Merck Reports Strong Top-Line Growth in Q3

14.11.2014 - Merck delivered strong sales growth of 9.3%, reporting sales of € 2.9 billion in the third quarter of 2014 (Q3 2013: € 2.7 billion). Apart from organic sales growth of 4.6%, sales increased by 5.1% as a result of the acquisition of AZ Electronic Materials (AZ). A weaker euro led to slightly negative foreign exchange effects of -0.5%. EBITDA pre one-time items increased by 3.1% to € 857 million (Q3 2013: € 831 million). Owing to the good business performance in the first nine months and the very good organic sales growth in the third quarter, Merck is assuming slight organic sales growth for the full year 2014. With respect to EBITDA pre one-time items in 2014, Merck continues to expect a a range of € 3.3 billion to € 3.4 billion.

“Merck is gearing up for a strong finish in 2014. All our businesses are performing well and contributed to across-the-board organic growth in the third quarter,” said Karl-Ludwig Kley, Chairman of the Executive Board of Merck. “We are particularly satisfied with the strong organic growth in Emerging Markets, a region that is becoming increasingly important to us. The acquisition of AZ is also paying off – both in terms of sales as well as EBITDA pre one-time items. We are on track with the integration.”

Total revenues of the Merck Group increased in comparison with the year-earlier quarter by 6.7% or € 185 million to € 2.9 billion (Q3 2013: € 2.8 billion) despite the steep decline in royalty, license and commission income. This decrease as well as consolidation effects from the acquisition of AZ and higher depreciation compared to the previous year led to a decline in the operating result (EBIT) in the third quarter by -11.0% to € 429 million (Q3 2013: € 482 million). Net income was € 249 million in the third quarter of 2014 (Q3 2013: € 340 million) and was mainly impacted by higher income taxes.

The key financial indicator used to steer operating business, EBITDA pre one-time items, climbed 3.1% to € 857 million (Q3 2013: € 831 million). The EBITDA margin pre one-time items decreased to 29.5% (Q3 2013: 31.2%) primarily as a result of lower royalty, license and commission income. Taking into account the share split, earnings per share pre one-time items (earnings per share adjusted by net tax effect of one-time items and amortization of purchased intangible assets) remained constant at € 1.15 in the third quarter of 2014 (Q3 2013: € 1.15).

Net financial debt was significantly reduced to € 1.5 billion as of September 30, 2014 (Dec. 31, 2013: € 307 million) after having increased to € 2.2 billion as of June 30, 2014 as a result of the payment of the purchase price for AZ.

First nine months of 2014: Emerging Markets drive growth

In the first nine months of 2014, Group sales increased by 3.1% to € 8.3 billion (Jan.-Sept. 2013: € 8.1 billion). Of this amount, 3.9% was attributable to organic growth and 2.7% to the net amount from ac-
quisitions and divestments. Exchange rate changes were responsible for a -3.5% decline in sales in the first nine months of 2014. All the divisions posted organic growth in the nine-month period. Geographically, Group sales saw the strongest organic growth in the Emerging Markets and Rest of World regions, where the increases were 8.6% and 4.9% respectively. In Europe and North America, sales increased organically by 1.2% and 0.2% respectively.

EBITDA pre one-time items for the first nine months of 2014 amounted to € 2.5 billion, which was slightly higher than in the year-earlier period. At 30.2%, the EBITDA margin pre one-time items nearly reached the year-earlier level (Jan.-Sept. 2013: 30.5%) despite the sharp decline in royalty, license and commission income. Earnings per share pre one-time items for the first nine months of 2014 rose by 3.9% to € 3.46 (Jan.-Sept. 2013: € 3.33).

**Merck Serono posts renewed organic sales growth in the third quarter**

The biopharmaceutical division Merck Serono delivered organic sales growth of 4.5% in the third quarter. Owing to a slightly negative foreign exchange impact of -0.8%, sales by Merck Serono increased overall by 3.7% to € 1.5 billion (Q3 2013: € 1.4 billion). Organic sales growth was mainly driven by the broad portfolio of the General Medicine franchise, the oncology drug Erbitux and pharmaceutical products for the treatment of infertility. Particularly in the Emerging Markets region sales grew sharply by 14.0%.

Sales of **Rebif**, which is used to treat relapsing forms of multiple sclerosis, increased organically by 1.7% in the third quarter of 2014 despite increasing competitive pressure from oral formulations. Including adverse exchange rate effects of -0.4%, Rebif sales rose by a total of 1.3% to € 466 million (Q3 2013: € 460 million).

**Erbitux** for the treatment of colorectal cancer generated organic sales growth of 6.5%, fueled primarily by the Emerging Markets region. Taking negative currency effects of -2.5% into account, sales rose by a total of 4.0% to € 232 million (Q3 2013: € 223 million).

In the third quarter of 2014, Merck Serono generated organic sales growth of 7.5% with **Gonal-f**, a hormone used in the treatment of infertility. Including slightly adverse foreign exchange effects, sales increased by 7.0% to € 147 million (Q3 2013: € 137 million), with the Emerging Markets region posting the highest absolute growth.

Royalty, license and commission income, which besides sales is also reported under total revenues, dropped substantially in the third quarter of 2014 by -69.1% to € 26 million (Q3 2013: € 85 million). This was due primarily to the loss of royalty and license income from Humira and Enbrel. In addition, research and development expenses increased by 38.6% to € 410 million mainly as a result of one-time effects from the discontinuation of clinical development programs for tecemotide and plovamer acetate. By contrast, the decline in a provision for litigation had a positive effect on other operating income of Merck Serono. EBITDA pre one-time items
declined by -4.0% to € 449 million. The EBITDA margin pre one-time items fell to 30.6% (Q3 2013: 33.1%).

“Business with our existing medicines, not least Rebif, was very robust in the third quarter,” said Kley. “The organic growth of our fertility drug Gonal-f, with which we have achieved global market leadership, was particularly strong.”

**Consumer Health: Focus on strategic brands drives the OTC business**

In its business with over-the-counter (OTC) pharmaceuticals, the Consumer Health division increased its sales once again in comparison with a strong year-earlier quarter by 1.5% to € 204 million (Q3 2013: € 201 million). Foreign exchange effects largely had no impact. Organic sales growth of 1.4% was achieved primarily with the strategic brands Neurobion, Femibion and Seven Seas as well as with local brands in Germany. Higher marketing and selling expenses were mainly due to intensified marketing measures to strengthen strategic brands. EBITDA pre one-time items of Consumer Health was € 49 million (Q3 2013: € 58 million), thus exceeding the earnings level of the first two quarters of 2014. The EBITDA margin pre one-time items was 23.8% in the third quarter of 2014 (Q3 2013: 28.9%).

“Following a strong year-earlier quarter, our business with consumer health products grew organically once again. This is a clear sign that our focus on strategic brands has put us on the right path,” Kley said.

**Performance Materials: Rapid AZ integration and Liquid Crystals business lead to jump in sales**

The division’s sales increased by 41.7% to € 576 million in the third quarter of 2014 (Q3 2013: € 406 million). Apart from good organic growth of 7.0%, the acquisition-related sales increase of 35.0% or € 142 million from AZ contributed especially to this rise. Foreign exchange effects of -0.2% had only a slight impact on sales in the third quarter of 2014. Organic sales growth was mainly driven by good volumes in the Liquid Crystals business. The two leading technologies (PS-VA and IPS) saw particularly strong sales growth thanks to the continuing demand for display materials used in high-quality, large-format televisions. In addition, the sales volume development of the new UB-FFS technology (Ultra-Brightness Fringe Field Switching), the liquid crystal technology for the next generation of smartphones and tablet PC displays, had a positive effect. Energy-saving UB-FFS technology permits light transmittance that is up to 15% higher. The Pigments & Cosmetics business unit posted a slight decrease in organic sales.

The decline in the operating result (EBIT) as well as EBITDA to € 152 million and € 218 million, respectively, was due among other things to the revaluation of the AZ inventories, which increased cost of sales. EBITDA pre one-time items rose by 23.4% to € 243 million in the third quarter of 2014. The EBITDA margin pre one-time items decreased to 42.2% (Q3 2013: 48.4%).
“Performance Materials delivered good growth in terms of both sales and EBITDA pre one-time items thanks to the robust organic growth in the Liquid Crystals business, which is coming from established and innovative products, and the integration of AZ, which is on track,” Kley said.

**Merck Millipore: Demand from the biotech sector leads to gains in the life science business**

The Merck life science business again posted solid organic sales growth of 4.5%, which was mainly driven by the good performance of Process Solutions. The organic increase was offset by a decline in sales due to the divestment of the Discovery and Development Solutions business field as of March 31, 2014. Including these effects, Merck Millipore's sales increased overall by 3.4% to € 661 million (Q3 2013: € 639 million). The **Process Solutions** business area, which primarily markets products used in pharmaceutical production, generated very strong organic sales growth of 10.5%. This was mainly driven by increasing demand from the biopharmaceutical manufacturing industry for purification and sterilization solutions. With its broad range of products for researchers and scientific laboratories, **Lab Solutions** recorded stable sales of € 268 million (Q3 2013: € 269 million). Higher sales of Lab Water products were offset by lower sales of laboratory chemicals. The **Bioscience** business area, which mainly markets products and services for pharmaceutical and academic research laboratories, also recorded stable sales of € 97 million (Q3 2013: € 97 million).

EBITDA pre one-time items of Merck Millipore increased by 2.1% to € 161 million in the third quarter of 2014. The EBITDA margin pre one-time items remained stable at 24.3% (Q3 2013: 24.6%).

“We are well-positioned in the life science business, as both sales and earnings growth show, with stable margins,” said Karl-Ludwig Kley. “With the planned acquisition of Sigma-Aldrich, we will create a leading player in the global life science market.”

**Merck raises sales guidance for the full year**

Owing to the good business performance in the first nine months and the very good organic sales growth in the third quarter, Merck is raising its sales forecast for the full year 2014 and expects to achieve slight organic sales growth compared to the previous year. Due to the successful acquisition of AZ Electronic Materials and the related portfolio effect, Merck assumes overall that sales will increase to approximately € 11.0 to € 11.2 billion; as of June 30, Merck had previously forecast sales of € 10.9 to € 11.1 billion.

Based on business performance in the first three quarters of 2014, Merck reiterates its forecast for EBITDA pre one-time items for the full year 2014. The planned efficiency increases should be able to offset the effects of the loss of royalty, license and commission income as well as the negative impact of foreign currency. Merck therefore expects EBITDA pre one-time items to grow moderately in comparison with the previous year as a result of the acquisition of AZ.