Bayer AG

Q3 2017 Investor Conference Call

26 October 2017

Opening Remarks

Oliver Maier

Head of Investor Relations

I would like to welcome all the participants to Bayer's third-quarter 2017 conference call. With me on the call are Werner Baumann, our CEO; Johannes Dietsch, our CFO; and the different businesses are represented by the responsible management-board members. For Pharma, we have Dieter Weinand; for Consumer Health, we have Erica Mann with us; and for Crop Science/Animal Health, we have Liam Condon.

Werner will start off the call today presenting some of the highlights for the third quarter of 2017 before we then go in to the Q&A session. A little heads-up from my end: we are planning the call to last for about an hour, an hour and 15 max, since we have some other requirements post the call that require us to be on time, but I think, based on previous experience with these calls, that should work out just fine.

From my end, I would like to start out the call by mentioning our cautionary language that is in our safe-harbour statement in all the materials that we have distributed today. And with that, I'd like to hand it over to you, Werner. The floor is all yours.

See disclaimer

Q3 Performance

Werner Baumann

Chief Executive Officer

Thanks, Oliver, and good afternoon, ladies and gentlemen. It's our pleasure to welcome you to our today's conference call to review performance of the third quarter. It goes without saying that this was not an easy quarter – an awful lot of moving parts, which we are happy to lead you through and explain during the Q&A.

- First of all, we had another quarter with top-line growth and also an earnings growth, even though we had some headwind in a number of areas.

- Secondly, we managed to further bring our position in Covestro down by about 16.3% and we also signed a so-called non-domination agreement which finally allows us to deconsolidate Covestro as of 30 September.

- We also confirm, in now the new structure, our group outlook for full-year 2017. The outlook for sales and earnings growth on the divisional level is also confirmed, despite some of the FX headwinds we experience.

- We've, of course, also made further progress on the acquisition of Monsanto. As expected, the European Commission entered into phase II of its investigation in the US. We responded to the DOJ's second request and we continue to be in discussions with CFIUS. We also continue to work very closely and constructively with all regulators and anticipate the closing unchanged by early 2018. As of now, we have achieved roughly a third of the regulatory approvals worldwide.

- Also in light of the planned Monsanto acquisition, we signed an agreement to sell selected of our Crop Science businesses to BASF for €5.9 billion, and the assets that we are going to sell include our glufosinate-ammonium platform, the related LibertyLink trait technology for herbicide tolerance and, essentially, all of our Field Crop businesses, as well as the related R&D capacities. The assets generated overall net sales of about €1.3 billion in the reference year 2016. Of course, that transaction is also subject to regulatory approval and is contingent on us successfully closing the acquisition of Monsanto.

- As far as the Pharma pipeline goes, we made good progress in particular with Xarelto and the COMPASS data that we hosted a separate conference call on in August, Eylea, copanlisib and also our long-acting factor VIII, damoctocog.

Now let me come to slide 4. After deconsolidation of Covestro, third-quarter revenue increased by 1.2% on a currency and portfolio-adjusted basis. EBITDA before special items increased by 4%. Currency-adjusted EBITDA before special items increased by 9%. Pharma delivered again an increase in sales, driven by our key products Xarelto, Eylea, Xofigo, Stivarga and Adempas, which, altogether, grew by 13%. Earnings in Pharma increased mainly due to top-line leverage and continued very disciplined expense management.

On the other hand, Consumer Health had a weak quarter. In quarter two, we already indicated that we'd have a weak half- year two for Consumer Health, and Q3 is a reflection of it. Sales were down by about 3% and underlying EBITDA down by 16%. The issues that influenced the performance in Consumer Health in Q2 continued to have an impact also this quarter, and will continue to have an impact at least for the remainder of the year, as already indicated in our guidance for full-year 2017.

Crop Science showed an increase in sales after quarter two. Underlying EBITDA declines due to lower selling prices and a negative currency effect. Importantly, the situation in Brazil has been stabilised, and sales in Brazil only declined slightly. Animal Health increased sales in an overall weak market environment, while its underlying EBITDA declined.

Now, let me come to core EPS, which also needs some explaining. Core EPS is down just about by 4% as a consequence of the increased number of shares used for our EPS calculation following the issuance of the mandatory convertible notes last year in November. While those are not shares that are entitled for dividends, they are already included in the core EPS calculation. So, adjusting for this effect, core EPS would have improved by 1.4%.

Now, let me switch to the key themes for quarter three. First of all, growth profile in Pharma. Pharma grew about 2% in the quarter, and sales growth was actually negatively impacted by lower sales of Kogenate. As indicated multiple times before, this was due in particular to our distribution partner CSL that placed substantially lower order volume compared to what was contractually agreed upon for the active ingredient. After adjusting for this effect, Pharma would have actually been growing by 4.4% in the third quarter.

Our Kogenate and Kovaltry brands combined were up 1.4% in the quarter. We now expect 2017 reported sales of Kogenate to be down in the mid-teens percentage. The contractual obligations that CSL would normally have to honour were not met, and the sales impact will actually continue to be effective also for the fourth quarter, as the contract is now coming to an end. On earnings, we, however, could actually book the minimum order quantities and the profits related to that in quarter three for the remainder of the year.

So, now let me comment on the performance of Xarelto. Xarelto sales were affected by US royalty phasing and discounts in some ex-US markets, partially compensated by share gains. The in-market performance in the US is intact, as demonstrated by the 20% increase in sales reported by J&J. Xarelto remains the established global market leader and continues to be the local NOAC leader in more than 50 countries. We also gained significantly in market share – or J&J did – in the US. We confirm, hence, also our guidance for a mid-teens-percentage growth for Xarelto in 2017, so we are totally confident in terms of an intact growth trajectory.

We also confirm our 2017 outlook for the Pharma business overall. We continue to expect a mid-single-digit increase in sales; nominal sales, however, are now expected to be around €17 billion, compared to more than €17 billion, and that is due to foreign-exchange effects. We also continue to expect combined sales from our key growth products, Xarelto, Eylea, Xofigo, Stivarga and Adempas, to exceed €6 billion this year. Thus, the overall growth profile for Pharma is solidly intact.

Let me also comment on the most important pipeline news at Pharma:

- As mentioned already in my introductory remarks, we're presenting exciting data from the COMPASS trial, which investigates Xarelto in patients suffering from coronary artery disease or peripheral artery disease. Xarelto demonstrates pure efficacy in this setting. While, as expected, major bleeding was increased, we found no significant increase in intracranial or fatal bleeding. We are now targeting to file for approval in these indications before year-end and, once approved, the COMPASS treatment regimen could have the potential to change the standard of care for coronary and peripheral artery disease going forward.

- In addition, we received a positive CHMP opinion for the use of the 10 mg dose of Xarelto for the extended prevention of venous thromboembolism based on the EINSTEIN CHOICE data. The NAVIGATE ESUS trial was halted, as the study, at interim, indicated no efficacy improvement of Xarelto over low-dose aspirin in patients with embolic stroke of undetermined source.

- We also presented the one-year treat-and-extend data from the ALTAIR study with Eylea in Japanese patients with wet AMD. The data has shown the potential for extending treatment intervals with Eylea to 12 weeks and beyond for a large proportion of the patients.

- Based on the data from the phase II CHRONOS-1 study with copanlisib, we received FDA accelerated approval for the treatment of adult patients with relapsed follicular lymphoma who

have received at least two prior systemic therapies. The brand has been launched under the name of Aliqopa.

- And last but not least, we filed for approval for our long-acting recombinant Factor VIII, or damoctocog, for the treatment of haemophilia A in the US, Europe and Japan.

Now, a few words about the deconsolidation of Covestro. At the end of the third quarter, we reduced our stake in Covestro to now 24.6% that we hold directly. Additionally, the Bayer Pension Trust continues to hold 8.9% of the shares. With the signing of a control-termination agreement at the end of September, we have lost effective control over Covestro and, hence, we deconsolidated at the end of the third quarter. Previous periods are presented as discontinued operation in the income statements and also in the cash-flow statements. The balance sheets will not be restated.

Now, the 24.6% that we still retain in Covestro is classified as an associate, due to the remaining significant influence we have with that stake, and will be accounted for using the so-called equity method as of the fourth quarter. The proportion of market value of Covestro at the end of September in the amount of €3.6 billion is considered to be a technically assumed purchase price. A purchase-price allocation was conducted for that remaining equity stake in order to reconcile the book value of Bayer's share of Covestro's net assets with a carrying amount of the equity investment measured at fair value. This led to a gain of €2.8 billion.

Going forward, future profit or loss from the at-equity investment in Covestro will be shown as part of continuing operations in our financial results and will include Bayer's share of Covestro's net income and the net amortisation of step-ups from the Covestro purchase-price allocation. The later will be shown as a special item. In the Appendix of today's slide deck, you will find some additional explanatory notes regarding the purchase-price accounting. Let me also reiterate from our earlier statements that we intend to achieve full separation from Covestro in the medium term.

Now, let me come to the essentially unchanged outlook for 2017. Following the deconsolidation of Covestro, Bayer's continued operations reflect the previously reported Life Sciences businesses. For these operations, we are still planning sales of €35-36 billion. This continues to correspond to a low-single-digit-percentage increase on a currency and portfolio-adjusted basis. We also continue to expect EBITDA before special items to come in slightly above the level of prior year.

As far as core earnings per share are concerned from continuing operations, we now expect a low-single-digit-percentage decrease on the basis of the values that were adjusted for Covestro effects for the current year and the previous year. This is, again, due primarily to the difference in the number of shares, which grew significantly in 2017 as a result of the mandatory convertible notes that were issued in November of last year. Without this effect, the adjusted earnings per share would actually improve by a low-single-digit percentage. The outlook for sales and earnings growth on the segment level is also confirmed.

So, this concludes my prepared remarks and, with that, I hand it back to you, Oliver.

Oliver Maier

Great. Thank you very much, Werner, for the wrap-up, and I think now we can open up the call for the Q&A session.

Questions and Answers

Sachin Jain, Bank of America Merrill Lynch

Hi, it's Sachin Jain from Bank of America. Thanks for taking my questions. A few, please. Firstly, Werner, I wonder if you could comment on the timing and size of rights issue as you see it now, given the slightly longer European timelines and the €11.6 billion raised through the Covestro proceeds and Crop asset divestments. I understand your comments on the wires about the lost cash flow but, even accounting for that, it seems that it can be smaller versus the €15 billion that you've previously talked about.

Secondly, a clarification comment, again from the wires, that you're looking at further asset divestments. Is that over and above the remaining Covestro stake with the next lockup in December?

And then two business questions. On Xarelto ex-US, it grew 4%-ish in the quarter. Is that a new run rate for the ex-US line, given the pricing-pressure comments that you made?

And then a final question on consumer. Could you update on the remediation plan and confidence in a rebound into next year, acknowledging continued pressure expected in the fourth quarter? Thank you.

Werner Baumann

Okay. Thanks, Sachin. So, that's a comprehensive set of first questions. Let us start with the clarification of asset divestments, then Hanno will answer on timing and size of the rights issue before Dieter will take Xarelto, and then Erica will comment on Consumer Health.

So, on the asset divestitures, what we mean with it is that by no means the deal that has been signed with BASF constitutes the totality of potential antitrust divestitures. We are still in dialogue with, let's say, the main regulatory agencies. That is a process that first has to come to its end, and then the agencies will render their 'verdict' on what the necessary remedies are. We actually catered, to our best understanding, to what it might be with the assets that are already subject to the BASF contract, but this is actually probably a first step and there's somewhat more to come. So, with that, I then hand it over to Hanno.

Johannes Dietsch, Chief Financial Officer

Okay. Thank you, Sachin. Let me try to answer your question regarding time and size of the rights issue. First, we continue to work on our financing concept for the Monsanto acquisition, trying to optimise the scheme, and we continue to strive for a balance between equity and debt with the target debt size, and achieve investment-grade rating from the rating agencies.

And on the other hand, I follow also your words that we have quite some positives, meanwhile, in calculating our financial scheme. For example, we achieved significantly higher proceeds from Covestro sales this year. To give you a magnitude here, we had transaction volumes of roughly €6 billion in Covestro shares, including the exchangeable bond, and the excess gain was calculated with €2.6 billion, over the level we had in our plan last year when the share price of Covestro was at €37.

We have potential proceeds from the divestitures to BASF. However, with those divestitures, I would like to make sure that we have also a tax bill to serve in the magnitude of €1-1.5 billion, and we are losing, of course, cash flows from the divestments, which need to be taken into account when you look at the rating model.

We have some benefits from cash flows generating from the underlying business, both in Bayer as well as in Monsanto, to due to the later-than-anticipated closing. But on the other hand, we are currently not foreseeing any hybrid bonds anymore in our financing scheme, which has an influence on the size of the equity piece. And finally, we also are experiencing some headwinds from the currency in our underlying business.

Overall, we may say that we will take into account especially good proceeds from the Covestro divestments in calculating the new size of the equity piece, and we will give you an update, latest at the time of closing or before the next rights issue or the next capital-markets issue. Timing of it will be that, due to the delay in the regulatory process, we do not foresee a rights issue or a capital-markets transaction within this year, and it will be done then next year. I hope that answers the question.

Werner Baumann

Okay. Thanks, Hanno. Dieter – Xarelto?

Dieter Weinand, President, Pharmaceuticals

Sachin, let me address Xarelto and start by saying the fundamentals and market dynamics are intact. Globally, on a currency-adjusted basis, Xarelto grew 7% in the quarter versus the same quarter prior year. So, that was driven, really, globally by a couple of factors. We continue to expand our market leadership and our global market share. If we look at the US, we're very pleased with the in-market performance when you see a 20% growth that J&J have spoken to, and the expansion of the additional 2.5 percentage points in market share.

Ex US, we have also double-digit volume growth that was offset a little bit by some pricing pressure, particularly in Germany, where we had edoxaban launch at a discount and was preferentially treated. We responded and are regaining that preferential status with the payers in the various states in Germany. That was also the case in Austria. In addition to that, we took a price reduction in China in order to be listed on the National Reimbursement Drug List to significantly expand volume over the next few years in the future.

So, overall, the double-digit volume growth we have seen ex-US, the expansion of in-market share in August again over prior month, we feel very confident that we will deliver on the guidance that we have given: mid-teens growth for the year.

Werner Baumann

Okay. Thanks, Dieter. Erica?

Erica Mann, President, Consumer Health

Thank you. Sachin, I'll just start with an overall setting the scene of what's going on. So, it's fair to say that the issues that influenced our performance in quarter two continue to have an impact in

this quarter, and will continue to have an impact at least for the balance of the year, as indicated in our guidance for the full year. Now, it's important to note that, despite these challenges, our global market share remains relatively stable. We continue to focus on our US business. This is still a highly dynamic market as a result of some significant structural market shifts; however, we are cautiously optimistic that we are starting to see some early signs with brands like Dr Scholl's and with some of our key retailers like CVS. Now, as expected, our bottom line continues to be affected and we'll remain focused on executing on our already initiated measures, such as increasing our utilisation of our plants and optimising our overall manufacturing network.

But to dive into the US now more specifically, the main brands negatively affected in the US in quarter three were Coppertone, Aleve and One A Day. It's important to note that, while One A Day was down for the quarter, the year-to-date sales are above prior year, driven by good consumption growth. Coppertone was mainly impacted by a weak season, leading to a category decline, coupled with continued competitive pricing pressures and also as we were depleting inventory towards the end of the season. Now, it's important to note that, in 2018, it will be the first year where we we'll fully restage the brand and it should be considered as a year of consolidation and stabilisation for the Coppertone brand. Aleve continues to be negatively impacted by the relaunch of a competitive arthritis product.

So, the number one priority for us remains to turn the US business back to growth, and the efforts that are underway to assure that is by providing increased advertising and promotional support for Claritin in preparation for the fall season, effectively managing the indices and inventory for Coppertone, restaging Aleve with a new and far more aggressive campaign to defend our share, rolling out new marketing programmes and enhanced trade support for One A Day, and then continuing to focus on the Dr Scholl's restage and the distribution gains. And I'm happy to say that we've made an early, small breakthrough at Walmart, with distribution in December on a military campaign. And in addition, we continue to then focus on those brands that are still doing well – brands like MiraLAX, Alka-Seltzer, Afrin – and a poorer season in a few others.

Werner Baumann

Okay. Thanks, Erica. There was one follow-up answer that we missed on the next divestitures on Covestro shares.

Johannes Dietsch

Yes. Sachin, as for the remaining Covestro shares still sitting in our book, we have actually 24.6%. However, we need to have six percentage points of it to serve the exchangeable bond, and the remaining portion of 18.5%, currently valued at roughly €2.9 billion, will be divested over time because we will stick to what we said before: that, ultimately, we want to go to 0%. And timing for that is not yet defined. First of all, we had this private sale, where we're honouring the lockout period up to December, and we have not decided on our remaining stake yet.

Sachin Jain

Thank you.

Werner Baumann

Thank you.

Luisa Hector, Exane

Thank you for taking my questions. It's Luisa Hector from Exane. Maybe moving to Kogenate, thank you for the clarification on the guidance for this year, but I wonder what you can tell us about your ability to retain some of the patients who were on Helixate: whether you can start switching them to Kogenate or whether we should be expecting a rebasing of sales and then, hopefully, some growth thereafter with Kovaltry and your long-acting?

And still on Xarelto, just trying to understand, on the US side, this phasing issue with J&J. So, if we look at the nine-month growth, that was just 4% in 2017, and I think that compares to 20% last year. So, it still seems like a bit of a stepdown, despite this 20% underlying in Q3 that J&J talk about, so I'm still trying to reconcile that.

And then perhaps on Consumer, there were a couple of disposal gains already this year. So, if I take those out, I'm seeing a margin of around 13-14% for 2017. So, I'm just wondering, from that basis and in the absence of any gains next year, how should we think about 2018 evolving, especially as you have some longstanding guidance that looks perhaps a little bit ambitious now? Thank you.

Werner Baumann

Okay. Thanks, Luisa. So the first two questions will be answered by Dieter, and I'll briefly touch on Consumer Health disposal gains and guidance for 2018.

Dieter Weinand

Okay. So, you correctly noted that the Kogenate family, as reported, which includes Helixate sales, was down in the third quarter versus the quarter in the prior year. If you exclude Helixate, our Kogenate and Kovaltry family sales, our own product sales were up 1.4%, so we're actually pleased with our own product performance.

Now, when it comes to Helixate, there is inventory out there. At the distributor and the pharmacy level, it has to be worked out of the system first before there is significant switching from Helixate to other products. When there is switching from Helixate, for example, in the US, where we see that occurring, we get more than 60% of those patients switched off Helixate on to either Kogenate and Kovaltry. We anticipate, as that switching increases, as Helixate inventory declines works its way out of the system, that we will continue to get that share or a higher share, hopefully, of conversions from Helixate to Kogenate and Kovaltry.

Now, the next question was on Xarelto phasing. You referred to year-to-date growth rates. As you know, and as J&J had announced, they had a different accounting for the donut hole. Where they took the negative impact of the donut hole that normally was accounted for in the fourth quarter in previous years, they took this throughout the year this year. That impacted year-to-date numbers.

In the third quarter, the discrepancy with what you see, our revenue being recorded for the US is flat versus what the revenue increase is in J&J. That has to do with the way the margins are calculated and the phasing and the timing of revenue recognition for the royalties. It's actually a technical matter that should correct itself in the fourth quarter.

Werner Baumann

Okay. Thanks, Dieter. So, Luisa, on Consumer Health and non-recurring effects and what's the read-through not only for 2017 but particularly for 2018, let me start out by saying that pruning of the tail is a good practice in each and every consumer business. So, wherever we see some of our brands that we don't support commercially or, let's say, promotionally anymore, that would be better served in the hands of mostly smaller companies, we do divest of them. We did that in the past and continue to do that. It was important for us in terms of our disclosures that you understand when this happens, and that's what we are doing.

Now, in 2017 in particular, that level is somewhat elevated – there is no doubt about it: somewhere in the area of probably €30-40 million compared to normal, standard years. So, going into 2018, we will, of course, continue to prune our portfolio as we've done in 2017 and prior years. You have to bear with us in terms of giving guidance – that's what we're going to do on the release of 2017 earnings – but I will say that, of course, we are also acutely aware of the challenges we have, and that's part of the second-half 2017 guidance. And Erica and her team are working feverishly, in particular, in turning around the US because, outside of the US, the business continues to grow, actually very nicely, in a number of jurisdictions. It is a mainly US issue we have to fix. And that, of course, then has knock-on effects on supply chain and what have you, if volumes don't come, if new product developments are not successful and the like. So, you should not take 2017 as a new, complete rebasing of our Consumer Health business and its earnings power.

Luisa Hector

Thank you.

Peter Verdult, Citi

Thanks. Pete Verdult, Citi. Just three questions. Dieter, sorry to come back to Xarelto, but it seems to be the question that we're being asked all morning. Just in terms of the dynamics that you've explained that have impacted rest-of-the-world sales of Xarelto, it doesn't seem these are things that are going to snap back in Q4. So, I'm just wondering if you can just drill down a little bit more as to what your expectations are for that ex-US Xarelto business in Q4.

Secondly, for Werner or Liam, on Animal Health, assets have come into play that would probably be of interest to Bayer, where you're not involved with trying to close Monsanto, and I realise that bandwidth is probably fully taken up with Monsanto, but could you just remind us where your thoughts are on your Animal Health business, how it's going to fit with your new portfolio, assuming Monsanto goes through, and what are the potential options on the table?

And then, lastly and specifically, Liam, can you just remind us where we are with respect to Bayer's next-generation herbicides, the key projects and the timelines you're working to? Thank you.

Werner Baumann

Okay. Thanks, Peter. So, the first question is going to be taken by Dieter. I'll take Animal Health and then Liam is going to answer the next-generation herbicides.

Dieter Weinand

Thank you, Peter. So, as I was saying, we actually have good growth momentum in the market with margin growth in double digits, and we anticipate that growth to continue to come in right as where we said, the mid-teens growth for Xarelto for the year. In all or most major markets, we've been able to maintain or expand our market share, thereby market leadership. And even in markets where we have very high market share, like in Brazil, where we're over 55%, we grew again 0.2 percentage points in market share. So, overall, the underlying dynamics are in place, and we expect to continue to grow right in line with what we have guided. And going forward, I think that we are going to file for COMPASS by year-end, hopefully. That should provide good momentum going forward for the brand overall.

Werner Baumann

Okay. Thanks, Dieter. So, on Animal Health, Animal Health is a business that continues to grow at least in line with markets. So, as we see, we don't have an issue in keeping our relative weight. We, of course, see that some of the assets that are in the market are up for strategic review, as Lilly just announced a couple of days ago, but you are totally right with your assumption that we are currently busy, and there is not an awful lot of things that our organisation would volunteer for to venture into at this point in time.

Quite frankly, I also think it is prudent for us, as a board, to stay focused on the tasks at hand, whether they are operational in nature – we talked about Consumer Health – or whether it's bringing the Monsanto acquisition home and, of course, also finishing on Covestro. This is what we need to focus on. I really believe that these are also the biggest value levers for our shareholder base, and we will not let ourselves be distracted by anything else for the next time to come. So, now we come to Liam.

Liam Condon, President, Crop Science

Yes. Thanks, Pete. So, on the next-generation herbicides, I'd differentiate between the selective and non-selective. We have a variety of products in the selective space coming over the next years. These tend to be relatively small, very specific products, and I guess you're rather more referring to the non-selective potential successors of glufosinate or glyphosate. Here, we're working on various approaches, but these won't reach market until around about the mid-2020s.

Richard Vosser, JP Morgan

Hi, it's Richard Vosser from JP Morgan. Thanks for taking my questions. First question, just going back to your comments on further divestments around the Monsanto transaction, I think, with the divestment to BASF, you're getting quite close to, I think, the $1.6 billion originally in the deal agreement. So, could you talk about whether you think you'll have to go through that level and also whether there's any impact on the synergies announced with the original transaction?

Then, second question, again a bit of clarification around the capital-markets transaction. Did I hear correctly that, potentially, it won't just be a rights issue but could also be other means of raising money in the capital markets – accelerated bookbuilds, whatever – in terms of the equity portion of the required financing?

And then going to Crop, could you just go into a little bit more detail around the demand dynamics you're seeing in Brazil and how you see the picture for Brazil for the rest of the year and, potentially, actually, for the rest of the markets in Latin America and beyond?

And then, finally, thinking about 2018, again for Crop, it seems as though the recovery in the Crop market probably won't occur in 2018, so could you give some colour on expectations for your part of the Crop business in 2018? Thanks very much.

Werner Baumann

Okay, Richard. Thanks for your questions. So, I'll take number one, followed by Hanno, who's going to talk to current markets, and then the two Crop questions will be answered by Liam.

So, the package that is subject to the contract with BASF has a volume of about $1.4 billion, so there would be $200 million left relative to the threshold of the $1.6 billion you're referring to. Now, I think everybody has to understand what that $1.6 billion is really about. The $1.6 billion is a negotiated number without, let's say, having been backed up by detailed assessments of antitrust assets that aren't exactly that number. It was part of the give-and-take when we discussed with our counterparts relative to value on one side and transaction certainty on the other side, and then thing fell into place between $128, the $1.6 billion and the $2 billion reverse break fee.

Now, the $1.4 is a first step as I mentioned, and we are waiting for final regulatory decisions on how much is going to be affected beyond, and what it is, we don't know, nor can we pre-empt it. Should we exceed this threshold of $1.6 billion, there's an option for us that we could step back from this transaction. That's what's behind the $1.6. Up and until $1.6, we are bound to the contract, and whatever comes has to be divested. Should it go beyond, we would have to step back.

Now, what is also important to understand in that context, and my colleague Hugh Grant mentioned that very often to me, is that the first tomato that exceeds the $1.6 billion is going to cost us $2 billion, because while we can step back, we would have to then pay the reverse break fee that would then be triggered. So, we would always look at, let's say, an overall business case of how much more we lose with incremental divestitures in standalone and potentially synergy value relative to the $2 billion that would be out of the door the very moment we decide not to further pursue this transaction. So, that's the mechanism behind it.

Now, the impact on synergies is something that we will give you a number on, once we know what the overall package is that has to be divested off because, otherwise, all of us would be looking at moving targets as we would calculate and recalculate until the cows come home. But what is important to understand is that all the data that we have been discussing so far were always based on so-called pro-forma financials. That means we take the entire Monsanto portfolio and we take our portfolio, and that's what our synergy assessment has been based on. So, to the extent that we sell assets, we will then have to look at which areas are affected and how big is the synergy share in these areas in order to come up with an overall net effect on synergies. So, with that, I'll turn it to Hanno.

Johannes Dietsch

Well, the question regarding rights issues versus ABB, we have the capital authorisation of up to 10% for the ABB, or as we like. We used half of it already with the mandatory convertible bond, and we could use the remaining authorisation to raise equity up to roughly 5 billion. Now, with a sizable equity issue, the rights issue should be the preferred choice, and it is also a shareholder-

friendly instrument because it grants subscription rights to the existing shareholders. Therefore, our view is that the equity measure should come with a rights issue.

Werner Baumann

Thanks Hanno. Liam?

Liam Condon

So, thanks, Richard. I'll refer to the question around demand dynamics for Brazil and outlook for 2018. I think it's really important to note that, as we had highlighted in Q2, there is a disconnect in the crop-protection market in Brazil between sell-in and sell-out – what is actually consumed in the market. And what we have seen is that there has been, for some time now, too much stock in the channel, particularly related to fungicides and insecticides, whereas, on the consumption side, there's relatively robust demand, and this is in the region of single-digit growth that we are seeing on the consumption side. You're not seeing it in the sell-in numbers, simply because the stock levels are so high.

And this was the reason that we took quite significant measures in the second quarter – financial measures – to address the overall issue. And with that, we've combined these financial measures with a lower sell-in for the year and, ultimately, this should lead to a normalisation of the situation for our stocks. And I think what you will see going forward then in Brazil for 2018 is, basically, a balance between sell-in and sell-out, with robust growth in Brazil, because we know consumption growth today is robust and it's forecast going forward to remain relatively robust. But again, we just have this disconnect particularly on the fungicides and insecticides, due to various issues in the past.

Overall outlook for 2018, we will continue to forecast for the slow return to growth. This will be based on, basically, all regions. We are expecting growth in Latin America and further growth again in North America and APAC, and probably a flattish Europe.

Werner Baumann

Thanks, Liam.

Michael Leuchten, UBS

Thank you. It's Michael Leuchten from UBS. First question on foreign exchange: looking at my own estimates at least, it looks like I was way off on the ex-US foreign-exchange impact, particularly in Pharmaceuticals. I was wondering if you could help us understand how FX impacted the quarter and how it's going to impact Q4, certainly relative to your commentary around Pharma, the guidance for the full year.

And the second question, going back to Consumer Health, it sounded in Q2 like you had seen some green shoots for recovering in Consumer Health, and now it doesn't look again in Q3 that that's really happened. So, when you think about the KPIs of the business and how that develops going forward, what are you looking for in terms of phasing now to really understand whether this business really can turn around into 2018 or whether we are going to look at a couple of quarters where we still see that disconnect in terms of some of the portfolio working and the rest of the portfolio dragging?

Werner Baumann

Hanno will answer the question on foreign exchange before Erica comes to sequential performance this year and then also looking into next year.

Johannes Dietsch

Okay. Foreign exchange had an impact on the top line for Bayer Group of roughly €350 million in Q3 and nearly €100 million in EBITDA. Major contributors are, interestingly, especially on the bottom line, not the US dollar but currencies like the Brazilian real, the Turkish lira, the Chinese renminbi or the British pound; also to some extent, the Japanese yen. So, we have pretty a large currency basket and it's not only US dollars to look at.

And out of the €100 million impact we saw, of course, the major portion going to Pharma, with of €60million, and then another €20 million to Crop, €10 million with Consumer and €5 million to Animal Health, and that is relating to the currency baskets. And with the continued strength of the euro against major currencies going forward in the fourth quarter, I expect, of course, a similar negative effect during the fourth quarter as well.

Werner Baumann

Okay. Thanks, Hanno. Erica?

Erica Mann

So, Michael, the key question for us or the key KPI for us should be to continue to drive share growth as a key focus. Now, if you look ex-US, you'll see that we've gained very satisfactory shares in the majority of the ex-US markets. The US is the market that is facing tremendous structural changes, and we continue to see a very rapidly changing retail landscape. We've noted the number of store closures in this year being much greater than even happened in 2009 and 2008 in the financial crisis. We have noted inventory contractions, on average, from six weeks down to three weeks at key retailers. We also noted in the US market significant channel shifts, such as an acceleration towards e-commerce and, in particular, I can call it the Amazon effect. Value retailers are playing a greater role as they're starting to serve an underserved, lower-income consumer base. And then we also learned consumer behaviours are shifting and they're really moving towards e-commerce channels as well as searching for value.

Now, to address those changes, the following things are going to be critical for us not only now but into 2018. So, a key focus on our channel strategies, in particular in e-commerce, and we have accelerated the hiring of experienced capabilities, so people from large e-commerce players to help us with this. We have been working hard on striking partnerships with e-commerce players such as the one that we just announced recently with Ali Health in China. We're working hard to drive trade-partnership programmes and also accelerating the co-creation of brand innovation by establishing much closer collaboration with key retailers. Now, most importantly for us, the focus is not to build inventory but to ensure that we increase consumption and, therefore, sell-out remains another very important KPI.

Werner Baumann

Okay. Thank you, Erica.

Vincent Meunier, Morgan Stanley

Hello. Thank you for taking my questions. Basically, I have two follow-up questions. The first one is on your comments on Animal Health and the comment that you don't want to be distracted. Is it also a valid comment for Consumer Health? The reason I'm asking the question is one of your competitors is talking about potentially a joint venture with Pfizer, so is it a possible option for you or is it simply a no-go?

And second question is the purchase from CSL for Kogenate. Is it mandatory for CSL to purchase a predefined product quantity, and how and when do you plan to get the cash payment which corresponds to the receivables booked in Q3, and what amount of receivables should we expect in Q4? Thank you.

Werner Baumann

Okay. Thanks, Vincent. So, you can take the statement on Animal Health as also being valid for Consumer Health, and Dieter pointed to this, I think, very well. Even if we wanted to do something on top, we just don't have the bandwidth and it would actually dilute our efforts. And once you start to dilute yourself and focus is not there, you don't do things as well as you should normally do them.

We, of course, also see that there's quite a number of announcements out there in the Consumer Health space: some structural changes that companies are making, such as Reckitt; some kind of dancing around potential changes in ownership structures for existing assets, as we have seen with GSK and Novartis; or the most recent speculation on when the Pfizer consumer business is going to be put up for auction.

We will stay out of all of those because of the said reasons. The good thing about the Consumer Health market, though, or the OTC market in particular, is that this is a market that is far from being finally consolidated, and we'll look at things once we have the bandwidth again, but not now. So, CSL?

Dieter Weinand

Yes. So, we have a contract in place with CSL that specifies minimum contractual purchases that would not be met with the orders being placed by CSL currently, and that is what is accounted for in our earnings thus far. It's still a matter of debate or disagreement with CSL at this point that requires further discussion and, therefore, the timing of the cash received is still open.

Vincent Meunier

It's more a question of when rather than if.

Dieter Weinand

Yes, the contract seems to be fairly clear. To us, it's a matter of when, not if.

Vincent Meunier

Okay. Thank you.

Jeremy Redenius, Bernstein

Hi, it's Jeremy Redenius from Bernstein. A few questions, please. First of all, I read that you've had price reductions in Crop Science in Brazil. I'm wondering if you could talk a little bit about the nature of those price reductions.

Second, I'm just looking for further observations from the Crop Science business about 2018. I think one thing I've noticed here is it sounds like Seeds has done particularly well. Did that also include, let's say, seed-treatment sales, which might be a positive indicator for 2019 because farmers are looking to invest to protect their seed more so than you might have expected them to otherwise, or is that just simply buying seeds earlier?

And then, thirdly, coming back to the financing structure for the deal, I think I heard a comment that you're no longer planning to do hybrid bonds. Could you confirm that I heard that correctly and, if not, why are you not planning that any longer? Thank you.

Werner Baumann

Okay. Thanks, Jeremy. So, the first two questions go to Liam, and then Hanno will further elaborate on the financing structure.

Liam Condon

Yes. Thanks, Jeremy. The price decline in Q3 was mainly driven by our Crop Protection business in Brazil, as you can imagine. And in Brazil, this price decline is, to a large extent, directly connected to the channel de-loading programme that we have. And the way that works is we have it basically with the provisions that we have built, and we could either take back stock or, if the distributor wanted to keep product, we could negotiate new payment terms. If we negotiate new payment terms, then, of course, you have to take the current price lists and not price lists from that past.

And given that there's been quite a significant and unfavourable movement on the Brazilian real versus US dollar foreign-exchange rate and our price lists are always fixed to the US dollar, this automatically leads, basically to the fact that the stock the distributor received in the past would be overpriced from today's perspective. And then we simply have to build in that you get a technical price decline then through this stock novation.

However, for us, overall, we see it as a much more beneficial effect because, in essence, we take back less product and we have less logistical costs involved, less write-downs, and it shows confidence that the distributors are confident that they can actually get this product onto the field. So, overall, it looks like very ugly pricing, but there's a positive connotation to this overall.

On the 2018 expectations as well, going forward, as you said, we've had a very strong Seeds business this year – double-digit growth year-to-date – and we note from other competitors that their Seeds business has been doing also pretty strongly, and this is our expectation that that sets a solid base for further growth next year. The issue that we're seeing with the sluggish or low or declining growth in Crop Protection is largely related to this channel-inventory issue in Brazil, which we hope will be cleaned up in the current season, so that we would be back to what you would classify as normal growth from next year.

Jeremy Redenius

I'm sorry, if I could just clarify one more thing about what you're seeing in Brazil, are you seeing evidence of trading down or actual list-price cuts in response to competition?

Liam Condon

Whenever there's channel inventories, there's always issues with pricing and, of course, there's also generic competition, but the pricing effect that we saw in Q3 was very heavily dominated by this provisioning effect that I spoke about.

Jeremy Redenius

Okay. Thank you.

Werner Baumann

Okay, Liam. Now Hanno.

Johannes Dietsch

Yes, Jeremy, your question regarding hybrid bonds: yes, I can confirm you have heard it correctly. In the current financing scheme, we do not consider hybrid bonds anymore, for two reasons: they are fairly expensive and we would end up in non-investment grade with those individual bond ratings, and that's the reason why, at this point in time, we do not consider hybrid bonds.

Jeremy Redenius

Thank you very much.

Christian Faitz, Kepler Cheuvreux

Yes. Good afternoon. Christian Faitz from Kepler Cheuvreux. A couple of questions, please, on Ag. With regards to Monsanto, can you please update us on where you are with CFIUS negotiations?

Second of all, you have a remaining Bayer Crop Science Seeds business of roughly €500 million post BASF. Can you please elucidate the setup of the business? Is my guesstimate correct that vegetable seeds make up the bulk of your remaining portfolio and the rest is pretty much wheat? If so, how would your vegetable seeds business clash in terms of market share with Monsanto's De Ruiter setup?

And then, final question: what nature was the tender business in insecticides in Europe that you talk about in your release? Thank you.

Werner Baumann

Okay. Thanks, Christian. So, let me answer the first question and I will try to keep both you and me out of trouble here. The status of the CFIUS discussions is totally confidential, and it is a

criminal offence if I share any detail. So, I guess we've said that we are in constructive discussions and, for both of our sakes, we should leave it there.

Secondly, we go to Seeds and then also to the Ghana business. Liam?

Liam Condon

Yes. So, thanks, Christian. So, you're right: the remaining Seeds business of Bayer is almost exclusively vegetable seeds. There is a small bit of rice seeds in there as well. Wheat, we basically have no seeds today. So, it's basically all vegetable seeds. Here, as you know, the vegetable-seeds market is highly, highly fragmented, with thousands of varieties, all very local in nature, and this is one where we have, of course, also mapped out then any potential overlap with Monsanto, and this is one area of remaining discussion with the regulators. We believe there's limited overlap but we don't want to pre-empt any discussion with the regulator on this one.

On the other question related to the tender in Europe, that was actually Africa, from a regional point of view. It's related to a tender for insecticides in Ghana.

Christian Faitz

Okay, great. Thank you.

Werner Baumann

Thank you, Liam. Thanks, Christian.

Oliver Maier

Last one. Tony Jones, Redburn.

Tony Jones, Redburn

Thanks for taking my questions. I've just got three quick ones. On the antitrust review, I think we've been in stop-clock mode now for two or three weeks, so should we be expecting that the transaction closure is now moving back into the end of Q1, potentially Q2?

Then on the Consumer, you very well flagged the issues you're facing and it's obviously an industry problem, but should we be expecting there could be a balance-sheet charge at the full-year results and some sort of restructuring response?

And then, just finally, on Pharma and the margin trends going into next year, you're flagging good mix and there's some non-recurring costs, which might help as we go into next year. So, thinking about the exit rate looking quite strong out of this year, would it be crazy to think that EBITDA margin could go up further and, therefore, your guidance looks cautious? Thank you.

Werner Baumann

Okay. Thanks, Tony. So, let me start with the antitrust and stop-the-clock. We have, unfortunately, run into a second stop-the-clock recently, which gives the affected companies more time to collect the documents that are requested. We are intensively working on satisfying this

second stop-the-clock request, and we are hopeful that that is going to be released, let's say, almost imminently.

Secondly, what is the impact on timelines? There are a few variables here. One is the stop-the-clocks; others are – I touched on that earlier – are we going to get a statement of rejection or not, and, and, and – we don't know. We continue to look at the things the way we communicated them before, that we see a closing of the transaction at the beginning or in early 2018. So, that's what we continue to see, so there is no update on it because of the lack of specificity, because then we would have to go into individual months and so on, and there are different regulatory agencies that have to respond by different timelines that are set, and that's what we are waiting for.

Secondly, on Consumer Health and balance-sheet activity, there's the normal procedure of us closing the books in quarter four with looking at the substance of our book values. That will be the same 2017 as we did in 2016. Since that work hasn't started, we can't talk about anticipated results because that's something that our accounting people still have to work through with our auditors. So, I'd ask for your understanding that we can't give you any specificity on it.

Looking at the second half of your question in terms of restructuring charges, as Erica said, there is quite a bit of structural change in the US, and it might be that we might have look at structural measures going forward, but none of that has been decided upon. None of that is part of a currently, let's say, active consideration, so nothing I can share with you prospectively on quarter four here either.

On number three, Pharma margin, [you asked us?] completely crazy to anticipate a further increase of the Pharma margin. I keep asking Dieter the same thing. And also here, it's forward-looking and would actually break the process that we update you.

Then, also, I think, fairly comprehensively, on guidance as part of our 2017 earnings release, we are on record that, in the midterm, which includes 2018, we are trying to get to a 32-34% margin interval, depending on R&D load and our clinical programmes. In line with that aspiration, I think that we fare more than well at this point in time. Everything else, please bear with us and we share our 2018 guidance and the assumptions we are taking on making this guidance with you upon release of 2017 earnings.

Tony Jones

Thank you very much.

Werner Baumann

Thank you.

Closing Remarks

Oliver Maier

That is great. That's perfectly spot on time, so thank you very much, everybody. We really appreciate your support and your interest, and looking forward to talking to you guys in the future. Thank you.

Werner Baumann

Thank you. Bye-bye.

Cautionary Statements Regarding Forward-Looking Information

Certain statements contained in this communication may constitute “forward-looking statements.” Actual results could differ materially from those projected or forecast in the forward-looking statements. The factors that could cause actual results to differ materially include the following: uncertainties as to the timing of the transaction; the possibility that the parties may be unable to achieve expected synergies and operating efficiencies in the merger within the expected time-frames or at all and to successfully integrate Monsanto’s operations into those of Bayer; such integration may be more difficult, time-consuming or costly than expected; revenues following the transaction may be lower than expected; operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers) may be greater than expected following the announcement of the transaction; the retention of certain key employees at Monsanto; risks associated with the disruption of management’s attention from ongoing business operations due to the transaction; the conditions to the completion of the transaction may not be satisfied, or the regulatory approvals required for the transaction may not be obtained on the terms expected or on the anticipated schedule; the parties’ ability to meet expectations regarding the timing, completion and accounting and tax treatments of the merger; the impact of the refinancing of the loans taken out for the transaction, the impact of indebtedness incurred by Bayer in connection with the transaction and the potential impact on the rating of indebtedness of Bayer; the effects of the business combination of Bayer and Monsanto, including the combined company’s future financial condition, operating results, strategy and plans; other factors detailed in Monsanto’s Annual Report on Form 10-K filed with the SEC for the fiscal year ended August 31, 2016 and Monsanto’s other filings with the SEC, which are available at http://www.sec.gov and on Monsanto’s website at www.monsanto.com; and other factors discussed in Bayer’s public reports which are available on the Bayer website at www.bayer.com. Bayer and Monsanto assume no obligation to update the information in this communication, except as otherwise required by law. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date.