Bayer AG Leverkusen
FY/Q4 2020 Investor Call

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Overview of Key Developments

Speaker

Bayer AG

Oliver Maier

Great. Thank you so much, Hayley. Good afternoon and thanks everybody for joining us today. I'd like to welcome all of you for our Full Year 2020 conference call. With me on the call today are Werner Baumann, our CEO and Wolfgang Nickl our CFO, and as always the businesses are presented by the responsible management board members. So we have Stefan Oelrich for Pharma. We have Liam Condon for Crop Science. We have Heiko Schipper for Consumer Health. When I will begin, today's call with an overview of the key developments, performance of the divisions and the strategic outlook. While Wolfgang will then cover the financials for the full year, as well as the outlook for 2021, before we open up for the Q&A session.

As always, I would like to start out the call today by drawing your attention to the cautionary language that is included in our safe harbor statement (see last page) and as well as all the materials that we've distributed today.

And with that, Werner, I hand it over to you.

Welcoming Remarks

Werner Baumann

CEO, Bayer AG

All right. Thanks Oliver and good afternoon, ladies and gentlemen. It's my pleasure to also welcome you to our conference call today. So first, let me start by saying that last year was really unprecedented in many regards. A once in a century pandemic continues to affect our businesses, employees and the lives of our families. We really stepped up as a company, reliable partner, and also good corporate citizen. And I'm very proud of the incredible engagement and the contributions of our 100,000 people around the world in helping wherever we could. That's what we stand for as does our vision, health for all and hunger for none. True to that vision, we recently also entered into a partnership with CureVac for the development and production of the vaccine candidates to help fighting the pandemic as fast as possible.

Second, our businesses have proven to be robust and resilient despite headwinds from the pandemic, regulatory challenges and the negative currency effects. In Pharmaceuticals COVID-19 restrictions led to a reduced number of elective treatments, especially in our ophthalmology, women's health and radiology businesses. Strict to hygiene and protection measures also weighed on the demand for our cough and cold products in Consumer Health. On the other hand, our nutritional's business benefited from the increased focus on
prevention and self-care. Furthermore, the massive devaluation of major currencies, like the Brazilian real had a negative impact, particularly on our Crop Science businesses.

To mitigate softer growth in currency headwinds overall, we focused on factors within our control by accelerating our efficiency programs and implementing tight cost management measures. Third, to set the stage for future growth we have successfully matured our late stage Pharma pipeline with Nubeqa, VERQUVO, the brand name for Vericiguat, and Finerenone. We also intensified the external sourcing of innovative assets and acquired businesses in the cell and gene therapy space in women’s health and in personalized nutrition. We also concluded our announced portfolio measures with the sale of our Animal Health business. And we reset the asset base in our Crop Science business with necessary non-cash impairment charges at the end of September.

At that time, we also said that we would look at further divestments of businesses below the division level. To that end, we yesterday announced the plan to the best of our Environmental Sciences Professional activities and we’ll continue to evaluate other divestiture options. Let me also provide you with a brief update on our litigations. In early February, we announced and filed an updated agreement that the plaintiff’s counsel on a plan intended to manage and resolve future Roundup cases. The new agreement is now subject to court review and approval. We also continue to negotiate with plaintiff’s counsel to reach agreements on the remainder of the current cases, approximately 90,000 claims in the Roundup litigation overall are covered by settlement agreements that have been executed or in the process, or did not meet the requirements for eligibility and were disqualified.

I’d also take the opportunity to welcome Sarena Lin to the team. Sarena was appointed to the Board of Management on February 1st as our Chief Transformation and Talent Officer, and she will play a pivotal role in driving the transformation of the company. Finally, we will share our strategy updates for the group and our divisions, as well as our midterm targets at our upcoming Virtual Capital Markets day on March 10th and 11th. So a lot has been accomplished, and I’m particularly pleased to say that we achieved our updated guidance based on currency rates as of month end September, despite further currency deterioration in the remainder of the year. The right column shows that, as reported, full year figures with solid check marks across the board.

Sales grew by 1% on a currency and portfolio adjusted basis and came in at 41.4 billion Euro. Our adjusted EBITDA margin for the group increased by 140 basis points to 27.7%. And Core EPS was stable at six euros and 39 cents. Our free cashflow amounted to 1.3 billion Euro impacted by settlement payouts. It actually came in above our adjusted guidance supported by strong operational cash generation, which also contributed to reducing our net financial debt to 30 billion euro. We proposed a dividend payment of two Euro per share for fiscal 2020, which is subject to approval by the AGM. The payout ratio of approximately 31% is within the target corridor of 30 to 40% of our core EPS. Let me now turn to the performance of our businesses and starting with Crop Science.

Our currency and portfolio adjusted sales were up by 1% driven by a strong performance in Latin America and Asia Pacific, which both grew 9% and compensated for a decline in North America of 4%. The decline in North America was mainly due to demand shifts in corn, increased competitive pressures in soybean and the temporary loss of the XtendiMax registration. Following the new EPA registration in late October, for our XtendiMax herbicide
we have now received all necessary state registrations. On a global basis, corn sales were close to flat with growth in all other regions nearly offsetting the declines in North America. Similarly, very strong sales growth in Intacta in Latin America exceeded the declines in soybeans in North America, which led to slight growth overall on a global basis.

Our fungicide platform continued a strong growth trajectory with all regions contributing to a 9% currency and portfolio adjusted sales increase. In particular, the continued upgrade to Fox Xpro in Brazil as well as more favorable weather in North America and synergy effects from the combined product offering positively impacted sales. Our environmental science business also saw strong growth across all regions with an increase of 12% on a currency and portfolio adjusted basis.

Our vegetable seeds business fell year on year by 4% as our business in North America saw COVID related lower demand. While sales grew, Crop Science EBITDA before special items declined by 4% to 4.5 billion euro. Positive cost management and synergy contributions were more than offset by massive negative currency effects of 540 million euro.

Let’s now shift to Pharmaceuticals; sales fell on currency and portfolio adjusted basis by 2% to 17.2 billion Euro in 2020, mainly due to the impact of the COVID-19 pandemic on elective treatments as outlined earlier.

Furthermore, the second round of the volume-based procurement policy went into effect in April in China and significantly burdened the prices of our Avelox and Glucobay products throughout the year and led to marked top-line decline only partially offset by volume gains. Our best-selling product, Xarelto, continued the strong growth trajectory and group at 12% on a currency adjusted basis in 2020. Despite the top-line shortfall and negative currency effects, our EBITDA before special items rose by 3% to six billion Euro raising our margin by 230 basis points to roughly 35%, thanks to tight expense management, including some non-recurrent savings and roughly 150 million Euro milestone income from Adempas.

We are very excited about the progress of our late stage pipeline. For VERQUVO, we received FDA approval in January. VERQUVO is the first approved soluble guanylate cyclase stimulator for the treatment of symptomatic chronic heart failure and Finerenone, our treatment for patients with chronic kidney disease and type two diabetes was granted FDA priority review in January. Furthermore, BlueRock Therapeutics, originally it leaps by their investment receive clearance by the FDA to initiate a phase one study in patients with advanced Parkinson’s disease. With the acquisition of KaNDy Therapeutics, we have added a novel phase three ready non-hormonal development candidate for menopause management to our women’s sales business. We also strengthened our technology and pipeline footprint through the acquisition of AskBio. Complimenting BlueRock Therapeutics, we established the cell and gene therapy platform and some clinical assets designed to develop breakthrough, innovative treatments for patients.

We close out the divisional updates with Consumer Health, which showed a strong 5% sales growth across all regions in 2020 on a currency and portfolio adjusted basis. This was driven by a significant momentum in our nutritionals business, which was up 23% from continued demand for preventive health solutions. At the same time, a weak flu season and the lower demand for our cough and cold products caused a 4% decline in our allergy and cold category while our allergy products continued to grow. Our clean EBITDA margin increased 110 basis
points to 22% in 2020, driven by accelerated growth and contributions from the efficiency programs. EBITDA before special items decreased by 3%. The very good underlying business performance is masked by roughly 180 million Euro negative currency and portfolio effects versus prior year.

Before Wolfgang provides more details on 2020 and our financial guidance for 2021, I'll offer some closing perspectives. To set the stage for future growth, we will build on our strengths and focus on factors within our control while navigating macro dynamics. In Crop Science we're the market leader with industry leading profitability and pipeline. We are actually cautiously optimistic about the emerging positive market environment as commodity prices for corn and soybeans have substantially improved since September, and if sustained, should impact our business positively. We'll discuss updates as we move through the coming quarters.

In Pharma, we continue to focus on maximizing the value of our blockbuster Xarelto and Eylea, and of course we prepare for successful launches of VERQUVO and Finerenone and the further rollout of Nubeqa. Our Consumer Health business will further focus on sustainable, profitable above market growth, driven by our strong brand portfolio and the recent addition of Care/of. But I look at a broader perspective beyond our own operations, it is clear that the pandemic is far from over. It could further impact markets and eventually our business. Against that backdrop, we are very happy that we can help in providing vaccines due to our cooperation with CureVac and the recent announcement that we’ll take up vaccine manufacturing still in 2021. As far as our current perspective and guidance is concerned, we do expect positive growth momentum across all our businesses. And with that, let me hand it over to Wolfgang.

Financial Outlook

Wolfgang Nickl

CFO, Bayer AG

Thank you, Werner. Ladies and gentlemen, also a warm welcome from me. I will now walk you through with some additional financial details for 2020 followed by our financial outlook for fiscal 2021. Group sales amounted to 41.4 billion Euro on EBITDA before special items came in at the prior year level of 11.5 billion Euro. It is important to note that foreign exchange effects the substantial negative year on year impact on both sales with 1.9 billion Euro and EBITDA before special items was roughly 740 million euro. Core earnings per share were roughly flat at six Euro and 39 cents with our core tax rate slightly up at 23.7% compared to 22.5% in 2019.

Let me add here that the currency impact in our core EPS was 53 cents in 2020. This means that at constant currencies, we would have landed at six euros and 92 cents, almost hitting our original guidance range of seven euro and 20 cents despite the pandemic. Our free cashflow exceeded our adjusted guidance and reached 1.3 billion Euro in 2020, driven by strong operational cash generation. This includes litigation related settlement payouts of approximately 3.8 billion euros. So operationally, we've beaten 2019 4.2 billion Euro based on focus looking capital and CAPEX management.
The bridge from our core EPS reported EPS from continued and discontinued operations starts with the six euro and 39 cents core EPS for continued operations I just mentioned.

As usual, we first adjust for acquisition-related amortization. The impairments column on the chart was a negative impact of nine Euro and 31 cents relates to non-cash impairment charges of roughly 9.2 billion Euro in our Crop Science business. This number splits into roughly 2.2 billion euros on Goodwill and about seven billion euros on other intangible assets. EBITDA relevant special items had a negative impact of fourteen euro and 63 cents, and are mostly tied to litigation and settlement charges. The special items in the financial results are largely related to the fair value of the Covestro and Elanco shares. As of today, we have sold all of our Covestro shares and we still hold about 10 million Elanco shares.

A positive tax effect on the sum of these items contributed three Euro and 72 cents. In addition, there is an impact from discontinued operations of five euro and 17 cents, primarily from the gain on the sale of our Animal Health division. However, it does not offset the negative impact of the special items and impairment charges resulting in a loss per share from continued and discontinued operation of ten Euro and 68 cents.

Let's move next to our balance sheet. Our net financial debt decreased year over year by roughly 4 billion euro to about 30 billion euro, which is significantly better than our guidance. The main driver of the year on year net debt reduction were the better than expected free cashflow, the proceeds from the sale of our Animal Health business, and in this case, a positive currency effect. These effects more than offset dividend payments of roughly 2.8 billion euros and cash outflows for acquisitions such as AskBio, KaNDy and Care/of.

Finally, please note that roughly 45% of our financial debt is denominated in US dollars. Currently every percentage point depreciation of the US dollar against the Euro decreases our net financial debt by about 130 million Euro and vice versa.

Next, let's look at the regional split of our businesses. It is important to remind you that only about 20% of our net sales are Euro denominated while roughly 40% of our costs are incurred in the Eurozone. Therefore an appreciation of the Euro is negatively impacting our profit margin with limited natural hedges.

Also group sales by quarter and region, very significantly, especially driven by the characteristics of our Crop Science business with different planting cycles in the Northern and Southern hemispheres. On this slide, you can see the significance of sales in Europe and North America in the first half of the year. Sales in Latin America on the other hand are significantly skewed to the second half of the year. As currency developments continue to influence our financial KPIs, let me outline our current assumptions on foreign exchange rates for 2021. As an example, let's look at the development of the US dollar. While the average exchange rate, so that roughly $1 and 10 cents per euro during the first half of 2020, it stood at $1 and 23 cents a Euro at the end of 2020, a depreciation of around 10%. Hence the negative US dollar development is expected to weigh heavily on the first half of 2021 if rates remain at 2020 year and exchange rates.

The net impact of the strong appreciation of the Euro on our net sales in 2020 and the estimated impact for 2021 are shown at the bottom of the slide. For 2021 we anticipate negative currency headwinds of about one billion Euro for the first quarter alone, and two billion Euro for the entire fiscal year if currencies stay at the 2020 year-end exchange rates.
Given that the majority of sales in our crop business are made in the US in the first half of the year, you can expect the currency headwinds to weigh particularly on our Crop division. As a reminder, in general, you can assume that a 1% change of the foreign currency basket was as the Euro impacts our net sales by about 350 million euros and clean EBITDA by about 100 million euros. We will provide updates on our foreign exchange rate assumptions during our quarterly call.

With this in mind, I’d like to turn to our guidance for 2021, which assumes constant currencies, or in other words, average actual 2020 exchange rates. We expect Bayer Group sales to be in the range of 42 to 43 billion euro, an increase of around 3% on the current currency and portfolio adjusted basis. Our EBITDA margin before special items is anticipated to remain at the prior year level of approximately 27%. For core EPS, we confirm our prior outlook and see a slight decline versus 2020. Accordingly, we expect a core EPS in the range between six euro and 10 cents and six euro and 30 cents. Again, at constant currencies. Free cashflow is expected in the range between minus three and minus four billion Euro, including anticipated payout for litigation settlements of approximately eight billion Euro.

Our net financial debt is forecasted to increase to between 36 and 37 billion Euro, largely due to settlement and payouts and around two billion euros for dividend payments. In the gray column, we provide currency impact for the fiscal year 2021 if currencies would stay at 2020 year-end exchange rates. That would translate into a negative currency impact of approximately two billion euros on our sales figure as also illustrated on the prior chart. Our EBITDA margin before special items would be negatively impacted by around 70 basis points while our core earnings per share would be approximately 50 cents lower at year-end exchange rates. A US dollar at year-end exchange rates would lead to a positive effect of approximately one billion euro on our net financial debt in 2021.

Our guidance reflects our current business and does not include any impacts of the planned sale of our previous Professional Environmental Science business. With regards to our divisional guidance, we now expect the currency and portfolio adjusted growth of Crop Science to be around 2% at an adjusted EBITDA margin of around 24% at constant currencies. Growth is expected to come primarily from fungicides, herbicides, corn and cotton, partially offset by continued competitive dynamics in soybeans.

For Pharmaceuticals, we expect 4% CPA growth and a margin of around 32% through continued growth of Xarelto and Eylea, and the assumed easing of COVID-19 restrictions.

Finally, we expect Consumer Health to come in at around two to 3% cpa growth at a margin between 22 and 23% driven by continued growth momentum from nutritionals while demand for cough and cold is expected to soften. Please note that we have listed other major KPIs in the appendix of our investor presentation. And with that, I will hand it back over to you Oliver, to start the Q&A.
Q&A

Oliver Maier: Great. Thank you, Wolfgang. Thanks much for the overview. Before we begin, as always, I would like to remind everybody to keep questions to about two per person, so that we are able to take as many questions because we have a pretty strong lineup in the time that we have available. And with that, Haley, you may open up the lines for questions.

Operator: Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. If you have a question, please press star followed by the one on your telephone keypad. If you wish to cancel your request, please press the star followed by the two. If you are using speaker equipment today, please get the handset before making your selection. One moment for the first question, please. The first question comes from Mr. Verdult. Please state your name, company name, followed by your question.

Pete Verdult, Citi

Thanks very much. Pete Verdult, Citi. I have two questions as requested. I think the obvious one everyone has been asking this morning, maybe for Liam, is in light of the recent crop dynamics. Why is there only 2% growth guidance for crop in 2021? Is that conservatism or are we missing something? So that's question number one. And then on pharma, just any willingness to provide the 2020 product sales for your recent launches. And can you remind us how you're thinking about Xarelto in China in terms of VBP pressures? Has anything been built into your assumptions or is that something that's more likely to come next year? Thank you.

Liam Condon: Yeah, thanks a lot. Let me answer the first question on crop, which I do think is top of mind for everybody. So I would basically view our outlook for the year as cautiously optimistic. And I'd say cautious because it's still so early in the year. And if we look at where, what tailwinds we have this year, clearly we're expecting an increase in acreage in the US probably between 180, 182 million acres for soybeans and corn, clearly more skewed towards soybeans.

What we can expect is an improvement in Brazil from a pricing recovery point of view. So an improvement over the FX devaluation that we've seen, which will be catching up then in pricing. And we could expect probably better crop protection usage given where commodity prices are, farmers will want to protect their crops. So, that's all really good. Where we have headwinds is clearly again forex, particularly this year with the dollar for a company like us, which was already mentioned by Wolfgang. It's still very early with COVID-19. We don't know how the year is going to play out. So, we don't want to call on using too early here, and we've got to remember what's driving growth right now in the market is it's basically the increased demand out of China, which is a result of the African swine fever, basically, it was the hog herd in China, basically now having been eliminated and relatively increased soybean demand and to a degree corn demand, plus a professionalization of how good management in China.

Now, there is a potential where we're reading anecdotal reports of a new outbreak of African swine fever in China. Right now we think this is pretty much under control from everything we've heard under the ground, but we just don't really know yet. So we think it's too early to somehow call this as going to be a bumper year, but what we can see is going forward if the
commodity prices stay where they are right now, clearly we should have a much stronger outlook going forward.

I think specifically for crop, one thing to bear in mind is particularly in the first half of the year, we do have some one-time effects. You recall that we have transitional sales agreement with BASF. This, on a year on year basis, will cost us about 100 million. We also have a one-time an older corn license, which runs out, and we had a regulatory loss of Thiacloprid, a neonic, in Europe last year. The sum of those two elements will cost us about 150, 200 million euros. So that's about 250-300 million is about one and a half percent percentage points of growth, which we basically need to take on the chin and that's already absorbed in the 2% growth that we are guiding for.

So I hope that helps put things a little bit more into perspective. Personally, I think as the bigger impact of these strong commodity prices, if they continue, will be seen primarily in 2022 because we can reprice seed then in August of this year. And of course Brazilian pricing recovery will continue, and we all benefit from a full season as opposed to this year where seed pricing was already done at last August where commodity prices were particularly low.

**Stefan Oelrich:** Hi, Pete. Stefan here. So your question on the disclosure on the sales of our launch products by region, typically we don't do that, especially not when they're really, below the threshold of being one of our significant products. I guess you're referring to our three launches, which are Nubeqa, Finerenone and VERQUVO, which are all starting to really gain steam, especially Nubeqa. What I can tell you is that the sales split between Europe and North America is right now about 90 to 10%. That's about the split, which is normal because we are only getting some sales out of Germany for the time being in Europe. So stay tuned.

As we go through the year, and I hope that at some point I can disclose Nubeqa as an important product so that you get those sales. When it comes to VERQUVO, very, very little sales so far because we just started this month, but we now have sales in the United States for VERQUVO, which is our launch country. And Finerenone, we expect to start in the second half of the year.

Your question on Xarelto in China, so the overall guidance that we've given on Xarelto does reflect some of the risks that we're seeing in China, notably, a price risk that can happen given that we've lost our exclusivity and there are currently nine generics that have been approved. And we have sources that would report that pricing for the 10 milligrams Xarelto generic would be around 80% of our current pricing. So far limited uptake from generics in the market to be seen. At the same time, you have seen that we've not been included in the wave four of the volume-based procurement in China, which avoids that tender process for us in the first half of the year. And we'll have to see if what happens to the second round later this year where we still have risk to be included, but that pretty much as the situation for Xarelto in China.

**Pete Verdult:** Thank you, Stefan. But it sounds to me that you've been prudent with your guidance and assumed, should we say, a conservative assumption? Is that fair to say?

**Stefan Oelrich:** We think we can make those numbers in China. Yes, that is fair to say.

**Pete Verdult:** Thank you.
Vincent Andrews, Morgan Stanley.

Hi, Vincent Andrews for Morgan Stanley. Liam, I just wanted to follow up maybe particularly on soy. I believe the characterization was increased soybean competition. So I just wanted to unpack that a little bit. Just given soy acres are going to be up, soy prices are up a lot, but it also sounds like for whatever reason competition is up, despite that better backdrop. So is that a function of just in the fourth quarter, you didn't have all the state registration, so you couldn't properly market Xtend and people were looking to take advantage of that temporary vulnerability, or is there something else going on? Like you're just not anticipating to participate in the increase in soybean acres. So, let me just start there.

Liam Condon: Thanks a lot for the question. So on soybeans, I think it's always like for all row crops in the US, what's really important is the season goes from Q4 until Q3. So Q4 now 2020 until Q3 2021. And we had the situation for our portfolio that basically we lost as you called you to an NGO challenge, we lost the registration on XtendiMax, which is a key component of our soybean system. And of course, farmers are highly interested, if they're buying system, they want to know that all the components of the system are going to be available. And we did, I think the regulatory team did a great job in getting a new registration, a five-year registration, which was even better than the old one. But we didn't get this on at the federal level until end of October. And then we had to go through on a state by state level and get every single state registration, which took about two, three months.

So we were finally done in early January, and given where soybean prices were, of course, a lot of farmers wanted to get their pre-season orders in and they want it to be 100% sure that product was available. So there, we simply weren't able to compete on the same level as a competitor that had all registrations in place. So we simply had a late start to the season because of the regulatory situation. And now we have everything in our pipeline that we need to. So we have XtendiMax and VaporGrip with the five-year registration. We got the approval of XtendFlex, which we expect to be on at least 15 million acres this year. And we can run with that now for the rest of the season, but reality is we've lost the first quarter of the selling season and that's going to impact then sales.

So that's the competitive dynamic, but going forward then for the next season, we're in from the get-go, we have a full portfolio will be highly competitive. We think with our XtendFlex beans, we're seeing four bushel per acre improvement. And of course, then we've got the added herbicide flexibility. So we think we'll be highly competitive, but we've simply got to acknowledge that we lost out from the first quarter of the market season and that will impact our performance in soybeans this year.

Vincent Andrews: Okay. And as a follow-up, can I just ask you what are you seeing in terms of seed production costs this year? Is that a headwind to your profit guidance, and likewise what, if any, concerns do you have about raw material costs in crop protection, just given we're seeing a higher, we're kind of seeing inflation across the commodity complex, whether it's crude oil or derivatives, or what have you, how do you feel about that for this year?

Liam Condon: Yeah, so seeds COGS right now. I mean, we hedge our seed production, so seeds COGS, we don't see any material headwinds right now. Nothing has been flagged, and so I think we're in pretty good shape there. On crop protection, clearly from a raw material point of view, there is an increase in costs and this is actually primarily related to logistics,
which is of course containers at airplanes, and the market is extremely tight here. We haven't had any logistical issues to date, but we simply have to pay more from a logistics point of view. And of course we do our best within the, let's say, the ongoing organization through efficiency measures to somehow compensate for that. So I wouldn't call it out as a material headwind effort this year, we would expect it to compensate that through our efficiency measures. But clearly there is a cost increase due to the tightness of logistics.

Vincent Andrews: Thank you very much.

Jo Walton, Credit Suisse

Hello. Jo Walton from Credit Suisse. My questions are one on pharma and one on crop. So on the pharma side, I wonder if you could help us on the margin. So last year in 2020, you got a margin of almost 35%. It's going down to 32% this year, even if we take off the 150 million one-time of Adempas, that's less than a percent of that. So could you tell us a little bit more about perhaps the magnitude of these launch investments that you require, or whether you have a view that you're going to have to lose some of the cost savings that you've made out of COVID? So just help us on the cost for that, and then looking at the crop side of things just a little bit more forward-looking, you say that you've lost out to your competitor because of your restrictions. Do you think that farmers, once they've tried that system and the associated genetics that they're able to buy with that, how easy will it be to actually get those farmers back to you? So I'm just trying to get a sense of how that competitive loss, how easy it will be to swing it back again next year. Thank you.

Stefan Oelrich: So, hi, Jo. So thanks for the question. First, let me start by saying that we continue to have the tight expense control in place also throughout 2021 that we had throughout 2020. And we really need that because we want to give you a reasonable margin or a good margin while we're investing into a lot into growth. Your question is the right one, how much of that goes into the launches? It's a significant investment given that we're launching three products at the same time with VERQUVO, with Nubeqa and with Finerenone and two of them in the North American market where we didn't have any footprint in cardio-renal. So there is a significant expense attached to that, which is actually greater than the 200 basis points that you make reference to, the rest being covered by the milestone payment for Adempas, which is also equates to 100 basis points.

So, we have these launch efforts. Then we have some of the ongoing business as we expect to be customer facing resuming our customer facing activities around the world beyond China, where we're currently still pretty much at normal. And all of that together comes to the margin. This is something that also throughout all of last year we had announced to you, also please be mindful of the fact that we have the VBP in fact, that only started in the second quarter last year now throughout the entire year. So, again, message is we're investing into growth, three launches at the same time, and we have very strict and tight expense controls in place.

Liam Condon: So, thanks, Jo, for the question and I'll take it related to soybean competition because I think that that's the area that you were focusing on. I think it's first probably important to point out with all the talk about market share. So last year, we still had the market leading soybean system. And this year, our clear expectation is that we will still be the
market leader. So just to set that straight up front. We also have the premium price because we price according to value, and then we believe we deliver more or better yield than anybody else out there.

As indicated, we will lose some share simply because of the fact that we’ve lost the preseason already this year. Going into the new year or the next market season, which will start in Q4 2020, then we're fully competitive. And again, with the portfolio that we have XtendiMax with VaporGrip and XtendFlex, I think we're in a great position, then we'll have stabilized at that entire market. And I would expect then that we can get back to growth. What's also important from a soybeans point of view is of course, the US is extremely important for us. Also, Brazil is very, very important.

And with Intacta 2, we're on over 85 million acres in Latin America, and we're launching now this year Intacta 2 Xtend. So the next generation of soybean, basically a soybean system in Brazil, so we also have great expectations for this and I think if you take the two together, then XtendFlex in the US and Intacta 2 Xtend coming in Brazil, this is a great starting point. And then later on, we'll talk more about that at the capital markets day, we have the next generation system HT4, which offers them five herbicides. So I think we're in very good shape from a portfolio point of view.

Jo Walton: Thank you.

Richard Vosser, JP Morgan

Hi, thanks for taking my question. Richard Vosser from JP Morgan. First question, just on consumer health, just thinking about the pressures from COVID and how we should think about that developing through the year, what you've factored in there, a bit more detail in terms of the pressures on the cough and cold business in the back half of 2021 still a weaker season expected, is that how you're thinking about it? And then the second question, just on the asset sales, clearly yesterday, you called out the environmental science asset. So how should we think about the level of sales throughout the rest of 2021 and the impacts on the numbers? Thanks very much.

Heiko Schipper: Yeah, Richard, let me start to on the consumer health question. So yeah, you're right, there's a little volatility in the market. If we first just for second 2020, you've seen our numbers that much of our growth was driven by the very quick development in our nutritional’s business, while on the other hand, indeed quite a significant drop in cough and cold. However, overall we came in quite well, in fact, ahead of the market on growth. If you then think about 2021, and we look back at 2020 first, we see that in the first half of 2020 people were actually stocking up on cough and cold products. So, we're going to have a difficult comp in the first half because, particularly in March, there is this large sort of stocking up that happened in 2020 that we're going to cycle over on top of already very low demand, because there's very little flu.

So I expect H1 the overall market to be quite challenging. Nutritional’s will continue to be good, although we're also going to cycle over higher numbers. And then in the second half, I do expect actually that there will be some growth returning also on cough and cold because I do expect that there will be more sort of movement, again thanks to the vaccines and
particularly in some parts of the world. So, I would say first off challenging market environment that we saw already in Q4, also from some of our peers. Second half will be better, and overall the year, you’ve seen our guidance, we guided between two to three, and we think the market is probably going to be slightly below that. So we're aiming to continue to perform ahead of the market.

**Werner Baumann:** Richard, let me answer your second question on the ES professional business is actually a unit that is comprised of the professional and the consumer business. So it's not one unit that is being sold. The total sales that are going to be affected by the divestiture is about 600 million euros. And in terms of reporting, we'll assess over the next month to come as to when we are going to report it as discontinued. For the time being, you should assume that it is in our full year guidance because it’s been part of the continuing business so far. So the entire year's professional business is included in our guidance.

**Joel Jackson, BMO Capital Markets**

Hi. Thank you. Good afternoon. Joel Jackson, BMO Capital Markets. So a couple of questions. I'll do them one that time. Just coming back to XtendFlex and the soybean competition, can you give an update on what kind of premium you're getting on XtendFlex versus Xtend? And if we think of potentially losing some share here in soybeans in 2021, it seems like you were guiding 20 million you could have XtendFlex. Now you're saying 15. So is that where you're seeing some of the share loss, like you're holding up on Xtend, and the product that's really XtendFlex where you got less than you thought?

**Liam Condon:** Yep. Thanks a lot, Joel. So, on XtendFlex, we have a pricing premium so a small pricing premium over Xtend. I think we're going to remember that the pricing cards were done in August and is typical in season, and August was again a low point. I think soybeans would've been about eight or nine euros at the time, and sorry, dollars, and now we're at 14 plus dollars. So clearly, if we were pricing at today, these would be different pricing cards, but at that point in time where it was also a highly intense market situation, we had a small premium for XtendFlex. So the next opportunity for repricing is of course, then later this year in August, when we go into the next season.

For XtendFlex acres, the 20 million that referred to that's actually the production capacity that we have for XtendFlex. Based on orders where we are now, we would assume to be on at least 15 million acres, and it's all going to be about the balance between how much is XtendFlex and how much is Xtend. But we have a pretty robust order book now, and we can't tell you exactly what that ratio is going to be, but it should be at least 15 million acres of XtendFlex.

**Joel Jackson:** Thank you for that. And this may be something that comes up more on the investor day in a couple of weeks, but I mean, as you continue to move to reduce some of the uncertainty of Glyphosate, at what point would it make sense to look at value creation can come from splitting off crop science and the other businesses?

**Werner Baumann:** Have you asked at which time there would be value creation by the spinning off of Crop Science? Did I understand the question correctly?

**Joel Jackson:** Yes.
Werner Baumann: Oh, okay. Thank you. We have a strategy that is communicated that is a strategy of a three-prong approach towards our businesses, and our portfolio consists of our pharma business, our consumer business and our crop business. And there is no consideration of divesting of any of those businesses. What we've said is that we are looking at divestitures below the divisional level, which we have done and to continue to do actually as part of our September 2020 communication. And then most recently as of yesterday, the communication to the rest of the ES professional business. Yeah. And there may be more to come, but it's going to be below the divisional level.

Joel Jackson: Thank you.

Keyur Parekh, Goldman Sachs

Good afternoon. Thank you for taking my questions. Two please, one on crop and then one kind of on the broad business. On crop, Liam specifically, you're guiding to 2% growth. I'm wondering if you're able to split that between your assumption for volume growth versus kind of pricing versus any specific impact you might have kind of from a hedging perspective. And then just to add to that kind of, how would you categorize the inventory levels kind of for your crop protection business as you get into this season, both US and Brazil? That's kind of question number one, and then secondly, one that I noted in the annual report released this morning that there were three kind of extraordinary board meetings of the supervisory board towards the end of last year. I was wondering if you're able to add any incremental color. It's not very often we see pre kind of extraordinary meetings, so that I suppose the board level in a relatively short period, so what might those have been related to? Thank you.

Liam Condon: Thanks a lot. So, let me start with Crop Science of the 2% and I'll just say high level here, this will be what's in the current assumptions is primarily volume-based growth. Of course, we would hope and with the commodity price environment that we will also have a positive pricing environment. However, as mentioned earlier, we don't really see that in the seeds business in the first half of the year, because the pricing was already done last August. And crop protection, it's going to be about, what level of premium products will farmers go to to protect their harvests. And that will depend also on where they see future commodity prices going.

So right now, it's primarily volume, less price growth and hopefully with upside potential there on pricing, if commodity prices stay strong. On inventory levels, I think the only place where we're seeing anything that's out or let's say not necessarily showing a green traffic light is probably Brazil simply due to the delay in the harvesting season. And with that for soybeans, due to weather conditions, particularly in Mato Grosso, and also with that then of course, a concurrent delay in planting for the safrinha corn season. And that just means there's a bit of a what I would call a phasing related inventory issue. And we track this very, very closely, we feel globally and also in Brazil completely okay where we are, but I’d say Brazil, just given the delay in the season, that's the only one where we're watching it very, very closely. I'd be pretty confident that once the things pick up in Mato Grosso that inventory will all be eliminated, but that's the only one I'd highlight.

Werner Baumann: Yeah. Then let me follow on this the question on the supervisory board meetings. There's actually in the chairman's report in the annual report, you have all of them
itemized. Yeah. So you can look at each and every one. And towards the end of the year, there was quite a bit of activity with two things. Number one is of course, our business is growing. Secondly, AskBio was the subject matter of an extraordinary meeting. And then of course as always, towards the end of the year we talk about the plan for 2021 or the following year, but beyond that, we also discussed the strategy as we had a somewhat different process in 2020 due to the high volatility of 2020 being a base year that would inform our midterm planning.

So that's what's behind that meeting sequence, and on top of that, as you will appreciate the year was very, very busy and very volatile, which is also reflected in a substantially higher number of board meetings compared to the four regular ones that we would normally have.

**Keyur Parekh:** Thank you.

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**Michael Leuchten, UBS**

Hi, Michael Leuchten from UBS. Thank you for taking my question. Liam, just a second back to you, just as clarification as he made it very clear your pricing assumptions for the year, I get that. Is rebating something that could be a meaningful variable that could matter in 2021 as you're unable to reprice your franchises? And then question on your margin compositions, as your portfolio is a little bit more skewed corn than soy this year, is the flat margin that you guiding to purely a function of the TSA and corn royalties is going away and FX, or is this something else we should take into consideration as we think about the moving parts for your margin? And then a quick question on the pharma margin, is the CureVac agreement meaningful for the margin in 2021 and as we think about trajectory into 2022? Thank you.

**Liam Condon:** Yep. Thanks, Michael. So, pricing from a rebating point of view, given the overall buoyant mood in the industry, I don't think there's any need for any kind of excessive rebating this year in the industry. So again, we are always at premium price. We usually set the standard in the market from a premium price point of view, just given the quality of the products that we have, and we pay an awful lot of attention about it from the gross to net. So we'll be working hard to make sure that we have a positive overall net pricing impact this year regardless of what's happening from a rebate point of view.

On the margin side, of course beyond the very, very significant FX impact, which Wolfgang outlined particularly hits us hard, given the US exposure, particularly in the first half of the year with where the US dollar rates are now versus the first half of year. Beyond that, you're right, the point to the two of the issues I mentioned, or three, that the corn royalties, which is basically one-to-one bottom line. And Thiacloprid, the regulatory elimination of Thiacloprid in Europe. This is a very high margin product. And then those BASF sales that are missing, plus same as for all of the divisions within there, of course, all of the savings that we had, extraordinary savings that we had last year, are not one-to-one, can't be just capped this year.

So we had a lot of extraordinary COVID contingency measures, like basically no travel. And at some stage this year, we're going to get back to a more normal pattern of business. So we'll automatically have some increased costs. Of course, we've got some inflation. And of course, given that the overall performance last year, incentivization payouts were going to be
relatively low for 2020. We would expect them to normalize in 2021. So these are all things that we need to balance out through our synergies and efficiencies, but they help explain in total why the margin doesn't improve further.

Stefan Oelrich: Hi, Michael. So on CureVac, let me first say how excited we are about the active role that we're playing to hopefully contributing very actively to ending this pandemic. This transaction that we have with CureVac is not really primarily about financial considerations, but much more about getting the CureVac vaccine available for patients as quickly as possible throughout the world. That's why at this point please understand that we do not provide financial details about this collaboration.

Michael Leuchten: Thank you.

Gunther Zechmann, Bernstein

Hi, good afternoon. Gunther Zechmann from Bernstein here. One question for Liam, please, on digital agriculture, can you just talk about the value proposition you have in light of the recent increase in soft commodity prices, whether you have similar price decks being rolled out as in the crop input part of the business, and also share any acreage targets that you might have rolled forward for the coming years, please?

Liam Condon: Yes. Thanks, Gunther. So on acreage, maybe to start with is we had a very strong increase in penetration last year. So we actually, where I'm now 150 million acres in 23 different countries. Of course, the biggest country by far is the US, second is Brazil, which gets kind of reflective of our business. But we think this has been a fantastic progress and has been externally validated that's by far the deepest market penetration in digital ag. And this is also our goal to continue to accelerate that. We're not giving right now a specific additional new target out, but we will be increasing where our plan is to increase this acreage penetration significantly going forward.

For us, the whole business model is of course about enabling our seeds and traits and crop protection business on the one side. So this simply allows us to make much more precise recommendations to growers that they can increase their yield and also farm in a more sustainable manner and manage their costs better. This will benefit our business, but we also see a great opportunity from as an enabler of new business models. And here, I think the best example is our carbon farming initiative where we are incentivizing farmers to sequester carbon in the soil. And here a digital platform is actually an essential part of the overall business model to track and verify and ultimately also link farmers to payments going forward. So I think there's a lot of promise in here. We'll probably talk a little bit more about this at CMD, but this is a really exciting part of the portfolio.

Gunther Zechmann: Thanks, then can I just follow up on the acreage and the pricing? Did he say 150 million acres and is that paid acres please?

Liam Condon: Correct. Yeah, that's 150 million subscribed acres. So we have a subscription model and we also have, or we have a paid acre model, but we also have a subscription model. And what we did last year was we combined our incentivization program in the US, our Bayer plus incentivization program with a subscription also for FieldView. And that led to a significant increase also in penetration in the US, and this helped us improve our market
share in crop protection, particularly in the US last year. So this is a mix of paid and subscribed acres.

**Gunther Zechmann:** Right. Thank you.

**James Quigley, Morgan Stanley**

Thanks for taking my question. James Quigley from Morgan Stanley. I've got two please. So first of all, for Nubeqa, you've just started the ARANOTE trial, what is the sort of the rationale for starting this trial? Obviously, we had RSNs and you didn't start the ARANOTE trial at the same time as the RSN. So how should we read this? Is this a decrease in confidence in the potential for RSNs or increase in confidence for Nubeqa and its ability to compete more generally? And then secondly, would you be able to give us an idea of the extent of the COVID related cost savings or cost avoidance that you had in 2020 either at a group level group level or the divisions just having have a little bit of visibility on that, please? Thank you.

**Stefan Oelrich:** So first on the ARASENS, I hope I can redo my answer. So, on ARASENS maybe to get started, we expect a primary completion in this event driven trial in June of this year. So headline data should become available in the second half of the year. Just as a reminder, this was a trial that was looking at Nubeqa together with estrogen depletion therapy and chemotherapy, and this case would docetaxel in the metastatic setting. And so why ARANOTE? ARANOTE we're looking at darolutamide plus androgen deprivation therapy in comparison to a placebo plus ADT in men with metastatic hormone sensitive prostate cancer.

Other than ARASENS, this setting is without chemo. We recognize that patients and physicians have different needs and preferences for treating patients throughout the different stages of the disease. And therefore, we think it makes perfect sense to explore the use of darolutemide plus ADT versus ADT alone to have multiple treatment options available for men with metastatic castrate-resistant, prostate cancer. So we think this makes perfect sense within the lifecycle of the product and if we want to have high end of year or next year report out the numbers, we need to get good data for the product. And we're very confident in Nubeqa, so we're adding to it.

**Wolfgang Nickl:** And James, let me give you a little flavor on where the puts and takes are for the company. We won't have a complete legend of the savings, that would be too big of a deal, but I give you two big categories and Liam kind of already hinted towards it, travel and events. If you look at 2019, that's about a 600 to 700 million ticket for the total company. I won't break it out by division, but I think you'll get the flavor. And we we re at about half last year. So there was almost no change of course, in the first quarter. But then of course the following nine months were heavily impacted. We have in our guidance modeled in a re-assumption of traveling in the second half of the year. We'll see how that works out.

The second category of variable compensation plans. We have indicated before that it was up to 500 million. It was somewhat below that, that we just didn't have the entitlements for, and again, we assume that that's not recurring because we set a blend where people can earn the entitlements. And then on many, many occasions, we will just pushing-out projects and the like into the future. And there were savings there as well, somewhat offset also by cost increases. For instance, freight costs went up across the board, or we increased our donation
level for instance, but the two major elements are travel and events as well as the variable compensation.

**Tony Jones, Redburn**

Oh, thank you. Tony Jones, Redburn. And I've just got one left. I think to Wolfgang actually, back on compensation. So the STI payments, there's some really good detail in the annual report on what happened in 2020, but are you able to say what the EPS and free cashflow target corridor ranges are for 2021? Thank you.

**Wolfgang Nickl**: I don't think we disclose these upfront, but you should assume that they're very closely tied to our plans that we communicate to the market.

**Tony Jones**: Understood. Thank you.

**Oliver Maier**: Haley, I think we have time for about one more question.

**Falko Friedrichs, Deutsche Bank**

Thank you. It's Falko Friedrichs from Deutsche Bank. One quick question and it's related to the CureVac deal. Is this mRNA based something you want to further explore and grow beyond the pandemic? What is this, just a focus now when it comes to the COVID vaccine?

**Stefan Oelrich**: So thank you, Friedrich, for this really important question, because I think mRNA needs to be seen in the context of the overall cell and gene strategy. So you have seen us make a very decisive move into this area with the acquisition of AskBio and previously BlueRock and some of the deal flow that we created last year. So we see mRNA as a promising technology that could be also synergistic partially to some of the activities that we have. Going beyond just a vaccination against the viral infections, but that's a little bit too early to talk about here, but we think that this is a very promising technology. Yes.

**Falko Friedrichs**: Okay. Thank you.

**Oliver Maier**: I think that was the last question. So I thank you very much for participating today. Thank you very much for taking the time and we’ll talk to you soon. Stay safe, everybody. Thank you.

[END OF TRANSCRIPT]
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