Q2 2022 Investor Conference Call

Thursday, 4th August 2022

Introduction, Agenda and Disclaimer

Oliver Maier

Head of Investor Relations

Operator

Good afternoon, ladies and gentlemen, thank you for standing by. Welcome to Bayer's investor and analyst conference call on the second quarter 2022 results. Throughout today's recorded presentation, all participants will be in a listen only mode. The presentation will be followed by a question-and-answer session. If any participant has difficulty hearing the conference, please press the star key followed by zero on your telephone for operator assistance. It is my pleasure, and I will now like to turn the conference over to Mr Oliver Maier, head of investor relations of Bayer AG. Please go ahead, sir.

Oliver Maier

Agenda

Thank you so much, Fran. Good afternoon and thanks for joining us, everybody, today. I'd like to welcome all of you to our second quarter 2022 conference call. In order to ensure very good audio quality, we kindly ask you to use a speaker or landline number instead of a headset.

With me on the call today are Werner Baumann, our CEO and Wolfgang Nickl, our CFO. The businesses are represented by the responsible management board members for the Q&A session. Werner will begin today's call with an overview of the key developments in the second quarter. Wolfgang will then cover the performance of our businesses as well as the outlook for 2022, before we open up the Q&A session.

Disclaimer

As always, I would like to start the call today by drawing your attention to the cautionary language that is included in our safe harbour statement, as well as in all the materials that we have just distributed today. With that, I hand it over to you, Werner.

Business Update

Werner Baumann

CEO, Bayer AG

We Raise Our Guidance Based on Half Year Performance

Growth, resilience, innovation

All right, thanks, Oliver, and good afternoon to everybody. It's my pleasure to welcome you to our conference call today. The second quarter saw another strong operational performance, and we've been able to build on the good momentum of the last quarters. Double-digit growth in Crop Science with significant margin expansion, sustained growth in Consumer Health and a solid performance in Pharma have underpinned our confidence for 2022. We raise our full year guidance despite the persistent geopolitical and energy supply uncertainties in Europe.

We are definitely in the right businesses. Bayer is systemically relevant in addressing food security, public health and also the limits of our planetary boundaries. It is great to see increasing acceptance and a more factual perspective on the value of our technologies and their potential to do good.

ESG controversies lifted

Against that backdrop, I am very pleased that we have also made important progress in one of the major ESG ratings: MSCI ESG Research recently updated their ESG Controversies Report and lifted the red flag related to environmental concerns over GMO crops as well as their related allegation of a breach of the UN Global Compact principles. Following the removal of the ISS ESG red flag related to neonicotinoid insecticides last year, this is another important improvement in our ESG rating profile.

Risk mitigation

Our ability to raise guidance in the current environment is equally proof of the resilience of our setup and our ability to mitigate emerging risks. So, let's briefly talk about one of the topics that is top of mind these days, and that is gas exposure and the related mitigation measures

Gas Exposure and Mitigation Measures

Actually, since the beginning of Russia's war in Ukraine, we have worked extensively on implications and mitigation measures of a potential gas cut, both directly for our own operations and indirectly regarding our supplier network.

Own exposure

For our own operations, we are well prepared to completely mitigate a potential exposure through the end of 2022. We have already achieved wide technical readiness to significantly reduce natural gas dependency by switching to alternative as well as renewable energy sources. In addition, we introduced energy reduction programmes and built-up finished goods inventory where possible.

From a cost perspective, our total energy and utilities cost represent around 3% or €450 million of our total cost of goods sold with approximately 35% in Germany and 15% in the rest of Europe, all related to 2021 data. We have fixed contract prices for significant parts of our natural gas demand at low price levels. In Germany, unless governmental provisions supersede these agreements, 70% of the demand is contractually fixed for this year and about half of the volumes are also fixed for next year.

Indirect exposure

A higher level of uncertainty stems from the indirect exposure via our supplier network. This indirect exposure remains and is of course not under our full control, but we are closely collaborating with our key suppliers and contract manufacturers, building buffers for critical raw materials and packaging goods, and identifying alternative sourcing from less affected geographies.

No material financial impact expected for 2022

Based on the advanced preparation of our sites and our proactive risk management, we do not expect any material financial impact for the full year 2022.

Current litigation status

Before I come to our progress on innovation, let me update you on the current litigation status. We are making good progress in putting major litigation behind us, even though combined with incremental cost in some instances.

Glyphosate

On glyphosate, we are confident in the litigation strategy reflected in our five-point plan, backed also by our recent four trial wins. We will continue to execute against this plan and from today’s perspective, we are sufficiently provisioned to deal with current and also with the future cases.

PCB water litigation

On the PCB water litigation, the opt out period for the class settlement recently expired and we expect to finalise the national class action settlement in Quarter 4, thereby resolving the vast majority of municipal PCB litigation.

State attorney general cases

Regarding the state attorney general cases, we will continue to defend future cases through the litigation process. Recently, a Delaware state court dismissed all of the state’s claims in a PCB-related case alleging environmental impairments.

State of Oregon

In the second quarter, we have taken still an additional provision of around €700 million, mainly due to ongoing settlement negotiations with the state of Oregon. The settlement, when finalised, would resolve a pending environmental impairment case, involving legacy Monsanto PCB products, and result in the dismissal of this case. The Oregon venue represents unique challenges for defendants in terms of procedural rules as well as substantive law, which are not comparable to other states. So, to be clear, we consider this to be a one-off case and we don’t expect a knock-on effect on other states, as actually also demonstrated by the far lower settlements in other jurisdictions and the recent positive outcome in Delaware.

Indemnification contracts

As a final remark on PCB, and very importantly, Monsanto had broad indemnification contracts with its former PCB customers in place, which have now come to be decided to be asserted by us. We have recently filed a complaint in court to enforce our rights to recover the costs associated with the entire PCB litigation complex.

BASF arbitration

As part of the Monsanto acquisition, we divested, as you may recall, several businesses to BASF in 2018 for a headline price of €7.4 billion. Post divestiture, BASF initiated an arbitration proceeding related to the adequacy of our cost disclosures. As mentioned in our full year conference call, we reported the arbitration risk during its pendency as part of the contingent liabilities. There is no news update today, but I do want to let you know that we expect the decision by the arbitral tribunal to be issued shortly.

Innovation

Pharma launches and pipeline

Let’s now take a look at our progress on innovation. Regarding our Pharma launch products, we have received two new approvals in China. First, for Kerendia for the treatment of adults with chronic kidney disease associated with type 2 diabetes, and second, for Verquvo to treat patients with chronic heart failure and reduced ejection fraction.

We also made further progress regarding our cell and gene platform. End of May, BlueRock Therapeutics announced the completion of the enrolment for the phase 1 trial in patients with Parkinson’s disease. In June, BlueRock established a hub for cell therapy innovation in Berlin with the goal to enhance and accelerate clinical studies in Europe.

We also expanded our technologies in our Radiology business through Calantic’s artificial intelligence solutions.

Looking ahead, data of the Phase 2b PACIFIC-Stroke and AMI studies with Asundexian will be presented on August 28th at the upcoming Congress of the European Society of Cardiology in Barcelona. We will take this opportunity to host an investor webinar on August 29th to discuss these study results and to also give an update on the Phase III development program for Asundexian.

As communicated earlier we have the NUBEQA ARASENS filing under priority review in the US, and we anticipate a decision from the FDA in the very near future, not to say it's really imminent, we think.

Consumer Health

In Consumer Health, we switched Astepro from Rx to OTC status, and started selling the product on the US market. This switch means that we are marketing the first and only steroid-free antihistamine nasal spray for allergies on the US market, that is available over the counter for adults and children aged six and above.

Crop Science

For Crop Science, we just recently signed a definitive agreement with Gingko Bioworks, making them our multi-year microbial strategic partner in the development of biological solutions. This will also bring full control of Joyn Bio’s nitrogen-fixing technologies to us, successfully closing the joint venture created between LEAPS by Bayer and Ginkgo back in 2017.

Cover Cress

We also recently acquired a majority stake in one of our LEAPS investments, CoverCress Inc., a sustainable, low-carbon oilseed producer. CoverCress is a novel cover crop that fits into the existing corn and soybean rotation and will be featured in next week’s Field Technology showcase. It combines ecosystem benefits of carbon sequestration with the economics of a premium valued oil for biofuels and we expect the launch middle of this decade.

Wolfgang will now comment on the details of the business development and guidance raise. So, with that, over to you, Wolfgang.

Group Performance and Outlook

Wolfgang Nickl

CFO, Bayer AG

Sustained Growth and Earnings Dynamics in Q2

Sales and EBITDA before special items

Thanks, Werner, and hello everybody. Group sales increased by 10% on a currency and portfolio adjusted basis to €12.8 billion in the second quarter. Our Crop Science division continued to be the main driver.

Group EBITDA before special items increased by a strong 30% year over year to €3.3 billion. This represents an EBITDA margin before special items of 26.1% and a 240 basis points increase over the prior year quarter.

This year, our top line includes a material FX tailwind of about €900 million. The effect on EBITDA before special items was €300 million in the second quarter.

Core EPS

Core earnings per share came in at €1.93, which is 20% or 32 cents above prior year numbers. This includes a negative effect from the year over year development of the core financial result. You may recall that in Q2 last year the core financial result included significant, extraordinary valuation gains from LEAPS investments.

Our core tax rate came in at 20.6% due to one-time benefits in the first half of this year. For the full year we continue to expect a core tax rate of around 23%, as previously guided as well.

Free cash flow

Our free cash flow amounted to €1.1 billion, which is at the prior year level. This quarter included the short-term incentive payouts related to our strong operational performance in 2021, whereas the prior year quarter included the much lower payouts for 2020.

Net debt

As expected, our net financial debt increased to €36.6 billion by the end of Q2 due to dividend payouts during the quarter and the strong US dollar as well. For the full year we keep our guidance of €33 to 34 billion at constant currencies.

Crop Science: Continued Strong Growth

Let’s now look at the results of our divisions. When I refer to sales growth this is always on a currency and portfolio adjusted basis. Our Crop business achieved double-digit sales growth of 17%, with sales of €6.5 billion. All regions contributed to this growth.

With growth of 51%, herbicides remained the single largest growth contributor. This was driven for the most part by continued favourable market dynamics for glyphosate.

Corn seeds and traits

Corn seeds and traits increased 10%, mainly due to improved price and mix from the launch of more than 250 new hybrids globally this season. Volumes also increased, except in North America where we saw a decline in planted acres.

Soybeans

For soybeans, sales declined 16% in Q2. When adjusting for the benefit of excess seed sales in the prior year and the discontinuation of our Argentinian business, soybean seeds and traits sales were approximately flat in the first half of 2022. Looking at the underlying performance, we held our number one position with our Xtend trait platform in the US this season and saw slightly higher net pricing as more growers traded up to XtendFlex. In addition, we had a good start in Brazil with our Intacta 2 Xtend platform in the 2021/22 season and expect a significant increase in acres in the coming season, due to strong demand.

Fungicides and insecticides

Fungicides sales grew 4%, with price increases in all regions. Higher volumes in Latin America due to continued strong demand for Fox Xpro, as well as in EMEA, were offset by lower volumes in North America due to unfavourable weather conditions.

Meanwhile, insecticides increased 6%, with mid-single digit price increases across all regions and higher volumes.

EBITDA before special items

Our Crop Science EBITDA before special items grew by 72% to €1.7 billion. The contribution from higher top line as well as savings from the ongoing efficiency programme and positive foreign exchange effects more than offset cost inflation of around €230 million. Inflationary effects particularly related to cost of goods sold, where we saw continued high raw material prices, seed commodity prices and freight costs. The EBITDA margin before special items improved to 27.1%.

Pharmaceuticals: Driving Launch Products

Moving on to Pharma now, sales there grew by 2%, driven by higher volumes more than offsetting slightly declining prices.

Eylea continued its strong growth trajectory, with sales increasing by 12%. We saw increases across regions, led by strong volume gains in Europe.

Xarelto sales saw a decline of 6%, mainly impacted by volume-based procurement in China that weighed on price and volumes, as well as the loss of exclusivity in Brazil.

Launch products

Looking at our top launch products, sales of Nubeqa more than doubled year-on-year to €105 million, driven by market share expansions across all regions in the non-metastatic castration-resistant prostate cancer setting. Also, Kerendia continued its strong sales momentum after just three quarters post launch in the US.

EBITDA before special items

On the bottom line, EBITDA before special items increased by 5% to €1.5 billion. Higher investments into the launch of Kerendia and the ongoing roll-outs for Nubeqa and Verquvo as well as inflationary cost pressure were compensated by top line contributions and lower R&D spend. The EBITDA margin before special items came in at 30.7%, which was on par with the prior year at constant currencies.

Consumer Health: Sustained Growth Across All Regions

Let me close the divisional updates with a look at Consumer Health. Sales increased 7% over a strong prior year quarter with sustained growth across regions.

The Allergy and Cold category grew with 17% as our products helped to treat a higher number of cold incidences due to less social distancing compared to the prior year period.

After two years of remarkable growth, our Nutritional segment started to consolidate at very high levels, showing a decline of 4% in the second quarter.

Astepro launch

Our innovation capabilities in Consumer Health are showcased by the launch of Astepro for which we started the sell-in into the market in June, ahead of its commercial launch in July.

EBITDA before special items

Our Consumer Health EBITDA before special items increased by 19% to €330 million. Strong top line growth, continuous spending discipline and ability to pass on cost increases drove this development. However, we also noted accelerating inflationary cost pressure, especially on freight and material costs. Compared to prior year, the Consumer Health margin expanded by 50 basis points to 22.1%.

FY 2022: Increased Outlook for Crop Science and Consumer Health

Crop Science sales and margin guidance raised

Based on the strong first half year performance and the continued positive business environment, we raise our full year guidance for Crop Science. We now expect currency and portfolio adjusted sales growth of approximately 13%, up from our previous estimate of approximately 7%. The improved growth outlook assumes a sustained favourable market environment for glyphosate pricing into the second half of the year.

As a result of the improved growth outlook, our EBITDA margin before special items for Crop Science is now expected to come in at approximately 27% at constant currencies, up from a range of 25% to 26% previously.

Consumer Health sales guidance raised

For Consumer Health we saw exceptionally strong growth in the first half of 2022. For the second half of the year, we cycle over a high prior year comparable. On that basis we raise our sales growth guidance for the full year from previously a range of 4% to 5% to now 6% to 7% on a currency and portfolio adjusted basis. We keep the guidance for our EBITDA before special items margin in the range of 22% to 23%, also at constant currencies.

Pharmaceuticals guidance confirmed

For Pharmaceuticals we confirm our current full year guidance at constant rates. At June month end rates, the margin is expected to come in at approximately 31%.

FY 2022: Group Outlook Raised

Group sales guidance raised

With the raise of growth guidance for Crop Science and Consumer Health, Group sales are now expected to come in between €47 and 48 billion at constant currencies. This represents a currency and portfolio adjusted growth of around 8% compared to previously around 5%.

Group margin guidance raised

With the improved top line outlook, we also raise our guidance on Group EBITDA margin before special items from approximately 26% to a range of 26% to 27%. As outlined in Q1, we continue to expect a negative foreign exchange effect on the margin, of about 40 basis points.

As Werner mentioned at the beginning of the call, at this point, we do not foresee any material negative financial impact from a reduced gas supply situation for 2022.

Core EPS

Based on the stronger operational contributions, we raise our core earnings per share guidance by 30 cents to approximately €7.30 at constant currencies. Based on month end June spot rates, foreign exchange effects are expected to contribute around 40 cents, which would lead to core earnings per share of €7.70.

Core financial result

Our increased core earnings per share guidance considers an expected higher negative impact from our core financial result as well as anticipated higher costs in reconciliation. The core financial result is now projected to come in at about minus €1.8 billion compared to previously guided minus €1.5 billion. This is mainly driven by higher interest cost, fair value adjustments for security backed assets and cost for transferring cash out of Argentina.

Reconciliation

EBITDA before special items for Reconciliation is now expected at approximately minus €700 million, up from previously minus €500 to 600 million. This reflects required true ups for our long-term incentive programme due to better share price performance, also in contrast to the EuroStoxx, compared to our previous planning assumptions.

You will find an overview on our updated Other Group KPIs in the back up of our presentation.

Free cash flow

On free cash flow, we expect it at the upper end of our original guidance, at approximately €2.5 billion, compared to the previously guided €2.0 to €2.5 billion. We confirm our net financial debt guidance at €33 to €34 billion at constant currencies, while updating for a stronger negative foreign exchange effect of around €1.3 billion, due to the strong US dollar.

Environmental Science Professional transaction

Please also be reminded that our guidance still includes the Environmental Science Professional business. We expect to close this transaction in the fourth quarter.

And with that, Oliver, I hand back over to you to start us on the Q&A session.

Q&A

Oliver Maier: Great, thank you Wolfgang, thank you Werner, for the overview. Before we begin, I would like to remind you to keep your questions to two per person, so we are able to take questions from as many participants as possible. I'd also like to remind you again that to ensure good audio quality, we kindly ask you to use a speaker or landline. It makes it really much easier also on our end. And with that, I think we can open up the line for questions.

Operator: Thank you, Oliver. Ladies and gentlemen, at this time, we will begin the question-and-answer session. If you have a question, please press star followed by one on your telephone. If you wish to cancel your request, please press star followed by two. Anyone who has a question may press star followed by one at this moment. One moment for the first question, please. The first question is from James Quigley from Morgan Stanley. Please go ahead.

James Quigley (Morgan Stanley): Hello. Thank you for taking my questions. So, I've got one on price reform, US price reform in pharma and one on some of the pharma new launches. So, with the US price reform, your exposure's pretty, pretty low at the moment, but in terms of your portfolio, Nubeqa and Kerendia could potentially be impacted in the coming years? So, what's your view of the potential long-term impact of the current US pricing reform proposals and to what extent could this impact your €3 billion peak sales target for Nubeqa and the greater than €1 billion target for Kerendia?

Then on the new launches, you briefly mentioned Kerendia, so can you give us an idea of how that launch is progressing? The scripts were tracking broadly in line within Entresto then started to tail off towards – in the last couple of weeks. So, if you could give us any sort of feedback on how the launch of Kerendia is progressing, where it's used, is it being used in combination with SGLT2s yet? And any other relevant feedback would be, would be great. Thanks.

Stefan Oelrich (Member of the Board of Management Bayer AG, Pharmaceuticals): So, thanks for your question, James. So first on, on the reforms in the US, I'm hesitant to come to any conclusions here before we see the final text and how it goes into law. So, we'll have to wait a little bit on that one. But overall, to answer concretely your questions, we don't see any reason for now to change our peak sales potential, neither for Nubeqa nor for Kerendia. Be reminded that both, we said more than 3 and more than 1, so that still remains in place.

For Kerendia, so what we're seeing is we're seeing continued progression in terms of access that we're seeing in terms of covered lives, in how it's – and also the feedback, both on the, in the field, on the ground, but also in how it's included in guidelines. You've seen maybe that ADA has updated their guidelines, including now also the FIGARO data, so that we have a broader, broader approach. And it's still seen as the highest level of evidence that can be brought. And we're seeing that translate into clinical practice.

As to SGLT2s, in all of our studies, SGLT2s were baseline – were part of the baseline therapy, that we would be added to. So, take the average of what SGLT2 is being prescribed for in this setting, which is still a minority of overall patients with renal disease, in terms of quantitative numbers, also when it comes to new patients. So SGLT2 is certainly a valid treatment. Some of the plans require prior auth in terms of access, because SGLT2 has a lower price point.

What we're seeing is though that there is not a logic of moving, patients that have not received access under Kerendia then to SGLT2. So, physicians really see a clear difference between the two; and we think that Kerendia can be a backbone for renal treatment. We have broad evidence from early onset of the disease until more complicated patient setting. So we're seeing it progress in line with Entresto. When you look at – and NBRxs or overall the TRx line, I think we're still, we're still there. It's no surprise that this is going slow. That's what we've seen with all cardiovascular launches in the last few years in the US. So no surprise there, and the qualitative feedback stays strong and we're seeing progress quarter by quarter.

James Quigley: That's great. Thank you.

Operator: The next question is from Michael Leuchten from UBS, please go ahead.

Michael Leuchten (UBS): Thank you, Michael Leuchten from UBS. Two questions please. One for Werner. Sorry to take you back to PCB, just to make this absolutely clear, because it is a topic of discussion in the market today. Why do you think that Oregon is not – or we shouldn't extrapolate Oregon into other states that may have an incentive now to always come to the table? So if you could just go through that, in as much detail as you can, that would be very helpful. Thank you.

And the second question is on corn volume in the US. It's, the acreage is down. I just wonder if you could speak to, what you're seeing there. I think that's slightly softer than most of us would've expected. Thank you.

Werner Baumann: All right. Hi, Michael, and thanks for the question. So on PCBs, it's very straightforward. When we set up our reserve and communicated in 2020 what we expected to see in the state settlements, I see with, you know, the number of states that we have settled very much within the framework of what we said earlier, that the state settlements, which are of course not subject to the broader municipal settlements, that those range all in the double-digit millions. So we come to conclusions, we push it really hard, so that we get the entire litigation behind us, behind ourselves. And, the PCB litigation setting in Oregon is really different because of the specifics of Oregon state law and procedural rules. That is the difference compared to all other states. That's why there is not a read through.

The next one is that from the remaining states that have not sued – because there are only two, actually, one being Maryland and the other one, that is Pennsylvania, that we are in litigation with – a number of states don't have any exposure to PCBs. Secondly, none of these states has similar state law compared to Oregon. So that's as straightforward as it could be.

And then maybe last one that, that I forgot, we've also seen that of course we have won Delaware, where the case that Delaware brought against us was actually dismissed by the judge.

Rodrigo Santos (Member of the Board of Management Bayer AG, Crop Science): And Michael, if you – Rodrigo Santos here – let me come to your question about corn. So, what we saw in US, due to the weather events that we saw in US this year, we saw a reduction of 4 million acres of corn. And that's basically what we mentioned here. But I think it's a good opportunity for me just to reinforce that despite we saw this decreasing area, we see a great performance of our corn business again. We launched SmartStaxx Pro in US and it's performing extremely well. We had our prices increase this season, that is confirmed, as well. And finally, we are expecting a market share gain when we have our brand and licensing business. So just another opportunity to reinforce that globally, we are having a great performance on corn and also in US. Thank you.

Michael Leuchten: Thank you very much.

Operator: The next question is from Pete Verdult from Citigroup. Please go ahead, sir.

Pete Verdult (Citigroup): Thank you. Pete Verdult, Citi. Two questions, please. Rodrigo, can you help us a little more with your general crop pricing assumptions for the remainder of the year, as well as a comment on glyphosate? It feels like you're being very prudent and pencilling in a big step-down in Q4. It's not clear though, to us, that the Chinese generics are ready to step-up supply.

And then, just separately, Corteva are talking about low double-digit seed card price increases for next year. Just wanted to get a – kick the tyres with you on that as we await the seed card later this month.

Then moving to Stefan, quickly, just on asundexian. I know you can't talk to the data at ESC, but perhaps you could provide some scene-setting comments or share your level of excitement going into the presentation. Werner commented earlier on this call that the phase

III programme is likely to be laid out at the webinar on the 29th. I just wondered if – can we assume that that programme is going to be a lot broader than atrial fibrillation, which you mentioned you would be pursuing on the Q1 call? Thank you.

Rodrigo Santos: So thank you, Peter. Let me start here – Rodrigo – and then I'll pass you to Stefan, of course. So, on glyphosate, what we guided this year, we mentioned before that we were seeing a price higher on the first six months of the year, and we saw more normalisation in the second half of the year. What we consider now, that we're going to still have a good price on Q3 as well and that's what is considered today in our plans here. Of course, we are monitoring that. This is a product that we price every month, so we are very fast to react, anything that we need in this product. So we're monitoring this very close, but that's the assumption that we took.

On the next year campaign, we're preparing the launch in US; middle of this month we're going to be ready for that. So it's still working on that one, but I would say that our view today is that we're going to have a low double-digit percentage increase in our corn and soybean business. That is our expectation for the next season, that we should be launching in August now.

Stefan Oelrich: Hi Pete. So let me put it that way. I continue to be equally excited about asundexian as I have been throughout the beginning of the year, as we started talking about our phase II. So, obviously, as we get closer to really giving out all the data points to you, the excitement starts on our end. The webinar, I think, will give you clarity around what our plans are in terms of our phase III setting and I hope you will be pleased with what you will see, but I can really not – I cannot say more before we publish at the session there at ESC. So stay tuned and I look forward to many of your questions at the webinar. So there's three weeks left, so hold your fire.

Peter Verdult: Thanks to both of you, thank you.

Operator: The next question is from Vincent Andrews from Morgan Stanley. Please go ahead.

Vincent Andrews (Morgan Stanley): Thank you. Rodrigo, could you talk a little bit about the exit from Argentina, just in terms of is that the entirety of your soy seed business or is that just the germplasm and you're still looking to be involved in traits or vice versa, or what?

Rodrigo Santos: Thank you, Vincent. No. So the short answer for you is that we exit the germplasm and the trait business from Argentina. Just, again, a good opportunity for me to mention about soybean. Again, we have a very strong performance of soybean again. So, in Brazil, as Wolfgang mentioned, we are migrating from 600,000 acres last year with Intacta 2 Xtend and we're now expecting more than six million acres. As well, in US, XtendFlex, we're moving to a 20 million acres as well, and you even saw the price that was mentioned by Wolfgang and we're keeping the number one position in US. So, basically, what you see on the sales report is basically the effect of the excess seed of last year and also Argentina. But in terms of margin, you don't have an impact because both things, excess seed and Argentina, you know, have a margin positive, but that's it.

Vincent Andrews: Yes. If I could follow up on the glyphosate outlook, you know, well-understood what's going on with pricing and your expectations there. What's going on with your own production costs? I know you have vertical integration into phosphate, but, you know, there have been big run-ups in chlorine and ethylene oxide, which I think are core ingredients. Do you have, sort of, tolling agreements on those or long-term contracts, or what has been happening at the cost side of your glyphosate production?

Rodrigo Santos: Yeah. Vincent, I think you already mentioned on your question the fact that we have a competitive advantage, the fact that we are vertical, right? So we have from the mining to the final product that help us in terms of managing the cost. Of course, we are also impacted by the global situation that we're facing right now in terms of energy costs and inflational cost, also in terms of surfactants that we have also as well. But I think that we are working a lot on managing, and the fact that we have this vertical line that you mentioned gives us this competitive advantage.

Vincent Andrews: Thank you very much.

Operator: The next question is from Sachin Jain from Bank of America. Please go ahead.

Sachin Jain (Bank of America Merrill Lynch): Thanks very much. Two questions, please, one on Crop and then one on Pharma. On Crop, if you could just clarify how much of the 6% sales upgrade was glyphosate pricing? I'm assuming it's the entirety, but if you could just clarify.

And then if you speak about glyphosate pricing into 2023. I think the questions so far have focused on the end of this year. Should we expect the gains that we've seen this year to reverse next year? And if you could put that together with your commentary on low double-digit growth for corn and soy, do you expect the underlying business growth to offset any potential reversal of glyphosate gains?

Secondly, for Stefan, it would be remiss if I didn't ask a factor XI question, so two high level. One, when in your phase programme should we expect any fast-to-market opportunities; any niche indications that you could potentially do quickly to get you to market quickly? And then should we also expect an update to financial outlook on margins? One of the offsetting debates to a broad phase III programme is the potential cost, or do you think that can be digested within your existing outlook? Thank you.

Rodrigo Santos: So let me use this opportunity to [inaudible] your question. I think that it's an interesting question. Let me use that opportunity just to share and reinforce the invitation that was done here by Werner. Next week we're going to have the field event in US that will be really unique for us, and I think one of the key opportunities that we're going to have next week to share with you when we combine the pipeline we feel that we had this year with the performance that we are seeing again in Crop Science. What I can say to you is that we believe that we have a competitive advantage, a sustainable competitive advantage in the market. With all the innovation that we're bringing, all the new technology that we are launching this year and in the coming years, that gives us the confidence of the growth plans that we have not only for this year, but for the next years that we share on the Capital Market Day.

Saying that, of course it's too early to say what is our expected clear plans for 2023 growth. We mentioned a little bit already what we're doing on corn and soybean in US; that gives a good indication of where we're starting next season. We're working on that one, but, again, I feel that our innovation, our pipeline – and I hope that you can come to the field event next week because you're going to see a little bit more what's coming for not only 2023, but 2024 and 2025, that we're very excited and that we'll continue to feel what we consider our sustainable competitive advantage and keep growing the business.

Stefan Oelrich: So, Stefan here. So, thanks for the question, Sachin. On Factor XI, nice try. I would say the phase II data set that we are going to present is not necessarily going to be indicative for shortcuts that we could take on phase III, so – but again, let's talk about this in three weeks again. But it wouldn't necessarily be in line with what we've done in the phase II.

And on margin, so, for this year, we're staying within our swim lanes. I mean we're hit by currency, as you can see, but operationally we're at where we said we would be.

Moving forward we've always said that we could digest within our guidance, also, a clinical development for Factor XI. That stays as is but, at the same time, we are battling inflation and currency headwinds; that goes without saying.

Sachin Jain: Thank you.

Operator: The next question is from Richard Vosser from JP Morgan.

Richard Vosser (JP Morgan): Hi, thanks for taking my question. One just building on the comments you made, Rodrigo, on the future development of the Crop business. Just thinking about short-stature corn, itself, in particular: can you remind us of the timelines that can get to market and how you see the potential for gaining market share there and maybe sustaining some of the higher-level growth you're seeing in Crop at the moment?

And then, second question, just on Consumer: firstly, I think you've been launching and bringing a new OTC switch, Astepro, to the market. Could you talk about, maybe, how you see the potential of that, how that is contributing to growth and how you see that contributing to growth, going forward?

And then, more broadly, on Consumer, the cost-of-living crisis is hitting around the world, as we know. So, we have had a very good exit from the pandemic of consumer health, people are buying lots of brands but do you think that the growth of branded – the branded OTC market will be hit, maybe, in the second half, maybe in 2023? Just thoughts there.

Thanks very much.

Rodrigo Santos: So, let me start first and a great question. So, next season, 2023, we're going to have trials with the short stature corn in the US with the breeding version. Of course, the biotech version will come by the end of the decade but we are excited about that opportunity.

By the way, again, next week – me doing my commercial here – next week we're going to have the short stature corn combined with the CoverCress that we just announced, followed by HT4 in soybean. So, it is kind of an exciting opportunity to show the future but also I want to say that I'm very pleased with the performance of Crop Science this year as well. And that gives us the confidence of keeping the discipline on the execution that we are doing for the future years.

But your question is great because we are seeing, on short-stature corn, the highest awareness in terms of farmers willing to plant and willing to try the technology that we have seen in the last 5–10 years. It is really great what we are seeing in terms of expectations of the farmers and we are planning to have the trials next year.

Heiko Schipper (Member of the Board of Management Bayer AG, Consumer Health): All right, Richard. A couple of points on Consumer Health, first on Astepro. Yeah, this is an important launch for us. Allergy is a very important category. We were always good there, with Claritin but we were frankly missing a strong presence in the intranasal segment that had actually grown very good. And we were looking for something that was truly differentiated, and we found it. This is non-steroidal, which is important for consumers and it's also an antihistamine, so it works, actually, faster, which is also very relevant for allergy sufferers. It's a very unpleasant situation if you can't breathe properly.

So we feel very good about it. It's US-only for now, so we just started selling it in. This is not the allergy season at the moment, so this is sort of prepping it for, let's say, the September-October window and so it will definitely help, already, this year. Obviously, the bigger part of the allergy season is in the April-May period, so this is going to remain an important growth driver for us in the future, particularly because it's so differentiated.

Then, the more general question: how do you sustain growth in a consumer business at times of inflation? Is there a risk that store brands, or private-label brands, start to take share? It's obviously a very important question. It's not something that is the first time that we deal with those situations, of recession, so what's important in those times?

First of all, make sure you have strong brands and support them and bring innovation. You need differentiation. You need strong brands. They are much better protected than weak brands. And I think we have a very good portfolio. We are going to need to keep innovating and not just innovating on the high end of the market but also come with more affordable propositions that don't necessarily mean lower margins but you can find a different price point strategy.

So those are all things that we are working on. Obviously, the extent of the inflation is very high, probably quite particularly in the developed markets, so we are tracking this. For the moment, we are not seeing it but rest assured, this is very high, also, on our agenda.

Operator: Mr Vosser, are you finished with your question?

Richard Vosser: I am indeed, that was very good. Thanks very much. Apologies for not saying thanks.

Operator: You're welcome. The next question is from Tony Jones, from Redburn. Please go ahead, sir.

Tony Jones (Redburn): Yeah, good afternoon, everybody. I've got two left. I just wanted to circle back on RoundUp. Can you help us frame what the excess EBITDA is, on an annualised basis, so we can sort of think about what might end up reversing the earnings line, sometime next year?

And then a question on margin in Pharma: I think, year to date, we are at just over 30%. I think, in the release, you talk about some non-core business income. [Inaudible]. And then, secondly, what needs to change, or what do you need to do in H2 to meet the 32% margin [inaudible] guidance? Thank you.

Stefan Oelrich: So, let's then get started with the Pharma question, first, on margin. So, the first quarter, obviously we've been battling a couple of headwinds and I'm actually quite pleased to see that we're still coming in strong on our margin targets. Yes, we had some very small divestitures. We've also made, I think – this was published in the press – which were accretive to the margin but on a smaller scale.

So, for the second half, structurally, where we should see improvement on profile is we're seeing recovery on some of the businesses that were coming slow out of COVID, like our women's healthcare business in the United States, so that's slowly recovering. You have seen the entire market for long-acting contraception being quite depressed, coming out of COVID, so that's slowly coming back. We are seeing, obviously, a dynamic on the launch side. We are seeing the Xarelto VBP effect in the second half, mechanically, going away because we will have it annualised, then it will be offset against more VBP to come. But overall, from a margin perspective, we look technically a little better in the second half.

Tony Jones: Thank you.

Rodrigo Santos: So, let me go to the question on the glyphosate here. So, when we said the target the last time, we were together, we said that half of the growth would come from glyphosate, half of the growth would come from the core business. What we are seeing is that – a very consistent performance on the core business. Let me highlight that one because I mentioned about corn but also fungicides and insecticides. And this is very important. This is when I – when I talk about sustainable competitive advantages, this is our core business taking us for the next years as well. What we did in glyphosate – of course, we are growing even more than we planned initially, so now more than that is coming from glyphosate for the full year. We are having that impact. How much that will be next year is very hard to predict right now. I think that we are prepared for all the different scenarios that could happen with glyphosate, as we mentioned. We have that competitive position that I answered to Vincent, about our cost of production. But I want to reinforce my comment about our core business. This is our core of our innovation in our technologies, the launch that we are having in the market and we are going to continue to drive that and of course managing glyphosate as we should do. And we know this, for the last 25 years working with glyphosate, we know those different cycles and we're going to manage that one.

Tony Jones: Okay, thank you.

Oliver Maier: Thank you Tony.

Operator: The next question is from Laurent Favre from BNPP. Please go ahead.

Laurent Favre (BNPP): Yes, thank you. Good afternoon. I'm sorry but I've got one more question on glyphosate and Rodrigo, it's a question about what you're hearing on the ground in China. And I was wondering if you started to see a supply response and some of the generic producers actually looking for de-bottleneckings. That's my first question.

The second question is for Werner. I think you're on track to, I guess, beat your 2016 EPS records, at €7.70. I was wondering if you had any thoughts on the dividend for this year, also given that you are making progress on the deleveraging as well?

Rodrigo Santos: Yeah, so let me share a little bit of the – our intelligence, really, on China. Of course, after all the adjustments that were done in China because of the environmental impact and new regulations that we had, you have fewer producers of glyphosate there. Of course, in a more restricted production requirement than there was in the past. Also, recently, you have some impact in terms of supply in China as well for some specific events in some of their sites that we have. Again, this is something that we're going to continue to monitor. There is this concern about supply of glyphosate globally. We are prepared. We have our plans in place, but we need to continue to monitor that one and again, I feel that we are prepared for the different scenarios that we – could come on glyphosate for next year.

Werner Baumann: All right, Laurent –

Laurent Favre: Would you have any –

Rodrigo Santos: Go on.

Laurent Favre: Yeah, no, I was wondering: would you have any plans to actually de-bottleneck your sites in the US?

Rodrigo Santos: No.

Laurent Favre: The glyphosate sites.

Rodrigo Santos: No, we don't have plans today to increase our production capacity, no. We are around – the plant that we have today, that supplies around 40%, is what we're going to continue managing, probably.

Laurent Favre: Thank you.

Werner Baumann: All right, Laurent, then let me address your second question on the dividend. On – we have a policy that helps guide your – kind of the frame that informs your dividend payments and that is that we're going to be within the 30-40% range of our core EPS that we'd be paying out; and that's also the perspective from today for the dividend 2022, that's going to be paid out 2023. Yeah. Of course, it will be finalised once the year is over but that's the guidance that we have and it stays in place.

Laurent Favre: Excellent. Thank you very much.

Oliver Maier: Thank you.

Operator: The next question is from Keyur Parekh from Goldman Sachs. Please go ahead.

Keyur Parekh (Goldman Sachs): Hi and thank you for taking my questions. Two please, if I may? The first one, on Eylea: I would love to hear your thoughts on how do you see the outlook for this, in the light of increasing competition, especially as we go into 2023 and 2024?

And then, secondly, for Werner: Werner, you've mentioned the BASF litigation in your prepared remarks – the arbitration, sorry, not litigation. How should we think about kind of the potential outcomes here? How should we think about magnitude of those outcomes and what may be the recourses available to you, was the arbitration to go against Bayer?

Stefan Oelrich: So, thank you, Keyur, for the questions. First of all, I think you've heard us. We're really thrilled with our Eylea performance to date. Another double-digit increase: we're going to come out probably a little ahead, for the year, of where we said we would be in the beginning of the year. I think this is a testimony to the strength of this product and we are clearly the standard of care in back-of-the-eye here.

Now, to the future of the market, I don’t have a crystal ball but there will be, obviously, some new elements coming in: the launch of competition on the one hand and also generic, or biosimilar Lucentis that will be coming into play, so that could put pressure on pricing in the future. And faricimab, we’ll have to see. It’s early days. If I look at the trial data and do direct comparisons, it’s hard to see superiority to us. And then let's not forget that we will be coming out later this year with data on our high-dose 8 mg regimen for Eylea. So, we feel confident about the future there, giving all elements combined.

Werner Baumann: Alright. So, Keyur, let me address your question on BASF. So when we went through the process of the divestiture of our anti-trust assets, it was actually a process where different packages which supposedly could have gone to different acquirers were offered, and in the end, everything was then sold to BASF. That's where the controversy started relative to the adequacy of our cost disclosure. So that is actually at the heart of the arbitration process.

Secondly, we really don't know what the outcome is going to be, and we cannot put a number to it because, otherwise, we would have provided for it. And that is where, let's say, the potential outcome of the arbitration process was actually not on balance sheet but has always been captured in our contingent liabilities actually is a fairly big part of that. You're depending on the outcome. Because then you put, let's say, the max negative here that could eventually come out of it in the contingent liabilities.

So, it is actually a major part of the contingents that we reported as part of our annual report. But we really don't know what's going to come – what's going to be the outcome of it. Once we have the arbitration ruling, you know, the possibilities of recourse, should we not like it, are very limited, to be clear on that also. So arbitration is typically by and large binding and unless there's really some stupid stuff that is blatantly obvious it is binding for both parts.

Keyur Parekh: Thank you.

Operator: The next question is from Sebastian Bray from Berenberg. Please go ahead.

Sebastian Bray (Berenberg): Hello. Good afternoon and thank you for taking my questions. Could I start with one on glyphosate, please? Could you give us an update on the total number of cases filed and the number settled? Last count, I think this was 140,000, 105,000, respectively. Has this changed?

My second question is on cost. Is the run rate of €600-700 million EBITDA in the reconciliation line a reasonable number to take for 2023?

And my third question is on the impairments of about €1.4 billion net taken to Crop Sciences. Why is now a good time to do €750 million, or there or there about, for the cotton business given that prices are so high at the moment? Thank you.

Werner Baumann: Alright, Sebastian, thanks for the questions. I will address the first one, on the settlements, and then Wolfgang will take the other two.

So, we have roughly 141,000 claims here, that have been served, out of which about 108,000 here, have either been settled or for that reason have deemed to be ineligible. And that's the current status. So, no massive movements that we see. We see a few cases that are being added but there's no dynamic in it.

Wolfgang Nickl: Okay. Hello, Sebastian, hope you're doing well. I'll take the other two. Let me start on Recon. I'll just give you the complete package. You have noticed last year, we were just shy of €500 million and we then increased the guidance to €500 million to €600 million. And the main reason there was – I think I said that with the guidance – that we are starting to invest in an update of our ERP systems. And since that is not division-specific, it's just recorded in the initial phase in the divisions.

What we are seeing now is, as it relates to our long-term incentive which is highly depending on three items. It's TSR, it's ROCE, and it's sustainability. We do see with the stock price that has, albeit, we don't like where it is in totality, but it has increased quite a bit, in particular as it relates to the EuroStoxx. And the improvement in the business also drives the ROCE up, which is great news. So that drives the LTI provision that we have to take because we need to assess that every quarter up.

We have the principle, Sebastian, that we put 100% of LTI always in the divisions; and whatever is over or under, we balance in Recon. I think that's a really good practice because, otherwise, you have multi-year events distorting one year for the division. So that's the reason. I can't give you guidance today for Recon for next year, I don't know what the stock price is doing, but operationally, I think we are fully in line. There are no significant changes there.

As it relates to the impairments, let me – I'm sure you understand as well as I do, this is to a very large degree mechanics. Just to ground everybody, we as a company have a significant amount of intangibles on the balance sheet. It's about €37 billion in goodwill and €26 billion in other intangibles. When you – when you have – you evaluate that at the end of every year or more frequently if you have a triggering event. And the triggering event last quarter was – because we all know interest rates went through the roof, and that was paired with a higher beta because of the volatility in the markets, so it drives WACC up. So now you need to discount your future cash flows for all these assets at a much higher discount rate and that drives the impairment needs.

You've also seen that we had that last year, and then parameters change and you write it up after some time. Now, on goodwill, you know you can't write back up, but on other intangibles, you could write back up. The effects for the total company of about €1.4 billion were to a large degree driven by WACC. For cotton, it was also WACC, and there were probably some conservative business assumptions that we review with our annual cycle, will review that from time to time. Nothing that I'm concerned with at all. Non-cash, it's bookkeeping.

So, I hope that answers your two questions.

Sebastian Bray: Yes. It was very helpful. Thank you.

Oliver Maier: Great. Thank you, Sebastian. And, Operator, I think we have time for about two more – two more questions.

Operator: Okay. Then the next one will be from Jo Walton from Credit Suisse.

Jo Walton (Credit Suisse): Thank you very much. Two questions, please. Firstly, on the ag side. You've talked, Rodrigo, about the excellent performance of the underlying business, but you had a strong upgrade from 7% to 13% top-line growth. Can we just understand what proportion of that upgrade comes from high glyphosate pricing and what proportion comes from the underlying business? Because I think the suspicion is the vast majority of it is glyphosate which of course may reverse.

And then associated with that, you also talked about lots of new product introductions going forwards. Just to help us understand this, do you get to a decent level of profitability with new products very quickly or should we think of the next couple of years as being heavy investment years as you roll out these new products at the same time as your glyphosate excess profitability may decline whenever that happens?

And just finally on the fin- – helpful financing question, please. The €1.8 billion, is that a good guide going forward for your underlying charge given the higher level of interest rates or are there some one-time events that mean it won't be as high as that next year? Many thanks.

Rodrigo Santos: So let me start and I will answer your question very precisely here. Yes, this season with a 13% guidance that we have, we have a significant contribution of glyphosate on that growth, no doubt on that one. When we said at the beginning of the year that we have half of the growth coming from glyphosate, half of the growth coming from the core business, now with the update, glyphosate will represent more than that. It's a significant impact this year. Also, because of the – all the elements that we capture on this guidance as well in terms that we mention, that was mentioned by Wolfgang, when we talk about the cost impact of production, commodity price, oil, energy costs, and so on.

What we see for the next years, when you asked me the question about the new technologies, now when we launch, and this is a little bit of the experience that we have, we normally drive penetration of those new technologies, new products very high. Especially on a scenario that we have today, that the farmers are looking for highest yield possible to help on the food security, I think that we are seeing adoption of all these new technologies even higher than we used to see in the past. So, we are confident that we are going to continue launching these new technologies. The penetration is high, we plan for that. And that has a positive contribution on the margin as well.

For the next season, clearly, the core business will play a more important role for the next year. And that's why when I mention about the corn and soybean you ask pricing that we are planning for the middle of this year is an important component of that. But, yes.

Wolfgang Nickl: Let me take the – I think you were talking about the core financial result which we originally guided to €1.5 billion, now €1.8 billion. I gave you the three reasons on the call. One was the revaluation of assets – of security-backed assets. That will completely depend on what the stock markets and bond markets will do. I can't predict that.

There was one that's related to getting cash out of Argentina. That is probably something that will be with us for some time, but it's very hard to predict.

And the third element is indeed interest. I mean, if you look at the €1.5 billion that we went into the year with, a good two-thirds of interest expense. And there, we are relatively good protected as long as we are on the current bonds, and we have in many cases fixed interest rates. But you also saw that we replaced the hybrid at higher interest rates. And I think you should assume that if we have to refinance over the next two or three years, depending on the development of the interest cost, there could be a slight uptick on these numbers. But we'll get to guiding these numbers when we get into next year. But interest is obviously for a company with €33 billion in net financial debt an important component.

Jo Walton: Thank you very much.

Operator: The next question is from Falko Friedrichs from Deutsche Bank. Please go ahead.

Falko Friedrichs (Deutsche Bank): Thank you very much. I have one last one on Eylea. Trying to understand a bit better the strong performance in H1 13% growth. I think your initial guidance for the year was mid-single-digit. Is there any reason why it should slow down significantly in H2, or can it actually continue to grow at this rate in the second half? Thank you.

Stefan Oelrich: Thank you, Falko. So we're seeing – we're seeing continued strong demand for Eylea. So, second half, we have the introduction of competition in the market. So that may slow down acquisition of new patients. But I remain confident that we're going to have a strong year for Eylea. But it's hard to read when you compare what market entry of faricimab has done in the US and how that's going to translate to Europe. We feel strong about our data. We feel strong about our safety and we'll see the rest in the second half.

Falko Friedrichs: Okay, thank you.

Oliver Maier: Thank you, Falko.

Operator: Ladies and gentlemen, we kindly ask you to understand that we have to close the call now due to the time interest. And I'll hand back over to Mr Maier for any closing comments.

Oliver Maier: Thank you, Operator. And thanks to all of you for your time and your attention today and the questions, greatly appreciated. Before we call – before we close the call, I also would like to remind you of the upcoming Crop Science Field Technology Showcase on 11 August. Really looking forward to getting out in the field and seeing some of you; hopefully, most of you. We still do have some seats available, so please reach out if you are interested. It's always a great event.

And this closes our call for the day. Thank you.

Operator: Ladies and gentlemen this concludes the Second Quarter 2022 Investor and Analyst Conference Call of Bayer AG. Thank you for participating. You may disconnect. Have a good day. Goodbye.

[END OF TRANSCRIPT]

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