

Forecast Report

Pharmaceutical Industry Continues to Grow

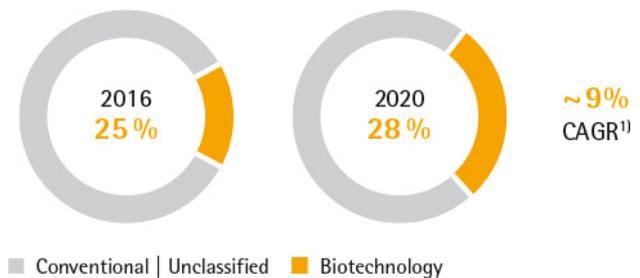
The development of the global pharmaceutical industry is driven by strong long-term trends. Major growth factors include the constantly growing and aging global population, increasing access to healthcare, especially in the emerging and developing countries, and the development of new medicines, particularly for diseases that have not been treated to date or are difficult to treat. On the other hand, the expiration of patents and austerity measures dampen healthcare spending. However, market researchers are forecasting overall growth of between 4% and 7% for the global pharmaceutical industry during the period 2016 to 2020.

The U.S. pharmaceutical market – the world’s largest – is expected to grow at a rate of 5% to 8% on average during the period 2016 to 2020. Expansion will be driven principally by new, innovative medications, while the negative effect of expiring patents is expected to be relatively modest. This forecast does not consider changes that may take place as a result of the U.S. elections in November 2016 and any possible alterations to the U.S. healthcare system. Growth in the European pharmaceutical market is likely to remain moderate over the next few years as continuing austerity measures affect its national healthcare systems. Thus, average growth of between 1% and 4% is projected for the region until 2020.

Expansion in the “pharmerging markets” (including China, India, Brazil and Russia), in contrast, is expected to continue at above average levels of around 7% to 10% annually from 2016 - 2020 owing to demographic trends, rising investments into government-led healthcare systems and increased private spending.

Biopharma: A Growing Market

- Growing & aging population
- Increasing access to healthcare
- Strong R&D pipelines
- Emerging biosimilars market



Biotech Sector Enjoys Above-Average Growth

Market observers forecast that the biopharma segment of the pharmaceutical market, which has been enjoying particularly strong growth for years, will continue to outperform the market. This growth will be driven largely by the increasing market penetration of already approved biopharmaceuticals and an expansion in the range of indications. However, this comparatively young segment also has great innovative power, as reflected in strong research and development pipelines. Overall, around 40% of the medications in R&D pipelines are based on biological manufacturing processes.

The great innovative power of the biotechnology sector, particularly in recent years, can also be seen in the rising number of new product approvals: the number of newly approved biological medications in the USA during the last five years was around 50% higher than the number of approvals from the period 2007 to 2011.

The revenue share of biological medications and vaccines relative to the global pharmaceutical market is thus expected to rise from a current 25% to 28% by the year 2020. On the whole, the market observer Frost & Sullivan estimates that growth in the world’s biotechnology market will average 9% per year during the years 2016 to 2020.

¹¹ Evaluate Pharma®: World Preview 2016, Outlook to 2020; June 2016; CAGR 2014 to 2020

Biosimilars, which are biological copycat medications, will increase in importance during the years to come, since a number of original biological products with combined revenues of more than €40 billion are due to lose their patent protection by the year 2020. Currently, more than 200 companies around the world are working on more than 700 projects for the development of biosimilars.

The biosimilars industry made significant strides in 2016 with three approvals in the USA, but regulatory, patent- and marketing-related uncertainties are making it difficult to predict the market launch of these drugs accurately. The market share of biosimilars is currently still very small, but experts estimate that by the year 2020, sales will quadruple to more than U.S. \$10 billion.

Stable Growth Expected in the World's Laboratory Market

According to Frost & Sullivan, global demand for laboratory products is likely to remain stable, with growth of 2.8% in 2017. The important U.S. market is expected to generate growth of 3.3%, in part due to higher National Institute of Health budgets. In contrast, experts expect an increase of just 1.2% in Europe owing to its comparatively moderate economic growth and as a result of uncertainties in the wake of the Brexit referendum. As before, market observers expect the highest growth rates in Asian countries such as China and India, in which the individual labor markets are likely to grow around 8% to 9% in 2017.

Sources: IMS: IMS Health Market Prognosis, March 2016; Global Medicines in Use in 2020, November 2015; Searching for Terra Firma in the Biosimilars and Non-Original Biologics Market, 2013; Evaluate Pharma: World Preview 2016, Outlook to 2022, September 2016; Frost & Sullivan: 2016 Annual Report: Forecast and Analysis of the Global Market for Laboratory Products, October 2016; www.fda.gov; FDA-Approves-Third-Biosimilar-in-US-First-for-Amgens-Blockbuster-Enbrel, www.raps.org.

Future Business Development

The outlook for fiscal 2017 incorporates the risks and opportunities outlined in this report. As we supply the biopharmaceutical industry, our business development is generally driven by stable long-term trends. Therefore, economic fluctuations play less of a role than, for example, decisions of regulatory agencies regarding drug approvals or the use of medications.

Based on the assumption that the relevant trends for Sartorius Stedim Biotech have been correctly anticipated, we expect sales revenue to grow considerably again in 2017. Thus, we forecast that sales revenue will rise by about 8% to 12% in constant currencies compared to a strong prior-year base. Management expects that the underlying EBITDA margin will rise by approx. 0.5 percentage points in constant currencies (2016: 27.5%).

In light of its continued strong organic growth, Sartorius Stedim Biotech already began in 2016 to invest into its production capacities earlier and to a greater extent than initially planned. For 2017, we thus expect a capex-ratio of about 10% to 13%. A focus will be the expansion of our Yauco plant for single-use bags and filters and additional membrane casting capacities at the Goettingen site.

With regard to our financial position, we forecast that by the end of 2017, the ratio of net debt to underlying EBITDA will edge down from the level of 0.2 reported for year-end 2016, without taking any potential acquisitions into account.

Financial Statements of the Parent Company Sartorius Stedim Biotech S.A. as of December 31, 2015