Bayer: the seeds of success
A roadmap to long term value creation
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Why are we here?

➢ Since our initial engagement with Bayer in Q4 2022 Bluebell has had several, constructive interactions with both Management Board and Supervisory Board

➢ Bluebell originally asked the Supervisory Board to consider the following:
  ➢ Appoint a new CEO
  ➢ Improve corporate governance
  ➢ Initiate a strategic review of the portfolio

➢ We welcome the appointment, albeit overdue, of Bill Anderson as new CEO of Bayer, which represents an important signal of discontinuity with the past regime. We agree that Mr. Anderson has the right background and skills to successfully lead Bayer

➢ As we expect Mr. Anderson to undertake a thorough review of Bayer’s activities, and in order to broaden the debate to a larger set of constituencies, we are publishing this document, which summarizes our contribution to the forthcoming strategic discussion on portfolio and corporate governance
Agenda

➢ Why we think Bayer underperformed (p.5)

➢ Improving corporate governance (p.10)

➢ Initiating a strategic review
   ➢ (I) Separating Crop Science from Bayer (p.15)
   ➢ (II) Monetising Consumer Health (p.28)

➢ Value creation potential and summary conclusions (p.33)
Why we think Bayer underperformed
Bayer holds leading positions in two out of three businesses

<table>
<thead>
<tr>
<th>Crop Science €6.9bn EBITDA</th>
<th>Pharmaceuticals €5.9bn EBITDA</th>
<th>Consumer Health €1.4bn EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Global market leader in seeds and crop protection</td>
<td>➢ Leading positions in three therapeutic areas</td>
<td>➢ #3 OTC player globally</td>
</tr>
<tr>
<td>➢ Oligopolistic industry</td>
<td>➢ Subscale business globally</td>
<td>➢ Leading positions in cardiovascular, nutritional, dermatology and digestive health</td>
</tr>
<tr>
<td>➢ Sector enjoying tailwinds</td>
<td>➢ Significant LOE by mid decade</td>
<td>➢ Sub optimal profitability</td>
</tr>
<tr>
<td>➢ Top notch R&amp;D capabilities</td>
<td>➢ Interesting pipeline potential</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bluebell Capital Partners, Company data. Ebitda is for 2022 as reported by divisions, excluding “All Other Segments” and “Enabling Functions and Consolidation”
Bayer has significantly underperformed its peers based on TSR...

1Y TSR

3Y TSR

5Y TSR

TSR since Monsanto announcement (14/09/16)

Source: Bloomberg data as of 16 April 2023. €TSR with dividends reinvested.
... and trades at significant discount to peers...

EV/EBITDA 2023E

Source: Bloomberg data as of 16 April 2023.* Note Bayer would trade on 8.1x EV/EBitda 2023E adjusting for pension and litigations, using pension deficit at December 2022 net of 20% tax, provisions for litigations of €7.5bn and for environmental protection of €0.6bn, and €1.2bn PCB payment paid in Jan 2023.
...due to a combination of addressable factors

The Monsanto acquisition, with subsequent liabilities, has certainly been a major culprit for underperformance

Factors that could explain undervaluation

- Weak management track record
- Wrong capital allocation decisions
- Crop science liabilities a drag on whole group
- Perceived weak pharma pipeline
- Poor corporate governance practice
- Conglomerate discount

Monsanto deal EPS target missed by 25%*

Bayer core EPS (EUR/share)

<table>
<thead>
<tr>
<th>Year</th>
<th>EPS (EUR/share)</th>
<th>2021E consensus</th>
<th>Minimum 2021 EPS implied by Bayer guidance</th>
<th>2021 EPS</th>
<th>2022 EPS</th>
<th>2023E EPS consensus</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021E Consensus</td>
<td>7.95</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum 2021 EPS</td>
<td>8.75</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021 EPS</td>
<td>7.94</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022 EPS</td>
<td>7.28</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bluebell Capital Partners, Bloomberg data as of 16 April 2023, Bayer annual reports, SEC. * Bayer had a target to see double digit EPS accretion in the third full year after closing of Monsanto. Bayer closed Monsanto on 7 June 2018. Note that Bayer core EPS excludes litigation and impairment charges relating to Monsanto acquisition
Improving corporate governance
Bayer management approval has consistently been poor

Ratification of the actions of the Board of Management among the DAX

No confidence vote for management

Source: company data based on DAX composition as of 25 July 2022. In case of individual votes on the ratification of the actions of the Board of Management the lowest score has been taken into account. Scores have been taken with no decimals and in case of equality Bayer has been ranked first.
Supervisory Board has seemed to ignore shareholders' dissent

In the last 5 years there were only 5 cases in the DAX of Management Board approval below 75%, Bayer the only case where no corrective action was taken

<table>
<thead>
<tr>
<th>Company</th>
<th>Date of AGM</th>
<th>Member of Management Board</th>
<th>Approval rating</th>
<th>Consequence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Boerse AG</td>
<td>16 May 2018</td>
<td>Carsten Kengeter</td>
<td>26%</td>
<td>On 26 October 2017 Carsten Kengeter announced stepping down as CEO of Deutsche Boerse.</td>
</tr>
<tr>
<td>Bayer AG</td>
<td>26 April 2019</td>
<td>Management Board as a whole</td>
<td>44%</td>
<td>No action taken. CEO contract extended by another 3 years in 2020.</td>
</tr>
<tr>
<td>Fresenius Medical Care AG &amp; Co KGaA</td>
<td>16 May 2019</td>
<td>Management Board as a whole</td>
<td>57%</td>
<td>On 20 February 2019, the Company announced the retirement of its CFO.</td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>23 May 2019</td>
<td>Garth Ritchie</td>
<td>61%</td>
<td>On 5 July 2019 Deutsche Bank AG issued a press release to announce the departure of Mr. Ritchie.</td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>23 May 2019</td>
<td>Sylvie Matherat</td>
<td>61%</td>
<td>On 7 July 2019 Deutsche Bank AG issued a press release to announce the departure of Ms. Matherat.</td>
</tr>
</tbody>
</table>

Source: company data based on DAX composition as of 25 July 2022.
Supervisory Board does not seem to prioritise shareholder value creation

Bayer paid its top management regardless of shareholder value creation

Source: company data based on DAX composition as of 25 July 2022.
Commit now that the four Supervisory Board members whose mandate expires at the 2024 AGM would not seek re-election and would be replaced by four independent candidates.

- Strong signal of discontinuity, after appointment of external CEO
- Would strengthen message that CEO has received “tremendous latitude” from Supervisory Board*
- Post 2024 AGM majority of shareholder-elected Supervisory Board members would not be related to the Monsanto acquisition
- Similar (yet less radical) than what Danone, another company that had chronically underperformed based on TSR, announced in July 2019 subsequent to the appointment of new CEO and Chairman

* Financial Times, 5 April 2023 re: Bill Anderson’s quote from meeting with press
Initiating a strategic review

(I) Separating Crop Science from Bayer
The timing is right to consider separating Crop Science from Bayer

Bayer is a conglomerate on a journey to specialization

Bayer 2000 sales by division
- Chemicals: 15%
- Polymers: 39%
- Crop protection: 8%
- Animal health: 3%
- Diagnostics: 7%
- Consumer Care: 7%
- Pharmaceuticals: 21%
- Material Science: 30%

Bayer 2010 sales by division
- Chemicals: 15%
- Polymers: 39%
- Crop protection: 8%
- Animal health: 3%
- Diagnostics: 7%
- Consumer Care: 7%
- Pharmaceuticals: 32%
- Material Science: 30%

Bayer 2022 sales by division
- Chemicals: 15%
- Polymers: 39%
- Crop protection: 8%
- Animal health: 3%
- Diagnostics: 7%
- Consumer Care: 7%
- Pharmaceuticals: 38%
- Crop Science: 50%

Through acquisitions, disposals and separations Bayer has overtime refocused on 3 businesses

Adequate timing for the next portfolio review

- New external CEO - A “fresh pair of eyes” ✓
- Leadership in both seeds and traits and crop protection achieved ✓
- Integration of Monsanto completed ✓
- Increased visibility on glyphosate litigation risk ✓
- Majority of glyphosate litigation payments done by 2023 ✓

Source: Bluebell Capital Partners, Bayer annual reports. Sales are ex consolidation/others.
The rationale for a separation is strong

<table>
<thead>
<tr>
<th>Five key reasons to separate the businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fundamentally different businesses with no synergies</td>
</tr>
<tr>
<td>2. Opportunity for each company to strive on its own</td>
</tr>
<tr>
<td>3. Capital allocation best suited for each company</td>
</tr>
<tr>
<td>4. More focused boards and better incentivized managements</td>
</tr>
<tr>
<td>5. Better coverage and understanding from the equity markets</td>
</tr>
</tbody>
</table>

Source: Bluebell Capital Partners
Pharma and Crop Science are fundamentally different businesses

It is widely recognised that there are no synergies between the two businesses

**Structural differences between Crop Science and Pharma**

- Different products
- Different sales channels
- Different customers
- Different underlying growth drivers
- No R&D overlap
- Different competitors
- Different manufacturing facilities
- Different R&D facilities

Source: Bluebell Capital Partners
Post Monsanto integration Crop Science is a clear market leader...

2022 sales in €m by sub-segment for the main players

Source: company data, Bluebell Capital Partners. * Crop Science pre Monsanto and Monsanto are respectively sales to December 2017 and to August 2017. Using average EUR/USD 1.05 in 2022.
20... with best-in-class margins and R&D scale

Crop Science delivered €6.9bn of EBITDA in 2022

Crop Science has leading EBITDA margin*

Crop Science R&D spend is double its peers

Source: company data for 2022, * include estimated central costs allocation for BASF and Bayer Crop Sciences based on proportional revenues
Also Pharma and Consumer Health have strong market positions...

Remaining Bayer 2022 sales pro forma of €26bn

Remaining Bayer 2022 Ebitda pro forma €6.6bn

Pharmaceuticals leading positions

Consumer Health
Pharmaceutical

2021 Pharma sales (%) by therapeutic area

Cardiovascular*
Hematology*
Ophthalmology*
Oncology
Radiology*
Women’s Health*
Other

* Market leading positions

Source: Bayer, * CCSF = Cough, Cold, Sore Throat, Flu

Consumer Health is #3 OTC player globally

Consumer Health market positions by category

Cardiovascular
Nutritionals,
Dermatology,
Digestive
Health, #3

#1

#3

#4

#5

#3

#3

#3

#3

#3

#3

#3

#3
With a credible pipeline to at least partially offset upcoming LOE...

Ca 40% of sales will be off-patent by mid decade

2022 pharmaceuticals sales (EUR 19bn) by key products

- Xarelto, 23%
- Eylea, 17%
- Others, 36%
- Aspirin Cardio, 4%
- YAZ/Yasmin/Yasminelle, 4%
- Adalat, 4%
- Mirena/Kyleena/Jaydess, 7%

Total sales €7.7bn

Bayer pipeline likely to meaningfully offset this

Peak sales potential according to Bayer (EUR bn)

- Asundexian: 5
- Nubeqa: 3
- Kerendia: 3
- Elinzanetant: 1
- Vitrakvi: 0.75
- Verquvo: 0.5

Peak sales >€13bn

Source: Bayer
...and a need to refocus on delivering growth

With potentially more firepower to do M&A

Bayer Pharmaceuticals turnover (€m)

Additionally, Pharma’s image and capital allocation have been negatively affected by glyphosate liabilities, which pertain only to Crop Science

Source: Bluebell Capital Partners, Bayer, Vara consensus as of 6 February 2023
Crop Science and Pharma have different capital allocation needs

<table>
<thead>
<tr>
<th>Crop Science</th>
<th>vs</th>
<th>Pharma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding business driven by population growth and pressure on ecosystems</td>
<td>≠</td>
<td>Significant Loss of Exclusivity for key products in the next 5 years</td>
</tr>
<tr>
<td>Growth mainly organic with very strong internal innovation pipeline</td>
<td>≠</td>
<td>Growth coming from both organic pipeline and potential M&amp;A</td>
</tr>
<tr>
<td>Main innovations driven by large scale players</td>
<td>≠</td>
<td>Significant amount of innovation provided by listed start ups</td>
</tr>
<tr>
<td>Large and uncertain balance sheet provisions relating to glyphosate and PCB</td>
<td>≠</td>
<td>Minor product-related provisions</td>
</tr>
<tr>
<td>Relatively stable R&amp;D spend</td>
<td>≠</td>
<td>Factor XI growing R&amp;D requirements</td>
</tr>
</tbody>
</table>

Source: Bluebell Capital Partners
Supervisory Board skills matrix as disclosed by Bayer and peers Corteva and FMC reveal significant skill gaps in Bayer.

- **Agri/Chemical experience**: Bayer 77%, Corteva 90%, FMC 30%
- **E/S/Sustainability**: Bayer 77%, Corteva 80%

Mr Winkeljohann and Mr Baier skillsets have been updated between 2021 and 2022.

Source: Bayer 2022 Annual Report, Corteva and FMC 2022 Proxy Filings. Note for Bayer this only looks at shareholder-elected Supervisory Board members. In the 2022 annual report Mr. Baier and Mr. Winkeljohann are listed as having expertise in Sustainability, which was not the case in the 2021 annual report.
Bayer mostly covered by pharmaceutical analysts

Inevitably, every sell-side analyst has a poorer understanding of the business which is outside its core competency.

Additionally, Bayer Consumer Health is completely ignored as no consumer staples analyst covers it (Haleon, by contrast, is covered by consumer staples sell side analysts).

Source: list of disclosed brokers taking part in Bayer consensus as published by Vara Research on 06 February 2023, plus JP Morgan and BofA Securities, brokers listed on Haleon website as of 31 March 2023
How to achieve the separation

There are many potential ways to execute the separation and the choice will have to take into account, among other, tax, legal and accounting considerations. We offer below a highly preliminary side by side of the two most obvious alternatives

<table>
<thead>
<tr>
<th>Spin-off to Bayer shareholders</th>
<th>Crop science sub-IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Probably the “cleanest” form of separation</td>
<td>- Would not fully eliminate Bayer’s conglomerate discount</td>
</tr>
<tr>
<td>+ Lower execution risk as less dependent on market conditions</td>
<td>- More complex execution than spin-off</td>
</tr>
<tr>
<td>- No cash raised to re-invest into pharma/reduce debt</td>
<td>+ Listing would still enable to crystallize value and reduce SOP discount</td>
</tr>
<tr>
<td>While Crop Science would unlikely be a target given industry concentration, pharma could become takeover target</td>
<td>+ Could represent an intermediate step towards the full separation as in first instance Bayer could retain control</td>
</tr>
<tr>
<td></td>
<td>+ Would raise funds to re-invest into pharma</td>
</tr>
<tr>
<td></td>
<td>+ Would give time to pharma to by-pass patents cliff and re-start engine growth before full separation</td>
</tr>
<tr>
<td></td>
<td>? Would most likely deter unsolicited bids for pharma</td>
</tr>
</tbody>
</table>

Crop Science natural listing should be in the US given its litigations are better understood and evaluated in the US

Source: Bluebell Capital Partners
Initiating a strategic review

(II) Monetising Consumer Health
### Clear trend in recent years for Pharmaceuticals to JV/exit/monetise Consumer Health businesses

<table>
<thead>
<tr>
<th>2014</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSK</td>
<td>Exited through creation of Haleon</td>
</tr>
<tr>
<td>Pfizer</td>
<td>Sold to P&amp;G</td>
</tr>
<tr>
<td>Novartis</td>
<td>Sold to Bayer</td>
</tr>
<tr>
<td>Merck KGaA</td>
<td>Intent to separate and list Consumer Health Business (Kenvue)</td>
</tr>
<tr>
<td>Merck &amp; Co</td>
<td>Sanofi Consumer Healthcare run as a standalone company</td>
</tr>
<tr>
<td>J&amp;J</td>
<td></td>
</tr>
<tr>
<td>Sanofi</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bluebell Capital Partners, companies.
## The Rx to OTC switch opportunity demystified

### Prescription to Over-the-Counter (OTC) Switch List

<table>
<thead>
<tr>
<th>Year</th>
<th>Drug Name</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>Nasonex 24HR Allergy nasal spray, 50 mcg/spray, metered</td>
<td>Perrigo</td>
</tr>
<tr>
<td>2021</td>
<td>Lastacaft, 0.25%</td>
<td>Abbvie</td>
</tr>
<tr>
<td>2021</td>
<td>Astepro Allergy and Children’s Astepro Allergy nasal spray, 0.15%</td>
<td>Bayer</td>
</tr>
<tr>
<td>2020</td>
<td>Sklice lotion, 0.5%</td>
<td>Azurity Pharmaceuticals</td>
</tr>
<tr>
<td>2020</td>
<td>Voltaren Arthritis Pain</td>
<td>GSK</td>
</tr>
<tr>
<td>2020</td>
<td>Pataday Once Daily Relief</td>
<td>Alcon</td>
</tr>
<tr>
<td>2017</td>
<td>Xyzal Allergy 24HR tablets and solution</td>
<td>Sanofi</td>
</tr>
<tr>
<td>2016</td>
<td>Flonase® Sensimist Allergy Relief</td>
<td>GSK</td>
</tr>
<tr>
<td>2016</td>
<td>Differin Gel®, 0.1%</td>
<td>Galderma</td>
</tr>
<tr>
<td>2015</td>
<td>Rhinocort Allergy Spray</td>
<td>Astrazeneca/Mc Neil</td>
</tr>
<tr>
<td>2014</td>
<td>Nexium 24 HR</td>
<td>Pfizer</td>
</tr>
<tr>
<td>2014</td>
<td>Flonase Allergy Relief</td>
<td>GSK</td>
</tr>
<tr>
<td>2013</td>
<td>Oxytrol for Women</td>
<td>Merck &amp; Co</td>
</tr>
<tr>
<td>2013</td>
<td>Nasacort Allergy 24HR nasal spray</td>
<td>Sanofi</td>
</tr>
<tr>
<td>2011</td>
<td>Allegra, Allegra D 12hr and Allegra 24hr (Fexofenadine, Pseudoephedrine)</td>
<td>Sanofi</td>
</tr>
</tbody>
</table>

The medical prescription (Rx) to OTC switch opportunity is too uncertain to justify ownership by pharmaceuticals: there was not even one and a half Rx to OTC switch p.a. on average in the last decade

Bayer only had one successful Rx to OTC switch in the last decade

Source: US Food and Drug Administration, Bluebell Capital Partners
Consumer Health could be better managed outside Bayer

Bayer Consumer Health 2022 operating margins at least 800bps below peers

Source: Bluebell Capital Partners, companies. Note Sanofi Consumer Healthcare is after allocation of central costs based on proportional revenues
Monetising Consumer Health would reduce net debt/Ebitda by ~1x

Bayer 2022 pro forma net debt/Ebitda (x) depending on Consumer Health valuation as multiple of EBITDA

Source: Bayer, Bluebell Capital Partners, Vara consensus as of 06 February 2023. Assume central costs are allocated to divisions in proportion to sales. Assume a 20% capital gain tax on an estimated tax base of €9.7bn (average 2022 capital employed for Consumer Health). Net debt include pension deficit net of 20% tax, litigation provisions, environmental liabilities and €1,240m of PCB litigation reclassified to other liabilities.
Value creation potential and summary conclusions
Meaningful upside potential for closing Sum of the Parts discount

Bayer 2023 EV/EBITDA Sum-of-the-Parts (€)

- **Lowest multiple of large cap pharma**: 46bn
- **Haleon multiple**: 21bn
- **Weighted average multiple**: (6bn)

Source: Bluebell Capital Partners, Bayer annual report, Bloomberg data as of 16 April 2023 and Vara consensus as of 6 February 2023. Net debt includes pension provision net of 20% tax, provisions for litigations for €7.4bn and for environmental protection for €0.6bn and €1.2bn PCB provisions paid in Jan 23. Others include associates and minorities.
Additional central costs unlikely to change the big picture

Even in the very unrealistic scenario where Bayer central costs are doubled from current level, the upside remains significant at 40%+

Source: Annual reports, Bluebell Capital Partners. For Bayer G&A costs are estimated as EBIT before special items of Enabling Functions and Consolidation
Disposal proceeds create potential to re-invest into Pharma

Range of disposal proceeds

Potential utilization of funds:

➢ Re-invest to strengthen pharma pipeline/do M&A
➢ Pay down debt

Source: Bayer, Bluebell Capital Partners, Vara consensus as of 06 February 2023. Assume central costs are allocated to divisions in proportion to sales and a 20% capital gain tax on an estimated tax base of €9.7bn for Consumer Health (average 2022 capital employed for Consumer Health). Consumer Heath valuation range based on 2023 EV/Ebitda multiples of 13-17x. Crop Science Sub IPO is based on a sale of 30% of the equity, on net debt allocation to divisions proportional to divisional Ebitda, and on 2023 EV/Ebitda multiples of 10-13x.
Summary Conclusions

We invite Bayer’s management and Supervisory Board to be bold in their actions

➢ After the appointment of a credible, external CEO, Bayer should commit now to significantly renew its Supervisory Board

➢ Bayer should consider separating its businesses, which have no synergies among them, to create long term value for all stakeholders

➢ Significant funds (in the range of €15-30bn) could be raised through the separation process, which should be used to pay down debt and reinvest in Pharmaceuticals

➢ Structural changes are obviously not the only answer to value creation. Ultimately, each of Bayer’s businesses will have to deliver superior returns on its own. However, a portfolio optimization will facilitate the achievement of such goal

“There is no place that we can’t go or [ideas that] we can’t consider.”
“I’m going to have an open mind. I’m going to consider everything.”

Bill Anderson, incoming CEO*

Source: Bluebell Capital Partners. * Financial Times, 5 April 2023