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MorphoSys AG
Planegg
Securities Code Number: 663200
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Written report of the Management Board on Agenda Item 6
pursuant to section 203 para. 2 sentence 2
in conjunction with section 186 para. 4 sentence 2 AktG

The Management Board submits the following written report to the Annual General Meeting of the Company convened for May 19, 2021 pursuant to section 203 para. 2 sentence 2 AktG in conjunction with section 186 para. 4 sentence 2 AktG on the cancellation of Authorized Capital 2018-I and the creation of a new Authorized Capital 2021-I with the authorization to exclude subscription rights as proposed for resolution under Agenda Item 6.

1. Report on the issue of convertible bonds

On October 13, 2020, the Company resolved to issue convertible bonds in the total amount of 325,000,000.00 € with an interest coupon of 0.625 % per annum and a regular term until October 16, 2025, based on the authorization granted by the Annual General Meeting on June 2, 2016 under Agenda Item 7. The convertible bonds were issued on October 16, 2020. The convertible bonds can be converted at a conversion price of 131.29 € per share, subject to an adjustment of the conversion price in accordance with the bond terms and conditions. The issue of the convertible bonds is based on Conditional Capital 2016-I in accordance with Article 5 para. 6b of the Company's Articles of Association. The subscription rights of the Company's shareholders to subscribe for the convertible bonds have been excluded.

Pursuant to Article 5 para. 5 of the Company's Articles of Association, shares to be issued to service convertible bonds and/or bonds with warrants whose authorization bases exist at the time the authorization pursuant to Article 5 para. 5 of the Company's Articles of Association becomes effective shall be taken into account in calculating the shares issued with exclusion of subscription rights in capital increases against cash and/or non-cash contributions, provided that convertible bonds and/or bonds with warrants have been issued with exclusion of shareholders' subscription rights. The convertible bonds were issued on October 16, 2020 excluding shareholders' subscription rights.

2. Rationale for cancellation of Authorized Capital 2018-I and creation of new Authorized Capital 2021-I

The Management Board and the Supervisory Board propose to cancel the unused Authorized Capital 2018-I, which authorizes the issuance of shares in an amount of up to 35.78 % of the current share capital, and to authorize the management to issue new shares of the Company on the basis of a new Authorized Capital 2021-I, as the authorization to exclude subscription rights when issuing new shares pursuant to Article 5 para. 5 of the Company's Articles of Association is only partially available under the existing Authorized Capital 2018-I due to the issuance of convertible bonds. In order to continue to provide the Company with the necessary flexibility to exclude subscription rights (exclusion of subscription rights shall be possible up to an amount of 10 % of the share capital), the entire Authorized Capital 2018-I of the Company shall be canceled and a new, significantly smaller Authorized Capital 2021-I shall be created, which authorizes the management of the Company to increase the Company's share capital by up to a total of 4,861,376.00 €, i.e., or only up to approximately 14.78 % of the current share capital, against cash and/or non-cash contributions until and including the date of May 18, 2026 on one or more occasions by issuing up to 4,861,376 new no-par value bearer shares. All conditional and authorized capital of the Company – also taking into account the further resolutions proposed in this connection to the Annual General Meeting on May 19, 2021 and including the amount of Authorized Capital 2021-I of up to 4,861,376.00 € and the corresponding number of up to 4,861,376 new shares – together correspond to a proportion of 50 % of the current share capital. Thus, all authorized capital of the Company (Authorized Capital 2021-II to be resolved pursuant to Agenda Item 7 of the Annual General Meeting of May 19, 2021, Authorized Capital 2021-III to be resolved pursuant to Agenda Item 8 of the Annual General Meeting of May 19, 2021, new Authorized Capital 2021-I to be resolved and the unchanged Authorized Capital 2019-I) would amount to a total of 8,624,577.00 €, which equates to 26.22 % of the current share capital of 32,890,046.00 €. The cancellation of Authorized Capital 2018-I shall only take effect if Authorized Capital 2021-I effectively replaces it.

3. New Authorized Capital 2021-I and related benefits for the Company

The proposed authorization to issue new shares from Authorized Capital 2021-I is intended to enable the Management Board, with the consent of the Supervisory Board, to respond flexibly to financing requirements in connection with the implementation of strategic and/or operational decisions. Particularly in the current economic situation, a fast and flexible instrument for financing is necessary and in the interests of the Company and its shareholders (e.g., to enable the acquisition of interests in companies). The proposed new Authorized Capital 2021-I is intended to enable the Management Board, with the consent of the Supervisory Board, to raise new equity for the Company at short notice, also by making use of an exclusion of subscription rights, to an extent that is extended in time and reduced in volume compared with Authorized Capital 2018-I (which expires on April 30, 2023), e.g. to acquire companies, interests in companies, patents, other industrial property rights, license rights or a group of assets forming a business in return for shares, among other things. This type of advance resolution is common practice both nationally and internationally.

In order to meet these needs, the existing Authorized Capital 2018-I is to be replaced by a new Authorized Capital 2021-I. This is intended to give the Management Board the option to have shares of the Company at its disposal in a flexible manner, for a longer period than in the past but to a reduced extent, subject to the approval of the Supervisory Board and within the framework of the statutory requirements pursuant to section 202 para. 3 AktG.

4. Exclusion of subscription rights

The proposed resolution provides for an authorization to exclude shareholders' subscription rights, which generally exist when authorized capital is utilized, for certain purposes listed in detail in the proposed resolution:

a) In the event of a cash capital increase, the exclusion of shareholders' subscription rights pursuant to subsections b) aa) and c) aa) of Agenda Item 6 is necessary in order to avoid fractional amounts – as was previously the case under Authorized Capital 2018-I. The authorization to exclude subscription rights for the utilization of fractional shares is necessary in order to be able to present a practicable subscription ratio in any case in the event of a capital increase, and therefore only serves to enable the utilization of the authorized capital with round amounts. Fractional amounts arise if, as a result of the subscription ratio or the amount of the capital increase, not all new shares can be distributed equally among the shareholders. Without this authorization, the technical implementation of the capital increase would be made more difficult in such cases. The costs of trading in subscription rights for the share fractions would be disproportionate to the benefit for the shareholders. The new shares free of subscription rights created by the exclusion of shareholders' subscription rights for the fractional shares will be realized either by sale on the stock exchange (if possible) or in some other way in the best possible way for the Company. The possible dilution effect is low due to the restriction to fractional shares.

b) In the event of a capital increase against non-cash contributions, the exclusion of subscription rights in accordance with subsections b) bb) and c) bb) of Agenda Item 6 is necessary in order to achieve the objectives pursued with this capital measure, as was previously the case under Authorized Capital 2018-I. For example, the Company is to be enabled to grow further and strengthen its competitiveness through the acquisition of companies, equity interests in companies or assets (above all patents and other industrial property rights as well as licenses).

An essential part of the Company's corporate strategy is to drive forward its own development programs and add innovative technologies and new development programs to the existing corporate portfolio. For this purpose, the conclusion of partnerships, the acquisition of licenses or the acquisition of a company may be necessary. The conclusion of such partnerships or the acquisition of licensing rights, which are of particular importance to the business purpose of the Company, contribute to the value-enhancing expansion of the Company's pipeline and technology portfolio. In the past, these contributed to an increase in the stock market price of the Company's shares, which also benefited the shareholders and compensated for the exclusion of their subscription rights. In order to be able to adhere to this corporate strategy in the future, the proposed cancellation of Authorized Capital 2018-I and the creation of Authorized Capital 2021-I, provides for a longer term by comparison and is sensible (at the same time, however, the possibility of excluding subscription rights in the case of capital increases against cash and/or non-cash contributions under Authorized Capital 2021-I shall be reduced to a total of 10 % of the share capital). This will ensure, in particular, the acquisition of equity interests and industrial property rights in a way that preserves liquidity so that the Company's market position can be expanded further. Financing such an acquisition wholly or – if the authorized capital is insufficient – partially with cash is neither possible nor sensible in certain transactions, especially as the sellers or licensors frequently insist on receiving shares as consideration because of the economic advantages they can gain.

The ability to use its shares as an acquisition currency thus gives the Company the necessary scope to exploit such acquisition opportunities quickly and flexibly as they arise. The exclusion of subscription rights is necessary in these cases because acquisitions are made at short notice and generally cannot be resolved by the Annual General Meeting, which is held only once a year. It is also not generally possible to have enough time to convene an Extraordinary General Meeting due to the statutory deadlines. Instead, authorized capital is required so that with the consent of the Supervisory Board, the Management Board can act quickly.

c) The option to exclude subscription rights in accordance with subsections b) cc) and c) cc) of Agenda Item 6 is – as was previously the case under Authorized Capital 2018-I – intended to enable a further issue of shares in the Company on foreign stock exchanges if market conditions allow and serves the further growth of the Company. The exclusion of subscription rights is thus intended to create the option for a further listing on a foreign stock exchange. The exclusion of subscription rights ensures a reasonable placement volume and the optimal utilization of new shares. In contrast, the preservation of shareholders' subscription rights would lead to considerable technical difficulties in the placement of the new shares and prevent the best possible issue price from being achieved. Due to a financing base that is thus more broadly spread internationally, the Company could be better protected against capital market fluctuations and local changes in the cost of capital could be balanced in the best possible way. Such an international investor structure would create greater market liquidity and reduce the Company's dependence on individual investors. In the international biotechnology environment, an additional listing on a foreign stock exchange would also facilitate the acquisition of company interests through share swaps.

The total number of shares issued on the basis of the above authorizations with the exclusion of shareholder subscription rights for capital increases against cash and/or non-cash contributions may not exceed 10 % of the share capital calculated either at the time the authorizations take effect or at the time they are exercised, based on whichever amount is lower. The 10 % limit shall include shares sold or issued or to be issued with exclusion of subscription rights under other authorizations expressly mentioned. The aforementioned 10 % limit shall include (i) treasury shares sold with the exclusion of subscription rights after these authorizations become effective, (ii) shares issued on the basis of other authorized capital with exclusion of subscription rights during the period in which these authorizations are in effect, and (iii) shares to be issued to service convertible bonds and/or bonds with warrants, insofar as the convertible bonds and/or bonds with warrants have been issued with the exclusion of shareholders' subscription rights while these authorizations are in effect but in respect of items (i), (ii) and/or (iii) in each case only insofar as the shares are not used to service claims by members of the Management Board and/or employees of the Company and/or its affiliated companies under employee participation programs. The maximum limit reduced in accordance with the above sentences of this paragraph shall be increased again when a new authorization to exclude shareholders' subscription rights resolved by the Annual General Meeting takes effect after the reduction, in the amount of the new authorization, up to a maximum of 10 % of the share capital in accordance with the requirements of sentence 1 of this paragraph.

This capital limit restricts the total scope of an issue of shares from authorized and conditional capital without subscription rights and, in addition, of a sale of treasury shares excluding subscription rights. This additionally provides shareholders with protection against a dilution of their shareholding. However, shares used to service claims of Management Board members and/or employees of the Company and/or its affiliated companies under employee stock option programs and issued without subscription rights are not subject to deductions, as the dilutive effect for shareholders is low.

The maximum exclusion of subscription rights on the basis of Authorized Capital 2021-I is 10 % of the Company's share capital.

Having weighed all the above circumstances, the Management Board and the Supervisory Board consider the exclusion of subscription rights in the above cases to be objectively justified and appropriate for the reasons stated, also when taking into account the detrimental effects of dilution for the shareholders.

The Management Board will report to the Annual General Meeting on each utilization of Authorized Capital 2021-I.

Planegg, March 26, 2021

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The Management Board

Jean-Paul Kress, M.D. Chief Executive Officer	Sung Lee Chief Financial Officer
Malte Peters, M.D. Chief Research and Development Officer	Roland Wandeler, Ph.D. Chief Operating Officer