



# Capital Markets Day 2021

Wednesday, 10<sup>th</sup> March 2021

Presentation by

**Heiko Schipper**

President of the Consumer Health Division

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## **Winning in Consumer Health**

Heiko Schipper

*President of the Consumer Health Division*

Good morning, good afternoon and good evening to all of you.

My name is Heiko Schipper and I lead our Consumer Health business. The last time I was speaking at a Bayer Capital Markets Day was December 2018. Then, I presented our view that the Consumer Health industry offers excellent opportunities for sustainable value creation thanks to its attractive growth and margin dynamics. Further, I made the case that we were well placed to win in this market, provided we would, first, make sharper portfolio decisions and, second, execute better across the value chain for the benefit of our consumers.

That was 27 months ago. Since then, the systemic relevance and the potential of the consumer health industry has only become stronger. We have all become aware of the importance of everyday health and the need for all of us to take our own health in our hands.

While the attractiveness of the consumer health market hasn't changed, what has changed is our position in it. We have made important strategic choices and executed our plan successfully to move from an underperformer to an outperformer. We are a global leader in consumer health, well-positioned for sustainable, profitable growth -- and led by a management team with a track record of delivery.

Today, I am going to share with you what we plan for the next 4 years. I will outline our market outlook, our position in the market and our game plan to sustainably create value. Finally, I will close with our mid-term guidance.

Let's start by looking at the market we operate in. Consumer health remains a relatively unconsolidated market. There are attractive growth and margin opportunities across categories and geographies.

We hold a strong number 3 position in Consumer Health. With a top 5 position in all of the key categories, we are very relevant for consumers across the health spectrum. Moreover, we have 15 power brands, with brands like Aspirin, Claritin and Bepanthen connecting deeply with consumers all over the world. This scale across the different consumer health categories is important as we partner with our key customers.

Not only are we well-positioned from a category perspective, we also enjoy a healthy geography mix. The consumer health market has delivered consistent growth in all regions of the world and we hold a top five position in seven out of the ten biggest OTC markets. This allows us to expand our leading brands and capture opportunities globally.

As you can see, we have a well-balanced category and geographic portfolio mix which helps to deal with volatility much more effectively.

Let's take a short look back at our track record since our last Capital Markets Day. In late 2018, we started executing our turnaround plan, which we call Fit to Win. Following the sale of our Rx

Dermatology, sun and footcare businesses, we created a renewed focus on our core OTC business. Secondly our plan outlined a major step up in our execution across the value chain.

We quickly saw strong results. We moved from an industry underperformer to an industry outperformer. In 2018, we still trailed our peer group by 360 bps in growth. And already in 2019, we started accelerating, moving 120 bps ahead of our peers. In 2020 we truly outperformed, growing 5.2%, a 390 bps beat.

We accelerated growth in all four of our regions, and globally gained market share in 2020. Importantly, we were able to turnaround our US business in the biggest and most competitive consumer health market in the world. Looking at our categories, we were able to gain market share in five of seven of them.

At the same time, we were also able to significantly improve our profitability thanks to higher growth and strict cost control.

These positive, broad-based results came faster than we had anticipated when we presented to you 27 months ago. They are a testimony to both the strength of our Consumer Health business and our people -- who are focused behind a clear plan to win in this attractive market.

Now let us move to the coming years and first take a look at the market prospects. The market has shown very consistent growth over the past years -- between 3 and 4%. For the coming years we expect the market to grow between 2 and 4% annually over the next three years. 2021 in particular is expected to be somewhat lower, as we will continue to see reduced incidence of cold and flu due to social distancing. However, in 2022 we should return to historical growth rates. We see six key growth drivers shaping this development in the upcoming years:

First - and most prominently - is the accelerated trend toward preventative care. The pandemic has heightened our appreciation of the value of self-care. Particularly categories that help consumers stay well - like Nutritionals - are benefiting from this trend and are expected to outgrow the overall market.

Looking at the geographic trends, we expect to see broad-based growth as the global population is ageing and health awareness is increasing in all regions.

Let's turn to channels. It goes without saying that eCommerce is a channel that saw huge growth during the pandemic. We expect this trend to continue. However, other channels are also showing healthy developments. Clearly, an omni-channel approach is essential to winning across the market.

Further, the importance of trusted science-based brands has been re-emphasized in the past 12 months. Science, efficacy and quality are more important than ever before.

We also expect that advances in digital technologies will continue to have a profound impact on the consumer health space. Across the value chain, digital transformation is posing opportunities for companies to operate faster, with more data, and more accuracy at lower costs.

Finally, we see national healthcare systems under increasing levels of pressure. With resources limited, governments will promote higher levels of self-care to foster prevention and encourage public health.

We believe that our business is well-positioned to play into these developments.

Earlier I mentioned our Fit to Win game plan. It has been the key driver behind our strong performance over the past 2 years. It has mobilized our entire organization behind a clear strategic plan to win. We are now in version 2.0 of the plan. Building on our success, it outlines how we can create sustainable, profitable growth in the years ahead.

I will give you some further insight into the plan, covering “Where to Play” and “How to Win.”

So, let’s walk through each of those elements, starting with “Where to Play.” As I said earlier, we make portfolio decisions in order to be active in the markets, categories and segments where we see the most potential to drive disproportionate growth. We are constantly looking for new, attractive growth areas. The consumer is changing, and we must respond with speed. Let me give you an example to illustrate this point.

We see increasing demand for more personalized nutrition solutions. That potential is what led us to acquire a majority stake in Care/of, a leader in personalized nutrition. Care/of combines a health questionnaire with a science-based algorithm to create a highly personalized nutritional supplement offering, which consumers receive mailed to their homes in a personalized pack. Care/of has been able to build a loyal mostly millennial customer base and we believe we have strong growth potential with this business for the future.

Beyond which segments to be active in, another important “Where to Play” decision is which countries to prioritize. We will maintain a high focus on the US. It remains by far the largest market and we are a leading player with a strong local organization. We continue to be very optimistic about this market and we will continue to invest to gain share here.

Our market share positions are also strong in EMEA and in Latin America. In Asia Pacific, however, we believe our share of the market can be improved. We are a top 5 player in China, well-placed in Nutritionals and Dermatology with a very well-developed eCommerce business. We see opportunities to now accelerate our business here.

We also see potential to increase our presence in new growth markets like South East Asia, an attractive market of 700 million consumers. Here, we have built a successful foundation and will expand our presence through deeper distribution and innovation. Additionally, we plan to advance our business in India. The market is worth more than 2 billion euros. Previously, we were operating under a licensing model. Now, we plan to enter with our own operating company and build this up as a growth market. With the higher level of investment, we expect Asia to be an important contributor to growth.

Now, I would like to move to “How to Win.” Innovation is the lifeblood of our brands and our business in general. Inspired by Bayer’s purpose of “Science for a Better Life,” we invest in consumer-preferred science. This has been a major area of focus for our organization in the past 2 years. We have strengthened the innovation pipeline for our existing brands. We have identified interesting Rx-to-OTC switch candidates and expect to launch 2 in the next 4 years. When thinking longer term, we have built a partnership with Azitra, through our LEAPS program. Together we are working with the skin microbiome to deliver skin care solutions that could one day help wounds heal faster, speed up recovery from eczema, and strengthen skin as the immune system’s first line of defense. A good example of how the bio revolution can benefit consumer health.

Lastly, we acquired majority stakes in companies that play in high-growth and innovative segments where we were not yet present. I already mentioned Care/of in personalized nutrition. We also acquired Maty's in the US naturals segment. Consequently, the value of our innovation pipeline is now much stronger, approaching 1 billion euros in value.

Now let me share with you some examples of innovation behind our power brands.

Firstly, we will continue to drive consumer-preferred new formats that make the product experience more effective and or more pleasant. For example, we recently launched Claritin Cool Mint Chewables, the first allergy medication in a chewable format and using menthol, offering allergy sufferers relief and a soothing sensation. The product has been very well-received by consumers and led to market share gains.

We will also bring our iconic brands to new market segments. In the next months, we will be entering the large dry skin segment with our science-based Bepanthen powerbrand. Today, 60% of consumers are unhappy with their current brand. There is clearly a need for a science-based brand with solid efficacy.

This is where our Bepanthen Derma range comes in. The product line has been carefully developed with high-quality ingredients that work with the body to provide both immediate relief from dry skin symptoms and lasting skin repair. It does this by restoring the skin's cell renewal process. In rigorous clinical testing with 2000 patients, Bepanthen Derma showed a 23% increase in ceramides in the skin. This increase triggers an improvement in the skin's protective layer, which limits moisture loss and protects against damage. After four weeks, patients were able to claim a 64% increase in the skin's hydration level.

The unique combination of leading science and strong benefits for consumers make this innovation an excellent example of our purpose: Science for a better life or in this case Science for a better skin!

Next to innovation, we believe that connecting successfully with our consumers and customers is an important driver of growth. We continue to invest in modernizing our marketing and sales activities. This is a very dynamic area as consumers and customers are changing rapidly. We see digital as a big impact driver here. As such, we have made significant progress in refreshing our brands and being more data driven in our marketing activations.

From 2018 to 2020, we doubled the percentage of our marketing activities dedicated to precision marketing. We have found that this enables us to reach consumers much more efficiently with personalized communication increasing impact.

When it comes to sales, we have made important progress in becoming more customer-centric and more data-driven. We are also accelerating our eCommerce business. In 2020 our eCommerce growth dramatically increased to high double digits. We expect it will continue to be an important growth driver and we target 15% of our overall business coming from eCommerce by 2024.

The final pillar of our How to Win approach is "Optimizing Costs and Cash." In our business, we are continuously looking to make the best use of our resources. We are consistently zero-basing our costs as well as our organization so that we are best setup to win. Our SG&A spend is now down to 23% after being as high as 26% in 2017. It will remain an area of focus in the years to come.

Finally, we have stepped up our focus on cash generation in the division. This initiative started in 2020 with strong first-year results.

Our 12-month Average Working Capital in percent of Net Sales decreased considerably from 2019 to 2020. We see further opportunities to improve in the coming years.

Efficient use of our resources also allows us to make bigger and more impactful investments to areas that we believe will drive future growth. One of those areas is our digital transformation. We will invest up to 250 million Euros over the coming 4 years. This very material investment is mission critical as it will fundamentally change and add value to each part of our operation.

Earlier, I mentioned the impact digital has had on our marketing and sales, but we also see big upsides in our supply chain. For example, more accurate demand and supply planning will increase customer service, deliver cost savings and also require lower inventories, which reduces our working capital. In R&D we are focusing on creating solid efficacy data for our products. In some cases, we can use 'Real World Data' to generate claims up to 90% faster and more efficiently. These are big changes we are making to our operations and making it truly successful requires a major digital upskilling across our organization. We have identified this as a priority for our teams. In 2020 alone, we were able to train the top 1000 leaders in Consumer Health on how to create value with digital technologies and new ways of working – a truly fantastic investment for the future!

Our second area of higher investment is sustainability. COVID-19 has highlighted just how valuable health and nutrition are. We believe our sustainability ambition to expand access to everyday health to 100 million people by 2030 is more relevant than ever. We are now operationalizing this ambition by integrating sustainability into each area of our operations.

We will expand access to everyday health for 100 million people in underserved communities through new product solutions and tailored go-to-market models. We will also partner with other stakeholders, as we announced with The Nutrient Gap Initiative. This is a very important initiative to help underserved pregnant women and infants with critical micronutrients so they can have a healthy start to life. We partner with Vitamin Angels to reach more people with product solutions, and health education.

We do this because we are convinced that good business and sustainability go hand-in-hand.

Now let me come to our mid-term guidance on a constant currency basis. We target annual cpa growth in the 3% to 5% range until 2024. With that we aim to outperform the market.

On the bottom line, we aim to continue our progression towards an EBITDA level in the "mid-twenties", driven by our growth while maintaining tight cost control. Together with the optimization of our working capital, this will lead to a higher cash flow contribution.

To conclude, I am excited if I look at the future of this business and our plans to grow it and create sustainable value for our stakeholders. First, we are doing business in a highly attractive market where Bayer has been successful for more than 100 years. Second, we know what it takes to win in Consumer Health. Our iconic brands, our scientific rigor, commitment to quality, proximity to the consumer and our ability to innovate at scale put us in a strong position to continue to outperform.

Finally, I believe we have a leadership team with a track record of successfully executing a plan. Our organization is talented, diverse, purpose driven and determined to win.

I thank you for your attention and I look forward to your questions during the virtual coffee breaks later on.

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