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News Release

Bayer Q3 Media Update
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Address by

Board of Management

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Bill Anderson,
Chairman of the Board of Management (CEO) of Bayer AG:

Thanks to you for joining the call. You all have seen the Q3 results we published earlier today. The results came in largely as we expected, knowing that Q3 is never our strongest quarter. The important message is that, based on where we are and what we see for the remaining quarter, we are confirming the updated 2023 guidance we shared with you in July. We know that this requires a strong fourth quarter. We're focused on delivering exactly that – and the team is confident in our outlook. With that, I will hand it over to Wolfgang for more on the numbers.

Wolfgang Nickl,
Chief Financial Officer of Bayer AG:

Thank you, Bill. I'd also like to wish you all a warm welcome.

Let's now look at our results for the third quarter, which is usually our smallest one mainly due to the Crop Science business cycle. I will start with the figures for the Group as a whole, before I move on to the business performance in our three divisions.

Please note that all the sales growth figures I mention are adjusted for currency and portfolio effects unless I explicitly state otherwise.

Group sales came in on par with the prior year on an adjusted basis. As reported, however, we saw an 8 percent decline in net sales, mainly due to currency headwinds. Negative exchange rate effects summed up to about 740 million euros on Group sales in the third quarter and 1.2 billion euros in the first nine months of 2023.

Our earnings KPI, EBITDA before special items, came in at 1.7 billion euros which is 31 percent or about 770 million euros below the prior year quarter. Most of the decline was driven by our Crop Science business, impacted by lower pricing for our glyphosate-based products and continued higher cost of goods sold.

Lower earnings translated into core earnings per share of 38 cents in the third quarter. This is 75 cents below the previous year.

Reported earnings per share came in at minus 4.66 euros. The delta is largely driven by non-cash relevant impairment losses of approximately 4 billion euros in our Crop Science division which were entirely triggered by higher capital market interest rates and therefore a higher Weighted Average Cost of Capital.

Our free cash flow came in at 1.6 billion euros in line with the crop business cycle and our forecast for the second half of this year.

The positive cash flow contribution reduced net financial debt to 38.7 billion euros by the end of the third quarter, partially offset by negative foreign exchange effects.

Now, let’s take a look at our divisions, starting with our agricultural business.

Crop Science posted sales of 4.4 billion euros in the third quarter, representing a year-on-year increase of 0.6 percent. Higher volumes in all regions were mostly offset by lower prices for our glyphosate-based products following an exceptionally strong prior year.

Sales of herbicides posted a double-digit percentage decline. On the other hand, we achieved double-digit sales growth in both corn and soybean Seed & Traits, coming from higher prices in corn globally and higher licensing revenue in soybeans in Brazil.

Clean EBITDA at Crop Science declined to minus 24 million euros in the third quarter of this year, primarily due to said price declines for our glyphosate-based products. Earnings were also diminished by inflation-driven cost increases. On the other hand, there was a positive currency effect of about 120 million euros.

That brings me to our Pharmaceuticals division. Our prescription drug business generated sales on par with prior year’s third quarter, with slightly higher volumes being offset by pricing headwinds.

From a regional perspective, pharmaceuticals performed strongly in the US. In contrast, sales in China posted a double-digit percentage decline. Part of this was due to a significant slowdown of hospital operations and sales rep interactions across the industry caused by the country’s anti-corruption campaign.

Sales of our anticoagulant Xarelto™ were level year on year. Declines due to competitive and pricing pressure from generics were primarily offset by higher volumes in Europe. On the other hand, our launch assets once again registered significant gains. Sales of our cancer drug Nubeqa™ nearly doubled, with gains in all regions. Kerendia™, our product for the treatment of chronic kidney disease associated with type 2 diabetes, also achieved considerable gains – particularly in the US. Our ophthalmology drug Eylea™ and our Radiology business also performed strongly.

Clean EBITDA at Pharmaceuticals fell 8.6 percent to about 1.4 billion euros compared to a strong prior-year period. Higher investments in our cell and gene therapy and chemoproteomics technologies played a role here, while lower costs for our marketing activities had a positive impact. There was also a negative currency effect of about 50 million euros.

Let’s now look at Consumer Health. Our business with over-the-counter products grew sales by 1.7 percent to 1.4 billion euros.

While the regions Europe / Middle East / Africa and Latin America showed continued strong growth fundamentals, North America faced slower performance. Sales in the Asia / Pacific region were level with the prior-year quarter.

Business in the Allergy & Cold category was down slightly while our Dermatology business performed very strongly, with growth across all regions. The Pain & Cardio category also posted gains.

Clean EBITDA at Consumer Health decreased by 6.8 percent to about 300 million euros. This was mainly due to a negative currency effect of 57 million euros. Thanks to our continuous cost and price management efforts we managed to offset the decline in volume and inflation-driven rise in costs.

Now let’s move on to our outlook for full-year 2023. We confirm our full year guidance at constant currencies, as revised in July and August this year. Our confidence is based on the results we have seen in the third quarter and on our actions and projections for the last quarter.

Let me explain this in a little more detail. The performance of our Crop Science division was in line with our expectations for the third quarter, and we continue to anticipate strong momentum in the fourth quarter for our business, particularly in Latin America.

In Pharma we saw more headwinds in China than originally anticipated but are confident to remain in line with the parameters guided previously. And also, our Consumer Health division remains on track.

We continue to estimate a negative currency effect of roughly 1.7 billion euros in sales. On EBITDA before special items, we now expect a foreign exchange headwind for the full year of about 200 million euros. For all other KPIs the currency impact is not material based on our latest estimates.

Looking ahead into next year, we expect a challenging 2024. Based on current market dynamics and first assumptions, our growth outlook is likely to remain soft and we expect to see continued challenges to our profitability. We plan to provide guidance for 2024 in March next year.

Thank you for your attention. I will now hand over to Bill again.

Bill Anderson:

Thank you, Wolfgang. Now it goes without saying that we're not happy with this year's performance. Nearly 50 billion euros in revenue but zero cash flow is simply not acceptable. Nor is the trajectory of our share price.

The status quo is simply not an option for Bayer. I have spoken to many of our investors about this. We share the belief that there is no quick fix for the multiple challenges Bayer is facing. We are committed to the fastest path to value creation. A few months ago, I said that all options are on the table. Since then, we have advanced our conversations.

We are looking closely at our structural options. We have an expert team – including external financial advisors – evaluating them. They're reviewing market conditions, what structural changes would mean for our value creation, one-time costs and dis-synergies, cash flow and leverage ratios, tax leakage, and other criteria. We have full support of all members of Bayer's Supervisory Board in this analysis. We are not wedded to one structure; we will pursue the best course to ensure maximum value creation.

Of course, we also have taken a close look at our strategy and operating model, to see how we can get more out of Bayer's great asset base. I'll say more about that in a second. On the structural side, beyond maintaining three divisions, the main options would be a separation of either Consumer Health or Crop Science. Those remain under evaluation. We continue to assess them seriously and openly. We have also taken some options out of consideration. For example, we considered simultaneously splitting the company into three businesses. We're ruling that option out. A three-way split would require a two-step process. And we certainly will not pursue structural moves that come with a downgrade of our operational performance. We have to tackle Bayer's problems at the core. That's why we're moving decisively, in a way that doesn't limit our option space. We will regularly evaluate the company on our mission delivery, our speed and return on innovation, and our performance against peers.

We've already started making bold moves, which will strengthen our option space. The case for fundamental change is clear. Here's what we are doing:

- First, focusing everything on the mission.
- Second, driving innovation.
- And third, strengthening performance.

I'll go through them one by one.

Focusing on the mission.

Bayer has businesses that – individually and collectively – have a critical mission in this world. That's beautifully articulated with "Health for all, Hunger for none". But that hasn't always been front and center in our operations. That will change. We are redesigning Bayer to focus only on what's essential for our mission – and getting rid of everything else.
This requires a new operating system: We call it Dynamic Shared Ownership, and it's a radical realignment of the way a traditional multi-national company operates. In most companies, layers of management spend months on things like budgeting processes, performance reviews, and target setting. Bayer is no exception. An incalculable amount of

the time and energy of very smart people goes into our annual forecasts and budgets. Despite all of that, we still downgraded our original targets for 2023. That's a systemic issue. We're addressing it.

Dynamic Shared Ownership transplants the center of gravity from internal processes to the needs of the people we're serving. This will move decision-making much closer to our customers and shift our focus from planning to doing.

This will impact every role, process, or activity in the company. In the future, virtually everyone in the company will work in small, self-managed teams that are focused on a customer or a product – just like a small business owner would. Everything off-mission will go away. We'll measure progress in rapid 90-day cycles and that will translate into much faster customer response and product innovation.

Finally, this system also yields a major reduction in costs, because you simply don't need a lot of the management and coordination work that large companies have fragmented into boxes on org charts over decades. Many specialized coordination roles won't exist as separate, detached jobs, but as a core part of a team's responsibility. I've seen it before, and this shift unleashes the full energy, speed, and commitment of our people in a really powerful way.

This isn't simple restructuring. Bayer has had enough of that. Our employee survey shows that 90 percent of our employees claim a lot of pride in working for a company with a mission like ours. But only 10 percent firmly believe that our current system allows decision-making at the right level.

That's easy to understand. In the past six years, the company has initiated several traditional cost-cutting programs. We're actually still in one right now. These projects were run with the best intentions, but – as is often the case – the results have failed to show up in the bottom line in a sustainable way. Despite numerous reorganizations, the number of senior leaders has remained the same. And there are still 12 layers between me and our customers. That's simply too much.

This isn't penny pinching, it's an entirely new way of operating, from static command and control to a system where everything is centered on the needs of a customer. By the end of 2024, Bayer will remove multiple layers of management and coordination. This step will unleash our teams with the mission-focus necessary to turn things around. 95 percent of the decision-making in the organization will shift from managers to the people doing the work.

In the past 90 days, we have already gotten started. Here are some examples:

- We have made leadership changes in our human resources and transformation, strategy, and investor relations teams and we are making a number of additional changes at senior levels. We have also combined our impact investment arm, LEAPS, with our Pharma Business Development and Licensing Unit.
- All three of our businesses have designed plans to overhaul their commercial models – to have much clearer and stronger impact for customers. We are launching this in our first markets as we speak.
- Today, we have rolled out this system to 2,500 Bayer employees, by 2024 it will touch the entire organization.
- This is a profound shift. We are taking out a lot of work and that will include a significant reduction in the workforce. I've been in regular exchange with our employee representatives over the past months. They are a valuable and supportive partner in the system change. And I'm grateful for their trust and ongoing exchange as we shape the best way forward. I fully expect the result to be more meaningful jobs at Bayer, more innovation for our customers, and a better overall performance. We also anticipate significant and sustainable savings. We will share the details during our Capital Markets Day in March 2024.

Our second priority is advancing innovation. We are doubling down on everything that drives growth, and we are radically streamlining everything that doesn't. When I joined the company, I saw two things: the first was an extensive landscape of administration and controls. The second is tremendous innovation potential. Let me give you an example. The company has 1,362 pages of Bayer-specific central rules and regulations, and serious resources dedicated to adherence and maintenance. We're consolidating that dramatically to focus on the essentials. I already mentioned the countless hours spent on forecast and planning. We're streamlining that process. And all of that energy will be redirected to getting the most out of the company's great assets.

We have products in market with good momentum, like Nubeqa™ in Pharma or Intacta 2 Xtend™ soybeans in Crop Science. And we have good things in the pipeline.

We have the Preceon™ Smart Corn system, which is expected to launch next season in the U.S. Consumer Health continues to advance personalized health offerings. In the past 90 days, we have expanded our Phase III programs behind Kerendia™ and Asundexian™. And our Consumer Health division continues to pursue differentiated Rx to OTC switches, where our scientific capabilities are a big advantage.

That's just some of the innovation happening at Bayer. That's what we're concentrated on delivering. By introducing more product-centricity to our R&D model, we will deliver faster, more productive innovation.

Finally, strengthening performance

Bayer's bureaucracy doesn't just weigh on people's time, it impacts results. Just as we're simplifying the organization's focus on our mission, we are simplifying incentives. The Supervisory Board will put forward a proposal to the 2024 Shareholders Meeting, for approval, that aligns our remuneration closer to what matters for our mission and what matters to shareholders. Here are some initial details:

The Supervisory Board is working on a remuneration package, in which the Management Board and I will be assessed according to a clear, transparent set of financial and sustainability KPIs. Previously, 40 percent of our long-term incentive was adjusted by the way our share price performed relative to a peer group. The future proposal aims to double that figure to 80 percent. I expect sustainable growth and free cash flow to be of importance. Free cash flow is particularly relevant given our anemic performance this year. The proposal measures our cash performance not on cash flow without litigation, but simply on cash flow as reported. The full details will be presented prior to the 2024 AGM and sounded with investors between now and then.

That's a 90-day snapshot of our progress. We are just getting started, but we are moving forward with speed and diligence. I've been here before, and the results are worth it. The sum of all these actions will be an organization fully energized behind delivering a consistently better performance. Everyone I talk to at Bayer acknowledges the need for significant change – and our people are excited about what we're doing here. That unity is a powerful thing. It's one of the many reasons I'm convinced we will be successful.

We want to create sustainable value for all stakeholders. It’s going to look dramatically different than it has in the past, and we don’t have time to lose.

In March of next year, we will be combining our Full-Year-Earnings Call with a Capital Markets Day. The agenda is clear: It’s about delivering the best version of this company, with the most speed, the least risk and the best return. That’s what we are focused on over the coming weeks and months.

Thank you very much for your attention and I look forward to the Q&A.