Good afternoon and thanks, everybody, for joining us today. I’d like to welcome all of you to our third quarter 2019 conference call. With me on the call today are Werner Baumann, our CEO, and Wolfgang Nickl, our CFO. The businesses are represented by the responsible management board members, so for Pharma we have Stefan Oelrich, for Consumer Health we have Heiko Schipper and for Crop Science we have Liam Condon. Werner will begin today’s call with an overview of the key developments and performance of the divisions and Wolfgang will then cover the financials for the third quarter of 2019 and the outlook, as well as our key focus areas, before we open up the Q&A session afterwards. For the Q&A, I would like to remind everyone again to please limit your questions to two questions per person to allow us to address questions from as many participants as possible in the time available.

So as always, I would like to start the call today by drawing your attention to the cautionary language that is included in our safe harbour statement as well as in all the materials that we have published and distributed today.

See disclaimer

With that, I hand it over to you, Werner. The floor is yours.

All right, thanks, Oliver, and good afternoon ladies and gentlemen. It is my pleasure to welcome you also on behalf of my fellow colleagues to our today’s conference call. Let’s start with a discussion of our development in quarter three 2019, which was encouraging across the Group, with all businesses delivering good performance. Please be aware that the numbers that we talk about refer to continuing operations and do not include our discontinued operations from Animal Health and
Currenta. Those are now reported separately, and Wolfgang will shed some light on the developments, including discontinued operations, later on.

Overall, we’re on track from an operational point of view. Sales grew by 5% to €9.8 billion and EBITDA before special items increased by 8% to €2.3 billion. Our core EPS reached €1.16, up 6% from a year ago. Finally, our free cash flow increased by 13% to €1.3 billion.

With these results as a backdrop, let’s look at an update on our focus areas. First, target delivery: given the overall good performance in the first nine months, it confirms our guidance for the full year 2019 on a going-concern basis as published at the beginning of the year. In addition, we have adjusted this guidance for discontinued operations and foreign currency to provide as much transparency as possible to you. Wolfgang will share the details in his part of the presentation.

Second, in Crop Science, I want to highlight the good operational performance in an overall challenging market environment and I also want to reassure you that the integration and synergy realisation is well underway.

Third, our pharmaceuticals business has continued its strong sales and profit growth, and we’re on track to deliver an EBITDA margin, before special items, of 34%. Excluding last year’s one-time income of €190 million, earnings grew by 12% in the quarter, which is twice our top-line growth.

Fourth, Consumer Health has shown a solid sales and margin growth, demonstrating that the team is continuing to make good progress in turning around the business.

Fifth, almost a year ago, we announced a comprehensive set of efficiency and structural measures from which we expect annual contributions of €2.6 billion as of 2022, including around €1 billion from Crop Science. In this context, we have also decided to streamline the setup of our Board of Management, with a reduction from seven to five members, effective January 2020.

And lastly, I’m pleased to mention that we have delivered on all announced portfolio measures ahead of time, and which I believe with very attractive selling prices. We have already closed the sale of Coppertone and the derma RX business that was reported in Consumer Health, and the closings of Dr Scholl’s and Currenta are imminent. The divestment of Animal Health was signed on 20 August and we expect closing of this transaction to happen in the middle of 2020.

Let me now briefly update you on the glyphosate litigation, a topic that remains top of mind for many of us. Some of you might have been surprised this morning when you read in our quarterly report that the number of plaintiffs in served lawsuits increased from 18,400 in quarter two to around 42,700 in quarter three. This is actually not that surprising if you take into account that plaintiff lawyers increased their advertising spend exponentially, from $6 million in quarter one to $21 million in quarter two and $51 million in quarter three in order to attract new plaintiffs. This increase in the number of lawsuits does not change our conviction of the safety profile of glyphosate and is actually by no means a reflection of the merits of this litigation. In the meantime, the appeals in the first three cases are underway. In parallel, we are constructively engaging in the mediation process and are planning for litigation of further cases in 2020 as all remaining cases in 2019 have been vacated. With regards to the mediation, we would only consider a settlement if it is financially reasonable and will bring reasonable closure to the overall litigation. And I do hope you understand that I cannot be more specific with regards to the mediation process as we, as an involved party, need to maintain confidentiality.
Let me now turn to the performance of Crop Science. Following a very challenging second quarter with heavy spring rains and flooding in the mid-western US, we reported improvement in both sales and EBITDA for quarter three. Currency and portfolio-adjusted sales were up by 5%, driven by the positive developments in North and Latin America. We have seen strong performance of corn and soybean seeds and traits, as well as fungicides. In addition, herbicides had an encouraging increase in Roundup volumes in Latin America, offset by declines in Asia Pacific, primarily due to dry weather in Australia. From an earnings perspective, Crop Science increased its EBITDA before special items by 25% to now €527 million. This strong improvement was driven by price and volume growth in Latin America, lower than expected product returns in corn seeds and traits in the US, and the realisation of synergies as we progress this integration. Regarding the cost-synergy realisation, we progressed substantially better than expected and now assume that we will realise around €300 million of accumulated cost synergies by yearend, and that is around €100 million more than originally expected. The overall targeted synergies of around €870 million for 2022 has not changed, so that is really phasing, and that means earlier realisation – and that is also proof of a well-running integration process.

Moving on to Pharma, sales of pharmaceuticals rose by almost 6% to €4.5 billion in quarter three. Our best-selling products, Xarelto and Eylea, have continued their strong performance. Also, our business growth in China remained very robust. Xarelto grew by 9%, driven by high volumes in China and Russia. Our licencing revenues in the US exceeded the level of the prior-year period. Eylea posted significant growth of 16%, mainly as a result of volume increases. The business developed particularly well in Europe, and here primarily in the UK and Germany, but also in Japan. We now expect both products to continue growing in the low-teen percentage range for 2019. We also saw some encouraging products and other news in the quarter.

The FDA has approved Darolutamide under the brand name Nubeqa. As a reminder, Darolutamide significantly extends metastasis-free survival in patients with non-metastatic castration-resistant prostate cancer, while at the same time demonstrating, actually, a very favourable safety profile. In addition, the FDA approved Xarelto for the prevention of venous thromboembolism or blood clots in acutely ill medical patients at risk of thromboembolic complications who are at high risk of these. Further good news also on Vitrakvi: the European Commission has granted marketing authorisation in the EU for our precision-oncology treatment Vitrakvi. The drug is indicated for the treatment of adult and paediatric patients with solid tumours that display NTRK gene fusion who have a disease that is locally advanced, metastatic or where surgical resection is likely to result in severe morbidity and we have no satisfactory treatment options.

On the investment side, we acquired the remaining stake in BlueRock Therapeutics, a privately held US biotech company focused on developing engineered cell therapies in the fields of neurology, cardiology and immunology, using a proprietary induced pluripotent stem-cell platform. This acquisition marks a major milestone on our path towards building a position in cell therapy. Finally, EBITDA before special items was down by 2% to €1.5 billion because last year’s figure included an income of around €190 million from our Xarelto development collaboration with Johnson & Johnson. If you adjust for this, EBITDA before special items is up by 12%, confirming the overall strong performance of the business.

Let’s move to Consumer Health next to close out the divisional updates. The performance of Consumer Health in quarter three was characterised by solid top and bottom-line development. We have seen a positive sales performance in EMEA and Latin America overcompensating North America and Asia Pacific. We are especially pleased with the sales development of the categories Nutritionals, Allergy and Cold, and Pain and Cardio. Dermatology also reported higher sales.
EBITDA before special items increased by 3%, mainly driven by the successful implementation of the announced performance-improvement measures and also offsetting the margin losses that came from the sale of our RX dermatology business.

Before I hand it over to Wolfgang, please let me point out that we are planning our next Capital Markets Day, with a strong focus on Pharma this time and its innovation pipeline, towards the end of June 2020. And, with that, I hand it over to you, Wolfgang.

CFO Remarks

Wolfgang Nickl
Chief Financial Officer, Bayer AG

Thank you, Werner. Ladies and gentlemen, also a warm welcome from my end. I will now walk you through some additional financial details for Q3 followed by a discussion of our outlook for the full year.

After signing the sale of our Animal Health business and our 60% stake in Currenta, both businesses are from now on accounted for as discontinued operations. As mentioned by Werner, we will focus our discussion on the development of our continuing operations, but I will also bridge the changes between continued and discontinued operations to allow comparability with our original guidance.

Let me start with continuing operations. We had a good quarter. Sales increased, currency and portfolio-adjusted, by 5% to €9.8 billion, and EBITDA before special items came in at €2.3 billion, up 8% year-on-year. Our EBITDA margin increased by 30 basis points to 23.3%. Foreign exchange effects had a positive year-on-year impact on sales and EBITDA of €215 million and €77 million respectively. Core earnings per share were up 6% year-on-year to €1.16. Finally, compared to the prior-year period, free cash flow increased by 13% from €1.1 billion to €1.3 billion, mainly driven by the increased profitability.

The next chart shows our performance that including discontinued operations. Currency and portfolio-adjusted sales growth is the same at plus 5%. EBITDA before special items would have increased by 9% to €2.4 billion and core EPS would have been up by 7% to €1.23. The restatements to the P&L have no impact on our free cash flow. We own the cash flows from discontinued operations until the respective divestments are closed.

On the next chart, we show the bridge from core EPS to reported EPS from continued and discontinued operations. On the left we start with the €1.16 core EPS for continued operations. The next column is describing an adjustment of minus €0.65 per share is mainly comprised of acquisition-related amortisation of intangible assets and about two thirds of the impact stems from the acquisition of Monsanto. EBITDA-relevant special items had a minor negative impact of €0.01 as the restructuring and litigation-related special items were more or less offset by the divestment gain from the sale of our derma RX business, which closed in Q3. A positive special item in the financial results of €0.28 resulted mainly from the revaluation of our original stake in BlueRock Therapeutics, which is now after the acquisition fully consolidated. Previously, it was accounted for in equity.
The next column shows the offsetting tax effects on the sum of the items I just explained, bringing us to the EPS from continuing operations of €1.01. Finally, there is an impact on discontinued operations of €0.04, leading to an EPS from continued and discontinued operations of €1.05 for the quarter.

As Werner said, we are very pleased that we delivered on the portfolio measures which we announced last November, not only ahead of schedule but also at attractive valuations. In order to help you with the modelling of Bayer going forward, we provided you with the restatements two weeks ago. These summaries are available on our web page. In addition, we thought it would be useful to share this slide with you, which summarises key information on the full divestments. We have provided the sales and EBITDA before special items contributions of the divested businesses as well as the gross proceeds of about €9.3 billion, the expected closing date and the respective consolidation procedure of each of the businesses. With the Coppertone sale already having closed in Q3, and Dr Scholl’s and Currenta expected to close in Q4, we expect gross proceeds of around €2 billion in 2019. An additional €0.2 billion is expected in Q1 2020 from the real estate portion of the Currenta transaction. The Animal Health deal is expected to close in the middle of 2020. As you may remember from our disclosures in August, 70% of the agreed value of $7.6 billion is due in cash at closing and 30% is due in stock, subject to a collar and a holding period. The transactions and corresponding gains are subject to taxation. Overall, we anticipate taxes to be paid of roughly €1 billion, that need to be considered with some time lag.

Let’s move next to our balance sheet. We reduced our net financial debt by around €900 million since the end of Q2. This improvement was driven by cash inflows from operating activity as well as the proceeds from the sale of the prescription dermatology business outside the US and Coppertone. It was partly offset by the cash-out for the purchase of the remaining shares in BlueRock Therapeutics. With the US dollar appreciating substantially during the quarter, we had a corresponding impact on our euro reporting, which you can mainly see in the bonds column. As a reminder, almost 60% of our financial debt is denominated in US dollars. The impact of exchange rates changes to our net financial debt is therefore quite significant, as every percentage-point appreciation of the US dollar against the Euro is increasing our net financial debt by about €200 million and vice versa.

Now let me focus on the key business drivers for Q4, which are important for us to achieve our guidance for 2019. For Crop Science, we expect the growth momentum in Latin America to continue and we anticipate a strong start to the next season in the US. In addition, and as already mentioned by Werner, we expect about €300 million in cumulative synergies in fiscal year 2019 related to the integration, helping us to support our earnings also in Q4. For Pharmaceuticals, we expect a continuation of the very strong development of both Xarelto and Eylea, as well as an ongoing favourable business performance in China. Consumer Health is on track to deliver on its turnaround plans and should see a further top and bottom-line improvement in the months to follow. In North America, we also expect the business to return to growth in Q4. On the Group level we will continue to be very disciplined on costs and cash management across all businesses. In addition, we expect the cash in from the Currenta and Dr Scholl’s divestments in Q4.

Let’s move on and look at our guidance for the full year. Following the good performance in Q3 and seeing a good momentum for Q4, we confirm our Group guidance for the full year on a going-concern basis and at constant currency. That is what you see in the first column on this chart. You will recognise, for instance, a core EPS of €6.80, which we established as a target at our Capital Markets Day last December and reconfirmed in our guidance in February earlier this year.
In the second column, you see the impact from discontinued operations, specifically the contributions from Animal Health and Currenta, which were included in our original 2019 guidance. We are compensating some sales and EBITDA from a few months of the Coppertone and Dr Scholl’s businesses with the other remaining businesses. In the line for net financial debt, we have also included the cash proceeds from these two transactions.

The third column shows the original guidance adjusted for discontinued operations and thus representing our continuing operations. Without the Animal Health business and Currenta, our currency-neutral guidance would have been around €43 billion for sales, approximately €11.6 billion for EBITDA before special items, and around €6.45 for our core EPS. There is almost no impact on free cash flow, as already explained. We own the cash flows from discontinued operations until the deals are closed. We expect Currenta to close in December, so there is a very minimal impact from that transaction. Net financial debt is expected to be around €2 billion lower, at approximately €34 billion, which considers net proceeds from the Coppertone, Dr Scholl’s and Currenta transactions.

With only one quarter left, we have added a fourth column to share our expectation of the currency impact on our full-year financials. Our calculation considers the already realised year-to-date impact, and our Q4 forecast, which is based on September 30 spot rates carried forward for the remainder of the year. Therefore, the last column depicts our 2019 guidance after adjusting for the discontinued operations and currencies. Specifically, this results in sales of around €43.5 billion, EBITDA before special items of approximately €11.5 billion, and a core EPS of around €6.35. We aim to be at the upper end of the given free cash flow range and would expect net debt to be around €35 billion at year-end.

Before we start the Q&A, let me wrap up by summarising our focus areas. First and foremost, we are committed to delivering on our operational targets, as reiterated today, as a going concern and adjusted for discontinued operations and foreign currencies. Second, we are focused on the smooth integration of the acquired business in order to shape the future of agriculture, and of course we will continue to vigorously defend glyphosate while constructively engaging in mediation talks. Third, we expect to further deliver sales and margin growth in Pharmaceuticals. In addition, we plan to strengthen our internal pipeline as we intensify the external sourcing of innovation. Fourth, we will strive for an improvement of the operational performance of our Consumer Health business as shown in Q3. Fifth, we expect to deliver our targets for the Bayer 2022 programme both related to the synergy realisation and efficiency improvements. And lastly, we anticipate the successful closing of our remaining portfolio measures.

With that, I will hand the call back over to you, Oliver, to start the Q&A.

Questions and Answers

Oliver Maier

Great, thank you, Wolfgang, and thank you, Werner, for your comments. I think with that, we can open up the session for Q&A.
Vincent Andrews, Morgan Stanley

I apologise if I missed this, because I had to hop off quickly, but could you help us understand the seed reversals in the quarter? Could you help us quantify those so that we can get a better sense of the completion of the North American season versus the start of the Latin American season? Thank you.

Liam Condon

Thanks, Vincent, for the question. So we’re not… We haven’t broken that out specifically yet, but let me just help you try to understand what happened there. Usually we have our true-ups in Q3. This year, as you know, was particularly volatile given the unique flooding in the US. So we actually did as many true-ups as we possibly could actually already in Q2 for corn and for soybeans, so we built provisions and then looked in Q3 at what the actual situation was. And what we saw was clearly there was more corn planted and less returns than we had been originally anticipating. So it’s about 89 million acres versus anticipated about 86-87 million. And there was less soybeans than anticipated. That was a more minor effect for us but a very big effect for the market, 14% down year-on-year in acreage. And net that turned out into for us a positive upside on the corn seeds – basically driven by corn seeds and traits. So that was one of the drivers of the Q3 results. The main effect was Latam, positive Intacta seed penetration and fungicide sales, but the North American corn true-ups reversal of provisions was the other point that helped us in Q3.

Vincent Andrews

Okay, and, as a follow-up, if you could just speak a little bit about seed price cards in North America. There has been a lot of commentary in the investment community about what’s happened with soy price cards being lower. I think there’s some confusion around what’s happened to your corn price cards in terms of promotional spending and so forth, so maybe you can help us there.

Liam Condon

Yeah, so one thing that was important for us now, as an integrated company going forward, is that we’ve basically harmonised/unified all of our go-to-market offerings. And we have a new programme, Bayer Plus, within which our overall seed offerings are included. And the net effect of that, if you look at it from a corn and soy seed point of view – net effect we would still be looking at low single-digit increases for our corn seeds and traits going forward. So, as usual, wherever we have innovation we’re passing the added value we also gain through increased pricing in the market. For soybeans, it’s a different situation. The market is much more highly competitive, based simply on the fact that there is oversupply right now. The US is suffering from the US-China trade conflict. Commodity prices are low. There is more competition in the market. So here we’re expecting a low single-digit decline going forward. So that’s, on both corn and soybean, kind of the net impact that you would be seeing on the price cards.

But overall, from a corn point of view, there is no decline. So just to make that clear – because I think that was misunderstood: from some of the changes in the rebate programmes that have simply been harmonised there’s actually a net increase on new hybrids into the market.

Vincent Andrews

Very helpful, thank you very much.
Wimal Kapadia, Bernstein

Thank you very much for taking my questions. If I could just first start just with a little bit more colour on 4Q19. So your EBITDA margin year-to-date for Pharma is around 34%, and when I look at historical earnings 4Q is typically a high opex quarter. So should we expect a trend away from the norms that your guidance for 34% margin is achieved for the full year or is that target a little bit stretched? And then I think the same question for Consumer. Year-to-date it’s sub 20% year-to-date margin and your guidance is at 21%. So that suggests a margin for the fourth quarter of 24-25%. Just to get some colour there would be very helpful.

And then my second question is just on China. Clearly, 4Q was strong for Pharma in China in certain products such as Adalat and Avelox, but my question is how sustainable is that growth for these products? And then my second question is which of your products are potentially at risk from the next round of volume-based procurement contracts in the region? You know, how do Bayer see these risks more broadly for their portfolio? What will the strategy be for the bidding? Will you bid competitively and play volume or will you attempt to maintain price and focus on value? Thank you very much.

Stefan Oelrich

First, the EBITDA question – we’re still fully in line with full-year guidance for Pharma. So, nothing has changed and the expected Q4 and Q3 do not change anything about this. So our Q3 was going according to our plans. Please be mindful that we also have the oncology launches in the ongoing quarter, but all in all we’re fully in line with plan.

As to China, very solid growth. We’re extremely pleased with our performance in China in the third quarter, so we continued strong basically on most of our major brands there. When it comes to the volume-based purchasing that you’re alluding to, this is difficult to assess, from today, how this is really going to impact. We have a few products that could be eligible for the list. So far we’re off the list. If we get on, we’ll have to see then how our bidding strategy is going to be. I don’t think it would be wise to reveal it on this call, but I’m happy to elucidate to you about that after we went into the bidding next year, if that happens. But so far it’s more guesswork, so we’ll have to wait to see what happens with that.

Wimal Kapadia

Okay, thank you very much.

Heiko Schipper

Yeah, just on the Consumer profitability outlook, obviously, when you look at Q3 year-to-date and then outlook, you should have a pretty good Q4. The factors that really play here are, first of all, continued growth and, as we have reset the cost base, we should get good growth leverage.

Secondly, I would say we continue to have some tail-end brand divestments that are a bit more skewed towards Q4 this year, so that’s also going to help us. So overall we think that we can still bring in that number.
Participant

Thank you.

Jeffrey Zekauskas, JP Morgan

In your Crop Science business, your prices were up 4%. And so if you adjust for your divestitures last year, your sales were about €3.5 billion, so a 4% price increase should be an increase of about €140 million. You had positive volume and you had positive currency. Why weren’t the EBITDA numbers higher in the quarter? I noticed you talked about some issues in cost of goods sold. Can you quantify that and explain why you didn’t make more than you did?

Liam Condon

Thank you, Jeff. So the price increase was largely actually driven by Latam Brazil. It was largely the Intacta penetration – increased penetration. You know we’re on over 65 million acres already, but that’s still increasing further. So this was, for us at least, very good to see. On the EBITDA side and what was, let’s say, headwinds for us in the quarter, I’d highlight two things. One, on the COGS side, still out of China, because of the ongoing clean-up and the blue sky initiative, we are still seeing increased COGS coming for products and AIs that are sourced out of China. So this has been basically a recurrent theme throughout the year, and that continues. It’s unclear how long that will last, but it is a recurrent theme. It will also continue in Q4. Overall, we believe net-net this is good for the industry, because cleaning up means they’re also bringing production also up to Western standards, but it’s a cost issue for us.

And the other one specific which I’d say is clearly more of a one-off event, given the soybean situation in the US, there were significantly less soybeans planted than were originally anticipated, so only about 76 million, 77 million acres, so here we have obsolescence costs on the seeds side, which factored into COGS. So they’re kind of the two factors that would have held us back from achieving even more.

Jeffrey Zekauskas

And for my second question, because of your FieldView software, you guys have a very good view of corn yields in the United States. The USDA thinks that corn yields will be about 168 bushels an acre this year. Do you agree with that? Do you think that number is basically right or do you think it’s high or low, or by how much?

Liam Condon

Yeah, so really hard to call right now, but we do have some quite unique insights. What we are seeing is, let’s say, harvested versus planted we’re at about 40% also for FieldView, so that tallies more or less with what USDA has been saying. It’s significantly lower or slower than what the average period would have been, like the last five years, but also last year, which would have been well over 60% on corn. What we’re seeing with FieldView is that what was planted early has very good yields. And that, I think, is the USDA assumption. It’s possibly extrapolating forward what’s already been harvested. The problem is that there was an awful lot that was planted late and the later it was planted, the weaker the yield is going to be. So we don’t yet see that in our FieldView numbers, because it’s still too early, but we do have an implicit assumption that the yield is going to be lower than what the USDA is currently forecasting. It’s too early to make the call, but, given the quality of
seed that we can see in the fields right now, it’s hard to imagine the yields would be as good as are currently being forecast.

**Jeffrey Zekauskas**

Thank you so much for that

**Sachin Jain, Bank of America**

Thanks for taking my questions – a few, please. Firstly, on Xarelto and the 218 patent debate, could you confirm that you’re in settlement discussions with Mylan as the legal docket seems to suggest? And I wonder if you can just give colour as to what is outstanding. Is it just choice of date or are you still in substantial discussions as to whether that settlement stands or not?

The second one is for Liam on fourth-quarter Crop. I know there’s already been some comments around this, but guidance implies roughly 7% or 8% for fourth quarter, so if you can just discuss the variables and what you’re seeing that gives you confidence in achieving that. And then just a final one for Werner regarding your introductory comments around glyphosate mediation. You referred to the two criteria as ‘financially reasonable’ and then ‘reasonable closure’. The last part of that, reasonable closure, is slightly different to how you worded it on the 2Q call where you referred to it as ‘finality of litigation’. Now, I would interpret the comment today as slightly looser, but I just wondered if I over-interpreted it and whether you could comment there. Thank you.

**Stefan Oelrich**

On the Xarelto patent, you’re right. We have one patent for Xarelto in the US, the so-called 218 patent, which expires in February 2034. This has been challenged. We of course believe strongly in the validity of our IP, so we’re defending this and we’re currently, as Mylan has challenged this, discussing – still in discussions on settlement. So this hasn’t really changed much since we last talked about this, so you’ll have to stay tuned. And I would hope that on the next call we can give you a little bit concrete information on where that stands.

**Liam Condon**

Alright. Thank you, Sachin. So, Q4 I’d characterise our confidence as good, relatively strong. I say ‘relatively strong’, because whether or not sales fall into the last week of December or first week of January is not always directly influence-able, but I’ll indicate to you where we see the growth coming from. Number one, primarily, it’s Latam; it’s specifically and particularly Brazil. And this will be largely driven by the Crop Protection portfolio, because the seeds and traits – we’ve booked a good portion now in Q3, so particularly fungicides, herbicides and insecticides. In APAC, we are expecting now in the southern hemisphere also good growth on the Crop Protection side again across the board with the portfolio.

We have a significant sales expectation for Vegetable Seeds in Q4. You’ll have noticed that we had a very weak Q3. This is simply due to the fact that we took over – we sold the legacy Bayer Vegetable Seeds business to BASF and we acquired the Monsanto business, Seminis/De Ruiter, which was significantly bigger. And we are basically tuning the business now to a full-year calendar. You know that Monsanto was on a different financial calendar than Bayer originally was, and that leads to some changes in the phasing, which… Simply on a year-on-year basis it means a low Q3 and a high Q4 – but just to explain where we would expect to see something coming.
And the last one is we’re getting early indications from the market of high interest in corn seed in the US, North America. Whether or not that actually happens, we’ll see, but at least the demand appears to be there, so that could also help drive growth.

On the bottom line, I’d just highlight very briefly all of the above. So the sales growth that you indicated – that will be driving the bottom line. We’ll also have a better mix. As you’ll recall, we had some post-closing agreement sales to BASF which were much more significant in Q4 last year. This year they are significantly lower. But these sales were dilutive on our margin, so this helps us overall as well from a mix point of view. And, of course, what Werner and Wolfgang alluded to earlier, the increasing accelerated synergies, which also help us on the bottom line because relatively, of course, more is going to flow into Q4 than other quarters.

**Werner Baumann**

Okay, thank you, Liam. So, Sachin, to your question on wording and your finality and reasonable closure, I think content-wise there’s no difference between what we were talking about at the end of quarter two and now end of quarter three, but your question gives me the opportunity to explain a little bit where we are and what we really are working on.

As most of you know, the glyphosate case is a very special one, because it’s different from Pharma where you have a door-closing event with a label change or what have you or, let’s say, a change in your promotional marketing activity, whatever the reason was for litigation. Here we have a product that is perfectly fine in terms of its regulatory status, as has been actually seen over and over again with regulatory confirmation and also the very strong EPA stance that the EPA took on, let’s say, the idea to put a cancer warning on a product that shouldn’t have one because it doesn’t carry a cancer risk. That you will have seen from the EPA.

So we are going to see a product that will continue to be on the market with the existing label, and we need structural measures that we are working on as part of the structural discussions in mediation, as we talked about, that provide us – I would call it – de facto or close to de facto finality from a structural perspective so that we can work with, you know, the remaining tail that is of course one of the key considerations beyond the immediate settlement of the cases that we will have at hand at the time of an envisaged settlement should we be successful with the mediation under Ken Feinberg’s auspices.

**Sachin Jain**

Thank you.

**Emmanuel Papadakis, Barclays**

Thanks for taking the two questions. Maybe one on haemophilia: you had a surprisingly resilient result again for Kogenate. Clearly, it is, however, something of a legacy asset in a space that is therapeutically changing, and you’ve just discontinued one of your potential next-generation options for that, TFPI, and you don’t seem to have made a huge amount of progress on the gene therapy collaboration with Ultragenyx. So, if you could talk about your strategic vision for that franchise, do you think you need to now go externally to fix that gap? Do you think what you have in hand is sufficient? Any comments on the gene therapy programme or plans would also be of interest.
And then one on Eylea – again, another resilient performance. You’ve obviously got some competitors launching currently and into next year, and plenty more data points coming from potential additional competitors through next year and beyond. Could you just talk about the extent to which you think volume growth in indications such as DME, etc, will potentially offset that competitive pressure, i.e. should we expect that it can remain a growth asset into 2020 and beyond? Many thanks.

Stefan Oelrich

Thanks for your question, Emmanuel. So, the first question on haemophilia, let me start off by saying that we’re extremely pleased with the results we had in the quarter and that we’re having throughout this year with both the Jivi launch but our overall Factor VIII-based line of products. What is really interesting to note when you look at the haemophilia market is that we were predicted to come into really heavy weather, and what we’re seeing in the facts is that Jivi is hitting a nerve in the market and that we are serving to the needs of our customers. And there’s a reason why evolution put Factor VIII as a clotting factor into humans. And we’re providing exactly that factor that these patients are deficient with, with a very long-lasting safety profile, with the strong loyalty that our customers and our patients have, so we feel actually quite good about our Factor VIII franchise in itself.

When it comes to the future, it’s too early to say where our gene-therapy programme that we have is going. We have a phase one ongoing. We have the amount of patients on product so far as planned, and it’s a little bit too early to talk about the results, but we’re not discouraged at all by what we’re seeing so far in our gene-based therapy programme there. So I think it’s still an interestingly resilient business, maybe more than some observers may have thought.

Then on Eylea, Eylea is really an interesting one. And you know we’ve upped our guidance for Eylea this year to lower teens from higher single digits, so we’re very pleased there. What we’re seeing on Eylea this year, positively for the most part, is that both volume and pricing are ahead of where we thought we may be given some countries that had favoured use of alternative products, like in the UK especially but also in Canada. This is not coming through as maybe we may have anticipated, which I think is good news for patients.

And then when it comes to the new products, this is an interesting one, because they have to go up against the standard that we have established with Eylea, which is really hard to beat. [...] So we feel comfortable about this, but even more so from a label perspective. As we compare labels, efficacy-wise there is no disadvantage whatsoever from an efficacy standpoint compared to what we believe is the standard of care, which continues to be Eylea. And when it comes to other products that may join, these data are very early and preliminary so I wouldn’t speculate on this. The only true comparison that I have so far is the FDA label from brolucizumab, and we feel quite confident that we can handle this.
**Emmanuel Papadakis**

Thank you.

**Richard Vosser, JP Morgan**

Thanks for taking my questions. My first question – just thinking more widely from the cost-saving programme that you initiated across the divisions outside of Crop, could you give us an idea of how those are going, what savings you think you can achieve for this year and particularly the savings you might achieve in the reconciliation or the central cost bucket? Secondly, linked to that, just thinking about the reconciliation, perhaps you could give us the idea of where that might come out this year in terms of guidance. Are we looking at another €400 million loss or cost relative to the level that was in your restated numbers?

And then a second question just on Pharma – just thinking about some of the pipeline data points that are coming, perhaps you could set the scene for us on vericiguat and maybe finerenone. Certainly with vericiguat I think there are phase three trials imminently around the corner. Perhaps you could give us an idea of when we should be thinking about the timelines and maybe some of the commercial hurdles for success, given we now have SGLT2s with a 26%/25%-plus benefit in terms of cardiovascular risk and obviously Entresto there as well. So just some thoughts there on vericiguat, please. Thanks very much.

**Wolfgang Nickl**

Okay, Richard, thanks for your question. Let me start you off on the savings programmes, and then I’ll also shed some light on recon. As you may recall, we are aiming for a total contribution of about €2.6 billion, some of which will be reinvested in the business. Out of this, about 1 billion comes from the synergies from the post-merger integration, with about €500 million out of Consumer Health, €200 million out of Pharma, rationalising R&D to go more external and the balance coming from the platform functions.

We had, at the Capital Markets Day, indicated a preliminary phasing of 30% of these savings in 2020, 70% of these savings in 2021 and then 100% in 2022. We are doing altogether very well, like we already outlined on the call. This is driven by the PMI [Post Merger Integration] portion right now. We had originally thought to get 25% of the savings this year. With the €300 million that we indicated earlier, that’s more like 34% savings, so we’re ahead of game there. That also brings the total on the overall programme over €600 million. If you for a second take the €600 million and contrast it with the €2.6 billion altogether, you’re approaching 25%, which gives you a clue that the 30% next year are certainly well within reach. The teams are doing a really good job there trying to contain one-time costs where they can and not dropping the ball in the business, so that’s really very, very encouraging.

As it relates to reconciliation, I appreciate the question, because I can understand how this is a little bit difficult to follow. I remember, there was Currenta in these numbers before. Now, with that being a discontinued operation, reconciliation remains a collection of smaller business. That includes things like our gastro business. That’s not gastro in a medical sense; it’s our restaurant business, basically. We have TravelBoard; we have our sports business. But then the main deal in reconciliation are the platform costs that we are not charging to the divisions because there is no clear key. Those numbers can be volatile throughout a year, and you have seen less of an impact in Q3 than in Q1 and Q2, which has to do with, yes, better platform costs altogether but it also has to do
with some central adjustment to STI/LTI. We had to make some adjustments to the IFRS16 implications, and we had some movements to the prior quarter and to the following quarter.

I think for your modelling the most important thing is that we’re changing our guidance. So now that Currenta is out, it used to be €1.6 billion in revenue and a negative €200 million in EBITDA. Now with Currenta out, it’s €0.3 billion in revenue and -€0.35 billion in EBITDA contribution. So if you look at that and you have three quarters of actual, you know that the fourth quarter is closer to what we had in quarter one and quarter two, so you can use this for your planning considerations.

Last but not least, as the portfolio has changed, as our business has changed, as we’re changing some of the structures, we’re obviously also reviewing how we do these allocations. And if we make any changes there, we will let you know with our guidance for 2020 and then, at the very latest, at the Capital Markets Day that Werner mentioned will happen in June of next year.

Stefan Oelrich

Hi, Richard. So, when it comes to the Pharma pipeline, yeah, we have got some exciting months ahead of ourselves here, because we’re waiting basically on a daily basis now on the results of the first vericiguat phase three trial, the VICTORIA study in heart failure with reduced ejection fraction, so that study is completed. I haven’t seen the data yet, but I can’t wait to see it. I guess same for you. We also have… When it comes to the near future, by end of year we should have study completion and hopefully also the results for the phase-two trial of vericiguat in HFpEF, so in preserved ejection fraction patients.

More to the pipeline, on finerenone – so primary completion for our first phase-three trial in diabetic kidney disease, the so-called FIDELIO study, which is an outcome study… We will have primary completion probably beginning of second quarter, so we should have in the second quarter some top-line data hopefully. Not to forget that we filed Nubeqa, so darolutamide, in Europe, so this is coming too. We expect launch next year there. And we also have an interesting study that should complete before end of year in phase three for Xarelto in peripheral artery disease, the VOYAGER PAD study.

Now, you asked about giving some context from a competitive standpoint in the heart-failure field and how vericiguat could potentially differentiate – that’s how I understand it – against a busier field of competitors, especially SGLT2s and also Entresto there. So, first of all, please be reminded that this will be the potential first-in-class treatment for chronic heart failure, because no other sGC stimulator has so far been approved for use in heart failure. And, personally, when I look at the field and when I also talk to specialists in the field, they see room for multiple different approaches in treatment, multiple classes that you would treat patients with. So there should be enough room.

And, more specifically, when you look at how we’ve conducted the trials for vericiguat in HFrEF patients, you will see that not only do we believe that we have a very nice PK profile which allows for good dosing, but that’s comparable to competitors. We see our novel action mode, with the opportunity to demonstrate value where others can’t go, for example in post-event patients or in patients with worsening heart failure. So there are, to my knowledge, on worsening heart failure, no concluded studies with SGLT2s, so we would be ahead of them there. And I think there’s enough room to differentiate. But let’s not get ahead of ourselves. This is a new class, and I’m keeping my fingers crossed that we actually establish a new class to be effective in the treatment of heart failure, which still, let’s not forget, is one of the primary killers worldwide overall.
Richard Vosser

Thanks very much.

Joseph Lockey, Morgan Stanley

Two questions, please. First for Werner, you said this morning that the Johnson appeal outcome is now expected at the beginning of next year. Is this delay a function of the mediation process or simply a function of court timelines? I appreciate there’s only so much you can say, but any clarification would be helpful.

Second, Wolfgang, at the Capital Markets Day in December you gave us a constant portfolio target of €23 billion in free cash flow generation from 2019 to 2022. I think €12 billion was to support growing dividends, €9 billion for deleveraging, and €2 billion for bolt-ons. Over the next 12-18 months you’ve got cash coming in from divestments – €8.3 billion net, as you say – but also potentially some cash going out for a settlement. So how should we think about your original capital allocation priorities in that context? And then, related to that, when do you think you’ll be in a position to write updated 2022 targets?

Werner Baumann

Okay, let me start before I hand it to Wolfgang. On the Johnson appeal the court decision is going to come, based on our best guesstimate, in early 2020. It’s very unlikely that is still going to happen in 2019. Relative to timing, there’s no relation to the ongoing mediation discussions here, so it’s completely separate, so you shouldn’t read anything into it other than the fact that this is in the hand of the courts, and not in our hands, and not in our control relative to timing.

Relative to the position that might come out of it, this is, of course, nothing but this specific position in an individual case. Should we prevail, this is a slight positive; should we not, it might be a slight negative. So it’s relative to the significance. You shouldn’t take it as something that is too relevant for the overall litigation complex, and we are just going to wait for the outcome of that first appeal. The two others will be following later, because we’ve only filed one set for the appeals. That’s Johnson; the others are still coming.

Wolfgang Nickl

Let me talk about capital allocation and targets. You got it exactly right on the €23 billion; that is the strategy that we communicated, which stresses the importance of dividends but also stresses our commitment towards an A rating, i.e. de-levering, like we have done previously after we have made bigger acquisitions. On the divestiture gain there’s a little bit of time before we spend that money. We had initially indicated that we may do some share buybacks, we still think the shares are a very good investment, but we’ll cross that bridge when we get there because these divestment procedures, the vast majority will come from the transaction with Elanco, and you know that’s going to happen between the middle of next year, with a portion of it, the equity part, coming afterwards. It’s too early to speculate about, if there’s a settlement, how high that settlement will be. Rest assured that we are of course playing through several scenarios on that front.

What I can say about the 2022 targets, you got a bit of a clue today regarding the €10. This will obviously not have Animal Health and Currenta included, so you can assume the 35 cents that we
indicated with some growth in that business already for now. We’ll have to look at the rest of the business, and then currencies again. Our current plan is to provide you an update at that Capital Markets Day in June, with the full model, including P&L, capital allocation, everything.

**Keyur Parekh, Goldman Sachs**

Two big picture questions, please; one for Werner. As we think about your – the breadth of your portfolio and your portfolio measures, should we not think of this as being broadly done, or are there other parts of the business that you might think of as potentially not being part of Bayer longer term? Linked with that, as we think about the emphasis on sourcing innovation externally, can you help us think about what are the – what is the magnitude of external firepower that you think you have over the next six, 12, 24 months? That would be useful.

Secondly, we believe there was a recent agreement by which you’ve agreed with your German employees that until 2025 there will be no more restructuring of your German employee base. Can you confirm that and, if that’s the case, where do you expect the majority of your incremental cost savings to come through?

**Werner Baumann**

Many thanks for your questions. First of all, on the portfolio measures, yes, all of them are done, and those refer to the ones that we had announced as part of our capital markets agenda that we communicated in November. As you know, the business portfolio is always subject to assessment on whether we are the best owner-operator for our businesses. Relative to our big businesses, be it Pharma, Consumer or Crop Science, there’s no question around it, and you also see that reflected in our performance; we are doing what we said that we were going to do, be it integration and synergy, the strong leadership positions we have in Crop, be it sustained and continued growth in Pharma while further building the pipeline, or the consumer business that we are turning around, and Heiko commented on that before. Also, the prospects of another growth quarter to sustain the turnaround that we were talking about, refreshing our product portfolio, and then also catching up. Essentially we are at our peer growth rate, roughly, already this quarter, so things are going well relative to everything that we’ve said. There will be smaller things that we’re looking at. Heiko referred to those with some tail brands, but nothing major that you should expect, because these are the ones that we announced on purpose so that you know what is coming last year in November.

Secondly, external firepower: we can continue to invest in our businesses, and this is of course very important, relative to driving that development competitively. We have done a few things; certainly further building our LEAPS portfolio, where we have engaged with a number of additional new companies that we are a partner to in setting them up. We have actually acquired the remaining, outstanding shares of BlueRock, and we continue to be looking out for further opportunities. Of course, we will always have to look, certainly for the time being, at what it is that we can do incrementally while not knowing what is going to come our way. With the glyphosate litigation I can refer back to what Wolfgang was saying; our Finance and Treasury department, also from a risk management perspective, is looking at it carefully, and that’s the frame within which we are moving for the time being while the settlement discussions are going on.

Relative to the agreement in Germany, there’s one thing that is, I think, very important to understand on how these agreements work. These agreements are there to enable the further development of our workforce, also in this case the reduction in force, and we are typically doing that with a negotiated
umbrella that we have with employee representatives that actually negotiate with us on behalf of our entire workforce, and we are then looking at ways to come to voluntary agreements, because that is the only meaningful and reasonable way of doing that. You’re looking at overall 4,500 people that we are going to reduce our workforce by in Germany. The alternative would be to go through social selection, and that is actually in nobody’s interest. The agreement overall is absolutely no impediment to the realisation of savings; it’s actually an enabler thereof, just to make sure that that is clearly understood and heard by everybody.

Michael Leuchten, UBS

Just a clarification question to Liam, please. Just going back to the commentary on input prices and COGS, is it fair to assume that this will actually annualise as we come out of Q4 and we should see more revenue-driven market leverage going into 2020, or is this a trend that will get incrementally worse and we should be careful with that assumption?

Liam Condon

Yeah, thanks, Michael. The two issues that I referred to, clearly the soybean obsolescence COGS effect, that’s a one off related to the weather. China, is hard to call how long that will last. We’ve been seeing that all year. We assume that that will continue at least partially into 2020, but it’s hard to be that specific on forecasting, because it depends now completely on what happens in China. But of course our bottom line is going to be driven by the revenue growth going forward and the synergies, which will clearly outbalance any COGS relative related impact in 2020.

Oliver Maier

I think we’re running out of time, so we are going to close the call here as there’s no more questions in the line, right? So with that there’s actually one more thing that I’d like to make everybody aware of that I think is important. As indicated, we as Bayer actually have spent a substantial amount of time to upgrade our efforts, ambitions and targets in the ESG area, and our leadership of Matthias Berninger – who joined Bayer AG in January this year – the teams have worked diligently to be able to develop a 2030 ESG strategy, and what we think are ambitious targets with overlaying the ESG strategy with the business strategy. There will be, as it looks like we’ve planned for a webcast to introduce that 2030 ESG strategy on 10 December, just to make you aware of that, and the invitations are going to go out in due course within the next couple of days.

With that, I’d like to thank everybody for participating in this call, and talk to you soon. Thank you.
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