Capital Markets Day 2021

Wednesday, 10th March 2021

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(Please check against delivery)

Value Creation by Accelerating our Transformation

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Hello and a warm welcome from my side. I hope that you've enjoyed hearing from my colleagues today. I'm excited to be here to discuss how our transformation strategy translates into financial performance over the next four years.

But before we start, one technicality: all underlying assumptions such as exchange rates, are captured in the handout. So, I will not go into any detail during my presentation.

Also, earlier today, Werner talked about the commitments we made during our last Capital Markets Day in 2018. Since then, we have delivered on the announced portfolio and efficiency measures. We also made promising bolt-on acquisitions, in line with our strategy.

However, we are not on track to deliver on the financial ambition we had for 2022. I added a chart to the handout that shows a review of the 10-euro core EPS target that we had set for ourselves. Of course, this guidance was based on our full portfolio back then, so we have to adjust about 50 cents for the contributions of our divestments. We also had adverse currency effects reducing the core EPS by roughly 1 euro. From a business perspective, the introduction of volume-based procurement in China reduced our growth in Pharma. And for Crop Science, we had a lower market growth and also a more competitive environment than we originally expected. However, we are partially mitigating this with further efficiency measures.

Now, looking at where we stand and focusing on the elements we influence, we are very excited about Bayer's growth and value creation prospects. While 2021 will be a transition year for us, we have a robust plan to accelerate our transformation to drive innovation and attractive returns in the medium term.

So, how do we accelerate our transformation to create value?

First, we have a clear path to deliver top-line growth thru innovation.

Second, we have launched a new transformation program to drive profitability. This will also help us to fuel future growth as some of the savings will be re-invested.

Third, we focus on cash and further increase our strong cash generation capacity.

Fourth, we will create value by delivering on our ambitious sustainability targets to help more people thrive and decrease our ecological footprint.

And finally, we remain disciplined in our capital allocation. We will deleverage our balance sheet, pay dividends and continue to invest in bolt-on acquisitions.

So, it all starts with growth. Let me re-cap what my colleagues have just shared. Our markets are highly attractive with mid-term growth rates of 3% in Crop Science, 5% to 6% in Pharma and 2% to 4% in Consumer Health until 2024.

2021 is a transition year for us due to several near-term headwinds across our businesses. On Crop Sciences top-line we see for example the effects of the late registration of Dicamba. In Pharma, we have the full-year price effect of volume-based procurement in China, and the Adempas milestone that was already achieved in 2020.

I have displayed the currency and portfolio adjusted growth in the handout, to reflect our operational performance. But as you know we anticipate negative currency headwinds on sales of around 2 billion euros for 2021 when we apply year end 2020 rates. This then translates into roughly 18 billion euros of sales for Crop Science, roughly 17.5 billion euros for Pharma and approximately 5 billion euros for Consumer Health.

Looking forward, our divisions have compelling growth prospects:

After returning to market growth in 2021, we expect our Crop Science business to translate R&D leadership into above-market growth between 2022 and 2024. This translates into a currency and portfolio adjusted sales growth in the range of 3% to 5%. From 2025 on, innovation from our industry-leading pipeline is expected to further expand our market leadership. Liam just shared that we plan to launch around 100 new crop protection formulations within this decade. We also bring to market over 400 new hybrids and varieties across corn, soybeans, and vegetables annually. And of course, for the second half of the decade, we are excited about our game-changing traits. These are short-stature corn and what we call HT 4 soybeans with tolerance to 5 different herbicides. Crop Science' adjusted EBITDA margin is expected to reach between 27% and 29% in 2024 driven by higher growth and additional efficiencies.

In Pharma, we expect robust growth until 2023 with 3 to 5 % cpa growth before the loss of exclusivities of Xarelto and Eylea. In 2024, we expect a low to mid-single digit decline of revenue before gradually returning to growth. Stefan just outlined that significant growth is expected to come from our late-stage pipeline in cardiovascular diseases and women's health. But also, in oncology we have significantly advanced our presence with three product launches in the last three years. Plus, we expect substantial growth from our new cell & gene therapy platform. Here, our first assets may come to the market in the middle of the decade. Pharma profitability will be in the range of 32% and 34% until 2023 and above 30% in 2024 as we step up our investments and mitigate LoE effects.

And, last but certainly not least, in Consumer Health, we expect to sustainably outperform the market with growth of between 2% and 3% in 2021 and then 3% to 5% until 2024. Heiko just presented the "Fit to Win" game plan which continues to be a key driver behind the strong performance of Consumer Health. Our iconic brands, proximity to the consumer and ability to innovate put us in a strong position to continue to outperform and accelerate growth in the medium term. We expect to improve our adjusted EBITDA margin towards the mid-twenties by 2024.

Building on our robust growth plans, we will drive profitability and grow our margin. As announced in September, we have launched a new transformation program. And this is in addition to the Bayer 2022 synergy and efficiency program that is already in place. The aim of this new program is to continue and accelerate our transformation into a leaner and more agile company. We are freeing up resources to re-invest into innovation and growth as well as to increase our profitability.

The annual gross contributions across all businesses and enabling functions are expected to be more than 1.5 billion euros per year as of 2024.

For the Bayer 2022 synergy and efficiency program, we are ahead of our plan. We have already realized roughly 70% of the 2.6 billion euros committed gross contributions in 2020 versus the original commitment of 50%. Going forward, we will combine the new program with the outstanding gross savings from Bayer 2022.

The total one-time costs relating to the additional measures are expected in the same magnitude as for the original Bayer 2022 program, which has a one-time cost factor of 1.7 of the total gross contribution.

We have proven that we can execute complex transformation programs and we will build on this track record with the new program.

Let’s now turn to cash. Topline growth and profitability improvements will – no doubt – further help our cash generation capacity going forward. I would like to walk you through four additional focus areas.

Our divisions improve free cashflow by optimizing working capital ratios and CapEx. For example, we have dedicated programs on receivables management and payables optimization to drive operational cash flows.

To emphasize its importance, free cash flow is now also integrated as a key performance indicator in our short-term incentive plan for all managerial employees.

Beyond this, we are focusing on overarching measures like the optimization of our fixed asset portfolio. For example, we just recently sold buildings in Berlin, Leverkusen, Pittsburgh and other places.

Based on the learnings during COVID19, we will use more flexible ways of working. This helps us to better meet the needs of our employees and customers while generating additional funds from less office space. As previously announced, we are planning to divest our professional Environmental Sciences business and continue to look at further opportunities below the divisional level.

Litigation payouts and special items from the efficiency programs, will continue to have an offsetting impact on our free cash flow in the coming years. In 2021, the litigation payouts alone are estimated at approximately 8 billion euros. In 2024, we estimate around 1 billion euros for litigation payouts and special items.

How does all of this add up?

We have taken the actions to drive profitable growth until 2024. Of course, our performance will somewhat also depend on external factors. For example, it is difficult to predict how the pandemic will further impact markets and eventually our business. To account for some of this natural variability, we have defined corridors for our mid-term targets. We expect sales in 2024 between 43 and 45 billion euros. Our core EPS is expected in a range between 7 euros and 7 euros and 50 cents. And, we plan to increase our free cash flow to roughly 5 billion euros. As mentioned earlier, this still includes settlement payouts and special items totaling roughly 1 billion euro. If you now consider that 2024 is a year impacted by the loss of exclusivity, I think you would agree that this is a business with substantial free cash flow potential beyond this planning horizon!

All these figures are based on end of December 2020 exchange rates. I would like to reiterate that currency fluctuations will also affect our results. For instance, a 5 % appreciation or depreciation of our currency basket, versus the euro, would lead to a swing of 40 cents in core EPS.

Let me also mention that our mid-term targets reflect our current business and do not include any adjustment for potential divestments like our professional Environmental Science business.

Let me continue by highlighting that our priorities stretch beyond pure financial metrics. Our ambitious sustainability targets are an integral part of our strategy and we have defined a clear roadmap on how to achieve them. The associated financial impacts are fully included in our plan. It is also important to note that, our sustainability targets are now reflected in our long-term incentive plan.

We are committed to maintain our disciplined capital allocation guardrails. We use free cash flows and net proceeds from divestments to pay dividends, deleverage our balance sheet and invest in bolt-on acquisitions as well as LEAPS.

Regarding divestments: We announced in September 2020 that we evaluate the sale of non-strategic assets below the divisional level. Divestments beyond Environmental Science are currently in discussion and will be communicated at the appropriate time.

Let's turn to the specifics on capital allocation.

First, we focus on de-levering our balance sheet after a temporary increase in leverage in 2021 due to the 8-billion-euro litigation payouts this year. The aim of our financial strategy is to regain "A-category" ratings over time. Second, we will continue to provide for dividends, which remain an important element of our shareholders' return profile. We will maintain our dividend policy and plan to pay out 30-40% of our core EPS. The remaining funds will be invested in bolt-on acquisitions, especially in Pharma and Consumer Health.

We plan to arrive at a net financial debt of between 28 and 30 billion euros by 2024 and at that time expect to see a leverage ratio below 3.0. And just to underline, this would be on a "going concern" basis and does not yet include potential divestment proceeds or further bolt-on acquisitions.

To generate value, growth and returns are the two essential drivers. We have already elaborated on growth, let's now look at our Return on Capital Employed, or ROCE. On the horizontal axis, you see the capital turnover. The y axis depicts our profitability. The lines represent all combinations that give you a specific return. Obviously, our target is to cross the cost-of-capital line of 6.2% and move as far to the Northeast as possible.

Last year, our business was heavily impacted by significant special charges within the Crop Science and Pharma divisions. This led to a ROCE of minus 16.5%. Looking ahead, we intend to earn our cost of capital in 2022 and markedly exceed them by 2024.

Given its importance, ROCE is now also reflected as a key performance indicator in our long-term incentive plans.

To conclude, we have a clear plan to create value. Despite the loss of exclusivities, our new mid-term guidance shows solid growth with good prospects for long-term blockbusters in the area of Crop Science and Pharma. We will drive profitability expansion to which our additional transformation program contributes. We have a strong capacity to generate cash with significant free cash flow potential. Furthermore, we have started to execute selling businesses below the divisional level to generate additional funds. This allows us to de-lever our balance sheet while paying attractive dividends and continuing to invest in strategic opportunities in-organically.

With that, I would like to hand back over to Ariane.

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