



Q3 2020 Results

Tuesday, 3rd November 2020

Introduction

Oliver Maier

Head of Investor Relations, Bayer AG

Thank you, Hailey. Good afternoon. And thanks, everybody, for joining us today for our Third Quarter 2020 Earnings conference call.

With me on the call are Werner Baumann, our CEO; and Wolfgang Nickl, our CFO. The businesses, as always, are represented by the 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 our Group financial performance and the performance of the divisions. Afterwards, Wolfgang will provide more detail on the financials of the third quarter and give a short currency review and present the outlook before we open up for the Q&A session.

Disclaimer

As always, I'd 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 [here](#).

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

Business Update

Werner Baumann

CEO, Bayer AG

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

Before jumping into the results of the third quarter, let me frame some overarching developments first. Against the backdrop of the constantly evolving COVID-19 situation, the relevance and resilience of our business is more pronounced than ever.

Overview of business: Currency-adjusted outlook and YTD performance

We can confirm our currency-adjusted Group outlook for the full year despite severe headwinds such as COVID-related protection measures impacting our Pharmaceuticals business and the massive depreciation of major currencies, like the Brazilian real, affecting in particular our Crop Science Division.

If we look at our performance year-to-date, the underlying business trends are intact, balancing seasonal and phasing effects. We continue to protect our bottom line with strict cost containment measures and the acceleration of existing efficiency programmes in order to mitigate softer growth and the addition of currency headwinds to the extent possible.

Update on glyphosate litigations

Let me also provide you with a short update on the glyphosate litigations. In September, we said that we continued to accelerate the process to finalise the settlement of current Roundup cases and claims that we originally announced in June. At this time, approximately 88,500 claims are covered by agreements or agreements in principle.

At the end of June, Bayer had reported that there were approximately 125,000 filed and unfiled claims. Given uncertainties about eligibility and participation, this number won't be finalised until the settlement process is completed. We are also continuing to work on a joint proposal to address potential future Roundup claims together with the plaintiffs' counsel and expect to file in the coming weeks.

We have taken an additional provision in the third quarter in part to cover the increased cost of a revised class plan as far – as we are far enough along in our negotiations to know that the new plan will come in at approximately \$2 billion, an increase over the original \$1.25 billion. On completion of the formal agreement, we will file a motion for preliminary approval and look forward to advancing this revised plan.

Business mix

If we shift our focus to the business mix, we are pleased to see that on October 27, the EPA announced a new five-year registration for XtendiMax herbicide, our low-volatility Dicamba product.

This registration for in-crop use of dicamba enables the full benefits of our industry-leading Roundup Ready Xtend Crop System, including the launch of XtendFlex soybeans, which we expect to be on 20 million US acres in 2021. The registration bolsters our competitive position in the soy market, and we have quickly shifted to pursuing state-level registrations, which will follow the federal registration.

Acquisition of Asklepios BioPharmaceuticals

Finally, we were very excited to announce the acquisition of Asklepios BioPharmaceuticals, or AskBio, a week ago. This important acquisition fuels our cell and gene therapy platform with the potential to bring urgently needed treatments to patients across multiple diseases.

AskBio's industry-leading, adeno-associated, virus-based gene therapy platform is already yielding commercial and clinical stage assets with potential for helping larger patient populations.

Challenging quarter – currency-adjusted Group outlook confirmed

Let's shift our focus to the third quarter next. While we saw the expected sequential improvement in Pharmaceuticals and strong growth in Consumer Health, our Crop Science business was negatively impacted, especially by seed returns from lower than expected planted acres and anticipated currency effects.

Overall, for the Group, net sales were €8.5 billion, which is 5% lower than the prior year after adjusting for currencies and portfolio effects. Our EBITDA before special items declined by 21% to €1.8 billion, bringing the margin down to 21%. The core earnings per share came in at €0.81, which is 30% below the prior year. Both figures were significantly affected by currency

effects. Our free cash flow was stable and came in at €1.2 billion. Wolfgang will shed some further light on the details in his part.

Despite some challenges in the third quarter, particularly in our Crop Science division, we reconfirmed the currency-adjusted Group outlook for our full year 2020 that we provided in August. At that time, we also provided guidance, including exchange rates at June spot rates, for the second half of the year. Since then, major currencies like the Brazilian real have further devalued and weigh on our reported figures.

As mentioned before, it's the focus on tight cost control to mitigate additional currency headwinds. Furthermore, given that our performance is linked to growth, margins, and our reported results, we have reduced our provisions for variable compensation by approximately €500 million for the full year.

Crop Science significantly impacted by seed returns and currency headwinds

Let me now turn to the performance of each of our divisions, starting with Crop Science. While the performance in the third quarter was heavily impacted by currency headwinds, product returns in North America, and a difficult comparable quarter in Herbicides, the year-to-date trend is intact with slight sales growth and solid margin development.

The third quarter in this business is one that is heavily influenced by the level of returns at the close of the Northern Hemisphere planting season and by the start of the sales season in the Southern Hemisphere. Net sales for our Crop Science Division declined by 12%, adjusted for currency and portfolio effects, to €3 billion.

This decline is primarily driven by a weak quarter in North America, where sales came in 41% below the prior year, largely due to higher corn and cotton seed returns and lower licensing income as a result of lower than anticipated planted acres. This is in direct contrast to the prior year, where we had positive corn return adjustments due to higher than expected planted acres.

Herbicides segment

Sales in our herbicides segment were down 13% in the third quarter mainly because in the prior year, it had shifted into the third quarter due to extreme rainfall in the US in the first half of 2019.

In our 'Other' reporting segment, of which our cotton business is the largest part, sales decreased by 37%, following higher returns and lower licensing revenues driven by a decline in acres planted as demand and pricing for cotton dropped during the pandemic.

Fungicide platform

Shifting to our fungicide platform, sales rose by 12%, adjusted for currency and portfolio, with growth across all regions due mainly to higher volumes. In Latin America, we benefitted from the continued upgrade of Fox Xpro in Brazil, while growth in the Asia Pacific region was driven by favourable weather conditions in Australia.

Bottom line

Regarding our bottom line, the aforementioned product returns and lower licensing income led to a decline of €200 million. In addition, more than €120 million of net currency headwinds and further phasing and accounting effects burdened the quarter and led to a negative EBITDA before special items in the third quarter of -€34 million.

Pharmaceuticals shows sequential improvement and significant margin uplift

Let's shift to our Pharmaceuticals Division next. While the second quarter was heavily impacted by COVID-19 and volume-based pricing policy in China, we saw a continuous improvement of our sales performance in the third quarter coupled with a significant margin uplift through tight cost control.

Net sales were down 2% on a currency and portfolio-adjusted basis in the third quarter and amounted to €4.2 billion, driven by continued strong performance of our best-selling product, Xarelto, that came in 14% higher versus the prior year, mainly driven by higher sales in China, Germany, and Russia.

Furthermore, the resumption of some elective treatments led to recovery of Eylea and the IUD franchise that were up slightly by 2% and 1%, respectively. However, further growth of Eylea from the launch of the prefilled syringe and strong demand in China was held back by the impact of COVID-19 on Europe.

The negative price effect in the quarter was largely driven by the volume-based procurement for Glucobay and Avelox in China that was put into practice in April this year. The negative price effect was partially offset by volume improvement.

Following our increased focus on protecting the bottom line, our EBITDA before special items rose slightly by 1% to €1.5 billion despite lower sales and negative currency effects, raising our margin to 35.8%. Very tight cost control, lower marketing expenses, and decreasing cost of goods sold contribute to the margin expansion.

R&D activities

Finally, let me share some positive news regarding our R&D activities. First, the Phase III study, CHRONOS-3, evaluating copanlisib in combination with rituximab in patients with relapsed indolent non-Hodgkin's lymphoma has met its primary endpoint of significantly prolonging progression-free survival. The clinical data will be presented at an upcoming scientific meeting, and we also plan to discuss the data with health authorities worldwide.

Furthermore, let me share some more details about the data from the Phase III FIDELIO DKD trial, where we studied the effect of finerenone on chronic kidney disease outcomes in Type 2 diabetes compared to placebo. Finerenone significantly reduced the risk of the composite primary endpoint by 18% compared to placebo over the median duration of follow-up of 2.6 years. At 36 months, the number needed to treat to prevent the primary composite endpoint event was 29.

Finerenone also significantly reduced the risk of the key secondary cardiovascular endpoint by 14% compared to placebo. We are excited by the data as the results are clinically highly relevant, showing improvement in outcomes for patients who currently have limited options. We plan to submit applications for marketing authorisations for finerenone for an indication in patients with chronic kidney disease and Type 2 diabetes to health authorities by the end of this year.

Consumer Health with strong growth momentum and margin expansion

I'll turn next to Consumer Health to close the divisional updates. Our Consumer Health Division continued its growth trend across all regions, growing at 6% currency and portfolio-adjusted in the third quarter to €1.2 billion.

Nutritionals

As in the previous quarters, the Nutritionals category showed an exceptionally strong growth of 21% resulting from continued consumer demand for preventive health solutions as well as product launches for One-a-Day in North America.

Digestive Health

Our Digestive Health category also grew by double digits, increasing sales 14% compared to prior year. This is more than offset – this more than offset the 7% decline in our Allergy & Cold category that was impacted by increased protective and hygiene measures related to COVID-19 as incidence of colds and allergies diminished.

Earnings

On the earnings side, our EBITDA before special items grew by 12%. The underlying reasons for this positive development are the growth acceleration in our top line as well as the successful execution of the efficiency programme initiated in 2018, despite negative currency effects of €30 million and the absence of contributions from our divested businesses.

Our EBITDA margin before special items improved substantially to 25% in the third quarter, an increase of 420 basis points versus the previous year, continuing our trajectory of margin expansion.

And with that, over to you, Wolfgang, to expand on our financial results and our outlook.

Financials and Outlook

Wolfgang Nickl

CFO, Bayer AG

Thanks much, Werner. Ladies and gentlemen, also a warm welcome from my end. I will walk you through some additional financial details for the third quarter, followed by a currency review and our outlook for the full year.

*Challenging quarter – focus on free cash flow**Sales and EBITDA*

Werner has already alluded to the challenges we faced in the third quarter, currency being one of them. In the year-over-year comparison, foreign exchange rate developments had a negative impact of €754 million on sales and €205 million on EBITDA before special items.

EPS

Core earnings per share in the third quarter were down 30% versus the prior year and amounted to €0.81. The decline was mainly driven by the reduction of EBITDA before special

items and our core tax rate, which came in at 23% compared to 18% in the third quarter of last year.

Free cash flow

Our free cash flow decreased 2% versus the prior year. However, let me underline that this includes roughly €450 million for settlement payments. Excluding these payments and despite the decline in earnings, our free cash flow would have grown by roughly 30% as a result of positive effects from working capital and CAPEX management, low interest expenses, as well as contributions from our discontinued business.

9M 2020: On track to meet currency-adjusted group guidance

Sales, EPS, and EBITDA

Given seasonal and phasing effects, it is worthwhile to look at our year-to-date numbers. Our currency and portfolio-adjusted nine months sales as well as core earnings per share were roughly at prior year level. We increased our EBITDA before special items by 1% to €9.1 billion and expanded the EBITDA margin by 150 basis points.

Free cash flow

Finally, the free cash flow in the first nine months of 2020 came in at €1.8 billion. The 27% year-to-date decrease is mainly driven by Crop Science working capital phasing effects between the fourth quarter of 2019 and the first quarter of 2020 as well as the settlement payout in the third quarter of this year.

Given the challenging business environment, these are results that we won't have to apologise for, and we owe gratitude to our employees around the world for their dedication and hard work.

EPS affected by impairments and divestment gain

EPS

Let me now shortly walk you through the bridge from core EPS to reported EPS for the quarter. Let's start with the €0.81 core earnings per share that I mentioned before. As usual, we adjust first for acquisition-related amortisation.

Impairments

What does stand out this quarter is the column 'Impairments' with a negative impact of €9.42. As announced on 30th September, we had to take non-cash impairment charges of €9.3 billion in the third quarter. This amount splits roughly into €7.1 billion of impairment charges on intangible assets and about €2.2 billion on goodwill.

Let me mention here that the adjustment of the fair value from Crop Science came from changes in our weighted average cost of capital assumptions as well as from adjusted growth assumptions.

EBITDA before special items

EBITDA-relevant special items had a negative impact of €0.92 and are mostly in connection with litigation costs. The special items in the financial results are mainly related to the fair

value of the Covestro and Elanco shares we hold. A positive tax effect on the sum of the items I just explained contributes €2.

Discontinued operations

Finally, there is an impact from discontinued operations of €5.05, primarily from the gain on the sale of our Animal Health business. However, it does not entirely offset the negative impact of the impairment charges, resulting in earnings per share from continued and discontinued operations of negative €2.79. This contrasts to a reported EPS of €1.05 in the prior-year period.

Net Financial Debt decreases due to Animal Health divestment

Let's move next to our balance sheet. You will recall that in early July, we placed bonds with a total volume of €6 billion. A large share of the proceeds was subsequently invested in money market funds.

Our net financial debt decreased quarter-over-quarter by roughly €7.7 billion to about €28.3 billion. The main driver behind the net debt reduction were the positive free cash flow as well as the cash proceeds of €4.3 billion from the sale of our Animal Health Business, in addition to roughly €1.7 billion related to the Elanco shares we received.

Finally, please note that the percentage of our net financial debt, which is denominated in US dollars, decreased to roughly 40% from 60% in prior quarters mainly due to an increase of US dollar-denominated cash on hand and the increase in our euro finance – euro financial debt position after the issuance of the bonds in July.

This decline in financial debt being denominated in US dollars also impacts our sensitivity. Now, every percentage point appreciation of the US dollar against the euro increases our net financial debt by about €100 million and vice versa. Please note that this is only a temporary effect as the settlement payouts will occur in US dollars.

Currency review: Roughly 80% of our net sales are in foreign currencies

As currency developments continue to significantly influence our financial KPIs, I would like to share a brief currency overview with you. Hopefully, this will help you to better assess the effects, going forward.

First, please bear in mind that only roughly 20% of our net sales are euro-denominated and the remaining 80% occurs in foreign currencies. The most significant currencies, on a full-year basis, are the US dollar, the Brazilian Real, the Chinese Yuan, and the Japanese Yen.

Currency review: Phasing for group sales differs by quarter and region

Second, let's look at Group sales by quarter and region, which vary significantly, given the seasonality of the Crop Science business.

On the slide, you can see the significance of sales in Europe and North America in the first half of the year. Sales in Latin America, on the other hand, are significantly skewed to the second half of the year. This is, of course, coinciding with the planting cycle.

*Currency review: In 2020, substantial EUR appreciation weighs on performance**FX rates*

Next, let's look at how these currencies have performed year-to-date. It bears repeating that we have seen a substantial appreciation of the euro against several key currencies this year.

Let's take the Brazilian Real as an example. Compared with the average exchange rate of R\$4.41 for €1 last year, it stood at R\$6.61 at the end of September, a depreciation of almost 50% compared to the euro.

Considering that most sales in Brazil are generated in the second half of the year, the negative Real development has particularly impacted the third quarter and will weigh heavy on our fourth quarter if rates remain at current levels.

Net sales versus prior year

The net impact of the strong appreciation of the euro on our net sales is depicted at the bottom of the slide. For instance, the negative currency headwinds on sales in the third quarter were €754 million, as I just mentioned. This impacted sales growth by 7.7 percentage points, explaining the majority of the difference between our reported sales decline of 13.5% and our currency and portfolio-adjusted decline of 5%.

If currencies stay at the end of month September exchange rates for the fourth quarter, we expect a negative currency impact on net sales of around €1 billion. Note that the negative impact for the fourth quarter alone will roughly equal the sum of the currency impacts for the first three quarters.

This also means that we now expect our top line for the full year to be negatively affected by around €2 billion in absolute terms as compared to an assumed impact of approximately €1 billion in August when we used June spot rates.

When it comes to earnings, the effects are a bit more complicated due to the inclusion of hedging costs and hedging gains and losses. However, you can assume that a substantial part of the negative effects on the top line will also drop down to earnings.

Currency review: Full-Year FX sensitivities for Bayer Group

Let's move to sensitivity next. In the past, we provided you with the sensitivity for our entire currency basket. We mentioned that the change of the euro by 1% has an impact on our net sales of €350 million and in our EBITDA before special items of approximately €100 million. Bear in mind that this includes hedging costs and hedging gains and losses.

FX basket split

To increase transparency, we are now also providing the split inside this basket. As I mentioned before, the largest exposure is from four currencies: the US Dollar, the Brazilian Real, Chinese Yuan, and the Japanese Yen.

This should help to bridge the potential currency impact for a full year. Please bear in mind that these sensitivities do not relate to the individual quarters as the seasonality of our business in each quarter is not reflected here.

We confirm our currency-adjusted group guidance for 2020

Outlook as of August 2020

With this in mind, let's look at our guidance. In the first column of the chart, you see the Group guidance at constant currencies for the full year that we provided in August. We are confirming our currency-adjusted net sales and earnings guidance but expect the free cash flow to come in slightly higher than previously anticipated. We now expect between €0.5 billion and €1 billion for the full year. This is largely due to phasing of anticipated settlement payouts. In August, we had assumed settlement payouts of roughly €4.5 billion. The guidance now includes roughly €3.5 billion.

This effect, along with weaker – with a weaker US Dollar and an increased fair value of our Elanco holdings, impacts our forecasted of net financial debt, which is still expected to amount to approximately €33 billion at the end of the year, but after also including the upfront payment for AskBio of US\$2 billion.

Deleveraging of balance sheet

It bears repeating to say that the deleveraging of our balance sheet remains a key priority for us. Regarding the recent acquisition of AskBio, we are in constant exchange with our rating agencies and currently have not seen any changes in credit rating.

Outlook as of November 2020 including currency impact

Against the backdrop of the aforementioned currency effects, we also provide you with an updated outlook that includes currently effect – currency effects in the third column. As I mentioned earlier, the continuous substantial devaluation of major currencies will weigh heavily on our reported figures and we now expect a negative currency effect of approximately €2 billion on our full year net sales.

EBITDA margin and EPS guidance

Despite these sales headwinds, we are confirming our EBITDA margin before special items of approximately 28% at the Group level. Our core earnings per share, however, are now expected to come in between €6.30 and €6.50. We expect to keep our core tax rate of approximately 23% for the full year.

Divisional guidance

With regards to our divisional guidance, we now expect the sales growth of Crop Science to be around 1% versus the 2% we had previously assumed for the full year. For Consumer Health, on the other hand, we expect to come in at around 5% growth compared with 4% we had envisaged in August.

We are focussing on factors within our control, specifically cost containment, to achieve the 2020 outlook. In addition to the tight control of flexible spend, we accelerate our efficiency programmes and expect a better ramp-up than the 50% that we had initially envisaged across the various programmes by the end of 2020.

In Crop Science, we are off to a successful start to the season in Latin America and are encouraged by the receipt of the new registration of XtendiMax for the sell-in for the 2021 season in North America.

In Pharma, we anticipate a normalisation, going forward, after already seeing a positive pattern in the third quarter. Furthermore, we expect to receive a milestone payment for Adempas of approximately €150 million in the fourth quarter.

And for Consumer Health, we expect the good growth dynamics to continue delivering on our growth acceleration and profit improvement plan.

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

Conclusion

Oliver Maier

Head of Investor Relations, Bayer AG

Great. Thank you, Wolfgang; thank you, Werner, for your remarks. Much appreciated.

But before we start with the Q&A, let me highlight that we are now planning to host our Capital Markets Day in March 2021, just to set the record straight, which will include the Pharma Day, initially foreseen for December, where you can hear from our newly-announced Pharma R&D Head, Christian Rommel, who starts in February and we wanted to give him an opportunity to participate. So doing that in March makes the most sense.

So we look forward to the event and sharing more details about our additional incremental savings programme, midterm targets, and developments in Pharma and the pipeline.

As always, I remind you to keep your questions to two per person so that we can take questions from as many participants as possible.

And with that, Hailey, I think we can open up the lines for Q&A.

Q&A

Operator: Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. If you have a question, please press the star followed by the one on your telephone keypad. If you wish to cancel your request, please press the star followed by the two. If you are using speaker equipment today, please pick the handset before making your selection. And one moment for the first question, please.

And the first question comes from the line of Mr Andrews. Please state your name, company name, followed by your question.

Vincent Andrews (Morgan Stanley): Thank you. Good morning, everyone.

Liam, I wonder if I could ask you about – you know, it's great that you have the Xtend five – new five-year registration in hand. But I just wonder if you can bridge that with, you know, the preliminary guidance for 2021 that was provided a few weeks back.

It seemed to imply that there was going to be some negative average selling price pressure in soybeans perhaps associated with Xtend and with this registration. So maybe you could just help us understand how the registration came in versus your expectations versus how you've priced the products for 2021 and what feedback you're getting through your order book to date about how all that's taking shape. Thank you.

Liam Condon: Okay. Thanks a lot, Vincent. So, first off, I think it's important to highlight when we did the announcement at the end of September, we were assuming that we would get the – I think, the fourth quarter that we would get the registration of XtendiMax. And by and large, I would have to say it's within our expectations because, of course, we were the whole time in deep discussion with the EPA.

There's three, I think, key components to the label. One is, that there's a volatility reduction agent and there is buffer zones and there is – there are cut-off dates. This – from all the feedback that we've been getting so far is – and our own expectation is this is a very workable label. And I think there's deep appreciation in the pharma community that they now, again, can use XtendiMax on top of the great genetics that we have in Xtend.

I think the big positive surprise was the five years. That was definitely good. And signal – I think it's a very strong signal from the EPA. This is clearly a new registration and a new label. So that was all very good.

We had built in, as you know, a – Plant with Confidence Programme that would offer rebates if we didn't get the registration. So that programme has been cancelled because now, of course, we do have registration. We're working on getting state-level registrations, which is really important because right now, we only have the federal-level. And latest by December, we should have all those in place so we get back in the game then with soybeans.

And how the overall competitive pricing dynamics develop? That we're just going to have to see. I'd say right now it's too early to call. So we'll just have to see how that plays out. And I guess a little bit later, particularly when we give our detailed outlook end of February, we'll be able to give a detailed outlook there.

Vincent Andrews: Okay. And just as a follow-up, you know, another component of that 2021 guidance seemed to be, you know, concerns about the commodity price environment. And, you know, notwithstanding some volatility in recent days, you know, corn prices are close to \$4 and bean prices are pretty attractive as well. So are you more or less optimistic about 2021, just given where commodity prices or are there other things we need to be thinking about?

Liam Condon: Yeah. The – there's still an awful lot of swing factors, of course, for 2021, which is why we said we're only going to give concrete guidance end of February.

On average, for sure, if corn commodity prices stayed above \$4, for sure, we'd feel better about acreage. For sure, we'd feel better about the ability to trade up from a pricing, from an overall trade point of view. Same for cotton.

But I think an awful lot can happen between now and the end of February. We got to get the – we still got to get the harvest in now in the Northern Hemisphere. We're just going through planting in the Southern Hemisphere. And we got to see how all of this plays in and how COVID plays in as well to the overall commodity price situation.

So that's the way I'd frame it right now. Again, I think end of February, we'll know a lot more and, hopefully, those commodity prices stay up. And then, for sure, we'd be in better shape.

Vincent Andrews: Okay. Thank you very much.

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

Richard Vosser (JP Morgan Cazenove): Hi. Thanks for taking my question.

Maybe a question on finerenone, to start. Obviously, the data was presented at ASN and there was some hyperkalaemia there with the product and the efficacy maybe was a little bit lower than the SGLT2. So maybe you could give us your perspective on the data feedback you got from KOLs in – at the medical meeting and how you see the ramp and potential of the product, please?

And then, secondly, just in terms of the trait royalties in the quarter, perhaps you could quantify that in Crop Science and how you see potentially those developing next year? Obviously a return, but the impact there on the quarter would be good. Thanks very much.

Stefan Oelrich: Yeah. Hi, Richard. Stefan here. So we're obviously excited about the FIDELIO data on finerenone. I mean, you've seen the data. 18% sustained decrease in renal death or estimated glomerular filtration rate that was pre-specified. And so we see this also in the context and in this whole SGLT2 mix as a very viable additional treatment option to physicians.

Please note that we had background therapy in our studies of all comers here, including SGLT2 and still have a very sustained effect. Also, what we hear back from KOLs is that they're actually quite happy with, clinically speaking, how the hyperkalaemia worked out in the study because it was not – it didn't lead to discontinuation or very low rate of discontinuation which was comparable to placebo. So clinically, not that relevant.

And one of the other insights that we're getting from the market and where many of the physicians we're talking to see finerenone being used is as this product has no impact on glycaemic profile, it can be actually used independent of diabetes. And you know that, you know, one of the difficulties, especially in advanced renal patients, is they're very often on insulin or multiple other oral anti-diabetics plus insulin.

And so, we can – we don't interfere at all with this therapy in diabetes, which leads to reduced or no risk of additional hypos coming out of this, which would not be the case, for example, as you add SGLT2. And I think this is one of the reasons also maybe why there is a lower penetration in some physician specialties of those SGLT2.

Now, your question on ramp-up and how we introduce that. So, you know, we're going to re-enter the US market – US cardiology market and nephrology market and, to some degree, endo and high-prescribing primary care physician market with this. Our focus will be, at launch, on nephrologists and cardiologists because – for the reasons I just stated because they will be – they are the ones that we see today that want to have the least to do with the diabetes of that patient.

So we really offer them here a clear kidney solution and not a combined solution that addresses many things, but really a very targeted therapy. And we believe that that's going to be the market entry. And then, we'll have to take one step at a time. But that's how we're going to enter.

Liam Condon: Okay. Thanks, Richard, for the question on trait royalties. So for Q3, I mean, we don't break this out in detail, but just to give you a ballpark of how we think about it.

Whenever we have lower acreage, it's not just on our branded acreage. It's also, of course, then, on our licensed products. And then, we have less licensing fees. And ballpark for Q3 for corn and cotton was about €100 million. We didn't have lower licensing fees for soybeans. And

if we had higher acreage next year, of course, that would be something we expect to come back.

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

Michael Leuchten (UBS): Thanks very much. It's Michael Leuchten from UBS. Two questions please.

Just, Liam, going back to the corn outlook, how much of the product returns that we've seen in the third quarter preempt sort of wobbles for the corn market next year? I appreciate there's uncertainty, but it looks like the returns were higher than at least the market expected. So does this give you enough of a buffer to have some confidence for next year or do you think next year could be down on this, in terms of acreage in the US?

And then, a question for Wolfgang. You were quoted this morning in the press about looking at larger assets, in terms of capital allocation. I was wondering if you could speak to portfolio pruning, capital allocations after the AskBio acquisition. So like where's the focus now in the divisions, in terms of capital allocation? Thank you.

Liam Condon: Okay. Thanks a lot, Michael. So you probably recall not just us, but, I guess, the entire industry was forecasting a higher corn acreage originally of anywhere between two to five – two to six million acres. And what ultimately transpired now after all the true-ups are done is, in essence, roughly a million acres – if even one million acres. So this is the part that was significantly below expectations.

I think now, going forward, that should give us a degree of comfort going into '21 that a key part has already been factored into the market there. Again, with corn commodity prices, if they stay above \$4, that would be a more optimistic outlook.

But a lot is still to play for – I mean, we don't know how COVID is going to turn out over the next weeks and months. We don't know if there's going to be a future impact again on biofuel demand. And nobody knows what the full effect of the Chinese purchasing is going to be. So – also here, I'd say too early to say, but probably better that we take the hit now and, hopefully, have a bit of wiggle room for '21.

Wolfgang Nickl: And, Michael, and your question on capital allocation. Yes, we said actually already on 30th September that we would look at potential divestments of brands, our business at sub-divisional level that are non-strategic, but it's way too early to talk about this. I mean, the teams are reviewing this as we speak.

We also said that we look into an additional efficiency programme with an effect in 2024, but that's not going to help us short term. You can assume that on – both in working capital and CAPEX, we're turning every stone. And we're also selling a few assets that are not used anymore. For instance, we just consolidated our various sites in the US and we're getting out of our Pittsburgh campus.

And then, the final point here is, of course, dividends. We also mentioned that before that we are sticking to the policy. But we are most likely recommending to the Supervisory Board and then to the AGM to pay at the lower end of the range, which is 30% of core earnings. And again, we do all of this to continue to delever in the midterm and continue to invest in exciting opportunities, like we just did in AskBio.

Michael Leuchten: Thank you.

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

Joel Jackson (BMO Capital Markets): Hi. Thank you. Good afternoon. It's Joel Jackson from BMO Capital Markets. So a couple of questions.

First, you talked about trait like – the trait licensing in the third quarter and you talked about if, you know, acres are higher next year, you'd see recovery in some of the trait – the lost trade licensing inflow. Can you talk about a bit more on that in '21? I mean, are there some puts and takes on licensing fee revenue? Could it be a bit lower as some of the different share shifts happen or how would you see a kind of base case licensing looking like next year versus this year?

Liam Condon: Yes. Thanks, Joel. So maybe on this one – I mean, on two points because we don't break out in detail our trade licensing and we're still not giving guidance yet on '21. So kind of on two fronts. It's actually the –

Joel Jackson: Just briefly the direction – what trajectory?

Werner Baumann: Yeah.

Joel Jackson: Just the trajectory of that.

Liam Condon: Yeah. So the – I mean, again, the way we think about it, corn and cotton, an increase in acreage will, for sure, mean that we're going to get more – we would have higher licensing or trait licenses – trait royalties.

Soybeans, as you know, is going to be a highly competitive market. The way we're thinking about this is we get back in the game now basically from December because, really, only when we have the state-level registrations, we can promote our system. And, of course, the season – the pre-selling season has already started. So we're coming into the season a little bit late.

So for sure, there's going to be some share impact related to that, which we – you would assume that we will also see on the licensing fee side. The dimensions of that, I think, then – again, rather towards end of February, we can give a bit more flavour, a bit more colour.

We'll know more about the order books then as well. We'll know how the season ended up in the Northern Hemisphere, how things are rolling in the Southern Hemisphere. But by and large, there – the biggest swing factor is probably corn, number one; cotton, and then soybeans. That's the way I think about it.

Joel Jackson: Thank you for that. And then, my second question would be on the glyphosate update – on the future claims, where that's going. Can you – so a two-part on that.

Can you give – I know it's sensitive, but can you give a little bit of colour, you know, what drives the €750 million increase in expected settlements sort of versus what the prior time that was announced early in the summer? And then, if you take the €2 billion as kind of final number, how would you expect one – how should we model the outflow of that over the next few years?

Werner Baumann: Yes, Joel, that's – I'm not sure whether I fully got your question. So we had at the announcement in June, 125,000 cases, out of which we have reached agreements on, either in writing or, you know, essentially ready to be signed in principle, of about 88,500.

The remainder is being worked on, of course. And we do make, I think, very, very diligent progress as could also be heard in the last status conference, where also Ken Feinberg reported on it, both here on the broader settlement programme, but also in the other cases. Yeah?

Secondly, in terms of how to model the cash outflow, I think for this year, we expect €3.5 billion to be still paid. It was a little bit higher before – you know, since things, you know, had been put on hold and then reinitiated. This is down to €3.5 billion. And then, next year, it's going to be €8 billion. And the remainder is going to be then in '22 and thereafter.

Wolfgang Nickl: One comment. And the €8 billion next year is the correct number, but it's not just glyphosate. That includes all the legal -

Werner Baumann: Yeah. Yeah, sure.

Wolfgang Nickl: – complexes.

Werner Baumann: Sure.

Wolfgang Nickl: It's just that you have it all together.

Joel Jackson: Thank you very much.

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

Jo Walton (Credit Suisse): Thank you. My first question is on the Pharma side and I wonder if you could tell us a little bit more about the situation in China, the VBP in Glucobay, and a little bit more about the early acceptance and your expectations for Xarelto in China?

And on the ag side, it's more a housekeeping aspect, really. You've taken such a big write-down. Can you help us on what the amortisation charge will be, going forwards, on that? And I noticed that there was a big charge in the R&D side of things.

Presumably, that was a write-off there as well. Are there any delays or reductions in the expectations for any of the major products that we've been told about – things like short-stature corn? Is all of that still on track?

Stefan Oelrich: So hi, Jo. It's Stefan here. So let me quickly go about the VBP. So, obviously, two products that we were hit with: Glucobay and Avelox. I think both have to be – we have to look at both from a different standpoint. And it's interesting.

When I look at the Glucobay where, as you know, we took a very significant price decrease at – with our VBP win, we're now seeing, on the flipside of it, significant volume gains in Glucobay. Right now, I think since beginning of the year, about 40% increase in volumes for Glucobay.

So all of us – all-in-all, with all the losses that we've had, I think it's a sustainable play that we've opened up for Glucobay. Of course, at lower levels, but with continued volume expansion that I think there is a good chance that that will continue. And we seem to be the only one, given that this is a fermentation product, to be able to also make those volumes long-term available. So that's a good one, I think, in – within the loss.

Avelox, it's a little different. So there, it's – we came in fourth. And so, our position in the market is much more challenging. And I think that's a different topic.

On Xarelto, I don't want to read the tea leaves for now. So it's really something that I have no more visibility on than you have on when that would be impacted. For now, we have exclusivity with Xarelto. So we'll have to look at this quarter-by-quarter next year, yeah, if there is an impact. We're looking at this very closely, of course. But I'll keep you updated as time goes by.

Wolfgang Nickl: And I can probably take the first shot at the amortisation question. First of all, €9.3 billion impairment. The €2.2 billion goodwill, there is no amortisation. This is, as you know, subject to a regular – at least yearly impairment test. So no change on the amortisation.

The €7.1 billion that is allocated over various assets and in functions, I don't have the exact use-for-life. But usually, they are like 10 to 15-year use-for-life. So you can calculate back from the overall balance to what the impact could be, and IR can provide more details there after the call.

And then, on the R&D, that's a pure accounting thing. €2.2 billion were falling into the R&D line. Excluding that for the year, R&D for Crop Science is – we continue to expect in the €2.1 billion to €2.2 billion range.

Liam Condon: And maybe I'll just very briefly add because you specifically mentioned it. On short-stature corn, it was not affected by the impairment. And we hope to launch in the next three, four years in the US, which, of course, is the biggest market, the breeding approach, which we've already launched in Mexico this year.

Operator: And the next question comes from Mr Verdult. Please state your name, company name, followed by your question.

Peter Verdult (Citi): Thank you. Two questions.

Just maybe, Heiko, on Consumer. Best performing division. Sales growth twice of the industry. EBITDA margin leaping to 25%. Was there anything flattering from a revenue or margin performance or do the Q3 dynamics really paint a true picture of what's going on in Consumer? And maybe just a broader update on what you're focussing on to further drive growth and margins of that business?

And then, Stefan, just on Pharma and getting confidence in life post Xarelto and Eylea. The market remains convince – remains to be convinced on finerenone and vericiguat despite the data you've shown. We've yet to hear on the performance of Aliqopa and Nubeqa. But we do know that you need to be doing probably over €250 million in annual sales to get in the buyers top 15 list.

So I know you're not going to disclose the sales of those two products, but could you at least give us a sense as to when we might see those assets nudge their way into the top 15 list of Bayer? Is that something that could happen next year or do we have to be more patient?

And then, just completing that picture about life post Xarelto and Eylea. Just on AskBio, interesting deal –obviously, the strategy – I think, if you can buy into that. But just commercialising that gene therapy platform, when you expect meaningful revenues to come from that business? Thank you.

Heiko Schipper: Yeah. Thank you. I'll start on the Consumer side. Yeah, indeed, the third quarter was an important quarter because Q2, we saw a bit of absorption of that huge peak that we saw in Q1.

So Q3, we started to really see the real underlying demand trends better. And as you mentioned, we are really performing ahead of the market now, which is nice, which is roughly at 3%. And that's really driven by – pretty much across the geographies and outperformance. And particularly, when we think of the category perspective, a very strong Nutritionals performance, where we also grew ahead of the market.

Margin side, I would say, of course, benefitting from growth. You know, when we started a couple of years back to drive the business for higher performance, we really reset our cost base and we've stayed extremely disciplined to keep that so that you really get the scale effects kicking in once growth comes back. And that's what we're really seeing. I think we should look at the year-to-date numbers, which are now 22.5%. So that's about 200 basis points ahead of last year. And so, we're on the right track.

I think also Q4, we will continue to see good trends. That's why we increased the guidance. And yeah, we're kind of driving, you know, category by category, higher levels of innovation, better execution, more digital, both eCommerce, but also in the marketing side. So those are really some of the underlying drivers behind our outperformance. So I think over to Stefan for the next question.

Stefan Oelrich: Yeah. Hi, Peter. So first of all, maybe to add to finerenone and vericiguat. We think there is an interesting opportunity, as I said before, especially on finerenone, I think. We're addressing a highly unmet need in renal patients.

And we're also looking forward to share with you and with us top line data on the FIGARO trial, which is our second pivotal Phase III. We've advanced this to the first quarter because we've accrued more events than we had anticipated in the study. So this is reading out much faster than we thought. So, stay tuned. And fingers crossed that this is good, which, by the way, it gives us a second major cohort of patients as we launch the product, which will give much more confidence on outcome data.

And then, on Nubeqa, yeah, you're right. We're not disclosing at that level the sales. So I don't want to speculate with you if we will get there by end of next year. What I can tell you, and this is what I keep on telling you quarter-by-quarter, that my excitement over the performance of Nubeqa continues to exceed – or, let's say, the results exceeds expectations.

So my excitement is still up. And that grows quarter-by-quarter, I can tell you that. So we're progressing above plan. And I'm seeing that after a relatively soft second quarter where we had more difficulty to recruit new patients into – yeah, also into a new therapy like Nubeqa, we're now seeing a clear trend upwards again as we're coming out of that very difficult second quarter for everyone. So I think we're making good progress there.

And then, on Aliqopa, that, for us, is not an easy one because liquid tumours are not our specialty. But with the NHL data that we now have, we're seeing some interesting upside because we have very, very strong data, as you know, that we just had the readout from.

And then, AskBio, last but not least, we're adding a whole new platform. And if you look at the increase in our clinical pipeline and you look at the overall pipeline that we have, we have been

criticised for having no late-stage pipeline. I think we now have a quite solid late-stage pipeline. And we're adding also a very interesting early-stage pipeline with both monogenetic disease approaches and pathway disease approaches. I think that renders the AskBio platform somewhat unique and also shows how strong the sciences that we're adding to the mix.

In terms of launches, we expect, towards the middle of the decade, to have probably the first launch in Pompe – so, a monogenetic disease. And then, the pathway diseases in the second part of the decade. We're also expecting, in the next 12 to 18 months, to add another three clinical candidates.

And don't forget that with AskBio, we also will have revenues immediately on existing licensing income. And as of next year, we should get additional licensing income and potential milestones from the Duchenne treatment that we've out-licensed to Pfizer. And that has received a breakthrough designation from the FDA.

Let me add to our cell and gene play that we also have BlueRock, which we're still waiting to get clearance to go into the clinic with our lead asset in Parkinson's. So that should be imminent. We're discussing with the FDA as we speak on this.

And then, last but not least, to add on the pipeline, we also did close this quarter, the KaNDY acquisition, which gives us another Phase III asset in women's healthcare in what I believe to be a highly attractive market, where – which is right in our sweet spot of our commercial footprint and of our heritage that we have.

Peter Verdult: Thank you.

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

Florent Cespedes (Société Générale): Good afternoon. Thank you very much for taking my questions. Two quick ones.

First, for Stefan. Could you share with us your view on the cancer products performance, going forward – notably, Nexavar and Xofigo – following the rather soft Q3?

My second question is for Liam. Could you tell us if the products returned in North America would have an impact next year? Maybe a naive question, but is it possible to send the products back into the market? So it would be great to have some clarification on this point. Thank you very much.

Stefan Oelrich: *Bonjour*, Florent. So to your question on our Nexavar and Xofigo, so yes, Quarter Three was not so great for us for Nexavar mainly due to declines in volumes in the US, which is a clear, I think, sign of the competition that we're facing with Nexavar. So this is, to some degree, expected.

On Xofigo, also here, the sales decline in the third quarter is largely explained by the US performance. You know, really what weighed down on us is COVID-19-related factors, in terms of this type of administration of product, which makes it a little bit more complicated.

But on the bright side, if we want to mention Nexavar, you also have to look at Stivarga, which was up 18% in the quarter, based on another very strong performance, especially from China. So a mixed picture, I agree.

So moving forward, we continue to see upside – continued upside on the Stivarga side. And especially now, with Nubeqa coming in, but also Vitrakvi continuing to gain momentum.

Florent Cespedes: Thank you, Stefan.

Liam Condon: Yeah. Thanks, Florent, for the question. So yes, we can or we will resell. So with returns that we get for corn and cotton, we can resell into the market. And soybeans is the only one that we can't, but we didn't have excess returns in soybeans. So those returns, we would be selling again in '21.

Oliver Maier: Okay. Thank you, Liam. I think, Hailey, we have time for one more question.

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

Tony Jones (Redburn): Yes. Thank you. Good afternoon. I've got two.

One quick one on currency. In Q3, the drop through to EBITDA was about 30%, which sounds quite high. Any reason why that is? And is that a reasonable factor to use in Q4 and early next year?

And then, a quick one on Crop Science midterm growth. I don't want to sort of preempt your CMD, but with the impairment, is it right now that we should be sort of modelling organic growth in the sort of 1% to 2% range out from 2021 onwards rather than sort of 3% to 4% in the past? Thank you.

Wolfgang Nickl: I'll do the currency really quickly. The best way to do it is if you look at our currency-free guidance, €6.70 to €6.90. And then, you look at what we had said in August, we deducted €0.30 from that. Now, we are deducting €0.40 from that for the full year. And yes, the currency impact is largely in the second half of the year.

And that is also clear that – I tried to show that with the seasonality charts, that in particularly the Crop Science business in Latin America, where we see most of the impact. I think we said on the last call, about 75% on the overall impact comes from the Brazilian real. And that's, of course, all happening in the second half of the year.

Liam?

Liam Condon: Yeah. Thanks, Tony. So let me try and be careful and not steal any thunder from our Capital Market Day update next year. But I think the best way to frame this is based on the low growth in '19, with particularly the hit in the US in the Midwest because of flooding, the COVID situation this year, we're kind of missing two years of growth. And for long-term projections, of course, that carries forward.

And that's something that you simply see carried forward then through the impairment on future cash flows. That doesn't mean that we reduce our future growth expectation. So the number that you quoted – the 1% to 2% – would clearly be too low. But what numbers we will be quoting, we can give the update end of February or beginning of March.

Werner Baumann: Yeah. Maybe I can add one more data point because, otherwise, you might do the calculation wrong.

Two-thirds of the impairment is related to interest rate and currency-related adjustments. Yeah? So the weighted average cost of capital has gone up significantly and that was actually two-thirds of the impairment. Yeah?

So it's not the underlying growth, predominantly. Yeah? It's actually these technical effects that have been weighing in. And you know, that's very much, you know, a function of the technicalities of the impairment as we are using, of course, up-to-date WACCs that kind of fluctuate. And the same holds true for currencies.

Tony Jones: Thank you. That's really helpful. I appreciate that.

Oliver Maier: You're welcome, Tony. Thank you. I think we're running out of time, so this was the last question.

So thank you very much, everybody, for participating in today's call. It's very much appreciated. Stay in touch. If there's anything you'd like to follow up, please get in touch with Investor Relations. And talk to you guys soon. Thank you.

[END OF TRANSCRIPT]

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