



Bayer IR Q3 Results 2021

Tuesday, 9th November 2021

Welcome

Oliver Maier

Head of Investor Relations, Bayer

Good afternoon and thanks for joining us today. I would like to welcome all of you to our third-quarter 2021 conference call. With me on the call today, I've Werner Baumann, our CEO, and Wolfgang Nickl, our CFO. The businesses are represented by the responsible management board members, so for Pharma we have Stefan Oelrich; for Consumer Health, we have Heiko Schipper; and for Crop Science, we have Liam Condon.

Werner will begin today's call, as usual, with an overview of the key developments in the third quarter. Wolfgang will then cover the financial performance and outlook before we open for the Q&A session.

As always, I'd like to draw your attention to the cautionary language that is included in our safe harbour statement, as well as in all of the materials that we have distributed today. With that, I'll hand it over to you, Werner.

Business Update

Werner Baumann

CEO, Bayer

Alright. Thanks, Oliver, and good afternoon to everybody on the call. It's my pleasure to welcome you to our today's conference call.

Strong Quarter, Full-Year Guidance Updated

In this quarter, we have sustained our strong growth momentum in all divisions and achieved a double-digit percentage increase in Group sales.

Crop Science delivered substantial year-over-year performance, attributable to higher volumes and prices. Specifically, the increase in glyphosate prices, an early start into the Latin American season, lower product returns and higher license income in North America contributed to the exceptionally strong performance. Our Pharma business also showed good growth, based on an excellent Eylea performance. Price reductions in China for Xarelto were overcompensated by volume gains in other regions. Consumer Health sustained its growth momentum, with Nutritionals remaining the key driver.

Earnings before special items grew in line with top line expansion and were driven by the contributions of our Crop Science business. With a strong first nine months and a positive outlook for the remainder of the year, we update our outlook for 2021. We now expect better top line growth for our Crop Science and Consumer Health businesses, while our outlook for Pharma remains unchanged. With that, we anticipate our Group EBITDA margin before special items, as well as our core earnings per share, to improve. We also expect a better free cash flow due to lower anticipated settlement payouts. All other elements of the guidance remain unchanged.

Lastly, some very positive recent news related to Xarelto, our most important Pharma product. We are pleased that the European Patent Office has reversed a first-instance decision and

maintained a Bayer patent on the most prevalent once-daily administration of Xarelto. With this decision, the patent is valid until mid-January 2026. Needless to say that this is very positive for the next years and the extended benefit of a longer transition time to our early and mid-stage pipeline in our Pharma business.

Innovation

Let me now turn to innovation and sustainability and provide you an update on the status and progress made.

Pharmaceuticals

In Pharmaceuticals, we are advancing our product launches and further development of our late-stage Pharma pipeline.

With regard to product launches, the rollout of Nubeqa is ongoing and the product showed promising growth, specifically in the US. Furthermore, we have launched Kerendia in the US in the third quarter.

We also expanded the life-cycle-management programme for Kerendia. We initiated the FIND-CKD Phase III study, which aims to evaluate the efficacy and safety of Kerendia, in addition to guideline-directed therapy to delay the progression of non-diabetic chronic kidney disease.

In August, we started the Phase III clinical development programme for Elinzanetant, OASIS, to evaluate the efficacy and safety for the treatment of vasomotor symptoms during menopause.

With the closing of the Vividion Therapeutics acquisition, we further strengthened our innovation potential, representing another building block in addition to our promising cell and gene platform around AskBio and BlueRock.

Crop Science

Moving on to Crop Science, we continued to successfully commercialise new products in key markets, including XtendFlex soybeans in North America, a beta launch of short-stature corn in Mexico and the VTPRO4 corn and Intacta 2 Xtend soybeans in South America.

Consumer Health

And in Consumer Health, the launch of innovations behind major brands like Bepanthen and Aleva contributes to our strong sales momentum. Furthermore, we are preparing the market for the launch of Astepro, the first and only steroid-free antihistamine nasal spray for allergies, which we expect to be available at mass retail locations in the US in quarter one 2022. This is a significant milestone for our business, as it strengthens our leading allergy portfolio.

Sustainability

Let me now come to our sustainability activities. We are also well on track to reach our 2021 objectives this year and further laid the foundation for achieving our 2030 targets.

On our target of providing 100 million in low- and middle-income countries with access to modern contraception by 2030, we recently announced the construction of a new production site in Costa Rica. Together with the expansion of production capabilities in Finland, this is an investment of over €400 million to ensure supply of long-acting reversible contraceptives and to provide access to family planning.

On climate, we have engaged with the investor-led Climate Action 100+ initiative and recently published our first Industry Association Climate Review. The report transparently assesses the alignment of our industry associations with our commitments on climate change and, in case of misalignment, we will take measures to bridge the gap.

All the aforementioned topics showcase our continued efforts and commitment to our ambitious long-term targets.

And with that, over to you, Wolfgang.

Financial Performance

Wolfgang Nickl

CFO, Bayer

Thank you, Werner. Hello everybody and also a warm welcome from my end.

I will now walk you through our business performance in the third quarter and the first nine months.

Please note, when we mention sales development, we are referring to portfolio- and currency-adjusted numbers, unless otherwise stated.

Double Digit Growth in Top and Bottom line

Our sales grew by 14% to €9.8 billion in the third quarter, with strong contributions from all divisions. While the first half of the year was negative impacted by foreign currency effects, we now saw a tailwind of €67 million in sales in the third quarter.

In line with sales, our EBITDA before special items showed double-digit growth of 16%, coming in at €2.1 billion and a margin of 21.4%. Here, foreign exchange impact is slightly negative, with €44 million, as it contains negative year-on-year hedging effects.

Our core earnings per share in the third quarter came in at a strong €1.05. This is a 30% increase versus the prior-year quarter and is mainly driven by higher contributions from Crop Science.

Reported earnings per share are positive at 9 cents. The strong quarterly operational contribution offset negative contributions of 51 cents from the usual adjustment for acquisition-related amortization, as well as 70 cents from special items, mainly related to our efficiency programmes. The related tax effect was a positive 26 cents.

You will find the full bridge from core to reported earnings per share in the appendix of the presentation we shared.

Our free cash flow advanced to almost €2 billion in the third quarter compared to €1.2 billion in the previous year quarter. Major drivers were higher customer collections, particularly in Crop Science and Pharma. Settlement pay-outs for litigation amounted to €600 million in this quarter.

Our net financial debt decreased slightly to €34 billion in the third quarter. Our free cash flow more than offset a €1.3 billion outflow for the acquisition of Vividion Therapeutics, as well as negative currency effects.

Strong Performance despite Currency Headwinds

Let's look at our year-to-date performance next to smoothen quarter effects from seasonality and pandemic-related dynamics.

Group sales advanced by 9% to €33 billion, with a year-to-date foreign exchange rate headwind of €1.4 billion.

On earnings, our EBITDA before special items came in at €8.8 billion, showing a 3% decline. Substantial negative currency headwinds of €534 million weighed with 50 basis points on our year-to-date margin, which came in at 26.6%.

Core earnings per share are at €5.25 for the first nine months, an increase of 4% compared to prior year. Core earnings per share benefited from an improvement in the core financial result of roughly €400 million year-to-date. The core tax rate stood at 24.6% versus 23.9% in the prior year.

Year to date, our free cash flow stands a minus €120 million. The year-over-year decline of €2 billion is largely explained by higher litigation settlement payouts that were partially offset by improved cash from operations.

Crop Science with Strong Year-over-Year Performance

I would now like to give you some more background on the performance of our businesses during the quarter.

Crop Science delivered impressive sales growth of 26% in the third quarter, with 14% coming from volume and 12% coming from price. There are in essence three main drivers for the strong sales growth this quarter.

First, with strong demand and tight supply, we were able to increase prices for glyphosate-based herbicides, particularly in North America. Second, corn and soy Seeds and Traits in North America benefited from lower product returns and a shift of corn trait license income into Q3, as expected. Lastly, our Seeds and Traits business in Latin America is seeing strong early demand and expanded both volumes and prices. We also start seeing the benefits of the VTPRO4 launch in corn.

On the earnings side, EBITDA before special items came in at €471 million after a negative result in the previous year. Top line increases as well as positive contributions from our efficiency programmes more than offset cost increases, particularly in cost of goods.

Pharma Progresses Well with New Products

Our Pharma division increased sales by 7% to €4.5 billion. Eylea contributed significantly to this growth, with a 19% increase over prior year, driven by a reduction of COVID-19 related restrictions and growth across all regions.

Sales of Xarelto increased by 4%. Higher volumes, particularly in Germany and Russia, could compensate price reductions in China.

We're very pleased with the performance of Nubeqa, which continues to exceed our expectations. Furthermore, Kerendia was launched in the US for the treatment of chronic kidney disease in patients with type-2 diabetes.

EBITDA before special items at Pharma came in at €1.3 billion, representing a 10% decline over a strong prior year. As you may recall, earnings for last year's third quarter benefited from COVID-19 related savings. This year, we invested again, particularly in research and development and the launch marketing activity for our new products.

Consumer Health Sustains Strong Growth Momentum

Let's complete the business review with a look at Consumer Health.

In Q3, we expanded sales to €1.3 billion with 11% growth compared to an already strong previous year quarter. Growth is broad-based across regions and product categories, with Nutritionals remaining the key growth driver. Sales for this category increased 20% versus the prior year, fuelled by continuous focus on preventative health solutions.

The Pain and Cardio segment grew by 17%, supported by the Aleve line extensions.

Allergy, Cough & Cold returned to growth with a 7% sales increase, cycling over a weak prior-year quarter that was impacted by COVID-19 related restrictions.

Consumer Health earnings before special items grew to €308 million. The lower margin of 22.9% is mainly attributable to investments in innovation and product launches. Product mix effects and a one-time impact from the precautionary product recall of our Lotrimin spray in North America also had a negative impact on margin, while the prior year benefited from some tail-end product divestment income.

We Update Our Full-Year Guidance for 2021

Looking at our strong performance year to date and a positive outlook for the remainder of the year, we update our guidance.

Growth expectations in Crop Science and Consumer Health have been updated. On Group level, this increases sales but we continue to expect it at approximately €43 billion. This translates now into a currency- and portfolio-adjusted growth rate of approximately 7% compared to previously approximately 6%.

On the earnings side, we now expect an EBITDA margin before special items of approximately 25.5% and our core earnings per share is expected to come in slightly higher at between €6.10 and €6.30.

We also anticipate the free cash flow to come in higher than previously anticipated. We now expect it between minus €0.5 billion and minus €1.5 billion for the full year. This is largely due to phasing of anticipated settlement pay-outs. In August, we had assumed settlement pay-outs of roughly €7 billion. The guidance now includes €5.5 billion.

As for net financial debt, this now includes the €1.3 billion outflow for the acquisition of Vividion Therapeutics. We expect this to be offset by the improved free cash flow.

Increased Sales Growth for Crop Science and Consumer Health

With regards to our divisional guidance, we now anticipate the sales growth of Crop Science to be around 9% versus the 7% we had previously assumed for the full year. For Consumer Health, we project to come in at around 6%, compared with 3% to 4% we had envisaged in August. Sales growth for Pharma is still expected to be around 6%.

In Crop Science, we are off to a successful start into the Latin America season and we are getting prepared for the 2022 season in North America. In the fourth quarter, we expect the positive underlying growth dynamics to continue and allow us to largely offset the effects from the reduced glyphosate product supply that arose from the Luling plant outage in the third quarter.

For Pharma, we anticipate that the division will continue to deliver against its full-year 2021 guidance, despite increasing pressure on Xarelto from volume-based procurement in China. We confirm our expectation of mid-single-digit percentage growth for Xarelto and mid- to high-teens percentage growth for Eylea in 2021. Furthermore, we expect to receive a milestone payment for Adempas of approximately €175 million in the fourth quarter.

For Consumer Health, we remain fully on track to deliver on our strategy and aim to grow in all regions and categories. However, the situation remains volatile, especially in our Cough & Cold category, which we monitor closely.

And with that, I will hand the call back over to you, Oliver, to manage the Q&A.

Q&A

Oliver Maier: Okay. Thank you so much, Wolfgang, and thanks Werner for your overview. Before we begin, I would like to remind everyone joining, please keep your questions to about two per person so that we are able to take as many questions from as many participants as possible in the time allotted. So Operator, you may open up the lines for questions please now.

Thank you Oliver. Ladies and gentlemen, at this time, we will begin the question and answer session. If you have a question, please press star followed by one on your telephone. If you wish to cancel your question, please star followed by two. If you're using speaker equipment today, please lift the handset before making your selections. One moment for the first question please.

First question comes from Michael Leuchten from UBS. Please go ahead.

Michael Leuchten (UBS): Oh, thank you very much. Michael Leuchten from UBS. Two questions, please. One, pretty much a repeat from the second quarter. Just wondering if you could run us through the margin dynamics in Crop as we head into Q4. Wolfgang made it very clear that the efficiencies and the pricing allowed you to offset the cost increases in the third quarter. Your top line guidance increase suggests that maybe that's less the case in Q4, so how do we think about that and maybe also how do we think about those cost dynamics into 2022?

And then, it's pretty clear that from a pricing perspective we don't have to be too concerned as we head into the next season in Crop. But from a volume perspective, given that everything is in shortage at this point in time, how do we think about supply in 2022, be that on the glyphosate side or elsewhere? We know you've got pricing power but supply chains' robustness, any comments would be great. Thank you.

Liam Condon: Thanks a lot, Michael. So, let me start with the dynamics in Q3 and Q4, and a few points maybe on what Werner and Wolfgang have already pointed out. So clearly in Q3, we benefited from lower returns. This is a pure phasing effect from Q2 to Q3. Lower returns,

but also higher royalties. The weakness we had in Q2 came through – as we had said in Q2 - in Q3. And that has a swing factor of about €200 million, just for your own calculations.

Then we had a very strong start to the season in LATAM and, as you know, many of our products, I mean, you sell them once, so a bag of seed you sell once, you don't sell it multiple times in a year. So, some of the strong sales in Q3 has been pulled forward out of Q4. That's another about €150 million, so just to give you a sense of what the moving parts are. And we benefited clearly from additional glyphosate pricing. Glyphosate pricing, year to date, so far it's up about 25%.

Now, going into Q4, given our outlook, you could ask or maybe wonder, so what's going on with the underlying. And the underlying is actually very strong here. The issue is simply we had the Luling plant outage in August, so we were down for August/September, we were down for five weeks, and this is our main glyphosate production site. This site, in essence it always runs at capacity. Capacity is ballpark about 300 million, Roundup equivalent, gallons, and we lost five weeks, so we've lost about 7% of overall Roundup equivalent gallons. And that is sales that is then missing in Q4. So, that's about €200 million. And then if you take the €150 million from phasing into Q3, you get to an underlying growth rate of, should have been high single digit. And what you will see from our outlook is rather flattish. But we would explain this, it's really purely a phasing effect and you need to see I think the impact of Luling together with Q3 results, it's actually a very, very robust underlying dynamic.

On the cost side, clearly, we have unprecedented COGS and freight increases across multiple industries. We have a – basically - an "eat inflation" philosophy in our company, so we take a lot of measures to eat inflation as much as possible. And of course, we try and pass on, and are usually pretty successful at that. We pass on pricing into the market according to the value that we create. And I think the key point here is there's always a lag between price – between COGS or cost increases and our ability to price. Because again, many of our products, you only price once a year and if you miss that pricing window, then you've got to wait until you can increase the price again.

Now, you'll see the benefit of this as we go forward now with our second-half reporting and Q4 reporting. If I compare with the first half of the year, our growth was probably two-thirds volume, one-third price. If I look to what we're expecting for the second half of the year, where we were then able to price for the new season, you will see a much more price-driven growth, and of course that then carries into 2022. So, I think just to give you a sense of how to frame this going forward, so clearly, our goal is always to pass on inflation and clearly, our expectation is that we would have margin accretion going into 2022 due to our ability to pass on pricing. And you see more of that as well with our reporting. You've also seen it in Q3. Basically, half of the growth is volume, half is sales – sorry - half is pricing, and this has been changing going forward because initially in the first part of the year, much more heavily volume based as opposed to pricing based.

On supply availability, and you mentioned specifically glyphosate, and the question is other products as well, it's very clear that the market is tight from a supply point of view for many active ingredients, for also for packaging materials, also for logistics. However, we have a very strong multi-source approach from a product supply point of view. I think actually because we're very reliable in our ability to supply, I think this is one of the reasons why we've been able to clearly gain market share this year, simply because we are in a good position to supply.

And the only issue we've had so far, very honestly, was glyphosate, the five-week downtime because of Luling. And now the team's done a fantastic job – we're back up and running and we'll be producing then again at full capacity in the new year.

So, that's the way I would frame it for – from a supply-disruption point of view. But clearly, the cost inflation across industries that multiple industries and companies are seeing, we're seeing that too. But we believe we can compensate this going forward. I hope that helps.

Michael Leuchten: Okay, thank you.

Operator: The next question is from James Quigley from Morgan Stanley. Please go ahead.

James Quigley (Morgan Stanley): Hi there. Thanks for taking my questions. So, you recently presented some data for Finerenone in combination with the SGLT2's, and I was just wondering how important this data is for the outlook for Kerendia, and are physicians actively asking about the potential for combination and do you have any plans to run additional trials of the combination? Or in the non-diabetic patients, could you look to investigate the combination in that trial? And then also for Kerendia, could you give us an update on the initial launch metrics that you've seen so far?

And then on the Pharma side, on R&D, you've made significant investments this year. You've got the Phase III programme for SGLT2 asset[?], you're expanding the Phase III programme for Finerenone into additional indications and you mentioned cell and gene therapy as well. So, in terms of the pushes and pulls around R&D into next year, in terms of new trials started, trials finished, how should we expect that to grow into next year? Thank you.

Stefan Oelrich[?]: So, thanks James. I'll try to answer, even though you may need to help me again on your second question. So, for Finerenone, in terms of positioning and maybe as a little bit of an advertising, I really would recommend it and would invite you to dial into the webinar that we're having next Monday on 15th November, where we're going to get into much, much more detail on all these questions. And Christian Rommel and Sebastian Guth, our Head of North America or the Americas, are going to be both on the call, together with Investor Relations, with Jürgen Beunink.

So, Finerenone against SGLT2, I think that was your initial question, so we're seeing that thanks to the FIGARO trial, we really have now a broadening of the evidence that even to some degree exceeds maybe of what I expected at first from this new medicine, because we have an unparalleled demand of breadth of patients that we have studied with diabetic kidney disease. We're looking into also extending that evidence to non-diabetics over time and we also, as you know, are under way in a clinical trial for heart failure with preserved ejection fraction. So, stay tuned. We do believe that the FIGARO significantly increases the addressable patient population and that should also translate into the value that we see in this medicine going forward, not just for patients but also financially.

Then, your second question was – and there you need to help me, James. It was on a number of things with regards to next year's R&D focus. So, with Elinzanetant in menopausal symptoms, yes, we're going into Phase III now, so this is actually starting now, so you're going to see this expand into next year. Next year should also be the decision point for our oral and injectable Factor XI programmes. Here, we're really – we've really I think made up ground on the Phase II compared to competition.

And then I think you mentioned also, or you asked about the cell and gene therapy. So, here we have on – for next year, we should have a first read-out of our Phase I in Parkinson’s – advanced Parkinson’s patients that we treat with stem cells. There we have – our enrolment is going to plan. We’re planning in the Phase I to have seven patients enrolled, and this should be finished by year-end, latest January. So, this is all – all these patients have been pre-screened and selected and are waiting to get enrolled into the trial. Very, very good progress there.

Same for our clinical projects on the AskBio side with gene therapy. And we have a multitude of clinical trials going on. I’ll just name a few. Also, in Parkinson’s with gene therapy and in cardiovascular in heart failure, so two pathway diseases, so this probably sets us a little bit apart from the pack on gene therapy. And then a number of mono-genetic diseases like Pompei Disease, and also in partnership, for example, Factor VIII and also in muscular dystrophy with Pfizer. So, that’s a little bit on where we are with these clinical trial activities.

James Quigley: Great. Thank you.

Operator: Our next question comes from Joel Jackson of BMO Capital Markets. Please go ahead.

Joel Jackson (BMO Capital Markets): Hi. Good morning. I’ll ask two questions, one at a time. Liam, on Crop Science, you give a bit of colour about where you may get some margin or margin expansion in 2022. I was hoping maybe you could talk a bit more specifically about the different buckets that might drive 2022 growth in Crop Science, be it seed price, mix lift, be it margin expansion, be it the crop chems pipeline, anything else you want to talk about would really be helpful to help us understand and quantify what 2022 could look like versus 2021 in Crop Science.

Liam Condon: Sure. Thanks a lot, Joel. I appreciate the question. So, let me talk through a few points and try and give you a few more pointers about 2022, of course with the big caveat that we’re not giving any outlook for 2022 right now. That would be end of February or beginning of March next year that we’ll be giving that specific outlook. But just a few pointers to how we’re thinking about it.

So number one, we are assuming that commodity prices will continue to remain relatively high, significantly higher than the 10-year averages. With that, we are expecting that acreage will remain high. So for example, in the U.S., we’re expecting 180 million acres to 182 million acres combined of soybeans and corn, without probably much, all that much, shift between the break-up this year. And clearly, we’re expecting to continue to be able to take share as we go forward, as we demonstrated this year.

Now, we have the market-leading prices in the market because of the value that we create. And what I said earlier, you’ve seen significant price increasing in our value creation now in Q3. You’ll see it again in Q4. And of course, that carries over into next year. So the benefit of the price increases that we have in the second half of the year, you’ll only see that then really coming for the full year as we go into next year because a much bigger part of our year is, of course, the first half of the year and then we’ll benefit from those price increases that we’ve had across the board, both seeds and traits and for crop protection. So clearly from a pricing point of view, we’ll be benefiting more.

A third element to think about is we have – we would expect less one-times this year. So you can put that down to product mix, and we had flagged this year originally as a transitional year because coming into the year, we knew we had some transitional one-time effects that would hold us back a little bit, particularly on the bottom line. We had the loss, the regulatory loss of imidacloprid in Europe, a very high-margin product. We knew there was an older corn license expiry, also high margin. We knew we'd have additional soy excess seeds because we had to produce double the production because of XtendFlex.

So there were certain things that we knew would hold us back this year that are not expected to repeat next year. So simply from a year-on-year point of view, we should be in better shape.

Then we have our new efficiency programme kicking in, so we've basically wrapped up the integration synergies. But as we had announced, we have started a new programme and we expect to start seeing the benefits of that also in the bottom line next year. So all of that should be helping us improve margin, improve product mix.

The one big caveat, just to manage expectations, is the fact that - clearly - we're seeing very high or significant increases in cost of goods, also high inflationary pressure. And again, I think we've done – we're doing a very good job in passing this on, but with a delay. And right now, we expect that cost increase, that inflationary pressure to continue going into 2022. We don't know how long, but we think it's prudent to assume that we will – that that cost pressure will remain there next year. Again, in sum, we would expect clearly to see margin accretion because the mix of pricing increases, our ability to pass on pricing, combined with our efficiency measures.

But these cost increases that we're seeing across industries, they're pretty much unprecedented on the back of the COVID-related supply chain disruption that we've been seeing in multiple spaces.

The last one I would flag to you is clearly we're benefiting from glyphosate pricing right now. I mentioned earlier it's up 25% year-to-date. And at some stage, this will revert back to, let's say, normal pricing. This is heavily dependent on production out of China. So China qualifies for about 60% of global glyphosate production. We are probably the other 40%. Clearly, China is struggling to produce right now because of energy issues and product supply issues. So this is a favourable pricing environment.

At some stage those issues and challenges will be sorted out. We're assuming we will benefit still going into 2022, and rather second half of the year, then this will revert back to the norm. So they're just the main pointers that I'll give to you, Joel, to try and help understand what the moving parts are for 2022 without being all that specific on what the exact guidance is going to be.

Joel Jackson: Okay. And then following up on that, maybe you could talk a little bit about the soybean seed dynamic, it's more competitive, I imagine, than the corn seed dynamic. And maybe any colour you can provide on, as you look at XTEND and XtendFlex versus how the competition is going. Are there any parts of the states where you think you're losing a bit of share, other parts you're gaining share in that competition? Thanks.

Liam Condon: Yeah, thanks. So actually on both corn and soy. I think in corn we had, from the get-go this year, we had been planning to gain market share. Clearly, we've been able to manage that. So that wasn't, very honestly, a big surprise despite the fact that from a pricing

point of view we are the market leader. But because we create more value, we're simply able to gain more market share. Soybeans was, I would call it, a positive surprise for us how well XtendFlex did. So we came in a bit above our original target of 15 million acres. We ended up about 16 million acres with XtendFlex.

With our own Asgrow brand, we've actually grown genetic share with our Asgrow brand. And even with our licensing brands, we've actually been able to grow a little bit. So we've clearly defended the market-leading position; we're on over 55% of all acres. And I think across the board, this was highly, highly competitive performance of the team this year. But it goes back ultimately to the core promise of the products, which is, at the end of the day, our products can deliver more yield, and with that, create more value for growers.

And I think that's the essence of why we've been able to gain market share this year. And that's something that we would aim to continue to do going forward. And it always depends, of course, then on the quality of the products coming out of the pipeline. But that's the aspiration. And this year we were able to achieve that.

Joel Jackson: Thank you.

Operator: The next question comes from Sachin Jain of BofA. Please go ahead.

Sachin Jain (Bank of America): Hello, there. Thanks for taking my questions. I've got a couple on Pharma and then just a very big picture one on Crop. So firstly, you noted the Xarelto plan extension. I just wonder if you could talk about lifecycle management between new molecules, given the additional time you've got there. If you could just update on the Factor XI Programme and whether you think if they could deliver, if that could launch and switch ahead of patent expiry now?

The second one, which is a bit more detail on Kerendia, just to try and get some launch commentary. Do you think it can be a top 15 product next year? I'm just trying to get a sense of, at this very early stage, on colour of speed of launch versus consensus, which is sitting at roughly €200 million sales for next year. Those are two on Pharma.

And then just one very big picture on Crop. Just high-level talks of sustainability of the 9% growth you highlight for 2021 midterm versus the guidance of 3-5%. Just you gave us a lot of colour on moving parts next year. But could you try and get at whether 2022 should grow above that midterm guidance range? Thank you.

Stefan Oelrich: So thank you for the question, Sachin. First, on Kerendia top 14, it's a little bit too early in the third quarter to give an outlook on our sales in 2022, but I'm surely going to look forward to updating you on the progress of the launch next year. For now, we're quite pleased with how it gets started, especially given that we have excellent label and we have the FIGARO data which should further build on that. But – so for sales next year, stay tuned, we'll update you next year. It's a little bit too early now.

Sometimes, the line is difficult to hear, so I apologise if I didn't get the questions right. But I heard a question on lifecycle management given the Xarelto extension. So no particular Xarelto lifecycle management plan. But obviously from a timing, the whole thing flows now much better in terms of the next three to four years, which gives us, let's say, a more clean ramp-up for the launches than having to deal with the cliff, which is now – obviously looking, will be looking - a little bit different. And I think those were the Pharma questions.

Wolfgang Nickl: Yeah. So let me – thanks, Sachin, for the question on the midterm guidance end of 2022. Again, without giving the outlook, where are we? I would say we're very much on track, so we have the mid-term sales guidance of 3-5%. Clearly, that is something that is at least achievable next year. And from a margin point of view, we had given out the 27% to 29%. And clearly, you should be seeing accretion versus this year and going towards that guidance, but, of course, this is going to be incremental step-ups, so no big jumps.

Speaker: 2024.

Wolfgang Nickl: Sorry, 2024.

Sachin Jain: Can I just take one follow-up? Stefan,, the question on Xarelto was in addition, and was also related to the Factor XI Programme and next update as to whether you have confidence at this stage as to where that could potentially replace Xarelto midterm.

Stefan Oelrich: Okay. Now I – sorry, this line is really tough to hear. I hope it's better on the other side than for us. So yeah, I got it. So that obviously – the answer still holds because having two additional years in Europe, and you know that in the US we have a similar timeline here, it obviously makes it easier to dovetail the Factor XI programmes into timewise very similar timelines. So if we make the move into Phase 3 next year, so you can calculate that's going to be a tight race. And I think it makes the whole thing of the anti-coagulation handover from one generation to the next, much more, let's say, seamless than what it would be otherwise.

Sachin Jain: Thank you.

Operator: The next question comes from Jo Walton from Credit Suisse. Please go ahead.

Jo Walton (Credit Suisse): Thank you. Two quick questions. My usual one on Nubeqa. Are you still confident that this can be a top 15 product by the end of this year? Certainly doesn't look like it from the US prescriptions but, of course, we know that Europe is important. So if you could update us on that?

And from an Ag perspective, thank you, Liam, for all your help that you've given us in the past. You've been particularly good at explaining Ag to pharma analysts, so I hope your successor is equally communicative. But on the – my Ag question would be about US sell-in. So as I understand it, it was the Latin American sell-in that moved from 4Q to 3Q. I wonder if you could tell us what you think is going to happen in the US? The rate cards were set last August so they were set to the very opportune time so pricing should be good. Could there be some upside to your numbers for 2021 if you were to get a strong buy-in? Thank you.

Stefan Oelrich: Thanks for this very surprising question, Jo. So I can confirm that by year-end we expect – and I'm not going to use the top 15, I'm going to give you a number – in the quarter of between €200 million and €250 million sales expected for Nubeqa for this year. So we're obviously thrilled at the first full year.

In terms of the other regions, I can tell you that Europe is picking up nicely. It's predominantly Germany for the time being but there, again, above expectations in a very significant way again. And we're also looking into China. We have the approval. Now we're waiting for reimbursement. I hope that follows, so it's looking good.

Liam Condon: Yeah. And thanks a lot, Jo, for all your support as well and I can guarantee my success is a fantastic communicator. You're going to have a lot of fun with him. On the question – so the US sell-in is actually very robust. Unfortunately, as I mentioned earlier, what's holding us back is simply the losing glyphosate situation which cost us about €220 million in Q4. If you didn't have that, you would see very robust sales and that is driven also, of course, by US early sell-in.

We think there is – there seems to be a lot of interest in early buying. I think there is concern also in the supply chain about product availability. So there is a desire on many customers to get access to products, and this is something we will see how it plays out. But right now, we feel very comfortable with the guidance that we've given for the full year and then we update you further.

Jo Walton: Thank you.

Operator: Next question comes from Keyur Parekh from Goldman Sachs. Please go ahead.

Keyur Parekh (Goldman Sachs): Hi. Thank you. Liam, let me add my thank-you to you as well on top of Jo's. But two margin questions. First, as we look at the dynamics from a crop perspective into 2022, and I appreciate, Liam, that you've just confirmed that we will see margin progression in 2022 relative to 2021. But relative to longer term guidance, how should we think about the shape of that margin accretion between 2022 versus 2023 and 2024? That's question number one.

And then separately, for Wolfgang on the Pharma side, as we think about the progression of your margin in the third quarter, incremental cost on an R&D perspective, investment behind new launches and then, next year Eylea is potentially going to have competition in some markets. So as you think about Pharma margins for next year at a big picture level, should they be up or down over 2021? Thank you.

Liam Condon: Yeah. Thanks a lot, Keyur. I appreciate very much your support. So the margin – and again without going into specific details because we're not guiding yet for 2022, but just generally how to think about it. I mentioned, of course, you can expect margin accretion and the key elements again will be from pricing and will have the positive mix effect versus this year where we had some significant one-times, and the efficiency measures. And then you – plus glyphosate and then you have a negative COGS impact.

So we would see an incremental step-up next year versus where we are this year. At some stage, the glyphosate benefit will revert back to the norm, which theoretically should be working against us, but at some stage the COGS issues, the freight costs, the high-energy costs, at some stage this will also come back, to a degree. So going forward, we would expect a continual incremental increase in margin on the trajectory towards our 27-29% midterm. I think that's the best way to think about it.

Wolfgang Nickl: And Keyur, since you asked me, I'll give you a brief answer on the margin. I mean, we confirmed the guidance for this year at about 32%. And we're very clear what our midterm guidance is, above 30% in 2024 and then in the 32-34% range in 2022 and 2023. And that's what we're working towards. So other than that, I think it would be really premature to go into a detailed discussion of 2022 on Pharma as well. So we'll do that in February as usual.

Operator: Mr Parekh, are you finished with your questions?

Keyur Parekh: Yes, please. Thank you.

Operator: The next question comes from Richard Vosser from JP Morgan. Please go ahead.

Richard Vosser (JP Morgan): Hi. Thanks for taking my questions. One question just on the environmental science disposal. Could you just update us on how that's going? Is that something we should bear in mind for 2022? Or have you – is that decided that one might stay with the business now, given the better cash flows?

Second question just on Consumer. Obviously, stronger growth and a guidance upgrade. But how sustainable do you feel these levels of growth are? And was there any impacts on pull-forward of demand this quarter ahead of price rises or anything like that, that we should take into account? Thanks very much.

Werner Baumann: Yeah. Thanks, Richard, for your questions. I'm going to take the first one and then I'll be handing over to Heiko. So on environmental science, we started the process in the second half of the year. We are in the middle of prepping the environmental science asset for the sale. We, of course, are engaging with third parties and see quite significant demand because this is an industry-leading business that would become available, and thus, with a highly attractive business model. You should expect us to sign and then ultimately also close the transaction in 2022.

Heiko Schipper: Yeah. I'll take the Consumer one. So just on the quarter specifically, Richard, of course, exceptional quarter with 11%. And I think it's fair to say that we should not expect every quarter to be double digit. But if you look at some of the underlying dynamics, I think it can point us in some way. First of all, Nutritionals remains extremely strong, I mean, 20% growth on top of 20% last year. I think we are seeing surely some change in consumer behaviour that people are just taking more preventative care of themselves. That will, of course, at one point start to flatten out. And I expect that that point is not so far away.

On Cough and Cold, we know that has been well documented, this cycling over a bit lower past year and that was really the second half of last year, and even the first half of this year, which was relatively low. So I think Cough and Cold business will remain pretty good for the coming quarters and then will start to flatten out.

And then maybe more specific to us, because those are more category dynamics, we are performing well within that market. Our performance – relative performance is solid. And that's also because we are bringing increasingly better innovation to the market. We've launched a couple of important products into market this year under [Bepanthen], our strong brand in derm and also under [Aleve] in the U.S.. And then with the switch coming up, we're also positive going forward. So we feel really, really good how we're going on Consumer Health. It's consisted now for many quarters in a row. But probably 11% on the quarter, I would still call that an exceptional one.

Richard Vosser: Thanks so much.

Speaker: Thank you. Operator, I think we have time for two more questions. Thank you.

Operator: Okay. Thank you. The next question comes from Falko Friedrichs from Deutsche Bank. Please go ahead.

Falko Friedrichs (Deutsche Bank): Thank you very much. Good afternoon, everyone. Two questions please. Firstly, on Xarelto. Are you able to quantify the China headwind for us in Q3?

And then secondly on the litigation payouts. Could you remind us why those are now lower again this year, and then also how you plan to balance the payouts over the next few quarters, also in light of the anticipated Supreme Court decision? Thank you.

Stefan Oelrich: So can I – I will just have to ask the question again. So what did you – what are you expecting for the third quarter?

Werner Baumann: Xarelto third quarter in China.

Stefan Oelrich: So the impact for China is, if we do a year-on-year at constant currencies, it's minus 11% for China. We're still positive for the year, but in the quarter now negative.

Falko Friedrichs: Okay. Thanks.

Wolfgang Nickls: Let me take the litigation pay-out questions here. So probably, just to ground you a little bit, so €3.8 billion is what we paid out last year in 2020. And then we moved into this year with an initial expectation of €8 billion, and we took that down to €7 billion in August, and now we took it down to €5.5 billion, of which we have paid €3.7 billion this year, so just to give you a flavour.

Obviously, we are in no particular rush to settle quickly. We want to evaluate the case as it was brought in front of us very, very carefully, in particular also in line – in light of the Supreme Court decision that you mentioned and in light of some of the recent verdict dynamics. So we are in no particular rush. So we will take the upside on the free cash flow this year, which obviously makes next year probable a bit more of a higher settlement pay-out, but it's as simple as that.

Falko Friedrichs: Okay. Thank you.

Werner Baumann: You're welcome.

Operator: Next question is from the line of Sebastian Bray from Berenberg. Please go ahead.

Sebastian Bray (Berenberg): Hello. Good afternoon. And thank you for taking my questions. I would have two, please. Could we have an update on the ongoing re-approval process for glyphosate in the EU? And if both the EU and Mexico were to enact bans over the next few years, what could the potential sales headwind be?

My second question is on the aspirin and the recent comments by the US Preventive Services Task Force on use for preventing heart attacks or strokes. Is this likely to have any substantial impact in your view on sales over the next two, three, four years? Thank you.

Werner Baumann: So Liam will take the first two questions, and then Heiko will take the third one.

Liam Condon: Yeah. Thanks, Sebastian. So glyphosate's EU re-approval, we're in the middle of the process. I think we had a very good start, in the sense that the four responsible reference member states to give a recommendation clearly gave a positive recommendation in favour of glyphosates. And this, of course, a scientific recommendation. So from a scientific and health point of view, it's a very clear positive recommendation.

Usually, the Commission – this goes then to EFSA, EFSA will do its own final evaluation. Usually, they rely heavily on the reference member states, and then EFSA will make a recommendation to the Commission, and then it becomes a political decision. So I think from a scientific point of view, it should be very, very clear, based on also what the reference member states have declared so far.

And then ultimately, at some stage, in the latter half of 2022, we'll find out how the political winds are blowing. And as you know, they can be quite fickle. So I wouldn't give any prognosis on that one, but I'd say, clearly from a scientific point of view, we're very confident of a re-approval.

Specifically, you asked EU and Mexico, if products got banned, would that have a material impact? The vast majority of glyphosate sales are in the Americas, rather in North America, Brazil, Argentina. So there would be some impact from a sales point of view. But in the bigger picture, I would not consider this really to be material. And it's also something, very honestly, that we don't expect.

Heiko Schipper: Yeah. Then on the aspirin side, so this was an update in the guidelines from the US Preventative Services Task Force. And this was regarding the use of aspirin to prevent what we call first cardiovascular event. However, what is important to note in this context is that the FDA-approved use of aspirin in the US is only for secondary prevention. So this is when someone has already had a cardiovascular event and then takes aspirin to avoid that they have another one. So frankly, this does not really impact the use of which it was – of which we have approval for from the FDA. So I don't think that we should now take this out of proportion and what the impact of that will be. There may be some, but not material.

Sebastian Bray: Thank you very much, Heiko, and all the best for the future, Liam.

Oliver Maier: Great. Thank you. Thanks, Heiko. Thanks, Sebastian. I think we are running out of time, but before closing the call, I would like to hand it back to Werner, please.

Werner Baumann: Yeah. Thanks, Oliver.

Oliver Maier: Thank you, Werner. And Operator, I think that closes our call. And I'd like to thank everybody for your time and your attention today. Much appreciated and talk to you soon. Thank you. Stay safe.

[END OF TRANSCRIPT]



Cautionary Statements Regarding Forward-Looking Information

This presentation may contain forward-looking statements based on current assumptions and forecasts made by Bayer management.

Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Bayer's public reports which are available on the Bayer website at <http://www.bayer.com/>.

The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Guidance at constant currencies, not including portfolio divestitures if not mentioned differently.