Bayer AG – Investor Relations

Investor Conference Call: Q2 2019 Results

30 July 2019

Welcome

Oliver Maier

Head of Investor Relations, Bayer AG

Good afternoon and thanks for joining us today. I'd like to welcome all of you to our second quarter and first half-year conference call. With me on the call today are Werner Baumann, our CEO, and Wolfgang Nickl, our CFO. The businesses are represented as usual by the responsible Management Board members. For Pharma, we have Stefan Oelrich; for Consumer Health, we have Heiko Schipper; and for Crop Science and Animal Health, we have Liam Condon.

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

For the Q&A, I would like, as always, remind everyone to please limit your questions to two per person to allow us to address questions from as many participants as possible within the scheduled time of approximately one hour.

I'd 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.

See disclaimer

With that, Werner, with no further ado, I hand it over to you.

CEO Remarks

Werner Baumann

Chief Executive Officer, Bayer AG

Alright, so thanks, Oliver, and good afternoon to everybody and welcome to our conference call also from my side.

I'd like to open with a discussion of our performance in quarter-two 2019 which, quite frankly, varied by segment. Pharma continued its profitable growth path and Consumer Health returned both to top and bottom-line growth. Crop Science was of course heavily impacted by wet weather in the midwestern United States and weather overall. Our Animal Health business showed a solid performance, especially in light of a strong prior-year quarter.

Overall, we are on track from an operational point of view. Sales grew by 21% to €11.5 billion, mainly driven by the acquisition, and EBITDA before special items increased by 25% to €2.9 billion. Our core EPS reached €1.62, up 6% year over year. Finally, our free cash flow reached €751 million. The decline of about €1.2 billion versus prior year was related to the timing of the acquisition, and reflects the seasonality of the underlying business. Wolfgang will share some more light on this later on, during his talk.

With these results as a backdrop, I would like to give you an update on our 2019 focus areas and I want to begin with target delivery. Given our overall solid performance in the first half, we confirm our guidance for the full year 2019, even though achieving it is becoming increasingly ambitious. In Crop Science, I can reconfirm that the integration is well underway. We have secured business momentum and continuity in a very challenging quarter-two environment, characterised by really extreme weather conditions. Our Pharma business has continued its sales and profit growth, and we have seen several positive pipeline developments. Consumer Health has delivered good sales and earnings growth, demonstrating that Heiko and his team are clearly making progress in turning around our business.

At the end of 2018 November, we announced a comprehensive set of efficiency and structural measures from which we expect annual contributions of about €2.6 billion gross as of 2022, including around €1 billion from Crop Science. We have successfully finished the detailing phase and are on track with the overall implementation.

Finally, I'm pleased that we could sign the agreements to sell Coppertone and Dr. Scholl's in May and July respectively, and our goal is to sign the remaining two transactions by the end of this year. The divestiture process for Currenta is, despite the small delay, the most advanced. For the 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 preparation work is ongoing, and we see strong interest from multiple potential acquirers.

Let me now come to the performance of Crop Science. Overall, we reported a significant year-over-year increase in both reported sales and EBITDA, driven by the acquisition. Currency and portfolio-adjusted sales were down by 3%, cycling over a prior-year quarter which included Monsanto legacy sales from June 7th onwards. The shortfall was caused by severe adverse conditions in the US market. Extreme weather in North America, with heavy spring rains and flooding in the midwestern United States, resulted in missed herbicide applications ahead of planting and reduced overall acres planted to both corn and soybeans.

Looking at several external sources, we expect corn acres to be down by about 2-3% versus 2018 and soybean acres to decline between 7% and 10% in comparison to last year. Soybean sales were in addition impacted by continued competitive dynamics in the US and trade conflicts, which affected both price and also volume. When comparing the quarter on a pro-forma basis with 2018, the 10% decline was driven by the same external factors. On a positive note, Climate FieldView is on track for 90 million paid acres, with good uptake in the Seed Advisor trials, and insecticide sales rose sharply in the Europe, Middle East, Africa and Latin America regions, as a result of higher prices and volumes. The latter also benefitted from volume increases in herbicides and fungicides.

From an earnings perspective, Crop Science increased its EBITDA before special items by 67% to €1.1 billion, driven by the acquired business. Regarding the synergies, we remain well on track to deliver around 25% for 2019 of the total targeted €870 million of cost synergies by 2022.

We have included this next chart to give you a flavour and a visual of how heavily the US crop planting in the US was impacted by the severe rains in spring 2019. The picture on the right shows flooded fields and the chart on the left demonstrates that precipitation in May 2019, in many US states, was well above average or record wettest since 1895. The higher the number the wetter the region in May 2019, meaning the ‘125’ that you see in some of the states indicates that May 2019 was the wettest period for that region in the last 125 years, so since 1895.

Lastly, let me briefly update you on the glyphosate litigation, a topic that of course stays top of mind for many of us. First of all, we of course remain convinced of the safety profile of glyphosate. Overall, as of July 11th, there are now served lawsuits from 18,400 plaintiffs. While this is an increase since our last reporting, it is by no means a reflection of the merits of the litigation and, despite this, we are making progress on many fronts. First, in the *Hardeman* case, the court reduced the overall damage award from US$80 to US$25 million in the post-trial motion and we now have initiated the appeals process. Second, in the *Pilliod* case, the Superior Court of the state of California for the county of Alameda strongly reduced the overall damage award from more than US$2 billion to around US$87 million, in the post-trial motion. Also in this case, we plan to file an appeal. Meanwhile, the appeals process for the *Johnson* case continues.

In parallel with the continued litigation of further cases, we are constructively engaging in the mediation process and welcome the appointment of Ken Feinberg as mediator. In general, we would of course only consider a settlement if financially reasonable and if we can achieve finality of the overall litigation. I do hope that you understand that I cannot be more specific with regard to the mediation process as we, as an involved party, need to maintain confidentiality about the details of our discussions.

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 our shareholders while, of course at the same time, actively and constructively engaging in the mediation process.

Moving on to Pharma, sales of pharmaceuticals rose by 4% to €4.4 billion in quarter-two 2019. Our best selling products, Xarelto and Eylea, have continued their strong performance. Also, our business in China remained robust, which compensated for weaker sales in the US.

Xarelto, our oral anticoagulant, grew by 12%, driven by higher volumes in China, Russia and France. Our licensing revenues, recognised as sales in the US, decreased year on year. Eylea also posted considerable growth of 11%, mainly as a result of volume increases across all regions. The business developed particularly well in Europe, primarily in the UK, and in Canada.

Going forward, we expect both products to continue growing. This year, we continue to expect for Xarelto an increase in the low-teens percentage range. Given the strong performance of Eylea in the first half of 2019, we now upgrade our guidance and expect also an increase in the low-teens percentage range.

We also saw some encouraging product and other news in the quarter. Given strong efficacy and safety data for Darolutamide, the FDA accepted our new drug application and granted priority review. As a reminder, Darolutamide significantly extends metastasis-free survival in patients with non–metastatic castration-resistant prostate cancer while, at the same time, demonstrating a very favourable safety profile.

For Larotrectinib, a new analysis from clinical trials in patients with TRK fusion cancer and brain metastases or primary tumours of the central nervous system confirmed the strong activity of the product in both adults and children. In TRK fusion cancer patients with intracranial disease, the compound achieved responses and durable disease control across age and tumour histology. Just a few days ago, the Committee for Medicinal Products for Human Use of the European agency has recommended Larotrectinib for marketing authorisation in the European Union.

On the investment side, “Leaps by Bayer” signed an up to US$250 million investment in stem-cell-based cancer therapies through Century Therapeutics. Century’s foundational technology is built on induced pluripotent stem cells that have unlimited self-renewing capacity. This enables multiple rounds of cellular engineering to produce master cell banks of modified cells that can be expanded and differentiated into immune effector cells to supply vast amounts of allogenic, homogeneous therapeutic products. This platform differentiates Century from competitors that are developing cell therapies made from non-renewable donor-derived cells.

Finally, due to the robust volume growth, lower cost of goods sold and reduced R&D expenses, EBITDA before special items was up 10% to €1.5 billion. Last year’s R&D spend was relatively high, driven by efforts to accelerate prioritised projects in our late-stage pipeline, such as Finerenone.

Let’s move to Consumer Health next to close out the divisional updates. The performance of Consumer Health in quarter two was characterised by a return to sales and profit growth. We have seen a positive development in EMEA, Asia-Pacific and Latin America, particularly in the latter, where sales grew by 14%. North America sales are in line with our expectations and the region is deemed in early stages of recovery. We are optimistic to see a gradual improvement over the remainder of 2019.

EBITDA before special items increased by 5%, driven by positive pricing and the successful implementation of the announced performance improvement measures. We anticipate a continuation of the solid Q2 performance in the coming quarters and confirm our full-year guidance. With that, let me now hand it over to Wolfgang.

CFO Remarks

Wolfgang Nickl

Chief Financial Officer, Bayer AG

Thanks very much, Werner. Ladies and gentlemen, also a very warm welcome from this end. I will now walk you through some more financial details for Q2 and, afterwards, I will discuss our outlook for the full year.

Reported sales for Q2 increased by 21% to €11.5 billion, including a substantial contribution from our newly acquired business. The underlying overall business performance was positive. When adjusting for currency and portfolio effects, we achieved an organic sales growth at the group level of about 1%. EBITDA before special items for the group came in at €2.9 billion, up 25% year on year, also including a meaningful contribution from the acquired business. Our EBITDA margin increased by 70 basis points to 25.5%.

Foreign-exchange effects had a positive year-on-year impact on sales of €113 million and a negative year-on-year impact on EBITDA of €59 million. The negative impact on earnings results from the year-over-year hedging balance. In the second quarter of last year, we had a gain of about €20 million from hedges, against a loss of approximately €40 million in this year's Q2.

Core earnings per share in the second quarter were up 6% year on year to €1.62. Significantly increased interest expenses related to the debt financing of the acquisition, and a share count, which increased from 916 million to 982 million year on year, impacted growth here. The increased share count alone had a negative effect of 12 cents per share.

Finally, compared to prior year, free cash flow declined from €1.9 billion to €751 million. Last year, free cash flow was extraordinarily high due to the timing of the acquisition at the beginning of June, and it also reflects the seasonality of the acquired business. This year shows a more normalised level, and we expect the majority of the cash inflow in the second half of the year. In other words, we confirm our free cash flow guidance of €3 to €4 billion for the full year.

Last year's acquisition, our portfolio measures and the comprehensive Bayer 2022 programme came with a number of extraordinary effects, which had a significant impact on our reported earnings. In order to give you full transparency, we have again added a bridge in our presentation to show you how our core EPS of €1.62 translates back into the reported EPS of 41 cents. The first column, describing changes, shows -€1.10 per share, which summarises acquisition-related amortisation of intangible assets, as well as impairment losses in connection with the divestment of our Dr. Scholl's foot-care portfolio. The latter accounted for around -43 eurocents.

On the special items side, we had a negative impact of 45 eurocents. The two main adjustments are related to integration costs of the acquisition, which accounted for about -11 eurocents, and the Bayer 2022 restructuring costs, accounted for about -25 eurocents. The negative impact on special items in the financial result of 6 cents is mainly driven by the changes in the market value of the Covestro shares we are holding. Finally, the last column shows the offsetting tax effect on the sum of the items I just explained.

Let's now move on to our balance sheet. Our net financial debt of €38.8 billion is around €2 billion higher than at the end of Q1. This increase is related to our dividend payment of about €2.6 billion in April. During Q2, we repaid a €100 million Japanese yen bond. For the remainder of 2019, we have two bond maturities left: €400 million in July and €1.8 billion in October, both US dollar denominated. We intend to redeem these bonds by a combination of cash on hand and future free cash flow generation. The July bond actually was redeemed a few days ago, after quarter-end closed.

We continue to expect our net financial debt to be around €36 billion by the end of December of this year. This estimate is based on constant 2018 currency rates and does not take any divestment proceeds from Coppertone and Dr. Scholl's into account. Please also keep in mind that, at the end of Q2, almost 60% of our financial debt was denominated in US dollars. The impact of exchange rate changes to our net financial debt is quite significant, as every percentage-point appreciation of the US dollar against the euro would increase our net financial debt by about €200 million and vice versa.

Before we come to the guidance, let me share some business drivers for the second half of the year. For Crop Science, we expect strong market growth in Latin America and Asia-Pacific for the second half of the year. Furthermore, we expect the next season in North America to be strong, with early deliveries starting in Q4. This year's production of both corn and soybeans is expected to be down in the US, driven by lower overall planted acres and lower-than-average yields. This is driving commodity prices up and will likely lead to more acres planted in all of the Americas, going forward.

Our growth in Asia-Pacific is expected to be driven mostly by crop protection volumes, particularly in China and India. Overall, we are forecasting currency and portfolio-adjusted sales growth in Crop Science in the mid-single-digit percentage range for the second half. Moreover, we are well on track with regard to the integration of the acquired business, thus confirming our guidance of expected cost savings of more than €200 million for 2019.

For Pharmaceuticals, we expect a continuation of the very good performance in the first half in the second half of the year. The main drivers remain the strong development of both Xarelto and Eylea, as well as our growth in our China business. Consumer Health is fully on track with regard to its turnaround and should see a further top- and bottom-line improvements in the months to follow. For the year we see top-line growth of at least one percentage point, as well as margin expansion by one percentage point when compared with the last year. Finally, we are confident with regard to our Bayer 2022 synergy and efficiency programmes, and expect gross savings of at least €500 million across all programmes to strengthen the bottom line in 2019.

With this information as a backdrop, let's move on and look at our guidance for the year. Following a strong first quarter, we have seen a second quarter that was heavily impacted by weather conditions in the United States in our Crop Science segment, as outlined by Werner. All other segments performed very well against their plans. Therefore, even though it has become increasingly ambitious, we are confirming our group guidance for the full fiscal year, supported by the business drivers we have just discussed.

I would also like to remind you that our group guidance is based on constant currencies and a going concern. Specifically, this means that the effects of the outstanding portfolio measures are not yet included. Our assumption is that we have to account for Animal Health and Currenta as discontinued operations, once we sign these deals. Against this backdrop, we expect Bayer group sales still of around €46 billion, an increase of around 16% year on year, of which about 12% is attributable to portfolio effects.

We anticipate EBITDA to increase by almost 30% to around €12.2 billion, while core earnings per share are estimated to come in at around €6.80, up 14% on the prior-year figures, reflecting higher interest payments and an increased share count. The core financial result for the year is included at an expense of approximately €1.8 billion and, for our core tax rate, we continue to model about 23%. Finally, we expect free cash flow to be in the range of between €3 and €4 billion. 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.

Before we start the Q&A, let me wrap up summarising our focus areas for the year. First and foremost, we are committed to deliver on our operational targets as reiterated today, even though they have become increasingly ambitious. Second, we are focused on the smooth integration of the acquired business in order to shape the future of agriculture. We look forward to seeing many of you at our inaugural Crop Science Summer Technology Showcase later this week in St Louis, where you can see this first hand. Of course, we will continue to vigorously defend glyphosate, while also constructively engaging in mediation talks.

Third, we expect to further strengthen our internal pipeline in Pharmaceuticals and intensify the external sourcing of innovation. Fourth, we will strive for an improvement of the operational performance of our Consumer Health business, as discussed. Fifth, we are delivering against our targets for the Bayer 2022 programme, both related to synergy realisation and efficiency improvements. This is foundational for delivering on the 2019 and 2022 targets, which we outlined at the capital markets day last December. And lastly, we are making very good progress on executing all announced portfolio measures to further sharpen our business focus. With that, I will hand it back over to Oliver to kick off the Q&A session.

Questions & Answers

Oliver Maier

Great. Thank you very much, Wolfgang; thank you very much, Werner, for your presentation and for the comments. Emma, I think we are now ready to open up the lines for Q&A.

Jeff Zekauskas, JP Morgan

I was hoping you could compare the performance to the soybean seeds business in the United States and in South America. How did those changes compare for the second quarter and for the first half?

Liam Condon, President, Crop Science

Okay, thanks a lot, Jeff, for the question. So soybean decline in the US is very significant, as you're seeing from the reported numbers. This is primarily of course due to the weather situation and less acreage, but there's also a price effect in here related to very intense competition, simply due to the overall situation that the demand for soybeans is relatively low given the US/China trade conflict.

On the LATAM side, this is of course a very small part of the season now for us, for soybeans. There was a decline in soybeans. Here, the main effect was purely related to an accounting issue. This was related to IFRS, and we had a gain in Q3 2018 because, according to IFRS, we book when we have the sales to distributors, as opposed to when they're with customers. We had a corresponding hit in the subsequent quarters, when you do the like-for-like comparison, so that was more a pure technicality. Going forward, we would of course expect that there would be a significant increase in LATAM in soybeans, from an overall market point of view and of course from our own sales' point of view.

Jeff Zekauskas

In corn seeds, are farmers trading up where they want higher-quality corn seed and paying more or, in general in the United States, so they are trading down and they want a simpler, lower-cost solution?

Liam Condon

Well, the biggest issue for us right now is simply with the pretty disastrous weather situation. For a long time, we didn't know how much was going to be planted, and farmers weren't sure how much they were going to plant and were looking for shorter-maturity corn. And I think in this type of situation, many farmers are trying to hedge their bets and were rather trading down, as opposed to trading up. This is particularly relevant in areas where there's corn rootworm pressure – where there was less corn rootworm pressure. They would then trade down in our portfolio, and that's more in areas that are on the fringes with corn rootworm pressure. But so far this year, there was rather some degree of trading down, as opposed to trading up, given the overall market situation. Going forward, looking at where commodity prices are going, I would personally expect that there would rather be a tendency to be trading up in the future, but we'll see in the future quarters.

Wimal Kapadia, Bernstein

Thanks for taking my question. Just a couple around Xarelto actually: first, clearly the US is suffering, but I'd be interested to hear more about the role that CAD and PAD indications are having on a growth trajectory outside the US. And then secondly, I know it's several years away, but it's a question I get from investors quite often, and I'd love to hear your thoughts, on what sort of tail revenues Bayer expects for Xarelto post the patent expiry. And in tied to that, could you give us any comments on the anti-factor XIa and factor XI itself, in terms of being able to maintain some level of franchise for the anticoagulant franchise post the Xarelto patent expiry. Thank you.

Stefan Oelrich, Head of Pharmaceuticals

Hi, Wimal. Thanks for your question. On CAD, good question. The uptake is as we had already guided before. It continues to be slow, but that is expected, which is linked to the fact that we're really breaking ground here and it's a paradigm shift in the treatment of CAD/PAD for Xarelto, so we continue to be positive about this indication, as we move forward. We're putting significant efforts behind it to educate physicians, so this is going according to plan for now, even though it still remains small for the time being. So I think we will have some better view on that towards the end of the year and early next year.

The tail revenue on Xarelto is not something we would disclose at this point in time, so I would not have a number here readily available for you. And on factor XI, this is indeed something that we're currently in the process of discussing, as we haven't fully made up our mind about the development profile of this. We're obviously looking at some of the indications for, currently, other anticoagulants like our own, as indicated, but we're also looking at extending the indication spectrum, potentially here, to areas where factor X/Xa ambition is not warranted for use. So that gives you a little bit of a picture. We have both an injectable and an oral in our early-stage portfolio here, which would allow us to cover a broad range of the spectrum, but it's a little bit too early to give you more colour on this, because we haven't fully decided this yet.

Vincent Andrews, Morgan Stanley

Thank you and good morning, everyone. Liam, if I could just ask you about seed production, you know, yields are probably going to be lower than expected this year and it sounds like there's going to be more demand in Latin America and then, maybe, a pull-forward of demand from North America in the fourth quarter. What do you think your ability is to serve that demand with existing inventory, plus whatever is produced this year? Are you at all worried there's going to be a bit of a shortfall in seed production out of the US that might force you to do some winter nursery in South America?

Liam Condon

Thanks, Vincent. So hopefully, there will be an increase in demand or an early start to the season in Q4 already for corn in North America, and we are expecting a strong season in LATAM. But from a seed production point of view, we feel pretty good about where we are right now. We of course have a highly distributed field production or seed production setup, so we weren't as affected, for example, as the overall market situation is now in the US. And given our forecast – and we are expecting growth going forward – we feel we'll be able to deliver and meet the demand that's there. So we feel good about that. We don't see that as any kind of a significant risk, on our side.

Vincent Andrews

Just as a follow-up on soybean, can you talk about the Xtend penetration this year? Did you reach your targets and is your price per acre still at your target or was that competed away a bit?

Liam Condon

So Xtend penetration was strong, and as strong as we expected, so we've moved up to or are expecting to be up to 60 million acres for soybeans and cotton, so basically 50 million acres for soybeans and approximately 10 million for cotton. So that's particularly given the overall market situation, that's been a very strong penetration. From a pricing point of view, of course given the overall weakness in the market, that hasn't been as positive as the overall market penetration itself, so we have dropped a bit on the price side.

Emmanuel Papadakis, Barclays

Thanks for taking the questions, maybe a couple on Pharma. Eylea is obviously running a bit ahead of expectations for 2019, but maybe you could give us some thoughts on evolution beyond that, given competitor developments and likely arrivals. Andthen Vitrakvi, you've neglected to tell us anything about how the launch is going. Any colour on patient numbers, penetration, the diagnostic, how the update of that is going would be very helpful. Many thanks.

Stefan Oelrich

Thanks, Emmanuel. So Eylea, we're very pleased. You guys were challenging me on being too pessimistic at the beginning of the year, so I guess you were right. And so we're upping this a little bit. We still remain cautious, because the market conditions are such that we expect, in certain key markets, potential pressure on price and also volumes by using some substitutes, where you know that we're fighting in some areas where we had some legal decisions going against us, which are not in line with our regulatory centres, as we believe. Sothose are still there, but they haven't materialised yet, so we remain now more optimistic for the second half of the year.

And with regards to Vitrakvi, we're progressing fine. This is going according to our plans. We're not disclosing the number of patients that we have on product for the time being, but the uptick is exactly going according to plan and we're happy. I think this is new news: today, Canada is actually approving Vitrakvi for use, so that should give us some additional room. And then you've heard the positive CHMP decision here on Vitrakvi, so we think that will compound further a positive situation, plus the very nice data we got in other indications that again supports our claim that this is really a pan-tumour treatment for people who are affected by TRK fusion anomalies. So all in all, it's on track, in line with expectations and we're getting very positive feedback across the board from all stakeholders, so we're quite pleased.

Richard Vosser, JP Morgan

Just a question on the synergies: I think you said that the synergy number would be €500 million for this year. Back at the capital markets day, you were targeting €300 million, so could you just confirm that you have brought forward an extra €200 million of savings into this year and perhaps confirm that the overall synergy target should still remain at €2.6 billion by 2022?

Then a second question just on Crop Science: you obviously pointed to mid-single-digit growth in the second half. Obviously you've had a decline in the first half, which looks like sales growth may be 1% for the end of the year, obviously a little bit later on the sales for Crop Science. Are you planning on trying to make those sales up at the group level, in other areas? Maybe give us some idea of how you're making that up. Thanks very much.

Wolfgang Nickl

Richard, thanks for your question. On the synergies, yes, the €2.6 billion is intact. That remains our target. As you recall, that includes the contribution from the post-merger integration, but also included our programmes and the platforms, in Consumer Health and in Pharma. Against this target, like I mentioned in my prepared remarks, for the year we're delivering more than €500 million altogether, which is above 20%. What we said is we didn't give a guidance for 2019, but we gave a guidance that we would achieve about 30% of that number in 2020, so you can imagine, as we ramped through the year, that we will likely come in higher for next year than we have guided. So this is a pretty positive development in my mind. Just for everybody's clarity, those €500 million includes more than €200 million from the cost synergy targets from the post-merger integration. I think we outlined that also in the call.

I'll take a crack at the second part of your question. Yes, we're not a one-business business, and Liam has to achieve some pretty significant growth rates in the second half of the year, which we have a plan on delivering, but it's not completely in our hands. But we have the other two businesses doing very well, as we outlined. What I just said: we're doing well on costs and we're obviously managing also on the ongoing run-rate costs to counter potential weaker markets. That's what put us in position that we could confirm the €6.80 EPS guidance for the year. Of course, we had to outline that it's a bit more ambitious, because there's a big growth rate in Crop Science in the second half. I hope this answers your question, Richard.

Michael Leuchten, UBS

Thank you. I have one question for Liam and one for Pharma, please. Liam, the margin in Q2 above 22% was pretty respectable, despite all the headwinds. In the past, you've demonstrated that the division really is able to deliver a good margin through the cycle. This year, has there been anything that you've been doing beyond the normal course of business to deliver this and has it allowed you to do anything quicker than maybe you would have done thinking about 2020 and 2021?

And my question for Pharma is on China. At the capital markets day, you outlined how you see that region going to €3 billion. Now that we're halfway through this year with the tenders biting or not biting in China, is that region delivering according to plan or is it actually going better than you had anticipated?

Liam Condon

Thanks, Michael. As you say, the margin has been holding up very well given the overall weakness in the market. This is actually also due to very significant cost discipline in our organisation. I think we've been going through a couple of weak years and we've gotten the organisation to a point where it's pretty agile and able to deal more flexibly with weaker market situations. So we have been able, I think, to compensate on the costs side. And of course, as we look at our synergies now, they're starting to kick in. Wolfgang already outlined that we're targeting for this year, for the full year, over €200 million in cumulative synergies, going forward, so that's starting to benefit us as well. So I think that's something that you will continue to see, going forward: very strong costs discipline in the organisation that will help, at least on the bottom-line side, to balance out any market headwinds that we're facing, as far as possible.

Stefan Oelrich

Hi, Michael. Yes, we're very pleased with our China performance. And it's compared to what we presented last year at Capital Markets Day, we're even slightly ahead, despite our already very strong growth. So this quarter again 25% growth, which is really strong. Now, as we go about the guidance that we gave at the Capital Markets Day, we said we'd target €3 billion more in China. This is still within reach. I think the market conditions, however, are slightly changing as we move forward, with some uncertainty for China with the volume-based purchasing exercise now in the 4+7 metropolitan areas, which you know is about 40% of national. We'll have to see how quickly this continues. The first batch has been released of products. We were not concerned with that first round. We expect that this will not continue to go on without our products being part of this, so Glucobay could well be, as we had already announced, concerned. For now the overall target that we stipulated last year for China, I think, is still in play.

Florent Cespedes, Société Générale

Good afternoon, gentlemen. Thank you very much for taking my questions. Two quick ones on Pharma for Stefan. First, on Kogenate, this quarter was a bit better than usual when some competitors were suffering. Could you maybe give us a little bit more colour on the performance of this product this quarter?

And my second question is on Eylea. Again, pretty strong performance with this product, but do you intend to strengthen your sales-force organisation in Europe ahead of the launch of some competitors? Thank you.

Stefan Oelrich

Bonjour, Florent. So, on Kogenate, yes, we're equally pleased, because what we're seeing is, compared to market, we seem to be much less affected for now by the Hemlibra advance in the market. So that comes to show the strong ties we have with our patients and the degree of satisfaction they have with our products. We believe that Jivi is helping here also. We see good uptake with Jivi, which is hopefully going to develop into a really strong backbone for our haemophilia franchise. So, so far so good for this year – also when I look at this market overall.

And then on Eylea that’s a good question you're asking. We feel that actually we’re pretty well resourced in terms of our promotional capabilities. And the success of Eylea has been pretty much riding on the product itself, less so on its promotion. This is a product that has unmatched scientific profile in the marketplace, and we believe that this continues to be the case as some of these new products are entering the market. We have some very, very strong data that we continue to educate our prescribers about, which doesn’t have to hide at all – I would say to the contrary – behind what we’re seeing, at least in the clinical trials from some of the incoming products. So we feel quite strong. I would say that increased promotion may even benefit the market leaders when the market expands. So I hope that answers your question.

Florent Cespedes

Yes, thank you very much, Stefan,

Joseph Lockey, Morgan Stanley

Thank you. Stefan, back to the factor XI antibody. As far as we can see, the phase II FOXTROT trial completed in January but has not yet been reported. So do you definitely intend to progress that asset into phase III and, if so, have you entered into any partnership discussions or do you intend to develop it yourself and perhaps take on the US opportunity alone? Thank you.

Stefan Oelrich

Joe, as I said before, this is a little early to go about this. So all those points are still in play. We’re considering our options on both partnering and as well as how we’re going to go about our phase III. So this is something that I hope to give you more clarity probably somewhere next year around this, and then you'll have the detail you need.

Joseph Lockey

Okay, thank you.

Peter Verdult, Citi

Thank you. Apologies for any background noise. Two questions. Firstly, Wolfgang, thanks for your comments about levers you have to maintain guidance, but on crops specifically, maybe, Liam, could you talk about what you're expecting in H2 to happen to be able to maintain the revenue guidance you’ve given of 4%? We’re just trying to understand better what needs to happen for that target to be achieved.

Secondly, just, Werner, we've seen a number of transactions from your pharma peers with respect to their consumer businesses. If your ‘Fit to Win’ strategy plays out as you expect and you get Consumer back on track for 2020, are you and the Board open to exploring options in Consumer to create value given the current share price? Thank you.

Liam Condon

I'll start with the crops. So, thanks a lot, Pete, for the question. Maybe I'll give you a bit of colour on what we see as growth drivers for the second half of the year for Crop Science. And I think it's really important to flag up front that of course the second half is literally a new game. The first half of the year is dominated by the northern hemisphere, North America and Europe, and the second half is dominated by LATAM and by APAC, so it is really a completely different game. I think that's just important to bear in mind.

And we see the primary growth coming, clearly, from Latin America. And if you think about the factors that were negative in the northern hemisphere, it was primarily a once-in-125-years bad weather event and the US-China trade conflict. For LATAM we're not expecting this once-in-a-lifetime weather event, and Brazil and Argentina are probably beneficiaries of the US-China trade conflict. So we see strong growth potential going forward. We are forecasting an increase in acreage both for soy and for corn going forward in LATAM and both in Brazil and in Argentina, so we're expecting a higher Intacta penetration, which will of course benefit us. We also have the launch of a new fungicide, a three-way fungicide, Fox Xpro, which we believe is going to be a blockbuster. That will really take off in the market this year. So kind of with that combination, with Crop Protection, with the inventories at completely normal levels, there is great opportunity for growth, given that we expect simply very robust organic market growth in LATAM.

In APAC, we expect growth to be driven by India and China. If you recall, last year India had relatively low growth, so we're trading off or we're basing against – we've got a low base year to trade off against, so we are expecting good growth out of those two major countries, where we have a very strong Crop Protection portfolio, so that will be another big growth driver for us.

And the third growth driver – and this is the one that is less certain than the first two: we're sure there will be growth, but it's a question of how much – will be the question in North America, how much do we regain of what we lost from the first half? So there will be some phasing, we expect, of fungicides and herbicides, for example, into Q3. How much there'll be now depends on the weather situation and on how robust demand is for corn, which we're expecting. And we believe the market is seriously underestimating what the negative yield impact is going to be in the US from not only lower acreage but also a lower yield from that acreage, given the quality of crop that's been planted. We expect corn prices to be increasing, and that that will probably drive an early demand pattern for corn seed already in Q4 in North America.

So that's an additional possible growth driver for us. LATAM and APAC are fairly certain. North America is the one that depends, then, on what's happening in the market. So that's on the sales side. Then on the bottom-line side, of course, we've got our cost discipline and our mix of costs synergies kicking in to help us protect and drive the bottom line as well going forward.

Werner Baumann

Okay, thanks, Liam. Peter, let me frame the answer to your question with a few comments before I hand it over to Heiko, who can talk a little bit more and shed some more light on how 'Fit to Win' is going. I spent almost two days with Heiko and his team about two weeks ago. I was really deeply impressed on how far we've come with not only 'Fit to Win' but also the overall organisation and how strongly the team has grown together.

So for me there's no question that Heiko and his team are up to the challenge. You see that we've been actually coming up nicely also in terms of performance, also if you look at our peers. And we see good strong underlying momentum. We see the cost base that has been reset. And so there are no second thoughts at all here for our Consumer Health business – actually to the contrary. And with that, let me hand it over to Heiko.

Heiko Schipper

Okay, well, thank you, Werner and thanks for the comments. I can just give a little bit of colour on the quarter. Obviously, we should not call this a turnaround yet with one positive quarter after clearly not a very impressive performance before, so we need a few more of these. But definitely this was a good start.

And maybe more so than just some of the growth numbers or the bottom line, I think more important is what we presented to you in December during the Capital Markets Day. It was a rather comprehensive list of activities that needed to be done to turn around this business. So you’ve seen the closure for some portfolio. I mean, frankly we've moved pretty fast. We've been able to sell Coppertone, Dr Scholl’s; we have closed Rx Derm by now. So, you know, before the end of the year we will have kind of re-achieved a kind of focus around the businesses that we think we can really win.

If you look on the operational side, maybe first on the top line, good developments, particularly in Q2, with EMEA getting back to healthy growth and our supply situation improving, but also good growth across many of the geographies there. LATAM very strong, double digits, and also APAC maintaining growth. North America is still not where we want them to be. They are still negative, but the gap is closing and brand by brand we are fixing that. And also there we see just good progress everywhere, so I think that’s what's encouraging.

Werner commented on the resetting of the cost base. I think, you know, this is always something where you can have a high sense of urgency. This is something that is directly under your control. And whereas things like innovation sometimes take a little bit longer, cost is something you can act on much faster. And if we basically compare the first half of last year versus this year, we are basically operating with an organisation that is more than 1,000 people less and an SG&A base that is 200-300 basis points lower. So that’s really giving us, I would say, the fuel to reinvest in growth, because that remains our best lever of performance, but we've just had to make money for that available and, at the same time, also improve our margins so that we are able to deliver not only top but also higher bottom line.

Jo Walton, Credit Suisse

Two questions, please. Firstly, on the Pharma side, we've now all seen the data on darolutamide. I wonder if you could comment this on whether you feel the characteristics of the drug should mean that it would have a faster ramp-up than the other relatively new drug in the category, Erleada, so whether that would be a good early trajectory for us to look for.

On the Ag side, I wonder, Liam, the amazingly tough conditions – has that given you any longer-term competitive advantage? Have any of the smaller, perhaps more troublesome, players been shaken out by this or has everybody weathered it and effectively you're all coming out essentially the same at the other end? Thank you.

Stefan Oelrich

Hi, Jo. Yeah, obviously, we're as pleased as you state with the clinical profile. We think darolutamide is really nicely differentiated against the comparative competition here. We believe the FDA has recognised that by giving us fast-track designation as well. I mean, we've stated our peak potential at above 1 billion. We obviously stand by that for the time being. Really, in a product that we haven't even introduced yet I hesitate to give you some more guidance on how fast the uptake is going to happen, but let's put it that way: we're optimistic about this product and we believe that we're differentiated.

Liam Condon

Yeah, thanks, Jo, for a very interesting question. I hadn't thought about it in the short-term context. To be very honest, we're not seeing any shake-out in the market based on the current short-term difficulties that are particularly driven by the US market situation. So that isn't visible yet. Whether this turns out to be a longer-term advantage… I'll be very honest, our whole deal is built on a vision that we can generate more innovation and get rewarded for that better than anybody else. And if I look at where we're going, we're still targeting this year a margin of 25%. We have our goal out there for 22, where we're saying north of 30% margin. And this we believe still is absolutely realistic and something that we're clearly holding onto. And I think that will be ultimately our competitive advantage. We will be able to grow, and grow more profitably, than all of our competitors. And that's simply going to be based on innovation.

Keyur Parekh, Goldman Sachs

Good afternoon. Thank you for taking my questions. Three please, if I may. First one is on the increased number of cases for Roundup from 13,400 in April to 18,000-odd in July. How should we think about the rate of that increase? Was it linear across the quarter or was it a particular incident that led to a bolus of kind of new plaintiffs joining? And I mean by that, was it the mediation that led to a step change? And how should we think of that number going forward. That's number one.

Number two, for Liam. Liam, you mentioned kind of the potential or the opportunity for the corn seeds to come back in North America in the fourth quarter. Should we think of that being required to get to your 4% crop guidance? Were that to happen, would that be upside to your 4% guidance for the year?

And then thirdly, going back to China, beyond 4+7, on a longer-term view, do you feel like you have the right portfolio for that market or do you think there are things that you could do from a portfolio-adjustment perspective in that market to drive longer-term growth?

Werner Baumann

Okay, maybe before we go into the answer to the question, your portfolio question – which business does it relate to, Pharma, Crop Science or both?

Keyur Parekh

Both, please.

Werner Baumann

Both, okay, so then maybe I'll take a start on the cases. Yes, we have seen a significant increase. There is no singular event that has driven that increase. There is also quite frankly very little merit in looking at it on a weekly basis, because a lot of the cases that are being filed are sitting in the draws of law firms, and they elect to submit based on their liking. It may – but it would be purely speculative, quite frankly – be related to some of the activities that are underway with the mediation discussions, but we don’t have any visibility relative to the reasoning of the plaintiffs’ lawyers submitting more or less of the cases that they have in their inventory.

Now, let me give it now to Liam on corn quarter four and growth and, by the same token, China and the portfolio, before it’s then going to be Stefan who is going to conclude with the China portfolio for Pharma.

Liam Condon

Yes, thank you. So we have included… A small part of our growth in Q4 is predicated on an increase in corn shipments in North America – and I emphasise ‘a small part’ because the vast majority of growth is coming from somewhere else, but because the question is specific I want to be specific in answering it.

To give you a sense of how we think about this as well, in different parts of the world there are always going to be upsides and downsides. If you recall, we took a big hit in Australia in cotton, which is a very significant market for us in the southern hemisphere, and this was due to drought. We could build in an assumption this year that the market will come back and there’ll be a normal weather pattern, and that will be an upside. We haven't built that in this year. So, just to give you a sense, there could be an upside. For example, if the corn didn’t come in North America, possibly corn in Australia will balance that out. We haven't factored that in. So we have a variety of elements in our plan that try to ensure that we have the most reasonable estimate possible going forward for a growth estimate, just to give you a sense about that.

For China, we have a very strong Crop Protection business, and that’s growing very nicely, and we do foresee significant additional growth. The weakness in China, of course, is of course from a portfolio point of view that none of the multinationals are allowed to have their own seeds and traits businesses, due to the closed nature of the market. So we have a JV and you have to have a Chinese partner. We have Sinochem, where we have a certain amount of corn sales. So if there was one area that I could flag strategically where we would like to improve things, it would clearly be on the seeds and traits side in China, but that requires a change in Chinese regulations to be more open for competition and to allow us to compete on an equal field, and I think that’s also part of the ongoing China-US trade negotiations. So we’ll see how that goes, but that’s an area where we for sure would like to increase our presence in the market.

Stefan Oelrich

On the Pharma side, I think it’s a really good question that a number of companies are having to answer right now, given some of the ongoing changes in China. I think you will have to and we will have to look at China, if you like, from two angles going forward. One is going to be much more the volume business that we participate in already today, but that’s probably going to be even more important from a volume side while prices are going to somewhat come down within the VBP initiative by the government. And then you have on the other side an innovative portfolio. We believe we cater to both. And, with our portfolio today and going forward, we still have a number of launches to come in China that are currently not on the reimbursement list, so that's something that we're looking forward to. And that should help us continue some dynamic evolution in China, despite of being exposed to the VBP plays with some of our brands.

So I think this is how we're going to look at this, from those two angles. On top of that, we believe that we're also an excellent partner in China for other companies, because we're one of the largest multinational companies in China. We're significantly above our average in other parts of the world here in China, so we continue to be quite optimistic – despite some of the headwinds that we can see coming in China. Thank you.

Oliver Maier

Thank you. Thank you very much, everybody, for participating today. Thanks to the Management Board for being available and answering all the questions. We're looking forward to seeing many of you at our inaugural event, actually, on Thursday and Friday here in St Louis. And, other than that, we will talk soon going forward. Thank you very much for participating.

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