

May 29, 2018

The National Stock Exchange of India Ltd  
Exchange Plaza, Bandra Kurla Complex  
Mumbai 400051  
Code: MERCK

Bombay Stock Exchange Limited  
1<sup>st</sup> floor, Rotunda Building, Dalal Street  
Fort, Mumbai 400001  
Code: 500126

Dear Sir/Madam,

### Additional Information in relation to the Postal Ballot Notice dated April 27, 2018

#### 1. Background

- 1.1. On 5 September 2017, the Company announced that Merck KGaA (**MERCK**), its ultimate holding company, was preparing for strategic options for its global consumer health (**CH**) business, including a potential sale of such business. On 19 April 2018, the Company announced that MERCK had agreed to sell its majority stake (held by Emedia Export Company MBH, Merck Internationale Beteiligungen GmbH and Chemitra GmbH, together the **Sellers**) in the Company to Procter & Gamble Overseas India B.V. (**P&G**). On the same day, P&G (as the acquirer, together with The Procter & Gamble Company, as a person acting in concert) made a public announcement under the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 for an open offer to the public shareholders of the Company to acquire up to 26% of the fully diluted voting equity share capital of the Company.
- 1.2. On 27 April 2018, the Board of Directors of the Company, after considering all relevant facts (including the valuation report from Bansil S. Mehta & Co. (**BSM**) and the fairness opinion from JM Financial, a leading merchant bank (**JMF**)), approved the sale of the non-CH business of the Company (i.e. biopharma, performance materials and life science businesses, collectively the **BPL Business**) to Merck Life Science Private Limited (**MLSPL**)<sup>1</sup> or to an affiliate of MLSPL, as directed by MLSPL, for an overall consideration of INR 10,520,000,000 (Indian Rupees Ten Billion Five Hundred Twenty Million) (such amount, the **Consideration**, and such sale, the **Proposed Transaction**) in terms of a business transfer agreement (**BTA**) to be entered into upon and subject to receipt of the approval of the shareholders of the Company under the provisions of applicable law, and the consummation of the Proposed Transaction being subject to the receipt of applicable statutory and regulatory approvals.
- 1.3. On 7 May 2018, the Company sent out the notice of postal ballot (**Postal Ballot Notice**) and the postal ballot form to its members, seeking their approval for the Proposed Transaction (including on account of the Proposed Transaction being a related party transaction, since MLSPL and its affiliates are related parties of the Company) and for entering into certain commercial arrangements with one or more entities belonging to the group of entities ultimately controlled by MERCK (such entities together with MERCK, the **Merck Group**) (including on account of such arrangements being related party transactions, since the Merck Group entities are related parties of the Company).

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<sup>1</sup> MLSPL and its affiliates are Indian subsidiaries of Merck KGaA, the ultimate parent company of the Company. The Sellers, which are currently the promoters of the Company, are also direct and indirect subsidiaries of Merck KGaA.

- 1.4. Following requests from shareholders to provide some additional information about the Proposed Transaction, and to ensure uniform dissemination of information to all shareholders of the Company and at the same time ensuring due protection of the commercially sensitive information and not to compromise on the commercial competitiveness of the Company or the BPL Business, we set out below certain additional details in relation to the Proposed Transaction.

## **2. Additional information about the Proposed Transaction**

- 2.1. The Proposed Transaction is on arm's length basis, and as mentioned in the Postal Ballot Notice, the BPL Business has been subject to an independent business valuation by BSM. In their valuation report BSM concluded that the fair value of the BPL Business is INR 6,969 million. Copy of BSM's valuation report dated 27 April 2018 is available for inspection at the registered office of the Company on any working day between 10.00 am to 12.00 noon until the close of voting on postal ballot i.e. June 12, 2018.
- 2.2. The Consideration has been affirmed by a fairness opinion provided by JMF. Copy of JMF's opinion dated 27 April 2018 is available for inspection at the registered office of the Company on any working day between 10.00am to 12.00 noon until the close of voting on postal ballot i.e. June 12, 2018.
- 2.3. The Consideration of INR 10,520 million is higher than the fair valuation determined by BSM, and which has been affirmed by JMF. This is due to the fact that it further includes a gross-up for applicable taxes on top of the valuation, including capital gains as well as dividend distribution taxes, if any, that would apply if the proceeds from the Proposed Transaction were to be distributed.
- 2.4. Currently, the Company carries out the CH business and the BPL Business. As mentioned above, globally MERCK is selling its CH business to P&G and its affiliates. Following the change of control of the Company pursuant to the completion of the acquisitions referred to in paragraph 1.1 above, the prospect of the BPL Business will not be attractive to the Company, including due to the following key reasons:
  - (i) The BPL Business is highly dependent on product and process competence as well as non-exclusive licenses of MERCK and its affiliates globally. The other dependencies include intellectual properties associated with brand, product line extensions, research and development, software, proprietary tools and platforms. As such, the BPL Business draws significant synergy and scale benefits from Merck Group's global operations, which may no longer be available upon the change of control of the Company.
  - (ii) The BPL Business is primarily trading business and is prone to volatility, it requires a disproportionately high level of working capital.
  - (iii) In the event of any discontinuation of support of the Merck Group, the Company may not be able to run the BPL Business profitably, and this may have adverse implications from the market, rendering the BPL Business unsaleable to a third party.
- 2.5. The sale of the BPL Business, which is in line with global realignment under P&G and its affiliates, the new promoters of the Company post-change of control, would enable the Company to focus more on further growing and developing its core CH business. In particular, it will enhance the

ability of the Board of Directors, the Company's management and all retained employees to focus on and to drive forward the growth of the Company's retained (i.e. CH) business.

- 2.6. While in terms of revenue the BPL Business contributed approximately INR 3,734 million (35% of the total revenue of the Company in the financial year ended 31 December 2017), its contribution to the normalized EBITDA was approximately INR 515 million (28% of the total normalized EBITDA of the Company) during the same period.
- 2.7. As such, the Consideration for the Proposed Transaction reflects an implied Enterprise Value to normalized EBITDA multiple (*EV/EBITDA multiple*) of about 20x, comparing favorably to the Company's trading EV/EBITDA multiple of about 11x prior to the announcement of the Proposed Transaction on 19 April 2018.

### 3. Additional information about the ancillary commercial arrangements

Certain proposed commercial arrangements which are ancillary to the Proposed Transaction, namely entering into manufacturing and supply agreements, transition services agreements, reverse transitional services agreements and transitional distribution services agreements with one or more entities of the Merck Group, will enable the BPL Business to continue its operations in MLSPL and/or its affiliates on a going concern basis. Further, such agreements will also help the Company continue its operations following the change of control and the transfer of the BPL Business. The service charges payable under these agreements have been arrived at on arm's length basis.

4. Based on the above, the Board of Directors is of the opinion that the Proposed Transaction and entering into the ancillary commercial arrangements are in the interest of the Company, its shareholders, customers, employees and other stakeholders.

Kindly disseminate the additional information to all concerned and take it on record.

Thanking you,

Yours faithfully,  
For Merck Limited



**Vikas R Gupta**  
**General Counsel & Company Secretary**



**Merck Limited**

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