



**Bayer Investor Conference Call:
Update on Glyphosate Five-Point Plan**
Transcript of the Q&A Session

Thursday, 29th July 2021

Q&A

Joel Jackson (BMO Capital Markets): Hi, good morning. Just two questions. Just one housekeeping question, then I have another one. So if I do all the math, it looks like the total glyphosate pay out, you're expecting to see for current and future claims and charges you're taking, in case you're not successful with scenario one would be – seems like 14-14.8 billion. I just wanted to get confirmation on that. And the second question I have is as you look at the residential market to replace glyphosate as the active ingredient in Roundup™ and other products, what other types of active ingredients are you considering? What are your thoughts with the efficacy of that product versus current Roundup™? You know, how might that affect you or your sales and your market share of things?

Werner Baumann: Okay. So thanks for your question, Joel. So Wolfgang's taking the first question on the total number, and secondly, I'll start and then Liam will chime in on your second question.

Wolfgang Nickl: Yeah. Very quickly, Joel, thanks for your question. I'll answer the question this way. If you recall what we had on the books before, there was 9.6-ish [billion USD] for the currents, two [billion USD] for the futures. And then you should assume for completeness that we accrued also for administrative costs, for defence costs and so on. We haven't disclosed that, but it's by no means anywhere close to the other two numbers. And then simply you add \$4.5 billion to that. With that you come out as a number slightly higher than what you mentioned. Again, the numbers are all in US dollars, right?

And again, we can obviously not – we obviously have a tax shield here as well, and just for completeness sake, it will not cover anything close to the amount if it's an insurance coverage that we have. And I, we think we said before that this is typical of what's happening in the industry. I think we also said before, it's in the low hundreds of millions, but this is also the type of thing that you cannot put a receivable up against. So if you want the complete picture, you would have to consider taxes, currencies and insurances as well.

Werner Baumann: All right. Thanks, Wolfgang, thanks. So on the second question, we are working with a number of standard ingredients for new and proprietary formulations that would be awaiting EPA approval and would be sold under the Roundup™ brand. And then, you know, based on what we think will be superior to what is out there in the market, but maybe, Liam, you want to share a little bit more detail on it and how we think about that franchise in the markets.

Liam Condon: Yeah, sure. Thanks Joel, for the question. So we plan on replacing from beginning of 2023 and because this is from a regulatory and from a logistical point of view, wouldn't be possible any earlier than this. As Werner already mentioned, the active ingredients are well-established active ingredients. What is new will be the formulation, or formulations as this is plural because there'll be multiple and new formulations and these registrations are pending approval at the EPA. And once we have more news from the EPA, then we would articulate more details on that.

Joel Jackson: Thank you.

Operator: The next question comes from the line of Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Andrews (Morgan Stanley): Thank you. And good afternoon, everyone, I guess. Can you confirm that your Supreme Court petition is going to include more than just a request, a review on preemption? So I'm assuming causation and punitive damages as well, just because, you know, I get that the ultimate goal is to get the preemption ruling. But it would also seem that if they didn't go for, opine for you, on preemption, that there's other ways that they could provide significant relief that would make trying these cases maybe not as unattractive as a preemption ruling, but you know, somewhere in the middle. So could I just start there?

Werner Baumann: All right. Thanks, Vince. So Bill is going to take your question. Bill, please.

Bill Dodero: Yeah. Hi, Vincent. Yeah, well, I won't give you the exact specific arguments. Your assumption though, is correct. We will be seeking the writ on multiple grounds that have cross-cutting impact on the litigation. You're undoubtedly aware that issues in the litigation and in the *Hardeman* case concerned already as well, the preemption argument, *Daubert* and the experts' standard and causation, as you mentioned, and others. And we do plan on raising several issues with the Supreme Court, not just preemption.

Vincent Andrews: Okay. And then my understanding is that the *Carson* case, which you prevailed on at trial and preemption is working its way through the 11th Circuit on appeal. And I don't believe that that case will be – have been decided by the 11th Circuit by the time the Supreme Court looks at *Hardeman*. So I guess my question is in the event that the Supreme Court does not take the case on *Hardeman*, from what you've laid out there, it doesn't seem like you feel like you're going to wait and see whether you get the true Circuit split with *Carson* and then revisit the Supreme Court. Or are you just not talking about that to keep things simple?

Bill Dodero: Yeah. Yeah. Assuming the *Carson* appeal is not ready for advancement as you accurately point out, we are moving ahead expeditiously with *Hardeman*. We view as I think we've said in the past it as the best candidate for review by the US Supreme Court and certainly *Carson*, which may well continue through the legal and appellate process may well help manage future liability. It's a little premature to make decisions about those cases as far as the US Supreme Court, but we're moving ahead on the timeline announced on *Hardeman*, irrespective of the *Carson* timing.

Vincent Andrews: Okay. And then lastly, Werner, if I could just ask you if we assume that the, you know, in the hypothetical that the Supreme Court takes the case, it rules through on preemption, the litigation is largely eviscerated. And you know, let's say a year later the equity is still trading at a significant sum of the parts discount. Would you consider, you know, separating the agricultural assets or making some other structural change to try to unlock that value for shareholders?

Werner Baumann: That's a very good question, Vince. But today this call is about the litigation exposure and not about strategy of the company. I think we are very clear on the strategy that they're pursuing and that they are executing on and you know, absent any other news, you should assume that we will continue to execute on our existing strategy. These are—let's say our most important topic, is that we have to put an end to this litigation and provide the necessary clarity on the space that we see when it comes to how the litigation is going to be put to bed. And that is actually the most important objective, we have to provide that

transparency to our shareholder base so that you can take your conclusions from it. This is not one dimensional.

We have two basic scenarios I think, and I hope that this call is really helping you to get your hands around (a) the specific scenarios that we are describing. And then the, of course, shades of grey in between those you are, depending on the quality of the rulings and other things, but also very importantly on the underlying assumptions, so that you can kind of follow our thoughts. And also, and you mentioned that earlier, you're doing the math on our calculus that you can kind of follow what we are doing also in terms of the orders of magnitude that we are seeing going forward should we be in the less favourable scenario too. Yeah. So I think that is the very, very important objective of today's call.

Vincent Andrews: Thank you very much. Appreciate you doing the call. I think it was very helpful and I appreciate your candour.

Operator: The next question comes from line of Keyur Parekh with Goldman Sachs. Please go ahead.

Keyur Parekh (Goldman Sachs): Good afternoon. A few housekeeping questions, and then one kind of big picture question, please. First kind of from a housekeeping perspective, can you remind us what proportion of glyphosate used today or Roundup™ used today is in the non-commercial setting? Secondly, again, kind of from a housekeeping perspective, perhaps where you will stand, how should we think about the tax shield on the \$4.5 billion as it relates to your guidance for 2021? I suspect you will get the entire benefit of that, but if we can confirm that that would be good. And then just lastly if I looked at your slide number eight, you laid down the mechanics of how you come to the \$4.5 billion, but I'm wondering if you might be able to help us a bit more to say your cost per case, excluding or adjusting for the plaintiffs' lawyer fees, kind of, how should we think about that number and consequently, what is the number of future claimants that you are inherently incorporating in that?

So those are kind of housekeeping questions and then kind of one of you, you at the start, you kind of set out the call by saying you wanted to essentially highlight the intrinsic long-term value in the Bayer stock, which kind of we don't disagree with. But I suspect my question to you is, as you have spoken to your long-term investors over the course of the last kind of few years. Beyond the litigation, what are some of the issues that they have highlighted and what are you trying to do to resolve those issues? Thank you.

Werner Baumann: All right. Thanks for the question. Maybe on glyphosate and the numbers of residential use, that that's a question that will be answered by Liam and then tax shield is covered by Wolfgang and I'll take the two last questions then.

Liam Condon: Yeah. Thanks. Thanks Keyur, for the question. So glyphosate, I think the, right way to think about this is from a claims point of view over 90% of all claims have come from the Lawn and Garden segment. So this is clearly the reason why we're also discussing new active ingredients and replacing glyphosate in the Lawn and Garden segment. The professional segment is of course, completely different, the agricultural segment is a completely different segment with very different volumes of course, and then would be typically used in consumer market, different labels as well, because you have different dosages that are used. So this one is completely different. And we think from an overall labelling point of view, it's a very well

protected market. So we focused our efforts really on the Lawn and Garden because over 90% of all claims have come from that segment.

Wolfgang Nickl: Now I'll take the tax question. Yes, it's tax-deductible. We are thinking of the tax shield in a 10%-15% range. But as you can appreciate it, it depends on a number of factors. It depends on when do the payments actually happen? It also depends on the future income that you have that you can deduct it from. And as you know, there is a lot of movement in the worldwide tax systems. It depends also on tax legislation going forward. So you should not assume that that's a onetime upfront effect. We will guide you through that with our annual guidance on all our whole tax rate but 10% to 15% over time, depending on these three phases that I mentioned.

Werner Baumann: All right, thanks. Wolfgang. So Keyur, to your third question on the cost per case and reflecting on the details on page eight, what we've tried to do is to give you as much information as possible related to our modelling short of your weakening our position when it comes to your, you know, defending our interests with the claim holders and it is in that context that I cannot and will not give you the number. I do hope though that with the details laid out that you kind of can bake into orders of magnitude, absent us you know you know, giving you a number that would then also have to be very specific to you know, the, the settlement programme or the compensation programme that you're thinking about going forward.

When it comes to my statement on the intrinsic value of the company, you know, we are in charge of running the company and you know we are of course also let's say in charge of trying or giving you the gist of what we think about our businesses, how we run with, how we run them, what we see in the potential also longer term. And I would still start though with the fact that based on also one of the recent analyst reports that you will for sure have read, the biggest issue that kind of hangs over the stock that prevents me from coming into the stock, because nobody wants to go to his investment committee and argue the case with an unknown or unclear litigation overhang is a big issue that we need to put to bed.

Yeah. And that is exactly what we are doing today. We have to move on the let's say that the two scenarios, basic scenarios are well-described. We are able to assess them also in terms of let's say, valuation, we take a conservative approach with some of the assumptions. We create transparency with what we are putting on the balance sheet for the scenario two and then we'll see what's going to happen.

But you know, the downside scenario is kind of provided for on the balance sheets. And we'll have to see what the Supreme Court is going to do over the next twelve months. When it comes to the underlying of our businesses, I point out the following topics. A very, very well run and successful consumer health business that is on a strong growth trajectory. Also looking at you know, it's a peer universe with top line growth and also margin improvements fully along the lines of what the mentioned a couple of years ago on where we would take that business strong, underlying innovation that is coming to market which we would share more of going forward.

I think in pharma, people have hopefully now a better understanding on how we think about the midterm profile. In particular, the fact that there is no let's say one of significance patent cliff that will be related to Xarelto but that is the process over multiple years. And that is a matter of fact. We only see a small dip, single digit dip in our top line in 2024. We are beefing

up our innovation pipeline with some technology acquisitions platform acquisitions. We've brought all of our late-stage pipelines into the market by now and last but not least we run the hands down best crop business in the world which is all clouded by the fact that we have the litigation overhang still and as of today. That's what I would say regarding your fourth question.

Keyur Parekh: Werner, thank you. If I could just follow up with Liam on I guess the number I was looking for was what proportion of your glyphosate revenues, or your Roundup™ revenues today comes from the non-commercial setting? So I understand 90% of cases come from the setting, but what proportion of your revenues come from that setting.

Liam Condon: And what proportion of glyphosate from total company sales?

Werner Baumann: So it's kind of the other way around. We have a "royalty stream". Yeah. And of course, a supply relationship with our partner on the residential piece which in terms of the revenue share is a very small piece of the overall non-selective herbicides franchise that we have. Yeah. And so the vast majority of the cases is related to a relatively small or very small part of the Roundup™ business. And with the new formulations, I think it's also important to understand that we are putting them underneath the Roundup™ brands, which means that there is no significant erosion that we would expect from the residential market, because it continues to be a marketed product just with a different formulation under a strong brand and a wholesale brand in the US.

Keyur Parekh: Thank you.

Werner Baumann: Welcome.

Operator: The next question comes the line of Richard Vosser with JP Morgan. Please go ahead.

Richard Vosser (JP Morgan): Thanks for taking my question. Maybe I could ask a related question on the PCB litigation. We obviously saw a case of some teachers that Bayer lost last week. Maybe you could put that into context for us in terms of how you see the PCB litigation developing relative to glyphosate and how that is different in terms of the timing and the potential of that litigation going forward. And then second question maybe a clarification and apologies if I've misunderstood this, but your talk of discounting the provision, is the provision therefore less than the 3.8 that you will establish, or is the 3.8 sort of the discounted amount? It sounded like that amount would be discounted potentially over 15 years. And therefore, the actual provision established would be quite a significantly amount lower than that, but just please some clarity there. I might've got that wrong. Thanks very much.

Werner Baumann: Thanks, Richard, for your question. I suggest we go right to your second question first. So Wolfgang answer that question on the discounting before we hand it over to Bill to talk about PCB and what is different from glyphosate here.

Wolfgang Nickl: Yeah. Richard, hello. Very short answer. The numbers that you will see next week in the financials is \$4.5 billion. That would be €3.8 billion and then if you discount it like you said to today it will be approximately €3.5 billion that will actually end up in the balance sheet. Just probably for your modelling purposes, it's important to also understand that accounting regulations say that you discounted the risks for your rate and not at the WACC. So that's why this number doesn't go probably more down with your intuition would show.

Werner Baumann: So Bill on PCB, please?

Bill Dodero: Yes. Thank you. Let me address your question by perhaps providing you first with the reason why this verdict is not supported by the undisputed evidence in the case, the next steps in terms of post-trial and appeal steps, and as well why there is not an expectation of proliferation to answer your question. First, why the jury verdict is not supported. And while we thank the jury for their service, we disagree with the verdict. The undisputed evidence in the case does not support the conclusions that plaintiffs were exposed to unsafe levels of PCBs, or that any exposure could have possibly caused their claimed injuries.

In reality, the testing reflected extremely low levels of PCBs in the school. The plaintiff's serum tests revealed normal PCB levels found in the US population, according to the Centers for Disease Control and Prevention. So these are important points to make about the underlying trial. In terms of next steps, the plan is to pursue post-trial motions and if necessary, an appeal where we believe we have strong appellate arguments given the legal and evidentiary issues at trial, including the application of the law and plaintiffs' exposure and causation experts using methodologies to estimate exposure levels different than what I stated in my opening comment.

Lastly, in terms of the no expectation of similar proliferation to answer your question, let me just make sure I point out some context. PCBs, as you may know, were made by the former Monsanto company between roughly the 1930s and the 1970s when they were stopped in their manufacturing in about 1977. They're in no way related to the current crop science business now part of Bayer or any other recent company business. And in terms of the claims, there's no expansion or triggering event for widespread claims.

Erickson, the case that you mentioned is a small number of approximately 200 claims at 1 location, a school called Sky Valley Education Center, where people alleged injuries from exposure to light ballasts at this single school. The ballasts were produced decades ago by Monsanto's customers and installed in the late 1960s and were decades beyond their useful life. Certainly energy inefficient and obsolete, and without any widespread trigger event like IARC, which triggered the glyphosate discussion, plaintiffs in this case, alleged personal injuries derived from exposures at this one location claiming a variety of ailments like dry cough, peeling skin, orthopaedic complaints, eczema, fatigue, fuzzy thinking and anxiety, and the like.

It does not entail any widespread allegations of cancer or product exposure along those lines. I mentioned already the levels of exposure being limited and for those reasons, as well as the fact that we have in fact, defended successfully many cases over the years without adverse verdicts, we do not expect proliferation of the type you asked about in your question. And instead, rather believe this is a confined litigation that we will continue to litigate, as I mentioned in my earlier comments.

Werner Baumann: All right. Thanks Bill.

Richard Vosser: Thanks very much.

Operator: The next question comes the line of Michael Leuchten with UBS, please go ahead.

Michael Leuchten (UBS): Oh, thanks very much. A few questions please. One, I think to also Bill. I think one of the problems that you've had was sort of the unpredictability of judges in the process. We've seen all the judges refer some MDL cases to your self-help programme, which, which I guess is a good sign. I was wondering if you could quickly comment on how you read that, but then maybe more importantly, what part of the process that you're going through

at the moment is still exposed to some potential interference by judges actions, if any? And then just quickly going back to the PCB question. So it sounds like you're saying there is no risk that this case could go down a mass tort route, unless there are more adverse rulings which I guess you're thinking won't be happening, but how many cases beyond the 200 that you just referred to are actually filed against you at this point in time in and around PCB? Thank you.

Bill Dodero: Yeah, first yes, it's a very positive sign. We think it's very helpful that Judge Chhabria has ordered that parties engage in mediation. Our settlement programme has enjoyed great success to date, and we want that to continue and the Judge's orders with both require participation, as well as the provision of substantiation for the claims without which there can be potential sanctions or dismissals is a very important step to continue to work on the selective inventory settlements with the criteria that Werner outlined in his beginning remarks.

Certainly, we wish, and we are also finding judges and other courts who recognise the benefits of the resolution programmes and will continue to seek those and do get help in that regard, which is certainly an important feature to continuing our settlement and resolution efforts. In terms of the PCB building case, it's this one location, and as I mentioned about 200 claimants.

Operator: The final question is on the line of Sebastian Bray with Berenberg. Please go ahead.

Sebastian Bray (Berenberg): Yes. Hello, good afternoon and thank you for taking my questions. I would have two please. Firstly, why are cases for glyphosate no longer growing? We've been at the 125,000 total cases filed mark for a while. And about 80,000 people fall sick with NHL in the US every year. Is it simply that these lawyers you've settled with have stopped taking cases or is there something else going on there? And secondly just to step away from the immediate US litigation environment for glyphosate, what are you thinking about the chances of getting the product reapproved in Europe and is this included – is a non-renewal included in the business plan that you set out at the Capital Markets Day a few months ago? Thank you.

Werner Baumann: Okay. Thanks Sebastian. I hope I understood your first question correctly. So you're referring to the 125,000, why that case count is not growing. The reason is very simple that for that inventory we put a cut-off date in and should there be further cases, we would see those in the future if they are further building. So we have the 125,000 that frames kind of the inventory that we are looking at. So there's no magic to it. And you simply as you've done, you would have to continue to look at epidemiology, and then your incidents and you know, the case count that out of an annual account of NHL would come into claims. Second on the chances for re-approval, Liam is going to take that question.

Liam Condon: Yeah. Thanks. Thanks Sebastian. So I think you saw earlier this year, we had good news and from a scientific point of view at that the Europe, the responsible European Working Group, which accounts, and which is an essence for countries and subsets of the regulatory authorities building that a formal opinion about the science behind glyphosate. And they were quite unanimous in their opinion as this is clearly an approvable product, that it has a very beneficial safety profile. So from a science point of view, we think this is very strong as a starting place now, and we'll see how it goes as we go along further along the process.

But I think what's important to highlight as well because you're asking for the kind of the relative dimension and whether this is factored in from a Capital Markets outlook point of view, sales of glyphosate in Europe are only a fraction of global glyphosate sales. The vast majority

of sales are in North and Latin America. And with that, we don't see any material impact on our Capital Markets Day outlook, regardless of what happens with EU registration.

Werner Baumann: Maybe one additional point to be added. And you know, just to add to what Liam has said. There is, I think, as we've seen in the last approval process, there's a scientific assessment piece. And then there's, let's say a "political risk", if you want to call it that way as part of the process. And if you look at the report that was issued on the scientific assessment, the one thing that I found remarkable as you see that very rarely you're in such an absolute language. The report said that glyphosate is not carcinogenic and it's not genotoxic in that absolute language, which you see very rarely. Yeah? And you know, the second piece is that of course, you know, based on how that process is going to run going forward now, we will have to look at what the member states rule and what the commission does, but overall very, very supportive and strong confirmation of the science so far. And with that, let me just send it back to Bill for a couple of additional comments.

Bill Dodero: Yes. Thank you. You, you asked also about, you know, additional cases and the settlements with leadership and yes, we have in fact, reached settlement with large groups of leadership lawyers who have left the litigation. And when you also look at what's happening atmospherically or across the litigation as a whole, there's a couple of other observations I'd suggest for your consideration. First, we've seen some lower courts, both in *Carson* and most recently in California [*Stephens*], rule in our favour on preemption and as well, there continues to be a strong consensus among regulators and scientists worldwide that glyphosate-based products pose no risk of harm when used according to the label. And then Werner mentioned those in terms of the EU recently completing its first step in the renewal process and finding—no finding with respect to carcinogenicity. In May, the Biden Environmental Protection Agency told a federal court that it's not likely to be a human carcinogen and poses no human health risks of concern.

And the IARC finding at the centre of this litigation continues to be an outlier. And as more time passes more and more study occurs, it continues to be just that: an outlier. And so when you look at the developments, both in the law, preemption, as I've mentioned, and in terms of the science, it continues to develop in a manner which is consistent with what we've been saying all along that the product is not carcinogenic. And I think that's an important observation as well, in terms of the continued litigation sequencing or proliferation as you asked about it.

Sebastian: That's helpful. Thank you for taking my questions.

Operator: At this time, there are no further questions. And I hand back to Mr. Maier for any point.

Mr. Maier: Thank you so much, Emma. Really appreciate everybody joining today. I know it's busy. Thanks for listening and we'll talk to you soon next week. Thank you. Take care.

Operator: Ladies and gentlemen, this concludes the investor conference call of Bayer again. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]

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