Capital Markets Day 2021

Wednesday, 10th March 2021

Q&A

Ariane de Hoog: Nice to have you back and thank you so much for submitting all your questions throughout the day. So, in this digital format, what's going to happen is I'm going to read the questions that you submitted, on your behalf, and ask them to our respective speakers. And, we only have 30 minutes, so we may not get to every question. Our investor relations colleagues have stated they will make sure that they get back to you on any remaining questions after the event.

So let's get started. The first question I have is from James Quigley, Morgan Stanley, and it's for Stefan Oelrich. On Nubeqa, to what extent do physicians feel Nubeqa is differentiated versus Erleada and Xtandi? Is Nubeqa benefiting from any off-label use in the hormone sensitive setting? And what do you believe the relative contribution from nmCRPC and hormone-sensitive prostate cancer in the 1 billion peak sales target is?

Stefan Oelrich: So thank you for that question. So, first of all I think you can sense the excitement that we have around Nubeqa. We clearly feel that, and we hear this also from our physician base, that there is a differentiation in terms of tolerability while having equal efficacy. And this is in non-symptomatic patients, and this is what matters to both patients and also to physicians because it gives them less hassle in following up with that patient. And we clearly get that, and that based on strong efficacy data that we have.

In terms of off-label use, I don't want to comment that, but what I can say is that on the overall part of non-metastatic in our peak sales, that's a very significant part. As you know, we're looking to get results from our next pivotal trial, that would give us an extension of the indication into a metastatic setting, hopefully later this year. And then we will also revisit peak sales at that point, but we don't want to do that before we have the trial results in.

Ariane de Hoog: Next question comes from Richard Vosser, JP Morgan, and it's for Werner Baumann. On the glyphosate litigation, could you give an update on the expected timelines for Judge Chhabria ruling on the future settlement framework? And is this framework still in flux?

Werner Baumann: Yeah, thanks Richard. First of all, we have already seen the briefs that were submitted by plaintiff's lawyers and objectors. That was actually done last week. We now have until March 31st to respond and Judge Chhabria has set the new date for the hearing on the preliminary approval on May 12th. So we are good until May 12th. There is a clear process in place. The settlement proposal remains as is, as we have filed it. And we are looking forward to the approval hearing by and in front of Judge Chhabria

Ariane de Hoog: We now have a question from several participants and it's for you, Liam. The questions are, is Bayer only a player who has a short-statute corn in the pipeline? And how competitive is the landscape for short-stature corn, and how many years of a head start do you actually have?

Liam Condon: Yeah, thanks a lot. It's a great question. So short-stature corn is really important for us. It's the most valuable crop in the world. It's actually our biggest franchise. So I think it's important that Bayer leads innovation in this space. And right now nobody else is really talking

about short-stature corn. So that is an indication for us that if others are working in this space, they haven't made much progress because otherwise they'd be reporting on their results. So we already have our first product in the market in Mexico, VITALA and was mentioned earlier, we have three technological approaches, a breeding approach, a biotech approach, and a gene editing approach. So depending on the regulatory framework around the world, we have a 220 million acre opportunity as we're really looking forward to the launch. Next launch will be in 2023 with the breeding version in the US and that's already now in phase three, of course, and will be coming to the market soon. So my assumption is we have a multi-year head start against all of our competitors.

Ariane de Hoog: So next question is from Richard Vosser from JP Morgan, and it goes to Heiko Schipper. And the question is, how do you expect to expand in Consumer in Asia, given establishment of brands actually takes years? Are you looking at an acquisition-driven approach?

Heiko Schipper: Yeah. As you heard, we believe that Asia is the part of the world where our market share needs improvement. And obviously it's going to be an important region of the world for the future. However, we do already have a presence there, and we have quite a number of solid brands established either in China, in Southeast Asia and even in India where we've gone through a licensing approach.

So our first element of creating that growth is through deeper distribution and having the existing brands reaching just more consumers; also bringing more innovation behind these brands. And then lastly, we will indeed also look at bringing some of our own brands into those markets. Those will take a little bit more time. So as you can imagine, our growth is for this phase, for the next three to four years, mainly coming from going deeper with our existing brands.

Ariane de Hoog: I have a question again from several participants and Marianne De Backer, this one's for you. I know you've dialled in here. It seems as if you've increased your efforts in BD&L at Pharma quite substantially this year. What changes have been implemented to drive this uplift in the number of transactions that we have seen?

Marianne De Backer: Sure. And thank you for that question. So, first of all, as you might have seen, we have taken a much more strategic and deliberate approach to our business development activities. We also actually last year reorganised our business development organisation to be fully aligned with our five strategic focus areas we talked about earlier. And we did a lot of effort in simplifying our processes, and really making our governance very agile and allowing for fast decision-making. To give you one example, the AskBio acquisition in total, from the very first call to the CEO to closing or signing the agreement was the period of about 13 or 14 weeks. And from a non-binding offer to signing was about six weeks. So that level of pace and agility is really what is necessary these days in a very competitive deal-making market. So with that, I think that our new strategy with our new BD&L set-up, and then also with proven success last year that we are actually probably well positioned to also attract future partners to Bayer. And we are looking forward, as we mentioned, to bring in much more innovation into the company in the course of this and the next years.

Ariane de Hoog: Thanks so much. Christian, thanks to you also for dealing in and joining us here. Question to you from several participants: why are you developing two factor XI inhibitors in

parallel in the same indication at end-stage renal disease? Are both supposed to go into phase three and finally to market?

Christian Rommel: Yeah, I mentioned that with the PACIFIC program, we have the broadest blood coagulation factor XI program ongoing, and it shows our commitment to the patients with unmet need and the science here. We'll make a data-driven decision. The programs, the studies are well underway, and we will look at the data and make a decision, but certainly we can see the coexistence of an oral inter-parental in the space. So for us, it's a great opportunity, strong commitment to the target, to the patients, and we'll pursue the program, make data-driven decision.

Ariane de Hoog: Thank you so much. The next question we have is from Jo Walton, Credit Suisse, and it goes to our CFO, Wolfgang Nickl. The question is free cash flow in 2024 of €5 billion, presumably below consensus as Vara consensus of net financial debt around €22 billion versus your guidance of €28-29 billion by 2024. Perhaps you can discuss why you cannot get a higher cash flow? Is this higher CAPEX, higher cash flow and restructuring or higher ongoing working capital requirements?

Wolfgang Nickl: Thanks for that question, Jo, that's a very good question. I'm glad you asking about free cash flow. At the end of the day, it's all about cash. We were actually quite excited getting to the €5 billion mark in 2024. Remember, that's a year when we still have special items in there. We will be almost done with the tail end of the litigation settlement cash-outs, but we still will have €1 billion of special items in there, predominantly coming from the restructuring and transformation programmes.

And it's also the year when we have the loss of exclusivity of Xarelto in the biggest markets. So if you think a few years further on, you can see what free cash flow potential this company has.

You mentioned working capital and CAPEX. Both will go up slightly in absolute terms but will go down as a percentage of sales. Like I said, we focused very heavily on both, and you always have to remember that in the CAPEX portion, there is also the intangible portion in there, which is of course for our business development and licensing business.

That's how we get under considering also dividend payments and some bolt-on M&A activity to the €28-30 billion, I believe what we said, not €28-29 billion net debt in 2024, which will present a leverage under 3. And then we will develop from there.

Ariane de Hoog: I have a question here from Richard Vosser, from JP Morgan, and it's actually for either you or for Werner Baumann. And the question is what contribution does M&A contribute to the guidance targets in each of the divisional targets? And how should we think of the capital allocation priorities for the next four years?

Wolfgang Nickl: Should I start?

Werner Baumann: Yeah, maybe I start and then Wolfgang is going to correct me. So the guidance we are giving is a guidance that is actually going concern or continuing business which also means that the Environmental Science business for the time being is also still included in our guidance. On the flip side, everything that comes in new and in addition would then have to be

looked at in terms of its expense, growth, profitability profile, depending on what it is that we are requiring and that would then be a modifier to the guidance.

And with that, I hand it over to Wolfgang.

Wolfgang Nickl: An on the capital allocation part, let me dissect it for you. So, if you start with what we said for the end of this year, we're just shy of €36 billion in net debt. The free cash flow is €5 billion in 2024, and we're walking ourselves to that free cash flow – in total will be somewhere between €13 billion and €14 billion free cash flow for 2022, 2023, 2024. For the capital allocation of these €13-14 billion is €6 billion goes to dividends – roughly €6 billion if we're at 30%. Then to delever from the 35-ish, 36-ish area to 28-ish to 30-ish €6 billion or so, go to delevering. And then you have a €1 billion or €2 billion left for R&D – sorry, for M&A before you do the – you have already paid for the CAPEX-included licensing. But then you need to factor on top of that potential divestments that will create additional funds. They will go into M&A and those are the delevering. That is the overall capital allocation formula.

Ariane de Hoog: Next question comes from Sebastian Bray, Berenberg, for Liam Condon. What is the percentage of buyer crop protection sales from biological solutions and what is the market share and implied growth p.a.?

Liam Condon: Yeah, thanks a lot Sebastian, it's a great question. We don't usually actually break out our sales in crop protection because we're pretty agnostic whether crop protection is achieved by chemical or by traits or by biological means. If we were to break it out my guess is we're probably the biggest and fastest growing biologicals company in the world. We had sales of biologicals in 2020 of about – it was just over €200 million. In this guidance period that we're talking about, this will double, it will be at least €400 million by 2024. But we see the real growth potential is actually the combination of biologicals with chemicals because the great advantage of chemicals is their efficacy. Biologicals are usually used from a product point of view. They're great for avoiding residues, particularly on fruit and vegetables later on. So, if you use a chemical early and a biological later in the harvesting process, this tends to be a very, very effective and useful combination.

Beyond that, you're going to hear also tomorrow, if you tune in, some of the great things we have in the pipeline, both from Bob on the biological side, but you're also going to hear about disruptive innovation that we have on the biological side, where we have a joint venture with Joyn Bio where we're actually talking about engineering microbes to fix nitrogen from the atmosphere into the roots of a plant and to basically massively reduce the use of artificial fertilisers through that methodology.

So I think we've got a stellar pipeline beyond the fact that we already have a very strong presence in biologicals today.

Ariane de Hoog: Great. Well, looking forward to learning more tomorrow. My next question is from Christian Faitz from Kepler Cheuvreux for Heiko Schipper. And it says, could it be that SG&A spend, which was 23% in 2020, had been so much lower versus before – 25, 26% – because of the pandemic situation, i.e. lower personal contracts, etc.?

Heiko Schipper: Yeah, that's a good question. And I understand that obviously with the pandemic, there was quite some reporting on lower SG&A across industries. However, in our

case, that is not the driver. It actually went down 300 basis points versus three years ago. And as part of our turnaround program, we took a very hard look at our organisation to make it leaner, reducing layers and looking at alternative models. So that has been the biggest bucket of that.

The second big bucket is also our corporate program Bayer 2022 that is also delivering to the divisions. So that's another important reason for the reduction. And then indeed there is, of course, a contribution this year of lower travels, et cetera. But frankly that is not that material in the whole, whole P&L. So, it is really those other drivers. It's not a one-off, it's something that we continue to be focused on. And we'll favour to make that leaner versus investing in R&D and in our brands because that's what's driving the growth.

Ariane de Hoog: Next question is from Richard Vosser from JP Morgan, it's for Stefan Oelrich. The question is, the regulatory hurdles for gene therapy seem to be increasing with controlled trials for approval and longer proof of duration of efficacy before approval. How do you see this impacting your path to market for AskBio products and the impact on Bayer's' business?

Stefan Oelrich: Yeah, that's actually indeed true as we progress in this area of cell and gene, there will be more scrutiny on this type of modality. I think it very much depends which type of product you're developing and whether these are pathway diseases or are monogenetic diseases. So when you look at our current pipeline, we've seen this actually in the case of BlueRock, that it took quite some discussions before we would get an IND to put these induced stem cells into human brains, which we're starting as we speak. The same will hold true to some degree on gene therapy. I think we've included this well in our estimates for the upcoming years. So we expect that we will have significant contributions from our cell and gene business in the second half of the decade. So again, if you think about us having now six products in the clinic already, that gives you an idea that there will be some time needed. Let's not forget as we look at our cell and gene business, that we also have our manufacturing platform, which already continues to contribute significantly this year. And we'll grow over the coming years. We really have something, I think, that makes us unique, both on having a clinical and preclinical pipeline on the one hand with strong IP, but also having this manufacturing capability, which I think is the envy of many in the industry as we speak.

Ariane de Hoog: Great. Thank you. The next question is from Gianmarco Migliavacca from Neuberger Berman. It's for you, Liam. The question is soybean seed and traits, what went wrong in 2020? And how are you getting lost market share back again?

Liam Condon: Yeah, a very important question. So in 2020, there was a regulatory challenge against our registration for XtendiMax, an herbicide which is used in combination with our soybeans, our Xtend system. And because of that challenge, we lost the registration temporarily. We then got a new registration end of October and then had to go through a federal level registration and then had to go through the entire state level registration process. And that took up until beginning of January before we had all the registrations in place.

So in essence, we were basically locked out of the market for a certain period of time because farmers aren't going to buy your product unless they're 100% sure that all the components are going to be available. Now we have all the components in place. So we've got a five-year registration for XtendiMax, completely new registration. We've also got a registration now for the next generation of soybeans with XtendFlex, which has then three herbicide tolerances plus

leading genetics. So, we're right in the phase now of launching this with XtendiMax in North America. And as was mentioned earlier in the presentation, in South America we're ramping up now for the launch of Intacta 2 Xtend and there, of course, insect protection is the key driver for any product to any soybean product in Brazil. So having a new product with two new modes of action here, this is a huge benefit.

So we did have problems in 2020, they've all been addressed now from a regulatory point of view, the products are ready to go and they're in the market. Now, it's up to our commercial teams to make the most of them.

Ariane de Hoog: I have a question here from Sebastian Bray, Berenberg, for Heiko Schipper. The question is, what are the primary drivers of the margin improvement guided in consumer health, cost or mix?

Heiko Schipper: I think the most important one is growth. By growing your business and keeping your costs under control, you obviously get a nice leverage on your cost base. So, I would say that's number one. And then I mentioned already keeping costs tight, continuously looking for efficiencies. We are continuously running zero base programs, particularly on our indirect expense, but as I mentioned before, also on our organisation. So combining these two, higher growth and on the other hand tight cost control, you get to higher margins.

And maybe lastly, obviously, the innovations that we're planning to launch, we're, of course, looking for good growth margins on those. So they will also be an important driver of helping to lift our growth margins further.

Ariane de Hoog: Thank you so much. I think we have some questions coming in. If you don't mind, I'll reach over for these questions because it's fantastic we have a chance to answer so many. And a big thanks to all of you for asking so many questions today and creating such an engaging discussion here today.

So the next question I have is from Keyur Parekh from Goldman Sachs for Wolfgang Nickl. And the question is, given the big delta in original versus revised 2022 guidance, what gives you confidence in the 2024 guidance?

Wolfgang Nickl: First of all, let me repeat really briefly what made up the delta. We guided for €10 and you can see from the line that I showed that we're somewhere in the €6s in 2022, if you want to make a comparable. First of all, we divested businesses that don't contribute anymore. Secondly, there was a pretty big, also, COVID induced FX effect in there. We had regulatory issues in China in Pharma on the volume-based pricing, and we had some dislocations in the crop market. Based on everything that we look at, we really believe in these market growth rates and we believe we have the innovation to grow within both the market and all divisions. And I really believe those are solid, solid plans. On top of that, we control our own cost. We go through another transformation program. We've executed the last one almost completely, and we also have the new one in front of us. So we feel very good that we can get to these EPS levels and free cash flow levels in 2024.

Ariane de Hoog: Thank you very much. I have a question from Alistair Campbell for Stefan Oelrich. The question is Bayer looks to rebalance geographically, particularly in the US. What sort of footprint will be required and how much will that likely cost?

Stefan Oelrich: Well, let's be clear. There is a significant investment attached to our re-entry in, especially in cardio-renal in the US. But let's also not forget, we have a strong presence today in the US, both in oncology and also in women's healthcare, as well as in areas like Adempas or in haemophilia. But that investment is significant. We've also explained that our guidance for the ongoing year is impacted by that investment. So it's a three-digit million number that that we're investing into these launches in the US alone. So it is significant, but let's not forget, this gives us the leverage that we have been missing over past years. If you look at what we would have missed – or what we could have had on Xarelto or Eylea had we retained US rights, it would have really propelled us to a completely different level. We have this leverage now, and we have a strong track record launching successfully in the US. So, I'm confident that this is a really good investment.

Ariane de Hoog: Thank you. Now, final question for today is very similar. The question that I just asked you and it also is for you, Liam, it's – so, the 2022 guidance, what gives you confidence in the 2024 guidance in comparison to this?

Liam Condon: Yeah, also a great question. So I think there's basically three things that have changed. Number one, the market environment is completely different. The past two years, two, three years have been completely depressed from a commodity price point of view. We had $3 corn, we had $8 soybeans. Now we're at $5.50 corn. We're at $14 soybeans. This is a very different market environment. And I think it's important to remember with Bayer, in our agricultural footprint, if acres go down because commodity prices are depressed, or because of weather, we don't only lose sales on our own acres, we lose sales on our licensed acres. When the market turns and things become good again, and there's an acreage improvement, we don't just earn on our own acres, we earn also on our licensed acres. So number one is the market's completely changed.

Number two, the soybeans situation, the competitive situation has changed. As I said, since 2020 we had a regulatory challenge and we've not only gotten over that challenge, we've also gotten the approval now for very, very important new products with XtendFlex in North America and Intacta 2 Xtend in Latin America.

So I think we're completely back in the game in soybeans. And when I say back in the game, I think I've got to remind everybody we're still the market leader in – we're not talking about catching up to somebody else, we are the market leader, and now we're fully competitive again, and looking forward to offering our products in the market.

And the third one, and we'll be talking a lot about this tomorrow, we have a raft – and it came up a little bit today. We have a variety of new products coming, and all of these new products allow us – because they're innovative because they create value for growers, they allow us to come in at higher price points in the market. This is typically our strategy, is to come in with the most innovative products, set a new premium price standard. And we have now a variety of new products in the rollout phase.

So those three things for me are what are very different than the last two, three years.

Ariane de Hoog: Fantastic. Well, that concludes our 30 minute Q&A session and a big thanks to all of you for all those wonderful insights that you shared with us today. But we are not quite

finished yet for today. You had the opportunity to register in advance for a coffee break with the panellists. And so we will continue with these meetings shortly at 17:50 PM CET. Please use the individually shared Teams invitations to join those conversations. And of course, you're also invited to engage with the Leaps experts in the chat lounge. They're going to be available to answer all of your questions between 17.00 and 19.00 PM, CET.

And with that, I'll hand over to you, Oliver.

Oliver Maier: Thank you so much, Ariane. Thanks for the moderation. This was fantastic Thanks for taking the time. We'd like to say thank you to everybody here today. From the communication centre in Leverkusen, we thank you for your participation and we look forward to seeing you tomorrow at the same time. I hope you enjoyed the day as much as we did and looking forward to seeing you tomorrow. Bye-bye.

Ariane de Hoog: Bye.

[END OF TRANSCRIPT]

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