Q3 2022 Results

Tuesday, 8th November 2022
Welcome

Good afternoon and thanks everybody for joining us today. I would like to welcome all of you to our Third Quarter 2022 Conference Call. In order to ensure good audio quality, we kindly ask you to use a speaker and a landline instead of a headset or a cell phone, for example.

With me on the call today are Werner Baumann, our CEO, and Wolfgang Nickl, our CFO. And the businesses are represented by the responsible Management Board members for the Q&A session.

Werner will begin today’s call with an overview of the key developments and achievements. And Wolfgang will then cover the performance of our businesses and outlook before we open the Q&A session.

Disclaimer

As always, I would like to start the call today by drawing your attention to the cautionary language that is included in our safe harbour statement, as well as in all the materials that we have distributed today. Please also note that all net sales growth figures we reference in this call are on a currency and portfolio adjusted basis, if not mentioned differently.

With that, I’ll hand it over to you, Werner.

Q3 2022 Results – Business Update

Werner Baumann
CEO, Bayer

Yeah. Thanks, Oliver, and good morning and thanks for joining us today.

On Track for Full Year Guidance

Continued growth momentum

After a very successful first half of the year, we raised our financial guidance for the full year in August. With the third quarter results, we delivered sustained strong operational performance to put us fully on track to achieve our targets for 2022 as well as investment and progress in our pipeline, which are important for the next years to come. While we are benefitting from some tailwinds, I would like to point out that this year’s performance and progress on the innovation side are based on the strong execution of our long-term strategy for growth.

Robust performance across divisions

Amid increasing pressure on global supply chains and accelerating inflation, we were able to grow our top line and increased our earnings in the third quarter across all businesses, on top of a tough comparable prior-year base.

Our Crop Science division delivered another record sales quarter based on the continued strength of our herbicides business and a strong start to the season in Latin America. On a year-to-date basis, Crop Science grew sales by 17% at an industry-leading profitability with
more than 30% EBITDA margin before special items. This reflects a significant margin increase year-over-year, with efficiency measures and pricing more than offsetting cost inflation.

Pharmaceuticals grew 3% year-to-date with Eylea™ delivering a 10% sales increase, whereas Xarelto continues to be impacted by volume-based procurement in China and loss of exclusivity in Brazil. Our new product Nubeqa™ almost doubled sales in the first nine months of 2022. For the first time, our launch assets Nubeqa™ and Kerendia™ were the key growth drivers, delivering more than half of the division’s quarterly growth.

In Consumer Health, we increased top line by 9% year-to-date, particularly driven by Allergy and Cold with plus 24%. We are off to a good start with the launch of Astepro™, which marks a first-of-its-kind allergy solution for US consumers as a steroid-free antihistamine spray that works much faster than what is currently on the market.

On group profitability, we have been able to compensate accelerating inflation with efficiency measures in all divisions, and of course active pricing management, predominantly in Crop Science and Consumer Health, while Pharma reimbursement continues to be under pressure. We expect the full cost inflation effects across the value chain to actually materialise only next year.

Beyond cost mitigation measures, we also continue to manage our direct and indirect exposure around energy supply as well as supply chain stability in a broader sense. For our operations in Germany, we should be independent from Russian gas supplies by the end of this year. Nevertheless, we are observing continued pressure on supply chains in general and could have grown our business even more this year without those headwinds. Looking ahead into next year, the stability of our supply chains will continue to be of critical importance for us. We are building further safety stocks, as we speak, and work intensively with our suppliers and contract manufacturers towards higher product availability and more stable supply chains.

Our focus on health and nutrition has proven to increase our resilience in times of crisis and after an already strong 2021, we are on track for a very, very good 2022. That’s evident beyond our operational performance as we continue to deliver on important innovation milestones.

**Important innovation milestones**

In Pharmaceuticals, we have achieved key pipeline advancements in Q3 that we had on our agenda for this year, which will underpin our acceleration of long-term growth beyond 2024.

First, we made significant progress and paved the way forward for our Factor XI inhibitor development programme. With the Phase II study data of all of our three Factor XI candidates at hand, we decided to take our orally administered compound asundexian into Phase III in atrial fibrillation, as well as secondary stroke prevention. Provided a successful trial outcome, asundexian could be in the market as early as 2026, and thus potentially dovetailing into Xarelto’s™ loss of exclusivity in Europe by then. As we own the full global rights of asundexian, it could also provide a key cornerstone in our ambition to further expand our footprint in the US. With the focus of our Factor XI inhibitor programme now being on asundexian and in line with a disciplined approach towards resource allocation, we have also taken the decision to discontinue the development of our two parenteral drug candidates, fesomersen and osocimab.

Second, we have also made significant progress on our marketed assets. For our ophthalmology franchise, very strong study data from the two Phase III trials, PULSAR and PHOTON, showed
that the vast majorities of patients with diabetic macular edema and age-related macular degradation could be treated with aflibercept 8mg every 16 weeks while benefiting from the same safety and efficacy profile of the lower dose Eylea™. These results will now give patients and physicians the opportunity to effectively lower the number of annual treatments with aflibercept by up to 50%, thus providing strong arguments for higher convenience, adherence to therapy and improved patient outcomes.

Our goal is to have aflibercept 8mg launched in our major territories already by 2024. We expect its strong value proposition to be a key pillar in defending the leading market position of this product also beyond the expiry of the active ingredient patent, which, in most of our markets, will be in 2025.

Finally, we also received important US label expansions of our launch products from the FDA. Following its recent approval in the metastatic hormone-sensitive setting, our innovative prostate cancer medicine, Nubeqa™, is now available for patients in the mid- and the late-stage of the disease.

Moreover, the label of Kerendia™ has been expanded to also include the results from the Phase III FIGARO-DKD study. This effectively complements the use of Kerendia™ to patients who are at an earlier stage of chronic kidney disease with type 2 diabetes. In that context, we were also pleased to see that KDIGO suggested to add Kerendia™ to SGLT-2 inhibitors for the treatment of patients with chronic kidney disease and type 2 diabetes, just two weeks ago.

For Crop Science, we recently announced our agreement with Ginkgo Bioworks to further bolster our position in biologicals through a multi-year strategic partnership to accelerate research and development of biological products. This includes the continued advancement of Joyn Bio’s innovative nitrogen fixation platform and the exclusive rights to this technology.

For Consumer Health, the launch of Astepro™ in the US OTC market is progressing well and will form a strong base for next year’s allergy season. It is actually a great example of how our businesses complement each other as we have leveraged on our pharmaceutical regulatory capabilities to make this switch successful. Based on this experience, we are confident to realise more of these switches going forward to drive future growth.

We also made further progress in streamlining our portfolio and focusing on strategically relevant businesses. We successfully closed the sale of the Environmental Science Professional business to Cinven beginning of October, and only last week, we also closed the divestment of our testosterone therapy Nebido to Grünenthal.

Our investments move beyond innovation. In early October US-AID announced Bayer as the anchor partner to their AGRI-Ukraine Initiative, highlighting our planned investment of approximately €35 million to boost the capacity of our corn seed processing facility in Pochuiy. It’s the largest of its kind in Ukraine, and actually one of the largest in Europe.

Finally, we continue to progress our ESG efforts and transparency, and recently issued the first Sustainability Progress Report for our Crop Science division. In addition, MSCI has upgraded our ESG rating from BB to A in August. This rating upgrade followed the removal of the GMO red flag and is another important milestone improving our ESG profile.

Wolfgang will now provide more specific insights into the performance of our businesses and outlook. And with that, I hand it over to you, Wolfgang.
Group Performance & Outlook
Wolfgang Nickl
CFO, Bayer

Q3 2022: Continued Growth in Sales and Earnings

Well, thank you, Werner, and welcome also from my end to everybody on the call. In the third quarter, Group sales increased by 6% to €11.3 billion, with growth contributions coming from all divisions; most notably from value-based pricing in Crop Science.

Group EBITDA before special items increased by 17% year-over-year to €2.5 billion. This led to a margin before special items of 21.7%.

When looking at the impact from foreign exchange rates, we saw continued tailwind on revenue and a headwind on earnings before special items. The latter stems from seasonally low revenues with a high cost base in US dollar and the fact that we adjusted the reporting of the negative year-to-date currency impact of the Turkish Lira and Argentinian Peso on earnings. I will get back to the year-to-date FX impact later, which provides a more representative view for the full year.

Core earnings per share came in at €1.13, which is 8% above the previous year. This includes a negative development from the core financial result of €219 million mainly stemming from higher interest cost and non-cash relevant fair value changes for some of our balance sheet positions.

In the third quarter, our core tax rate increased to 25.9% which leads to 22.4% on a year-to-date basis. This is in line with our 23% guidance for the full year.

Our free cash flow amounted to €1.7 billion, which is 11% below prior year. The reduction is mainly driven by cost inflation in inventories and phasing of rebate payments, which could not be fully offset by lower settlement payments and significant growth in earnings.

Our net financial debt decreased by roughly €700 million to €35.9 billion at the end of the third quarter. Positive cash flow contribution was partially offset by a negative effect from the strong US dollar. Please note that the net proceeds from the closing of the Environmental Science Professional divestment were received at the beginning of October and will be reflected in our Q4 results.

Let’s now look more specifically at the drivers of divisional performance in the third quarter.

Crop Science: Sustained Growth Momentum

Crop Science delivered very good Q3 results with 8% sales growth and a 34% increase in EBITDA before special items. Q3 is typically the smallest sales and earnings quarter for Crop Science in our fiscal year.

Herbicides continued the trend from the first half of this year with more than 45% sales growth, which was largely driven by strong pricing for our glyphosate-based products.

We also saw a strong start to the season in Latin America, with sales growth above 30%, or approximately €0.5 billion. Herbicide sales more than doubled and corn, soybeans and insecticides all delivered mid-teens percentage sales growth in the region.
For corn, we grew our seed share globally for the 2022 crop year despite lower planted acres in the United States. The sales decrease of 16% in the third quarter is due to higher returns because of the decline in acres planted, as well as slightly lower licensing revenues. This more than offset growth in LATAM in the mid-teens.

In soybeans, sales declined by 8% due to higher returns in the US that more than offset the growth in LATAM. While we did see some decline in seed and trait share in the US, we held our number one trait position in both the US and Brazil, reaching greater 50% and greater 80% of acres planted respectively. We also continued to upgrade our footprint with our recently launched XtendFlex and Intacta 2Xtend soybean trait offerings. These next-generation traits are foundational to delivering the more than €2 billion of seed and trait licensing revenue we earn annually.

On the bottom line, earnings before special items grew to €629 million, representing a margin of 13.4% and an improvement of 120 basis points over prior year. The improved pricing and mix from the introduction of new products, as well as savings from the ongoing efficiency programmes more than offset lower volumes and cost inflation of roughly €245 million, particularly in cost of goods sold.

**Pharmaceuticals: Increasing Contribution from New Products**

Our Pharma business increased sales by 3% and EBITDA before special items by 15%. As Werner pointed out, our launch assets Nubeqa™ and Kerendia™ were main growth drivers on the top line this quarter. A similarly strong contribution also came from our IUD franchise with double-digit growth driven by phasing and recovery from COVID-19 related effects.

Once again, Eylea™ continued to exceed our expectations, delivering a 4% increase in the third quarter. Top line increased across all regions, with the strongest contributions coming from Europe and China.

Sales of Xarelto™ showed an 8% decline in the third quarter. As expected, key driver again was the impact from volume-based pricing in China, which should now be largely absorbed on a year-on-year basis. In addition, the loss of exclusivity in Brazil weighed on sales.

Sales also benefitted from contract development and manufacturing milestones from our Cell & Gene and chemoproteomics platforms.

Looking at the bottom line, our earnings before special items increased to €1.5 billion and a margin of 31.7%, which is 160 basis points above the prior year. This includes the effect from the above mentioned milestones as well as gains from the sale of non-strategic businesses. We also reallocated spend and focused our R&D and marketing investments.

**Consumer Health: Continuous Growth across All Regions**

Let’s finally look at the performance of our Consumer Health business. In Q3, we continued our strong growth trajectory across all regions with sales growth of 4% on top of a high prior year comparable and a 9% increase in earnings.

Demand remained high for our Cough and Cold products, which grew due to a higher number of cold incidences. Sales also increased for our allergy portfolio, and we note positive momentum for our Astepro™ launch in the US OTC market. In total, this led to 17% growth for the Allergy and Cold category.
For Nutritionals, we saw the expected normalisation in line with market development with an 8% sales decline in the quarter on a high level in absolute terms.

Strong sales growth translated to an increase in earnings before special items to €336 million, whereas margin came in 120 basis points below previous year at 21.7%, primarily driven by higher commercial investments in particular for the launch of Astepro™.

Let’s now look at our year-to-date performance.

**9M 2022: On Track for Full Year Guidance**

Let me discuss the main drivers of our top line growth first. Our total year-to-date sales growth for the Group is largely driven by price in Crop Science and Consumer Health. Pharma on the other hand recorded a negative pricing impact.

For Crop Science, pricing for glyphosate-based herbicides contributed nearly €1.9 billion in the first nine months. We maintained a brand premium over generics sourced out of China, where supply was tight. Market prices in Q3 were down when compared to the first half of the year and going forward, we expect further normalisation in Q4 and next year.

Most importantly, besides the glyphosate dynamics, we are also delivering on mid-single digit percentage price improvements in corn, fungicides, insecticides and other herbicides, to round out the growth in Crop Science this year. For the 2023 season, we already announced our branded seed pricing for corn and soy for the US and for corn in Europe and expect to deliver, on average, low double-digit percent price increases.

For Consumer Health, we saw broad-based pricing growth of 6% across categories. At the same time, we start observing selective price elasticity on demand while customers continue to value the superior brand benefits of Bayer.

In Pharmaceuticals, growth in the first nine months of the year was entirely volume-driven. We saw overall a negative pricing effect from volume-based procurement for Xarelto™ in China and largely fixed pricing in general. So far, we have not seen substantial impact from volume-based procurement for Adalat™, which we expect to start in Q4, fully materialising next year.

Looking at the bottom line, as mentioned earlier, all our divisions are affected by significant cost inflation for input materials, energy, freight, warehousing and personnel. The cost inflation effect is particularly strong in Crop Science with around 4% of net sales or approximately €700 million, whereas Pharma is impacted by €450 million and Consumer Health by around €180 million year-to-date compared to previous year.

We expect the full cost inflation effects across the value chain to materialise next year and will continue to actively manage these impacts with efficiencies and pricing, where possible.

Another driver are the exchange rates. Year-to-date, we benefitted from material tailwinds of about €2.4 billion in sales and roughly €290 million in earnings before special items. This leads to a year-to-date margin dilution of 110 basis points. We expect margin dilution to come down to about 70 basis points by the end of the year based on our latest estimate, which uses September month end spot rates.

**FY 2022: Group P&L Outlook Confirmed**

With the strong year-to-date performance, we are well on track to achieve our full year growth and P&L guidance for the Group in 2022. For Crop Science and Consumer Health we see some
upside potential, whereas targets remain challenging in Pharma. We confirm our Group P&L outlook and core EPS guidance upgraded in August, now including the effect from the Environmental Science divestment.

We have increased our free cash flow guidance by €0.5 billion to approximately €3 billion at constant currencies due to lower-than-anticipated net settlement payments. We have also updated our net financial debt guidance for the higher free cash flow, as well as the closing of the Environmental Science Professional divestment. Net debt is now expected to be at approximately €31 billion at constant currency at year end.

In the column on the right, you find the updated foreign exchange estimate at the latest rates as of the end of September. The latest changes now lead to an estimate of approximately €3.5 billion tailwind in net sales and a dilutive effect on margin of 70 basis points, as I mentioned before.

Let me also note that the strong US dollar will increase net financial debt by about €2 billion when using end of September exchange rates.

And with that, I hand the call back over to you, Oliver, to start us on the Q&A, please.

Oliver Maier: Great. Thanks, Wolfgang. Thanks, Werner for your overview. Before we begin, I always would like to remind you to keep your questions to two per person, so that we are able to take as many questions from as many participants as possible.

And with that, operator, I think we can open up for Q&A session.

Q&A

Operator: Thank you. As a reminder, to ask a question, you would need to press star one and one on your telephone and wait for your name to be announced. Your first question comes from the line of Michael Leuchten from UBS. Please ask your question.

Michael Leuchten (UBS): Thank you very much. It’s Michael Leuchten from UBS. Just – thank you for all the details on the moving parts as we think about 2023. I was just wondering if you could try to put that together for us. It sounded like your most important variables as to where the margin in Crop Science can go in 2023 is really down to glyphosate pricing, given the price increases that you pointed to on the portfolio.

And related to that, are you able to absorb the inflation costs in the Crop Science business with those price increases? Or is the inflationary pressure beyond that? Thank you.

Wolfgang Nickl: Yeah, I can probably start and – this is Wolfgang. And Werner can then supplement. Yeah, I’m happy to repeat some of the vectors that we described. But as a safe harbour, we’re giving you some vectors to orient yourself, but we’re not giving specific guidance today for 2023. I mean, it’s a pretty volatile environment, and we’ll do that in Q1 as usual.

So I think the components for Crop Science, and others can chime in, is certainly the pricing. I mean, we have seen in the first nine months glyphosate pricing at €1.9 billion above the same period of the prior year. And I think Q3 was lower than what we saw in the first half of the year. And we expect the pricing to further normalise into Q4 and next year. Of course, what we are trying to do is offset some of this with price increases in other areas. I gave you the soy and
corn example for the US for next year, and in corn for Europe, where we have double-digit price increases.

Inflation is a big deal. That's why we pointed out what it is for the first nine months. One of the important things, Michael, that you need to consider is that some of the inflation is still showing in inventories. You've probably seen that when you look at our cash flow statements, and that's just simply what happens when you do first-in, first-out. So the earlier purchased, cheaper inventory gets consumed in the P&L earlier and then next year, it gets a bit more burdened.

And then I would also like to point out, and I'm sure you have that in your models as well, Michael, that obviously, we are super happy that we successfully sold the Environmental Science business at a very favourable rate. But you may recall that €600 million business in top line was about a third of that in EBITDA. And you can do the math what that does because this year, there are only three months missing, but in the next year, there's a whole year missing.

So that's a quick summary of the Crop Science related piece. But others, Rodrigo or Werner, you can chime in, please.

Werner Baumann: Yeah. Maybe I'll quickly add to what Wolfgang said. And let me start out by saying what I said in my introductory remarks. We are enjoying a very, very strong 2022 that has brought us essentially into the range of our 2024 guidance. Some of that is, of course, driven by the significant cyclical support that we get out of our Crop Science business. And as Wolfgang already pointed out, some of it is not there to stay at the level that we are seeing in 2022 with average prices of glyphosate, which are quite a bit higher than what we see in quarter three, and in all likelihood, see a little bit lower even in quarter four then entering into 2023. So that is an important vector to watch out for.

Secondly, I think pricing – and Rodrigo can comment on that in more detail. Pricing has been taken quite substantially across the entire crop portfolio based on the cost increases that we see across the portfolio. So this is not only a glyphosate story, to be very, very clear on that. And that is true for 2022, and that is also true for the price cards that Wolfgang already referred to going into 2023. And you have more of the same in pricing upwards in order to absorb inflation and then protect margin in our consumer business.

So last but not least, before I hand it over to Rodrigo, the thing is, of course, very different in Pharma. We see the same inflationary pressure on the cost of goods side with relatively low cost of goods, a little bit lower, but then we have also salary and wage inflation that is going to hit fully in 2023 while at the same time, we cannot price up because we happen to be in regulatory systems. And on top of that, do have further top line effects from the Xarelto LoEs in different countries and value-based procurement, which has been with us for certainly 2021 and 2022 on Xarelto™. And now with Adalat™ going into 2023, one very important product that is going to be affected as well. So those are the things that have to be kept in mind that we have. In terms of pricing, also different businesses with different exposures to the extent that we can carry through inflation with higher pricing.

So with that, Rodrigo, please?

Rodrigo Santos: No, Michael, and just to complement Werner and Wolfgang, they did a great job talking about the pricing efforts that we are doing. I think there's just one information to complement is our efficiency programmes, right? So we are also working a lot on that one.
Just to give you a number for 2022, by the end of this year, we are expecting €200 million of savings on our efficiency programmes. When you think about 2023, of course, we're going to continue to do a lot of work with our supply team in terms of cost management, efficiency programmes, supply resilience to help us. So that equation of addressing inflation through pricing and our efficiency programmes to help us drive what we planned for the next years.

**Michael Leuchten:** Thank you.

**Oliver Maier:** Thank you, Michael.

**Operator:** Thank you. We will take our next question. And the question comes from the line of Richard Vosser from JP Morgan. Please go ahead. Your line is open.

**Richard Vosser (JP Morgan):** Hi. Thanks very much. Two questions, please. One, just going back to Crop and just thinking about acreages. I think the – obviously, acreage is down this year in the US. I've seen some early indications of acreages on corn going up, sort of, 5% or return to, sort of, very high levels. Is that how you’re seeing it? And also some use – some of your views on the soybean acreage development, which I think might be down a little bit, would also be very useful.

And then the second question is just actually on the discontinuation of the Factor VIII gene therapy programme. Does this represent a reprioritisation away from gene therapy? And maybe just on – an update you could give us on the cell therapy around BlueRock would also be interesting. Thanks very much.

**Werner Baumann:** All right, Richard. So the first question is going to be answered by Rodrigo, and then Stefan is going to talk about gene therapy and the Factor XI programme [meant: Factor VIII].

**Rodrigo Santos:** Richard, so short answer would be that you are correct. We are seeing for the next year, it's too early, as you know, right? But when you think about the commodity cycle that we have, also the adjustments that was done by the USDA in terms of yields for US and the challenge that we have on the drought in Europe, there is a concern about supply of grains in the market. So we foresee another positive cycle for commodity next year, what should lead to an acreage increase of corn, especially in US because of comparing to this year, so that's clearly.

Soybean, kind of the same, but I think corn is the main driver because of what happened in the US this year. We had almost like four, five million acres less because of the weather conditions. So we should see that happening next year.

And aligning to that, my final comment, Richard, before I transition to Stefan here, is that we are seeing, when we look to the orders book, the demand for high technology, the best hybrids that we have in the portfolio and the innovation that we have. That's a good indication, when we see that what we are foreseeing for the next season. But thank you for your question. Stefan?

**Stefan Oelrich:** Yeah. Thanks, Rodrigo. Hi, Richard. So to be very clear, the return of the rights to Ultragenyx for our DTX201 compound to treat haemophilia with gene therapy has nothing to do with reprioritising our gene therapy. Quite to the contrary, we continue to be very happy with the progress of our clinical stage pipeline in gene therapy, mostly stemming from
our AskBio acquisition, while this one goes back to Ultragenyx, and they now have backed the full rights to the compound.

And your question on cell therapy. So what I can tell you is that we fully enrolled our Phase I cohort for cell therapy in Parkinson’s, and we’re hoping to very soon give you the one-year data for the first cohort. So just to give you an idea, we should have this middle of next year for one year for the full cohort and then we should have the data ready. So more I cannot tell for now, but stay tuned. This is something that we feel extremely excited about.

Operator: Thank you. We will take our next question. The next question comes from the line of Peter Verdult from Citi. Please go ahead. Your line is open.

Peter Verdult (Citi): Thank you. Peter Verdult from Citi. A few questions. Just picking up with Stefan. Just based on the current trajectory, when will Kerendia™ be a top 15 product for Bayer? It just seems crazy that you’re calling it out as contributing almost 50% of the division’s growth but not disclosing the sales. If you could give us some help here, Stefan, as to when based on the current trajectory, Kerendia™ will be a top 15 product at Bayer Pharma?

And just now that the dust has settled on the Eylea™ 16-week data and you know what the competitors are saying, just what you think you can do with that asset in the ex-US markets. It’s just very obvious that the market cap change on the back of that data will start between yourselves and your US partner.

And then Rodrigo, just coming back to crop. Rather than asking you to repeat the same inputs that you’ve done for the last two questions, I suppose what it all comes down to is consensus for next year has low single-digit revenue declines and a relatively modest margin impact. We’re a little bit more aggressive to the downside. But just wanted to keep it tight and then get a sense check on you, how comfortable or not you are given where expectations currently sit? Thank you.

Werner Baumann: All right. So Stefan is going to start, and then Rodrigo will follow on.

Stefan Oelrich: So thanks for the question, Pete. So on Kerendia™, yeah, we’re very pleased with what we’re seeing across the board. We’re also going to get going now in China after a really strong launch in the US. And I’m sure you’re tracking, just like me, comparing this to other products in the category that have launched, and I think we’re continuing to track at or above some comparables in the class.

So when will it hit the top products? Normally, I don’t guide in November for the following year. But we are also very confident for next year and then hope to give you a little bit more colour, including in numbers.

On Eylea™ 8mg, so we should get approval for this outside of the US by first quarter of 2024. This obviously is data that I think everyone who has looked at the data, has seen that there is more than just life now in Eylea™. This is unprecedented data with the dosing intervals, which beats all published competitors to this day. And we feel that this is going to give additional, let’s say, life to this franchise, above and beyond loss of exclusivity of the two milligram formulation.

Rodrigo Santos: And Pete, so let me take your question. We are already working, of course, in 2023. It’s too early to set the guidance for next year. But let me use your question just to
do one step back here and just reinforce a little bit of my view about the market and our performance, right?

We closed 2021 with a very strong performance above market, with the current results that we are seeing today, with a 17% sales growth on the first nine months of the year and the 30% EBITDA margin that we have. And when you look to the performance of the business, we are leading the business in corn, soybean, in herbicides, in biologics, in digital and new frontiers like carbon. So clearly, we are seeing that the performance of this year is a reinforcement of our mid, long-term strategy and our investment on R&D and the results of the innovation coming to the market.

Of course, again, next year, we are still working on that one. We had some vectors that we shared today here, but we’re going to come back with a more precise answer for next year.

Peter Verdult: Thank you.

Operator: Thank you. We will take our next question. The next question comes from the line of Vincent Andrews from Morgan Stanley. Please go ahead. Your line is open.

Vincent Andrews (Morgan Stanley): Thank you, and good morning, everyone. Rodrigo, just wondering if you could help us bridge the US soybean performance this year with what you’re anticipating next year. I guess in a couple of ways, if you could help us understand sort of what your volume and price mix was this year versus what you’re anticipating with a double-digit price increase for next year. And do you think from a share perspective, you’re at the point now where you’re going to be able to defend the existing market share? Or do you think you might get them back next year? Or is there still risk of losing a little bit? And I guess how much of that does it depend on XtendFlex™.

Rodrigo Santos: Thank you, Vincent. So let me start with the end here. I think you nailed it, right? So if you think for the entire Group here on the call today, if you think about the last years, what happened is, of course, as Corteva was transitioned, their platform from our platform to Enlist™, you could see an increase of the penetration of Enlist™ in the market.

When it comes for the next years, we’re going to be head-to-head competition, right? It will depend a lot on the performance of the varieties in the market, and that’s why we are confident about the next year that we’re going to compete in this market.

We are still the number one platform in the market with more than 50% of the market. And very important, as you said, this year, we got to 20 million acres of XtendFlex™ and the new varieties, the precision breeding that we are seeing in the market is helping.

Last year, we had a 2.5 bushels per acre advantage. And we are still collecting the data this year, but we are seeing very good results. So what I would say is that for the next years, we’re going to see a very head-to-head competition in the market, and we are confident on the plans that we have. Of course, preparing the launch for the next generation that you know, the HT4.

Aside of that, let’s just use this question as well, Vincent, to reinforce about LATAM, right? So when you think about soybean, LATAM, especially Brazil, became extremely important. We have more than 80% penetration in the market. We are moving to 6 million acres of Intacta 2 Xtend™, and the performance is extremely solid as well there.
More specific, when you look to the quarter of this year, you had an impact of the excess fee. So that's basically also an impact that we saw on the numbers, specifically about the quarter. But confirming what you said, for the next years, we're going to see a much more head-to-head competition. And the importance of the varieties, the yield component in the market will play a big deal for the next years.

**Vincent Andrews:** Thank you. And as a follow-up, can I just ask on the PCB litigation, the quarterly documents, now that you filed a complaint in August, trying to enforce the rights under certain indemnification contracts. Could you just talk about sort of what the scope of that could be, if you're successful and prevail on those? How much of the PCB liabilities could be covered under indemnification? And what is the timeframe you think to see whether you can get a court ruling in your favour on that?

**Werner Baumann:** Yeah, Vincent. Thanks for the question. This is Werner speaking. So first of all, we filed against all important so-called undertakers. These are our customers that gave us a full recourse with their commitment letters in the early 1970s when they didn't have access to other products that were, in particular, fire retardant. So with that, that recourse that we have is not time marked. It is open-ended and all inclusive. And that's what we're pursuing.

In terms of court, we don't have a perspective on that from a timing perspective. This is a parallel process in terms of having a court proceeding and then, of course, negotiations with each of the undertakers.

**Vincent Andrews:** Thank you very much. Appreciate it.

**Operator:** Thank you. We will take our next question. The next question comes from the line of Laurent Favre from Exane BNP Paribas. Please go ahead. Your line is open.

**Laurent Favre (Exane BNP Paribas):** Thank you. Good afternoon. I only have one question left. It's for Rodrigo on the efficiency savings, €200 million for 2022. I was wondering if you could share a number for 2023, please.

**Rodrigo Santos:** Laurent, sorry to say, but we're still working on that one. It's too early to say – to give you a precise number. What I can tell that we are working with the organisation on the efficiency programmes that we have, also with the supply cost management that we are putting in place and in terms of supply resilience as well.

When I think about the next two or three years, working on the top line that we reinforced many times here today, but also on the bottom line and how we got those efficiencies in place, that's a very important element.

Another thing that you saw in the market, the Environmental Science that was mentioned by Wolfgang. And if you look back a little bit, we also made some adjustments of our portfolio in Crop Science as well to drive higher margins for the future. So I'll come back to that question early next year when we have the results of the Q4 as well.

**Laurent Favre:** Thank you. And Wolfgang, actually, you mentioned –

**Wolfgang Nickl:** Well, Laurent, I can probably supplement for the audience just a tad bit. As a reminder, if you recall, we had commissioned a programme on efficiencies in 2020. That kicks in in 2023, 2024, 2025 [should be: 2022, 2023, 2024] and we said it would be €1.5 billion plus. So from an overall modelling perspective, 2023, 2024, 2025 [should be: 2022, 2023, 2024]
you can assume almost linearity for that. It's not precise yet. As Rodrigo said, we're working on the details, but I think it's important that you consider that when you do your longer-term models. Sorry, you had a second question.

Laurent Favre: Yes. Sorry, Wolfgang, you mentioned the impact of rebates on the free cash flow for this quarter compared to last year. I was wondering if those are – the impact is mostly timing. Or are you adding to the rebates programme to defend market share?

Wolfgang Nickl: Laurent, it's completely timing.

Laurent Favre: Thank you.

Operator: Thank you. We will take our next question. The next question comes from the line of Keyur Parekh from Goldman Sachs. Please go ahead. Your line is open.

Keyur Parekh (Goldman Sachs): Hi. Thank you. Two questions, if I may, please. The first one, going to Crop again. I'm just wondering how you guys are thinking about the split of planting between corn and soy kind of into the Northern Hemisphere next year. Any kind of early signs there? Obviously, the lower five million acres this year, kind of, for corn creates an easier year-over-year comp, but any kind of signs or any sense you might be able to give us on how we should think of that split of broader corn versus soy next year?

And then secondly, continuing with Crop. I'm just wondering how you guys are seeing, kind of, the market share dynamics, kind, of on, kind of, crop chemicals there. It seems like the volume growth, kind of, for the rest of your peers, including Corteva, that they've reported, kind of, year-to-date seem to be a lot higher than what we've seen from Bayer. So just wondering how you guys are thinking about volume in that part of the business. Thank you.

Rodrigo Santos: Thank you, Keyur. Let me address the questions here and open to any other comment as well from my peers here. So, in terms of corn, soybean, what I would say today for you is that when you combine the demand and also the supply – and I mentioned some of the challenges that we are seeing in terms of supply, in terms of yield because of the weather conditions in Europe and a little bit of what happened in the US when we had the planting season here. I'll say that today – I would say that there is trending more towards corn, an increase next year versus soybean. We still see a soybean area that will be significant, but the trending, if I would give you an answer, is more towards corn.

On the crop protection volume, I would say that, let's see by the closing of the fiscal year because we have a lot of the dynamics of quarters and how they play the quarters in that market. We feel very good about our performance in fungicide – in herbicides, of course. This is – we are leading that market and we are with a very strong position in that one. But also on fungicides where we hold the number two position and insecticides where we hold the number three position, we are seeing a lot of good development. We had launches that we did in the market with the Adengo expansion and FOX family in Brazil that I think that when I look for the fungicide market, we are excited about the next year. That's probably one of the things that we are driving for us for the next year is the fungicide market, as you mentioned.

Insecticides as well, we have just had a very important launch with Curbix™ that will be a major launch for us, and we are expanding that in the market. So let me say to you that we have a very strong performance for Crop Protection as well. We are managing in the market very low inventory in the channel, very low inventory in the channel because of the dynamics and the
volatility that Wolfgang mentioned today in the call. But let's see. When we close this year, I would say that we are confident that we're going to have a very good performance on Crop Protection as well. Thank you.

**Operator:** Thank you. We would take our next question. The next question comes from the line of James Quigley from Morgan Stanley. Please go ahead. Your line is open.

**James Quigley (Morgan Stanley):** Hello. Thanks for taking my questions. Another one picking up on the Kerendia™ launch. So the IMS data suggesting around $100 million or so for the first nine months of the year with a big step-up in September to about €23 million. So is this broadly in line with what you're seeing? Is there anything else we need to think about when tracking Kerendia™ launch via IMS?

And I think Werner mentioned the guideline changes that you've got for Kerendia™ as well earlier or a couple of weeks back. To what extent will these be incremental? Were doctors using Kerendia™ on top of SGLT-2s anyway? Or is this going to be another sort of pocket of upside for the launch?

And then when I think about the consumer business, and you mentioned again the Rx-to-OTC switches. And Astepro™ has been a success and you're looking to do this again. How many potential Rx-to-OTC switches do you have in the pipeline? When can they launch? And typically, what would you say is a growth impact in the year of a launch for Rx-to-OTC switches from what you've seen in your business historically? Thank you.

**Werner Baumann:** All right, James. So Stefan will start, and then Heiko is going to take the OTC switch question.

**Stefan Oelrich:** Yeah. First, so I don't know if I can really respond to your first question but—because there's a gross to net in the middle. So I would neither confirm nor deny because otherwise, I would be making a forward-looking statement for the year.

But again, I think you're right. You're seeing—we're seeing the TRx uptick, which is really nice, coming out of the US. And again, China should be following soon. So for this year, overall, I'd say you're not that far away.

The SGLT-2 question, James, can you please say this again, what you needed exactly on the SGLT-2 opportunity?

**James Quigley:** Just from what you're seeing so far, are doctors already using Kerendia™ on top of SGLT-2s? Or how— is the guideline changes from KDIGOs? Is that incremental in terms of suggesting or allowing or recommending combination use of Kerendia™ and SGLT-2s?

**Stefan Oelrich:** I mean, we're seeing now at all the guidelines, not just the KDIGO guidelines. We're seeing also from ADA and other guidelines. We're seeing now Kerendia™ very prominently placed. That you would put it on top of SGLT-2 makes good sense if SGLT-2 is already used in the base case to treat diabetes. My understanding is that if you're not using SGLT-2 as a baseline and want to treat kidney ailment, you can directly go with Kerendia™ also under this guideline. So we're seeing that we're really making good headroom and becoming a foundational treatment for kidney patients.

And we're seeing in our existing base, a good number of patients on SGLT-2, that you add Kerendia™ to it, but we're seeing also many patients that are not on SGLT-2 yet that are getting
early on to Kerendia™. Note that when you take type 2 diabetes, the vast majority of diabetics are being treated and that develop kidney disease are not currently treated with SGLT-2.

So we think that both in combination as well as a foundational therapy for kidney, we're well placed. And that's also – that's at least how I read the guidelines, very nicely covered by the guidelines. But what you have to note is that now, all major colleges out there, physician colleges are recommending the use of Kerendia™ in a very broad patient population.

**Heiko Schipper:** Okay. Just a couple of comments on the Rx-to-OTC switches. Indeed, we really like them for a couple of reasons. It really brings true innovation to consumer health. Our customers love it because it expands the size of their categories. And of course, for consumers, it's very beneficial, because we – they tend to be superior propositions as we also see with our Astepro™ launch. So it really gives good incremental innovation.

And the last reason why we particularly like it at Bayer is that because we think we have competitive skills there that not everyone has. To bring such a product from Rx-to-OTC, you need to have good understanding of regulatory processes and dealing that, getting approval from the FDA in this case, which was the US launch. You need to understand how to do those. This is not so easy.

Not everyone is able to successfully execute those. And we think that we have a very good team there. And obviously, we are therefore not planning to limit this only to Astepro™. We are working actually on a pipeline. I don't want to now start to give you the full detail of all the things that we're planning in the innovation in the coming years.

Obviously, we will release those once we can, once this is competitively the right time to do that. But clearly, it will remain an important part of our strategy. In this quarter, we saw it immediately. It immediately delivered in Allergy double-digit growth. It's very incremental. It also comes with quite some investment, of course, because these are usually new brands. As it is a new active ingredient, we have to create a new brand name. So launching a new brand name in the US is not cheap, but it's worth the investment. The ROIs are very good on it, and it's true innovation that I think consumers are expecting from Bayer in this category.

**James Quigley:** Perfect. Thank you very much.

**Operator:** Thank you. We will take our next question. The next question comes from the line of Sachin Jain from Bank of America. Please go ahead. Your line is open.

**Sachin Jain (Bank of America):** Hi there. Thanks for taking my questions. A couple, please. Firstly, when you – in your introductory comments, referring to guidance there, I think you said Pharma guidance may be a challenge with upside in Crop. So I wonder if you could just give us a bit more detail on where you see the challenges in that Pharma guide. I'm assuming it's on the margin front. And therefore, do those pressures persist into the next year?

Secondly, chance my arm on the glyphosate pricing. When you're talking normalisation, could you give us any directional commentary as to where you think that ends up in 2023? And how we should think about 2023 glyphosate pricing versus the 2.1, 2.2 [means: billion €], I guess you end up for this year?

And then final question is on PCB, slightly different – for Werner – versus the earlier question. One of the pivot points for you in considering whether you need to provide additional provisions
to this relative to what you've already taken, given since the second quarter call, additional states and some personal injury claims that have come through. Thank you very much.

**Werner Baumann:** All right. Sachin, this is Werner. Good morning and thanks for your three questions. First of all, I mean, when it comes to where the challenges are for the guidance, it's clear that for Pharma, it's a margin challenge. You can see that already, we are quite a bit stretched based on the effects that I mentioned earlier. And on top of that, we have a few other things that we touched on, e.g. continued difficult environment for Pharma in China, where normal commercial activities are not possible. As a matter of fact, I was in Beijing just about three days ago, and it's very different from, let's say, a normal environment there. Yeah? So people cannot operate normally, and that also holds true for our commercial organisation. And given the significance of our China business that, of course, has an impact.

Secondly, we have a disproportionately high FX impact on our Pharma business that weighs also heavily on the margin profile, which means we get the "inflationary" expansion of the top line but has substantially less of that in the bottom line, actually even to the extent that it's negative, for example, for the quarter. And that weighs on the Pharma business.

Now Rodrigo already said that we are 17% year-to-date top line up, and there's another quarter to come. There's, let's say, the perspective of that quarter that could even be a little bit better. We have not adjusted for it because in the grand scheme of things, it wouldn't have changed the guidance for the company. So that's all that's to be said for Pharma and Crop.

Your takeaway should be that for the company, it doesn't make a difference, but the composition of the delivery is going to be slightly different potentially.

On glyphosate normalisation, we don't see that prices will come down to the levels that we saw end of 2020, early into 2021 because cost has increased for generic manufacturers. Logistics cost is sky high, which would always be a major driver in terms of what the cost base is for our competitors.

We, of course, do have the advantage of being vertically integrated for our glyphosate business. But having said that, going into 2023, we do not expect that the average pricing will be anywhere near what we are seeing in 2022, yeah? And the easiest for you is to look at generic glyphosate pricing curve, where it's averaging out in 2022 and then you'll just take end of quarter three and you're going into quarter four, what you see there as a good proxy, we are - you'll be entering the year. And that's the base that we are going to use also to provide a frame for the budget and with it, the guidance, but we are not there yet, as Rodrigo already pointed out.

When it comes to PCB, we have – for all provisions, we have a quarterly review. And each quarter, we look at whether the level of provisioning for the known cases and the perspective on those and whether some of these have materialised or matured to an extent that we can reliably estimate whether there is an exposure or not, then there would be an adjustment. Yeah? So from today's perspective, we are just about – you're talking about the closing of quarter three. There's nothing that would have to be provided for early on. On the personal injury case, yes, we have three more with the new school, but it's very, very early on. So there's nothing that we could say there.
And then last but not least, also latching on to my prior answer on recourse. In the accounting world, we have to provide for exposures that are more likely than not to occur, yeah, which means they are higher than 50% likelihood of occurrence of an exposure. We are going to put a provision on the book with a few more criteria to be met.

When it comes to recourse, we haven't booked anything because on the side of, let's say, accounts receivable for any claim that we have, the level of it, the standard is much higher, which means it has to be virtually certain that what we put on the books. So even though we are very confident that something good is going to come out of it for us, we cannot book anything at this point in time, which means from a timing perspective, it would always be disparate between what it is that we book early on, which is the exposure, and then recovery would come later.

Sachin Jain: Very clear. Thanks very much, Werner.

Werner Baumann: All right. My pleasure.

Oliver Maier: Thank you. Operator, I’m conscious to time. I think we have max time for two more questionnaires.

Operator: Of course. We will take our next question. The next question comes from the line of Dominic Lunn from Credit Suisse. Please go ahead. Your line is open.

Dominic Lunn (Credit Suisse): Thank you very much. So just on inflation again. So I think you said about €1.3 billion impact year-to-date. But how much specifically was in 3Q? Presumably, there should be about the minimum guide for the next few quarters.

And then secondly, on Nubeqa™. If we look to the US NBRx numbers, and this has really taken off in recent weeks, and presumably, this translates to sales over time. But I just wanted to get your thoughts on what’s driving as apparent step-change in utilisation? Because I know previously you talked about ARASENS maybe being more of a marketing tool to help you get the full range of prostate indications. But has this actually exceeded your own internal expectations or is there anything else you’d point to?

Wolfgang Nickl: Yeah, Dominic, I can take the first one on the inflation. We're not spelling it out quarter-by-quarter, but you can assume that Q3 was bigger than Q2 and Q2 was bigger than Q1. And that going forward, rather than seeing less, we see a bit more because of the mentioned inventory effects, because some of it is still sitting in inventory. You saw the increases there quarter-over-quarter. So it will go up from here before it then will hopefully go down.

Stefan Oelrich: On Nubeqa™, I think you have it. I mean, the extension of the indication now allows us to more broadly communicate around the use of Nubeqa™ that translates into more use.

Let’s not also not forget that we launched this product very successfully in the middle of a pandemic with very limited field resources. So those are pretty much back online, and I think it’s coming through now that this is also converting into uptake in prescription. So we’re super pleased. I couldn't say that we didn't expect it because we knew that we had a best-in-class product here. And I think the evidence shows it, and it’s now coming through in the prescription as well. So this is – and we’re very, very pleased with the Nubeqa™ performance.
Dominic Lunn: Great. Thank you very much.

Oliver Maier: Thank you, Dominic.

Operator: Thank you. And we will take our final question. Your final question comes from the line of Falko Friedrichs from Deutsche Bank. Please go ahead. Your line is open.

Falko Friedrichs (Deutsche Bank): Thanks very much. Good afternoon. Two questions, please. Firstly, on your Consumer Health business and especially the Nutritionals part. Do you think there is a risk of a potential slowdown over the next quarters in light of this whole inflation pressure on income levels? Or do you think it should be relatively robust?

And then secondly, on your free cash flow guidance increase of about €0.5 billion due to lower net settlement payments. Can you share a bit more colour here why those settlement payments were lower than you initially expected this year? Thank you.

Werner Baumann: Okay. So hi Falko. Heiko is going to take the first one, and then Wolfgang is going to shed some light on the year free cash flow.

Heiko Schipper: Yeah, we have seen already now Nutritionals slowing down a bit in terms of the growth versus, of course, a very high growth in the year before and also the year before that. So I would, kind of, say that we've, kind of, reached a new normal now there. So this just has landed on a very high level. So I don't expect it now to, sort of, dramatically come down. I don't think we should assume that.

I think some of these habits that have been formed over the past two years in the post-COVID world, where people are starting to take better care of their personal health, are still there. I think people are also worried about their immune system as we go forward because immunity has been the main driver behind that.

So I think supplementation is still a very good space to be. So when we look across the board now with the effects of quite significant pricing that, of course, is being taken across the industry, we don't observe a sudden spike in private label growth because we are tracking that very closely.

We clearly see that on a quarterly basis, we're checking in with consumers. They clearly tell us that their health remains number one priority. And that how they're dealing then with the price increases is, in some shape or form, they're looking for better deals, of course, out there. We see that some move to a bit smaller packs or value packs. So that's why there could be – you see a bit of impact on the volume side.

But frankly, I’m not overly concerned about it. I think we are in a good spot with that category because the underlying consumer habits are very solid around supplementation. So I hope that answers your question.

Wolfgang Nickl: Yeah. And Falko, a quick one on the free cash flow. Yes, you're correct. The improvement to the free cash flow do indeed come from reduced pay-outs for settlements. We started the year with an assumption of about €2.5 billion. We now have pencilled it in at €2 billion. Year-to-date after three quarters, we’re like €1.1 billion, €1.2 billion. So we’ll see how that goes. It could be a little bit more free cash flow. It could be that we pay a little bit less than that. The improvement clearly comes from the glyphosate complex. And obviously, I think you can appreciate this, with five wins under our belt, we are in no particular rush either on the
current or on starting the futures programme. And we review that as we go and focus on winning more cases.

**Falko Friedrichs**: Okay. Thank you.

**Oliver Maier**: Thanks, Falko. I think that was the last question. I don't – I was waiting for the operator, so sorry. Thanks to all for your time and attention today. It's greatly appreciated, as always. And this closes our call for the third quarter. Thank you, everybody. Talk soon.

**Operator**: This concludes today’s conference call. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]
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