Bayer AG – Investor Relations

Investor Conference Call:
Q1 2019 Results

25 April 2019

Welcome

Oliver Maier

Head of Investor Relations, Bayer AG

Emma, thank you very much. Good afternoon and thanks, everybody, for joining us today. I would like to welcome all of you for the first quarter 2019 conference call. With me on the call today are our CEO Werner Baumann and our CFO Wolfgang Nickl, and the businesses are represented by the responsible management board members: we have Stefan Oelrich for Pharma; Heiko Schipper for Consumer Health and Liam Condon for Crop Science.

Werner will begin today's call with an overview of the key developments and performance of the divisions. Wolfgang will then cover the financials for Q1 2019 and the outlook, as well as the key focus areas for 2019, before we open up for the Q&A session.

For the Q&A I would like to remind everyone please to limit your questions to two per person, if that's possible, to allow us to address all the questions from as many participants as possible within the time scheduled.

I'd like to start the call today by drawing your attention to the cautionary language that is included, our safe-harbour statement, as well as in all the materials that we've distributed today.

See disclaimer

And, with that, I would like to hand it over to you, Werner. The floor is yours.

CEO Remarks

Werner Baumann

Chief Executive Officer, Bayer AG

All right, so thanks, Oliver, and good afternoon also from my side, ladies and gentlemen. It's my pleasure to welcome you to our conference call today. With it, I'd like to discuss our performance in quarter one 2019.

We've had a strong start to the year. Sales grew by 42% to €13bn, mainly driven by the acquisition, and EBITDA, before special items, increased by 45% to €4.2bn. Our core EPS has reached €2.55, up 14%, and, finally, our free cash flow generation was strong and almost doubled to more than 500 million in the quarter.

With these results as a backdrop, I'd now like to give you an update on our 2019 focus areas. Let's begin with target delivery. Given the strong start to the year, we are on track to deliver our guidance for the full year 2019. In Crop Science, I can also assure you that the integration is well underway. We have secured business momentum and continuity, as demonstrated by the earnings development in a truly challenging quarter-one environment.

In addition, we are on track with the functional, IT, and country platform integration, and, on top of that, market feedback on our organisation in customer-facing activities continues to be very positive.

Our pharmaceuticals business has continued its profitable growth path and we have completed the FDA inspection in March.

In Consumer Health, we are seeing the first positive results from the Fit To Win efficiency measures and confirm the guidance we have given for the full year 2019.

At the end of November last year, we announced a comprehensive set of efficiency and structural measures from which we expect annual contributions of €2.6bn as of 2022. By now, we have defined further details of the implementation and we are on track to deliver the contributions we have guided for.

The goal of the Bayer 2022 platform programme is to reduce annual costs for our corporate functions, business services and country platforms by €1.4bn. Clarified accountabilities and reduced complexity allow for leaner structures. We expect that the programme will affect approximately 7,000 positions globally, leading to total cost reductions of around 25% in these platform functions.

Finally, I am pleased to confirm that we are on track with the portfolio measures we communicated also at the end of last year. With regard to the timing of their potential disposals, the current status is as follows. The divestiture process for Currenta is the most advanced and we expect news in the current quarter.

With regard to the sale of Coppertone and Dr. Scholl's, we expect one announcement in this quarter and one in the second half of 2019. Finally, as we promised, for the planned exit of Animal Health, our primary focus is on a sale, while we continue to consider all value-maximising options going forward.

The separation, carve-out and the preparation work is ongoing, and we target a signing of this transaction towards the end of this year.

Let me now come to our divisions. In Crop Science, we achieved a significant year-over-year improvement in both reported sales and EBITDA, of course, also driven by the acquisition. Around half of the 6% sales increase, after adjusting for currency and portfolio changes, was related to service agreements with BASF on divested businesses, positively affecting our turnover in Latin and North America.

In the EMEA region, sales increased slightly, with insecticides registering double-digit growth, partly due to favourable weather conditions and product launches.

On a pro-forma basis, despite a challenging Ag environment, for example with the floodings in the US, sales of the combined Crop Science business were essentially flat. Good growth across herbicides, insecticides, environmental science, and other, which was mostly cotton-driven, was offset by a decline in soybean seeds and trait sales.

The decline in soybean sales was primarily driven by the previously mentioned phasing to previous quarters in Latin America, as well as anticipated lower planted acres and competitive dynamics in the US.

Corn seeds and trait sales were essentially flat, with sales growth volume from anticipated higher planted acres in the US and EMEA being offset by weather-related phasing into quarter four for Brazil and unfavourable trait mix in the US, as well as some flooding-related shifts to the second quarter.

We are also pleased to share that we remain on track for the 60 million planted acres of our Xtend technology across soybean and cotton, and 90 million paid acres of our Climate FieldView in 2019.

In addition, we have plans in place for growers to experience XtendFlex soybeans this summer through approximately 40 XtendFlex groundbreaker locations, show-plot locations, learning centres, and various field days. We continue to target a 2020 launch date, pending regulatory approvals, for this next generation of herbicide-tolerant technology in soybeans.

From an earnings perspective, Crop Science more than doubled its EBITDA, before special items, to €2.3bn, mostly as a result of the acquired business and inclusive of negative FX effects of €67m on the legacy Bayer business.

Finally, we also have good news on synergies, as we remain on track to deliver on around 25% of the targeted €870m of cost synergies for 2019.

Lastly, let me briefly update you on the glyphosate litigation, a topic that, of course, continues to be top of our minds and probably also for many of you. First of all, we are and continue to be convinced of the safety profile of glyphosate. Overall, there are now served lawsuits from 13,400 plaintiffs, as of April 11. While this is an increase since our last reporting, it is by no means a reflection of the merits of the litigation.

With regards to the Johnson trial, we have filed our first brief in the appeals process and we are also preparing for our post-trial motions for Hardeman.

So, what is ahead? The Pilliod case is ongoing in Alameda County and should conclude in early May. We currently expect another four trials in 2019, starting in the second half of August. Note, however, that the number of trials and the respective dates are always subject to change.

We believe that we will ultimately prevail in this litigation on the strength of sound science, and remain committed to vigorously defending ourselves for the benefit of our customers, employees and, of course, our shareholders. For more details, don't hesitate to access our website that we continue to update with all relevant information.

Moving on to Pharma. Sales of pharmaceuticals rose by 5% to €4.4bn in Q1 2019. Our best-selling products, Xarelto and Eylea, have continued their strong performance, as well as our

business in China, the latter being up by 24%. Xarelto, our anticoagulant, grew by 15%, driven by higher volumes in China and Japan, as well as in Europe.

Our licence revenues, recognised as sales in the US, increased by 4% to €87m.

Eylea also posted considerable growth of 15%, mainly as a result of volume increases in all regions.

The business developed particularly well in EMEA, China/Asia-Pacific, and Latin America. Going forward, we expect both products to continue their growth paths and in 2019 we continue to expect for Xarelto an increase in the low-teen percentage range and for Eylea an improvement in the high single-digit percentage range.

In Q1 2019, there was also some encouraging product news. Following a strong efficacy and safety data set for darolutamide, which significantly expands metastasis-free survival in patients with non-metastatic, castration-resistant prostate cancer, while at the same time demonstrating a very favourable safety profile, we have submitted applications for marketing authorisations in the US, Europe, and also in Japan.

For Vitrakvi, a highly effective and innovative cancer medication, and LOXO-195, we have secured now full global rights upon contractual change following a change of control at LOXO Oncology.

Finally, due to the strong sales growth and lower cost of goods sold, EBITDA before special items was up by 7% to €1.5bn, despite a negative FX impact of €44m.

Let us now move to Consumer Health, next, to close out the divisional update. The performance of Consumer Health in quarter one was in line with our expectations for 2019. When we reported full-year 2018 numbers about two months ago, we mentioned that growth in 2019 would be back-end loaded. We anticipate the coming quarters to gradually strengthen and confirm our full-year guidance.

We have seen a positive development in Asia-Pacific and Latin America, particularly in Asia, where sales grew by more than 14%, while continued intense competition in North America and supply disruptions in the EMEA region prevented a better performance.

EBITDA before special items was down, due to lower volumes, higher cost of goods sold and the missing contribution from the divested US prescription dermatology business.

In contrast, the Fit To Win efficiency measures have positively contributed to earnings.

And, with that, let me know hand it over to you, Wolfgang.

CFO Remarks

Wolfgang Nickl

Chief Financial Officer, Bayer AG

Thank you, Werner – ladies and gentlemen, also a warm welcome from my side.

I will now walk you through some more financial detail for Q1, and then address our guidance for the fiscal year. Our Q1 results have been positively impacted by the acquisition. Reported sales increased by 42% to €13bn, including a substantial contribution from our newly acquired business.

The underlying business performance was good. When adjusting for currency and portfolio effects, we achieved a volume-driven organic sales growth at the group level of about 4%. EBITDA before special items for the group came in at €4.2bn, up 45% year-on-year, also including a meaningful contribution from the acquired business. Our EBITDA margin increased by 50 basis points to 32.2%

Foreign exchange effects on the legacy Bayer business had a positive year-on-year impact on sales of about €108m, and a negative year-on-year impact on EBITDA of about €110m. The negative impact on earnings results from the year-over-year hedging balance: In the first quarter of last year, we had a gain of about €60m from hedges against a loss of approximately €50m in this year's Q1.

Core earnings per share in the first quarter were up 14% year-on-year to €2.55, despite significantly increased interest expenses related to the debt financing of the acquisition and the share count, which increased from 886 million to 980 million year-on-year, due to two equity measures taken in 2018.

Finally, we have added free cash flow to this chart, as it is a very important KPI for us. Compared to the prior year, free cash flow almost doubled, to €508m, despite a significant working capital need of our much larger Crop Science business, which was more than offset by strong cash flows in Pharma and Consumer Health.

Last year's acquisition and the comprehensive Bayer 2022 programme come with a number of extraordinary effects, which had a significant impact on our reported earnings.

In order to continue giving you full transparency, we have again added a bridge in our presentation to show you how our core EPS of €2.55 translates back into the reported EPS of €1.27. The first column describing changes shows €–0.70 cents a share, which summarises the acquisition-related amortisation of intangible assets.

On the special items side, the two main adjustments are related to the step-up of acquired inventories to fair value in the PPA and Bayer 2022-related restructuring costs. The positive impact on special items in the financial results is mainly driven by the changes in the market value of the Covestro shares we are holding, and finally, the last column shows the positive offsetting effect on some of the items I just explained.

Let's move next to a discussion of debt and financing. Our net financial debt of €36.7 billion is around €1bn higher than at year-end 2018. This increase is almost entirely related to IFRS 16, as already communicated to you at the Capital Markets Day back in December. As a reminder, operating leases are now reported as right-of-use assets with respective lease liabilities. The latter have increased the net debt position by around €1bn. During Q1 we repaid €715m against our bridge loan facility.

For the remainder of 2019, we have three bond maturities: €100m in May, €400m in July, and €1.8bn in October. We intend to redeem these bonds by a combination of cash on hand and future free cash flow generation. We continue to expect our net financial debt to be around €36bn by the end of December 2019. This estimate is based on constant 2018 FX rates. Please keep in mind that at the quarter-end, almost 60% of our financial debt was denominated in US dollar. The impact of

exchange rate changes to our net financial debt is quite significant as every percentage point appreciation of the US dollar against the euro would increase our net financial debt by around €200m and vice versa.

Let's move on and look at our guidance for the year. Following the strong start in 2019, we confirm our group guidance for the full fiscal year, which is based on constant currencies and a going concern, meaning it does not include effects of the announced portfolio measures.

We expect Bayer Group sales of around €46bn, an increase of around 16% year-on-year, of which about 12% are attributable to portfolio effects. We anticipate EBITDA to increase by almost 30% to around €12.2bn, while core earnings per share are expected to come in at around €6.80, up 14% on the prior year figure, reflecting higher interest payments and an increased share account.

Core financial results for the year are included at an expense of approximately €1.8bn; and for our core tax rate, we continue to model about 23%.

Finally, we expect free cash flow to be in the range of about €3bn and €4bn. The decline compared to 2018 is a result of expected restructuring-related cash outs, as well as the historically negative free cash flow in the first half of the year from the acquired business.

As a reminder, going forward, foreign currency fluctuations, including the newly acquired business, are expected to affect our business as follows: A 1% change of the euro against our currency basket is expected to impact our revenue by about €340m and our earnings by about €100m.

Before we start the Q&A, let me wrap up with our focus areas for the year. First and foremost, we plan to deliver on our operational targets, as reiterated today. Second, we are focused on the smooth integration of the acquired business in order to shape the future of the agriculture industry and, for sure, we will continue to rigorously defend glyphosate. Third, we expect to further strengthen our internal pipeline in pharma and intensify the external sourcing of innovation. Fourth, we will strive for an improvement of the operation performance of our Consumer Health business. We plan to grow by about 1% and expand the EBIDTA margin by a percentage point as well. Fifth, we plan to deliver against our target for Bayer 2022 programme, both related to synergy realisation and efficiency improvements. This is foundational for delivering on the 2022 targets, which we outlined at our Capital Markets Day in December. And, lastly, we are in the process of executing on all announced portfolio measures to further sharpen our business focus.

And with that I hand the call back over to Oliver to open the Q&A.

Questions & Answers

Oliver Maier

Great. Thank you, Wolfgang, thank you Werner, for your comments. And I think Emma, with that, we can open up for the Q&A session.

Vincent Andrews, Morgan Stanley

Thank you – Vincent Andrews from Morgan Stanley. Good morning, everyone. Liam, I'm wondering if you could just elaborate on the soybean pressure, the competitive pressure, that was discussed in the release in North America. As I recall, last year, there was one particular competitor. Is it more pervasive this year across the competitive set, and is it related to a competitor's new trait launch?

Liam Condon, President, Crop Science

So, thanks a lot Vincent. I appreciate the question. So, on soybeans, maybe just in general to frame the performance, in the – as you've seen from the pro-forma numbers, we have a pretty significant decline; more than half of that decline is related to a phasing issue or a shifting issue. And this was actually sales of soybeans in Latin America, or traits in Latin America, in the third quarter of 2018. And this was specifically related to a change in accounting rules, because of IFRS. So they were sales that would have normally come in the first quarter, and that's the biggest part of that decline that you're seeing in the first quarter sales of soybeans.

The second part of that decline is, as you point out, is related to North America, and specifically the US. And here the issue is a mix of, I would say, anticipated lower acreage, plus, clearly, this competitive discounting pricing. A part of that is related to germination issues, which is throughout, basically, the entire industry, and because of the wet season that we've had. And there is a small amount of discounting going on there.

The other part is simply related to competitive pricing. So that is the way I would frame it. The largest part of the decline so far has been the Latin America – simply change of accounting, IFRS in Q3. And in US, we are seeing a continuation of competitive pricing going into the year.

Vincent Andrews

Thank you. And, as a follow-up, any issue with crop chemical, raw material costs out of China, given environmental issues and plant problems more recently?

Liam Condon

Yeah, so we have been seeing – and this already started last year due to the 'go green' initiative of the Chinese government – we have been seeing an increase in material, raw materials, coming out of China. We actually view this as a positive move, because it helps clean up the overall industry in China. As you know, there's an awful lot of generic players, and lot of them with very different standards than what we work toward.

So we have been seeing an increase so far in our COGs. We've been able to compensate for this through very diligent cost reduction measures, but clearly there is a pressure on raw material costs coming out of China right now.

Vincent Andrews

Thank you very much.

Wimal Kapadia, Bernstein

Thanks very much for taking my question. Just a couple, please. First, could you just provide a little bit of colour on how you got to the decision that a sale is the best outcome for animal health business versus a spin – so any colour on how discussions with potential suitors went, and will it be a competitive bidding process?

My second question is just on the pipeline catalysts. So, internally, I would love to hear which assets or which data points, over the next 12 months, you see that could drive upside from a pipeline perspective. Or do we actually have to wait longer term to see pipeline catalysts that can move the needle for the company? Thank you.

Werner Baumann

Okay, let me answer the first question. We have been – we communicated in November –analysing the best route of exit for the animal health business and with that, also already announced at the time, we have communicated that by quarter one, we would update you on the preferred route of exit.

We see, given the attractiveness of the business, and the attractiveness of the earnings growth profile, the stability of that industry, very high interest, very broad interests I also have to say, for that business, and that is what we take forward for our decision to go for, let's say, a process that is led by the sale of that business.

We are in the middle of the preparations of separating that business and carving it out, and as I mentioned in my introductory remarks we see a potential signing of the transaction, should we go to a sale, as announced probably by the end of the year. And with that I turn it over to Stefan for the second question.

Stefan Oelrich, Head of Pharmaceuticals

Thanks for the question on pipeline. First, maybe, a general remark, no full update on the pipeline compared to what we had stated before at the Capital Markets Day and towards year end. But maybe, to be more specific, some of the things that we believe are somewhat material this year: we have the new EU launch coming up for Vitrakvi, after the introduction in the US this year. We have darolutamide, which as I think Werner was saying earlier, has been filed around the globe. We expect US launch by end of this year.

We have some data that will come out of the LOXO-195 and NTRK-fusion inhibitor that we will see some phase 1, phase 2 data, with primary completion expected in August of this year. Then on the Xarelto, we have a phase 3 trial that will inform on peripheral artery disease, the Voyager PAD programme, and last but not least, also, for this year, we hope to get primary completion and data on – and that's important on Vericiguat phase 2 data – on chronic heart failure in HFpEF patients.

So a lot of things happening that will continue to enhance our pipeline, but many of these things I think we have informed of or about in detail before.

Jeff Zekauskas, JP Morgan

In 2018, how many acres of Intacta did you sell in South America, and how many acres do you expect to sell in 2019? And likewise for Xtend in the United States: how many acres did you sell in 2018? How many acres do you expect to sell in 2019?

Liam Condon

Thanks Jeff. So for Intacta we had in the region of 65 million acres in Latin America, primarily in Brazil, of course, and we are working towards 70 million for this year. And for Xtend, we had 50 million acres in the US, for cotton – it's primarily soybeans - but soybeans and cotton. And this year, we're working towards 60 million.

Jeff Zekauskas

And then secondly in your commentary you spoke about an unfavourable mix in corn in the United States. Is that farmers switching from triples to doubles, or triples to singles, or is it that they want to stay with an older trait package instead of a newer trait package? Can you get describe what you mean by the unfavourable mix shift?

Liam Condon

Yeah, so this was a very specific issue related to corn rootworm pressure, or farms, what we play around the fringe, with corn rootworm pressure. As you know, last year was, on average, it was a weaker year; every season is a little bit different. Every field is a little bit different. But, on average, last season was a weaker corn rootworm season, and what we've noticed is that some of the farmers that were on the fringes had less corn rootworm pressure, were trading down in their decisions on genetics, still choosing premium products from us, but instead of SmartStax, for example, moving down one notch. So this is the effect that we were referring there: very specifically it's corn rootworm-related.

Jeff Zekauskas

Okay, great. Thank you so much.

Sachin Jain, Bank of America

Two questions and one clarification, please: on glyphosate, I just wondered if you could update us on your thoughts around settlement. Background of the question is that my understanding of prior commentary was that settlement was unlikely until well into next year, but I wondered if you in the context of the judge's requesting MDL to push remediation

Second question is on pharma manufacturing FDA inspection when do you expect official feedback from the FDA and any early positive signs on that? And then just a clarification question on Animal Health, on the broad high interest: was that your expectation or actual receipt of broad high interest? Thank you.

Werner Baumann

Okay, yeah, thanks. First on glyphosate, yes there was a judge in the US ask for the start of settlement discussions. We are responding to, of course, that request, but at the same time I have to say – and that is very much in line with what we've said all along – that we have only two first instance verdicts. We are vigorously defending ourselves against those, with the appeal process that is ongoing. And, with that, there is actually not much more colour I can give to it at this point in time, other than the fact that we wait for an additional 4 trials to be tried this year. Based on where we are, way too early, quite frankly – if you look at where we stand, we have to have a certain level of comfort in terms of the base of any further discussion, and that's where we are.

Secondly, pharma manufacturing feedback: we have actually filed our responses to the FDA audit report with the 483s we received – it was over six we received – and we are now waiting for the official answer by the FDA. But, as we mentioned, the inspection, based on everything we can assess, has gone reasonably well or quite well overall.

On Animal Health, the interest is again very, very high and also very broad. And there's not much more I can say, relative to the animal health process, because it is a highly competitive process that is running.

Sachin Jain

Thank you very much.

Louisa Hector, Exane

Just a couple more questions on crop, please. I wonder if you can tell us the Monsanto sales and EBITDA in the first quarter of last year, and then also the Monsanto EBITDA contribution this quarter. I think you said, effectively, that in Q1 '19 the doubling of the crop EBITDA is represented by the acquisition. If you could just confirm that please.

And was there a contribution, a significant contribution, of synergies to crop in the quarter. Are you able to quantify that? And maybe just – again still on crops – the herbicide sales, if we compare Bayer legacy to the pro forma herbicides, it looks as though glyphosate, the Monsanto contribution, is down double digits. Can you confirm that that is the case and that is all connected to price for generics and weather – and nothing there linked to any safety concerns? Thank you.

Liam Condon

Okay, thanks a lot, Louisa. So, we're not reporting legacy Monsanto anymore. I think we've got so many numbers out there, right now, very honestly; we don't want to confuse things by adding another new set, because we've got the nominal reported numbers; we've got the CPA numbers. We've got pro-forma numbers. And if we start breaking out Monsanto again I think, honestly, we get very confused.

What I can say – and I think that's the gist of your question – if you are to look at legacy Monsanto sales and EBITDA this quarter versus previous quarter, ballpark, it's very slightly down, and that's primarily related to soybeans and, as I mentioned, a big part of that is actually the phasing, the IFRS phasing in Q3 2018. So that's just to give you a gist of where that is relative to each other.

Synergies for the quarter, we are not breaking this out by quarter now from a reporting point of view, but clearly we are on track with our synergies so far. So we had a target of cost synergies of 5% last year – I mean we only started bringing the companies together end of August – and we achieved 6% at the end of the year, so of course that carries over.

Our target this year is cumulatively 25% of cost synergies, and we're very much on track to reach that. And we also expect to be achieving our first sales synergies – so also in that region, in that ballpark, this year, and that will primarily come from LATAM towards the end of the year.

On herbicides, you saw on the pro-forma numbers that overall there is an increase of 2% – very different around the world, what's happening. So Europe and LATAM was up significantly and LATAM was specifically glyphosate up, with pricing and volume. North America, there was a decline. This is purely related to a mixture of, basically, generics in the channel right now. There's a lot of product in the channel, simply because the season is delayed. So there's simply an effect in there.

What we can say, or what we have seen, on the plus side in North America is that our lawn and garden business, our consumer facing business, for Roundup, has had a strong start to the year. We don't see any litigation-related impact whatsoever on demand. So I can be very clear about that. Demand on the Ag side is driven simply by weather and the field situation that growers are facing, and as I said on the consumer side we've had a good start to the year.

Richard Vosser, JP Morgan

Perhaps we could go back to crop and just, if I look at the crop growth and the reported number versus the pro-forma number, I think it's about 1% growth in terms of CER, so how should we think about the growth in Q2 and beyond that to sort of get back to the 4% CER growth that is the guidance for crop for the year?

Secondly, if you could just maybe quantify, just related to that maybe, impact of any delayed shipments in Q1. Were there any? What was the impact? And then, finally, just looking, for pharma, just looking at the products like Adalat and Avelox, they were very strong. Was there any sort of resupply into the market following the manufacturing issues? Perhaps you could talk about any stocking in those numbers underlying demand, and where you are in terms of the manufacturing, in terms of the actual supply-side. Thanks very much.

Liam Condon

Thanks, Richard. So for the start of the year, as you say, we're differentiating these numbers a lot, but we believe the most valid number to look at is really the pro forma because it gives a sense of what the organic business is doing. So there, we are flat. We do expect some shifting, particularly of corn, into Q2, simply because of the weather situation in the Midwest, where there was very heavy flooding and it was a very cold winter anyway, then there was very heavy flooding from the middle of March. So the entire planting season is delayed, so there will be some delays or there will be some phasing into Q2 there.

On the other side, clearly what we're expecting is a decline in acreage for soybeans so that there will be a negative effect coming out of that. So overall for the northern hemisphere, in the first half of the year, we're only expecting moderate growth. We're actually expecting much stronger growth in the second half of the year, primarily then, of course, driven by LATAM and, out of that,

primarily Brazil, but, also, from APAC. And that's basically – on the back of that, we confirmed our guidance to continue with 4% growth for the year.

Stefan Oelrich

Thanks. On the established products question, Richard, so mainly this is all the China effect, and it's actually demand-driven, so we act continue to enjoy a strong demand growth both on Adalat orals and on Avelox in China, and that is reflected in the numbers. All other geographies are really negligible at this point.

Richard Vosser

Thank you.

Florent Cespedes, Societe Generale

Good afternoon, gentlemen. Two quick questions for Stefan and Werner. First on Eylea, could you share with us what – the performance of these products, which was quite robust this quarter. Your competitor also reported, yesterday, quite strong growth as well, so are you benefiting from the expansion of the market or – any colour on this would be helpful. Second question China and emerging markets – so in a sense, meaningful growth driver for the pharma division – could you elaborate on your strategy there? What could be improved further to even be more successful in these territories, or in other words, have you already maximised the value of your existing portfolio on these territories? Any colour on that front would be very helpful.

Stefan Oelrich

Bonjour Florent. So, one Eylea, we were also very pleased with the results in the first quarter, because first quarter beats a little bit the overall guidance that we maintained for the rest of the year, so we've seen continued market expansion that, to your point, everyone is enjoying right now, but we as market leaders, obviously more. Moving forward for the rest of the year, we are a little bit more cautious in terms of the price-volume mix for the market place, and this is why we retain our guidance in the high single digit growth rate.

When it comes to China, of course we are extremely pleased with China. And you may remember at the Capital Markets Day, I dedicated a section of my talk on China, so we are striving to go towards sales 3 billion by 2022 in China. We realise this is not going to be a walk in the park, even though we're enjoying very strong growth rates. You know that there is also going to be some headwinds that are going to come in our direction with the value-based pricing model that the Chinese government is launching. Our strategy so far has been a mix of a) getting onto reimbursement lists fast, which exacerbates further volume growth, and we're seeing this very nicely materialise on products such as Xarelto, which is starting still from a relatively small base in China. And if you just take the quarter, we've basically doubled our sales on Xarelto in China over the quarter. And that's clearly linked to our reimbursement strategy. And similar we're seeing this with some of our oncological products.

Moving forward, we need to continue to push on innovation. Because I think that China has more and more converting into more innovation play, like we're seeing in more mature markets. And I now struggle to call China as a part of emerging markets; I think it has emerged. And at the same

time we are looking strategically obviously what to do with our more established product business in the long haul.

Florent

Okay. Thank you very much

Pete Verdult, Citi

Just a couple of questions and a clarification. Liam, thanks for details on the Q1 dynamics. Just in terms of pro forma growth for the soybean and corn seeds and traits businesses for 2019, putting all your comments through the conference call together, is it right that we should think of corn as being up in terms of pro forma growth and soya being negative? Then for Stefan, again, you've touched upon it, about China, in giving your targets, and talking about doubling Xarelto. Just some numbers for the baseline. Could you just remind us Q1 sales or 2018 sales, how big is the pharma business currently in China and what were Xarelto's sales? I realise you're not or you're now only reporting global franchise sales for the pharma products, but just some granularity on Xarelto in China would be helpful. Just a clarification question. Did you say that the Victoria study was due in Q4? Just to confirm, that's a Phase 3 study. I think you said phase 2 earlier in the call. Thank you

Liam Condon

Thanks, Peter. So on corn, what's happening on – because we've commented on soya beans. So corn, what's happening in the first quarter, it's actually flat. The reason behind that, if we break it out by region, what we can see is there was a decline in LATAM. The decline in LATAM simply related to the fact that there was an early soya bean harvest in Q4, and that allowed Safrinha – so the second crop, the corn crop – then to be planted early in December. So normally, we would have had those sales in Q1. This year we had them technically simply last year. So that was the effect in LATAM, that's why there's a decline in corn for us in LATAM. That was basically equaled out by a corresponding increase in EMEA, on the European side. Basically, we ended up flat if you balanced those out. Then North America is simply flat, and that flat is related to the weather situation again, particularly midwest, flooding and delayed planting. So that's overall the situation for corn, overall flat with very different regional patterns.

Pete Verdult

But Liam, for 2019 is the message it's up for corn and it's down for soya bean? Is that the message that you're giving?

Liam Condon

Yeah. I think that's fair.

Pete Verdult

Okay.

Stefan Oelrich

Hi, Pete. So to clarify, on China and Xarelto, yes, it's basically the NDRL listing that helps us to basically double our sales. It's pretty much 100% growth year-on-year for the quarter. Our base for the first quarter in China is 75 million.

Pete Verdult

That's just for Xarelto? What about your total pharma business?

Stefan Oelrich

That's Xarelto.

Pete Verdult

Your total pharma business in China currently?

Stefan Oelrich

For the first quarter let me just look at the number. I'm looking at my numbers.

Pete Verdult

Sorry to put you on the spot.

Stefan Oelrich

776.

Pete Verdult

Thank you very much.

Stefan Oelrich

What was the last question on the study on vericiguat? Can you repeat that one? We didn't get that one.

Jo Walton, Credit Suisse

The original question was is a vericiguat a phase 2 or a phase 3 study? You said phase 2 but we were expecting it to be a phase 3. Is it in 4Q? My questions would be on the Ag side. Liam, you told us that you were expecting only moderate growth in the second quarter, and to get to your 4% growth for the full year you'd obviously be expecting very strong growth in the AG business in Latin America in the second half of the year. I wonder if you could just tell us what your assumptions are and why you are so confident about that, particularly given that in 2018 you had that early sale of corn. Assuming that that doesn't happen again this year, you have a more regular period. That would actually make the comparison in the second half of the year a bit more difficult

rather than easier. Then if I could just return to the glyphosate side of things, I wonder if you could tell us when you think your best estimate of when you would have had a couple of second-level decisions if, as I read you correctly, you would be looking for second-level decisions, some form of appeal decisions before you would consider settling.

Liam Condon

The moderate growth that we imply now for the first half of the year in the Northern Hemisphere is of course different by crop. As we've mentioned, it's more corn we would expect to be up. Soya beans we would expect to be down. This is for us, of course, a more positive development because we have a much better profitability profile on corn overall as a crop than soya beans. Going forward into the second half of the year, we have seen very robust growth in LATAM. As you know, we have a very strong position in Latin America now, particularly in Brazil. By far the biggest market is of course soya beans, and we expect a smaller increase in acreage, but there will be an increase in acreage in soya beans in Brazil. We're also expecting an increase in acreage, both in soya beans and cotton in Argentina, which we think could be quite significant. On top of that, we're launching what we think has the potential to be a blockbuster new fungicide Fox Xpro in the market, in Brazil. Given the very extensive footprint we now have, particularly with our seeds and traits business, we have great potential here for additional sales synergies. So that's why we're quite bullish on the second half of the year. If we have a normal year, as we're expecting, on cotton, you'll recall that last year was basically a complete washout in Australia because of drought. If that comes back, that also has significant upside potential.

Werner Baumann

Thanks, Liam. Jo, to your question on the litigation, I think of course we will look at the appeals process for the Johnson case. That's one where we at least know when our hearings are scheduled. Thereafter it's going to be somewhere in the area, of let's say towards the end of the year probably, that we see the result of that first appeals case. But again, this is something that we are not in full control of and that's why it's very difficult to be affirmative from my end. Secondly, the Hardeman appeal could easily take two years. We don't know but it could easily take two years. We will continue to litigate the cases that are on hand, and then it's a combination of influencing factors that will lead to an assessment if, when and how we try to put a close to this overall litigation. But again, I think everybody on the call has a keen interest in getting more colour, but unfortunately we are not in a position to provide that colour given the status of the litigation overall.

Jo Walton

The prior question on vericiguat.

Stefan Oelrich

Yes, that one is coming. Answer coming here, Jo, so hi. I'm sorry if I created some confusion first, because I was answering to the question about 2019 and what was happening with our pipeline. The vericiguat study I was referring to is indeed a phase II in HFpEF, and the one that you're referring is the Victoria study in HFrEF, which we expect to inform in – it's a phase III that we expect to inform early next year. Our date – estimated date is January 2020, where we would have the results. So everything that you had was right, and I guess what I had was right too, which makes it a wonderful thing.

Jo Walton

Thank you.

Keyur Parekh, Goldman Sachs

Good afternoon and thank you for taking my questions. It's Keyur Parekh from Goldman Sachs. Three questions please. First one on darolutamide, if you can give us a sense for your early communication with physicians, the key opinion leaders and how you see this asset, kind of, making its role in the treatment paradigm. Where do you think this will get used?

The second one, to Liam, on the crop numbers. Liam, I appreciate that there's a bunch of numbers out there, but all of us are struggling with what is the right base, where is the growth or lack thereof coming from? So if you can simplistically tell us, with our understanding is that the 5.5% growth you're talking about belongs to the legacy Bayer business, and overall it's minus 0.2%. So if you can just simplistically tell us what was the growth for the Bayer legacy business and for the Monsanto legacy business, that would be very helpful.

Thirdly, to one – kind of, we appreciate there's a few things you can say on the ongoing ligation, but as we think about the next four cases that you've kind of flagged, is there anything different about those cases and the way you're approaching those cases that we should keep in mind that might lead to a more positive outcome for Bayer? Thank you.

Stefan Oelrich

So first of all, we're really excited with darolutamide and with the data that we have. We believe that this novel compound goes well and adds to the evidence that has already been brought to by – in that class by the trials done with enzalutamide and apalutamide, PROSPER and SPARTAN, which really have validated the overall role of novel anti-androgen therapies in non-metastatic prostate cancer. What we think that our product is clearly differentiated in is because it is structurally unique in its binding properties and in the lower blood brain barrier penetration that we've seen in preclinical models and that we believe have translated into a very favourable safety profile of the product.

Given that those patients, for the most part, still lead a very normal life, this type of adverse reaction that you see from other therapies we believe represents a significant impediment to quality of life to those patients, and we've measured, in our pivotal trials, the significant impact that we have, positively, on quality of life with darolutamide. That – on top of a very strong efficacy that we've seen in our trials, that makes the product, from an efficacy standpoint, pretty much comparable to what we're seeing in class, even though there is no head to head comparison to this point, makes the overall package, we believe, very attractive and makes the product quite differentiated, so we're now looking forward to get this underway.

Werner Baumann

Okay. Thanks, Stefan. Liam, on the numbers again?

Liam Condon

Yes. So thanks for the question. I think we'll all be happy after Q2, once we get that kind of 7 June date out of the way from the original acquisition, because then we'll just have one set of numbers going forward and we don't need to produce all these different sets of numbers. Again, the only reason we were producing the pro forma numbers was to give you a sense of what the actual underlying business is doing.

So to break it out again, the current – the CPA growth, the 5.5%, this is purely the Bayer legacy business, and, of that, about half is the transitional service agreement with BASF, so that's half of the growth that is in there, so you could say the underlying growth for Bayer without that transitional service agreement is in the ballpark of 2% to 3%.

If you were to look at legacy Monsanto as a standalone, as I said earlier, very slightly down, and with that you come to the overall pro forma growth of basically flat. That's where we end up. And I guess, from a modeling point of view, going forward, we're always surprised at where consensus is. This time, we actually feel consensus is very close to where we see things going, so that's – we're sticking to our guidance and we think consensus is reflecting that accurately right now.

Werner Baumann

For full year.

Liam Condon

For the full year.

Werner Baumann

Okay, so then on the litigation question. So I have to come back and ask for your understanding that, beyond some very general comments, I cannot go into further detail because it doesn't make too much sense to fully lay out our defence strategy here, because we are not alone, quote unquote. So – but having said that, we have tried to cases. There have been quite a bit of commentaries out there of things that appear to have worked, versus the ones that may have not worked. We continue to evolve in our thinking on how to best defend these cases. And, having said that, each of these cases, on the merits of the case, each of the jurisdictions is going to be different now.

So we have had three cases, including Pilliod that is going to come to an end probably somewhere in the second week of May, I would guess, with a jury verdict. We have had three in California and the next ones that are coming, three out of the four I mentioned before, are going to be in St Louis, either St Louis city or St Louis county, yes, so different jurisdictions, or different rules that are going to be applied in these jurisdictions, and that is what we are preparing for, both with our – the internal counsel, with our external counsel, the specific counsel that we have for each of the jurisdiction. And rest assured that the board is intimately involved in working with our legal team in evolving and then also, you know, monitoring the development of these cases.

Keyur Parekh

Thank you

Steve Byrne, Bank of America

Yes, Steve Byrne, Bank of America. US farmers now have increased access to price transparency data, particularly for seeds. Just wondering whether that – you know, that's contributing to the shift down in traits that you saw in corn and whether it's having any impact on net selling prices.

Liam Condon

Yes, thanks, Steve. So maybe upfront I think our Bayer, basically, with the Climate Corperation is actually the single biggest purveyor of transparency in the market. I think, you know, we're on 60 million paid acres so far with our digital ag platform, and this cuts across all companies, so farmers using it are using multiple products, and we're actually working towards 90 million acres this year, so we generate more transparency in the market than anybody else. And the reason we feel particularly good about that is because we've got very high yielding products that then our customers like to buy, so we're not relating – we don't see the current or let's say any kind of down trading related to additional price transparency.

The issue that I specifically mentioned earlier on the mix was really related to corn, rootworm pressures, so the switch from – a partial switch from [smart stacks?] to the Double or VT Double product, and that's still staying within the premium line. So that's all we've noticed so far and our goal is to try and transparency in the market anyway, because we believe it actually helps us more than anybody else with our product portfolio.

Steve Byrne

And just one more for you, Liam. Is there anything coming out of your biologics pipeline that could potentially be disruptive, you know, such as, you know, a rootworm insecticide or maybe a nitrogen fixing bacterium.

Liam Condon

Yes, quite a – I actually have to do a bit of advertising for our event at the end of July that we're going to have. We're going to do a deep dive on the pipeline. We do have some disruptive assets, both in the areas that you have mentioned. One of them is actually – is a joint venture with Ginkgo Bioworks, joint, where we're – we think this is really a disruptive approach in the market, and the other one is a pure in house development. We're going to be showcasing that in – at the end of July in St Louis, or beginning of August. We can follow up with the details around that.

Steve Byrne

Thank you.

Joe Lockey, Morgan Stanley

Third go's the charm. Thank you very much. This is Joe Lockley from Morgan Stanley. First, on Xarelto litigation, your quarterly report states that your share of the litigation settlement is partially offset by liability insurance. Can you quantify that offset, even in rough terms? And second, Stefan, I want to pick up on your comment on the call for established products in pharma and strategic options in the long term. Can you expand on what some of those strategic options could be? Is the sale of some established assets a possibility? Thank you.

Werner Baumann

Yes, so let me take your first question, Joe. On Xarelto litigation, we don't break out what the insurance coverage is, partially for reason that we are still in discussions and we have three party discussions, so it's us, our insurer and his reinsurers, and of course Johnson & Johnson, as an involved party here. So that's why we cannot comment on that in detail. So second question then.

Stefan Oelrich

Yes, Joe, thanks for the question. Interesting question. I hope you understand that this is probably not the best forum to discuss an established product strategy for the pharmaceutical business, but you can be assured that that's something that's obviously top of mind for us, not just for China but also for other regions, but nothing more that I could, at this point, make further comments about future strategies.

Joe Lockey

Okay. Thank you.

Oliver Maier

Any more questions? Thank you very much everybody, really appreciate you participating and talking to you soon. Thank you so much. Take care. Goodbye.

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