

Course of Business and Economic Position

Merck Group

Overview of 2021

- Group net sales up € 2.2 billion or 12.3% to € 19.7 billion (2020: € 17.5 billion)
- Organic sales growth of 13.8%; negative foreign exchange effects of -1.4%
- Group EBITDA pre improves by 17.3% to € 6.1 billion (2020: € 5.2 billion); prior-year figure includes income of € 365 million from the release of a provision for potential compensation payments
- EBITDA pre margin rises to 31.0% (2020: 29.7%)
- Earnings per share pre increases by 30.1% to € 8.72 (2020: € 6.70)
- Operating cash flow of the Merck Group amounts to € 4.6 billion (2020: € 3.5 billion)
- Reduction in net financial debt of 18.6% to € 8.8 billion (December 31, 2020: € 10.8 billion)

Merck Group

Key figures

€ million	2021	2020	Change	
			€ million	%
Net sales	19,687	17,534	2,152	12.3%
Operating result (EBIT) ¹	4,179	2,985	1,194	40.0%
Margin (% of net sales) ¹	21.2%	17.0%		
EBITDA ²	5,946	4,923	1,023	20.8%
Margin (% of net sales) ¹	30.2%	28.1%		
EBITDA pre ¹	6,103	5,201	901	17.3%
Margin (% of net sales) ¹	31.0%	29.7%		
Profit after tax	3,065	1,994	1,071	53.7%
Earnings per share (€)	7.03	4.57	2.46	53.8%
Earnings per share pre (€) ¹	8.72	6.70	2.02	30.1%
Operating cash flow	4,616	3,477	1,138	32.7%

¹ Not defined by International Financial Reporting Standards (IFRS).

² Not defined by International Financial Reporting Standards (IFRS); EBITDA corresponds to operating result (EBIT) adjusted by depreciation, amortization, impairment losses, and reversals of impairment losses.

Development of sales and results of operations

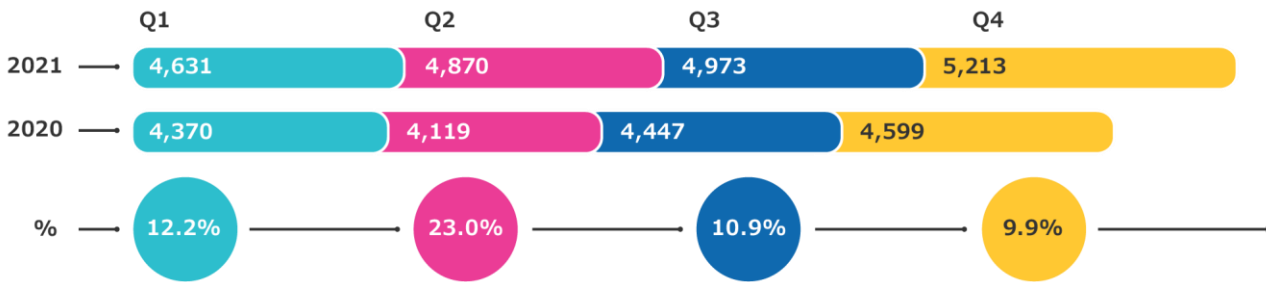
In fiscal 2021, the Merck Group generated net sales of € 19,687 million (2020: € 17,534 million), representing a year-on-year increase of € 2,152 million or 12.3%. This positive development was attributable to an organic net sales growth, which totaled € 2,421 million or 13.8% in fiscal 2021. This organic growth was driven by all of the Group’s business sectors. At 21.3%, Life Science was by far the business sector with the highest organic sales growth. Exchange rate effects negatively impacted net sales in the amount of € -248 million or -1.4% in fiscal 2021. This was due in particular to the development of the U.S. dollar.

The net sales in the individual quarters as well as the respective organic growth rates in 2021 are presented in the following graph:

Merck Group

Net sales and organic growth¹ by quarter²

€ million/organic growth in%



¹ Not defined by International Financial Reporting Standards (IFRS).

² Quarterly breakdown unaudited.

The Life Science business sector recorded organic net sales growth of € 1,597 million year-on-year to € 8,990 million (2020: € 7,515 million). Including negative foreign exchange effects of -1.6%, net sales increased by 19.6% overall. Accounting for 46% of Group sales (2020: 43%), Life Science was the strongest business sector in terms of net sales. The Healthcare business sector recorded net sales growth of 6.8% to € 7,089 million in fiscal 2021 (2020: € 6,639 million). Organic sales growth of 8.5% was offset by negative foreign exchange effects amounting to -1.4%. Accordingly, the share of Group sales attributable to Healthcare fell by 2 percentage points to 36% (2020: 38%). The 6.7% increase in net sales in the Electronics business segment to € 3,608 million (2020: € 3,380 million) comprised organic growth of 7.7% and negative foreign exchange effects of -0.9%. The share of the Merck Group’s net sales attributable to Electronics declined slightly to 18% (2020: 19%).

Merck Group

Net sales by business sector - 2021

€ million/% of net sales



Merck Group

Net sales by business sector

€ million	2021	Share	Organic growth ¹	Exchange rate effects	Acquisitions/divestments	Total change	2020	Share
Life Science	8,990	46%	21.3%	-1.6%	-	19.6%	7,515	43%
Healthcare	7,089	36%	8.5%	-1.4%	-0.3%	6.8%	6,639	38%
Electronics	3,608	18%	7.7%	-0.9%	-	6.7%	3,380	19%
Merck Group	19,687	100%	13.8%	-1.4%	-0.1%	12.3%	17,534	100%

¹ Not defined by International Financial Reporting Standards (IFRS).

In fiscal 2021, the Merck Group recorded the following regional sales performance:

Merck Group

Net sales by region

€ million	2021	Share	Organic growth ¹	Exchange rate effects	Acquisitions/divestments	Total change	2020	Share
Europe	5,675	29%	14.5%	-0.5%	-0.3%	13.7%	4,991	29%
North America	5,397	27%	17.7%	-3.8%	-	13.9%	4,739	27%
Asia-Pacific (APAC)	7,020	36%	11.3%	-	-0.1%	11.2%	6,313	36%
Latin America	990	5%	12.9%	-4.2%	-	8.8%	910	5%
Middle East and Africa (MEA)	605	3%	5.1%	-1.0%	-	4.1%	581	3%
Merck Group	19,687	100%	13.8%	-1.4%	-0.1%	12.3%	17,534	100%

¹ Not defined by International Financial Reporting Standards (IFRS).

The Consolidated Income Statement of the Merck Group is as follows:

Merck Group

Consolidated Income Statement

€ million	2021	%	2020	%	Change	
					€ million	%
Net sales	19,687	100.0%	17,534	100.0%	2,152	12.3%
Cost of sales	-7,351	-37.3%	-6,835	-39.0%	-516	7.6%
Gross profit	12,335	62.7%	10,699	61.0%	1,636	15.3%
Marketing and selling expenses	-4,304	-21.9%	-4,207	-24.0%	-97	2.3%
Administration expenses	-1,241	-6.3%	-1,188	-6.8%	-53	4.5%
Research and development costs	-2,408	-12.2%	-2,288	-13.0%	-119	5.2%
Impairment losses and reversals of impairment losses on financial assets (net)	1	0.0%	-6	0.0%	7	>100.0%
Other operating income and expenses	-206	-1.0%	-25	-0.1%	-180	>100.0%
Operating result (EBIT)¹	4,179	21.2%	2,985	17.0%	1,194	40.0%
Financial result	-255	-1.3%	-354	-2.0%	100	-28.1%
Profit before income tax	3,924	19.9%	2,630	15.0%	1,293	49.2%
Income tax	-859	-4.4%	-637	-3.6%	-222	34.9%
Profit after tax	3,065	15.6%	1,994	11.4%	1,071	53.7%
Non-controlling interests	-10	-0.1%	-7	0.0%	-4	58.5%
Net income	3,055	15.5%	1,987	11.3%	1,067	53.7%

¹ Not defined by International Financial Reporting Standards (IFRS).

The positive business performance in fiscal 2021 led to an increase of 15.3% in the Merck Group's gross profit to € 12,335 million (2020: € 10,699 million). The resulting gross margin of the Group, i.e. gross profit as a percentage of net sales, improved by 1.7 percentage points year-on-year to 62.7% (2020: 61.0%).

Group-wide research and development costs rose by 5.2% to € 2,408 million in the year under review (2020: € 2,288 million) and led to a research spending ratio (research and development costs as a percentage of net sales) of 12.2% (2020: 13.0%). Accounting for 73% (2020: 74%) of Group R&D spending, Healthcare remained the most research-intensive business sector of the Merck Group. Further information can be found in chapter „Research and Development“.

Merck Group

Research and development costs by business sector¹ - 2021
 € million/%



¹ Not presented: research and development costs of € 67 million allocated to Corporate and Other.

The expense balance of other operating expenses and income rose to € -206 million in fiscal 2021 (2020: € -25 million). This substantial change was primarily due to the income from the release of a provision of € 365 million for potential damages in the Healthcare business sector in the previous year. Detailed information about the development and composition of other operating expenses and income can be found in Note (13) “[Other operating income](#)” and Note (14) “[Other operating expenses](#)” in the Notes to the Consolidated Financial Statements.

An increase in provisions for obligations under long-term variable compensation programs (Merck Long-Term Incentive Plan) had an adverse effect on the operating result in the year under review, with the rise in the intrinsic value of the Merck Share Units being reflected in the respective functional costs depending on the area of activity of the plan beneficiaries.

The financial result improved by 28.1% to € -255 million in fiscal 2021 (2020: € -354 million). This positive development was primarily due to lower interest expenses. Details about the Group’s financial income and expenses can be found in Note (40) “[Finance income and expenses/Net gains and losses from financial instruments](#)” in the Notes to the Consolidated Financial Statements.

Income tax expense amounted to € 859 million in 2021 (2020: € 637 million) and resulted in a tax rate of 21.9% (2020: 24.2%). Further information on income taxes can be found in Note (15) “[Income tax](#)” in the Notes to the Consolidated Financial Statements.

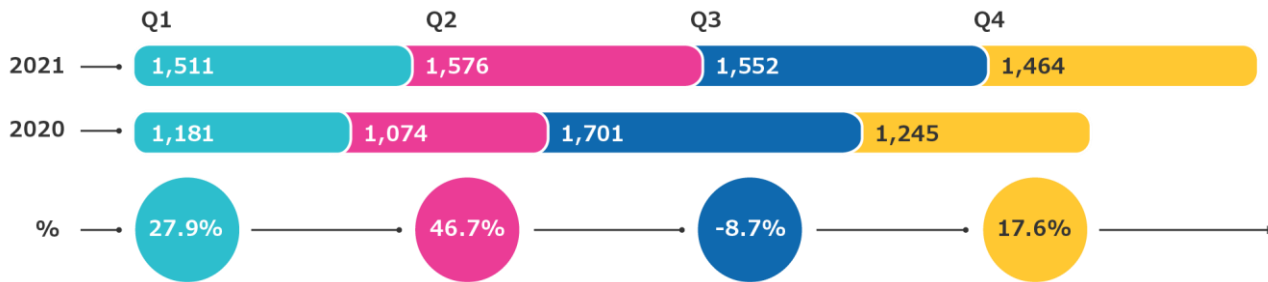
The net income attributable to Merck KGaA shareholders increased by 53.7% to € 3,055 million (2020: € 1,987 million) and resulted in an improvement in earnings per share to € 7.03 in fiscal 2021 (2020: € 4.57).

EBITDA pre, the key financial indicator used to steer operating business, rose by € 901 million or 17.3% to € 6,103 million (2020: € 5,201 million). Organic earnings growth amounted to 18.1%. It should be noted that the prior-year figure included income from the release of a provision for potential damages (€ 365 million). Foreign exchange effects (-0.6%) and portfolio effects (-0.1%) had an insignificant impact on the development of EBITDA pre in the year under review. The EBITDA pre margin of the Merck Group (EBITDA pre as a percentage of net sales) improved to 31.0% (2020: 29.7%). The reconciliation of the operating result (EBIT) to EBITDA pre is presented in the “Internal Management System” chapter.

The development of EBITDA pre in the individual quarters in comparison with 2020 as well as the respective growth rates are presented in the following overview:

Merck Group

EBITDA pre¹ and change by quarter²
€ million/change in%



¹ Not defined by International Financial Reporting Standards (IFRS).
² Quarterly breakdown unaudited.

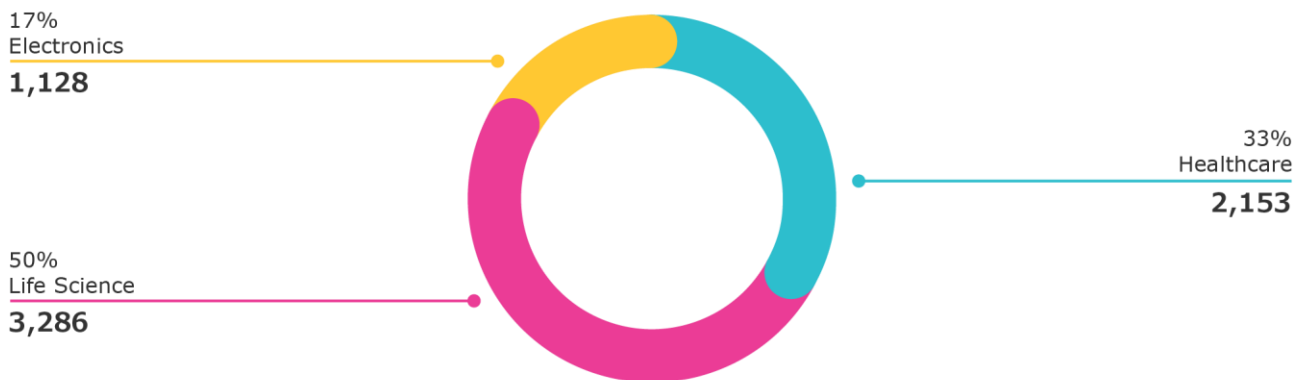
The biggest contribution to the growth in Group EBITDA pre came from the Life Science business sector, which generated EBITDA pre of € 3,286 million, up 36.6% on the previous year (2020: € 2,405 million). This meant the EBITDA pre margin in Life Science increased to 36.6% in fiscal 2021 (2020: 32.0%). The share of Group EBITDA pre attributable to the Life Science business sector (not taking into account the € -465 million reduction due to Corporate and Other) rose to 50% (2020: 42%).

EBITDA pre in the Healthcare business sector declined by -5.0% to € 2,153 million (2020: € 2,267 million). Accordingly, the EBITDA pre margin fell to 30.4% in fiscal 2021 (2020: 34.1%). It should be noted that the prior-year figure for the business sector included income from the release of a provision for potential damages (€ 365 million). The share of Group EBITDA pre attributable to the Healthcare business sector declined to 33% (2020: 40%).

The Electronics business sector increased its EBITDA pre by 10.2% to € 1,128 million in fiscal 2021 (2020: € 1,024 million). The share of Group EBITDA pre attributable to the Electronics business sector amounted to 17% in the year under review (2020: 18%). The EBITDA pre margin rose by one percentage point to 31.3% (2020: 30.3%).

Merck Group

EBITDA pre¹ by business sector² - 2021
€ million/%



¹ Not defined by International Financial Reporting Standards (IFRS).
² Not presented: Decline in Group EBITDA pre by €-465 million due to Corporate and Other.

Net assets and financial position

Merck Group

Balance sheet structure

	Dec. 31, 2021		Dec. 31, 2020		Change	
	€ million	%	€ million	%	€ million	%
Non-current assets	34,380	75.8%	32,516	77.8%	1,864	5.7%
thereof:						
Goodwill	17,004		15,959		1,046	
Other intangible assets	7,612		7,653		-41	
Property, plant and equipment	7,217		6,421		796	
Other non-current assets	2,546		2,483		63	
Current assets	10,982	24.2%	9,280	22.2%	1,702	18.3%
thereof:						
Inventories	3,900		3,294		607	
Trade and other current receivables	3,646		3,221		425	
Other current financial assets	174		125		49	
Other current assets	1,362		1,286		76	
Cash and cash equivalents	1,899		1,355		544	
Total assets	45,362	100.0%	41,796	100.0%	3,566	8.5%
Equity	21,416	47.2%	17,017	40.7%	4,399	25.9%
Non-current liabilities	13,515	29.8%	15,548	37.2%	-2,034	-13.1%
thereof:						
Non-current provisions for employee benefits	3,402		3,880		-478	
Other non-current provisions	269		281		-11	
Non-current financial debt	8,270		9,785		-1,515	
Other non-current liabilities	1,574		1,603		-29	
Current liabilities	10,432	23.0%	9,231	22.1%	1,201	13.0%
thereof:						
Current provisions	601		613		-12	
Current financial debt	2,531		2,357		174	
Trade and other current payables/ refund liabilities	3,219		2,434		785	
Other current liabilities	4,081		3,828		253	
Total equity and liabilities	45,362	100.0%	41,796	100.0%	3,566	8.5%

The total assets of the Merck Group amounted to € 45,362 million as of December 31, 2021 (December 31, 2020: € 41,796 million), representing an increase of 8.5% or € 3,566 million in fiscal 2021. This development was due to the impact of the successful course of business as well as exchange rate changes, particularly the stronger US dollar at the reporting date.

The year-on-year increase in property, plant and equipment was attributable to additions of € 1,443 million (2020: € 1,530 million), which significantly exceeded depreciation and disposals in the reporting period. The previous year's figure includes the payment of € 208 million for the acquisition of the previously leased land and buildings of the Life Science site in Burlington, Massachusetts (USA). Of the additions to property, plant and equipment in 2021, € 198 million (2020: € 168 million) related to strategic investments in Germany, including € 151 million for the expansion of the Darmstadt site. Among other things, the Life Science business sector invested € 46 million in a new membrane production plant and € 43 million in a new filling and logistics center in Schnelldorf. Outside Germany, high levels of strategic investments were recorded in the United States (€ 203 million) and Switzerland (€ 159 million) in particular. The United States saw a Healthcare investment of € 19 million in the expansion of the research and development center in Billerica and Life Science investments of € 38 million in a new manufacturing facility for gene therapy products in Carlsbad and € 32 million in the expansion of the production facility for high-potent ingredients in Madison-Verona. In Switzerland, the Healthcare business sector invested € 86 million in a new development center to produce biotechnological products and € 31 million in a new production building for bottling these products.

In fiscal 2021, the equity of the Merck Group rose by 25.9% to € 21,416 million (December 31, 2020: € 17,017 million). This was primarily due to the profit after tax generated (€ 3.1 billion), positive currency translation effects (€ 1.7 billion) and actuarial gains on provisions for pensions (€ 0.6 billion). The dividend payments and profit distribution in the reporting year (€ 0.8 billion) served to reduce equity (see "Consolidated Statement of Changes in Net Equity" in the Consolidated Financial Statements). The equity ratio improved by more than six percentage points to 47.2% (December 31, 2020: 40.7%).

The composition and the development of net financial debt were as follows:

Merck Group

Net financial debt¹

€ million	Dec. 31, 2021	Dec. 31, 2020	Change	
			€ million	%
Bonds and commercial paper	9,320	9,642	-322	-3.3%
Bank loans	36	1,085	-1,050	-96.7%
Liabilities to related parties	896	817	79	9.7%
Loans from third parties and other financial debt	56	58	-2	-3.3%
Liabilities from derivatives (financial transactions)	35	102	-67	-66.0%
Lease liabilities	459	438	21	4.7%
Financial debt	10,801	12,142	-1,340	-11.0%
less:				
Cash and cash equivalents	1,899	1,355	544	40.1%
Other current financial assets ²	149	28	120	>100.0%
Net financial debt¹	8,753	10,758	-2,005	-18.6%

¹ Not defined by International Financial Reporting Standards (IFRS).

² Excluding current derivatives (operational).

Merck Group

Reconciliation of net financial debt¹

€ million	2021	2020
January 1	10,758	12,363
Operating Cash Flow	-4,616	-3,477
Payments for investments in intangible assets ²	355	150
Payments from the disposal of intangible assets ²	-39	-88
Payments for investments in property, plant and equipment ²	1,066	1,413
Payments from the disposal of property, plant and equipment ²	-7	-35
Acquisitions ²	4	11
Payments for/proceeds from the disposal of assets held for sale ²	-1	-48
Change in lease liabilities	151	65
Dividend payments/profit withdrawals ²	757	687
Currency translation difference	203	-189
Other	122	-93
December 31	8,753	10,758

¹ Not defined by International Financial Reporting Standards (IFRS).

² As reported in the Consolidated Cash Flow Statement.

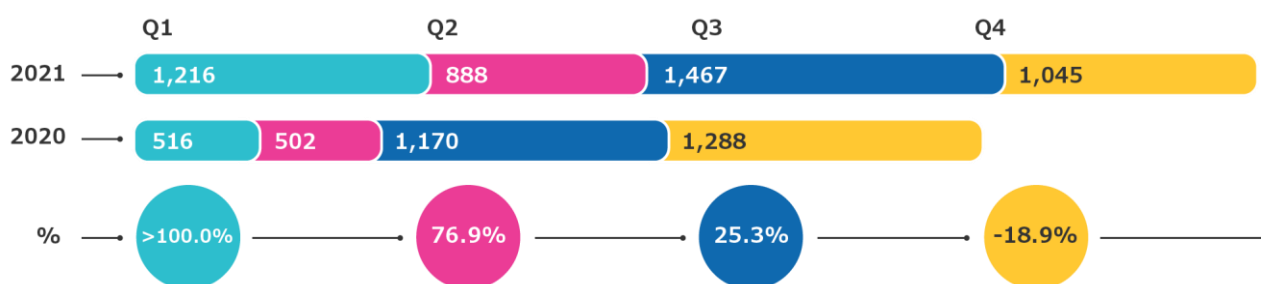
With effect from fiscal 2021, operating cash flow replaces business free cash flow as one of the three most important key performance indicators alongside net sales and EBITDA pre. The composition of operating cash flow is presented in the “Internal Management System” chapter.

In fiscal 2021, operating cash flow increased by 32.7% to € 4,616 million (2020: € 3,477 million). This strong performance was due in particular to the substantial growth in EBITDA pre. The distribution of operating cash flow across the individual quarters and the percentage changes in comparison with 2020 were as follows:

Merck Group

Operating cash flow¹ and change by quarter²

€ million/change in%



¹ Not defined by International Financial Reporting Standards (IFRS).

² Quarterly breakdown unaudited.

The capital market uses the assessments published by rating agencies to help lenders assess the risks of a financial instrument used by Merck. Merck is currently rated by Standard & Poor’s, Moody’s, and Scope. Standard & Poor’s has issued a long-term credit rating of A with a stable outlook, Moody’s a rating of A3 with a stable outlook, and Scope a rating of A- with a positive outlook. An overview of the development of our rating in recent years is presented in the Report on Risks and Opportunities.

The development of key balance sheet figures was as follows:

Merck Group

Key balance sheet figures

%		Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Equity ratio ¹	Total equity	47.2%	40.7%	40.9%	46.7%	39.5%
	Total assets					
Asset ratio ¹	Non-current assets	75.8%	77.8%	79.4%	75.0%	79.1%
	Total assets					
Asset coverage ¹	Total equity	62.3%	52.3%	51.5%	62.3%	49.9%
	Non-current assets					
Finance structure ¹	Current liabilities	43.6%	37.3%	45.7%	43.3%	40.1%
	Liabilities (total)					

¹ Not defined by International Financial Reporting Standards (IFRS).

Overall assessment of business performance and economic situation

Despite the ongoing pandemic and the resulting challenges, Merck can look back in a highly successful fiscal 2021. Needless to say, the safety of our teams around the world remained our top priority, and we averted major disruptions to our supply chains and business operations.

We reached or even exceeded the financial targets we had set ourselves for fiscal 2021. All three business sectors achieved excellent results. With particularly good performance, the “Big 3”¹ – the Process Solutions business within Life Science, new products from the Healthcare research pipeline, and the Semiconductor Solutions business within the Electronics business sector – representing the most important growth drivers of the Group. In fiscal 2021, the Merck Group increased its net sales by 12.3% or € 2.2 billion to € 19.7 billion. Organic sales growth amounted to 13.8% or € 2.4 billion. EBITDA pre, the most important financial indicator for steering our operating business, rose by 17.3% to € 6.1 billion. Net financial debt was reduced by € 2.0 billion to € 8.8 billion thanks to the strong growth in the operating cash flow, which increased by 32.7% or € 1.1 billion to € 4.6 billion in fiscal 2021. Consequently, we will propose to the Annual General Meeting the payment of a dividend of € 1.85 per share for fiscal 2021 – an increase of 32% on the previous year.

The extremely positive business development and solid financing policies of the Merck Group are reflected in its consistently good key balance sheet figures. The equity ratio was an impressive 47.2% as of December 31, 2021 (December 31, 2020: 40.7%). So that we can continue to achieve a rapid reduction in net financial debt, we are focusing on generating organic sales and earnings growth and on high inflows of financial resources from operating business activities.

The reduction in net financial debt also means Merck has significantly greater financial flexibility once again. This will enable us to increase our total investments for the period from 2021 to 2025 by more than 50% compared with the period from 2016 to 2020.

Based on our solid net assets and financial position, and our profitable operations, we view the economic situation of the Merck Group as positive overall.

¹ As of April 1, 2022, the Big 3 include the following businesses: Process Solutions & Life Science Services in Life Science, new Healthcare products and Semiconductor Solutions in Electronics