Guidance FY 2012

2012 Divisional EBITDA pre Guidance [€ m]

Merck Serono	1,750 – 1,800
Consumer Health	~ 60
Performance Materials	~ 700
Merck Millipore	590 – 600
Corporate	-200

Merck Group Guidance [€ bn]

Total revenues	10.9-11.0
EBITDA pre	2.90 – 2.95
(including €55 m efficiency savings)	

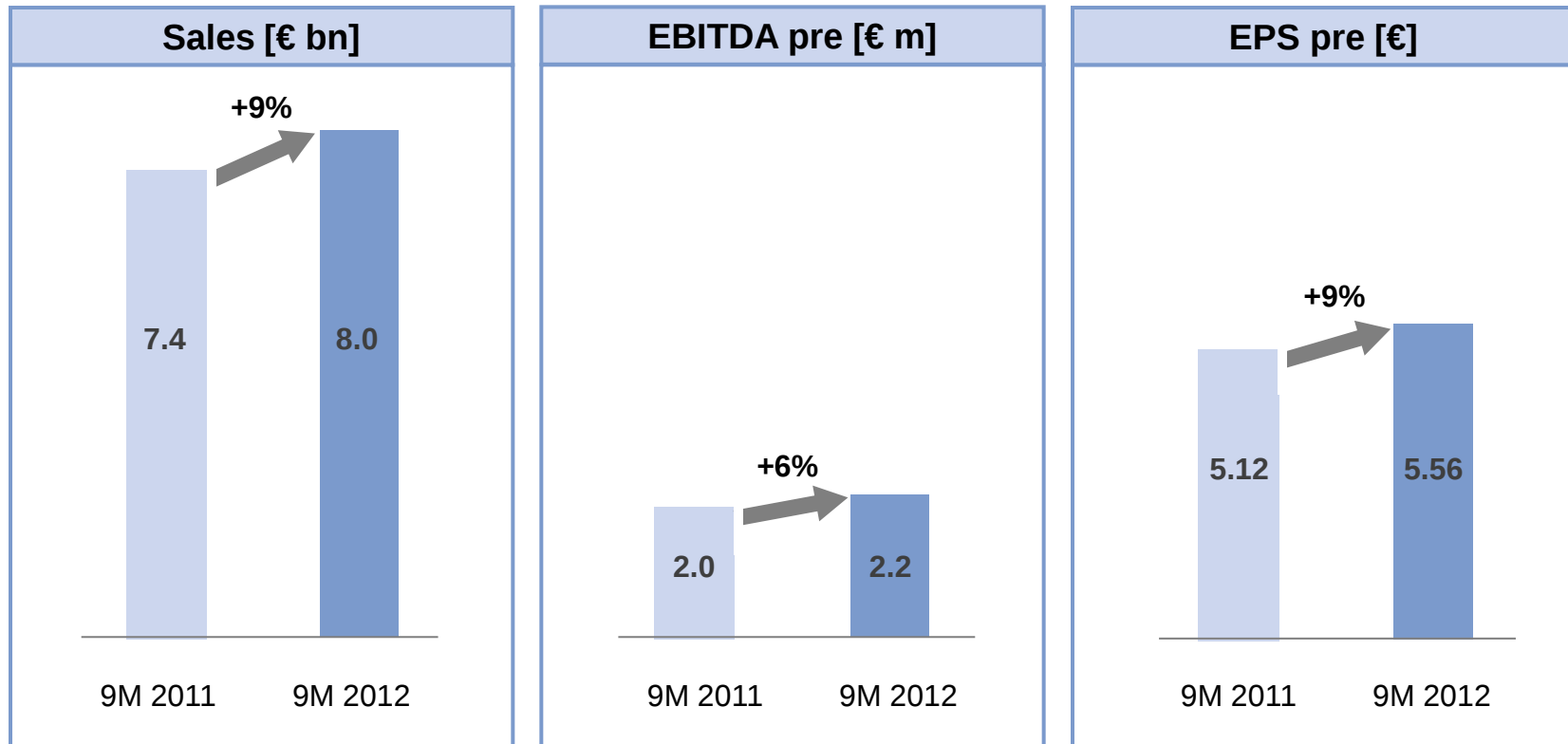
Assumptions:

- Current economic environment unchanged
- Reported numbers will still be burdened by one-time costs, while the majority of costs have been taken in Q2
- Underlying tax rate around 25-26%
- Q4 2012: US\$/€ = 1.29; CHF/€ = 1.20

Q3 2012

APPENDIX

Merck positioned to report solid numbers in challenging economy and a year of change



Solid top-line and profitability improvement in first year of transformation

Solid sales performance driven by organic growth and substantial FX benefit

[€ m]	9M 2012	9M 2011	Δ
Total Revenues	8,338	7,651	9%
Sales	8,029	7,381	9%
Royalty income	309	269	15%
Gross Profit	5,994	5,573	8%
Margin (% of sales)	74.7%	75.5%	
Marketing & Selling	-1,802	-1,778	1%
Royalty and Comm. Exp.	-433	-364	19%
Administration	-421	-397	6%
Other Expenses / Income	-878	-302	>100%
R&D	-1,157	-1,117	4%
Amortization	-652	-780	-16%
EBIT	652	836	-22%
Depreciation & Amortization	1,037	1,254	-17%
One-time items	486	-48	n.m.
EBITDA pre	2,175	2,043	6%
Margin (% of sales)	27.1%	27.7%	

Comments
- Sales increased 4% organically mainly due to Merck Serono, and a 4% benefit from changes in foreign exchange rates - Royalty and commission expenses driven by Rebif US - Sharp increase in other expenses reflects the initiation of the Fit for 2018 program in 2012

Lower discretionary spending and interest expense help to drive EPS pre growth

[€ m]	9M 2012	9M 2011	Δ	Comments
EBIT	652	836	-22%	- EBIT 9M 2012 contains €486 m one-time items mainly due to €409 m relating to Fit for 2018 program and higher litigation provisions - Financial result benefits from lower interest payments from debt repayment - Reported tax rate up due to impact from one-time items, adjusted tax rate of 25.5% remains at midpoint of guidance
Financial Result	-194	-219	-11%	
Profit before Taxes	458	617	-26%	
Income Tax	-155	-136	14%	
Tax Rate (%)	33.8	22.0		
Net Income pre	1,208	1,114	8%	
EPS pre (€)	5.56	5.12	9%	

Despite lower profit, Merck delivers strong free cash flow through working capital management

[€ m]	9M 2012	9M 2011	Δ
Profit after tax	303	482	-179
Depreciation & Amortization	1,037	1,254	-216
Changes in working capital	425	-237	661
Changes in provisions	551	23	528
Changes in other assets / liab.	-217	-122	-95
Other operating activities	-26	-183	157
Net cash flow operating	2,074	1,217	857
Capital expenditures	-181	-246	65
Others	-33	409	-442
Free cash flow	1,860	1,380	480

Comments
▪ Working capital improvement coming from inventory and receivables reduction ▪ Increased provisions due to restructuring program and litigation ▪ 2012 YTD free cash flow grows 35% despite difficult comparison ▪ Free cash flow 9M 2011 benefitted from €471 m divestment gains from Théramex and Crop BioScience

Restructuring costs and net savings targets

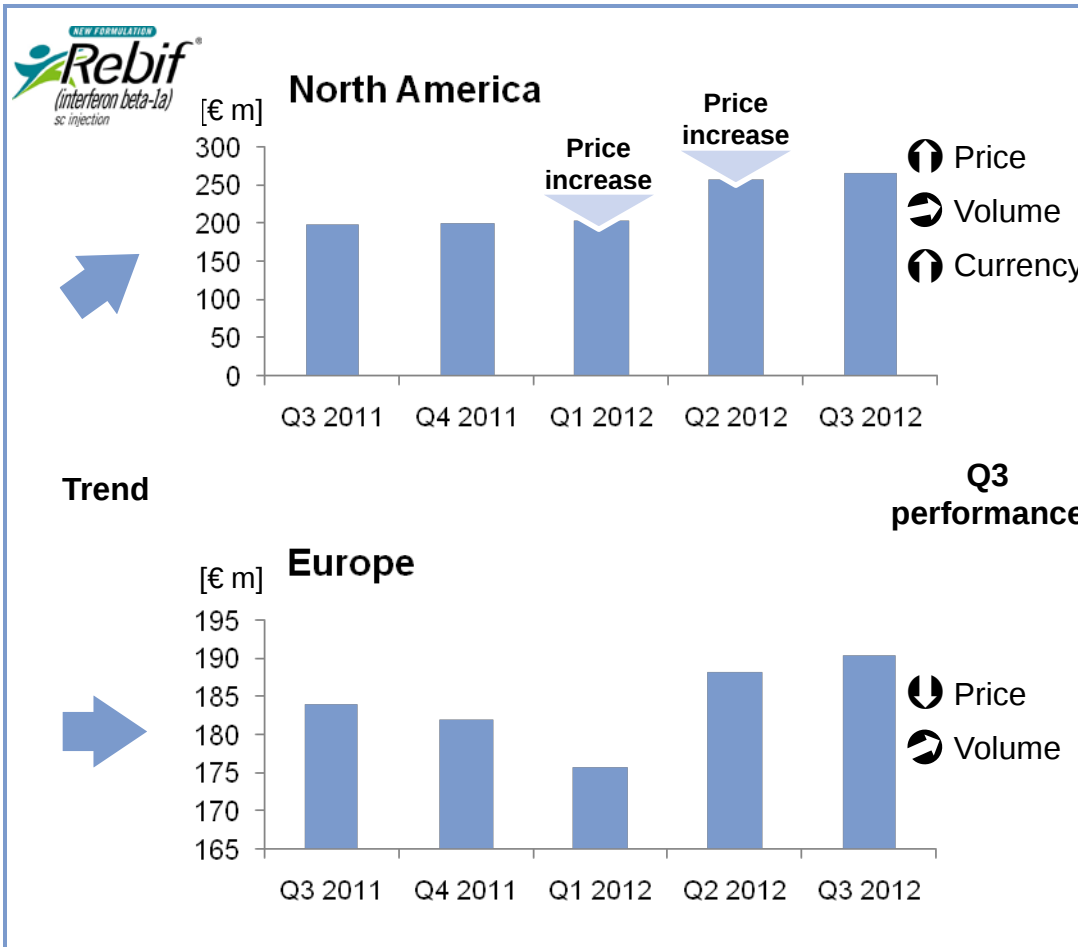
Year	2012E		2013E		2014E	
[€m]	Net Cost Savings	Related charges	Net Cost Savings	Related charges	Net Cost Savings	Related charges
Merck Serono	50	400	200	150	300	50
Consumer Health	5	30	15	10	25	-
Total	55	430	215	160	325	50

Solid YTD results driven by good business performance and tight cost controls

[€ m]	9M 2012	9M 2011	Δ
Total Revenues	4,767	4,376	9%
Sales	4,474	4,115	9%
Royalty income	293	261	12%
Gross Profit	3,891	3,636	7%
<i>Margin (% of sales)</i>	<i>87.0%</i>	<i>88.4%</i>	
Marketing & Selling	-1,030	-1,061	-3%
Royalty and Comm. Exp.	-420	-347	21%
Administration	-191	-190	1%
Other Expenses / Income	-541	-317	71%
R&D	-916	-903	1%
Amortization	-494	-626	-21%
EBIT	298	192	55%
Depreciation & Amortization	706	942	-25%
One-time items	284	26	>100%
EBITDA pre	1,289	1,161	11%
<i>Margin (% of sales)</i>	<i>28.8%</i>	<i>28.2%</i>	

Comments
▪ Sales grow 9%, organic sales growth of 5%; and a 3% benefit from changes in foreign exchange rates ▪ Main organic sales drivers are North America (Rebif), and Emerging Markets (notably Glucophage, Gonal-f, Concor) ▪ Gross profit impacted by higher production costs and start-up costs (LSB) ▪ Other operating result includes €280 m restructuring costs

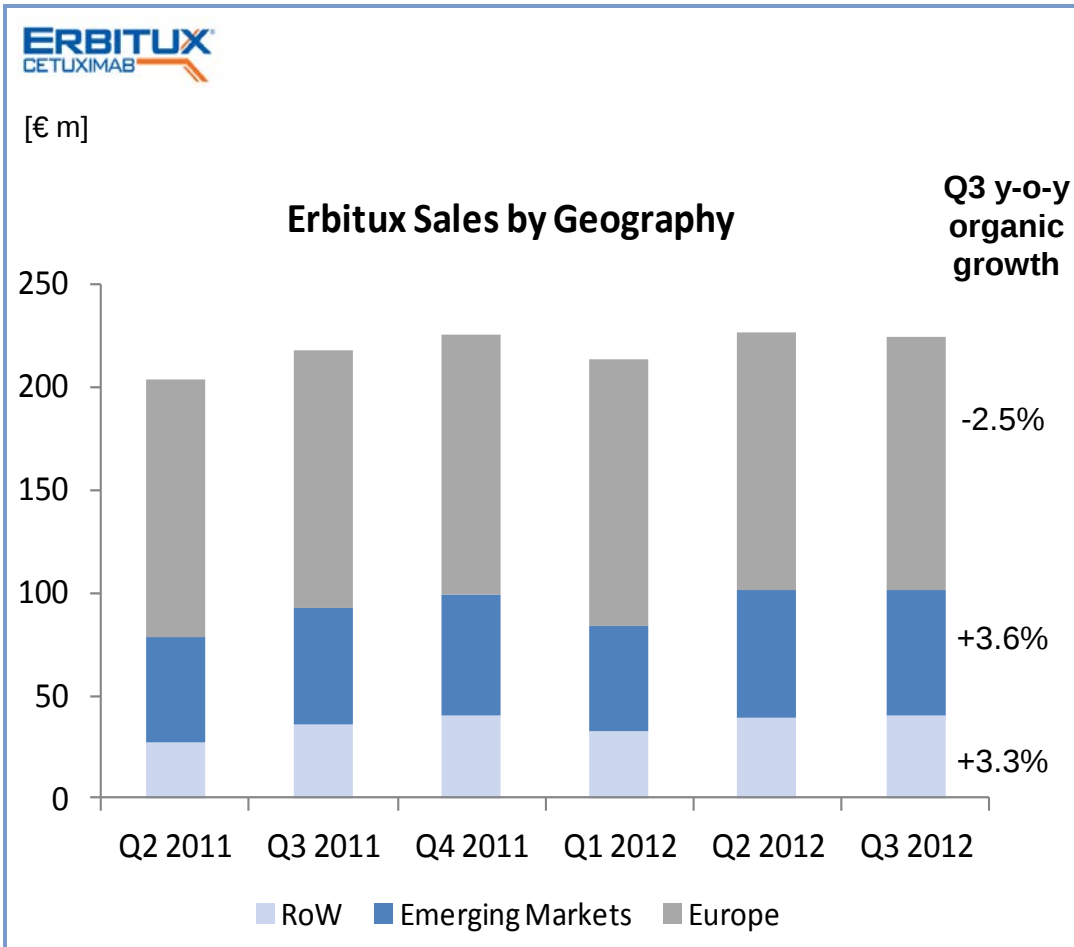
US price increases remain major growth driver



Comments

- ~ €500 m global sales in Q3 2012
- Small volume growth in North America (organic growth 20.1%) and Europe (organic growth 2.1%)
- Performance in North America benefitting from two price increases passed earlier in 2012
- Growth 2012E: ~5% organic sales growth

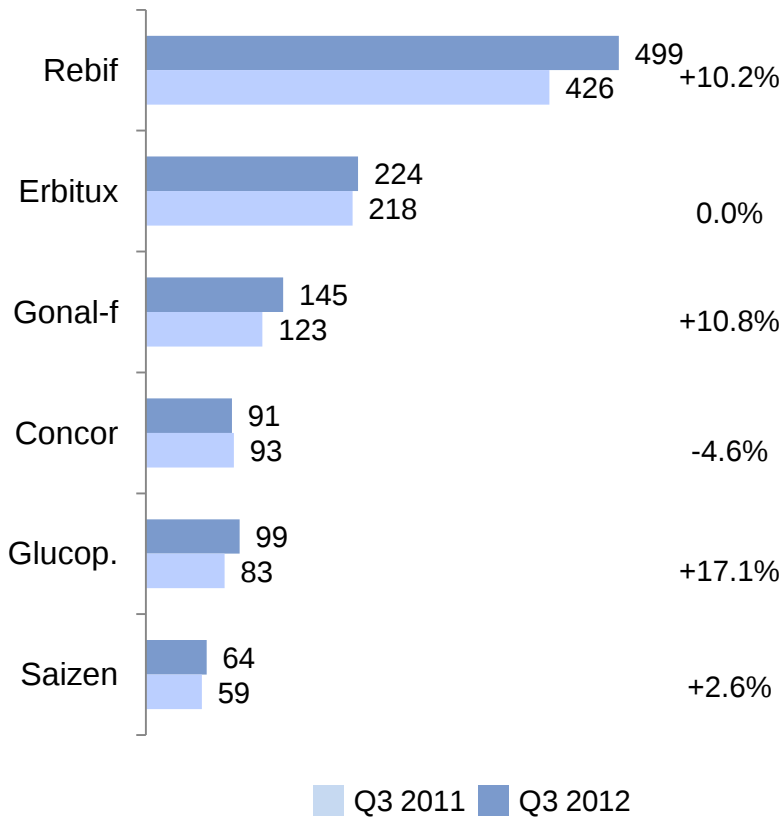
Emerging Markets and Australia drive growth, ongoing weakness in Europe



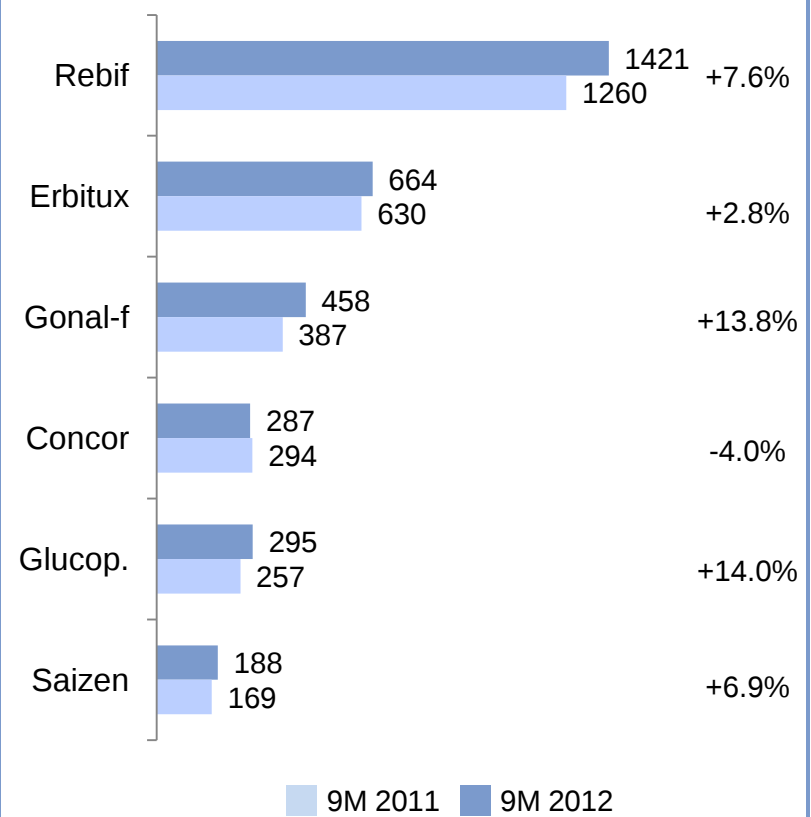
Comments
▪ €224 m global sales in Q3 2012 ▪ Organic sales growth in Emerging Markets ▪ Europe softer due to increasing competition and pricing pressure ▪ Growth 2012E: 1-4% organic growth ▪ Voluntary withdrawal of NSCLC filing in Europe

Rebif drives growth

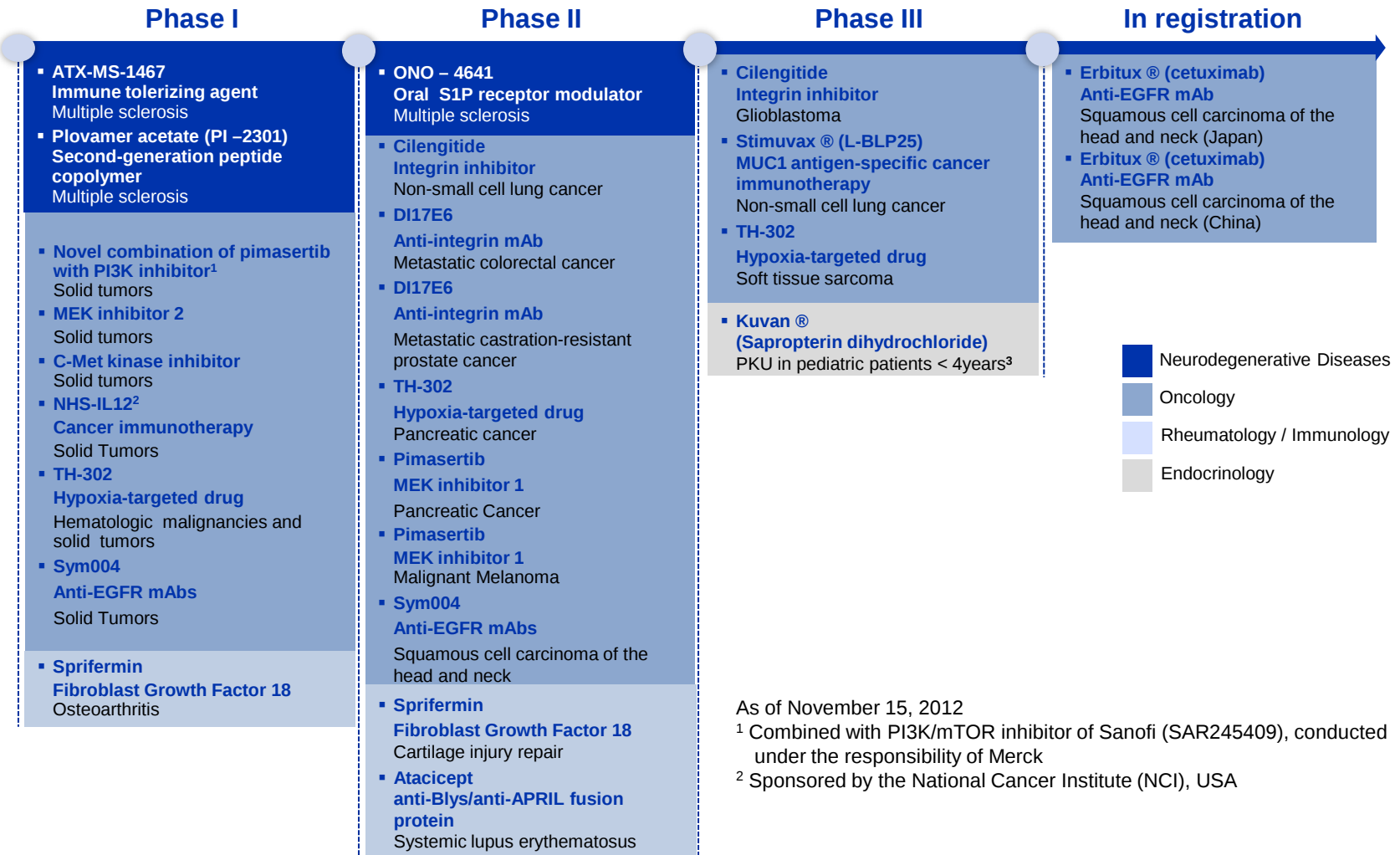
Organic sales growth by key products [€ m]



Organic sales growth by key products [€ m]



Merck Serono Pipeline



Expected timelines of current pipeline projects

Project	Indication	Trial	Datapoint	Timeline
Oncology				
Stimuvax	NSCLC	START	PIII final	Q1 2013
Cilgengitide	Glioblastoma	CENTRIC	PIII final	H1 2013
Neurology				
ONO-4641	Multiple Sclerosis		PIII decision	2013
Rheumatology				
Atacicept	SLE	APRIL	PII final	H2 2012

Consumer Health

Profitability increase despite weak top-line - driven by strong cost containment

[€ m]	9M 2012	9M 2011	Δ
Total Revenues	353	368	-4%
Sales	351	366	-4%
Royalty income	2	1	22%
Gross Profit	237	253	-6%
<i>Margin (% of sales)</i>	<i>67.5%</i>	<i>69.0%</i>	
Marketing & Selling	-159	-174	-9%
Royalty and Comm. Exp.	0	-2	-80%
Administration	-17	-17	0%
Other Expenses / Income	-21	-5	>100%
R&D	-14	-16	-15%
Amortization	-3	-3	9%
EBIT	22	34	-36%
Depreciation & Amortization	9	8	10%
One-time items	14	0	>100%
EBITDA pre	45	42	6%
<i>Margin (% of sales)</i>	<i>12.7%</i>	<i>11.6%</i>	

Comments
- Organic sales decline 6%, FX benefit of 2% - Sales decline primarily due to weak performance in Europe - Other operating result includes €14 m restructuring costs - EBITDA pre margin improvement due primarily to lower sales promotion costs

Sum of items may not foot due to rounding

Favorable FX and strong performance of Liquid Crystals drive top-line performance

[€ m]	9M 2012	9M 2011	Δ
Total Revenues	1,260	1,124	12%
Sales	1,259	1,122	12%
Royalty income	1	2	-60%
Gross Profit	715	660	8%
Margin (% of sales)	56.8%	58.8%	
Marketing & Selling	-106	-99	7%
Royalty and Comm. Exp.	-2	-3	-47%
Administration	-27	-25	9%
Other Expenses / Income	-9	128	n.m.
R&D	-102	-100	3%
Amortization	-1	-11	-89%
EBIT	468	550	-15%
Depreciation & Amortization	88	87	2%
One-time items	-11	-119	-91%
EBITDA pre	545	518	5%
Margin (% of sales)	43.3%	46.2%	

Comments
4% organic sales growth driven by Liquid Crystals, FX benefit of 8% - Gross profit impacted by lower prices and increased production costs due to volume growth - M&S rise below sales growth - Other operating result 9M 2011 benefits from €157 m gain of Crop BioScience divestment

Solid organic sales performance delivers profitable growth

[€ m]	9M 2012	9M 2011	Δ
Total Revenues	1,959	1,783	10%
Sales	1,945	1,778	9%
Royalty income	14	5	>100%
Gross Profit	1,154	1,028	12%
<i>Margin (% of sales)</i>	<i>59.3%</i>	<i>57.8%</i>	
Marketing & Selling	-502	-443	13%
Royalty and Comm. Exp.	-11	-11	5%
Administration	-87	-79	10%
Other Expenses / Income	-71	-80	-11%
R&D	-122	-97	25%
Amortization	-153	-141	9%
EBIT	207	178	16%
Depreciation & Amortization	228	214	7%
One-time items	22	28	-21%
EBITDA pre	457	419	9%
<i>Margin (% of sales)</i>	<i>23.5%</i>	<i>23.6%</i>	

Comments
▪ Sales grow 9%; organic sales growth of 3%, acquisition benefit of 2%, and a 5% favorable benefit from changes in foreign exchange rates ▪ All business units contribute to organic sales growth, lead by Process Solutions ▪ Gross margin increase of 150 basis points supported by FX changes and improved operational efficiency ▪ EBITDA pre grows, but down as a % of sales due primarily to R&D investments

2012 Q3 Reconciliation to adjusted results

[€ m]	Q3 2012	Q3 2011
EBIT	318	332
Depreciation & Amortization	343	314
Regular depreciation & amortization	115	102
Amortization of purchased intangible assets	217	212
Impairments	11	0
EBITDA	661	646
One-time items	93	6
M&A costs	0	0
Restructuring costs	43	0
Integration/IT related costs	7	6
Costs from discontinuing businesses	43	0
Other one-time costs	0	0
EBITDA pre	754	652
Regular depreciation & amortization	-115	-102
Financial result	-58	-72
Profit before tax pre	581	478
EPS pre [in€]	1.98	1.62

Sum of items may not foot due to rounding

2012 YTD Reconciliation to adjusted results

[€ m]	9M 2012	9M 2011
EBIT	652	836
Depreciation & Amortization	1,037	1,254
Regular depreciation & amortization	348	318
Amortization of purchased intangible assets	647	618
Impairments	42	319
EBITDA	1,689	2,091
One-time items	486	-48
M&A costs	0	0
Restructuring costs	409	0
Integration/IT related costs	23	27
Costs from discontinuing businesses	54	-147
Other one-time costs	0	72
EBITDA pre	2,175	2,043
Regular depreciation & amortization	-348	-318
Financial result	-194	-219
Profit before tax pre	1,633	1,506
EPS pre [in€]	5.56	5.12

Sum of items may not foot due to rounding

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