Thank you, everybody, for joining today’s briefing call about the announcement Bayer just made just a short while ago regarding a series of agreements that will substantially resolve legacy Monsanto litigation, including Roundup, dicamba and PCB. We have with us today our CEO, Werner Baumann, our CFO, Wolfgang Nickl. We have Liam Condon, President for Crop Science and Board of Management, and Bill Dodero, our Global Head of Litigation for Bayer.

You should have all received our press release announcing the resolutions. All participants will remain muted while our speakers are presenting and after that we will have an opportunity for Q&A. As always, I would like to start the call today by drawing your attention to the cautionary language that is included in our safe harbour statement, as well as in all the materials that we have distributed today.

Questions and Answers

Thank you, Werner, thank you, Wolfgang, thank you, Bill for your comments and remarks. Much appreciated. And I think we are now ready to open up for Q&As.

Peter Verdult, Citi

Thank you. Good evening. Peter Verdult, Citi. Just a few please. Just firstly on the settlement, what impact, if any, does that have on the recent appeal court ruling vacating the EPA’s licence for dicamba? For Liam, I realise this is not a quarterly conference call, but could we take the opportunity maybe to talk about something not related to litigation? Any comments you’re willing to make regarding trends you’re seeing in the field would be appreciated.

And then lastly, for Wolfgang, ever since the Monsanto deal was announced, Bayer have not been able to get on the front foot to showcase the merits of the deal. So when you think about that
Monsanto pipeline, I mean, what is the earliest timeline in terms of key projects that we’re going to see a read out to allow you to begin to get onto the front foot? Thank you.

**Werner Baumann**

So first question, the impact of the EPA ruling on the dicamba litigation, there was none because the EPA ruling related to the 2018-2020 registration. You have seen that the EPA ruling was responded by the EPA so that the product can still be used until the end of the season, which was actually also now reconfirmed by the courts. So there is no bearing on our dicamba settlement, and we are in the process of actually discussing and renewing the registration for the 2021 and beyond season.

So on trends, relative to our business and then also on your third question that I did not fully get, probably the others didn’t either, maybe Liam starts first and then Peter, if you could briefly repeat your third question, that would be appreciated. So, Liam.

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

Yeah, thanks, Peter. So let me just reemphasis also what Werner said, so there’s no connection between the Ninth Circuit ruling and then the, following that, the EPA ruling related to dicamba. And, as you know, basically, the EPA said that farmers can use their stocks on hand until 31 July, which is in essence the end of the season, and this gives us a lot of confidence for the reregistration process that is ongoing for the next season. So we continue to expect a new registration for XtendiMax then in the fall of this year. So this is our baseline assumption and those developments and this litigation are completely disconnected but the EPA ruling gave us further confidence there.

On the market, overall, and market trends, clearly, in the northern hemisphere, particularly now in the US, it’s what we’d call a very robust season, particularly versus last year where there was a flooding which heavily affected particularly the soybean market. So corn is 100% planted, soybeans is 96% planted and it’s very good – with maybe the exception of the Dakotas with too much rain – but it’s good growing conditions, so we expect a plentiful harvest. I think the challenge is a little bit looking forward. If we look at commodity prices for corn, clearly, they’re very low; I mean, they’re around the $3.20 level. And what’s weighing down things here is of course the impact that the fall in bioethanol, which was directly related to COVID-19, with the lack of traffic on the roads, particularly in the US, lack of demand then for bioethanol plays through into the demand for corn. So that’s weighing a little bit on commodity prices.

So we have to see now what ultimately gets harvested at the end of the year, what decisions are made then by growers in Brazil but we think there will be a good harvest, but probably this year, next year, we would assume it will still be a relatively low commodity price environment. There’s not much reason to believe that there will be a sudden uptick. But overall, we still believe that we’re very well positioned with our portfolio to benefit from an uptick once that then happens.

**Werner Baumann**

So Peter, would you mind repeating your third question? I think you were addressing it to Wolfgang.
Peter Verdult

Yeah, no. I’ve been already reminded by my competition that I was addressing it to the CFO. I meant you, Werner, as the CEO. Since the Monsanto deal was announced, Bayer has not been able to get on the front foot to extol the virtues of the deal because of the time it took to close the deal and also the litigation that you’ve been clouded under for the last couple of years.

So when you talk about the innovation side of the equation, the Monsanto pipeline, can you just remind us when the key milestones will be, or the imminent milestones are coming for some of the projects in terms of readouts in an attempt to bring that innovation story forward to investors?

Werner Baumann

Yeah, thanks for that. Thanks, Peter. So this whole combination has always been about science and innovation going forward and what the two companies in a very complementary way can do together. We have seen the first low-hanging fruit materialise but more is to come and, as a matter of fact, I think there was a good opportunity to look at what is coming in the innovation day that was held in the first quarter of this year. One of the very emblematic and attractive things that are coming to market, actually, as a matter of fact, I think first in Latin America, and with that I then hand it over to Liam, is short-stature corn that may completely revolutionise how corn is farmed. Liam.

Liam Condon

Yeah, sure. So let me briefly recap some highlights from Crop Science and then maybe Werner wants to take it back on the pharma side what we might be expecting then, any latest news on the innovation front, data we’re expecting. On Brazil, next year, if we look at the coming – just the coming season – what we’re expecting, I think we’re quite excited about the fact that for Brazil, a huge and growing market, we have Intacta2 Xtend so this is the latest revolution then as far as insect protection is in high-yielding soybean seeds. So Intacta2 has just gotten import approval from China, which is really important for us, so we’re confident that we can launch there next year.

XtendFlex, our soybeans with the three-way herbicide, is then planned for next year in the US with a relatively massive launch. And as Werner pointed out, we’re in the process now with short-stature corn, developing different approaches to this in different markets, but we’ll be rolling this out successively over multiple years and we believe this will revolutionise how corn is grown. And this is something that we’re very excited about. There’s a lot more, as was – as Werner mentioned, that was highlighted at the innovation day, but they’re three things that we think really will have a big impact on the market.

Werner Baumann

Yeah, my suggestion, Peter, would be that you hold your question for, let’s say, the next update and some breaking news on pharma that might come with the pipeline coming through, because we really want to focus on the news today and that is about the litigation.

Peter Verdult

Thank you.
Werner Baumann

All right. Thank you.

Vincent Andrews, Morgan Stanley

Thank you. I have two questions; one’s a clarification, but the real question is what can you do on a go forward basis to better insulate yourself? You sell other crop chemicals, none are as ubiquitous as glyphosate, but what can you do to better insulate yourself against any future health claims like these, and/or the sort of user issues that you had with Xtend coming out of the gate? Is there stuff you need to do with the regulators, is there stuff that needs to be done from a legislative perspective, is there stuff that needs to be done internally? What’s the thought process around that?

And just my clarifying question would just be on the tax shield. I believe you said 15% so I just wanted to confirm that and understand what makes it 15%. Is it a jurisdiction issue of where the payments are made or just what that mechanism is and if there’s any possibility that it winds up being higher? Thank you.

Wolfgang Nickl

Yeah, I’ll probably do the second one: tax shield. Yeah, it’s predominantly depending on US tax legislation. It depends on timing and it depends on the timing of the profits you can count it against. And with that, we currently expect it to be somewhere around 15% and we’ll keep you updated as things develop around that.

Werner Baumann

Yeah, Vincent, on your first question, I think there is not that one simple single answer to what we need to do in order to insulate ourselves better against future claims. There’s a few things that come to mind. I think one, if you look at dicamba, I think it is also on us to work more intensively and do more on product stewardship and training, as we have stepped up our effort significantly and we’ve also seen the result of that. Now that is water down the drain for dicamba, but certainly it informs our view for our product stewardship activities going forward.

Secondly, if we are outside of the US, there is always a question on trust and confidence that people have in our products and this is all about – it all starts with transparency and building and rebuilding trust. We are actually very proactively doing that. We are the first company that put out all of the safety studies that are available to us on our products already in 2017. So we were the only company and the first one doing that at the time. We run an open book process for the reregistration of glyphosate in Europe and these are the things that we are doing proactively.

Taking it one level higher, in the US, it is virtually impossible to give full protection with what we can do and glyphosate is the perfect example for that, unfortunately. It is a positively federally regulated product and still we see that massive litigation that has brought us to paying essentially more than $10 billion to settle it away. I think what not only we, but the business community, is in dire need of is actually tort reform in the US.
Richard Vosser, JP Morgan

Hi, thanks for taking questions. Richard Vosser from JP Morgan. First question just a clarification on the provision timing. Quite obviously, probably, this quarter but how much of the overall amount will be provided this quarter?

Second question, in terms of the dicamba litigation, could you give us any idea of how much of a contribution BASF might make? And then third question, you alluded to the Elanco shareholding, which of course is a little bit lower at the moment. How desperate is it to use that? I believe you could ask a third party to take it off your hands or are you thinking more of sitting that out as you did patiently with Covestro? Thanks very much.

Werner Baumann

Okay, very good. Thanks, Rich. So the first two questions or the questions on provision timing and then Elanco are going to be taken by Wolfgang and Bill is going to address your BASF contribution question.

Wolfgang Nickl

Yeah, so, Richard, hi. Let me start with the provisions and I’d probably best summarise the numbers one more time and then I’ll get to it. So with glyphosate, which is made up by the currents of $8.8-9.6 billion and then we have the futures at $1.25 billion for a total of glyphosate $10.1-10.9 billion. On dicamba we have about $400 million, up to $400 million, and on PCB we have around – just over $800 million. All values in US dollars. If you add it up, it’s between $11.3-12.1 billion. You should assume that we take a complete litigation settlement reserve for this at the end of this quarter at the upper end of this, or somewhere towards the upper end of that range. Of course, that is a P&L item, but it will be a special item, so it has no impact on our operational business that we reflect in core EPS.

As it relates to the Elanco shares, as you know, at the time of announcement, about $2.3 billion of the total consideration of $7.6 billion is going to be given to us in the form of Elanco shares. There is a collar around the share price. The reference price was 33.60, which would give us about 68 million shares. There was some downside and upside protection. Right now, obviously with the current trading, the numbers are somewhat lower. We are not able to sell them right away. We are subject to a holding period, so roughly speaking, it will take us between six and nine months to resolve this; that’s why I said approximately the middle of next year. And we have enough flexibility that we are not desperate to sell them. So, from that perspective, we’ll pick the right point to monetise them.

Werner Baumann

All right. Thanks, Wolfgang. Bill, please.

Bill Dodero

Yes, thank you. As you noted, in the dicamba litigation, BASF is in fact a co-defendant with us. It is our belief that BASF should contribute to the overall resolution and settlement equally with us.
Richard Vosser

Okay. Thanks very much.

Werner Baumann

Thank you, Richard.

Jameel Bakhsh, Barclays

Hi there, Jameel Bakhsh from Barclays. Can you just explain a bit more to the effect about how your current Roundup agreement potentially caps the future litigation that’s coming? And secondly, is there any connection between your settlement here and the ongoing Proposition 65 labelling case? Thank you.

Werner Baumann

Okay, thanks, Jameel, for the question. So on the mechanisms on Roundup and how we capture the futures, Bill is going to answer that, and he can probably also answer the Prop 65 question.

Bill Dodero

Yes, in terms of the cap and the futures, so, first of all, the futures agreement is capped at the numbers we discussed. Secondly, as well, when you look at the entirety of what we’ve announced today, the holistic settlement covers the current litigation and the futures as discussed and the class panel outcome, if it is in our favour, will in fact be binding such that then class litigants cannot maintain that glyphosate was a cause of their NHL going forward. And, I’m sorry, what was the Prop 65 question?

Jameel Bakhsh

Just if there’s any connection between your settlement here and the ongoing Proposition 65 case, or should we consider them as two completely independent events?

Bill Dodero

Well, while they’re different events; they rest on the same scientific principle that we’ve been discussing here, which is these are areas where you can see, when there is a fulsome assessment of the science and it is learned and taken into account, the result is that no carcinogenicity warning would be placed on the product. And that is consistent with what we believe the outcome should be and as well reflects the well-understood entirety of the scientific record as the basis for that decision.

Jameel Bakhsh

Okay. Thank you.
Sachin Jain, Bank of America

Hi there. Thanks for taking my questions. It’s Sachin Jain from Bank of America. Just two quick ones. The first one is just on leverage and your rating agencies conversations, so just what conversations have you had with them to maintain the rating and how do you communicate debt pay-down from here? And I guess the simple question is what is your ’22 net debt target now versus the prior ’26-’28? Do we just add the provision? Are there any other flexes that you can put through from here?

And the second one is does the appeal outcome have any relevance here now other than future litigation? Thank you.

Werner Baumann

Okay, thanks, Sachin. The first two questions are going to be answered by Wolfgang and then the appeal outcome and how it informs the future outcomes of the litigation is going to be taken by Bill.

Wolfgang Nickl

Yeah, thanks, Sachin, for your question. Although we could of course not upfront talk to the rating agencies about any details of this, we of course are in a constant dialogue with them and they do of course have certain assessments themselves. They also look at what the Street expectations are, and I think, with this level of settlement, we’re well within those expectations, if you include PCB and dicamba, probably even below those expectations.

So we therefore anticipate that we clearly will remain at investment grade rating. We will have these discussions very shortly with them. We are very committed to generate strong cash flows in the operational business and committed to the takedown of our debt. It’s probably a bit premature to give you the exact net debt number for next year because we need to assess the overall business situation as well. But I think it’s very important for them to see that it is financed out of the Animal Health divestiture proceeds that we never had in our projections and that balances this to some degree. So we’ll keep you informed about what the outlooks are, but we expect to clearly stay in investment grade rating.

Werner Baumann

Okay. So, Bill, on the appeals.

Bill Dodero

Yes, on the appeals, as part of the holistic programme we’ve announced, to your point, the 75% of the currents, the 95% of all trial set cases, the currents being largely contained, the class mechanism that we’ve discussed as well and the third element, the appeals that you asked about, all holistically bring the closure we’ve been discussing.
With specific reference to the appeals, cross-cutting legal decisions, such as pre-emption by way of example or a fulsome causation decision that reflect the science as it is in the real world outside of the courtroom, can have a very preclusive and beneficial effect, because they would find, one, that a state law imposition of a duty to warn when the evidence is such that there is no carcinogenicity and the federal labelling rests on that, and, two, that the foundations of causation which are simply non-existent can run or cross-cut the entirety of any remaining litigation and serve to inform and possibly reduce or even forestall any future litigation. So that’s how it would work.

Sachin Jain

Thank you.

Werner Baumann

Thanks, Sachin. Thanks, Bill.

Sebastian Bray, Berenberg

Good evening, congratulations and thank you for taking my questions. I would have two please. The first is that I don’t think the release has referred to insurance. Are any insurance payments likely to cover Bayer for some of this settlement?

My second question is on the extent to which this settlement agreement provides finality. My understanding is that it applies to cases of non-Hodgkin’s lymphoma only. If in two or three years’ time, the IRC comes out and makes a link between glyphosate and another type of cancer, will the plaintiff law firms be able to sue Bayer on this basis? Thank you.

Werner Baumann

Okay, thank you. So the insurance question is going to be taken by Wolfgang and then I’ll try to answer your second question and Bill may chime in as well.

Wolfgang Nickl

Yeah, thanks for your question. Yes, we do have product liability insurance. You will understand that we are now entering the process for all three cases to discuss this with the insurance companies. It’s premature to put a number to it and also, we will not record a receivable on the balance sheet. That’s also very important. We do that once we have clarity what the negotiated numbers are. But there is customary insurance levels in these three cases.

Werner Baumann

Okay, thanks, Wolfgang. So, to your second question on finality and NHL, if we just dial back to 2015 – or I guess it was 2015 – when the IARC assessment came out, it was a complete outlier and was actually also strongly objected by regulators around the world, because this was a risk assessment without looking at your real-life exposure levels. So even here, we had a situation that I mentioned earlier. It’s positively regulated, non-carcinogenic and still we have to defend ourselves and ultimately settle for huge amounts, even without any substance to the case based on our and the regulators’ perspective, if you look at the full body of science. So this goes back to
what I said earlier. This is an issue of the US legal system and jury trials where difficult scientific assessments are being put in the hands of layman juries that of course want to do a good job, but they lack the experts’ expertise to really render an educated assessment. So that is something that we will continue to be exposed to.

In terms of other cancers, I think that was the second part of the question. There has been absolutely no signal, actually, of any carcinogenicity of glyphosate in the biggest ever study that was run for more than 20 years and with more than 50,000 participants. That is the US Ag Health study that was supported and sponsored by the National Cancer Institute in the US. So to the extent of real-life evidence and very well-designed studies, there is no signal of carcinogenicity as of today and that includes 40 years of evidence. So that’s all I can say to your second question. I don’t know whether there’s anything to be added, Bill.

Bill Dodero

Nothing to be added.

Werner Baumann

Okay, very good.

Sebastian Bray

Okay, great.

Oliver Maier

Thanks. I think we have time for one more set of questions and then that’s it.

Keyur Parekh, Goldman Sachs

Hi, good evening and thank you for taking my questions. I’ve got three if I may, the first one for you, Werner. Can you just remind us of, in the context of something now being behind you, a big part of the Monsanto disruption and disengagement now being behind you, can you remind us of your commitment to the existing structure of the business, having three different businesses or what are you willing explore some other shape or form of the business as you look at the next two to three years? That’s question number one.

Secondly, Wolfgang, as we look at your priorities for capital allocation, can you remind us where business development sits in that and as you look at managing, maintaining an investment grade rating, you are reiterating your commitment to a dividend policy, how much capital might you have to do business development over the next 12 to 36 months?

And then, lastly, to the extent you can, could you explain if you can, would you mind going over where you stand with some litigation on the glyphosate litigation in some of the ex-US countries? Thank you very much.
Werner Baumann

Okay, thanks for your question. I’ll start with your last question first. Capital allocation is going to be answered by Wolfgang in line with our capital markets day communication of 2018, so that’s, I guess, still up to date. And in terms of structure, we have the structure of the three pillars that we operate. We have made significant strategic and operational processes since our capital markets day in 2018. If you look at the non-core assets that we shed, also I think very successfully in terms of the value that we generated for our shareholders, but also beyond that, you’re just looking at the consumer health turnaround that is actually really solidifying with very commendable growth rates, not only in the first quarter – that was clearly exaggerated by COVID – but if you look at 2019, there we are back into the peer group in terms of top line growth of the number two of our peers.

So all of that is pointing into the right direction, so we continue to see ourselves as the best owner-operators of the three core businesses that we have. There will, of course, always be a little bit of portfolio adjustment here and there that relates to pruning on one side but on the other side also on bringing new higher growth assets, better and more pipeline into the company. And I think that is a perfect segue to go into the capital allocation question that Wolfgang’s going to touch on now.

Wolfgang Nickl

Yeah, thanks, Werner. I will indeed take you back to the capital markets day of 2018 and I think that’s a good starting point. Our very strong focus is on free cash flow generation. We said in the year 2019 through 2022 we want to get to 23 billion; that still included Animal Health, so we need to make a little bit of a deduction there. And we were very clear on how we wanted to spend this. So committed to our dividend policy, we mentioned that earlier during the call. We’re committed to de-leveraging and we said, while we can’t do any big stage acquisitions, we’re doing very targeted bolt-ons.

When we made that statement, we didn’t know about the settlement we are announcing today but we didn’t account for any of the divestiture proceeds that we got subsequently and that included Animal Health but that also included our 60% stake in Currenta, our various assets in the consumer health space and that’s a pretty good match, in particular, if you look at the staging, the 5 billion, 5 billion and the balance after 2022. So the story pretty much remains the same. We have the wherewithal to do bolt-ons. You saw BlueRock last year and we’ll revisit all these numbers and do a capital markets day at the end of this year but there’s fundamentally no change in direction there.

Werner Baumann

Okay, thanks, Wolfgang. On your last question on ex-US litigation, this is – with all caution, this is not really material. The big exposure that we have, that all companies continue to have, is driven by the US legal system, so that is US tort law. Everything else is, let’s say, literally, minute so no update of any substance. And that doesn’t mean that there is no update because we are not along in the process; it is there no real substantial substance behind ex-US litigation.

Keyur Parekh, Goldman Sachs

Okay.
Oliver Maier

I think we are running out of time – if there are no further questions.

Okay, great. Thank you very much, everybody, for participating tonight. I think there’s another opportunity, there’s another call tomorrow at 10.00 a.m. German time and the narrative of today’s call is also available as a download on our website in case somebody needs some of the detail. Looking forward to talking to you tomorrow. Thank you so much. Appreciate it.

Werner Baumann

Thank you. Goodnight.

Cautionary Statements Regarding Forward-Looking Information

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