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ESG Investment Case by Aalto Biz

Does Bayer AG have potential as an ESG investment?

Presented by: Thuan Pham, Julia Sundvall, Bao Phan, Milo Sulkimo, Elias Pakarinen

Last update: 15.02.2025

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Main Insights

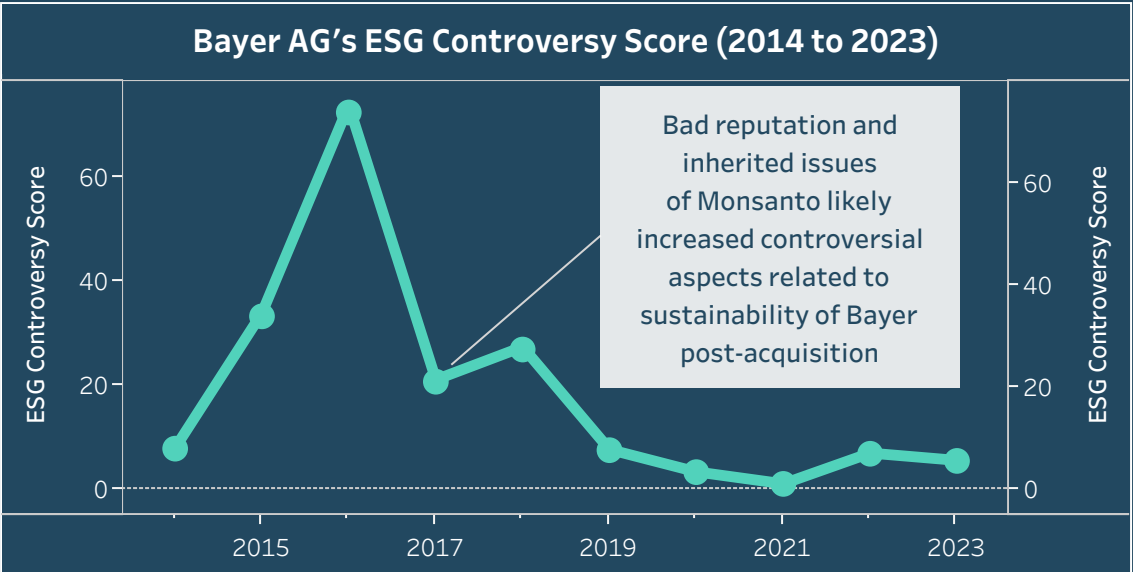
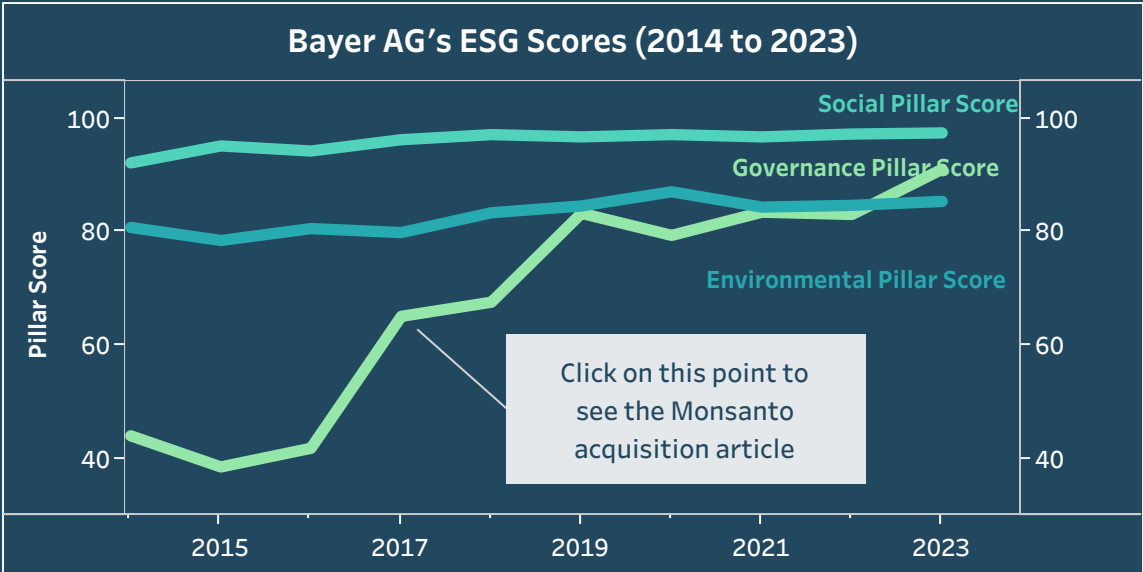
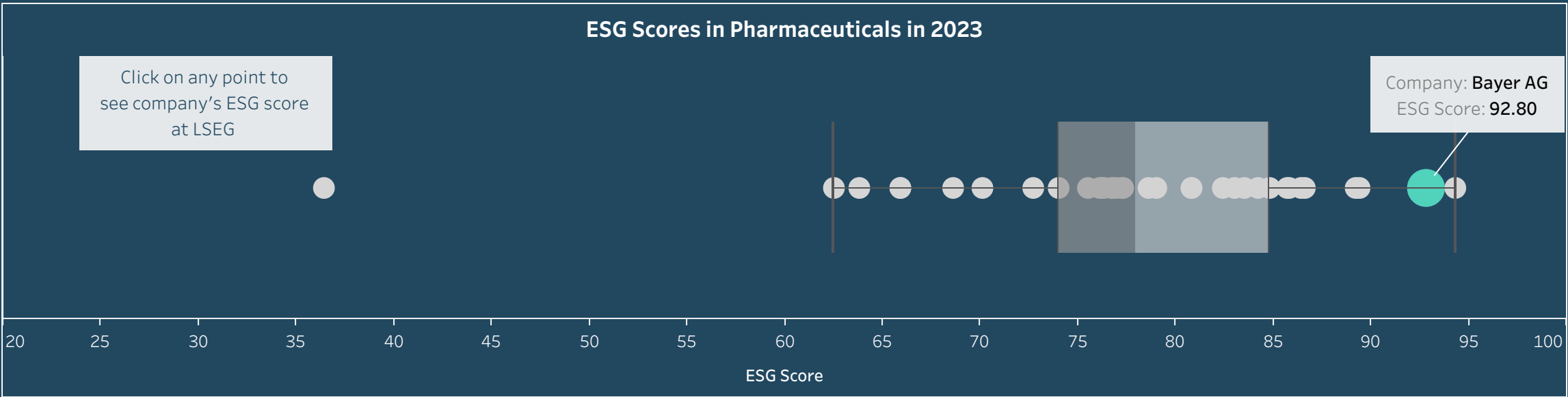
Bayer has seen **an increase in their ESG scores** through 2014-2023.

Particularly the governance score has seen significant growth. This suggests Bayer made **significant organizational changes around 2016-2020**, likely driven by both the **Monsanto acquisition (2016-2018)** and **increasing global focus on ESG performance**.

However, there is an **interesting contrast** between their very **high 2023 ESG score** and very **low ESG controversy score**. It shows that while Bayer has **excellent ESG policies and frameworks on paper**, they're still dealing with **real-world controversies and challenges**.

For more context, Monsanto had a bad reputation before the acquisition, which was associated with genetic modified seeds, agent orange production for Vietnam war, and its product Roundup.

Select Year
2023



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Main Insights

As of **2023**, Bayer's **Renewable Energy Use ratio** (17%) is **relatively low**, compared to other companies like AstraZeneca (52%) and Chugai Pharmaceutical (55%).

However, their **Waste Recycling ratio** is **quite moderate** with **54%**. While not poor, there is **substantial room for improvement** since Chugai Pharmaceutical's and Eli Lilly and Co's ratio are 99% and 90% respectively.

Bayer's **Carbon Intensity** is **significantly high**, nearly **tripling the industry average**. This indicates a need for **more aggressive carbon reduction strategies**.

Select Year
2023

Compare with
Bayer AG

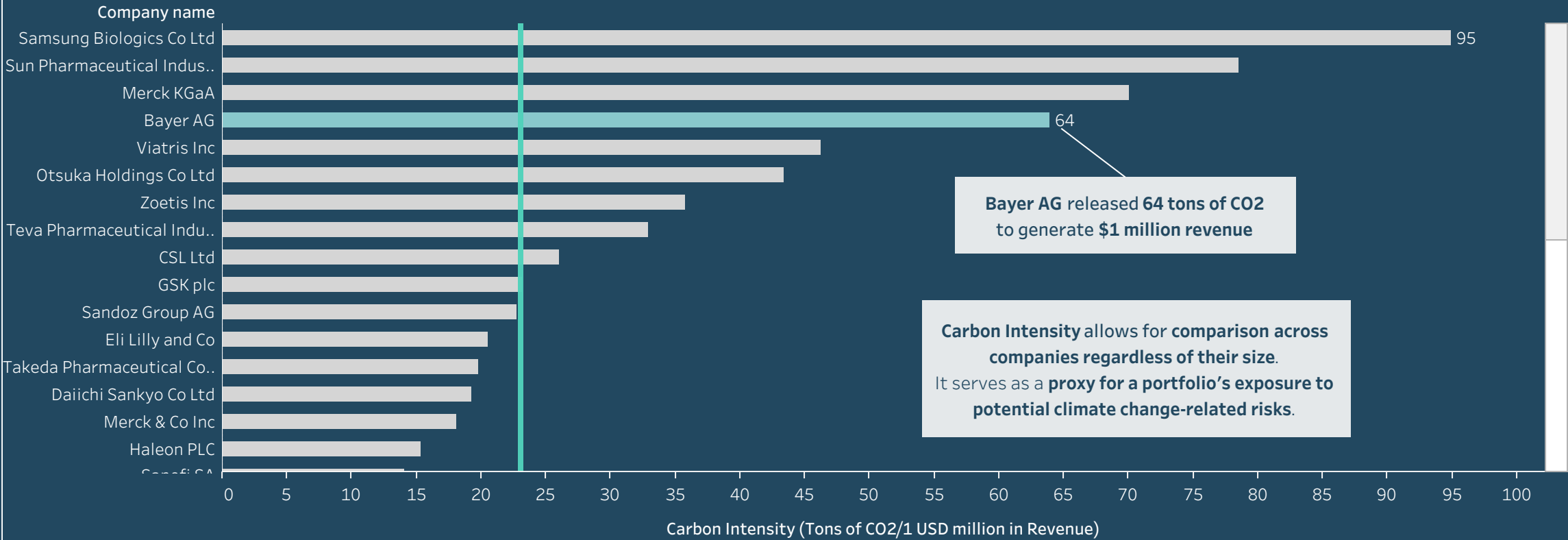
Bayer AG's Renewable Energy Use Ratio in 2023

0.17

Bayer AG's Waste Recycling Ratio in 2023

0.54

Bayer AG's Carbon Intensity in 2023



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Main Insights

As of 2023, Bayer is an **industry leader** in terms of **board gender diversity** with female board members comprising **45% of the board**.

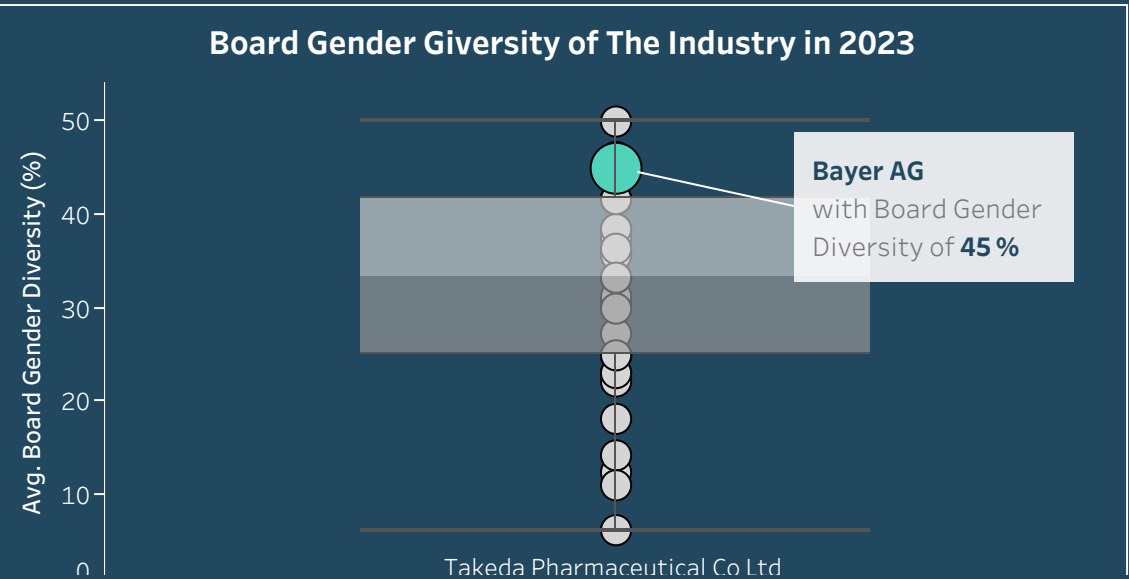
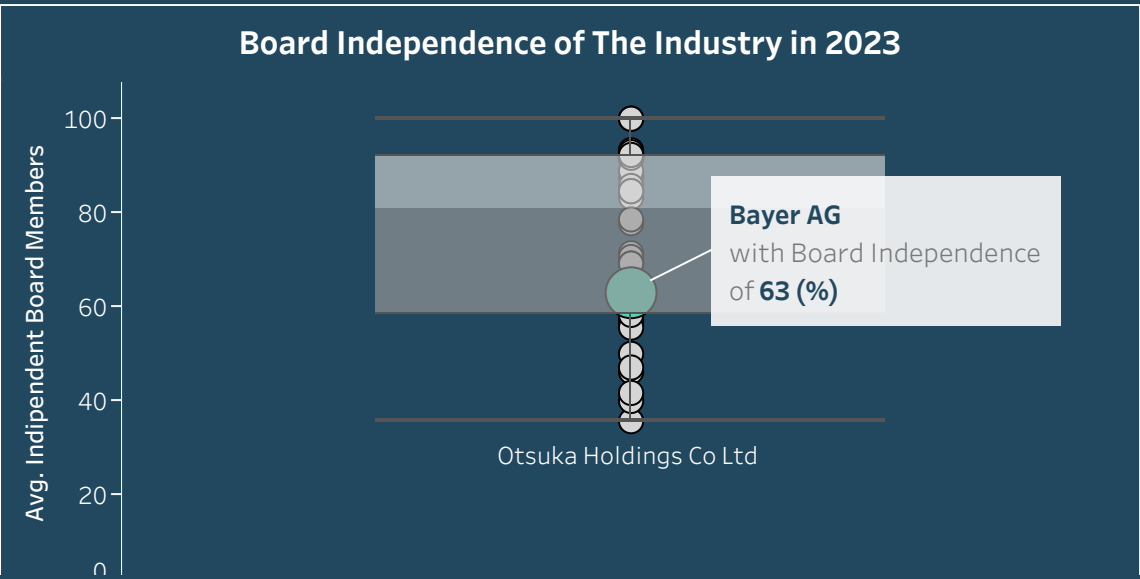
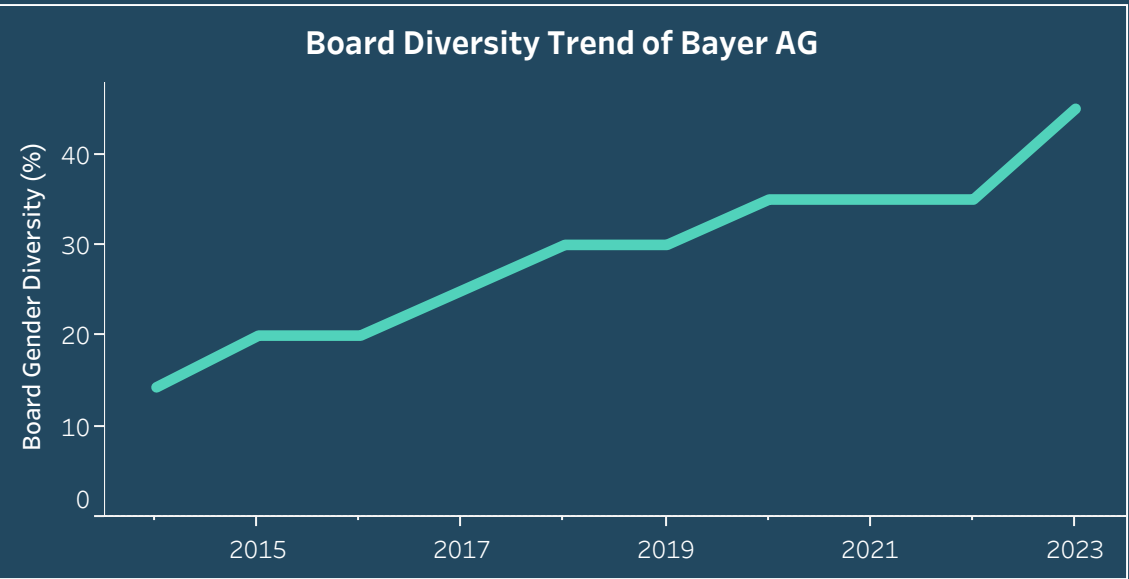
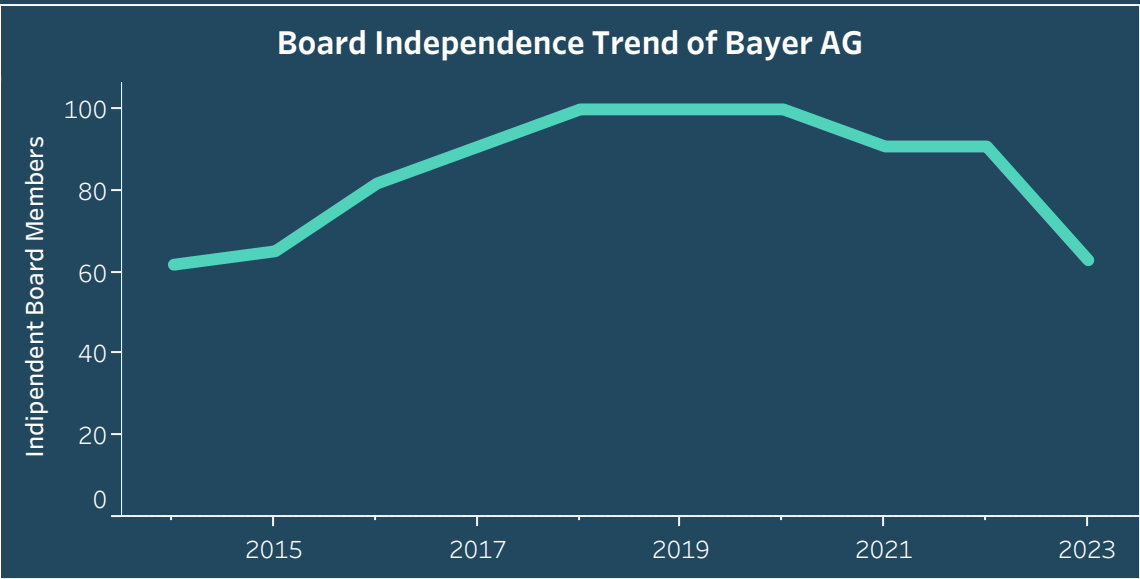
Additionally, their board independence is 63%, which is **well below the median of the industry**. Compared to **2018-2020**, Bayer AG was able to keep the rate at 100%, indicating a **significant rise in bias in the decision-making process** that may favor insiders rather than all stakeholders.

However, a **strong governance score** makes **board independence just one of the factors** to assess governance risks.

Select Company
Bayer AG

Select Year
2023

Highlight Comp..
Bayer AG



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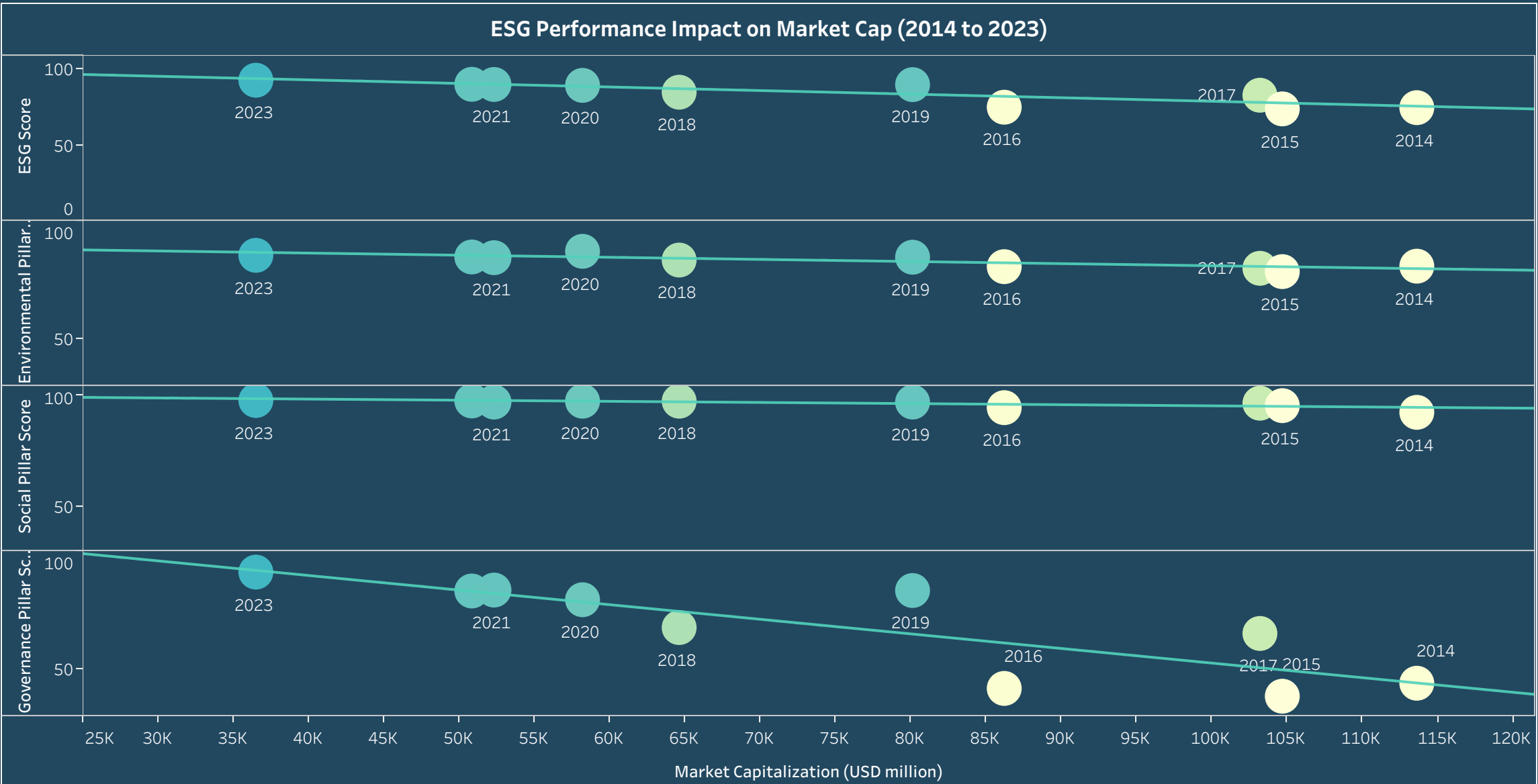
ESG Investment Case by Aalto Biz



Main Insights

Steady growth in ESG scores **yet a decline** in Market Cap, indicating a problem: **improved ESG performance hasn't translated into financial success.**

Breaking down the components of ESG score, **Environmental** explains the **most variance** in Market Cap. **Social** has the **most immediate impact** on Market Cap due to having steepest slope. **Governance** has the **least immediate impact** on Mar..



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Main Insights

Only revenue of Bayer AG has been consistently above the industry average, but not by a large margin.

After 2016, their **EBIT margin remained slightly above the industry average** until 2019, then fell below the benchmark, continuing downward until 2021 before rising above the industry again in 2022.

After 2016, Bayer's **ROA kept being below the industry average**. There was a **significant decrease during 2018-2020**. Following it was a **relatively fast recovery**, but **still below the benchmark**.

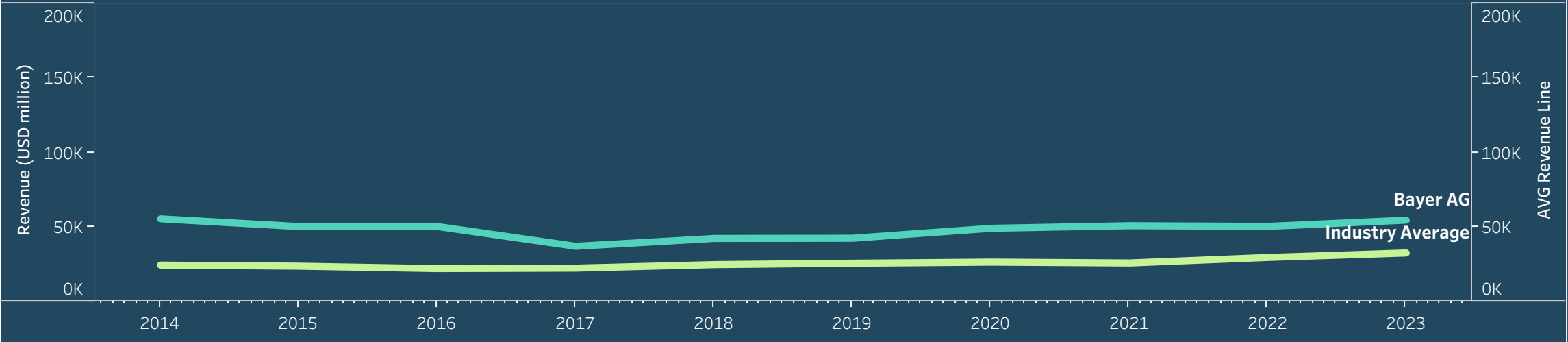
Bayer's **financial performance appears mixed**. While its revenue has remained consistently above the industry average, the **margin is not significant**, suggesting **profitability challenges** though its recovery in 2022 indicates **some improvement**.

The **persistently below-average ROA** points to **inefficiencies in asset utilization** and **potential struggles in generating returns**.

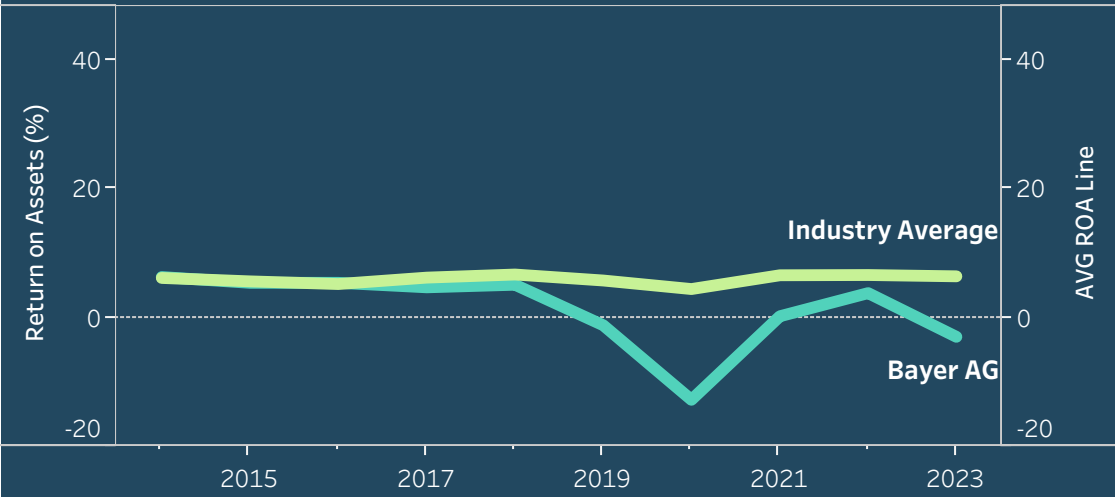
Select Company
Bayer AG

Select Year
All values

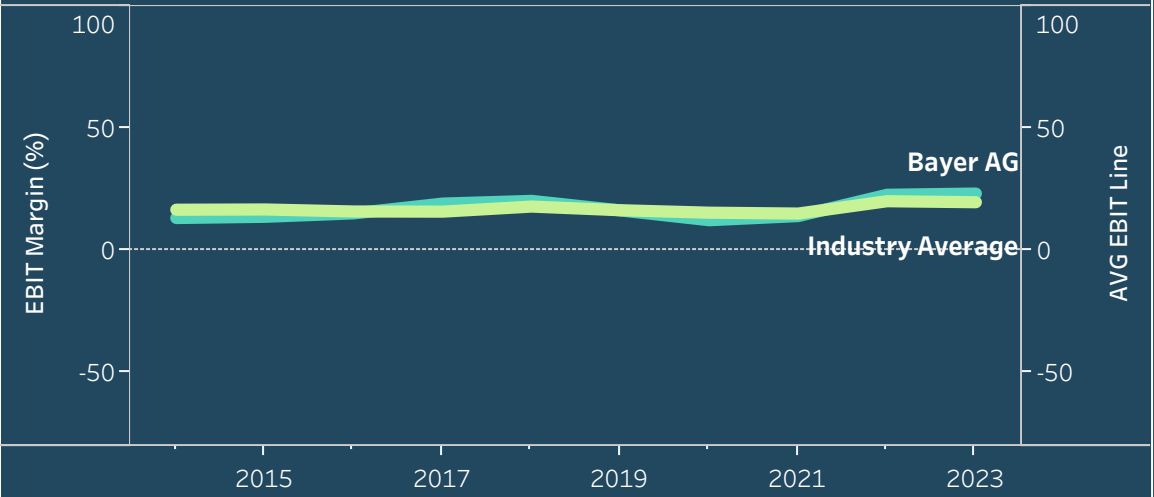
Bayer AG's Revenue vs. The Industry (2014 to 2023)



Bayer AG's ROA vs. The Industry (2014 to 2023)



Bayer AG's EBIT Margin vs. The Industry (2014 to 2023)



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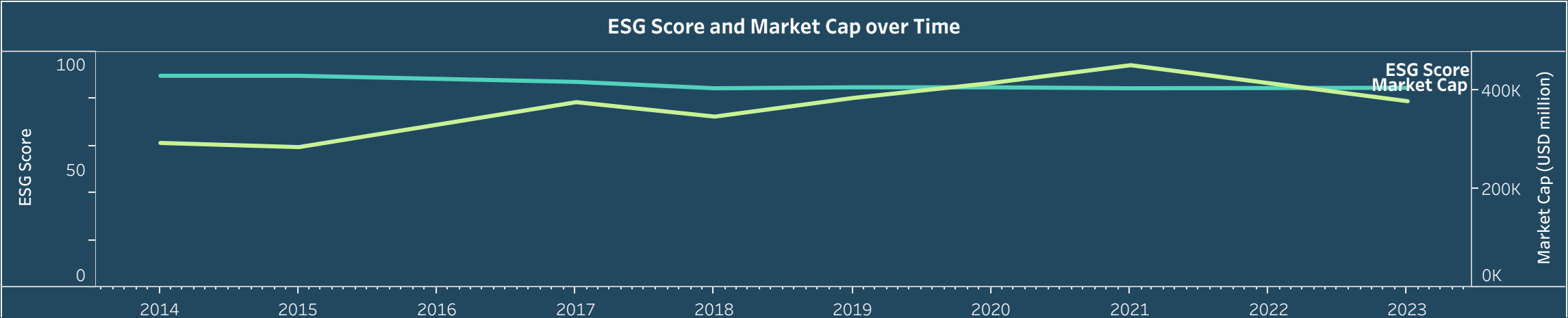
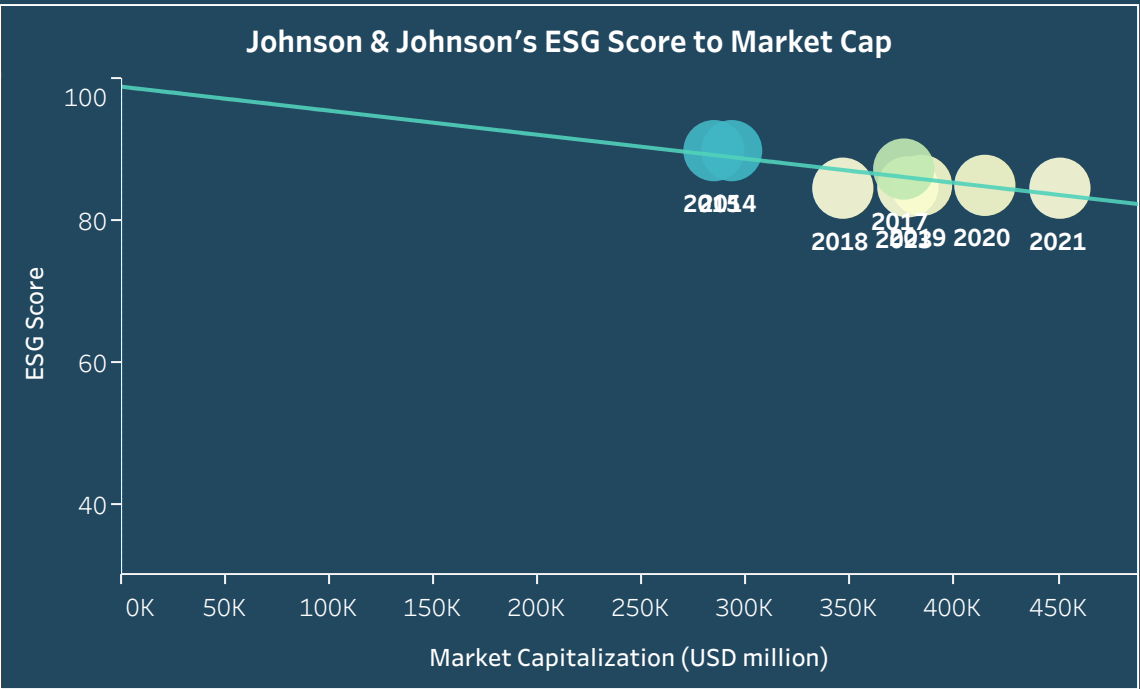
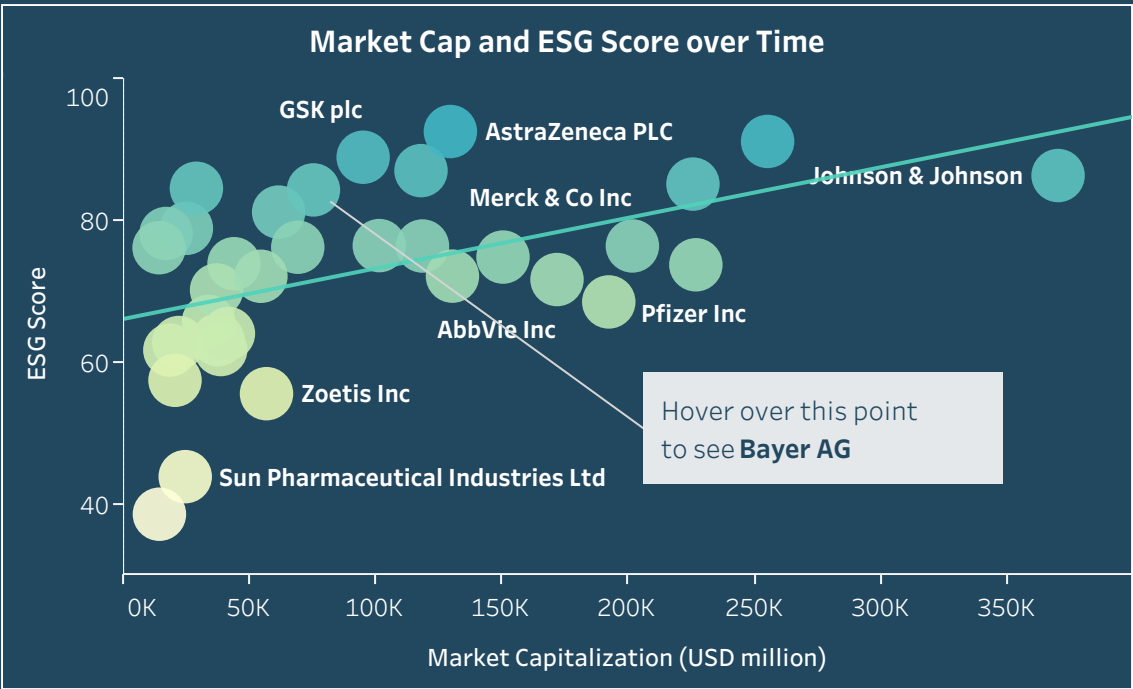
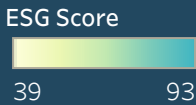
Main Insights

Out of 34 companies, **only 13 show statistically significant relationship (p-value < 0.05)** between **ESG Score and Market Cap**, indicating that the **relationship is not uniform across the industry**.

Out of those 13, **7 companies have positive relationship** and **6 ones have negative relationship** (including Bayer AG).

This mixed results suggest that investors in the pharmaceuticals sector **may not consistently value higher ESG scores**, or that **other factors may outweigh ESG considerations** in their valuation models.

Hence, it boils down to **company-specific circumstances** such as **legal risks and M&A**. Furthermore, the on-going challenges from their financial performance could be another explaining factor.



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All in all, does Bayer AG have investment potential? **Yes, it does.**

However, our **RECOMMENDATION** at this point is to **HOLD and/or MONITOR** the company's future performance. In this section we'll briefly summarize the company's current standing and provide ideas to increase value for potential future investors.

KEY TAKEAWAYS

ESG Performance vs Financial Reality

- **Strong ESG** metrics **haven't translated to market value**.
- **High carbon intensity** remains a concern.
- Mixed industry ESG-Market Cap relationship indicates **company-specific challenges**.

Operational Standing:

- Above-average operational metrics but **asset utilization needs improvement**.
- **Strong governance** despite declining board independence.

NEXT STEPS

Financial Health:

- Prioritize **increasing efficiency in asset utilization**.
- Consider strategic **divestments**.

ESG Focus:

- Target **carbon intensity reduction**
- Balance board independence while maintaining diversity
- Use improved ESG performance to **rebuild stakeholder trust**