

Business Model, Strategy and Goals

As a leading partner of life science research and the biopharmaceutical industry, Sartorius helps its customers in the development and manufacture of biotech medications and vaccines – from initial idea in the lab to commercial-scale production.

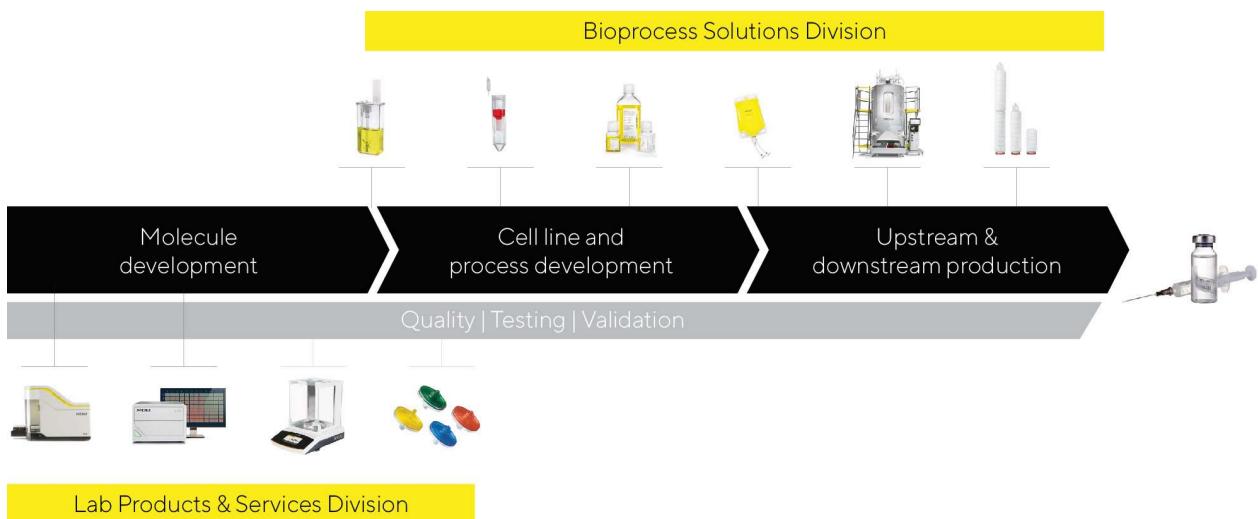
Biopharmaceuticals are integral components of advanced medicine and are used to treat many illnesses, mostly of a serious nature. However, long development times and complex production make these medications very expensive. This leads to high healthcare costs in industrialized countries and to the situation that patients in less developed countries are often excluded from treatment with such drugs. The development of a biopharmaceutical medication is a long haul: It takes more than ten years on average to bring a new drug out on the market, costing more than two billion dollars. On top of this, biotechnological manufacturing processes for such high-tech medications are demanding and must be developed individually for each biologic compound. As a pioneer and technology leader in the biopharma sector, Sartorius with its products and services is enabling its customers to make their research, development and production processes easier and more efficient so that advanced therapeutics can reach the market faster and become accessible for more people worldwide.

The maturity and intensity of competition in this still comparably young industry are successively increasing. To support customers in meeting this challenge, we are constantly further developing our portfolio. A key competitive advantage is our broad understanding of applications based on our clear focus on the sector. We are thoroughly familiar with the value-added chains of our customers and understand the interaction of the employed systems particularly well. A further important success factor of the company is to offer highly differentiating technologies. Our innovative power rests on three pillars: our own specialized product development, alliances with partners, and the integration of innovations through acquisitions.

With the biopharma industry, Sartorius is focusing on an attractive market, which is characterized by strong growth momentum and long-term trends. Medical progress provides positive impetus, leading to the discovery and approval of new biopharmaceuticals. The biopharmaceutical industry is thus increasingly relying on advanced therapies, such as cell and gene therapeutics and biotech tissue products. Further primary growth drivers are a growing world population and an increase in age-related diseases in industrialized countries. In addition, rising incomes in emerging countries are leading to improved access to healthcare and rising demand for medications. Biosimilars, the generic versions of reference biologics that have lost their patent protection, account for a share of the biopharma market that is currently still small, but especially fast-growing. As a result of these factors, the volumes of biotech medications and the demand for the appropriate production technologies are steadily increasing, with market growth largely independent of business cycles.

The Sartorius Group has organized its business in two divisions: Bioprocess Solutions and Lab Products & Services. We will outline the divisions' market positioning and strategy in the sections that follow.

Strategic Focus on Biopharma Applications from Molecule Development to Production of Biopharmaceuticals



Bioprocess Solutions

In the Bioprocess Solutions Division, Sartorius offers a broad portfolio of products that focuses on all major steps in the manufacture of a biopharmaceutical, as well as in process development as prerequisite procedures. Our technologies cover, inter alia, cell line technologies, cell culture media, bioreactors, and a wide range of products for separation, purification and concentration of biological intermediates and finished products, as well as solutions for their storage and transportation. Sartorius also offers data analytics software for modeling and optimizing processes of biopharmaceutical development and production. In its core technologies, the company has leading market positions with high double-digit market shares.

The breadth of our product portfolio, among other things, sets us apart from our competitors. We provide customers with complete process solutions from a single source, as well as assist with preceding project planning, process integration and subsequent validation. Our technologies are used in manufacturing all classes of medical drugs, from vaccines and monoclonal antibodies to advanced viral vector-based gene therapeutics.

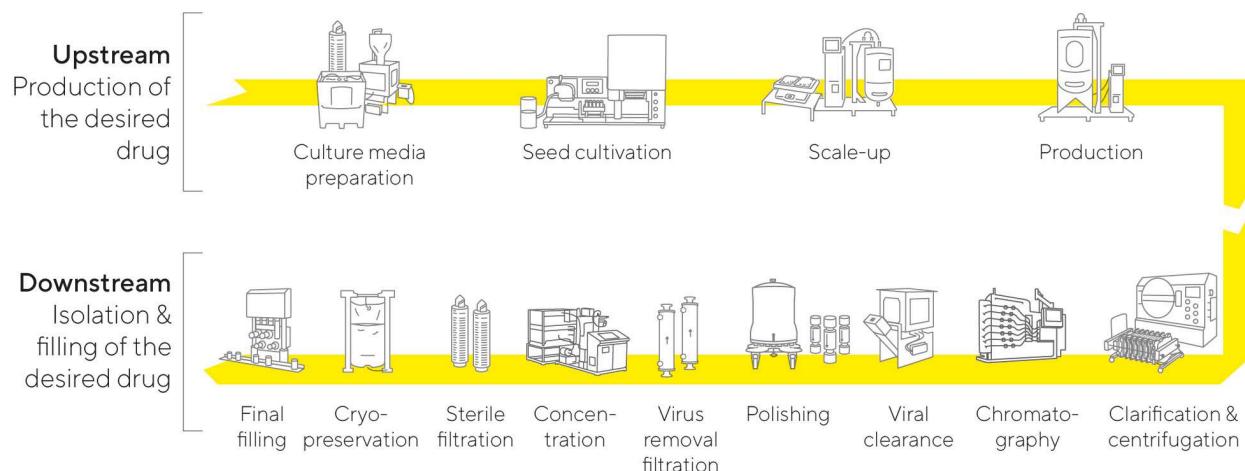
Repeat business with sterile single-use products accounts for about three-quarters of the division's sales revenue. These products and technologies offer our customers cost advantages and flexibility compared with conventional processes employing reusable stainless steel components. The high share of recurring revenues is also bolstered by the strict approval requirements on the part of our customers. Because our customers' production processes must be validated by the health authorities responsible, the technological components initially used can be replaced only at considerable expense once they have been approved. The manufacturers of medications are therefore closely tied to the suppliers for the life cycle of a medication. Beyond this, our broad and stable customer base that we address through our specialized sales force directly for the most part also contributes to this favorable risk profile.

The division's strong strategic positioning and the above-average expansion of the sector are a good foundation for profitable growth in the future as well.

Information on the business development of this division is given in the chapter on Business Development of Bioprocess Solutions.



Innovative Technologies for All Phases of Pharmaceutical Drug Production



Schematic illustration

Lab Products & Services

Over the past years, the Lab Products & Services Division has increasingly concentrated on the high-growth biopharmaceutical industry. With its products, the division addresses pharmaceutical and biotech research laboratories as well as academic research institutes. We supply scientists and laboratory staff with the instruments and consumables they need to make their research and quality control easier and faster. For example, we provide our life science customers with innovative systems for bioanalytics to enable them to automate key analytical steps in the development of molecules, cell lines and processes, steps which earlier were mostly carried out manually. In this way, considerably larger quantities of samples can be examined and extensive sets of data generated and evaluated within a short time, substantially accelerating the identification of suitable drug candidates or cell clones. This contributes toward accelerating the protracted timelines of drug development and increases the efficiency of R&D labs in the biopharmaceutical industry.

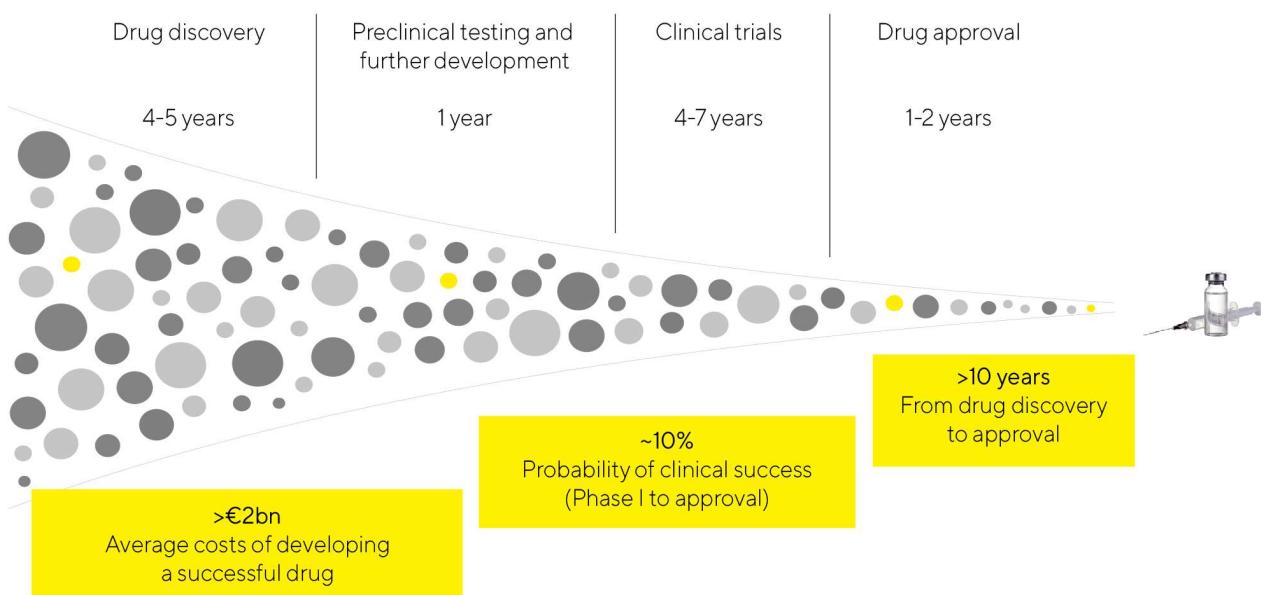
Beyond this, the division offers a wide range of premium laboratory instruments for sample preparation – such as laboratory balances, pipettes and lab water systems – as well as consumables, such as filters and microbiological test kits. In these product categories, Sartorius has leading market positions and significant market shares. Our solutions are designed to boost the efficiency and productivity of routine yet quality-critical lab processes and industry-specific workflows. Besides serving the needs of the biopharmaceutical industry, this portfolio is also tailored to quality control labs in the chemical and food industries.

With its innovative technology platforms for bioanalytics and its comprehensive portfolio for sample preparation, the Lab Products & Services Division has a strong foundation for further significant organic growth. Due to economies of scale and product mix effects, growth is projected to be accompanied by a continuous increase in profitability.

Information on the business development of this division in 2020 is provided in the chapter on Business Development of Lab Products & Services.



We Focus on Solutions to Improve the Protracted, Expensive and Inefficient Process of Medical Drug Development



Based on the data of the Tufts Center for the Study of Drug Development and the Association of the British Pharmaceutical Industry

Sartorius 2020 and 2025 Strategies

In 2012, Sartorius had presented its strategy and targets for profitable growth up to 2020 according to which sales revenue was projected to increase to around €2 billion at an underlying EBITDA margin of 26% to 27%. Sartorius considerably exceeded these targets with its sales revenue of €2,336 million and an underlying EBITDA margin of 29.6%.

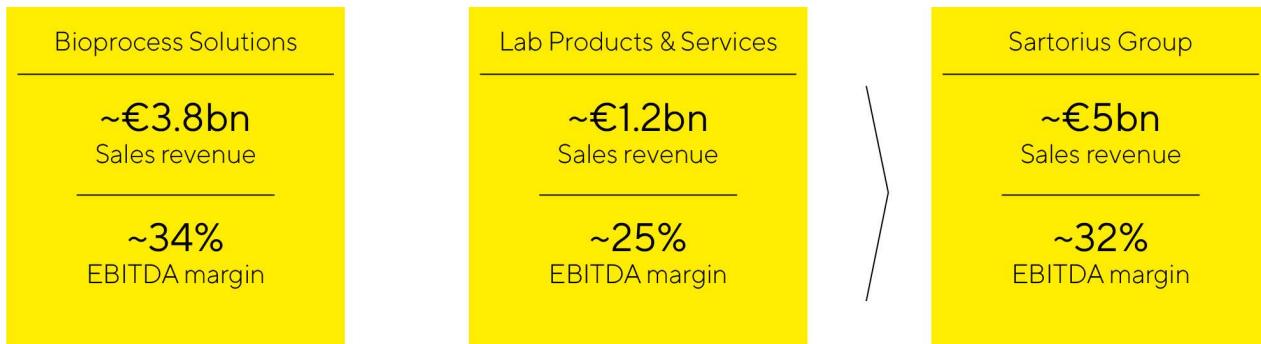
As early as 2018, management extended the projected time horizon of its outlook and announced its strategy and long-term targets for the period of 2020 to 2025. These aimed at achieving sales revenue of around €4 billion at an underlying EBITDA margin of around 28%. The targets for 2025 have now been updated and, in part, raised given the results achieved in the Bioprocess Solutions Division in 2020 and the resulting increase in the baseline values, as well as expectations of future organic growth in this segment.

Accordingly, Sartorius now plans to increase its consolidated sales revenue to about €5 billion in the five-year period up to 2025 (former target: around €4 billion). The company intends to achieve this increase in both divisions primarily through organic growth as well as additionally by acquisitions. The Group's underlying EBITDA margin is forecasted to rise to around 32% (former guidance: around 28%). For the Bioprocess Solutions Division, the company now projects sales revenue of around €3.8 billion (former guidance: approximately €2.8 billion), with an underlying EBITDA margin of around 34% (former guidance: around 30%). The outlook for the Lab Products & Services Division remains unchanged, with sales revenue forecasted at around €1.2 billion and an underlying EBITDA margin at about 25%.

These projections are based on the assumption that on average the margins of future acquisitions will initially be somewhat below and, after integration, at a level comparable with those of the Group's existing businesses, and that there will be no relevant changes in the key currency exchange rates.

Management points out that the dynamics and volatilities in the life science and biopharma sectors have increased over the past years and the coronavirus pandemic has further amplified this trend, so that multi-year forecasts show even higher uncertainties than usual.

Sartorius 2025 Targets



2025 targets are based on 2017 currency rates; EBITDA excluding extraordinary items

These targets are being implemented by various growth initiatives with the following focal points:

Expansion of the Product Portfolio

Sartorius has a broad product portfolio that is continuously expanded in line with the value-added chain of the biopharmaceutical industry. At the focus are products that offer solutions covering the needs of our customers and that make our offering even more attractive from the customers' perspective. Aside from our own research and development activities and strategic partnerships, acquisitions that are complementary to or extend our strengths appropriately will remain part of the portfolio strategy of both divisions. Due to high innovation dynamics, we consider further additions to be possible on an ongoing basis across the entire breadth of our product portfolio. When identifying suitable companies, Sartorius considers the following criteria in particular: Complementarity of technologies to its existing portfolio; strong market positioning, for example, through innovative products with unique selling propositions; integration capability; appropriate valuation; and growth and profitability profile.

Regional Growth Initiatives

North America and Asia are the key focal areas of our regional growth strategy.

The USA is the world's largest market for bioprocess equipment and laboratory products. Yet because it is home to the main competitors for both company divisions, Sartorius formerly had lower market share in this region than in Europe and Asia. Over the past years, we have gained market share in the USA by strengthening our sales and service capacities and see further development potential.

A further strategic focus is on China. This market has sizable growth potential owing to rising private and public healthcare expenditures and the rapid development of regional biopharmaceutical plants. To benefit from the dynamic development of this market, Sartorius has already been investing heavily in the sales infrastructure of China and other Asian countries and plans to expand production capacity levels there over the medium term. This especially applies as well to South Korea that offers strong growth prospects in this region, given its dynamically growing biopharma market.

Optimization of Work Processes

Sufficient production capacity and a powerful supply chain are an essential foundation of future growth. For this reason, in recent years Sartorius has substantially expanded its capacities for membranes, filters and aseptic bags at various Group sites in order to shorten delivery times and reliably maintain delivery capability even in the event of local transport restrictions. Beyond this, the company with its multidisciplinary team is working on the further optimization of its network of suppliers and partners to accommodate increasing customer requirements.

Sartorius is driving forward digitalization and automation in many areas to further accelerate and enhance processes and, wherever meaningful, to standardize such processes throughout the Group.

This also includes extending our activities in the areas of e-commerce, digital marketing and analytics.