Sector Environment

The Sartorius Stedim Biotech Group serves customers mainly in the biopharmaceutical industry. Thus, the development of this sector provides important impetus to the Group's business performance.

Biopharmaceutical Market Grows Considerably – Pandemic Leads to Additional Demand for Manufacturers of Bioprocess Technology

In 2020, the period to which the most recent data available refers, estimates published by EvaluatePharma show that, despite the global recession, growth in the global pharmaceutical market was almost at prior-year levels, increasing approximately 3% to 4%. Sales of biotechnologically manufactured drugs and vaccines in particular continued to grow faster than the market as a whole, by around 7%, to approximately €247 billion.

Sales revenue growth of providers of technologies for the development and production of biopharmaceuticals was especially buoyant in 2020. This was attributable to the continuing good performance of the core business and strong additional demand fueled by the ramp-up of production capacity for coronavirus vaccines and Covid-19 therapeutics. Given the large investment of resources and considerable governmental and private sector cooperation, many drug candidates progressed through the various phases of development at a record pace. This has since then resulted in the market approval of more than 30 vaccines and anti-coronavirus compounds. The demand associated with the research activities and expanding commercial production again resulted in very positive business performance for providers of bioprocess technology in the first half of 2021.

The growth of the biopharma market fundamentally depends more on medium- to long-term trends than on short-term economic developments. In addition to the market launch of innovative biopharmaceuticals, significant impetus is provided by the world's rising demand for medications as well as the expanded range of indications for approved medicines and their further market penetration. A growing number of active substances manufactured using biotech production methods is being approved for the treatment of rare illnesses that have been incurable so far. In the process, the pharmaceutical industry is increasingly concentrating on advanced therapies, such as gene and cell therapies and biotechnologically processed tissue products. The approval process for new medications relies on the performance of clinical studies. In 2020, over 1,000 clinical studies had to be suspended or their scheduled start delayed as a result of the coronavirus pandemic. A similarly high number of studies was again suspended in the first half of 2021. This development could lead to the delayed approval of new drugs in the future.

Sources: BioPlan: 17th Annual Report and Survey of Biopharmaceutical Manufacturing Capacity and Production, April 2020; Daedal Research: Global Biologics Market: Size, Trends & Forecasts, December 2020; IQVIA Institute: Global Medicine Spending and Usage Trends, March 2020; Evaluate Pharma: World Preview 2020, Outlook to 2026, July 2020

Group Business Development

- Sartorius Stedim Biotech with uptick in sales revenue and earnings and exceptionally high order intake

- Dynamic organic growth; added momentum from pandemic-related business and acquisitions

- Forecast for 2021 raised once again at the beginning of July

Sartorius Stedim Biotech has continued on its fast growth trajectory, closing the first half of 2021 with significant double-digit increases in both sales revenue and order intake. Based on constant currencies, Group sales revenue rose 61.1% to €1,351.9 million; the reported increase was 55.6%. The majority of this growth was generated through strong organic expansion in all regions and is based on unabated high demand for innovative technologies used in the development and production of biopharmaceuticals, both in the area of classic monoclonal antibodies and in the emerging fields of cell and gene therapies. In addition to solid performance by its core business, Sartorius Stedim Biotech benefited from the ramp-up in coronavirus vaccine production by many manufacturers. The pandemic-related businesses contributed around 26 percentage points, while acquisitions added around 6 percentage points to the growth in sales revenue. Order intake grew even more dynamically, rising to €1,889.9 million (+87.4% in constant currencies of which a good 31 percentage points were attributable to the coronavirus pandemic and around 9 percentage points to acquisitions; reported: +80.2%). Part of this higher order intake was due to adapted ordering patterns of some customers who in the current situation have been placing their orders further in advance than usual.

It should be noted that the comparative base for these high growth figures is a relatively modest prior-year period, which did not yet include any substantial pandemic-related business. In fact, the demand for technologies for developing and producing coronavirus vaccines and Covid-19 therapeutics started to gain momentum in the second half of 2020. Moreover, the above-mentioned non-organic contributions to growth must be considered in a year-over-year comparison.

Against the backdrop of this dynamic business performance, the strong order situation, and expanded production capacity, Sartorius Stedim Biotech`s management again raised the forecast for the full-year. The company now expects sales revenue growth of around 48% based on constant currencies (previously around 38%) and an underlying EBITDA margin of about 36% (previously about 34%).

in millions of €	**6 months 2021**	6 months 2020	in %	Δ in % cc[1]
Order intake	1,889.9	1,048.7	80.2	87.4
Sales revenue	1,351.9	869.1	55.6	61.1

1 cc= in constant currencies

Sartorius Stedim Biotech increased its sales revenue very significantly in all three business regions. Sales in the EMEA region surged by 71.3% in constant currencies (reported: +70.5%) to €580.1 million, particularly benefitting from additional demand from coronavirus vaccine manufacturers. This region accounted for the largest share of Group sales of about 43%. With a rise of 66.1% in constant currencies to €352.0 million (reported: +62.8%), sales in the Asia| Pacific also rose strongly, increasing the region's share of Group sales revenue slightly to 26%. The Americas region accounted for around 31% of Group sales and registered growth of 46.1% in constant currencies to €419.8 million (reported: +34.3%).

Overproportionate Increase in Underlying Earnings

Sartorius Stedim Biotech uses earnings before interest, taxes, depreciation and amortization (EBITDA) as the key profitability measure. To provide a complete and transparent presentation of the Group's profitability, SSB reports earnings adjusted for extraordinary items (underlying EBITDA).

In the first half of 2021, underlying EBITDA of the Sartorius Stedim Biotech Group rose sharply by 85.8% to €487.4 million. The corresponding margin increased year over year from 30.2% to 36.1%. The increase was driven especially by economies of scale and, additionally, by partially deferred cost development caused by the low number of business trips and underproportionate new hires in non-production areas as a result of the pandemic. These effects are expected to decrease as the year progresses.

Reconciliation between EBIT and underlying EBITDA

in millions of €	**6 months 2021**	6 months 2020[1]
EBIT (operating result)	414.1	205.0
Extraordinary items	7.0	13.5
Depreciation & amortization	66.3	43.8
Underlying EBITDA	**487.4**	**262.3**

1 The previous year's figures have been restated due to finalization of the purchase price allocations for acquisitions of 2020

Consolidated EBIT doubled by 102.0% to €414.1 million, up from €205.0 million in the prior-year period. In addition to depreciation and amortization, this figure includes extraordinary items of –€7.0 million compared to –€13.5 million in the previous year, which were primarily related to the integration of the company's most recent acquisitions, as well as to expenses incurred for various corporate projects and the rebranding. The consolidated EBIT margin amounted to 30.6% (H1 2020: 23.6%).

The financial result was –€40.8 million for the first half of 2021, relative to –€10.5 million for the prior-year period, and includes an expense item of –€35.3 million that resulted from the reporting date valuation of the share-based earn-out liability to be paid in connection with the acquisition of BIA Separations. This item was essentially incurred due to the increase in the corresponding share prices.

Net profit attributable to shareholders of Sartorius Stedim Biotech S.A. surged by 83.2% to €258.4 million (H1 2020: €141.1 million). Regarding the calculation of tax expenses, the tax rate of 27.5% expected for the full year was applied (H1 2021: 27.5%). Considering the non-tax-deductible items in the above-mentioned valuation of the earn-out liability, this would yield a nominal tax rate of approximately 30.1%.

Strong Increase in Underlying Net Profit

The underlying net profit after non-controlling interest grew at a significantly overproportionate rate with respect to sales revenue, by 91.9% from €167.4 million to €321.4 million. This profit figure is calculated by adjusting for extraordinary items and eliminating non-cash amortization and is based on the normalized financial result and on the normalized tax rate. Underlying earnings per share rose accordingly from €1.82 to €3.49.

in millions of €	**6 months 2021**	6 months 2020[1]
EBIT (operational result)	414.1	205.0
Extraordinary effects	7.0	13.5
Amortization | IFRS 3	21.7	10.2
Normalized financial result[2]	-5.1	-2.5
Normalized income tax (26%)[3]	-113.8	-58.8
Underlying net result	**324.0**	**167.4**
Non-controlling interest	-2.6	0.0
Underlying net result excluding non-controlling interest	**321.4**	**167.4**
Underlying earnings per share in €	3.49	1.82

1 The previous year's figures have been restated due to finalization of the purchase price allocations for acquisitions of 2020
2 Financial result excluding fair value adjustments of hedging instruments and currency effects relating to financing activities and change in valuation of earn-out liability
3 Normalized income tax based on the underlying profit before taxes and non-cash amortization

Operating Cash Flow Significantly Increased

In the first six months of the current fiscal year, Sartorius Stedim Biotech very significantly increased its cash flow from operating activities. This figure stood at €368.1 million, up from €195.3 million a year ago, which equates to a gain of 88.5%. The development essentially reflects the rise in earnings. Changes in working capital and cash flow in connection with the factoring program had no significant impact on this development.

Against the backdrop of exceptionally high demand, Sartorius Stedim Biotech is continuing to move ahead with the expansion of its production facilities. Its investment program covers, in particular, the partly extended and accelerated expansion of production capacities at sites in Germany, Puerto Rico, China, and South Korea. The ratio of capital expenditures (CAPEX) to sales in the first half of 2021 was 8.4% relative to 5.8% in the year-earlier period. Cash outflows for capital expenditures increased by 125.0% amounting to €113.4 million.

Key Balance Sheet and Financial Indicators Remain Strong

The balance sheet total of the Sartorius Stedim Biotech Group stood at €3,521.9 million and was thus €456.4 million higher than the figure of €3,065.5 million reported as of December 31, 2020. This rise is mainly attributable to higher cash and cash equivalents, to the increase in property, plant and equipment as a result of the company's extensive investment program as well as to the growth-driven buildup of working capital.

In the reporting period, gross debt rose slightly from €587.1 million as of December 31, 2020, to €609.9 million as of June 30, 2021. Due to the significant increase in cash and cash equivalents, net debt accordingly decreased from €527.3 million as of December 31, 2020, to €355.2 million as of the end of the reporting period. Driven by strong development of earnings, the ratio of net debt to underlying EBITDA decreased from

0.8 at year-end 2020 to 0.4 for the period ended June 30, 2021. This ratio is calculated as the quotient of net debt and underlying EBITDA over the past 12 months, including the pro forma amount contributed by acquisitions for this period.

Substantial Increase in the Number of Employees

As of June 30, 2021, the Sartorius Stedim Biotech Group employed a total of 8,746 people worldwide. Compared with December 31, 2020, head count thus rose considerably by 1,180 or around 15.6%. The higher increase in the number of employees compared with previous years is especially attributable to the expansion of production capacities that was moved ahead of schedule and accelerated to some extent. However, due to the pandemic, buildup of the workforce was underproportionate on the whole compared with the company's business development. This trend particularly affected the non-production departments, such as sales and marketing functions, and is expected to subside as a result of additional hires during the further course of the year.

The number of employees in EMEA rose in the reporting period by around 13.0% to 5,937. In the Americas, Sartorius employed 1,588 people as of the end of the reporting period, equaling an increase of 28.3%. Workforece in the Asia | Pacific region grew by 13.6% to 1,221 people.

Opportunity and Risk Report

The opportunities and risk situation of the Sartorius Stedim Biotech Group has not materially changed since the publication of its 2020 Annual Report. For this reason, please refer to a detailed description of the opportunities and risks as well as the risk management system for the Sartorius Stedim Biotech Group on pp. 42 et seq. of the Annual Report called Universal Registration Document 2020.

Forecast Report

Further Growth of the Biopharmaceutical Market Expected

In general, the trends affecting the development of the Sartorius Stedim Biotech Group that are described on pages 59 to 61 of its 2020 Annual Report remain in place.

EvaluatePharma estimates that the global pharmaceutical market will grow by around 7% annually during the period up to 2026. The biopharma segment of the pharmaceutical market, which has been enjoying particularly strong growth for years, will continue to outperform the market. For the period of 2020 to 2026, the compound annual growth rate is projected to average about 10%. This would equate to an increase in market volume from the current level of €247 billion to €440 billion. The share of biological medications and vaccines in the total revenue generated by the global pharmaceutical market is forecasted to continue rising.

Manufacturers of bioprocess technologies expect sales revenue to increase significantly again in 2021, driven by the development and production of vaccines against coronavirus and therapeutics against Covid-19. Based on current information, the effects on medium- to long-term sector growth cannot be estimated exactly as they depend on unpredictable factors such as the need for booster shots and their effectiveness, and on the approval of further vaccine candidates. In addition to these potentially positive drivers, demand could be dampened in the coming years by delayed approval of new medications due to the interruption of many clinical studies or by the reduction in inventories that were built up in the past year by some biopharma companies due to uncertainties related to the pandemic

Sources: 17th Annual Report and Survey of Biopharmaceutical Manufacturing Capacity and Production, April 2020; Daedal Research: Global Biologics Market: Size, Trends & Forecasts, December 2020; IQVIA Institute: Global Medicine Spending and Usage Trends, March 2020; Evaluate Pharma: World Preview 2020, Outlook to 2026, July 2020

Full-Year 2021 Guidance Raised

Based on the dynamic business performance in the first half, strong order intake, and on expanded production capacities, Sartorius Stedim Biotech raised its full-year 2021 growth forecast again at the beginning of July.

At the same time, management points out that this guidance continues to be subject to higher uncertainty than usual due to the pandemic and is particularly based on the assumptions that supply chains will remain stable and production lines will stay up and running.

Management now anticipates sales growth of around 48% (previously around 38%) of which about 20 percentage points are expected to be contributed by business related to the coronavirus pandemic (previously about 18 percentage points). The acquisitions made in the previous year are overall developing slightly better than expected, but due to the overproportionate sales realization in the second half of the year, the contribution to growth to be reported as non-organic now is expected to be 4 percentage points (previously 5.5 percentage points).

Regarding profitability, an underlying EBITDA margin of about 36% is forecasted (previously about 33%).

Due to sales revenue that is now expected to be higher, the corresponding ratio of capital expenditures (CAPEX) to sales revenue for the Group is projected at about 12% (previously around 14%). The focus of the substantial investments is on the partly extended and accelerated expansion of production capacities, primarily at sites in Germany, Puerto Rico, China, and South Korea. Net debt to underlying EBITDA is expected to be around 0.5 at year-end (previously around 0.6). Possible acquisitions are not included in these projections.

Mid-term guidance unchanged
Mid-range targets updated in January 2021 remain unchanged and assume that by 2025, consolidated sales revenue will increase to around €4 billion at an underlying EBITDA margin of around 33%.

As in previous years, all figures are given in constant currencies. In addition, the company assumes that the global economy will increasingly recover as the current year progresses and that supply chains will remain stable.

Report on Subsequent Events

On July 1, 2021, the Group acquired a majority stake in the reagent manufacturer CellGenix GmbH. The company that is based in Freiburg, Germany, and has a sales subsidiary near the biotechnology hub in Boston, Massachusetts, USA, produces and markets cell culture components, such as GMP-grade growth factors, cytokines and media for manufacturing cell and gene therapy products. Founded in 1994 at the University Medical Center of Freiburg, CellGenix currently employs some 70 people and generated sales of more than €20 million in 2020.

The purchase price for the acquired stake of 51% of CellGenix GmbH amounted to approx. €100 million (net) and was paid in cash. The parties further agreed on options according to which the acquisition of an additional 25% of the shares is planned in 2023 and that of the remaining 24% stake in 2026. In view of the short period between the acquisition and the preparation of the consolidated interim financial statements, no preliminary revaluation of the acquired net assets and goodwill is available. It is expected that the intangible assets to be recognized separately will primarily reflect technologies and customer relationships. The transaction has not been recognized in the interim consolidated financial statements as the entity will be consolidated as of the acquisition date.

Apart from that no material events occurred after the end of the first half of 2021.