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# ***MSD Animal Health A/S***

Havneholmen 25, DK-1561 København V

## **Annual Report for 1 January - 31 December 2020**

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CVR No 46 29 08 28

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
28/6 2021

Niels Walther-Rasmussen  
Chairman



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# Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of MSD Animal Health A/S for the financial year 1 January - 31 December 2020.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2020 of the Company and of the results of the Company operations for 2020.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 28 June 2021

## Executive Board

Pedro Miguel Rodrigues da Silva  
CEO

## Board of Directors

Henriëtte Jeanne van Rijssen  
Chairman

Pedro Miguel Rodrigues da  
Silva

Karl-Johan Samuelsson

# Independent Auditor's Report

To the Shareholder of MSD Animal Health A/S

## Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of MSD Animal Health A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

# Independent Auditor's Report

## **Management's responsibilities for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

## Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 28 June 2021

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Ulrik Ræbild  
State Authorised Public Accountant  
mne33262

Thomas Lauritsen  
State Authorised Public Accountant  
mne34342

## Company Information

### **The Company**

MSD Animal Health A/S  
Havneholmen 25  
DK-1561 København V

Telephone: + 45 44 54 69 00  
Website: [www.msd-animal-health.dk](http://www.msd-animal-health.dk)

CVR No: 46 29 08 28  
Financial period: 1 January - 31 December  
Municipality of reg. office: København

### **Board of Directors**

Henriëtte Jeanne van Rijssen, Chairman  
Pedro Miguel Rodrigues da Silva  
Karl-Johan Samuelsson

### **Executive Board**

Pedro Miguel Rodrigues da Silva

### **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Strandvejen 44  
DK-2900 Hellerup

# Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2020 TDKK	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Revenue	338.207	295.558	280.079	280.214	262.308
Operating profit/loss	9.101	6.710	15.521	6.418	11.271
Net financials	-1	9	-139	-1	-125
Net profit/loss for the year	7.014	5.093	11.772	4.792	8.674
<b>Balance sheet</b>					
Balance sheet total	173.551	131.995	118.853	110.298	110.127
Equity	77.446	70.432	65.339	53.567	48.775
Number of employees	33	32	29	28	28
<b>Ratios</b>					
Gross margin	14,7%	13,3%	16,7%	12,1%	14,3%
Profit margin	2,7%	2,3%	5,5%	2,3%	4,3%
Return on assets	5,2%	5,1%	13,1%	5,8%	10,2%
Solvency ratio	44,6%	53,4%	55,0%	48,6%	44,3%
Return on equity	9,5%	7,5%	19,8%	9,4%	19,5%



## **Management's Review**

The Annual Report of MSD Animal Health A/S ("MSD Animal Health" or the "Company") for 2020 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying for medium-sized enterprises of reporting class C .

The Annual Report has been prepared under the same accounting policies as last year.

### **Key activities**

The Company's main activity comprises sale of veterinary medicine.

### **Development in the year**

The income statement of the Company for 2020 shows a profit of TDKK 7.014 and at 31 December 2020 the balance sheet of the Company shows equity of TDKK 77.446.

### **The past year and follow-up on development expectations from last year**

2020 was a challenging year. Our whole organization faced a large transformation and not to mention the challenges that Covid-19 brought. Still, our organization managed to deliver strong results. In 2020 the overall revenue grew by 14%. The growth was primarily driven by Swine. The overall result for 2020 was in line with expectations and Management concludes that the result was very satisfying.

### **Risk Factors**

The most material risks are the continuously increasing competition in the market. Furthermore the concentration of customers within food production animals and companion animals exacerbates the competition for customer wallet share and price erosion exposure.

### **Research and development**

MSD Animal Health is a local sales company, with research and development done in the Merck & Co., Inc. Group.

### **External environment**

MSD Animal Health is a pure sales company with no effect on the external environment.

### **Knowledge Resources**

MSD Animal Health is a knowledge intensive company, with 33 skilled and dedicated employees.

### **Uncertainty relating to recognition and measurement**

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

# **Management's Review**

## **Subsequent events**

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

## **Unusual events**

The financial position at 31 December 2020 of the Company and the results of the activities of the Company for the financial year for 2020 have not been affected by any unusual events.

## **Expected development**

The Company projects its revenue growth in 2021 to be 6-7 % above the result for 2020. The main projected drivers are the Bravecto franchise as well as a continued strong growth from the Swine Bio portfolio. The expectation is that the EBIT and EBITDA margins will remain at the same level as the margins in 2020.

The Company's outlook for the future considering COVID-19: We do expect a potentially negative effect from the COVID-19 situation. Especially in the small animal sector. The traffic towards the clinics can go down considering COVID and vaccinations might therefore be delayed.

## Income Statement 1 January - 31 December

	Note	2020 TDKK	2019 TDKK
<b>Revenue</b>		<b>338.207</b>	<b>295.558</b>
Cost of sales		-263.165	-228.222
Other external expenses		-25.180	-27.947
<b>Gross profit/loss</b>		<b>49.862</b>	<b>39.389</b>
Staff expenses	2	-40.761	-32.679
<b>Profit/loss before financial income and expenses</b>		<b>9.101</b>	<b>6.710</b>
Financial income	3	558	433
Financial expenses	4	-559	-424
<b>Profit/loss before tax</b>		<b>9.100</b>	<b>6.719</b>
Tax on profit/loss for the year	5	-2.086	-1.626
<b>Net profit/loss for the year</b>		<b>7.014</b>	<b>5.093</b>

# Balance Sheet 31 December

## Assets

	Note	2020 TDKK	2019 TDKK
<b>Inventories</b>		<b>85.802</b>	<b>78.391</b>
Trade receivables		36.169	35.736
Receivables from group enterprises		50.213	15.602
Other receivables		132	111
Deferred tax asset	6	623	425
Receivable from joint taxation		0	1.075
Prepayments	7	275	306
<b>Receivables</b>		<b>87.412</b>	<b>53.255</b>
<b>Cash at bank and in hand</b>		<b>337</b>	<b>349</b>
<b>Currents assets</b>		<b>173.551</b>	<b>131.995</b>
<b>Assets</b>		<b>173.551</b>	<b>131.995</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2020 TDKK	2019 TDKK
Share capital	8	20.551	20.551
Retained earnings		56.895	49.881
<b>Equity</b>		<b>77.446</b>	<b>70.432</b>
Other payables		3.256	1.023
<b>Long-term debt</b>	10	<b>3.256</b>	<b>1.023</b>
Trade payables		2.900	2.805
Payables to group enterprises		53.065	30.980
Corporation tax		2.138	0
Other payables	10	34.746	26.755
<b>Short-term debt</b>		<b>92.849</b>	<b>60.540</b>
<b>Debt</b>		<b>96.105</b>	<b>61.563</b>
<b>Liabilities and equity</b>		<b>173.551</b>	<b>131.995</b>
Subsequent events	1		
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## Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January	20.551	49.881	70.432
Net profit/loss for the year	0	7.014	7.014
<b>Equity at 31 December</b>	<b>20.551</b>	<b>56.895</b>	<b>77.446</b>

# Notes to the Financial Statements

## 1 Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

## 2 Staff expenses

	2020 TDKK	2019 TDKK
Wages and salaries	37.002	29.152
Pensions	3.710	3.480
Other social security expenses	49	47
	<u>40.761</u>	<u>32.679</u>
<b>Average number of employees</b>	<u>33</u>	<u>32</u>

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

## 3 Financial income

Interest received from group enterprises	317	158
Other financial income	241	275
	<u>558</u>	<u>433</u>

## Notes to the Financial Statements

	2020 TDKK	2019 TDKK
<b>4 Financial expenses</b>		
Interest paid to group enterprises	317	7
Other financial expenses	165	336
Exchange loss	77	81
	<b>559</b>	<b>424</b>
<b>5 Tax on profit/loss for the year</b>		
Current tax for the year	2.138	1.676
Deferred tax for the year	-58	2
Adjustment of tax concerning previous years	146	-2
Adjustment of deferred tax concerning previous years	-140	-50
	<b>2.086</b>	<b>1.626</b>



# Notes to the Financial Statements

	2020 TDKK	2019 TDKK
<b>6 Deferred tax asset</b>		
Deferred tax asset at 1 January	425	377
Amounts recognised in the income statement for the year	198	48
<b>Deferred tax asset at 31 December</b>	<b>623</b>	<b>425</b>
Property, plant and equipment	-2	-3
Other accruals	-621	-422
Transferred to deferred tax asset	623	425
	<b>0</b>	<b>0</b>
<b>Deferred tax asset</b>		
Calculated tax asset	623	425
<b>Carrying amount</b>	<b>623</b>	<b>425</b>

The recognised tax asset comprises deferred tax expected to be utilised within the next three to four years. In connection with the assessment of the utilisation of the tax asset, special emphasis has been placed on the Companys ability to generate profit, and expect to do so in the future.

## 7 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

## 8 Equity

The share capital consists of 1,000 shares of a nominal value of TDKK 20,551. No shares carry any special rights.

# Notes to the Financial Statements

	2020 TDKK	2019 TDKK
<b>9 Distribution of profit</b>		
Retained earnings	7.014	5.093
	<b>7.014</b>	<b>5.093</b>

## 10 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

### Other payables

Between 1 and 5 years	3.256	1.023
Long-term part	3.256	1.023
Other short-term payables	34.746	26.755
	<b>38.002</b>	<b>27.778</b>

## 11 Contingent assets, liabilities and other financial obligations

### Contingent liabilities

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of MSD Danmark ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on un-earned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Rental and Lease commitments comprise rent of lease vehicles and amounts to TDKK 2.024 (2019: TDKK 2.312).

# Notes to the Financial Statements

## 12 Related parties

	<u>Basis</u>
<b>Controlling interest</b>	
Intervet Holding B.V. Wim de Korverstraat 35 Boxmeer, 5831 Netherlands	Controlling shareholder
Merck & Co., Inc. 2000 Galloping Hill Road Kenilworth NJ 07033 USA	Ultimate parent company
<b>Other related parties</b>	
Henriëtte Jeanne van Rijssen	Board of Directors
Karl Johan Samuelsson	Board of Directors
Pedro Miguel Rodrigues da Silva	Board of Directors and Executive Board

### Transactions

With reference to section 98 C(7) of the Danish Financial Statements Act, related parties transactions have not been disclosed in the Annual Report.

### Consolidated Financial Statements

The company is included in the ultimate parent company Annual Report of Merck & Co., Inc.

The Group Annual Report of Merck & Co., Inc. may be obtained at the following address:

Merck & Co., Inc.  
2000 Galloping Hill Road  
Kenilworth NJ  
07033 USA

# Notes to the Financial Statements

## 13 Accounting Policies

The Annual Report of MSD Animal Health A/S for 2020 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2020 are presented in TDKK.

### Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Merck & Co., Inc, the Company has not prepared a cash flow statement.

### Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

### Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Income Statement

#### Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

#### Cost of sales

Cost of sales comprise the raw materials and consumables consumed to achieve revenue for the year.

#### Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

#### Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

#### Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

#### Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with companies Danish Group. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Balance Sheet

#### Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

#### Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

#### Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

#### Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

### Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Financial Highlights

#### Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$