Bayer Consumer Health

Empowering the Transformation of Everyday Health

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Consumer Health Market Remains Attractive

Global Megatrend through 2050: Growing & Aging Population

+2.2bn people\(^1\) People 60+ more than doubling\(^1\)

Societal need: Preserve and restore health

OTC market dynamics\(^2\)

1. Long-term growth rates above GDP and CPG industry at 3-4% p.a.
2. Growing across categories and geographies
3. Driven by favorable consumer trends, government desire to lower healthcare costs, and Rx-to-OTC switches
4. Market profitability above CPG industry benchmarks

Key trends OTC market\(^2\)

- Changing consumer behavior and move to ‘self care’
- Consolidation of traditional pharmacies and shift to drugstores, retail and e-commerce
- Digitalization reshaping marketing, sales, and business models
- Lower entry barriers, increasing competition

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\(^1\) UNDESA 2017 (United Nations Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision)

\(^2\) Market model in-market sales OTC medicines, data from IQVIA, Nicholas Hall
Nutritionals Market - Important Driver of the Overall OTC Market

Our definition of the Nutritionals market

Healthy Eating, Nutrition

Nutritionals market (~€27bn)

Consumer Health market (~€135bn)

Nutritional supplementation to meet a variety of consumer needs

Nutritionals market dynamics

- Robust historical market growth of 4-5% p.a.\(^2\) predicted to continue at same pace
- Driven by global megatrends
  - Malnutrition or undernutrition - a global health concern
  - Consumer awareness & interest - healthy look & lifestyle
  - “Better solutions” with natural and ‘free-from’ products
- OTC & FMCG companies as main competitors
- Lower (regulatory) barriers to enter market compared to conventional OTC
- Lower average market profitability vs. OTC

OTC market categories\(^1\) (2018)

- Total €135.0 (+4.0%)
  - Dermatology (+3.8%)
  - Allergy/CCSF (+3.4%)
  - Pain/Cardio (+3.4%)
  - Digestive Health (+4.6%)
  - Nutritional (+2.1%)
  - Others

\(^1\) Bayer Internal PARS Database Jan 2019 Data; Growth FY 2018 vs. 2017; Others includes Sun Care and Foot Care
\(^2\) Euromonitor Passport, Full year 2017 data
Consumer Health: A Leading Player Globally …

**Built up top leading position**

- **1899**: ASPIRIN introduced
- **1994**: NA OTC business of Sterling
- **2008**: OTC portfolio Sagmel & Topsun
- **2014**: Merck Consumer Care

**Strong positions in 7 out of Top 10 OTC markets**

- **1978**: Miles Laboratories
- **2005**: Roche Consumer Health
- **2013**: Steigerwald
- **2014**: Dihon

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**Top 10 OTC markets**

1. USA  
2. Germany  
3. Japan  
4. France  
5. China  
6. Russia  
7. Italy  
8. Brazil  
9. UK  
10. India

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1  Bayer internal PARS database, 2018 OTC market size (value) ranking
… with a Fast Growing Nutritionals Category

Sales development

€ bn; sales growth currency and portfolio adjusted

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<th>2015</th>
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- Nutritionals
- Remaining Business

Category focus

- Digestive Health ~15%
- Allergy/Cough & Cold ~22%
- Pain/Cardio ~17%
- Dermatology ~22%
- Nutritionals ~23%

1 Excluding Derma Rx, Suncare, Footcare

6.1 3.5% 6.0 -1.7% 5.9 -0.7% 5.5

2017

2016

2015

2018

+-+5.2% +3.2% +3.3% +5.9%
Well Positioned to Capture Growth Opportunities in a Trend-Oriented Nutritionals Market

Main growth drivers for the category

- Healthy Baby
- Healthy Longevity
- Immunity
- Tiredness & Energy
- Naturals

Strong positioning of Consumer Health

- Bayer the Global #2 in Vitamins & Minerals (~1/3 of total market), with #1 position in Healthy Baby and a leading position in Immunity
- Our Nutritional solutions are rooted in science and expert-endorsed to deliver meaningful health benefits
- Sustained sales growth rate ahead of divisional average
- 5 blockbuster brands > €100m annual sales: Elevit, One A Day, Berocca, Redoxon, Supradyn
- e-commerce a key growth driver in China & US
Case Study: Expanding Elevit’s Brand Equity as Premium Product

35 years of Elevit – the first global pre-natal multivitamin

Elevit Family growth history

2005
€28m

2018
€272m

Milestones in brand development

2005
Elevit® launched in China

2007
Elevit® acquired from Roche

2009
Elevit® becomes global No.1 prenatal multi-vitamin

2012
Elevit® launched in Germany

2015
Elevit® launched in Japan

2016
Elevit® in Australia

2017
Natele in Brazil as part of the Elevit Family

2018
Elevit® Highest growth among Top 10 Bayer Consumer Health Brands
Case Study: Elevit’s Success Factors for Further Growth

Strong purpose - “Give every baby the best start in life” - backed by science

Science

// Strong clinical heritage
// World most studied prenatal
// Trusted brand with high HCP recommendation¹

Track record of growth

// #1 Prenatal vitamin²
// Solid global footprint in 60+ countries
// Continuous above-market growth³

Connecting to consumers

Digital & e-commerce

+49%⁴
4yCAGR

// Strong growth driver in Asia/Pacific
// Digital activation via social platforms
// Japan DTC model with subscription

Brand expansion

// Brand architecture with specific formulations for planning, pregnancy, breastfeeding
// Menevit doubling sales in 4 years in Asia/Pacific⁵

¹ Brand Equity study / HCP tracker; ² IQVIA MAT 12/2018; ³ Bayer Internal PARS and Smartpath Database, CAGR 2016 to 2018; ⁴ Bayer Internal PARS and Smartpath Database; ⁵ Internal Net Sales
DTC: Direct to Consumer; HCP: Healthcare professional
Clearly Defined OTC Category Focus
Focus and accelerate growth in core categories

**Nutritionals**
- #2
- €1.1 bn (+6%)
- Healthy Baby, Immunity, Energy, Healthy Longevity, Foundational Nutrition

**Dermatology**
- #2
- €1.1 bn (+1%)
- Foot Health, Women’s Intimate Health, Baby and, Wound Care, Eczema & Dry Skin

**Digestive Health**
- #2
- €0.7 bn (0%)
- Heartburn, indigestion and constipation

**Pain and Cardio**
- #4
- €0.8 bn (+1%)
- Multiple pain states and heart health

**Allergy, Cough & Cold**
- #5
- €1.1 bn (-6%)
- Seasonal allergies and multiple cold symptoms

Build on category leadership & maximize potential
Selectively strengthen category position
Our Purpose and Ambition

Deliver on our purpose: **Empower the transformation of everyday health**

- Grow brand penetration
- Win with consumers & customers to regain market share
- Achieve top-tier industry margins
Focused on Executing a Comprehensive Turnaround Plan

**Focus on winning Portfolio**
- Divest Rx Dermatology, Sun- and Footcare
- Accelerate core OTC range
- Selected bolt-on M&A

**Accelerate growth-focused Innovation**
- Drive consumer-centric innovation
- Un-lock local innovation
- Increase funding and external partnering

**Modernize Marketing & Sales**
- Accelerating e-commerce
- Moving from mass to precision marketing
- Stepping up marketing and sales execution

**Build high-performing Product Supply**
- Upgrade manufacturing network
- Lower the portfolio complexity

**Optimizing our Resources**
- Become leaner and more agile
- Lower cost base
Optimizing Resources: ~€500m\(^1\) Gross Efficiencies by 2022 to Reinvest in Growth and Improve Margins

### Consumer Health measures

**Lean organization**
- Delayer to net FTE reduction of ~15%, skewed towards SG&A
- Flatten organizational structures to accelerate execution
- Re-invest in digital capabilities

**COGS optimization**
- Reduce complexity
  - CMOs: -30%
  - SKUs: -30%
- Increase efficiency
  - Write offs: -35%

**Indirect cost optimization**
- Apply zero-based budgeting methodology
- Reduce non-consumer-facing spending
- Identified potentials in e.g. market research, media spend, sponsorships

### Group measures

**Platform Adjustment**
- Adjust Bayer Corporate Platform

### Contribution by 2022

- ~20%
- ~25%
- ~35%
- ~20%

\(^1\) Cumulative efficiencies; CMO = Contract manufacturing organization; SKU = Stock keeping unit
First Achievements Through Activated Interventions

**Strengthening leadership completed**
- RX Dermatology
- Coppertone
- Dr. Scholl’s

**Planned divestments fully on track**
- Signed
- H2’19e

**Returning to growth**
- Sales growth cpa.
- Q4’18: -1.7%
- Q1’19: -1.4%
- Guidance 2019: ~1%

**From mass to precision marketing**
- % Media spent on digital
- 2016: 18%
- 2018: 28%
- 2019e: >30%

**Lean organization**
- FTE excl. production sites
- 2017
- 2019Q1: -13%

**SGA optimization**
- SG&A savings from leaner structures and ZBB first savings
- Engraining new cost culture across organization

ZBB: Zero-based budgeting
Our Strategic and Operational Roadmap

Acceleration of growth and profitability through 2022

**Strategic focus**
- Put in new leadership team
- Make portfolio choices
- Initiate stricter cost control
- Make necessary impairments

**Growth**
- Stabilize growth
- Return to growth
  - Guidance 2019: ~1%
- Accelerate growth
  - Target 2022: 3-4%

**Profitability**
- Stop margin erosion through strict cost controls
- Improve margins
  - Guidance 2019: ~21%
- Accelerate margins
  - Target 2022: ~24%

**2018 Setting the foundation**

**2019 / 2020 Driving rigorous change**
- Execute portfolio choices
- Right-size cost base
- Recover product supply
- Regain momentum in APAC/EMEA
- Reset US cost base to strengthen margin

**2021 / 2022 Acceleration phase**
- Drive higher innovation level
- Accelerate US growth momentum
- Capitalize on portfolio choices
- Realize full benefit of efficiency program

2022 targets at constant currencies, including portfolio measures
EBITDA margin based on EBITDA before special items
Reinvigorating Our Leading OTC Position

- New leadership team with proven track record of success in OTC and CPG companies
- Focus on core OTC Portfolio
- Accelerate innovation to drive growth
- Modernize marketing and sales to charge our strong brands
- Build high performing product supply to increase customer service
- Create leaner organization and right-size cost base

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