Bayer AG

FY/Q4 2018 Investor Conference Call

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Opening Remarks

Oliver Maier

Head of Investor Relations, Bayer AG

Emma, thank you very much. Good afternoon, and thanks for joining us today. I would like to welcome all of you to our fourth quarter and full year 2018 conference call. With me on the call today are Werner Baumann, our CEO, Wolfgang Nickl, our CFO, and the businesses are represented by the responsible Management Board members. For Pharma we have Stefan Oelrich, for Consumer Health we have Heiko Schipper and for Crop Science/Animal Health we have Liam Condon.

Werner will start off today with an overview of the key developments and performance of the divisions in 2018. Wolfgang will then cover the financials for the fourth quarter and the full year, and the outlook 2019, before Werner will close with some of the key focus areas for 2019, and then the Q&A session. For the Q&A I would like to remind everyone to please limit your questions to about two per person, to allow us to address questions from as many participants as possible within the scheduled time of roughly about an hour, maybe a little more.

I would like to start the call today, as always, by mentioning the cautionary language that is in our safe harbour statement, as well as in all the materials that we have distributed today. And with that, I'll hand it over to you, Werner. The floor is yours.

See disclaimer

Business Update and Outlook

Werner Baumann

CEO, Bayer AG

Alright, thanks, Oliver, and good afternoon also from my side, ladies and gentlemen. It's my pleasure to welcome you to our conference call today.

With that, let me go into our performance. 2018 was a truly transformative year for us, and I'm proud of what we've accomplished. Despite the challenges that come with this level of change, we were able to focus and achieve all of our post-closing updated Group targets. Sales grew by 13% to €39.6 billion, EBITDA increased by 3% to €9.5 billion, and core EPS reached €5.94, exceeding our guided corridor of €5.70 to €5.90.

In 2018 we completed the biggest acquisition in Bayer's history, advancing to the global number one position in the agriculture input sector, and we are off to a strong start with our integration activities, with top leadership in place and executing on our synergy plans. Our Pharmaceuticals business was driven, once again, by the strong performance of Xarelto and Eylea, and in Consumer Health we managed to move back to growth in the second half of 2018, as we indicated. Free cash flow generation was strong, and our €36 billion net debt at year-end was €3 billion below our initial target of €39 billion for 2018.

At the end of November 2018 we announced a comprehensive set of portfolio, efficiency and structural measures, including the review of exit options for our Animal Health business and our 60% stake in Currenta. From the announced efficiency and structural measures we expect annual contributions of €2.6 billion as of 2022, and we are on track with the initiation of the entire programme.

One more word on the timing of potential disposals: the divestiture process for Currenta is the most advanced, and we expect news in Q2 2019. With regard to the sale of Coppertone and Dr Scholls we anticipate one announcement in the first half and one in the second half of 2019. For the Animal Health process we will update you – as we indicated already at the Capital Markets Day – in our Q1 earnings call.

Finally, today we are also confirming our outlook for 2019 and our financial targets for 2022, as communicated at our Capital Markets Day in London on December, 5. Let me now come to our divisions, starting with Pharma.

Sales of Pharmaceuticals rose by 3% to €16.7 billion in 2018. Our key products, growth products – Xarelto, Eylea, Adempas, Xofigo and Stivarga – have continued their strong performance overall, with their combined sales rising by 14% to €6.8 billion for the year. Xarelto grew by 13%, driven by Europe, China and Canada. Eylea was up 20%, mainly as a result of strong growth in Europe, Japan and Canada. Going forward, we expect both products to continue their growth. In 2019 we expect for Xarelto an increase in the low-teens percentage range, and for Eylea an improvement in the high single-digit percentage range.

In 2018 there was also some encouraging news about our pharmaceutical pipeline and our ongoing product development. For example, Xarelto became the only new oral anticoagulant to be approved for the treatment of coronary artery disease (CAD) and peripheral artery disease (PAD). For Vitrakvi, a highly effective and innovative cancer medication, we received the approval in the US. More recently we presented strong efficacy and safety data for Darolutamide, which significantly extends metastasis-free survival in patients with non-metastatic castration-resistant prostate cancer, while at the same time demonstrating a very favourable safety profile. EBITDA of the Pharma business was down 2% on a reported basis to €5.6 billion. However, that was mainly due to negative currency effects, so adjusted for currency EBITDA increased by 3%.

Moving on to Crop Science, where we achieved a significant year-over-year improvement in both reported sales and EBITDA driven by the acquisition, which is included in our numbers since June,7 2018. Please bear in mind that the second half of the year is the less profitable period, given the seasonality of the business.

We have seen positive sales growth in three out of our four regions. Latin America was up 17%, North America grew by 8%, and Asia/Pacific increased by 10%, all on a currency and portfolio-adjusted basis. On the other hand, Europe was affected by adverse weather conditions and the loss of a registration in France.

Our herbicide sales improved in Latin America, mainly as a result of the measures we took to normalise inventory levels in Brazil in the prior year. The latter was also the main reason for the

positive sales development of fungicides and insecticides for the full year. Insecticide sales also improved from an adjustment to our return provision in Brazil in the fourth quarter, also related to our successful reduction in channel inventories in that country.

In addition, sales benefited from service agreements with BASF on the divested businesses and added around three percentage points to our growth of 6%. Note, however, that these contracts run through 2020, and are expected to decline annually as BASF assumes the manufacturing capability for the divested assets. Crop Science increased its EBITDA by 30% to €2.7 billion, mostly as a result of the newly acquired business which contributed €705 million to overall earnings.

As mentioned at our Capital Markets Day we committed to keep you up to date on the status of the glyphosate litigation.

First of all, we are convinced of the safety profile of glyphosate. More than 800 scientific studies over several decades, 40 years of real world experience, and the conclusions of regulators around the world confirm that glyphosate-based herbicides are safe when used as directed. This includes the National Cancer Institute-supported Agricultural Health Study, the largest and most recent epidemiological study that followed more than 50,000 licensed pesticide applicators for more than 20 years, and found no association between glyphosate-based products like Roundup and non-Hodgkin lymphoma at any level of exposure and for any subtype.

On the slide you can see two very recent comments from Health Canada and the German Institute for Risk Assessment, one regarding the safety of glyphosate and the other speaking to the independence of European institutions. This continues to reinforce our belief that we will ultimately prevail in this litigation on the strength and sound science, and remain committed to vigorously defending ourselves for the benefit of our customers, employees, and of course our owners. Overall, there are lawsuits from 11,200 plaintiffs as of January, 28. While this is an increase since our last reporting it is by no means a reflection of the merits of the litigation.

With regard to the Johnson trial, we have filed an appeal with the California Court of Appeals. The latest trial, the Hardeman trial in the Northern District of California, has just started. This is the first trial of the federal multi-district litigation.

So, what is ahead? As of today we expect another six trials in 2019: one more in Q1, two in Q2 and three in the second half of the year. Note, however, that the number of trials and the respective dates are always subject to change. Going forward, to keep you updated on this topic we have established a website, which can be found at glyphosatelitigationfacts.com, all in one word. We would also encourage you to visit our glyphosate use and safety record site at bayer.com/glyphosate.

Finally I want to update you on Consumer Health. The good news is that we have returned to slight growth in the second half of 2018 and ended the year as expected. Even though there are still bumps on the road, Heiko and his team have started to implement their turnaround plan. 2018 was all about setting the foundation. With a new leadership in place we have focused on defining our way forward.

The plan foresees a small growth for 2019 & 2020 and accelerated growth in the years thereafter. Growth in 2019 is expected to be back-end loaded. In 2018 we saw positive growth in Asia-Pacific by +4% and Latin America also by +4%, while EBITDA was down due to negative portfolio and currency effects of about €82 million as well as lower volumes. On the portfolio side we are well on track with regard to the selling processes for Coppertone and Dr Scholls.

And with that, let me now hand it over to Wolfgang.

Financials

Wolfgang Nickl

CFO, Bayer AG

Thank you, Werner. Ladies and gentlemen, also a welcome from my side. I will now walk you through some more financial details for Q4 and the fiscal year.

Let me dive right into Q4. Our numbers have been positively impacted by the acquisition. Reported sales of €11.1 billion included a contribution of approximately €2.5 billion from our newly acquired business. The underlying business performance was good, especially when considering a challenging global market environment. When adjusting for currency and portfolio effects we achieved an organic sales growth at the Group level of about 6%. EBITDA before special items for the Group came in at €2.1 billion, up 16% year on year, including a contribution from the acquired business of €330 million. Foreign exchange effects had, in contrast to prior quarters and the full year, only a minor impact on sales and EBITDA in the quarter. Core earnings per share in the fourth quarter were down 21% year on year to €1.10. This was primarily driven by increased interest expenses due to the debt financing of the acquisition and a higher number of shares due to two equity measures during the second quarter. The share count in Q4 was approximately 980 million shares.

As a result of the overall good development in Q4 we have been able to deliver on all our key financial targets for 2018, as already just mentioned by Werner. Our reported sales figure of €39.6 billion included a contribution of approximately €5.3 billion from Monsanto. Negative FX effects burdened the Bayer legacy business with almost €1.5 billion, which was around 4% of total sales in 2018. The underlying business also performed well; adjusting for currency and portfolio effects, sales grew by 5% organically.

EBITDA for the Group increased by 3% to €9.5 billion, despite a negative FX impact of more than €450 million, around 5% of total EBITDA in 2018. Core earnings per share in 2018 declined by 11% year on year to €5.94; this was, as in Q4, primarily a result of increased interest expenses due to the debt financing of the acquisition and a higher number of shares. The weighted average share count for the full year was approximately 941 million.

The market consensus of our core EPS was €5.79 per share. As a reminder going forward, foreign currency fluctuations, including the newly acquired business, are expected to affect our business as follows: a 1% change of the euro against our currency basket is expected to impact our revenue by about €340 million and our earnings by about €100 million.

Last year we concluded successfully the biggest acquisition in Bayer's history and announced a comprehensive range of portfolio, efficiency and structural measures to further strengthen our core life science businesses. This came with a number of extraordinary effects which had a significant impact on our reported earnings.

In order to give you full transparency we have added a bridge in our presentation to show you how our core EPS of €5.94 translates back into the reported EPS of €1.80. The first column shows -€1.89 per share, which summarizes acquisition-related amortisation of intangible assets including Monsanto since closing. The next two items are total -€2.85 per share and cover the impairments in our Consumer Health business. Impairments on property, plant and equipment, mostly related to the factor VIII plant in Germany, reduced our reported EPS by another €0.73.

On the special items side we had significant divestment gains, mainly stemming from the required sale of businesses to BASF. The step-up of acquired inventories to fair value, acquisition-related and other restructuring costs as well as legal defence costs, are special items on the expense side. In addition, we classified -€0.53 per share, mainly resulting from the fair value change of Covestro shares, as special items in the financial result. The last column shows the positive offsetting tax effect on the sum of all the explained items.

I'd like now to turn to our free cash flow. As mentioned at the Capital Markets Day in December, free cash flow is an important KPI for us. We are in particular focused on capex spend and working capital management. Past and current levels of capex – €2.6 billion in 2018 – are heavily impacted by single large-scale investments in fixed assets, like our Dicamba plant in Louisiana or GA production in Alabama, which was divested to BASF. Capex as a percentage of sales is expected to decline to around 5-6% by 2022.

Overall, free cash flow increased from €4 billion in 2017 to €4.7 billion in 2018. For 2019 we expect free cash flow to be in the range of €3-4 billion. The decline compared to 2018 is a result of expected restructuring-related cash-outs as well as the historically negative free cash flow in the first half of the year in the acquired business. As a reminder from our Capital Markets Day in December, we expect a total free cash flow of approximately €23 billion for the period from 2019 to 2022, and for 2022 we expect a free cash flow level of around €8 billion.

Now, let's turn to our debt levels. Driven by the financing of the acquisition our net financial debt increased to €35.7 billion. This is slightly better than our latest guidance of around €36 billion, and €3 billion lower than our original target of €39 billion, which we communicated at the beginning of August 2018.

For 2019 we expect a net debt to be flat at around €36 billion. You may ask, 'Why not lower?' This has to do with IFRS 16. Operating lease contracts will be reported as right of use assets and respective lease liabilities. The latter will increase the net debt position by around €1.1 billion. That means on a like-for-like basis we expect to reduce net debt by the same amount. Our current estimate is based on constant FX rates. Please keep in mind that at year-end almost 60% of our financial debt was in the US dollar. The impact of exchange rate changes to our net financial debt is quite significant, as every percentage-point appreciation of the US dollar against the euro would increase our net financial debt by about €200 million and vice versa, of course.

I do not want to spend too much time on the next chart, as you all received some detailed information on the purchase price allocation and the respective restatements for Q2 and Q3 with our analyst and investor briefing document earlier this morning. Within the scope of the PPA review additional facts have been identified or evaluated for the first time. The findings were mainly related to existing liabilities, including higher provisions for taxes, environment and legal fees. As a result, goodwill increased from €22.9 billion to €24.5 billion, compared to the preliminary PPA published in September of 2018. As a reminder, this PPA is still not final as adjustments are possible until one year after closing.

I believe it is important to mention that the amortisation of intangible assets of €26.9 billion and the depreciation of the step-up in fixed assets of €1 billion related to the acquired business are expected to be between €1.5 billion and €1.9 billion on an annual basis. These are the incremental numbers, with fixed asset depreciation included in core EPS and amortisation of intangible assets adjusted for in core EPS. The €1.5 to €1.9 billion euro range will be the run-rate of acquisition-related charges for about 12 years. Thereafter, the charges will decrease continuously. We have also illustrated in our analyst briefing document how this will affect our EBITDA and EBIT before and after special items going forward.

Before we come to our guidance for 2019 let's have a quick look at our balance sheet. As a result of the acquisition total assets increased from €75 billion at the end of 2017 to €126 billion at the end of 2018. Goodwill grew, as we have just discussed, from 20% to 30% of total assets. On the total equity and liability side, current and non-current financial liabilities increased from 19% to 33%. Our equity ratio is still solid at 37%.

I would like to take this opportunity to emphasise again that we are committed to continue to de-lever our balance sheet quickly, with a target of net financial debt of between €26 and €28 billion at the end of 2022 at constant currencies, and not considering yet the additional, partial use of potential divestment proceeds for additional reductions of net financial debt.

Overall we confirm our Group guidance for fiscal year 2019 which is based on constant currencies and going concern, meaning it does not include announced portfolio measures. In addition, the guidance is in line with the indication given at the Capital Markets Day in December in London. We expect Bayer Group sales of around €46 billion, an increase of around 16% year on year, of which of about 12% are attributable to portfolio effects. We anticipate EBITDA to increase by almost 30% to around €12.2 billion, while core earnings per share are estimated to come in at around €6.80, up 14% on the prior year figure.

If we look at our guidance by segment you will also find no surprises. All sales growth rates and EBITDA margin targets are in line with the indications given at the Capital Markets Day, and point to an improvement versus 2018. With that, I will turn the call back over to Werner for some closing remarks.

Closing Remarks

Werner Baumann

CEO, Bayer AG

Thanks, Wolfgang. Just let me wrap it up real quick with the priorities we have at Board level and of course throughout the entire organisation, and what it is that we are going to do for 2019 in order to make things happen.

First and foremost of course, to deliver on our operational targets, as they have been presented in November and December, and also reiterated throughout today. Secondly, the smooth integration of Crop Science and the advancement of our number one industry platform going forward. Third, execution against our targets for our Bayer 2022 programme, both related to synergies but also to efficiency programmes. Fourth, of course, the continuation of our defence of glyphosates, and we will do that vigorously. Fifth, to strengthen our internal pipeline in Pharmaceuticals and to intensify the external sourcing of innovation. And sixth, to improve the operational performance of our Consumer Health business.

So with that, let me now hand it back to Oliver, and we are looking forward to the discussion and your questions. Thank you.

Questions and Answers

Oliver Maier

Thank you, Werner, and thank you, Wolfgang, for the presentation and the comments. And I think with that, Emma, we can open up the call for Q&A.

Peter Verdult, Citi

Two questions, please. Assuming Liam's on the call, I was just wondering if you could give us a mini State of the Union Address on the current outlook for Bayer's Crop business in the Americas and Europe. And then specifically when you gave your guidance for '19, does that already assume a big shift to corn in the US, and if not, could you maybe help us understand how much of a margin upside driver this could be if that plays out?

And then secondly for Wolfgang, I realise you're not going to mention companies, but could you at least characterise the level of interest or competitiveness with respect to the assets that you've earmarked for disposal?

Liam Condon

Thanks a lot for the questions. So, a State of the Union outlook for Crop Science. We are forecasting a growth rate for the total market of approximately 3%. It's still early days in the year so it's very hard to call, but given that the market grew by approximately 2% last year we think approximately 3% is a reasonable estimate, and we're forecasting – as you know – for ourselves a cpa adjusted growth rate of 4%. That growth is geographically; we expect it would primarily come from Latin America and from APAC. In the Americas we do believe, particularly in the US, we are forecasting a shift from soybean acres to corn acres, so we're forecasting a shift of 3-4% additional corn acres and a decline of soybean acres of maybe 4-5%. Also additional cotton acres in the US as well, so that's factored in to our overall estimate right now, and built into our forecast or approximately 3% overall market growth and 4% for Crop, cpa adjusted.

Wolfgang Nickl

Thanks, Liam. Let me quickly answer the second question, Peter. First of all, of these assets are highly attractive here to the Bayer universe depending on what they are looking for, and we are fairly far advanced, I have to say, quote/unquote, 'on the home stretch', with the divestiture of our 60% stake in Currenta. We are faced essentially in two steps with the divestiture of our Coppertone and Dr Scholls business. Coppertone is going to be first and Dr Scholls is going to be second, so the first one may still certainly be announced in the first half of the year, the second in the second half of the year.

Last but not least, we communicated that we are going to give you an update on what it is that we intend to do with our Animal Health business specifically in our Q1 earnings call, so with that you will have to bear with us. Maybe another seven to eight weeks and we can go a little more in detail but I can confirm that for all of these assets there is keen interest because of their attractiveness.

Jeff Zekauskas, JP Morgan

Two questions. In 2018 were your glyphosate prices up by more or less than a dollar a gallon? And in soybeans, you had very nice growth in Intacta in Brazil and Xtend in the United States, but on an FX-adjusted basis your sales were flat. Could you talk about the factors that mitigated the growth in that business?

Liam Condon

Okay, Jeff, thanks a lot. I can't comment specifically on the corridor of one dollar, but I can confirm that glyphosate prices were overall up for the year, and that also contributed significantly to the growth that you're seeing in the herbicide business. On soybeans we have a dual – or let's say two main factors that are impacting the overall sales development. So one, as you rightly pointed out, is positive growth for Intacta in Latin America, and continued further penetration in the market, so a very positive development there. The reason why sales are flat is because of a degree lower acreage in North America, most specifically in the US, and for sure there is some delayed purchasing from the fourth quarter. Farmers just – some farmers simply haven't made up their mind yet of the split between soy and corn beans, and have pushed their pre-order decisions into the first quarter.

Jeff Zekauskas

So it's mainly a fourth quarter event rather than the previous three quarters on a pro forma basis in assessing the sales growth.

Liam Condon

Yeah, I think that's a fair reflection.

Sachin Jain, Bank of America

Two questions, please. Firstly, just on the portfolio measures and the related share buyback, what is your deciding factor for the buyback? When do you think you'll be in a position to communicate on the potential size of it, and is the broad intent to offset dilution from the portfolio measures?

My second question is on darolutamide. I wondered if you could just comment on the data differentiation versus the existing competitors and your level of confidence in the peak sales. Our assessment of the data was it looked undifferentiated versus competition, but I'm just interested in your perspective. Thank you.

Wolfgang Nickl

I'll take the share buyback. Hello, Sachin. So just as a reminder to ground everybody, what we said at the Capital Markets Day is that we look at share buybacks as it relates to the proceeds of the divestments, so not on the ongoing free cash flow. I know that when it comes to the proceeds of the divestments our first order of business is to take some for de-levering because we're also selling EBITDA, so we don't want to hamper the leverage ratio. But then you're exactly right; we have said we are considering in particular current levels to use a significant portion of the proceeds for share buybacks, and we think the investment in our shares is fantastic. It's too early to say how much that is and when that will be. I think you've heard about the status of the divestments from Werner earlier, and that's also – we gave you what the current share count is, and when and if share buybacks happen we will of course give you the adjustments necessary to the overall share count.

Stefan Oelrich

Hi, Sachin. Thanks for the question. So on darolutamide I think we said at the Capital Markets Day how excited we were, and I hope you now see the colour of it. Of course I have a hard time to give you a view on a head-to-head comparison, because we didn't do a head-to-head trial with darolutamide. That notwithstanding, when you look at the efficacy – which is comparable, at least as it looks like to other trials – we see a significant improvement here compared to any other thing

that has been tested in the category on the tolerability. Safety looks exceptionally good on this product, and that's where we see a strong differentiator.

When you look at some of the criteria, especially – also from a reimbursement and a pricing criteria that's being used in Europe for sure, but also increasingly in the US, we're looking, especially in oncology, at both efficacy but also tolerability very much. In this setting we have asymptomatic patients which live – despite their prostate cancer – a normal life, and that makes a huge difference for them, whether they are – they have strong side effects or not, so we see a clear differentiation here inside of the category which we believe makes this product extremely attractive.

Florent Cespedes, Société Générale

Good afternoon, gentlemen. Two quick questions, the first one on Pharma for Stefan. When you joined the company you said that you would try to find some opportunities, some products and assets outside the company. Can you share with us if it's still high on the agenda and remind us which are the areas that you are looking for products or assets?

The second question on Crop for Liam, could you give us a little bit more colour on the supply agreement with BASF, the impact in Q4? We understand that the agreement will gradually vanish from 2020, so it would be great to have a little bit more colour on this contribution, or in other words what was the Q4 growth of the division excluding the BASF supply agreement?

Stefan Oelrich

Bonjour, Florent. So in terms of outside opportunity I will stand by the comments that I made. Without giving you too much detail I think we got a nice catch just recently, as we were able to convert our Loxo agreement into a plain exclusive licensing agreement, so that's a good one in terms of improving our portfolio on very short notice. Other than that, we're typically looking in areas where we're strong therapeutically, or if we go earlier, where we can acquire rights to some strong platform play from an R&D perspective. Please accept that I can't be more specific on this one.

Liam Condon

Thanks, Florent, for the question. So the TSA agreement with BASF is related to manufacturing and distribution, primarily for SeedGrowth, so as part of the divestments we had to give certain products to – or sell certain products to BASF, and over time they're taking over the manufacturing and distributing capacities but they can't do that immediately from the point in time that we closed the deal. This is something that will play out through 2020 and the impact will gradually decline over time. If you look, the majority of the impact is related to Q4 in our overall sales for the full year of 2018 and if you look at the difference between the reported sales and the pro forma sales, that difference is a 15% growth in reported versus the 3% in pro forma; that is largely – not only, but largely – due to the TSA agreement, so you can kind of factor in a ballpark number. Roughly about 200 million would have been the impact.

Joe Lockey, Morgan Stanley

Two to Stefan, please. At the Capital Markets Day you mentioned that you were reassessing the peak Xarelto opportunity internally. It sounded like you were optimistic. Is there any update there? Second, we also heard in December about the clinical hold on vilaprisan after finding some new pre-clinical findings. It's been a few months, so I assume the full analysis of the data has been completed. Do you have an update on that programme, or is this something that could take 12 months plus to play out while you wait to assess longer-term safety in humans?

Stefan Oelrich

Hi Joe, thanks for the question. On Xarelto, yes, we remain optimistic, but that doesn't mean that on this call we're going to update our peak sale expectation. We've said that we see this as more than 5 billion, so we stand by that. So give us a little bit more runway for our CAD/PAD launch before we take a different stab at that, but yes, Xarelto – you've seen it for the last year and it looks good, so we have no reason to be less optimistic about it.

On vilaprisan, nothing really substantial or new to report. Just as a reminder, we have observed those safety signals in pre-clinical toxicology studies with rodents, and as a precautionary measure in close collaboration with the FDA and with EMA we decided to halt the trials. Now, you know, once you've halted the trials, how difficult it is to get this thing going again. But we're still waiting for the readout of further data, and then we will make a final call. Quite frankly, we'll also have to assess what we can do with the data we have accumulated so far on vilaprisan in the existing studies and whether we can do something with that, because it's going to be really hard to restart a trial.

Joe Lockey

Okay, thank you.

Jo Walton, Credit Suisse

Thank you. On the Pharmaceuticals side, I wonder whether you could tell us a little bit about how the COMPASS indication has been adopted outside of the US. Clearly, there seems to have been very little change in the disappointing trajectory of Xarelto in the hands of J&J, but perhaps you have a better story to tell us outside of the US.

On Eylea, you are guiding for, as I understand it, high single-digit growth for this year. For the whole of last year, not just the fourth quarter, you did 19% constant-currency growth, so I wonder whether you can tell us why the Eylea market will slow down so quickly, because new entrants like RTH are unlikely to make a difference.

On the agriculture side, if you could please help my confusion, there is a comment in the announcement that sales of corn seed and traits were up due to a timing shift from 1Q 19 presumably to 4Q 18. Is that something that we should be concerned about that might leave us a little bit light in 1Q? Could you try to scale that for me, please?

Stefan Oelrich

Jo, on COMPASS maybe first, I am with you. I am also obviously looking at what is happening in the US. What we are seeing is a remarkably interesting same pickup that we have also seen with other recently launched cardio drugs in this area of cardiology, for example Entresto or other anticoagulants of a different class. So that is something where we only so far have data from Germany, and we don't have that many data points. But we are seeing a relatively slow uptake. On the more qualitative side, we are seeing that there are few physicians who actually do adopt this new type of paradigm, and once they adopt it they also have many more patients. So it is not for lack of potential; it is really them changing their paradigm. So far, patients who have had an event and who are diagnosed with CAD or PAD are not put on an anticoagulant. This is a really different way of practising cardiology. And there is a lot of explaining to be done. It reminds me a little bit of Entresto, which was also, in terms of clinical data, extremely solid. In our case, too, I think this is the best data ever from an outcome perspective in this patient setting. Yet it takes time to convince them, because there are characteristics associated with anticoagulant treatments that are

not what a physician would ideally put in the first place on top of an already existing therapy with multiple products. So that is COMPASS.

We are remaining optimistic here for Germany. I am also optimistic that J&J will be successful as to the US, maybe a little bit more than you. On the other one, on Eylea, we sort of go opposite ways. You seem to be more bullish; we are seeing a little bit of a softening of the growth trend on Eylea. We're getting some headwinds in a few markets in terms of the use of, let's call it, alternatives or, let's call it, the dilutive use of our product. We will see in the future. Once we have the prefilled syringe that is going to give us initial boost, but that is a little later.

Liam Condon

Okay, Jo, thanks for the question. I will try to clear up any confusion there might be on the Crop side with the corn seeds and traits and the phasing impact. Corn seeds and traits are up by about 2%. And, as was mentioned, there's a bit of a timing shift in North America with volumes coming back into Q4 from Q1. This is, I'd say, a totally normal thing that we always have. It can be December; sales can be in January. Some years it's one way; in other years it's the other way. With herbicides we also have some phasing into December, for example because of an environmental tax in France so we will not make the sales in January and they have been pulled in or they have just happened in December. On the flipside, phasing of soybeans would be more expected going into 2019 as opposed to in our Q4, where we usually would have seen more, and fungicides as well. So for us this is just swings and roundabouts. It does not change anything in the total picture and in our outlook, where we continue to guide for 4% currency and portfolio-adjusted growth for the year.

Richard Vosser, JP Morgan

Hi, thanks for taking my questions. Just going back to the TSA agreement and the guidance for Crop Science, in that 4% growth from the pro forma numbers in terms of Crop Science, which does not include the transition service agreements, should we expect incremental sales on top of that 4% guidance or is the TSA in 2019 included in the guidance?

And then a couple of extra questions: firstly, on insecticides, obviously you had a very strong Latin American season in the fourth quarter. Just thinking about the sustainability of that, perhaps you could give us some comments there through into 2019. Secondly, on Kogenate, just thinking about the impacts, have you seen any impacts in terms of Kogenate from the newer therapies? I am thinking about Hemlibra pressure in the non-heme inhibitor setting.

Liam Condon

Thanks a lot. On the question of the TSA, is it in the guidance, the 4% cpa? Yes, it is included in the guidance, just to clarify that point. The second question we didn't fully catch. Can you just repeat the second one again?

Richard Vosser

I am sorry. The second one was just thinking about insecticides and sustainability. Clearly, there is very strong use in Latin America. How should we think about that?

Liam Condon

Yes, so I think it is better to look at the overall performance, the full-year pro forma. You get a more realistic view, as opposed to only the Q4, where we have very strong growth. A part of this is clearly related to the different accounting measures that we have for provisions, simply because we

have way lower channel inventories than we had previously and we can adjust our provisions for returns accordingly. That positively impacts results in Q4, but the overall results for the pro forma in the year, which are about 13%, are largely coming from Latin America, again as a result of the normalisation of inventory channels in Brazil. We continue to see robust growth. There is continued robust demand for insecticides. We don't think it will be at this double-digit level for sure, but the growth or the demand is clearly pretty strong going forward.

Stefan Oelrich

I did not catch the other question. Can you repeat the question?

Werner Baumann

It was what we see in Kogenate in terms of competitive pressure and Kogenate performs and holds up against some of the newer therapies such as Hemlibra.

Stefan Oelrich

Sorry for that. We have actually been quite pleased in the last quarter with our haematology performance, especially given the recent introduction of Jivi and Kovaltry. What we're seeing is that we're holding quite nicely with the competitive pressure. As you know, there have been many more market entrants, and some people have been saying that we are going to be swept in this market, which we are not seeing right now. So I think it's a testament to the loyalty we see with patients in this marketplace. We have been serving Factor VIII patients for many, many decades, and I think that plays in here. And we are really pleased so far with the Jivi uptake, even though it is early days.

Christian Faitz, Kepler Partners

Two questions for Liam, please. One thing that stands out negatively in your otherwise excellent Crop Science performance: vegetable seeds. On a pro forma view, it was down some 15% year-on-year in Q4. I'm obviously aware that Q4 is low-season business, but to the best of my knowledge Q417 had not exactly been a very strong quarter either, so what's going on there?

Then, second, can you confirm my observation that, looking at current weather patterns into March, one should expect a rather early start to the European crop season and a rather late start in North America? That's it. Thank you.

Liam Condon

Thanks a lot, Christian. You're exactly right. The vegetables seeds performance in Q4 is clearly an anomaly. It's actually specifically related to an issue we had in Turkey, where we also had to build a provision. I'd say this is simply a one-off related to a specific situation in a very, very specific market, which has been completely addressed now. Going forward – and I think that's more important – we do expect solid growth from the vegetable seeds business going forward into 2019. We would rather characterise this significant decline in Q4 as a one-off, one-country and very specific issue.

On weather, I'm always very cautious to call it. I think you're right that the current pattern is maybe an early start in Europe and maybe a bit later start in the US, but I would always say, 'Let's wait and see.' It is still very early days. But overall it would be good to get back to an early start in Europe, when you consider the situation last year in Europe that we had, which was a very meek year in the first half overall. It would be nice to get back to a semi-normal European agriculture market.

Emmanuel Papadakis, Barclays

I just have a couple left, maybe one on Vitrakvi. Could you give us some comment on the early uptake? You were a little cautious, I think, on, shall we say, creating the market in NTRK biomarking when we spoke at the Capital Markets Day. Maybe you could give us an update on how that is progressing and how quickly you think we make it to that €750 million-plus guidance. And then maybe I will take a question on restructuring costs and FCF. The €3-4 billion for this year was a bit lower than we had expected. You said there would be 'substantial' special charges. Could you talk about what the amount might be in terms of cash costs and how quickly we might then build beyond that to the €8 billion for 2022?

Stefan Oelrich

It is going according to expectations. We said this was going to be slow. We confirmed that this was not going to be fast. However, what we are seeing is that this is already now seen by many oncologists as an advancement in their clinical practice. Anecdotally, this has been described by some as they see the cancer really melt away. The effectiveness of this product, I think, is confirmed in clinical practice compared to what we've also seen in the trials. So on that end everything works fine. It remains a topic that we need to diagnose those patients. That is something we are working on – and what makes it slow. As to how fast we are going to get to peak sales, I do not want to speculate on the call here how fast it's going to go, but, again, we're tracking to expectations.

Wolfgang Nickl

This is Wolfgang. I will talk about the restructuring costs. Just for context, we talked about the total contributions we were aiming at by 2022 with all the programmes we have announced of €2.6 billion with a factor of 1.7 times for the one-time charges. Now, we're not in a position to give exact details on the one-time charges, but generally we have said that the contributions come in as 30% by 2020, 70% by 2021 and then the full effectiveness in 2022. You should in general assume that the restructuring charges and related cash-outs come before that.

Now, in terms of the restructuring charges that we put on the balance sheet for last year, they were still pretty benign, because you can only do it in those cases where the actions are very clearly defined. A few hundred million were in the special items, but as we define the action and extend offers to people and get very clear on the measures, you will certainly see that amount going up this year. It is also one of the reasons why the free cash flow is lower this year than it was last year. And then, like I said, in 2022 we expect a free cash flow of around €8 billion, which also tells you that some of the cash outlays for the restructuring costs have already happened by then.

Tony Jones, Redburn

Good afternoon, everybody. I've got two left. A question for Liam on Crop Science. Corteva now has export approval for their 2,4-D trait technology. Could you talk a little bit about whether you think that might be a barrier to growth for Xtend or any of your other seed platforms, probably more 2020 once they have proof of concept out?

On Consumer Health, I thought volume growth was slightly negative in Q4. I think you are calling out some sort of supply interruption in Europe. Is that just the tail impact of the FDA warning letter or something new that might linger into 2019?

Liam Condon

Thanks you for the question, Tony. I can't comment specifically on the new product of Corteva, because I don't think anybody has any experience with it so far. But, as you know, with Roundup

Ready Xtend, which we launched in 2016, we now have very extensive experience. We are on 50 million acres; we think we'll be on 60 million at the end of this year, so fantastic penetration. Of course, in any system like this, the key thing is the value of the genetics, and for the ninth year in a row we have been able to show a clear yield advantage over competitive products. So that experience is out in the market. We also have a broader weed-control spectrum, at least from what we have seen of any trial data related to weed control of the Corteva product. The Corteva product controls about 260 species of weeds. Roundup Ready Xtend controls about 350 different species of weeds.

What is also very important is that we have a very strong pipeline coming. So we have had this product on the market now for a few years. We have had a great experience, great feedback, great penetration, but we are also doing ground-breakers this year for our XtendFlex, which is also a three-way herbicide for soybeans with the high-quality genetics that customers know from Xtend. This is ground-breakers now and will be relatively soon thereafter – whether it's 20 - 21 depends on the regulatory situation – launched into the market as well. We feel pretty confident about our ability to compete here.

Also it's important to note that the XtendFlex system is already on the market for cotton, which is the reason why our cotton market share has massively jumped. There's a very strong appreciation of the product. Particularly in the south, as you know, farmers might switch between cotton and soy, but they want to use one system. They have got such a great experience with the XtendFlex system for cotton that they will most likely want to stick with that for soy as well. So we feel that competitively we are in a good space here. It is good that new products are coming out on the market; it is good for growers. But, competitively we are in a good spot.

Tony Jones

Thank you. That's helpful.

Heiko Schipper

Tony, just to help you understand the volume development in quarter four, maybe I just want to highlight two main impacts. The first one is North America. First of all, the market was generally weak. Cough and cold was low and the late allergy season was low, but at the same time we did see a very high level of A&P spending in the market. We consciously made selective choices where to participate and where not to. Clearly, we are in a fixed environment for North America. Every time when you decide where to put your A&P spending it is a choice of top and bottom line. We did spend where we felt we have brands that are in the right spot to win, but we invested a bit less where we felt we were not yet ready to do that. While that impacted the volumes, it did help significantly our bottom line, so North America had a good closing of the year in terms of the bottom line. That also helped the quarter very much on the bottom line, together with the first impact of the SG&A cost savings that we have started to put in place.

The second element is more in EMEA. And there, indeed, similar to what we already said during the Capital Markets Day and also in our announcement today, an impact from some temporary supply interruptions. These are still with us a bit in the coming two quarters and then they will fade out.

Werner Baumann

I think we have time for two more questions.

Gunther Zechmann, Bernstein Research

Hi, good afternoon. Thanks for fitting me in. First one – they're both for Liam, I'm afraid. The first one: do you see any risk that first-quarter sales could slip into Q2 with farmers pushing decisions as late as they can, given the trade-war uncertainty? And the second one: more specifically, can you share with us what acreage you achieved for Intacta in 2018 and also what your outlook is for 2019? Those are my two questions.

Liam Condon

Okay, so Q1/Q2 I can't make a specific call right now. What I can say is that, from our order book versus previous year, corn and cotton are up and soybeans are down. If anything, we think the soybean decision is being pushed out as far as possible. And this is also of course related to the US-China trade conflict and how that is going to play out. So overall that is our expectation. If there is any shifting going on, it would be a further shifting of soybeans out possibly even into Q2.

Otherwise, on the Intacta question, in Latin America we are on approximately 60 million. This is a massive market penetration, but we still expect to grow further during this year as well.

Gunther Zechmann

Just to clarify, the numbers you gave earlier for corn, soy and cotton are for the spring planting season in the US. Is that right?

Liam Condon

Yes.

Gunter Zechmann

Great, thank you.

Luisa Hector, Exane BNP Paribas

Is it possible to just confirm the impact from the Leverkusen manufacturing in Q4 and just give us a quick update on the status and outlook for recovery into 2019?

And, maybe just to push a little bit further on haemophilia, did Jivi make a meaningful contribution in Q4? Obviously we are seeing progress in gene therapies, and you do have your relationship with Ultragenyx. So is there any update there, please?

Stefan Oelrich

Quickly to answer, we stated for last year the impact of the FDA situation, the quality situation on our manufacturing at €300m EBIT, so we can confirm that was happening last year. As for this year, we are in a good place in terms of working off the things the FDA had seen. We have a scheduled inspection in our Leverkusen plant in the month of March, so everything is going according to plan for that. As for this year, now we are ramping up on some of our lines so we can get to full capacity. So there's still a little bit of an effect, but we perceive this to be minor overall. So we don't want to guide a specific effect for 2019, because we think that's part of the overall noise.

For Jivi, meaningful is in the eye of the beholder. Our good haematology business was mainly driven by Kovaltry. That was really meaningful in terms of positive gains. But what I can tell you is that this is a business where we know all of our patients by first and last names, more or less. So it's a very close business for us. We are counting the Jivi patients, and this is very much in line or even slightly better than what we had anticipated in the first place. So we're quite pleased. As you

know, in the US there was a question around the competitiveness of our label, and we are seeing this not materialise in practice.

Oliver Maier

Okay, thank you very much, everybody. We really appreciate you participating in our call – very much appreciate it. Talk to you guys soon. Take care.

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