Bayer AG – Investor Relations

Consumer Health Investor Webinar

15 September 2022

Welcome

Oliver Maier

Head of Investor Relations, Bayer AG

Good afternoon and good morning. It's a great pleasure to be with you today, and I welcome you to our next webinar. This time, it's all about our Consumer Health division.

With me on the webinar today are Patrick Lockwood-Taylor, President of Bayer USA and head of commercial operations for the region North America for Consumer Health; David Evendon-Challis, head of research and development; and Patricia Corsi, head of strategic marketing, digital and information technology. Oliver Rittgen, the CFO of the Consumer Health division, will be joining our Q&A session after the presentation. As Heiko Schipper, president of the Consumer Health division and member of the management board of Bayer AG, cannot be with us today, my special thanks goes to Patrick, who was so kind to take over his part today.

Today, we will give you an answer on why our Consumer Health portfolio is well positioned to drive superior growth in the future. The presenters will showcase our plans for how to continue growth momentum, further develop on our competitive strength and give you insights into our science-based innovation approach and our commercial capabilities.

Instructions for how to raise your questions during the Q&A session are available in the Zoom chat, and I'll also remind you later on. To ensure best audio quality, I ask you to use a speaker or a landline for asking questions rather than a headset or mobiles because that's not good for the audio quality.

Before we begin, I would your attention to the forward-looking statement included in the materials today, and as also currently presented on the screen. And, with that I'll hand it over to you, Patrick.

Driving Sustainable Outperformance in Consumer Health

Patrick Lockwood-Taylor

President, Bayer USA and Head of Commercial Operations North America, Consumer Health, Bayer AG

Thanks, Oliver, and a very warm welcome to our investor webinar. Dave, Patricia, Oliver and I are very much looking forward to reviewing our Consumer Health business with you. It's a very special business for us at Bayer. It's home to Aspirin, an iconic brand celebrating its 123rd anniversary this year. Consumer Health is the business by which our corporate Bayer brand directly connects with hundreds of millions of consumers around the world. With our science-based products and trusted brands, people trust our Consumer Health business to take care and improve their everyday health.

We believe that we are very well placed to win in this market. Inspired by Bayer's purpose of 'science for a better life', we draw on a unique combination of science-based innovation, world-class branding capabilities and executional excellence to help us outperform. We really do understand the consumer health market, and today I want to show you our exciting plans to continue performing at the forefront of the industry.

Let's start by looking at our portfolio both geographically and from a category perspective. We've carefully built a balanced portfolio, and we see good opportunities to grow our business across geographies and categories. Our balance keeps us from being too exposed to short-term volatility. It is also valuable as we partner with key customers to deliver a more complete offering across over-the-counter medicines and Nutritionals. Geographically, we have good positions across all four regions, which allows us to quickly pivot and capture growth opportunities when they arise.

We've strategically built this balanced portfolio over the past two decades. The consumer health market is often fairly widely defined. It includes OTC medicines, vitamins, minerals and supplements or Nutritionals, but it also includes oral care, sun care, foot care and others. At Bayer, we have decided to focus on what we call core consumer health, which comprises over-the-counter medicines and VMS. This core consumer health market is more regulated; it requires stronger scientific, clinical and medical capabilities in combination with strong brands in order to be successful.

Since 2019, we have strategically shaped our portfolio, divesting businesses like sun and footcare. We also made several important acquisitions to strengthen our portfolio in the core consumer health market. We entered the personalised direct-to-consumer nutritional segment through the acquisition of Care/of in the US. We also made strategic moves in Europe to build up a leading pure play ecommerce business with the GloryFeel and Natsana transactions, and, in OTC medicines, we have in-sourced our first Rx-to-OTC switch with Astepro, which is the first non-steroidal antihistamine nasal spray that starts working faster than competitor products in the US.

Our core consumer health focus is aligned with our core competencies, and, when you talk about Bayer's core competencies, you have to start with science. We take science seriously, and science-led innovation is what drives growth in our core categories. That's why we invest 4% of net sales into innovation, putting us in the upper tier of the industry. It's why we lean on our world-class medical and clinical teams for deep insights on how to translate medical needs into solutions for consumers. Over the last two years, our regulatory and medical teams have worked with key opinion leaders and regulators to generate 1,200 new claims that highlight the efficacy of our products and help bring them to market.

This scientific and medical expertise enabled our recent switch of Astepro, for example. It's also the reason for our top scores with healthcare professionals. Consumers have also taken note of our scientific acumen. A recent survey asked consumers the question, 'Which of these brands are based on science?' and, as you can see, Bayer received top scores amongst industry peers. Quite simply, Bayer is a company with science built into its DNA. It's what we mean with our purpose: Science for a better life.

To truly deliver that purpose, you have to apply science in a way that meaningfully connects with consumers. That's where our brands come in. Our portfolio is home to 15 power brands, including some of the most trusted brands you can find on pharmacy shelves, medicine cabinets and online shopping carts. These brands represent each of our core categories. Many of them have decades of history, and we keep them relevant with innovation and world-class brand-building, as you'll hear from Dave and Patricia later on. We have transformed the creative behind our brands from one-size-fits-all advertising to modern, sophisticated precision marketing.

Take Aspirin as an example. Everyone knows Aspirin as the legacy Bayer brand. It's been a staple in our portfolio since 1899, when the company began selling Aspirin to pharmacies in 250g glass vials. For more than a century, we have innovated behind the Aspirin brand, offering new formats and faster pain relief, but we also invest in marketing that evolves the brand's strong legacy and keeps it preferred by consumers. This year, for example, one of our Aspirin campaign was recognised at Cannes Lions, the premier award festival for creativity. This makes Aspirin the only brand I know of that's associated with both a Nobel Prize and a Cannes Lion. And it's exactly this combination – leading science and world-class brand-building – that will sustain our success in Consumer Health.

Another driver of our success is our management team. With eight nationalities and experience across the pharmaceutical and consumer goods industries, we're a diverse team that knows what it takes to win in Consumer Health. This is a team that is fully bought into our strategy. From launching innovation to building up business in new channels, we have proven that we can execute with excellence. We're focused on setting up this business for success today, tomorrow, and the years to come, and we're investing significantly in upskilling our organisation through talent attraction, retention and development. By the end of this year, for example, every leader in our organisation will be trained in new digital technologies and how they can create value for our business.

Our ability to execute has consistently delivered impressive business results. For three straight years, we've grown top and bottom line. Today, that leaves us well positioned to meet the guidance shared at our last capital markets day in March 2021. In that context, we continue to carefully monitor and mitigate the volatility around natural gas supply.

We've also made tremendous progress on cash generation, which we highlighted as a focus area during that session. In 2020, we established a dedicated programme to optimise our working capital. In its first year, we improved our trade working capital as a percentage of net sales by 180 basis points. In 2021, we decreased it by another 220 basis points, and, in '22, we are continuing this strong trajectory and expect further improvement on cash generation in the future.

These results have translated to continued outperformance relative to our peers. In 18 months, we moved from an underperformer to an outperformer. In '21, we delivered our third straight year of outperformance, beating our peer group by 180 basis points. This track record gives us confidence we can sustain this strong performance and continue to deliver superior growth.

We have a clear plan to help us do this. Strong execution of our gameplan is what drove our rapid turnaround and outperformance. Now, we've refined our strategy in order to take our business to the next level. Guided by 'science for a better life', which we see as our true differentiator, we have the clear ambition to grow ahead of the market and improve our margin.

Our gameplan expresses how we aim to do that. Later, you will hear from Dave on growth-focused innovation and from Patricia on modernised marketing and sales, two essential pillars of our gameplan. But, before doing so, I will highlight a few focus areas in version 2.0 of our gameplan.

The first is "Where to play". To grow above the market, we are doubling down where the growth is. We know we can win in the high-opportunity categories, markets and segments where science makes the difference. Take medicated skin as an example. Last year we launched Bepanthen Derma, a lotion for severely dry skin that repairs and protects skin at a cellular level. We've rolled the product out now to 11 markets across three regions and have seen consistent growth in our Dermatology category as a result. We see similar opportunities in healthy ageing, stress and sleep, and many others, and more than half of our pipeline is focused on truly winning in the highest-potential growth segments.

Another opportunity we see is in further Rx-to-OTC switches. We are working on two additional switches over the mid-term. Like Astepro, these planned switches will drive incremental category growth for us and for our customers and provide access for unmet needs to our consumers.

Geographically, we already have a strong foothold in Asia. We want to leverage this position, and we've increased investment in Asia to gain share in a few key markets, including China, ASEAN, and India, a market worth more than €2 billion today. Since our last capital markets day, we have restarted our business in India, which is seeing rapid growth in its first year as an independent business.

Finally, we are investing in digital health platforms and ecommerce. Ecommerce has seen exceptional growth recently and makes up about 10% of our sales today. We aim to expand its share in the future. Through M&A activity like our acquisition of GloryFeel, we are building a true ecommerce powerhouse which will drive growth across our portfolio in this high-potential channel.

Looking at new digital health platforms, over the past year, we have piloted a partnership with Ada Health to help consumers better understand their symptoms directly on our brand websites. This partnership gives consumers more information to make more informed health decisions and drives engagement behind our brands, opening up the potential for digital health ecosystems in the future.

We firmly believe in growing our business, but we do so in a way that is good for people and good for the planet. That's the spirit behind our 2030 sustainability commitments, which address access to health and a changing climate, the two most pressing issues of our time. First, we want to expand access to everyday health. We've committed to putting self-care in the hands of 100 million more people annually in underserved communities by 2030. Three years into this commitment, I'm pleased to report we've already reached 59 million people annually, including millions of underserved women and their babies with our portfolio and our strategic partnerships.

Our second commitment is environmental. In two years, we have reduced our greenhouse gas footprint by 40,000 metric tons. That means we're more than a third of the way on our climate neutrality plan with more than seven years to go. We are also transforming our packaging. By 2030, the packaging for all our products will be recyclable or reusable. We know that human health and the health of our planet go hand-in-hand, and we're committed to supporting both via a business that delivers sustainable, inclusive growth for generations to come.

So, before handing it over, I would like to quickly summarise how Bayer aims to win in Consumer Health, creating sustainable value for customers, consumers, employees, and investors. First, we are totally focused on growing the top line ahead of the market. Second, we strive for profitable growth. We aim to continue to expand our margin to our stated guidance of mid-twenties by 2024. Finally, we will continue to step up our focus on cash generation. We have dedicated programmes to advance each of these dimensions and aim to be a sustainable cash engine for Bayer.

Now, I thank you all for your attention, and I'm happy to turn it over to Dave, who's going to share what world-class innovation in Consumer Health looks like. Dave, over to you.

The Science of Self-Care: Growth-Focused Innovation

David Evendon-Challis

Head of Research and Development, Consumer Health, Bayer AG

Thanks, Patrick, and a warm welcome also from my side. Today I have the pleasure of walking you through our approach to delivering growth-focused innovation and why we believe that embedding sound science is so vital to earning and maintaining our consumers' trust.

I'll also update you on how we are embracing the shift to self-care as, in the wake of the pandemic, and with the rise of accessible digital information, managing and maintaining our own good health is more important than ever.

So let's begin by taking a step back and looking at the Consumer Health industry. The imperative to innovate is clear. Innovation is the number-one growth driver in a very crowded marketplace, and I believe that the key to differentiation and above-market growth is science and creativity. Without it, products can be lost in a sea of sameness. But the reality within the consumer health industry is that innovations really haven't been bold enough. Despite a steady stream of new product developments entering the market, almost none of it is what would be considered game-changing innovation, and high-quality innovation is in decline.

So today I want to talk to you about what we are doing to change that. Firstly, we have created an outstanding R&D capability. As you can see, we invest about 4% of our net sales annually into R&D, which is upper-quartile in the industry, and that investment is amplified through our world-class innovation network, built to elevate science in everything we do, from the earliest stages of ideation and discovery to supporting in-market growth. We have significantly expanded our partner network in recent years, and in fact more than half of our innovation pipeline is enabled via these partnerships and external deals, and I think this is a great strength.

Our nine internal innovation centres have specialisms in our core category areas, and these innovation centres house our real strength: brilliant people whose diversity reflects the customers and consumers we serve. We have strong expertise across all of our categories, at every stage in innovation, and across the disciplines from strategists, tech scouts, designers through to formulators, analytical scientists and packaging engineers, and we are investing in developing and enhancing our skill set for the future, building digital expertise, end-to-end enterprise thinking and brilliant scientific storytelling.

Now, the second way in which we are setting out to deliver game-changing innovation is through the adoption of ambitious growth objectives, and we do this by embedding differentiated science that's very much in line with our purpose, 'Science for a better life'. And this is important for consumers who are increasingly interested in taking more ownership of their own personal health but who find a confusing environment of information and misinformation to help them do so. They need to trust the brands and the companies behind them who are helping them manage their health.

So we have developed five core principles which are critical for science-led self-care. Let's start at the top left. The science of the human: this is about understanding the medical unmet needs that innovation can solve for. Next, the science of regulation: navigating and influencing a complex and fragmented regulatory environment, ensuring our products are safe and compliant. The science of discovery: tapping into new insights, new science and new technologies. Then the science of collaboration: joining forces with other like-minded organisations to bring better solutions to more people much faster than trying to do it alone. And, finally, the science of the consumer-product experience: this is about ensuring that products are easy to use, that they deliver on their promises and even that they delight people in the process.

And we apply these principles to our pipeline, and we also focus on creating the right balance of innovation that allows us to strengthen our existing brand positions, to expand them into new areas within the category and also to transform the categories themselves. Core innovation will always be important, but we are investing more in brand adjacencies and transformational innovation than the classic 70:20:10 model seen in some of the other industries.

So let's look at some examples about how that all comes to life. We will start with the strengthening of Redoxon. This is a brand that launched in 1934 as the world's first vitamin C product. The process was invented by future Nobel Prize-winning scientist Tadeusz Reichstein, and over the decades it's grown around the world. Moving to the present, immunity and disease prevention have become very much top-of-mind for almost everyone over the past few years as we dealt with the pandemic, and more and more people are actively taking steps to improve their health, regardless of whether they feel ill, and this includes strengthening immunity in times when they feel risk is higher.

We have invested in medical research to better understand the factors affecting immunity, especially the role nutrition plays across the three lines of defence: first, the physical barriers like skin and mucosa; secondly, the cellular defences, which is our basic immune system response; and, third, our adaptive responses, acquired immunity and the production of antibodies. And this resulted in our best formulation ever, developed by our VMS experts in Gaillard, France, with 11 key components targeting those three layers of the immune system, backed up by seven clinicals which support the credibility, especially with healthcare professionals, and we've also launched this formulation under other brands like Berocca and Supradyn to scale the innovation globally. We're applying this platform thinking across our VMS portfolio.

So, moving to how we are expanding our brands, Talcid is a brand known for its upper GI products that contain hydrotalcite, and it was launched in China in 1997. We know that gut health is complex, and many people suffer with both diarrhoea and constipation in a cycle that is sometimes hard to break, and it's connected to the amount of water in the bowels: too much in the case of diarrhoea and too little with constipation. We also know that the microbiome has a key role in this continuum. Think of things like diarrhoea caused by antibiotic usage, where the drug disturbs the natural balance of bacteria in your intestines.

There are a lot of products out there in the world that are not grounded in science, that don't have evidence to support their claims, and there are those that are not designed with the people that need them in mind. So we worked with China's leading university on probiotics, developing patented probiotic strains from the Chinese human gut. So not only do the products work; they are helping us to extend Talcid into important and growing adjacencies.

And finally we are investing in new areas that transform entire categories. Rx-to-OTC switch is one of our main ways of doing this and one we have had a lot of success in over the years, like with Claritin, Aleve, MiraLAX, and Canesten among others, and our newest switch is, Astepro, the first and only OTC antihistamine nasal spray in the US. It starts working in 30 minutes and is long lasting for 24 hours on symptoms of allergic rhinitis, and in allergy fast relief is the number-one need. The medicated nasal spray market is predominantly intra-nasal steroids, even though a strong proportion of sufferers would prefer not to use steroids if given an alternative. So the nasal delivery of the antihistamine azelastine in Astepro offers a faster mode of action than both steroids and oral antihistamines due to the local effect on the histamine receptors in the nasal cavity.

While launching switches is an important step in opening up new markets, we consider it a first step, and we work to build new innovations on top of the initial switch offering, and you can rest assured that Astepro will be no exception there. While we aren't at a stage where I can share details yet, I can tell you that we have a number of other really exciting switch candidates in our pipeline, led by our expert Switch team, which has a unique blend of science, consumer behaviour and commercial expertise.

Another transformation that's occurring is sustainability, and earlier Patrick mentioned our sustainability commitments, and I wanted to add how we are deploying our best strengths, science and innovation, to meet these commitments. We have developed an approach called Sustainability by Design which embeds our sustainability commitments into all of our product developments. For example, we recently launched our Bepanthen dry skin range with a great new design, and Sustainability by Design thinking ensured our bottle is not only appealing and practical but refillable. In a category where refills aren't common, the large and stable bottle and the wide neck make refilling easy and convenient. The refill pack uses 80% less packaging by weight, and we have also light-weighted the bottle by a further 9% for our most recent launch.

So, turning to access, our ambition and our challenge is to innovate science-based solutions at an accessible price point for low-income consumers. For example, our Cardioaspirina range provides life-saving solutions in Guatemala, where cardiovascular disease accounts for one third of all deaths. We have re-engineered the product so it can also be sold in individual sachets, thus lowering the daily out-of-pocket cost. The sachets come in strips of 100, making them really easy to display in mom-and-pop stores, and each sachet also includes a QR code to access all of the medical information about the product and ensure its safe usage. This approach we're replicated across other categories and geographies.

And to take our access commitment to the next level, we have invested in a comprehensive global study to understand the socioeconomic determinants of low-income consumers' health outcomes. This study, which will be published soon, supports the identification of unmet medical needs in often overlooked populations, and we're embedding these insights into our category and medical strategies so we can deploy our science and innovation engine towards developing products that meet these unique needs.

Now, the final transformation which I wanted to touch on is maybe the biggest of all and impacts the entire consumer health industry. There is a consumer demand to take more control over their own personal health, and this is converging with advanced digital tools, and the ability to personalise offerings.

We know that during Covid 44% of people started to use new devices and apps to help manage their conditions, that 60% of people want to use more tech to communicate with their healthcare professionals, and 30% of people are now getting treatments at home instead of their healthcare provider's office. Add to this the 200 billion health-related searches on Google per year, and I believe we are entering the era of precision health in self-care.

And this emergence of precision health is really changing the healthcare journey. What once was a simple problem-solution journey is shifting to one of more continuous care as access to diagnostics, assessments, education and medical solutions give people constant ability to take action on their own health. For us, it means an increased opportunity to bring patients value through each of these phases. Take Care/of, for example, a personalised DTC nutrition company which we completed the acquisition of this year.

It's super-simple to participate: You take an online questionnaire; you let the algorithm create a personalised offering based on your needs combined with the research available on different supplements; you receive personalised daily packs to your home; and you join the digital ecosystem to continue your health journey.

On top of this, as Patrick mentioned earlier, we are working with external partners like Ada Health, an AI-based health assessment platform, where we have provided symptom assessment in the areas of pain, IBS and women's health via our brands Aleve, Aspirin, Iberogast and Midol.

And I passionately believe that digital health and digital products are relevant for all of our categories and brands across the consumer journey from awareness to education to assessment to action and continued engagement, and we see unique possibilities to build entire ecosystems around key medical concerns for everyone.

So, to conclude this section, we know how to differentiate ourselves through our science and innovation, and we know how to translate this to bigger, better and more unique innovation. And I'm really happy to say that our approach is bearing fruit. One important metric which is the sales contribution from new products launched in the last three years has doubled from 8% in 2018 to 16% in 2021, reflecting our focus on innovation and brilliant in-market execution, and over the same period we have increased the value of our innovation pipeline by a third while also increasing the profitability of that pipeline.

Our portfolio mix has become more ambitious, and its quality has improved. And, thanks to an approach that prioritises unique, ownable and sustainable innovation, more than half of our pipeline is either 'transform' or 'expand' versus a fifth previously. When we look to the future, my whole team in the broader innovation community are focused on driving scales, synergies and the progression of some really exciting early-stage work into our formal innovation pipeline. I now hand over to Patricia to talk to you about how our brands and commercial capabilities are accelerating our growth.

Brand-Building & Route to Market: Commercial Pillars for Success

Patricia Corsi

Strategic Marketing, Digital & IT Consumer Health

Thank you, Dave, and good morning, good afternoon to our audience. It's a pleasure to be here sharing an update on how we at Bayer are taking the great innovation Dave just presented and connecting it to consumers and customers through strong brand-building and excellent sales execution, as mentioned by Patrick. Over the past three years, we have significantly accelerated our capabilities in these two areas, and we have been an important source of our growth. Going forward, we are confident in our marketing, sales and digital programmes, that we will continue to be a driving force of growth behind our brands and expanding our business.

Our commercial strategy has a clear focus, modernising our marketing activities and driving a customer-centric sales world. On the marketing side, at Bayer we have a treasure box of iconic brands, as you have seen and heard from Patrick, from Aspirin to Bepanthen, Redoxon and Claritin among others. Over the past three years, we have focused on unleashing the potential of these brands in three main pillars: purpose, creativity and data. We showcase that our brands stand for bring it to life with excellent creatives, enabling its success in a consumer-centric way with precision marketing and best-in-class digital tools.

On the sales front, our programmes focus on customers, their needs and opportunities. We work closely with partners across channels, with the other pharmacies and digital customers, to build tailored programmes and strategies that win and build value in our categories. We have doubled down on e-commerce, which is projected to deliver more than half a billion in sales in 2022, and we are focused on continuing to grow our share in this channel. Finally, our initiatives in strategic pricing and trade excellence are supporting the business to realise margin opportunities, an essential priority in an inflationary environment.

Let's start with our iconic brands. Our portfolio is home to science-based innovative brands that consumers trust. Our power brands deliver three quarters of our sales, and that's where we have the most focused efforts in the past three years. We have modernised and transformed brands like Rennie from a simple tablet to a go-to solution against indigestion, helping our consumers to bring back the joy in eating. We have made Berocca the protagonist in viral social media campaigns in Asia, encouraging millions and millions of consumers to dance while learning how to keep their energy levels up during the pandemic. We also have activated a brand well known for its quality and science-backed ingredients, Bepanthen, as the new aftercare choice for people who have a tattoo.

These are just some of the examples on how we have expanded our brand footprint geographically, in new categories as well as entering in winning and digital channels. Our brands have incredible potential, which is exactly what we want to unleash with our marketing and sales ambition. Our brands exist to help people in some of their most precious and important moments. Take Elevit as an example. Our prenatal vitamins, with the Every Beginning campaign, helped more than 7 million women and babies in underprivileged communities to get their best start in life, or Canesten, with more than 40 million views just on TikTok in Brazil, and our Vagina Academy campaign that takes shame out of intimate health. We managed, with this campaign and this platform, to uncensor the word 'vagina' in TikTok in Brazil as well as in the meta-platform in Italy, and it's now expanding to other regions.

Finally, let me talk about Claritin, our largest brand, that is working to encourage kids and adults to get outside and enjoy the wonders of nature without having to worry about complications of allergies. These platforms don't just resonate with consumers. They act as powerful examples of our broader bio-purpose, science for a better life, and in order to connect our purpose-driven brands with consumers, we have to transform the way we think about creativity.

Self-care is not really traditionally perceived as a particularly creative space, but there is no doubt that we can't imagine a more important industry for creativity to make its mark. By delivering powerful narratives and imaginative campaigns with our brand, we can inspire and bring access and education to consumers, allowing for better-informed health decisions, and gaming is one of these areas that we are developing. We found this opportunity during the pandemic. We used this channel to introduce our immunity brand, Redoxon, which you have heard from Dave, to younger consumers. We used their medium and their language, and the Redoxon defence squad was launched. We partnered with a team of expert gamers in Latin America, who help to defend players across the globe with their weak game defences, and this draws a clear parallel, and with that, educate on how Redoxon protects us and our immune system in real life.

We have also launched campaigns which address topics like gender inequality, with Supradyn in Turkey, that together with Aspirin was recognised by Cannes Lions. These efforts break down social taboos and build new and deeper connections with the consumers, while increasing health education, engagement and brand love. Work like this set a new standard for our industry, and that's why we have published a white paper calling the broader consumer health industry to join forces and step up its creativity. We truly believe that the more creativity in consumer health that we can get is not only good for our business. It's good for our consumers to drive them to take better informed decisions on personal health, while it can also democratise wellbeing for consumers around the globe.

But great campaigns alone are not enough. Neither is creativity. To unlock the full power of our brands and creative efforts, as well as maximising our investments, our campaigns need to reach the right consumers at the right time with the right message, and this is where data and digital technologies come in. We use data to better understand our consumers, increase the effectiveness of our creative work.

Working with industry leaders and strategic partners such as Google and MediaCom, as well as upskilling our own organisation, we have turbocharged our efforts in precision and data-driven marketing. We have increased our share of digital media, upped our investments in data-driven marketing and significantly raised our share of personalised creatives. These efforts deepen our consumer understanding and inform or reposition our brands, and our goal is to meet consumers where they are, whether it's at a dating platform like Tinder or talking to their virtual system, Alexa. We are there, and this is also where our consumers are, with the right message and content at the right time, and we are experimenting and learning with speed so we can quickly scale up the best ideas. We additionally use data to help consumers make better everyday life decisions. As an example, we share polling data with our Claritin US consumers to help them prepare for the day ahead.

Now let's look at our sales strategy. Customers want us to work with them in close collaboration, co-developing tailored go-to-market plans that add value for shoppers, and jointly drive growth in our categories. Our partnership with key customers like Walmart, CVS, Walgreens, just to mention a few, independent pharmacies and pharmacy chain allow us to create customised business plans that help both us to grow categories and improve our share of sales. Just recently, the partnership with key customers was vital to secure retail visibility and promotional space for the launch of Astepro, which you have heard from Dave, and our relationship with independent pharmacies have allowed us to showcase important innovation from brands like Redoxon and Supradyn, which are in high demand categories, during and after the pandemic.

An area which has seen exponential growth is digital commerce. With consumers increasingly moving to e-commerce, especially in key categories such as Nutritionals, we have doubled down on our digital sales presence. E-commerce now represents over 10% of our business and continues to grow. We work with large platforms and also small, online pharmacies to increase share on this attractive channel, serving consumers in different moments of their shopping journey.

As you have heard, we have also consistently invested in new digital commerce platforms and models. You have heard about Care/of, the direct-to-consumer personalised nutrition business in the US. Also, we have recently strengthened our presence in EMEA with the acquisition of

GloryFeel and partial ownership of Natsana, two leading e-commerce businesses in Nutritionals, and with our venture arm Leaps, we are partner with Ada Health, which you have heard from Dave – a really great symptom-check app that helps consumers to quickly and accurately assess their symptoms by offering them educational content and helping to connect with their nearest pharmacist. These investments help not only strengthen in key markets like Germany; they also help us to quickly build important new capabilities internally.

Another important pillar of our work with customers is our strategic pricing strategy. We are focusing on delivering solutions in multiple categories at a range of price points from premium propositions to value offerings, democratising our products and solutions to consumers. This strategy ensures that the value in innovation is captured, and that consumers of different backgrounds have access to our science-based products. These combined efforts to grow our brand's presence and penetration across consumer segments and support and optimise top and bottom-line growth. They also drive joint value with our customers, who can cater for the needs of the consumers in a more meaningful way.

In closing, Bayer has built a strong set of commercial capabilities that position us well to sustain growth in consumer health. We own a portfolio of strong, iconic brands, delivering game-changing, proven creative, and acting on consumer needs as well as growing in data and digital capabilities. We have focused on our customers, relationship, e-comm capabilities, and the right priorities to drive growth with our customers. Powered by the innovation of our products and solutions that you have seen previously today, we are confident that our commercial engine has what it takes to win in consumer health. Over to you, Patrick.

Patrick Lockwood-Taylor

Thank you very much, Patricia, and thanks to Dave as well. I hope you agree that we are building out some world-class capability in our innovation, our brand-building and our go-to-market. Thank you to all of you for your attention. Before we actually take your questions though, I would like to close with just a few key messages.

We hope that we have shown to you that we have got a portfolio that is balanced across regions and core consumer health categories, really focused on where Bayer can win, where it plays to our competencies and the difference that we can make. We have deep scientific insight, a strategy that our entire team developed and is fully bought into, and a track record of executing with excellence. We have outperformed in the past and it's our strong belief that we have what it takes to keep winning in the future. Thank you very much.

Questions & Answers

Oliver Maier

Great. Thank you very much, Patrick, and thanks also to Patricia and David. I very much appreciate the presentation, your comments and the remarks. With that, let's go into some Q&A, if there are questions which we reserved some time for.

Before we start, as last time, some housekeeping items on the Q&A from my end. If you have questions, please click on the raise your hand icon, and if your question has been answered, if you wish to cancel your request, please click on the lower your hand icon. When you will be called to answer your question, you first have to unmute yourself by confirming the corresponding prompt that will appear on your screen. If you have joined the conference by telephone, the process is slightly different. Please press the star followed by the 9 on your phone to queue for asking a question, and when you are being prompted to ask your question, please press the star followed by the six to unmute yourself. Please indicate, if possible, at the beginning, when you ask the question, whom you would like to address your question to. That helps us maybe also a little bit to coordinate the Q&A.

With that, I would like to open the Q&A session. If I am correct, the first question comes from Richard Vosser from JP Morgan. Richard, you are first.

Richard Vosser, JP Morgan

Thanks, Oliver. Basically, two questions please. The first question is just we have seen the cost-of-living pressures increase even significantly since the Q2 results, and certainly throughout this year, so are you seeing any impact from that on your business, and how you think that impact might go going forward? We have already seen Nutritionals slowdown in Q2, so how should we think about those pressures on your business?

And then the second question is on margins, and I think even with the target to get to 25% EBITDA or mid-20s, I think the margins are slightly lower than peers, so just your thoughts on why this is the case and whether we should expect further margin gains beyond 24 in the future, and what you can do about that. Thanks very much.

Patrick Lockwood-Taylor

I think, Oliver, do you want to take those?

Oliver Rittgen

Of course. Happy to do so. Thanks, Richard, for the question. Let me start with your first question then on inflationary pressure. Indeed, fully true what you say. We see inflationary pressure during the entire year already, and we see it especially also accelerating in the second half now. So at the same time, of course, the industry and also ourselves – we are taking pricing behind the innovative and science-based products that we have for our consumers, but as you can imagine, pricing alone is not sufficient to cover for the inflationary impacts that we see, but we have already in time kicked off a very comprehensive cost and cash productivity programme to optimise our cost structures, and that helps us at the end then to drive the margin and also to stay with our commitments that we have updated in second quarter, and also to the commitments that we have given in the CMD meeting.

Your second question on margins and the mid-20s that we define as a target for us. You saw in the presentation of Patrick also the value creation triangle, as we call it, that we always follow when we manage the business. So we want to accelerate the growth, because this is what we believe is the value-driving factor on an asset like ours at a competitive margin level, and the mid-20s – when you look at the different margin levels that you see in the industry, we feel this is quite a competitive level, and then we want to optimise or drive also cash acceleration, so for us it's having a competitive margin profile and then accelerating growth and cash productivity.

Richard Vosser

Great, thank you.

Oliver Maier

Thank you, Oliver. Thank you, Richard. I think the next question comes from Emily Field from Barclays. Emily, you're next.

Emily Field, Barclays

Hi. Thanks for taking my question, and I guess this is maybe for Patrick and Oliver, perhaps. The first question is obviously the market has been very focused on US litigation risks specific to OTC across a couple of products. I was just asking in a broad fashion: is your view of that litigation risk or regulatory risk in the United States changed at all in recent times, or should we think more of this as a cost of doing business, to a degree?

And then secondly, this year the business is going to be growing at well above the rates from the 2021 CMD on the top line. I'm not asking you to guide for '23, but how you're thinking about guidance over the next couple of years, because it looks like you're on track to well exceed that, or maybe any early comments on this year and the next year's cough, cold and flu season. Thanks.

Patrick Lockwood-Taylor

Very good. Thank you for the question. I'll take the first one, as US-based, and then Oliver on your second question. As you well know, the US is a highly litigious market. I haven't seen any significant change in that profile over the last few years. It is a cost of doing business.

I think a couple of thoughts. Number one, that risk has to be assessed thoroughly in early product stage, just to really understand risk return. Secondly, we are fortunate in Bayer that we have outstanding scientific capability, be it regulatory, be it clinical, be it medical, be it safety. We go through extremely robust legal review as well, and I think through that process, that helps us, to a degree, de-risk versus potentially some other competitors who may not have the same capability or thoroughness that we do. So it's an area that we're thoughtful about, but I do not see it abating. We just need to manage to de-risk it through our own approach. Over to you, Oliver.

Oliver Rittgen

Thank you, Patrick. Thanks for the question, Emily. Let me take this a bit broader, because the '23 guidance we are going to give early next year, when we also present the full-year results. But maybe a few comments on how we look at the market and also the development in the coming years. We talked already about the inflationary environment and pricing activity that is coming with this, of course, in the market, and potentially also some of the volume elasticity that we see with that. We continue to see this year, and for sure also next year, still some volatility in supply and demand, and therefore we believe that the market will trade in a wider range than what we usually see and communicated of 2% to 4%, so we might see a wider range, actually, given the uncertainties, and I would add here right now also the gas situation in Europe.

At the same time, I believe, as an organisation, you have to be prepared for that. I talked already about the cost and cash productivity programmes that we are running. You need to have a compelling innovation pipeline as an organisation to compete in the market, and I think we have outlined today that we brought these components in place, so when I look at the growth, how is this composed, we will grow the core. We have material expansion in digital commerce, like Patricia outlined. We have very good innovation and switch pipeline, like Dave already talked about, so we feel good about the growth at this point in time, and as you know, in the last three years we always met our targets and commitments on top and bottom line, and of course our intention is to do so also in the future.

Emily Field

Thank you.

Oliver Maier

Thank you, Oliver. Thanks, Emily, for the questions. Our next question comes from Dominic, Credit Suisse. Dominic, you are next.

Dominic Lunn, Credit Suisse

Hi. Thank you. You talked about a step up in the number of partnerships that you've entered to, to try and drive a bit of that future innovation, to use that as one of the ways to differentiate yourself, and you also obviously guided to margin expansion into the mid-term. So I guess my question is, as more products come to the market that are driven by partnership, could you get to a stage where it becomes harder to maintain this margin expansion because of having to share a greater portion of the economics of these products?

Patrick Lockwood-Taylor

Oliver, do you want to comment on that, and maybe Patricia?

Oliver Rittgen

Sure, I can give a short and Patricia can add then. Thanks, Dominic. Indeed that requires, in our belief, a good phasing also of the different businesses that you either bring in, or the innovation that you develop internally that you want to bring to the market, and I always come back to this triangle that we were showing before in terms of growth, cash and margin profile, and obviously you need to manage the entire triangle, so therefore it's a lot about how to phase the different things into the fiscal years that we are looking for, and with all the plans that we have outlined now in digital commerce growth, innovation growth, switch. That will not impact our margin commitments, so it's a lot about phasing this expansion into the businesses.

Patricia Corsi

Two comments. As you have heard from Dave, we are not using the traditional 70/20/10 model, and we are working a lot on adjacencies as well, which helps us to manage well in terms of margins. One of the things that I've shared in my presentation is really this focus on opportunities that we have to bring value-added products and innovations both on premium as well as upper mainstream, so we have a range of opportunities to do both things with our innovation.

Oliver Maier

Thank you, Patricia. There's at least two more questions I can see. The next is Christian Faitz from Kepler Chevreux.

Christian Faitz

Thanks for having this webinar. Two questions, if I may. First of all, one to Oliver. He alluded a bit to it already, but how does Consumer Health cope with the cost challenges as of late? Also, I guess there are statistical cost challenges such as raw material and gas, as you mentioned, but also the availability of key components such as packaging. The second question would be can you highlight some of the synergies you see between Consumer Health and the Pharma segment? Thank you.

Patrick Lockwood-Taylor

Oliver will take the first one, I think. On the synergies, we can respond to that. Maybe, Dave, some of your perspective from a regulatory, capability, clinical standpoint, also technologies that we think to switch, but also in response to the question there's also potential synergies through to Crop and Nutrition, and how Nutrition meets self-care. You can probably expand on that a little, but to respond to the first question, over to you, Oliver.

Oliver Rittgen

Thank you, Patrick. Christian, I think these are two questions in the first question, so to say. One is cost and one is availability, and we face both at the moment. Yes, there's indeed a tight supply situation that's of course also affecting supply situation in the different markets. Here it's a lot about also building up inventory over time. When we think about the potential upcoming gas situation that we face in Europe, we feel we are prepared for that with our own production sites in terms of energy coverage. As I said, we are building inventory up for this, to have also availability of finished products.

At the same time, we talked about the cash productivity. We drive the other components of our trade working capital even harder to still deliver the cash commitments that we are having, but to ensure, of course, availability of our products. At the same time, we also see that going into next year the supply situation will improve. This year was definitely quite a challenge, but next year we would see improvement here.

In terms of the cost situation I think I cannot add much to what I said before. Because we knew this would be coming, we put programmes early in place to be ready for that, and the programmes that we have in place – we have levers there that allow us also to push here for the right margin profile, as I said before.

David Evendon-Challis

I can add on the group and the collaborations with Pharma. I've got two things to add. The first is around the industry. There's an increasing blurring of the lines between Rx and OTC, which is accelerated by digital health, so there's plenty of opportunities for our teams to work together, especially in areas where prevention and treatment are both very relevant, in areas like cardiovascular health.

What's more, we have an amazing group of scientists across all of our divisions and enabling functions. We have an R&D council as well, which allows us to discuss trends and technologies, to exchange talent and to develop our scientists, which keep strengthening our expertise and capabilities. It's something that a lot of our peers don't have, so I think there's some great strengths there.

Patrick Lockwood-Taylor

I was just going to add a couple more tangible examples on these synergies. We have a database in Consumer Health of almost every consumer in the US, and we have a very good analytical ability to really understand their habits and their behaviours across their healthcare journey. Their healthcare journey obviously includes prescription drugs. Every patient is a consumer. The Pharma division has outstanding data on healthcare providers who are increasingly involved in the self-care industry as well – to the point that Dave was making – so the sharing of data and analytics to get a more complete understanding of the patient and consumer.

Pharma has a lot of technologies that we will look at potentially to switch. Also, they have very good capability in clinicals, in regulatory, and legal reviews as well. There is an increasing sharing and appreciation of these capabilities and this scale that we can share across the group. I'm very happy to go offline and talk about some of that scale opportunity that exists as well.

The final one is some of our customers. Walmart, for example: about 30% of the produce they sell comes from our seeds. We're a huge supplier. They have hundreds of millions of dollars of consumer health business with us as well, and of course they dispense hundreds of millions of dollars of our pharmaceutical product. In combination, we're a very big supplier, and we're starting to understand what that means as each of the divisions goes to market with a single customer. I hope that gives some illustration.

Oliver Maier

Thank you, Christian. Next one is Sebastian. Sebastian, you're next.

Sebastian Bray, Berenberg

Hello, good afternoon. Can you hear me?

Oliver Maier

Yeah, now we can. Perfect.

Sebastian Bray

Good afternoon and thank you for this seminar and taking my questions. I would have two, please. The first is, when referring to growth in the consumer health market, the default assumption is that it grows 4% forever. Given that the US is relatively saturated, what is this assumption based on, and how does it break down by geography? That's my first question.

My second question is on the historical performance of the Consumer Health business because it's changed a few times in recessions when consumers feel less at ease economically. What do you think the price elasticity of vitamin demand and some of the other categories is? Do consumers treat these as discretionary items or as medical items where they're more inclined to cut other spending first?

Patrick Lockwood-Taylor

Excellent. Oliver, maybe take the first and then a combination of Patricia, Dave and I on the second one. Obviously, this is an area of great focus for us over the years. We do think we have robust strategies as we go into economic downturn, and we can certainly expand upon those, but to talk about global growth and regional growth, Oliver, you could provide some commentary here.

Oliver Rittgen

Sure, Sebastian. The average growth that we see in the industry is somewhere between 2% and 4%. It depends a little bit on the year, but I would agree it's somewhere in that range, what we usually see. And also this year the growth in North America is quite a lot, and even more so in the other geographies that we have seen. So we're not observing right now, and we do also not expect a change in market dynamics across the different markets or different geographies when we look at it. There's a lot of growth potential still in Asia-Pacific. We see solid growth momentum in EMEA. We also see similar in North America and Latin America. We're expanding at the same time as an industry in different "need spaces". We talked about it before: age well, sleep well. There are different areas where the businesses are expanding, and therefore we see this growth trend also continuing on that level, of course with fluctuations.

That leads probably a little bit into the second question, and Patrick is going to go a bit more into this. Of course, next year with the continuous inflation, consumption behaviour might be a bit different than the last two years, but we are talking about long-term trends in terms of GDP growth, economic value that is generated in the different geographies, purchasing power that we are seeing with that, and then a rising middle class that obviously is very keen to consume of our products. We see that long-term growth trend still intact. With that, Patricia, over to you.

Patricia Corsi

Thank you, Sebastian, for your question. Reflecting on the down-trade comment, I think it's important to mention that we keep monitoring if there is any shift between branded products and private label, and, so far, we haven't seen a big movement there. This is the number one. Of course, we are seeing that consumers – as inflation becomes higher and we see the purchasing power diminishing, they're going to be every time more conscious about what they buy. That's why it's so important to provide options in terms of price points and size counts to our consumer, especially on the most needed categories that we have seen in the past year.

So far not a big change in there that we have seen versus what would be the normally expected, but we keep monitoring it very closely. Why? We are making sure that we have options, especially because in many geographies, when people have less cash, they tend to go to their trusted brands because they cannot afford to waste that money on products that they do not know. And they do not have a relationship with that before, so they go to the products they know. They are trusted and have a rich heritage of performing with them.

Patrick Lockwood-Taylor

Sebastian, I would only add a couple of things to what's been said. Typically I think Bayer is well positioned in any economic downturn to actually grow share, and to hold that share as economy recovers. Fortunately for us we're able to continue to invest in innovation. We won't change our pipeline and we won't change our innovation rhythm. We're also able to continue to invest in building brand equity, advertising our brand, better connecting with consumers. If there is more sensitivity in an economic downturn, it's that people may participate less in prevention categories, but they don't tend to participate less in treatment categories. We in Bayer have a very balanced portfolio between OTC treatment and prevention, and to some degree that also helps to insulate us as well. For us, really, it's largely business as usual, and continue on a shared expansion programme.

Oliver Maier

Thank you, Sebastian. I think we have time for one or two more. The next one is from Peter Verdult from Citi.

Peter Verdult, Citi

Thanks for doing the webinar. Apologies. I had to join late, so, if some of these questions have already been answered, bat me away, and I'll read the transcript, but three quick ones, please, for the team. The Astepro Rx to OTC switch – during the first half of the webinar, did you divulge any commercial aspirations for this asset, or could you comment on how it's going?

Secondly, more generally on Rx to OTC switches, does all the recent US litigation around Zantac and nitrosamines, PPIs – as a management group, does that make Rx to OTC switches less attractive to you going forward?

Lastly, I heard you arguing that there were synergies from being a consumer company within a pharma group. That's put you somewhat in the minority when I think about my conversations with other industry players. I just can't help but think about publicly traded peers of yours generating 13, 14, 15 times EV, EBITDA multiples. Are you really saying that these synergies are worth billions of potential value – because, obviously, within Bayer, you're trapped at seven or eight times. It seems to be a very big, significant valuation disconnect there. If I could just push you on what those synergies really are of being part of that wider group, that would be helpful.

Patrick Lockwood-Taylor

Very good. I'll take Astepro. Maybe, Dave, you can comment on the attractiveness and importance of switch in a US context, and then, Oliver, maybe strategically and financially you can talk a little bit about the synergies that we see as Consumer Health being one leg of the chair as Bayer as a leading life science company.

Pete, on Astepro, so far so good. We've launched. We're in market. We started shipping in June. Shelves are full, displays are done. Consumer uptake and acceptance has been good. Advertising is running, and we are pleased versus our booklet commitments of how that's performing. We're just entering the fall season now. That will be another test, and then of course the fall season early next spring, but I can say so far so good. We take nothing but confidence from it. Dave, on the US switch pipeline and our confidence…

David Evendon-Challis

Switch has long been a core capability of ours, and it's driven a lot of growth. It has this huge potential still to grow and create new categories. When it comes to safety, these are products that have been used for years in an Rx environment with a proven safety track record. Safety is fundamental to us, including continued safety assessments as well as detailed studies as part of this switch process, to ensure not only the safety of the product but that people can use that in an OTC environment. There's a very robust process that goes behind this, and that gives me great confidence of the role of switch continuing in the US going forward.

Oliver Rittgen

On valuations and being part of Bayer, I think Patrick talked a little bit about it already, Peter, so I won't repeat everything that he said. Obviously, we feel with Bayer, as a life science company, we have three attractive businesses. This is attractive growth prospects. There's earnings and cash potential in all the businesses that we have, and we see that our businesses are complementary and tied very well to the global megatrends of health and nutrition. There's a growing population. There's climate change. There's an aging population, and, with us in Consumer Health, we feel particularly well there in the preventive self-care area.

Consumer as a part of the group, paired with the successful execution that we have been talking at the beginning of the session about – obviously, we add quite considerable value to the Bayer group now on the multiples, but, of course, you can argue from a market perspective how some of the competitors are trading. At the same time, you can also argue whether the Bayer share, as we are trading right now, whether that's the right multiple. Us arguing it's not, we should have a very different multiple on the valuation of the Bayer share, and then of course the picture looks a little bit different. From the cash and investment allocation that we receive as Consumer as a business within Bayer, obviously we can do and run the business very successfully, as we have shown. Therefore, I think that question on our side is not as prevalent as it might seem.

Oliver Maier

Thank you, Oliver. Thanks to the Consumer Health team. Thanks, Patrick. Thanks, Patricia. I don't see any further questions, and I agree with Oliver: I'm more than happy to review the multiple discussion when we reach the price target that Citi actually has, and I will take that offline with Pete. Other than that, I really appreciate you guys taking the time. I hope everybody externally appreciated the update that we were able to give on strategy, on business development, on innovation, on commercial capabilities that we're seeing for the Consumer Health division. We really appreciate it, and we will talk to you soon and we'll keep you updated. Thank you so much, everybody, for participating.