

# Bayer AG

Pharmaceuticals Germany ETR:BAYN

## ESG Risk Rating

# 28.6

Updated Apr 20, 2021

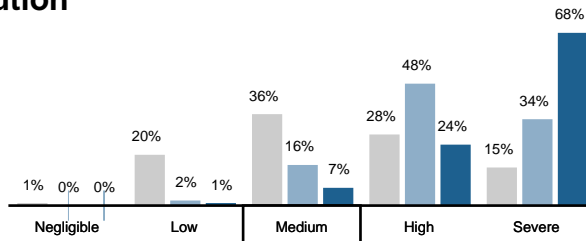
# -11.4

Momentum

## Medium Risk



## ESG Risk Rating Category Distribution



## ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1 <sup>st</sup> = lowest risk)	(1 <sup>st</sup> = lowest risk)
Global Universe	7191/13843	52nd
Pharmaceuticals INDUSTRY	126/847	16th
Pharmaceuticals SUBINDUSTRY	26/415	7th

## Peers Comparison

Peers (Market cap \$56.1 - \$74.5bn)

Peers (Market cap \$56.1 - \$74.5bn)	Exposure	Management	ESG Risk Rating
1. Merck KGaA	49.8 Medium	65.0 Strong	19.6 Low
2. Daiichi Sankyo Co Ltd	47.8 Medium	46.7 Average	27.0 Medium
3. Takeda Pharmaceutical Co., Ltd.	51.2 Medium	48.0 Average	28.3 Medium
4. Bayer AG	61.9 High	57.2 Strong	28.6 Medium
5. Chugai Pharmaceutical Co., Ltd.	47.4 Medium	36.8 Average	31.1 High

# Bayer AG

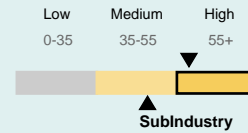
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## ESG Risk Analysis

Exposure refers to the extent to which a company is exposed to different material ESG Issues. Our exposure score takes into consideration subindustry and company-specific factors such as its business model.

### Exposure

**61.9** **-4.1**  
**High** **Momentum**  
 Beta = 1.29



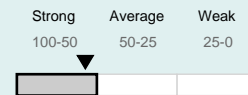
Bayer's ESG exposure is driven by the unique features of its business model, namely its agrochemical business. By acquiring Monsanto in July 2018, Bayer inherited certain risks typical of agrochemical companies. Therefore, Bayer not only increased its exposure to Emissions, Effluents and Waste, and Occupational Health and Safety, but it also acquired a controversy related to Monsanto's non-selective herbicide, Roundup, which has negative impacts on stakeholders and poses severe risks. This idiosyncratic issue, Social Impact of Products, which contributes 13% of Bayer's overall exposure, significantly increases legal (exponentially increasing the trend of liability lawsuits filed against Bayer), regulatory (uncertainty around glyphosate licensing in the EU) and operational risks (Roundup is estimated to account for 8% of FY2020 revenues).

The company's overall exposure is high and is significantly above subindustry average. Product Governance, Occupational Health and Safety and Emissions, Effluents and Waste are notable material ESG issues.

Management refers to how well a company is managing its relevant ESG issues. Our management score assesses the robustness of a company's ESG programs, practices, and policies.

### Management

**57.2** **+15.2**  
**Strong** **Momentum**



The chairman of Bayer's board of management acts as the chief sustainability officer and the company reports that 20% of executives' Long-Term Incidents are linked to sustainability goals. Regarding its ESG issues, 51% of Bayer's production sites have been externally certified according to credible quality and safety standards, adding an extra layer of assurance to its quality management system. Bayer also has a strong programme regarding environmental and health and safety management systems. Concerning Roundup, Bayer does not intend to discontinue the product, but it invested 13% of its FY2019 sales to find viable substitutes for the product, and it currently has a new herbicide at Phase 3 development. Also, there are concerns as to whether Bayer's stewardship programme will be sufficient to manage the mounting legal and operational risks related to glyphosates.

The company's overall management of material ESG issues is strong.

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## Material ESG Issues

ESG Issues regarded material for the company.

Issue Name	Exposure	Management	ESG Risk Rating	Contribution to ESG Risk Rating
	Score   Category	Score   Category	Score   Category	
<b>Social Impact of Products</b> Significant Events 	8.0 High	0.0 Weak	<b>8.0 Severe</b>	27.9%
<b>Product Governance</b>	10.5 High	76.3 Strong	<b>4.1 Medium</b>	14.3%
<b>Business Ethics</b>	6.3 Medium	44.6 Average	<b>3.6 Low</b>	12.7%
<b>Corporate Governance</b>	9.0 High	62.0 Strong	<b>3.4 Low</b>	12.0%
<b>Emissions, Effluents and Waste</b>	5.9 Medium	61.8 Strong	<b>2.6 Low</b>	9.1%
<b>Access to Basic Services</b>	6.3 Medium	59.4 Strong	<b>2.6 Low</b>	8.9%
<b>Human Capital</b>	6.0 Medium	70.7 Strong	<b>2.0 Negligible</b>	6.9%
<b>Occupational Health and Safety</b>	3.9 Low	67.1 Strong	<b>1.4 Negligible</b>	4.9%
<b>Bribery and Corruption</b>	6.0 Medium	88.8 Strong	<b>0.9 Negligible</b>	3.3%
<b>Overall</b>	<b>61.9 High</b>	<b>57.2 Strong</b>	<b>28.6 Medium</b>	<b>100.0%</b>

## Events Overview

Identify events that may negatively impact stakeholders, the environment, or the company's operations.

### Category (Events)

#### Severe (1)

Social Impact of Products

#### High (0)

#### Significant (0)

#### Moderate (2)

Anti-Competitive Practices

Quality and Safety

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## Events Overview

Identify events that may negatively impact stakeholders, the environment, or the company's operations.

### Category (Events)

#### Low (9)

Access to Basic Services

Accounting and Taxation

Business Ethics

Emissions, Effluents and Waste

Intellectual Property

Labour Relations

Lobbying and Public Policy

Marketing Practices

Occupational Health and Safety

#### None (2)

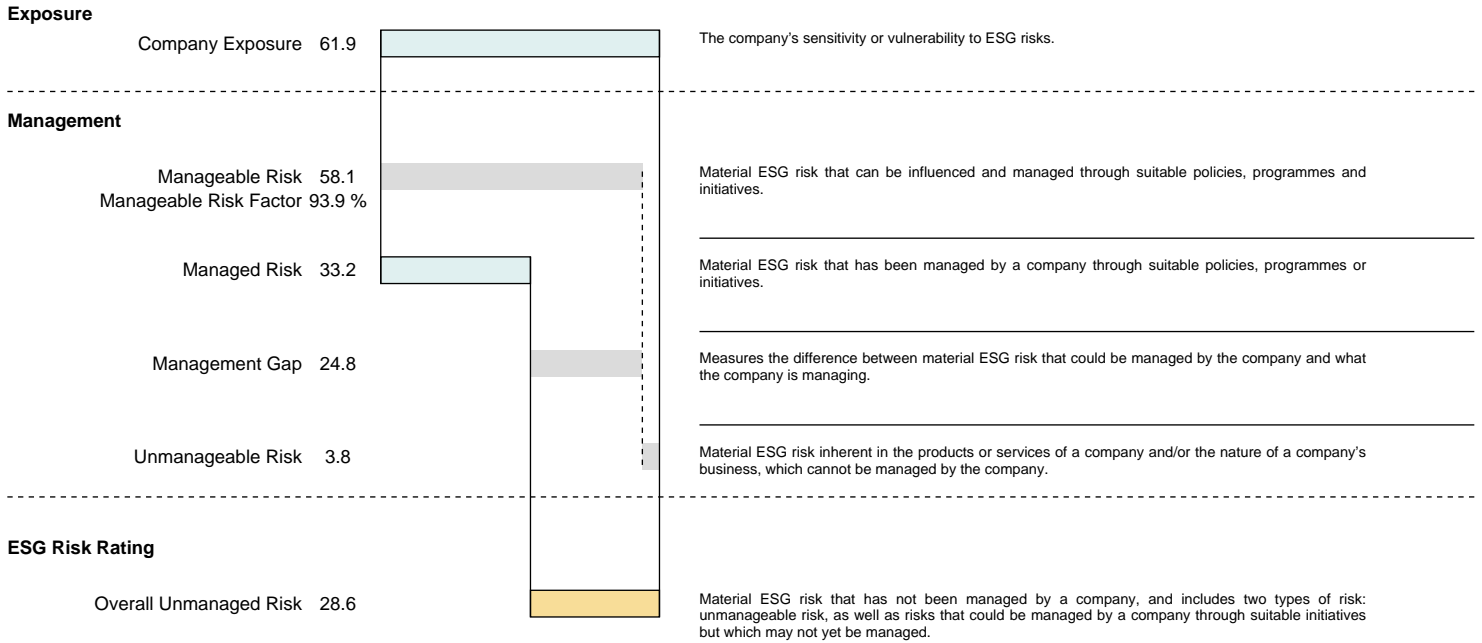
Animal Welfare

Bribery and Corruption

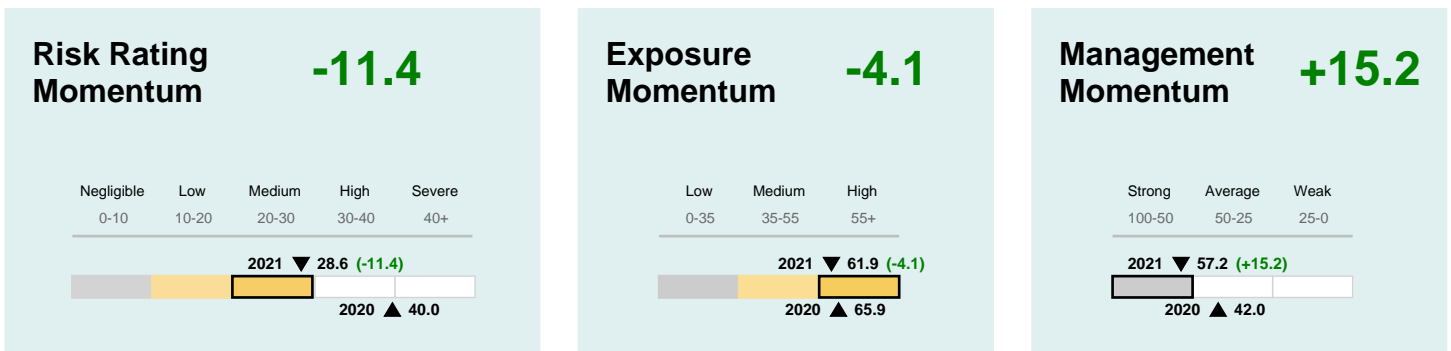
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## Risk Decomposition



## Momentum Details



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## GLOSSARY OF TERMS

### Beta (Beta, $\beta$ )

A factor that assesses the degree to which a company's exposure deviates from its **subindustry's** exposure on a **material ESG issue**. It is used to derive a company-specific issue exposure score for a material ESG issue. It ranges from 0 to 10, with 0 indicating no exposure, 1 indicating the subindustry average, and 10 indicating exposure that is ten times the subindustry average.

### Corporate Governance Pillar

A pillar provides a signal about a company's management of a specific Corporate Governance issue.

### ESG Risk Category

Companies' **ESG Risk Rating scores** are assigned to five ESG risk categories in the **ESG Risk Rating**:

-  **Negligible risk:** enterprise value is considered to have a negligible risk of material financial impacts driven by ESG factors
-  **Low risk:** enterprise value is considered to have a low risk of material financial impacts driven by ESG factors
-  **Medium risk:** enterprise value is considered to have a medium risk of material financial impacts driven by ESG factors
-  **High risk:** enterprise value is considered to have a high risk of material financial impacts driven by ESG factors
-  **Severe risk:** enterprise value is considered to have a severe risk of material financial impacts driven by ESG factors

Note that because ESG risks materialize at an unknown time in the future and depend on a variety of unpredictable conditions, no predictions on financial or share price impacts, or on the time horizon of such impacts, are intended or implied by these risk categories.

### ESG Risk Rating Score (Unmanaged Risk Score)

The company's final score in the **ESG Risk Rating**; it applies the concept of **risk decomposition** to derive the level of **unmanaged risk** for a company.

### Event Category

Sustainalytics categorizes events that have resulted in negative ESG impacts into five event categories: Category 1 (low impact); Category 2 (moderate impact); Category 3 (significant impact); Category 4 (high impact); and Category 5 (severe impact).

### Event Indicator

An indicator that provides a signal about a potential failure of management through involvement in controversies.

### Excess Exposure

The difference between the company's **exposure** and its **subindustry** exposure.

### Exposure

A company or **subindustry's** sensitivity or vulnerability to ESG risks.

### Idiosyncratic Issue

An issue that was not deemed material at the **subindustry** level during the **consultation process** but becomes a **material ESG issue** for a company based on the occurrence of a Category 4 or 5 event.

### Manageable Risk

Material ESG risk that can be influenced and managed through suitable policies, programmes and initiatives.

### Managed Risk

Material ESG Risk that has been managed by a company through suitable policies, programmes and initiatives.

### Management

A company's handling of ESG risks.

### Management Gap

Refers to the difference between what a company has managed and what a company could possibly manage. It indicates how far the company's performance is from best practice.

### Management Indicator

An indicator that provides a signal about a company's management of an ESG issue through policies, programmes or quantitative performance.

### Material ESG Issue

A core building block of the **ESG Risk Rating**. An ESG issue is considered to be material within the rating if it is likely to have a significant effect on the enterprise value of a typical company within a given **subindustry**.

### Subindustry

Subindustries are defined as part of Sustainalytics' own classification system.

### Unmanageable Risk

Material ESG Risk inherent from the intrinsic nature of the products or services of a company and/or the nature of a company's business, which cannot be managed by the company if the company continues to offer the same type of products or services and remains in the same line of business.

### Unmanaged Risk

Material ESG risk that has not been managed by a company, and includes two types of risk: **unmanageable risk**, as well as risks that could be managed by a company through suitable initiatives, but which may not yet be managed (**management gap**).

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