Reinvigorating Our Leading OTC Position

Capital Markets Day
London, December 5, 2018

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Head of Consumer Health
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Disclaimer
Consumer Health Market Remains Attractive

Global Megatrend through 2050: Growing & Aging Population

- +2.2bn people\(^1\)
- People 60+ more than doubling\(^1\)
- >20% of total population\(^1\)

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

OTC market dynamics\(^2\)

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

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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
A Leading Player Globally

Built up #2 OTC Player

- ASPIRIN introduced
- NA OTC business of Sterling
- OTC portfolio of Sagmel & Topsun
- Merck Consumer Care

1899 1994 2008 2014

- 1978
- 2005
- 2013
- 2014

- Miles Laboratories
- Roche Consumer Health
- Steigerwald
- Dihon

Strong positions in 7 out of Top 10 OTC markets

Top 10 OTC markets

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

1 PARS database, 2017 OTC market size (value) ranking

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## Strong Consumer Brands Built up Over Decades

<table>
<thead>
<tr>
<th>Brand</th>
<th>Category</th>
<th>Age</th>
<th>Sales 2017</th>
<th>CAGR 2013-2017</th>
<th># of studies²</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASPIRIN</td>
<td>Pain, Cardio, Cough &amp; Cold</td>
<td>119</td>
<td>€1,043m</td>
<td>2.6%</td>
<td>88</td>
</tr>
<tr>
<td>Claritin</td>
<td>Allergy</td>
<td>25¹</td>
<td>€585m</td>
<td>2.2%</td>
<td>82</td>
</tr>
<tr>
<td>Bepanthen</td>
<td>Dermatology</td>
<td>74</td>
<td>€379m</td>
<td>9.7%</td>
<td>116</td>
</tr>
<tr>
<td>Aleve</td>
<td>Pain</td>
<td>42¹</td>
<td>€375m</td>
<td>1.3%</td>
<td>42</td>
</tr>
<tr>
<td>Alka-Seltzer</td>
<td>Digestive Health, Cough &amp; Cold</td>
<td>87</td>
<td>€244m</td>
<td>4.4%</td>
<td>7</td>
</tr>
<tr>
<td>elevit</td>
<td>Nutritionals</td>
<td>34</td>
<td>€189m</td>
<td>17.1%</td>
<td>6</td>
</tr>
</tbody>
</table>

¹ Rx launch; ² Past 20 years of clinical data
Building Leading Brands by Applying Science and Marketing Capabilities

1899
ASPIRIN introduced as OTC medicine

1977
Added to the WHO's first list of essential medicines

1982
Nobel Prize awarded

1985
Approved for prevention of secondary heart attack and stroke

1990
Recommended for treatment during a suspected heart attack

1999
Sales > €500m

2016
Sales > €1bn

2018
Scintigraphy study proves faster disintegration and easier on the stomach

Sales figures including Aspirin Cardio

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In Recent Years the Business has not Reached its Full Potential

### Performance 2014-2018

- **Sales growth, yoy cpa¹ in %**
  - FY’14: 5.3
  - FY’15: 6.1
  - FY’16: 3.5
  - H1’17: 0.2
  - H2’17: -3.6
  - H1’18: -1.8

- **EBITDA margin before special items in %**
  - FY’14: 23.4
  - FY’15: 24.0
  - FY’16: 23.4
  - H1’17: 22.5
  - H2’17: 19.3
  - H1’18: 20.2

### Key issues

- Low level of innovation
- Outdated marketing and sales approach
- Regulatory issues in China
- Temporary supply interruptions

### Key opportunities

- Create more focus on core OTC portfolio
- Establish leaner, more agile organization
- Lower cost base by applying Zero Based Budgeting
- Leverage stronger our Bayer brand across the portfolio

¹ Currency- and portfolio adjusted
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New Leadership Team with Proven Track Record in OTC and CPG Companies

Heiko Schipper*
President, Consumer Health
Previous: Nestlé

Patrick Lockwood-Taylor*
Commercial Operations NA
Previous: P&G

Stefan Meyer
Commercial Operations EMEA
Previous: P&G, J&J

Lance Yuen
Commercial Operations APAC
Previous: BMS, P&G

Arturo Sanchez
Commercial Operations LATAM
Previous: P&G, Pfizer

Patricia Corsi*
Strategic Marketing & Digital
Previous: Unilever, Heineken

Olivier Mauroy-Bressier
Finance
Previous: Rhône-Poulenc, Aventis

Sharon James*
Research & Development
Previous: Redken, Bencisner, GSK

John Koelink*
Product Supply
Previous: Organon, Hoechst

Edwin Schenck*
Human Resources
Previous: J&J

Bill Dodero
Legal
Previous: O’Connor Cohn Dillon & Barr

*Joined Consumer Health in last ~18 months; Patricia Corsi to join in January 2019

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Focused on Executing a Comprehensive Turnaround Plan

- Focus on winning Portfolio
- Accelerate growth-focused Innovation
- Modernize Marketing & Sales
- Build high-performing Product Supply

Leaner and more agile organization

Lower cost base
We Will Focus on our Core OTC Categories To Leverage our Science and Marketing Capabilities

Categories to accelerate

- Allergy + Cough + Cold
- Nutritionals
- Dermatology
- Pain + Cardio
- Digestive Health

Sales Split 2017

Sales Split 2017

Global Position

Main Brands

#5

#2

#2

#4

#2

Claritin

elevit

Bepanthen

ALEVE

MiraLAX

Divestment of Rx Dermatology - US business closed; closing ex-US expected in H2 2019

Explore exit options for Sun- and Footcare in 2019

Categories to exit

1 Excluding Derma Rx, Suncare, Footcare
2 PARS database December 2017
3 Subject to the fulfillment of customary closing conditions

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Each Region has a Clear Roadmap for Success Coming from Different Starting Points

<table>
<thead>
<tr>
<th>Sales 2017 in €m</th>
<th>Past 2 Year CAGR</th>
<th>Our Roadmap</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2,480</td>
<td>-2%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>738</td>
<td>2%</td>
</tr>
<tr>
<td>Europe/Middle East/Africa</td>
<td>1,962</td>
<td>2%</td>
</tr>
<tr>
<td>Latin America</td>
<td>682</td>
<td>10%</td>
</tr>
</tbody>
</table>

- **North America** – Turnaround of largest and most important market
- **Asia Pacific** – Rebuild China momentum following regulatory issues
- **Europe/Middle East/Africa** – Accelerate growth following temporary supply interruptions
- **Latin America** – Build on leadership position
US Turnaround Plan

Levers and key focus areas

- **People & Organization**
  - Increase category and brand building experience
  - Drive leaner more agile organization

- **Winning Portfolio**
  - Focus our resources on categories where we can win

- **Accelerate growth-focused Innovation**
  - Rebuild innovation pipeline

- **Modernized Marketing & Sales**
  - Rebuild brand fundamentals
  - Accelerate digital

First actions

- **Right-size the organization**
  - New leadership team in place

- **Divested Rx Dermatology**
  - Explore exit options: Suncare / Footcare

- **Strengthen innovation for core brands**
  - Establish Rx-to-OTC switch pipeline

- **Step up e-commerce**
  - Amazon 2018e sales +60%
  - Online (8.3%) to offline (8.7%) share

- **Q4 2018**
- **Q1 2019**
- **H2 2018**
- **2019**
- **2020**
- **2018**

Leaner and more agile organization
Accelerating Growth from Innovation

**Ambition 2022**

Double growth contribution from innovation (from 15% to 30% of our growth)

- **Strengthen Core Innovation**
- **Accelerate Adjacent Innovation**
- **Drive new Switch Opportunities**

- Drive consumer-centric innovation
- Un-lock local innovation
- Increase innovation funding
- Explore external partnering

- Planning - Pregnancy - Breastfeeding
Modernizing our Brand Building and Sales Capabilities

Brands with Purpose

From Mass to Precision Marketing

Advertising spend on digital

18% 2016
28% 2018e

Accelerating e-commerce

Growth YTD

60% 2018
37% 2018
Building Blocks of our Growth Aspiration in 2022

Goal 2022

Accelerate growth to 3-4%

Focus on a 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 & external partnering

Modernize Marketing & Sales

- Accelerating e-commerce
- Moving from mass to precision marketing
- Stepping up marketing and sales execution

% contribution to growth target:

- Divest Rx Dermatology, Sun- and Footcare: ~35%
- Drive consumer-centric innovation: ~30%
- Modernize Marketing & Sales: ~35%
Build High-Performing Product Supply

Address immediate opportunities...

- Regulatory issues
- Temporary supply interruptions
- Customer service levels

...building up high-performing product supply

- Upgrade the manufacturing network
  - ~30% less sites
  - Upgraded GMP standards
  - CAPEX investment 2017/2018 ~€60m

- Lower the portfolio complexity
  - ~30% less SKUs

- Step up supply chain practices
  - Increase ‘On Time in Full’
  - Reduce write-offs

1 2022; SKU: Stock keeping unit; GMP: Good manufacturing practice
We Target Efficiencies of ~ €500m¹ Gross 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

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**Contribution by 2022**

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

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¹ Cumulative efficiencies; CMO = Contract manufacturing organization; SKU = Stock keeping unit

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Our Strategic and Operational Roadmap

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

**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

**Growth**
- Stabilize growth
- Return to growth
- Accelerate growth

**Profitability**
- Stop margin erosion through strict cost controls
- Improve margins
- Accelerate margins
### Our Comprehensive Turnaround Will Accelerate Growth and Profitability

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</thead>
<tbody>
<tr>
<td><strong>Sales growth</strong></td>
<td>-1.7%</td>
<td>PY level</td>
<td>~1%</td>
<td>3 - 4%</td>
<td>~2%</td>
<td>+500 bps.</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>21%</td>
<td>~20%</td>
<td>~21%</td>
<td>~24%</td>
<td>~6%&lt;sup&gt;1&lt;/sup&gt;</td>
<td>+300 bps.</td>
</tr>
</tbody>
</table>

2022 targets at constant currencies, including portfolio measures
EBITDA margin based on EBITDA before special items; <sup>1</sup> CAGR EBITDA before special items
Reinvigorating Our Leading OTC Position
We Have the Right Team and Strategy in Place

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

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Heiko Schipper
Head of Consumer Health