

Bayer AG – Investor Relations  
Investor Conference Call:  
Q2 2020 Results  
4 August 2020

**Welcome**

**Oliver Maier**

**Head of Investor Relations, Bayer AG**

Good afternoon, and thanks for joining us today for our second-quarter 2020 earnings conference call. With me on the call are Werner Baumann, our CEO, and Wolfgang Nickl, our CFO. The businesses are represented by the responsible management board members, who are also on the line. For Crop Science, we have Liam Condon; for Pharma, we have Stefan Oelrich; and for Consumer Health, we have Heiko Schipper.

Werner will begin today's call with an overview of key events in this quarter, our group financial performance and the performance of the divisions. Wolfgang will then present a deep dive into the financials of the second quarter, the outlook and our key focus areas for the remainder of the year, before we open up with the Q&A session.

As always, I would like to start 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.

[See disclaimer](#)

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

**Business Update**

**Werner Baumann**

**Chief Executive Officer, Bayer AG**

Alright thanks, Oliver, and good afternoon, everybody. It's my pleasure to welcome you to our conference call today. Let me start with what is clearly top of mind and provide you with a short

update on litigation. On June 24, we announced a series of agreements to resolve major outstanding Monsanto litigation related to US Roundup product liability, dicamba drift and most PCB water cases. Of the three, the most significant is of course the agreement to settle most of the current Roundup litigation and to put in place a mechanism to manage and resolve potential future claims.

Let me reiterate that Bayer remains strongly committed to a resolution that simultaneously addresses both the current Roundup litigation and potential future litigation. As many of you know, we estimated the total costs to cover all 125,000 current cases, including an allowance to resolve plaintiffs with whom we have not yet reached an agreement to be up to \$9.6 billion.

As we indicated in June, we planned to address potential future Roundup litigation through a separate class agreement between Monsanto and plaintiffs' counsel, which of course was supported by the court-appointed mediator, Ken Feinberg. The proposal submitted to Judge Chhabria for approval included an additional payment of \$1.25 billion. After the judge raised concerns about certain aspects of the agreement, the parties decided to withdraw their motion to comprehensively address the court's questions. We continue to work on addressing the court's concerns as expeditiously as possible but, given the number of parties involved and the complexity of the issues involved in these discussions, we cannot provide an estimate of the timetable for going back to the court, at this point in time.

Turning now to the appeals, the *Johnson* case is one of the three Roundup cases that have gone to trial and will continue through the appeals process. The appellate court recently decided to further reduce the compensatory and punitive damages in this case. While we see this as a step in the right direction, we continue to believe that the jury's verdict and damage awards are inconsistent with the evidence at trial and the law. We will consider our legal options, including filing an appeal with the Supreme Court of California. Today, a motion for reconsideration will be filed with the Court of Appeal of the state of California, which is a necessary step before a state Supreme Court appeal.

We continue to stand strongly behind the safety and utility of Roundup, a position supported by four decades of extensive science and favourable assessments by leading health regulators around the world.

In other major pending legal complexes, we have also made further progress in settlement discussions regarding the product Essure, a permanent birth control device. Our discussions with plaintiffs' lawyers have intensified in recent weeks. We have therefore made provisions as appropriate in quarter two. To be clear, there is no settlement that has been signed and no payments have been made in connection with this provision. We will have more to say on this subject, if and when we reach a formal resolution.

I would also like to comment on Covid-19, which continues to affect our businesses, employees and actually also the way we work. Our primary aim during the coronavirus pandemic remains protecting the safety and wellbeing of our employees, while ensuring business continuity. We are assisting in the global fight against Covid-19, with our expertise in the areas of health and nutrition, consistent with our vision of health for all and hunger for none.

While advances have been made and we collectively continue to learn a great deal about the virus, the coronavirus pandemic is far from over. Actually as a matter of fact, we are selectively increasing our safety protocols, which is also prudent in light of the recently observed increases of infection rates in many countries, as governments relax their measures. Ensuring reliable supply of our

products and services to hospitals, physicians, patients, consumers and farmers has been our clear focus.

Beyond that, we recently announced our involvement in the AMR Action Fund, which is designed to address the rapid rise of antibiotic-resistant infections. This research collaboration is the type of foresight that is necessary should we face other global challenges in the future.

Before we move on, it's worth reiterating yesterday's announcement on the successful divestment of our Animal Health business to Elanco. The divestment is the last and actually largest transaction in a series of portfolio measures communicated at the 2018 Capital Markets Day. With this as a backdrop, I'd now like to share an update on our group and divisional performance for the second quarter.

Given the dynamics of the pandemic, its impact is more pronounced in this quarter than in the previous one. While sales declined slightly to €10.1 billion, which represents a 3% currency- and portfolio-adjusted reduction, EBITDA before special items increased by 6% to €2.9 billion. Our core EPS rose by 5% versus the prior year, reaching €1.59 and our free cash flow stands at €1.402 billion compared with €751 million in quarter two of last year.

If you expand the look to the first half of 2020 to even out some of the stockpiling and phasing effects, we have delivered solid results for the group, despite headwinds from the Covid-19 situation, which particularly affected our Pharmaceuticals division in the first half of the year. Sales increased by 2% to €22.9 billion, while EBITDA before special items advanced by 8% to €7.3 billion, and core EPS rose by 8% to €4.26, respectively.

Let me stress that protecting our bottom line, through prudent cost management and accelerated contributions from our efficiency programmes, together with a strong focus on cash flow, remains of utmost importance to us.

Finally, let me comment on our outlook. During the last investor call, we discussed the most relevant Covid-19-related variables we expected to have an impact on our business, as a solid assessment for 2020 was not yet possible. Let me add that this obviously also holds true for our mid-term guidance, which evidently also preceded the pandemic. The impacts we see are more pronounced and likely are also deeper, and they will take longer than most of us would have thought. We also see that currency developments are heavily impacted by the corona crisis. Wolfgang will provide you with an update on these variables and the financial effect on our 2020 full-year guidance.

Let me now turn to the performance of each of our divisions, starting with Crop Science. We delivered 3% currency- and portfolio-adjusted sales growth, with growth driven by the Americas and APAC. In Latin America, we saw increases in corn, particularly in Brazil, as well as in insecticides and herbicides, driven by higher volumes. Fox Xpro fungicide continued its growth path in Latin America, where we also benefited from greater Intacta Roundup Ready 2 PRO trait penetration in our soybean business. APAC's growth came from fungicide and insecticide sales while, in Europe, purchases of crop protection in the prior quarter led to a sales decrease in herbicides, fungicides and insecticides.

In North America, we saw good growth in soybeans, due to an anticipated increase in acreage versus prior year, along with demand shifts from the first quarter, due to grower delay in decision-making. We also held our Roundup Ready Xtend footprint in a very competitive environment, with an

estimated 50 million trait acres this season, including both our branded and licensed acres. Our herbicide and fungicide business in North America also expanded, with normalised weather and the success of the Bayer Plus programme, while corn sales in North America came in at prior-year level, despite the modest increase in acres planted and expected share gains, due to a shift in demand into previous quarters. We are also pleased to share that we are in excess of our goal of 110 million subscribed acres with Climate FieldView, as growers continue to embrace digital technology to improve their productivity and profitability.

From an earnings perspective, Crop Science increased its EBITDA before special items by 28% to €1.4 billion. This improvement was driven by volume increases, continued cost control and cost synergies from the integration of our acquired business, and timing of some of our return provisions in Brazil.

Finally, earlier this month, we kicked off a new programme called the Bayer Carbon Initiative. This initiative will reward growers for generating carbon credits by adopting climate-smart agronomic practices, and essentially creates a new revenue stream on farm. We are the first company to develop a transparent, science-based and collaborative approach to the carbon market in agriculture, and we look forward to updating you as this programme evolves.

Let's shift to Pharma next. Sales of pharmaceuticals declined by 9% on a currency- and portfolio-adjusted basis, to €4 billion in the second quarter. This decline was largely driven by a reduction of elective treatments, due to the Covid-19 situation, and lower prices, due to the implementation of the second round of volume-based procurement in China. This was partially offset by Xarelto, our best-selling product, continuing its good growth trajectory with growth of 7%. For the first half year of 2020, Xarelto demonstrated sales growth of 13%, confirming the low-teens percentage growth projection for the full year.

The Covid-19 situation particularly affected our intrauterine device franchise, with sales decreasing by 37%, our radiology products, which were down 21%, and Eylea, which showed a decrease of 6%. For Eylea, the negative effects due to Covid-19-induced volume reductions and price cuts in Japan were partly compensated by a phasing effect in Japan, from quarter one into quarter two, and the launch of the prefilled syringe.

For the first half of 2020, sales of Eylea declined by 3%. We are expecting an improvement of the situation in the second half of the year, and are now projecting full-year sales to remain at prior-year level. The negative price effect in the quarter was largely driven by the volume-based procurement for Glucobay and Avelox in China. While we participated successfully in the tenders for both products, we had to make significant concessions on price. For Glucobay, the negative price impact was partly compensated by good volume gains.

Despite the significant sales decline and related gross margin loss in the quarter, we limited the impact on EBITDA before special items at Pharma to 7% and yielded €1.4 billion EBITDA before special items. Prudent cost management, with lower marketing costs and a shift in research and development expenses, due to the Covid-19 situation, helped protect the bottom line.

Looking at our R&D activities, we also made some good progress recently. We submitted the marketing authorisation applications for Vericiguat in Europe and Japan for the treatment of chronic

heart failure. We were also pleased by the FDA granting priority review of the new drug application for Vericiguat.

A few weeks ago, our FIDELIO diabetic kidney disease study, evaluating the efficacy and safety of finerenone in patients with chronic kidney disease and type 2 diabetes, met its primary endpoint. The clinical data will be presented at an upcoming scientific meeting. In addition, we have extended the clinical development programme for finerenone, with a phase III study in patients with heart failure and preserved ejection fraction.

We also presented exciting overall survival data for Nubeqa, our new drug for the treatment of prostate cancer. Nubeqa significantly reduced the risk of death by 31% in men with non-metastatic castration-resistant prostate cancer. This data adds to the previously published positive phase III results and emphasises the strong competitive profile of Nubeqa. In addition, we continue to strive for external growth opportunities by strategic portfolio additions and in-licensing.

Let me turn now to Consumer Health to close the divisional updates. After an exceptionally strong first quarter, sales declined by 2% in the second quarter, following an expected adjustment of trade inventory, as well as a slowdown in store traffic, due to the Covid-19-related quarantine measures in most countries. Balancing out those phasing effects, we saw a strong first half of the year in Consumer Health, with 6% currency- and portfolio-adjusted growth.

The nutritionals category showed an exceptionally strong growth trajectory also in the second quarter, with 14% growth following improved consumption trends, while the allergy and cold category showed the strongest decline with 17%, due to the Covid-19-related effects I just described.

On a regional level, sales in Europe declined for digestive health, dermatology and allergy and cold, mainly due to the aforementioned inventory buildup in the previous quarter. In North America, sales came in at prior-year level. Strong growth in nutritionals was offset by declines in the allergy and cold category. Sales in Asia-Pacific and especially in Latin America advanced, thanks to the strong demand for dermatology and nutritionals.

On the earnings side, our EBITDA margin before special items improved to 21.1% in the second quarter, an increase of 130 basis points versus the previous quarter. The decrease in EBITDA before special items by 11% is mainly due to the absence of contributions from our divested businesses. Without the portfolio effect, the EBITDA before special items would be on prior-year level, with underlying operational improvements offset by unfavourable currency developments. Overall, we are pleased to see our turnaround plan fully on track for Consumer Health. With that, over to you, Wolfgang, to expand on our financial results and the outlook.

## **Financials and Outlook**

**Wolfgang Nickl**

**Chief Financial Officer, Bayer AG**

Thanks, Werner. Ladies and gentlemen, also a warm welcome from me. I will walk you through some additional financial details for the second quarter, followed by a discussion of the business dynamics and our outlook for the full year.

Reported sales for the second quarter decreased by 6% to €10.1 billion. The underlying business performance was slightly more positive, as our sales declined by 3% at group level, when adjusting for currency and portfolio effects. EBITDA before special items for the group came in at €2.9 billion, up 6% year on year, while our EBITDA margin increased by 320 basis points to 28.7%. Stringent cost management, an acceleration of efficiency programmes and a reduction in provisions for variable compensation contributed to the earnings increase, despite the slight reduction in sales.

In a year-over-year comparison, foreign exchange effects had a negative impact on sales of €214 million. The negative impact on EBITDA was €12 million. Core earnings per share in the second quarter were up 5% versus the prior year and amounted to €1.59. Our Crop Science business has been the biggest contributor to this increase. Our core tax rate came in at 23% for the quarter, vis-à-vis 21% in the second quarter of last year, resulting in higher tax expenditures. The core financial result improved slightly from -€402 million to -€342 million, mainly due to the change in the fair value of debt instruments.

Finally, compared to the prior year, our free cash flow increased from €751 million to €1.4 billion. The main reasons were strong collections, timing of incentive payments for last year and lower tax payments compared to the previous year. Prior-year tax payments were related to the asset sales to BASF.

While our core earnings per share grew by €0.08 in the second quarter compared to the previous year, the reported EPS decreased year on year from a gain of €0.41 to a reported loss of €9.72.

As usual, we adjust for acquisition-related amortisation and special items in the financial results, which are related to the fair value of the Covestro shares, and the contribution of our discontinued business.

What does stand out this quarter is obviously the column special items, with a negative impact of €12.71 per share or an absolute amount of around €12.5 billion. This amount splits into €10.8 billion for litigation in Crop Science, about €1.3 billion for the Essure matter that Werner outlined and €0.4 billion for restructuring-related provisions. A positive tax effect of €1.97 is offsetting to a small degree and also includes the tax shield of around 15% that we referred to during our litigation call at the end of June. This all brings us to the EPS from continued and discontinued operations of -€9.72 for the second quarter of 2020.

Let's move next to our balance sheet. Our net financial debt increased by roughly €0.6 billion to about €36 billion, compared to the end of last quarter. We redeemed our exchangeable bond for €1

billion in cash and benefitted from a weaker US dollar, having an effect of approximately €0.5 billion. In order to provide financial flexibility, we tapped into the commercial paper market with tenures into the fall. As a reminder, our dividend payment of about €2.8 billion was approved and executed during the quarter. Based on the recent publications of our rating agencies, we expect to maintain our investment-grade rating.

Finally, please note that almost 60% of our financial debt is denominated in US dollars. The impact of exchange rate changes to our net financial debt is quite significant, as every percentage-point appreciation of the US dollar against the euro increases our net financial debt by about €200 million and vice versa.

We continue to monitor the Covid-19 vectors we outlined at our investor call in April. Here is how we are thinking about the remainder of the year, for the context of our updated guidance. First, and it bears repeating, protecting the safety and wellbeing of our employees, while ensuring business continuity, remains our primary focus. Second, while Covid-19 continues to weigh on our business, we focus on factors within our control, specifically cost management and cash flow management. To that end, we are actively managing our flexible spend, like travel and event costs, and are accelerating our efficiency programmes. Furthermore, the crisis has prompted significant movements in the currency markets. Based on the Q2 rates, we expect a substantial negative impact on our results for the remainder of the year. Take the Brazilian real, for example, which now stands at around 6 Brazilian real per euro, compared to the previous-year average of 4.41 Brazilian real per euro. This equates to a devaluation of 36%.

Looking at our businesses, we expect that reduced demand for corn-based bioethanol and grains this year will decrease acres planted in our key crops and thus impact the expected sell-in for the 2021 growing season in the US. For our soybean business in the US, we expect continued competitive pressure.

For Pharmaceuticals, Werner already mentioned the decline in demand, especially for our IUD, ophthalmology and radiology franchises. We expect this trend to reverse and improve sequentially over the next quarters.

For Consumer Health, we expect the good growth dynamics to prevail and, therefore, better growth and earnings than originally forecast. Against this backdrop, let's look at our updated guidance.

In the first column of the chart, you see the group guidance we provided in February for the full year, at constant currencies. This guidance did not take the effects of the Covid-19 pandemic into account. Before we move on, let me underline that the new outlook assumes that we will not see a substantial second Covid-19 wave later this year.

With this in mind, we now expect the full-year sales outlook to decline by around €1 billion translating into 0% to 1% growth, adjusted for currency and portfolio effects. At the beginning of the year, we had expected a growth of 3% to 4%. Roughly two thirds of the negative Covid-19 impact can be attributed to the Pharmaceuticals division and one third is driven by Crop Science. Hence, we now expect a slightly negative growth of approximately -1%, currency- and portfolio-adjusted, for Pharmaceuticals, including an anticipated milestone payment for Adempas towards the end of the year. For Crop Science, we now anticipate approximately 2% currency- and portfolio-adjusted growth.

While the situation for Pharma is expected to sequentially improve until the end of the year, the impact from Covid-19 on the Crop Science business is expected to fully materialise in the second half of the year. Following the positive start into the year in our Consumer Health business, we expect that Covid-19 will have a marginally positive top-line impact, leading to a slightly increased currency- and portfolio-adjusted growth rate for the year of about 4 %.

Despite these sales headwinds, we're confirming our EBITDA margin before special items of approximately 28% at the group level. For Crop Science, we now forecast a slightly lower EBITDA margin before special items of 25%; for Pharma, we target between 34% and 35%; and for Consumer Health, we confirm the original margin target range of 22% to 23%.

For our core EPS, we expect to see an operational net decline of around €0.30. Here, the shortfall in sales and its related gross profit is partially offset by cost management, including a reduction in provisions for variable compensation.

Our free cash flow outlook is impacted by the aforementioned reduction in earnings and further affected by anticipated settlement cash outflows of around €4.5 billion. The reduction of free cash flow also impacts the net financial debt guidance for the end of the year. The net financial debt is further affected by the change in the fair value of our Elanco shares.

The third column shows the updated guidance excluding currency impacts. Our currency-neutral sales guidance is now around €43 to €44 billion. The EBITDA margin before special items remains unchanged and the core EPS would be in the range from €6.70 to €6.90. Our free cash flow would range between -€0.5 billion and €0 billion and net financial debt would be around €33 billion.

In the fourth column, we share our expectation of the currency effect on our full-year financials. Our calculation considers what has already been realised to date, and our forecast which is based on June spot rates that we've carried forward for the remainder of the year. We expect a negative currency effect of approximately €1 billion on our full-year net sales, by and large driven by the devaluation of the Brazilian real, mostly affecting our Crop Science business in the second half of the year. Please refer to the footnote on the slide for assumed exchange rates for major currencies.

The last column depicts our new 2020 guidance, including the currency effects, specifically sales in the range of €42 to €43 billion, EBITDA margin confirmed at around 28% and a core EPS between €6.40 and €6.60. The currency impact on our free cash flow and net financial debt are within the rounded numbers I mentioned earlier. Please note that we have listed other major KPIs in the appendix of our investor presentation.

Before we start the Q&A, it's important to note that, despite headwinds from the pandemic, we expect to increase our core EPS versus last year, when it stood at €6.38. This continued track record of increasing core EPS is made possible by our continued leadership in highly relevant and resilient markets and a relentless focus on managing factors that are within our control. With that, I will hand the call back to you, Oliver, to start the Q&A.

## **Questions and Answers**

### **Oliver Maier**

Great. Thank you, Wolfgang, and thank you, Werner, for your comments. Before we begin, I would like to give you a heads-up also that, as most of you know, we plan to have a fully virtual event with a focus on our Pharmaceuticals division at the end of the year, most probably early December, addressing the mid-to-long-term perspective of that business and our pipeline. The invitations will go out in the coming weeks, just as a heads-up. With regard to our mid-term guidance, our current thinking is that we will provide an update after the closure of our 2020 financials.

Now, to the Q&A – as always, I like to remind you to keep your questions to roughly around two per person, so that we're able to take questions from as many participants as possible in the time allotted. With that, I think we can open up the lines for the Q&A session.

### **Vincent Andrews, Morgan Stanley**

Good morning, everyone. Liam, just to start off with, the discussion in the quarter about better-than-expected returns or better-than-year-ago returns, in Brazil, could you just give us a little more detail on how much that was? I just don't recall it being an issue in the year-ago period.

### **Liam Condon, President, Crop Science Division, Bayer AG**

Thanks, Vincent. There were two topics related to better-than-expected returns, or what you could call returns phasing, which positively impacted in Q2 and which are then, subsequently, you could argue, missing in Q3. One was lower product returns for fungicides in Brazil. The other was a base effect from corn true-ups that we had last year. You'll recall in Q2 we had the flooding and we built then provisions for higher returns. In the end, we actually did pretty well and reversed those provisions in Q3. That was overall an effect in the ballpark, if you take it together, of about €70 million.

### **Vincent Andrews**

Then your comments on the fourth quarter, in terms of next year's season – in particular, the soybeans expecting more competition – sound like a foreshadowing of further price declines on the price cards that'll be released later this month, so perhaps you could provide some colour on that, as well as what your contingency plan is for Xtend next year, if you don't get reregistration for XtendFlex.

### **Liam Condon**

On soybeans, our indication of lower sale or lower sell-in in Q4 is simply related to the fact that we're waiting for the new registration for XtendiMax. We're expecting this in Q4, but this is heavily dependent on when it comes in Q4. Of course, as long as we don't have the registration, we can't actually promote the product and sell the product, so that's why we simply have to be a little bit cautious. But all indications are that we will get the registration in Q4, but we're just not quite sure when.

On top of that, going into the new year, the whole soybean market, as you know, is highly dynamic, highly competitive, right now. Our plan is to launch XtendFlex as well then in the market, next year, when we're planning a launch of 20 million acres of soybeans. With that, we'll be in a better position also from a pricing point of view, because we'll have an even more premium product in the market. Our base assumption is very clearly that we will get the new registration in Q4 and that we will be launching XtendFlex to increase our overall market penetration next year.

**Richard Vosser, JP Morgan**

Thanks for taking my questions – two, please. First, can you give us an update on where you are on synergy realisation and the efficiency programmes that were announced on the Capital Markets Day, I think totalled to €2.6 billion? How far along are you relative to target and, aligned to that, what additional savings have you got so far this year, from lack of travel and things like that from Covid-19? How much do you think, of those, you might be able to stick, going forward?

Then the second question: just thinking about your radiology franchises and some of the Pharma franchises that have been impacted by Covid in Q2, just what are you seeing maybe in the months of June/July, so far, in terms of the recovery? How should we think about the recovery of those and maybe the recovery in Eylea as well? Thanks very much.

**Wolfgang Nickl**

Richard, this is Wolfgang. Thanks for your question. Like I mentioned in the prepared remarks, we are doing everything we can to accelerate the measures under the various programmes, be it on the platforms or the synergy programmes or the programmes in the other divisions. We had originally targeted, for the total group, about 50% for the year, which was already upgraded from what we said a year before. We are doing very well on the synergy realisation. We had originally said that would be like 55%; we're going more towards 70% there. Then also on the platform programmes, some things we can accelerate; others, we cannot accelerate. We think we will be also ahead of the game there so, overall, I would expect this to come in greater than 50%. It's a little bit too early to say what it's going to be exactly.

Yes, like you rightfully state, we as a company have travel and event costs in the several hundred millions. You could of course not save everything in the first couple of months, because travel restrictions came in, in the March timeframe, and of course we had some cancellation fees and so forth, but that will contribute to the savings this year.

As relates to the stickiness of those savings, it's a little bit early to say that. I think every company will tell you that we will change the way of working, going forward, and probably do a little bit more virtually and travel a bit less, but it's a little bit early to put that into numbers. I would also highlight for you that some of our costs are actually increasing, in particular when you think about logistic costs. There we have seen quite, quite significant increases, for instance in our Consumer business as well. There are always puts and takes but, as we move forward with forward guidance, we'll keep you updated on the stickiness there.

**Stefan Oelrich, President, Pharmaceuticals, Bayer AG**

Hi, Richard. On radiology, the second quarter was quite tough. We've seen procedures go down significantly, as you've seen, with some slight improvement in June and further improving in July. As we said, we expect sequential improvement throughout the year in radiology.

On Eylea, it's really getting better over the last month. There we had our down at the beginning of the second quarter, and it's improving there also sequentially.

**Michael Leuchten, UBS**

Two questions, please – one, I guess, for Wolfgang or maybe Werner. How do we think about the interplay between the first big tranche of these settlement payments due this year, with the uncertainty around the future class and the judge asking for clarity about what the settlement process is? Is there an interplay? If there is, how does it work? Or is it entirely independent?

Then a question on Pharma: the margin guidance increase of 200 basis points, relative to prior guidance, is that something we should think about as sustainable or are we actually looking at the benefits, as you just described, from Covid? Then some of this will actually have to be given up, as we think about 2021.

**Werner Baumann**

Okay, Michael, thanks for the question. Let me say the following on the interplay. We anticipate, in line with a comprehensive solution, the €4.5 billion that we have guided for, for this year. As I mentioned in my prepared remarks, we are working very hard on getting both pieces of that comprehensive solution activated. I fully appreciate and understand that not only you but most of us on the call would like to know more about it. We are in the middle of working with the representatives of the future class. We are working, of course, with our court-appointed mediator Ken Feinberg, who is in the middle of it, and actually helps both parties, but also is our line into Judge Chhabria to get a solution ready as soon as humanly possible, so that it can be presented back to the judge.

Now, very importantly, we've always said that we don't want to have a solution for the inventory without having a solution for the future. That of course remains the objective, while those two are not contractually bound to each other. We have two separate sets of agreements, but we are and will continue to focus on a comprehensive solution, addressing both the inventory and the future.

**Stefan Oelrich**

Hi, Michael. Thanks for acknowledging our profile improvement. We're pleased with that too, given that we couldn't fully hold the top line. We'll guide early next year for 2021, so I can't really give you the learnings for 2021 now, but I can assure you that we're learning a lot in this crisis about how to spend money.

**Jo Walton, Credit Suisse**

On the ag side, I wonder if you could tell us a little bit more about these FieldView acres you've got that are paid for and what the farmers are actually paying for? Is it really high value-added services that are going to keep them tied to you or still relatively low value-added services – you're almost still giving it away for free to try to keep people involved?

On the Pharma side, I wonder if you could give us a little bit more on Nubeqa, how that is beginning to build and any ideas on how it's starting in Europe? I appreciate it must be a virtual launch, but perhaps you've got some pricing and early information you can supply for us?

**Liam Condon**

Thanks a lot, Jo. On our Climate FieldView platform, we're very happy that we're now at over 110 million acres, which is by far the leading penetration globally, from a digital ag point of view. As you know, for any kind of a platform business, it's all about the market penetration, first and foremost. We do price for that penetration initially and then, gradually, sell additional products, as we go along, so this is the overall strategy: it's a mix of we take a price per acre from farmers; we sell products specifically to farmers, for example Seed Advisor, about what kind of seeds to plant at what density on what field, and give them a clear indication of the yield that they can achieve with that. Then, of course, we can use this data as an enabler for our own business operations to basically improve our own research and development and our own targeting of customers. So there are multiple benefits in here and, as I said, we're very happy that we're continuing a very strong penetration, primarily in the Americas and gradually now starting to roll out also in Europe.

**Stefan Oelrich**

Hi, Jo. Thanks for the Nubeqa question. We continue to be super-excited about the progress of Nubeqa, even though I must confess that the Covid-19 crisis in the US has somewhat delayed new patient starts. There are just fewer patients coming in to the office. Still, if I look at the numbers, it's sequentially improving month over month, even throughout this difficult moment. In Europe, you're absolutely right it's too early to say, but what I can say – I don't know if you saw this yesterday – the GBA rendered its vote on the added benefit for Nubeqa, and it came out extremely positive. We're very, very pleased at how this is going. This is foreshadowing how the reimbursement authorities in Europe are looking at this, and it's very much in line with what I've been saying from the beginning.

**Tony Jones, Redburn Partners**

Good afternoon, everybody. Thanks for taking my questions. I have two – one for Wolfgang and one for Liam. First on the EBITDA result for Crop Science, can we get a bit of a feel for the cost reduction number in the quarter, just by mechanically backing out from the absolute change, year on year, and then adjusting for the volume gain? I appreciate you don't usually talk about this on a quarterly basis, but it looked like it's quite important in this period.

Then for Liam, could you talk a little bit about how you're going to position XtendFlex from a price perspective, next year? Is the idea to market at a premium price, given the enhanced tolerance, or is the strategy about market share protection and there's going to be minimal change to price?

**Liam Condon**

Thanks, Tony. If you don't mind, I'll take both of them, because they impact strongly on Crop Science. On the cost reduction in Q2, to give you a sense of how much that was for Crop Science in our EBITDA result, overall, the increase in cEBITDA in the quarter is about €300 million. About half of that is cost reduction, and that is a mix of accelerated cost synergies and what we'd simply call additional Covid-related and other cost savings. We're tracking these very specifically as separate buckets, because we don't want to mix them up. We've got our cost synergies and then we've got additional costs that we weren't originally planning but, given the situation we're in, we do see additional opportunities. That gives you a sense of how much of the cost impact is in there in the additional cEBITDA that was achieved in Q2.

On XtendFlex, to be very honest, we haven't yet decided on pricing. We need to finally get all registrations in place and have our final data in place, but you can assume, from our previous approach to the market – if you look at how we've approached Xtend overall within the soybean market – we've been the premium price leader. We have the best genetics, we believe. We have then a highly competitive additional trait package, going forward, so we will continue on that path of setting a standard in the market, simply because we have premium products.

**Falko Friedrichs, Deutsche Bank**

Two questions, please, firstly, on the Animal Health divestment. What is the expected tax impact on the divestment proceeds?

Secondly on the dicamba litigation, have you reached an agreement with BASF about the split of the payout?

**Wolfgang Nickl**

Falko, this is Wolfgang. I'll take the first one and I think Werner is taking the second one. We have never split this out by divestment, but I'll give you an idea on the overall divestment package, between Animal Health, Currenta and then the businesses within our Consumer Health business. The total gross proceeds, at the headline values at the time, were about €9.4 billion. We said that the total tax effect is about €1 billion, which is a little bit more than 10%, on average, over these. With Animal Health being the biggest one, you can make your assumption that it's going to be in that zip code, as well.

**Werner Baumann**

Thanks, Wolfgang. Falko, on dicamba, we have not yet reached an agreement with BASF relative to their cost share that they would be contributing, so that is still a to-do for us in the next month to come.

**Laurent Favre, Exane BNP Paribas**

Good afternoon. I've got two questions for Liam, please. Thank you very much for the details on the bridge for Q2. I guess it leads to the question on the second half, Liam. Can you talk a little bit about why margins would be down, year on year, to get to your full-year EBITDA margin target? Is it mostly about the Q4 impact on seeds and the mix, therefore, or is there something else going on, in particular with the lumpiness of the cost savings that fell into Q2?

Then the second question is a bit more about LatAm. On the call, you talked a lot about the currency impact. I was just wondering if you could talk about pricing power and how you think about local pricing, talking separately about seeds and crop protection. Thank you.

**Liam Condon**

Thanks a lot, Laurent. On the second half, the decline in margin, three quarters of that decline in margin is basically related to the currency decline and the devaluation of the Brazilian real in Brazil. That's the single biggest impact that we have on the EBITDA. The remaining quarter is, in essence, due to lower sales. This is a mix of the lower sell-in of corn and soybeans in North America, which I mentioned earlier, plus the missing returns – the positive returns that we then had that benefited us in Q2, which are then missing in Q3, when you do the year-on-year comparison. That, in essence, explains what's going on. We do have, as was mentioned overall, additional Covid-related costs, as you can imagine, from a hygiene and simply transportation and logistics point of view, but these are, by and large, compensated by our synergies. That's primarily what's happening on the EBITDA side, in the second half.

On the currency, and this is specifically LatAm and primarily Brazil – it's also, of course, Argentina – LatAm is the bulk of our sales in the second half of the year and this is where we have the currency risk. We have, usually, multiple ways of trying to mitigate this risk. Usually, this balances out. In Brazil, it's important to note that our functional currency is US dollar, so we can protect ourselves reasonably well there. The big challenge we have is in Brazil, where [nearly] three quarters of the business is crop protection and we have to price in local currency. At the end of the day, at some stage, we will translate those sales into euros.

Whenever there's a change in currency, as rapidly as we can, we adjust our price lists and simply then compensate for that currency devaluation through new price lists. The challenge comes for us when we take pre-orders, for example in the second quarter, at a certain currency rate, and then we only book the sales at a future rate, for example in Q3 or Q4. Then we have to accept whatever the currency rate is, at that point in time. If we look at where currencies are today and where they were when we took some pre-orders, this is basically the part that is missing for this year, which is reflected in our guidance from a forex point of view. This will be in all subsequent pricing lists. They're of course immediately adjusted and go upwards, and we will catch up on this later on, but not during this year, so that's the element that we will be basically affected by, within this year.

Apart from that, we have corn seed production; we have a natural hedge, because we grow corn locally, with local currency rates. We have barter, which is about 20-30% in Brazil and Argentina. Then we have certain hedging policies, but the issue for us that we need to manage is really the pricing differences in crop protection and any timing differences between pre-orders and booking sales.

**James Quigley, Morgan Stanley**

Thank you for taking my question. I've got a question on Eylea. If you compare to Lucentis, Lucentis was down 25% in the quarter. Is there anything about Eylea that has led you to gain share, as opposed to just maybe a boost from stocking around the prefilled syringe?

Secondly, a question on Consumer: obviously, in certain categories, there's been a big tailwind in the last couple of quarters. GSK did a recent survey suggesting there was greater appreciation of health and use of vitamins. What are you seeing in the market? What does your research tell you? Based on whatever you've seen historically, do you think this is sustainable or could some of these benefits unwind over the next couple of years?

**Stefan Oelrich**

Hi, James. We're very pleased, within a very difficult marketplace, that we're doing better than competition in the ophthalmology space. It's hard to speculate what the reasons for that are, but please note that we've introduced the prefilled syringe lately. In the Covid crisis, extending treatment regimen becomes very important and our treat-and-extend evidence is, I believe, better than any other product in the class, in conjunction with its very good safety and tolerable profile. We're pleased about that and I hope that that will show also, moving forward, as overall volume picks up again.

**Heiko Schipper, President, Consumer Health, Bayer AG**

Let me try to give you a bit of our reading of the underlying elements of the higher growth that we're seeing and how much of that is sustainable. Obviously it's hard to say and we still have to go through the year to see how we land but, if you analyse our numbers by category, you obviously see that nutritionals is a major driver of the growth. I think you can see that across the industry. Our view is that, in the end, Covid will put a greater focus on self-care. People realise that they have to stay healthy and then have lower risk of contracting viruses, so people will, in general, have a greater appreciation for healthcare.

If I break it down by category, certainly nutritionals is going to have a lasting positive effect. For the other categories, we will have to see that. Certainly there are a lot of factors influencing now. Of course, wearing masks doesn't help the regular cough and cold business, neither the allergy business because, also when you stay a lot at home, you obviously will have less allergy exposure. Overall, long term, it will have some positive effect. How much that is I think it's really early to say, and then mainly on the nutritional part of the business.

**Keyur Parekh, Goldman Sachs**

Good afternoon and thank you for taking my questions – one for Werner and one for Liam, please. Werner, just in terms of clarification, if I heard you correctly, you said your mid-term guidance also is reliant on or could be impacted by the ongoing Covid dynamics. I wonder if you can elaborate a bit on that and how we should think about the impact on to your mid-term guidance from that. That's one.

Secondly, in your opening comment and response to Michael's question on the settlement, you reiterated your preference for finding a solution that gives you certainty and visibility on both the existing cases, but also the potential for future litigation. I wonder if you could comment on your willingness to engage on something that only resolves the current litigation, but does not resolve the future litigation. Is that a no-call or is that just a preference?

Then for Liam, it's obviously too early to issue 2021 guidance, but I'm just wondering if you see the shape or some sense of expectations going into 2021. Do you see them as fairly reflecting how you see the shape of the business? Thank you.

**Werner Baumann**

Thanks. We'll start with guidance with Wolfgang, then we go into litigation, so I'll take that question, then we move over to Liam answering the Crop question.

**Wolfgang Nickl**

Very quickly, I think we talked about savings and that some of it potentially may be sustainable, but I've got to tell you it's a bit too early to talk about mid-term guidance. As Oliver said in the intro remarks, we do that at the beginning of next year, as there are so many factors – Covid being one, FX being another, now having divested of all the businesses being a third one. We'll get through this year, and then we'll give you the mid-term guidance early next year.

**Werner Baumann**

Then let me come to the litigation. As I mentioned earlier, our approach has been and continues to be that we are shooting for a comprehensive solution. To the extent that you are following us closely, it's very clear that Judge Chhabria is very supportive of the inventory settlement, so that's not where the issue is. We are working on finding a solution that addresses the four major concerns that Judge Chhabria raised, in a new proposal that we are negotiating with the representatives of the futures class. We are optimistic and we continue to make progress. We'll see what the next weeks yield.

**Liam Condon**

Keyur, on 2021, if I understood you rightly, you're asking for our take or consensus on 2021, if that's in the right ballpark. The same as Wolfgang answered, we'll only be talking about 2021 later in the year. The one thing that I would comment on, because it was related to Q4 and going into 2021 then, what's impacting our thinking is particularly the Covid-related impact on demand for biofuel and, with that, the demand for corn. The maths that we've been doing is that there'll be about 1.9 billion less gallons of production of ethanol in 2020. This translates into about 680 million bushels of corn, which is roughly 4 million acres of corn. Of course, the corn acres didn't go down this year; they went up, rather, by 1 million acres. That's why we are being conservative in our outlook for pre-purchasing in Q4, because we think there needs to be an adjustment there.

**Daniel Wendorff, Commerzbank**

Thanks for taking my questions. I also have two. One is on a general question on Pharma; can you update us on the next important data points from your Pharma pipeline, over the next few months?

The second question is also on Pharma, but potentially a bit more detailed. I would actually be interested in how Vitrakvi performed in Q2 and how does the market launch so far compare to your expectations, in particular how well the procedure with the companion diagnostic test beforehand actually works?

**Stefan Oelrich**

Hi, Daniel. In terms of news flow, maybe just as a reminder, we just had two important data points that came in. One was the positive trial, FIDELIO, for finerenone, which gives us a path to registration, because one of our pivotal phase IIIs reported positive, both on the primaries and the secondary [endpoints] here. So that's quite exciting. The second one, in terms of news flow, is we just had priority review granted on Vericiguat, by the FDA, which underlines the value in an underserved patient population that the FDA sees.

Moving forward, for the remainder of the year and into next year, we expect the submission for finerenone following the positive FIDELIO results. We expect an approval for molidustat, at some point in the future, for Japan, in renal anaemia. We have coming in for this year, in principle, in lymphoma patients, the copanlisib data that should come in for phase III. We should see next year the second pivotal trial for finerenone with the FIGARO data, which I think is going to give us a very robust data package with two large phase III trials here. We're also looking very much forward to the ARASENS readout in darolutamide next year, where we should also have phase III, which will significantly, potentially, enlarge the addressable patient population for this very interesting compound.

Vitrakvi is a complicated one, because we are tracking in line with expectations but, at the same time, we continue to struggle in identifying those patients. During the Covid crisis, this has not necessarily improved, so this is a difficult one. It may be sometimes a little bit too sophisticated for physicians to diagnose patients appropriately, but we are not giving up. This is something that we're working on.

**Oliver Maier**

I think we are running out of time. Nevertheless, I've got one more question by email, because Pete Verdult from Citigroup couldn't ask a question because of technical issues. Pete's asking: how excited are you about sharing the finerenone DKD data in October? He is realising that you can't speak to the data per se, but what's your belief in the data and how competitive it is, compared to the data that has been generated by the diabetic drug classes, including SGLT2 and GLP-1.

**Stefan Oelrich**

I'll take that one. Pete, I hope you can hear us, at least, if you can't speak to us. When you have a large cardiovascular outcome trial, you must always be excited when it forms positive, because you

have got so much riding on it, with so many patients on it and so much investment going there. So we're quite excited about this, because that gives us a pathway to approval in an area where, I believe, we have a very underserved patient population. Even though there have been lately some options for DKD patients, it's very much a limited choice still, and we believe that we offer something that other groups or other therapeutic choices may not. Having the first nonsteroidal MRA in this area gives us confidence that we have a very valid option for patients. We'll see what happens with the second trial, but I think we have a pathway to submission and then, hopefully, also to approval.

### **Oliver Maier**

Thank you, Stefan. Thanks to all of you for your time and your attention today. We greatly appreciate it. This closes our call. Thank you.

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