Q2 2021 Results Investor and Analyst Call

Thursday, 5th August 2021

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Bayer's Investor and Analyst Conference Call on the Second Quarter of 2021 Results.

Throughout today's recorded presentation, all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session. If any participant has difficulty hearing the conference, please press the star key, followed by zero on your telephone for operator assistance.

I would now like to turn the conference over to Mr Oliver Maier, Head of Investor Relations of Bayer Ag.

Please go ahead, sir.

Welcome

Oliver Maier

Head of Investor Relations, Bayer AG

Introduction

Thank you, Emma.

Good afternoon, everybody, and thanks for joining us today. I would like to welcome all of you to our Second Quarter 2021 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.

That being said, Werner will begin today's call, as usual, with an overview of the key developments in the second quarter. And Wolfgang will then cover the performance of our businesses as well as the outlook for 2021, before we open the Q&A session.

Safe harbour statement

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 distributed today.

With that, I hand it over to you, Werner.

Business Update

Werner Baumann

CEO, Bayer AG

Opening remarks

All right. Thanks, Oliver.

And good afternoon, ladies and gentlemen. It's my pleasure to welcome you to our conference call today.

We deliver on major levers

Strong growth across all divisions

In the beginning of the year, we promised to set the stage for growth. We are very pleased that actually all our businesses showed currency and portfolio adjusted double-digit growth in the second quarter.

The strong growth trajectory is also reflected in the company's first half 2021 numbers. Given the market fluctuations due to the pandemic and the seasonality of our business, our year-to-date is a better representation of our underlying performance and strong growth momentum.

In Crop Science, the positive market environment and sustained strong commodity prices for corn and soybeans have led to a strong top-line development. In Pharma, our blockbusters, Xarelto and Eylea, continued their growth momentum. We also saw an overall significant recovery of elective treatments. And our Consumer Health business continued its path of leading growth and margin improvement.

Full-year guidance increased

We expect continued positive dynamics across all businesses for the remainder of the year and hence raised our guidance. Needless to say that the pandemic and the related effects might provide for further volatility, which needs close monitoring.

Pharma late-stage pipeline derisked: Nubeqa, Verguvo, Kerendia and Eliapixant

Let me now come to our objective to progress our late-stage pipeline this year. With our recent approvals, we are looking at a significantly derisked new product pipeline.

The rollout of Nubeqa is ongoing and continues to exceed our expectations. We also advanced the launch of Verquvo, our new symptomatic chronic heart failure treatment. Following the FDA approval in January, we received market authorisation in the European Union and Japan.

Now Kerendia, our treatment for patients with chronic kidney disease and type 2 diabetes, is the last addition to our launch products. The recent FDA approval offers a new path to protect patients from further kidney damage through addressing MR overactivation, a key driver of chronic kidney disease progression, which is unaddressed by currently available therapies.

From a strategic perspective, it is also important to note that we are now re-entering the US market commercially with our own marketing and sales organisation in this indication.

I'm sure you've also seen yesterday's good news on our Eliapixant, our P2X3 receptor antagonist. The Phase 2b study in chronic cough has been positive and shown efficacy and an excellent safety profile, which makes us very optimistic for this new treatment option and also the running Phase 2 trials in other indications that are underway.

Cell and Gene Therapy platform: BlueRock and AskBio

Let me now touch on some further highlights in our early programmes and platforms. We are making great progress on our early-stage pipeline with our Cell and Gene Therapy platform.

Through BlueRock and AskBio, we are working on a two-pronged approach to treat Parkinson's disease. And for the first time ever, it might be possible to stop and reverse this degenerative disease and truly help patients with their high unmet medical needs.

We are very proud to share that BlueRock successfully administered the first dose of its pluripotent stem-cell-derived dopaminergic neurons to a Parkinson's disease patient in their Phase 1 clinical study.

In parallel, AskBio is driving forward a gene therapy programme based on adeno-associated virus, or AAV, that is currently recruiting and evaluating patients in an ongoing Phase 1b clinical study.

The start of clinical trials brings us one step further to the potential of a truly breakthrough treatment option to dramatically improve the lives of patients suffering from Parkinson's disease.

Acquisition of Vividion Therapeutics

Last but not least, we are also strengthening our drug discovery capabilities with the acquisition of Vividion Therapeutics. Vividion is a US-headquartered biopharmaceutical company utilising novel discovery technologies to unlock high-value, traditionally undruggable targets with precision therapeutics.

Vividion's technology is the most advanced in the industry, and it has already proven its applicability preclinically in oncology and immune-related diseases, with potential to expand into other and additional therapeutic areas.

We have already diversified our modalities portfolio with our Cell and Gene Therapy platform and continue to fuel our pipeline with breakthrough innovation by acquiring Vividion. Stefan can provide more background on the acquisition of Vividion Therapeutics later in the Q&A.

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

Business Performance and Outlook

Wolfgang Nickl

CFO, Bayer AG

Opening remarks

Well, thank you, Werner.

And ladies and gentlemen, also a warm welcome from my end. I will walk you now through our business performance for the second quarter and the first half of the year, followed by our financial outlook for fiscal 2021.

Please note, when I mention sales development, I'm referring to portfolio and currency adjusted numbers, unless otherwise stated.

Q2 2021: All businesses contribute to strong sales growth

Currency headwinds weigh on EBITDA before special items

Our sales grew by 13% to €10.9 billion in the second quarter, with all of our businesses contributing double-digit sales growth. Currency headwinds did, however, impact sales by €524 million.

Our EBITDA before special items declined by 11% year-on-year, coming in at €2.6 billion, with an adjusted EBITDA margin of 23.7%. Foreign exchange effects of €153 million weighed substantially on our EBITDA before special items.

The year-over-year swing in provisioning for variable compensation had a negative effect of €467 million. I will elaborate more on this shortly.

We also have higher cost of goods sold, specifically in Pharma and Crop Science, and invested in product launches, especially in Pharma and Consumer Health.

Core EPS and core tax rate

Our core earnings per share in the second quarter came in at €1.61. This is a 1% increase versus the prior year quarter, despite the negative foreign exchange effect of €0.10.

The improvement in our core financial result from minus €343 million to minus €115 million was a key contributor to our core EPS performance. This was largely the result of valuation benefits for one of our LEAPS investments, which went through a very successful IPO during the quarter.

Our core tax rate came in at 24.4% for the quarter, up from 23.3% in the prior year quarter. We continue to expect it to be around 23% for the full year, as guided.

Earnings per share decreased to minus €1.48, mainly impacted by special items of €3.53 that primarily relate to the adjusted gross glyphosate provision of USD4.5 billion (or €3.8 billion) that we discussed last week.

In addition, non-cash impairment charges in our Crop Science division of net €437 million and the usual adjustment for acquisition-related amortisation contributed €1.04 to the decline. The tax effect was a positive €0.56.

You can find the bridge from core EPS to reported earnings per share in the appendix of our presentation.

Free cash flow and net financial debt

Our free cash flow came in at €1.2 billion in the second quarter of 2021. This compares to €1.4 billion in the previous year. A strong underlying cash flow profile was masked by litigation-related settlement payouts of about €900 million.

In line with our typical quarterly profile, our net financial debt increased by €428 million to €34.4 billion in the second quarter. Strong operational cash generation and currency effects kept the increase to a very modest level, and could largely compensate payout of dividends and litigation settlements.

HY1 2021: Good performance setting stage for guidance raise

Let's look at the first half of the year next, which we believe better reflect our performance after considering seasonality and pandemic-related dynamics.

Sales and EBITDA

Group sales grew by an impressive 7% to €23 billion. On the earnings side, however, our EBITDA margin – our EBITDA before special items rather declined by 8%. The decrease is mainly driven by massive currency headwinds of €490 million and higher provision for variable

compensation of €534 million. This year-over-year swing effect negatively impacted the bottom-lines of the businesses and the reconciliation.

Core EPS and free cash flow

Given that our performance is linked to growth, margins, core earnings per share and free cash flow, you will recall that we significantly reduced our provision for variable compensation last year, as a result of the pandemic-related shortfalls.

We already mentioned in February that we would essentially restore our cost profile this year. Now, as a good performance in the first half of the year and our improved outlook, we increased the provision. Note that the second quarter is the most effective, mainly due to the seasonality of the business.

Core earnings per share came in at €4.20 and decreased slightly by 1% due to the effects on EBITDA before special items described above, which were not offset by an improvement of our core financial results by €336 million. The core tax rate for our Half-Year One came in at 24.3%, compared to 24% in the previous year.

Our free cash flow in the first half of 2021 fell to minus €2.1 billion and was heavily impacted by net settlement payouts of approximately €3.1 billion.

Crop Science with strong growth momentum supported by positive market dynamics

I would now like to give you some more colour on the performance of our three businesses in Q2.

Our Crop Science division delivered double-digit sales growth of 11%, driven by all regions. In particular, Latin America and Asia Pacific were up significantly, growing 18% and 12% respectively, while North America contributed the most on an absolute basis with a 10% growth.

Fungicides: Fox Xpro

Regarding our strategic business entities, Herbicides and Fungicides were the main growth drivers in the quarter.

Sales of our Fungicides platform increased by 23%, relating primarily to volume gains of Fox Xpro in Latin America as well as new product launches in North America.

Herbicides: XtendiMax™

Our Herbicides segment also continued its growth trajectory and grew by 16%. The segment benefitted from higher sales of our XtendiMax™ herbicide and price increases of Roundup in North America.

Insecticides: Loss of thiacloprid registration in EMEA

For Insecticides, growth in Latin America and Asia Pacific was insufficient to completely offset the impact of the loss of a thiacloprid registration in EMEA.

Soybean Seeds and Traits: Xtend

We held our number one position in wheat control and soybeans in North America with our Xtend system, and delivered 9% sales growth in our Soybean Seeds and Traits segment. Growth in north America was volume-driven, resulting from both higher acres planted and the benefit of excess seed sales.

Corn Seeds and Traits

Corn Seeds and Traits also displayed sales growth of 9% with expansions in all regions, most notably in the Americas.

EBITDA

On the earnings side, EBITDA before special items declined considerably by 25% to €1 billion, despite price increases and volume expansions.

Significant negative currency effects of €111 million, a negative sales mix and higher costs, most notably in our COGS with increased raw material and freight costs, negatively impacted the bottom-line.

Pharmaceuticals with substantial growth and progress on late-stage pipeline

For our Pharma division, sales expanded significantly by 16% to €4.5 billion. Our two blockbuster drugs, Eylea and Xarelto, continued their strong performance.

Eylea and Xarelto

Eylea sales grew by 27% due to strong demand in Europe after the prior year quarter was heavily burdened by the impact of the COVID-19 pandemic. Xarelto displayed 13% growth, driven mainly by high demand in China and Russia.

Elective treatments: Glucobay, Avelox and Nubeqa

In the area of elective treatments, we benefitted considerably from the recovery from pandemic-related restrictions as COVID-19 heavily impacted our prior year quarter.

As a consequence, the IUD franchise grew by 68% and our Radiology business by 37%. Due to the annualization of the volume-based procurement impact on Glucobay and Avelox as well as strong growth of Xarelto, sales in China rose by 22%. The successful launch of Nubeqa supported our business performance in the second quarter, as Werner already mentioned earlier.

EBITDA

Regarding our bottom-line, launch investments, higher COGS, higher incentive accruals and the negative currency effect of €26 million were more than offset by strong sales growth, resulting in a 3% increase of our EBITDA before special items.

Consumer Health continues to outperform

I will close out the divisional update with Consumer Health.

Sales

Our sales were up significantly by 13%, driven by growth across all regions and categories. In the context of an ongoing volatile market environment, we continue our path of profitable growth by executing our strategy.

Nutritionals

The Nutritionals category continued its strong growth momentum and grew by 16% due to sustained high demand.

Allergy and Cold

Allergy and Cold returned to growth, after being impacted heavily by a week flu season and ongoing COVID-19-related lockdown measures in prior quarters that particularly burdened our cough and cold products. This quarter, however, a strong allergy spring season in North America led to 16% growth for this category.

AleveX and Bepanthen

Growth in North America was also supported by the launch of AleveX, where we entered the topical pain treatment segment.

Dermatology benefitted, amongst others, from line extensions of Bepanthen in the dry skin segment, growing by 6% in the second quarter.

All these positive developments underline our well-balanced category and geographical portfolio.

EBITDA

In addition, we increased our clean EBITDA margin by 50 basis points to 21.6%, driven by strong sales growth and disciplined cost management, clearly offsetting the impact from launch investments and negative currency effects of €20 million.

Updated full-year guidance 2021 – Group

Guidance has been raised, based on the strong growth trajectory through H1 2021

Let's move on now and look at our guidance for the full year.

As we have outlined before, we have seen a strong growth trajectory throughout the first half of the year with contribution from all three of our businesses. We are optimistic that the positive market environment in Crop Science and the good growth momentum for Pharma and Consumer Health are sustained for the remainder of the year.

We therefore raise our guidance, notwithstanding that the pandemic continues to increase volatility in the markets.

Please note that our guidance is based on constant currencies or, in other words, average actual 2020 exchange rate. The outlook at constant currency is shown in the light blue box in the presentation. In the very left column, you can see the full-year outlook we gave back in February. Right next to it, you see our updated guidance as of today.

Group sales

We increase our guidance for Group sales from previously €42 billion to €43 billion to now approximately €44 billion, with increased growth rates for all businesses.

EBITDA

Our EBITDA margin before special items is anticipated to come in slightly lower than guided in February, at 26% at constant currencies.

Core EPS and core tax rate

For core EPS, we increased our outlook and now expect a core EPS in the range of €6.40 to €6.60 at constant currencies. Previously, we had guided between €6.10 and €6.30. We expect to reach the upper end of the guidance in case the very favourable core financial result is

sustained throughout the remainder of the year. We forecast to keep our core tax rates at approximately 23% for the full year.

Free cash flow

Our free cash flow guidance is raised by €1 billion to between minus €2 and minus €3 billion, including anticipated payouts for litigation settlements of approximately €7 billion, which is €1 billion lower than what we had anticipated in February.

Net financial debt

Consequently, we improved our guidance for net financial debt to approximately €36 billion versus the €36 billion to €37 billion in our February guidance. Let me add that the acquisition of the Vividion Therapeutics is not yet considered here.

Expected currency impacts

In the grey box on the right, we provide the currency impact for the fiscal year 2021, reflecting currencies at 2021 month-end June spot rates. The last column on the right depicts our guidance at month-end June rates.

We now expect a negative currency effect of approximately only €1 billion on our full-year net sales, which, by and large, materialised in the first half of the year. The impact on core EPS is roughly a negative €0.40, which would bring our outlook to between €6.00 and €6.20, using June month-end spot rates.

We have lifted the updated guidance for our businesses and other major KPIs in the appendix of our investor deck.

And with that, I'll hand the call back to you, Oliver, to start us on the Q&A, please.

Oliver Maier: Thank you, Wolfgang; and thank you, Werner, for your comments. Emma, I think we are ready to open the line for the questions now.

Q&A

Operator: Thank you. Ladies and gentlemen, at this time, we will begin the question-and-answer session.

If you have a question, please press the star, followed by the one on your telephone. If you wish to cancel your request, please press the star, followed by the two. If you are using speaker equipment today, please lift the handset before making your selection. One moment for the first question, please.

The first question comes from Mr Leuchten. Please state your name, company name, followed by your question.

Michael Leuchten (UBS): Thank you. If I could start with the Crop Science division and the lack of margin gearing, please, especially as Q2 was heavily impacted by the STI, as you outlined.

So first question is, can you quantify the inflation pressure on input costs for us and how will this develop into the second half? And more importantly, how much of this can you recapture if 2022 happens to be a normal year?

And related to that, given that 7% top-line growth in constant exchange rate does not give you more than 24% EBITDA margin this year, how confident are you that – with consensus sitting at 26% margin for 2022 for the division?

Then, a question about equity ratio. The equity ratio was below 27% in H1. Where does that go from here and what are the buffers? Is there a level where that ratio becomes a problem for you?

And then, the third question on Kerendia positioning. Now, that you have the approval, I was wondering if you could talk about your launch plans and market segmentation, if you could? Thank you.

Werner Baumann: All right, Michael. Thanks. So Liam is going to take question one, followed by Wolfgang on the equity ratio. And then, Stefan is going to talk about our launch plans for Kerendia.

Liam Condon: Yeah. Thanks a lot, Michael. So maybe let me start with your last question towards me on our confidence in the midterm targets, which we had given out as the 27% to 29% EBITDA range in 2024.

So I'm very confident about our ability to reach these targets. And I'll try and explain that now by giving a bit of colour on what's happened in Q2 on the margin side and why we're very confident we can achieve our guidance for 2021. But I'll also explain a little bit some of the transitory impacts that are in there that will help give you a better sense for what could be happening then in the future.

Now, if we break down Q2 at the margin impact on Crop Science, that – there is, in essence, three things happening here. One is FX. So if we just leave out the FX, which is – we know that it's €111 million. There are two big elements to the margin decline: one of them is phasing effects, which we'll – I will touch on, and one of them is related to higher costs on product mix. Now, about half of it is phasing effects, and about half of it is related to higher costs on product mix. These phasing effects become positive effects in the second half of the year. So I think this first point is very important to understand.

Now, what the phasing effects are is, in essence, you'll recall last year, when we had the very special COVID situation, we had very significant seed returns and licensing true-ups in Q3 of 2020. This year, in a much more market – in a much more vibrant market situation, we've had these true-ups already in Q2. So this, in essence, hits our Q2 results. It helps our Q3 result because we won't be having those true-ups then. Second part is there is a license – a shift in licensing income, which, last year, we got in Q2. This year, we will get it in Q3.

So sum that is, in essence, half of what the margin decline is. This comes back in Q3. So just to flag that to you very, very transparently.

The other element – the other half is a mixed bag of higher costs and product mix. Product mix, we flagged a little bit. In the past, we had lost an older corn license expiry, which is a higher margin for us. We lost thiacloprid and neonic in Europe registration, which is a high-margin product. And this simply has ways, to a degree, on our margin, but it's a transitory effect, of course, because you take that hit one time and not on an ongoing basis.

Then, we have the higher costs, which are in essence two elements. One of them is our short-term incentive, which Wolfgang alluded to, where there is a swing versus last year. Because

of last year's very poor performance; this year, with a much stronger overall performance projected for year-end.

And the second one is related, to a degree, a reversal of contingency spending. So last year, in the COVID situation, we, of course, clamped on the brakes, as many companies did, from a spending point of view. We don't go back to what the original spending was, but, for sure, we do have some additional investments, both in R&D and on the Commercial side, if you think of the fact that we're also launching consistently new products.

So there is a bit of a one-time effect in there. But again, this is a transitory impact and a bigger part of those costs have already been incurred in the first half of the year versus the second half of the year.

And the third element is COGS, and this is largely in material cost and freight. And here as well, I think it's important to understand a lot of our growth in the first half of the year was driven by heavy volumes of particularly herbicides and fungicides.

On the Seed Production side, our production costs are hedged. Our COGS on the Crop Protection side are simply more impactful. And as we go into the second half of the year, our growth is going to be driven much more by pricing upside, and you will see this across the board.

So, in essence, what you're going to see is in the second half of the year, a significantly higher margin than what we had in the second half of last year. And that gives us confidence – or a lot of confidence that we can achieve our 24% EBITDA guidance for this year in constant currency base.

Because a lot of those effects are transitory, you would expect then, going forward, to see a margin lift. And that's why we're confident that we can achieve our 27% to 29% guidance range.

Wolfgang Nickl: Okay. I'll continue on the equity ratio, Michael. Hello, and thanks for the question.

Absolutely right, equity ratio reduced versus Q1 from 29% to 27%. At the year end, it was, by the way, 26%. In absolute terms, that means from about €4 billion, from €35 billion to €31 billion. You can attribute about half of that to the dividends that we paid out – that's obviously coming out of equity – and the other half on the reported loss that's driven by the provision – the incremental provision that we talked about last week.

The balance is €31 billion on the balance sheet. I'm not concerned. Even more important than whether I'm concerned or not concerned is whether the rating agencies are concerned. And you can assume that under NDA, of course, we've talked with them about the legal complex and also the exciting acquisition that we announced today. And you have seen Moody's coming out, confirming already. I think they do understand that we are laser-focussed on this.

We think we are in good shape there. We continue to be absolutely committed to the net financial debt in 2024 of €28 billion to €30 billion and, with that, a significant reduction in leverage. And from that perspective, I'm not concerned, Michael.

I think the next one was for Stefan.

Stefan Oelrich: Yeah. That's right, yeah. Yeah, hi, Michael. Thanks for the question.

So first of all, we're super excited about the broad FDA label for Kerendia that was granted following the FDA review or, may I be more precise, priority review of the FDA. The label really recognised the renal and cardiovascular outcomes in the pivotal FIDELIO-DKD trial.

But you were asking specifically to what our entry strategy is here. And let me maybe preface by saying, we're looking at worldwide more than 160 million patients that live with chronic kidney disease and type 2 diabetes. So this is a significant opportunity with an even more significant unmet need.

And our mechanism of action is well known to kidney specialists. But so far, they didn't have a medicine that they could prescribe without – with this indication and because of side effects. So we really think that we have the kidney medicine. The kidney medicine means, we have the product that is designed to treat kidney with five different indications.

Let me just remind you how broad our label is and the indications that come with it. We're indicated to reduce the risk of sustained eGFR decline, we're indicated in end-stage kidney disease to prevent cardiovascular death, non-fatal myocardial infarction and hospitalisation for heart failure in adult patients with CKD and type 2 diabetes, so an incredibly strong label.

If you think about this, we're going to go in initially targeting specifically nephrologists, endocrinologists and a select group of primary care physicians. And to add to that, we have also the FIDELIO data that you've seen top line information on which is going to be presented at the ESC meeting next month. And the FIDELIO data really I think pooled with the FIGARO data makes our case even stronger.

So we really feel very good about this. The launch is ongoing now in the US, we should have commercial presence in doctor's offices towards the end of this month. And that's the start that we're looking at.

Michael Leuchten: Thank you.

Operator: The next question comes from the line of Mr Andrews. Please state your full name and company name, followed by your question.

Vincent Andrews (Morgan Stanley): Hi. Liam, I wonder if you could give us some more detail on the Intacta 2Xtend launch in South America this fall? And in particular, the price premium, maybe that you've been able to establish over the Intacta 1 and if there is any improvement in your contractual ability to take price in the coming years as needed against foreign exchange or costs or anything else?

And then also, how big of a launch do you anticipate? And what – sort of over what period of time do you think Intacta 2 will be able to replace Intacta 1?

Werner Baumann: Liam?

Liam Condon: Yes. Thanks a lot, Vincent. So we have all the approvals in place and are in the process now of ramping up for launch. We expect to be on 600,000 acres with Intacta 2Xtend as a season, this is the initial goal in the early phase of launch. Of course, what we're working on is, and the plan is to shift our Intacta franchise to Intacta 2Xtend overtime.

And as you know, on the Intacta franchise we're on over 85 million acres in Latin America, so there is a tremendous potential in here. We have been able to improve the contractual situation around pricing, which as you know from the past was linked only to inflation, so beyond inflation

there was no ability to increase prices, this is being adjusted. And the initial price increase for the launch phase over Intacta is about 5 – it's mid-to-high single digit increase, somewhere between 5% and 8% increase is what's in the initial launch phase now.

Vincent Andrews: Okay. And then if I could just ask you on the US season and how that played out, it would appear from the corn and soy sales numbers that you had strong price realisation in corn, which I suspect was more a reduction in promotional spending than changes in list price. But how do we think about that going into next year, where I would assume you're going to have an increase in seed production cost, it could be quite sizeable. And what is your confidence that you're going to be able to price well in excess of that increase in production costs?

Liam Condon: Yes. So on corn, as you know for last season, everybody had priced ahead of the run-up and commodity prices. And we have the opportunity now in the new season to price again. So we will be issuing our price cards in the next couple of weeks, actually latest by end of August. But within August, we'll be issuing them. You can expect a significant price increase, this is corn US I'm talking about.

And on the Corn Production side, we're actually hedged to a large degree and our goal is always anyway from a pricing point of view, whatever increases there are going to be in cost of goods that we pass this on to the market, this is just a basic philosophy that we have and that we're pretty rigorous on implementing. But you can expect to see a significant price increase going forward.

Vincent Andrews: Excellent. We'll look forward to that.

Operator: The next question comes from Mr Jackson. Please state your name, company name, followed by your question.

Joel Jackson (BMO Capital Markets): Hi, good afternoon. I want to talk a little bit about Crop Protection pricing and as it relates to some of the trying to pass through the higher costs, you're seeing so higher inflation.

Is it easier – has it been easier to pass through the costs on the lower margin, lower price products like glyphosate? Are you finding on the higher priced technologies in your Crop Protection portfolio, that it is a more competitive dynamic and it's harder to pass the cost inflation off on – with higher pricing?

Liam Condon: Yes. Let me try and give a bit of colour on this – on the CP pricing, and it's of course, as you know very different by region. Actually, across the board, we would be expecting to be passing on again increases in COGS, we need to pass it on to the market. The issue is, of course, you have a time lag between when we purchase materials, go through the whole production process and products inventory. And then, by the time it's sold, there is this inherent time lag that we simply need to deal with versus something like freight as well, which is immediately visible for us. But overall, we've actually seen very strong price increases for glyphosate because you mentioned that specifically.

Our pricing for glyphosate is intricately linked to the price of acid in China as kind of the basic raw materials from glyphosate. And because of shortage of supply in China, this price has gone up significantly. And with that, our market price has also gone up significantly for glyphosate. We're very flexible in pricing here. And if the market price moves, our price moves and we

adjust pretty regularly. We've actually had multiple price increases already this season, and we expect more to come even in the second half of the year.

In Latin America, as you know, it's a little bit of a different situation, because we have the price in local currency, but we try and tie this as tightly as possible to US dollar currency movements. And also here, we usually have multiple price increases throughout the season. And as an example, now starting into the LATAM season, you could expect to be seeing local price increases of highest single-digit is what it would be expecting on the CP portfolio.

So overall, again, we should be compensating for any COGS increases, as we go through the year, there might be a bit of a time lag given the nature of crop protection. But we've – so far, we've been able to pass on I think where you'll see more of the pricing effect kicking in, in the second half of the year as simply again, due to that time lag.

Joel Jackson: Okay. And finally, are you expecting any more headwinds in the second half of the year from loss registrations?

Liam Condon: No. The big one this year was thiacloprid, which we flagged last year as well, because we knew that was coming. Beyond that, there is nothing that I would flag for the second half of this year, that's really relevant, but most of the sales of thiacloprid are in the first half of the year, not second half.

Joel Jackson: Thank you very much.

Operator: The next question is from the line of Ms Walton. Please state your name, company name, followed by your question.

Jo Walton (Crédit Suisse): Thank you. To start on the Crop side, can I just clarify, you've gone from an underlying expectation of 2% sales growth to now 7% sales growth. Is the vast majority of that increase to do with price? Is there anything to do with increased volume or background improvement?

And if we think about that big price improvement, is that just because everyone is able to get a price uplift or is there somewhere where you are getting it from a competitive point of view?

And on the Pharma side, again, looking at the uplift in sales guidance from 4% to 6% in local currency. What proportion of that is COVID-related disruption coming back perhaps faster than you'd anticipated with very strong performance in the hospital imaging side of things? I don't know how sustainable – whether that's just a massive catch-up that won't keep going in the future.

And if you could also give us an update on the rollout of Nubeqa, beyond Germany, how that's doing? And you've said in the past that you would expect Nubeqa to reach your top 15 drugs by the end of this year. Is that the same for finerenone? Thank you.

Liam Condon: Thanks a lot, Jo. Let me start with the first question. So, as you know, the first half of our year is where we do the main – the bulk of sales and actually pull in the bulk of EBITDA and the Crop Science business. And the first half of the year was roughly 6% volume increase and 2% price increase. And this changes as we go through the second half of the year, where you'll see significantly more price increase versus volume.

And how that then nets out at the end of the year, we'll see. But what you can see is that over time, the pricing impact is kicking in more and more at the back end. And those price increases

are clearly coming from the fact that we have a buoyant market situation with high corn and soybean commodity prices.

And we always have to price competitively. But reality is in almost every market with our portfolio, we tend to be the price leader. So we always price, we always try and aim for premium price. And if we lift up the prices, it often happens that others will follow as well. So this is something where I think we've had a good – overall, we've had a good experience in the market and the price increases do not necessarily lead to market share loss on our side, and market share is really dependent on – in market performance of the products.

And here, I think across the board, on corn, I think we've gained a bit of – we'll only know at the end of the season, but it looks like we've gained a bit of market share. Soybeans, we're doing better than we had originally expected, given the highly competitive situation in North America. And clearly in Crop Protection, we believe we're gaining market share. So despite the fact that we have high-end pricing and our increasing prices, I believe we still have room for share increases as well.

Stefan Oelrich: Yes. Hi, Jo, so your question on performance versus – catch-up versus a real performance, so there's obviously a mix of both. And there's – I would say, also in the second half, we're going to ask you a little bit of that catch-up still.

But when I look at the underlying performance, some of the things that I had been talking about also to all of you over the last year that we were well in the pandemic lacking elective treatments, we were increasing in market share, especially on Eylea. But also, on some of our women's healthcare business in the US, this is now coming to full fruition, as demand is strong again, the market share is coming through and we're seeing this translated to growth so some of this is performance.

Let me also remind you that when we guided for the year – when we guided for the 4%, all the catch-up was already included in the guidance. So that was included before. What also plays a significant difference is that we saw VBP for – as Xarelto China come in, maybe a little later than we would have expected. And that gives us also a little bit of a lift for the remainder of the year.

Now as to the rollout of Nubeqa, we had said last time when we spoke that this will make it to the top 15 by the end of the year. We stand by that so just for – to repeat, top 15 is somewhere in the range of €200-€250 million, probably. But just to give you an indication and we're seeing really strong demand for Nubeqa in the second quarter, despite the pandemic. Across the board, we saw really strong reimbursement now in Germany, better than expected. So this is going well.

And to finerenone, I wish I could tell you, but this is a little early to places in the top 15 this year, because we're only coming out of the gate basically in September. But – well, I'm sure you will ask me a lot of questions on finerenone because you will have good visibility on demand with the prescription data in the US.

Jo Walton: Thank you.

Operator: The next question comes from Mr Quigley. Please state your name, company name, followed by your question.

James Quigley (Morgan Stanley): Hi, guys. Thanks for taking my question. I've got two, please, or two and a half.

On the Vividion acquisition, can you give us a bit more details on this? So how it fits into the BioDiscovery platform? What will be the impact on R&D costs on an annualised basis and the margin drag from that? And what is it about the platform that gives you confidence that it will be – and they will significantly improve your drug discovery capabilities.

And for Eliapixant, in the chronic cough indication, where do you think this would be differentiated versus Merck & Co's gefapixant. How were you planning on designing the Phase 3 trials? And are you sort of considering any patient selection within those trials?

And in terms of the read across from the Phase 2 that you reported yesterday or the top line yesterday to the other indications, is there any – or is it just more of a safety read across rather than anything else?

And then third one on Kerendia. What is the contracting situation like here and there and the reimbursement profile, are we expecting for reimbursement profile in the US or sort of the trend of reimbursement? I think it was $19 a day price, which is obviously significantly more than the SGLT2s, how would that impact sales uptake? Thank you.

Stefan Oelrich: Okay. Thanks, James. So maybe first about Vividion, I think with this acquisition, we're really consistently executing against our innovation vision and creating true value through breakthrough. To us, Vividion is really unique and at the same time, a world-leading platform to address biological targets that no one else has enabled to address. So it's 90% of all known disease causing and modifying proteins that we can now address that before couldn't be addressed or I could also say it differently.

We're getting from the druggable now into the undruggable phase, which is I think an incredible lead. For us, it's the perfect combination, our expertise in chemistry but also in drug development combined with Vividion should be able to really capture the full potential of this ground-breaking technology. You've seen, there are licensing deals that were – I think, very noteworthy given the milestones that were attached to that they've done before.

How well this technology is seen also by some of our competitors. So I think it's a great leap forward in terms of costs. We intend to absorb that cost within our overall R&D expense. So don't count for that as an additional burden to our profile. So coming to Eliapixant, I can't tell you how pleased I am. It was a result of this but at the same time, I can't tell you what it is exactly because we're waiting for the publication of the full data at an upcoming meeting. But I can guarantee you'll be as pleased as I will be, as I am now, when you see it.

So in terms of differentiation to Merck, you've seen good efficacy with Merck. You've seen a somewhat mixed side effect profile that they have, so stay tuned. But I think it's going to be a good surprise.

And on the entry for finerenone, in terms of pricing and reimbursement, of course, we're right now working with the different commercial payers as a priority in the US to gain lives here. I think we have a very favourable price profile, because I think you're looking at this potentially the wrong way. You shouldn't necessarily compare us to SGLT2 as a price anchor because this is not a diabetes drug.

So we feel strong that we're actually priced right. And we will have hopefully then also too early to say reasonable commercial conditions that allow for not just a good uptake in prescriptions, but also to capture the value that we think lies in our medicine.

James Quigley: Thanks very much.

Operator: The next question comes from the line of Mr Jones. Please state your name, company name, followed by your question.

Tony Jones (Redburn): Good afternoon, everybody. Tony Jones from Redburn in London. And I've got three quick ones.

On Slide 21, the pipeline, it shows that you've got SmartStax Pro moving into launch mode for next year. Could you tell us a little bit about what the price premium might be and maybe early-stage estimates on acreage?

On litigation, when are you expecting the decision on the Supreme Court accepting the pre-emption case or maybe a little bit of a range that would be really helpful?

And then, certainly back to Seeds, you say that you're hedged, that seems quite biased specific. So could you explain what the mechanics are there please and how that works? Thank you.

Liam Condon: Yes. Thanks Tony. Let me start SmartStax Pro, we're launching next year. So we'd actually be guiding for that at the beginning of the year, how we see that from a pricing point of view, what you can of course expect is that there'll be a pricing premium over SmartStax and what we're seeing. And what we're hearing a lot as well this year in the US in comparison to the last few years is that there is more corn rootworm pressure. So we hope that this is coming into a positive market environment where we can get significant penetration, but I would suggest that we update you, and then at the beginning when we give our guidance for 2022 about the outlook specifically for that product. Litigation?

Werner Baumann: Maybe you could do also the seeds hedging.

Liam Condon: Yes. So I don't know, Wolfgang, if you want to take how the mechanics of how we do our hedging, but they are – our basic philosophy is from a production point of view. This is not something that we want to be earning money off, and we just want to make sure that we don't make any losses. So we basically, in essence, hedge our soybean and our corn at production to ensure that there is no – not overly any kind of volatility in there.

Wolfgang Nickl: Nothing much to add, exactly, the reason why we do that.

Werner Baumann: Okay. So and we stand a derivative step to do that. So Tony, on your last question, we are going to file our writ for the petition to the Supreme Court on 23rd August. So you're just about a fortnight from now. And the Supreme Court could then virtually your any day accepted but normally it takes quite a number of them. So we would think that around the turn of the year, end of 2021, early 2022, by then for sure Supreme Court will have taken a decision on whether to take the case or not, but it could also be earlier.

Tony Jones: Thank you. That's really helpful.

Operator: The next question comes from the line of Mr Faitz. Please state your name, company name, followed by your question.

Christian Faitz (Kepler Cheuvreux): Thank you for taking my – two questions, please.

First of all, a question for Liam again, coming back to the production costs. Sorry for that. I appreciate you see production costs are hedged for this year on the seed side. How would that look next year and how much more expensive would that hedge be given the rise in crop commodity prices?

And then, the second question is on the current heat drought wave in the Western US is that a concern for you? Are demand patterns affected in any way, let's say it's place in the Northwestern US or veggie seeds in California? Thank you.

Liam Condon: Thanks Christian. So next year for the production costs, I mean, if commodity prices, as you know is all a factor of where commodity prices are, we could expect some higher hedging costs, but again, this will completely depend on where the overall commodity price is, given the peaks that they're at right now. It's kind of hard to imagine that this would go significantly higher. So I think we should be okay on that front. Just acoustically, I didn't really get the – the second, you meant the droughts in California, whether that's impacting the veggies business?

Christian Faitz: Yes. I mean, the veggies, but also spraying in the Northwestern US I mean, the Northwestern US is quite heavily effected, is there any stockpiling effect in sprays, which hadn't been applied and things like that?

Liam Condon: Yes. So, I mean, for affected farmers is of course is a disastrous situation. We've also had pretty freaky weather incidents in other parts of the world as well. On our business right now, we're not seeing any material impact, our vegetables and particularly fruit and vegetables businesses is pretty specialised, and there's also a lot of indoor business for us. So we're not seeing anything that would be overly concerned of right now, but it does, of course, for affected farmers is a big issue.

On stocks in the channel in North America and this specific example, we're not noticing any elevated levels of stocks because of for example, miss sprays. I think the only issue really is rather much further north than Canada. The ongoing drought there that probably from a fungicide point of view is leading to some increased inventories in the channel, but by and large it's not something that, right now, it would be somehow materially worried about.

Christian Faitz: Okay, great. Thanks, Liam. Very helpful.

Oliver Maier: I think we have time for one or two more questions. I'm time-conscious.

Operator: Yes. The last question is from the line of Mr Parekh. Please state your name, company name, followed by your question. Please go ahead.

Keyur Parekh (Goldman Sachs): Hi. Good afternoon. Thank you for taking my questions. I have three, please.

The first one for Liam. Liam, you very eloquently explained kind of the margin on the Crop side and the variance is kind of between quarters, but my question is slightly different. You've gone from 2% top line growth on Crop at the start of this year to 7% top-line growth. And there are very few businesses where your growth more than doubles and margin expectations remain flat. I understand there are some things about this particular year, that may be a question, but how do you not drive greater margins when crop is growing 7%. And longer term, does this mean that 24, 25 is now peak margins for this business? And we need to start thinking about volatility more on the revenue line. So that's question number one.

Question number two is, if I read the disclosures currently, your total employee compensation for the half is up 21% year-over-year. Your stock price is down 30% compared to the peer group over the last 12 months. So Werner, just keen on your thoughts of how you think about kind of the various stakeholders in your business, but the margin should flow through to your shareholders or to your employees.

And then, lastly, the call last week, Werner, you spoke about kind of trying to rebuild trust in the intrinsic kind of fundamental value of Bayer, at least six out of the last 12 quarters, there have been some form of a disappointment relative to Street expectations. What are we getting wrong on a quarterly basis? What can Bayer do to help us avoid those mistakes going forward?

Liam Condon: Yes, thanks a lot, Keyur. Let me start with the first one. And then, I'll try not to repeat the some of the explanations, I gave earlier.

But on your – I think high level question is like 24% or 24%, 25% is that peak margin? Clearly, I do not think that is the case. We had said going into this year, we viewed it as a transitional year, and we gave out a certain guidance on the bottom line. We knew there would be some transitional impact, some transitory impacts that particularly hit us in the first half of the year that ease up in second half of the year. And that, by and large, are not present in next year.

And if you think of the situation then going into next year where we should be benefitting from some of the price increases that are coming through in the second half of this year and the efficiency measures if we don't have the transitory increase in costs to degree, we had this year, you should be expecting margin accretion, and that's what I would be expecting. And that's why we're completely sticking to our midterm guidance of 27% to 29%.

Werner Baumann: Yes. Let me take the other two questions, Keyur.

So first of all, on your first question, our employee compensation, as you rightfully point out is up 21%. That's in a way, a little bit technicality and an artifact in the quarter because we do have quite a bit of volatility based on our quarter two last year. There's a significant baseline effect, we are rather than kind of putting up provisions for a normal year bonus program in light of the massive COVID impact was already visible that both with COVID and FX, we would be by and large out of the money, at least in two of our businesses.

And that led to actually a reverse or a reverse of accruals into earnings versus this year, where we see based on – we started the year actually, quite frankly, improving momentum. And we see that across-the-board top line. We see it bottom line, we will for sure see some further momentum – positive momentum going into 2022. And based on that, you see that year-over-year swing factor, kind of overexpressed, which doesn't have any bearing on a full-year employee or, let's say, a payroll structure that you would see by the end of the year.

Secondly, in terms of rebuilding trust, this is not about the receiver. This is about the sender, obviously, we don't get it right. Last week, we wanted to make sure that you get full transparency on where we are going to take the litigation of what the option space is that you provide for, let's say, less favourable outcome in our balance sheet, so that you have full transparency and be kind of you're trying to do the same today with our quarter and frame the quarter with some of the effects that have been weighing on the quarter while at the same time providing you, I think, a little more relevance, a full perspective and full confirmation of where the year is going, but obviously we have to do better.

Yes. So I fully take that point.

Oliver Maier: Okay, Emma –

Operator: Mr Maier, there are no further questions at this time.

Oliver Maier: Okay, great. Thank you very much, Emma.

Thanks to all of you for your time and your attention today. It's greatly appreciated. And this closes our call. Talk to you soon. Thank you.

Operator: Ladies and gentlemen, this concludes the Second Quarter 2021 Investor and Analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]

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