Bayer AG
Investor Conference Call

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Transcription

Speaker:
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Wolfgang Nickl, CFO
Oliver Maier, Head of Investor Relations

Oliver Maier: Thank you very much Emma. Good afternoon, good evening and thanks everybody for joining us on such short notice for a call on our just announced accelerated transformation program followed by a short Q&A session. With me on the call right now is Werner Baumann our CEO and Wolfgang Nickl our CFO. As it is late, I will cut it short and start right away by drawing your attention to the cautionary language that is included in our safe harbor statement that is included in the press release and all the material that we just issued I think about an hour ago and with that, I will hand it over to you Werner.

Werner Baumann: Yes, thank you Oliver and good afternoon and good evening to all on the call. Following the news that we shared earlier, I would like to start by giving you some background on our decision to accelerate our transformation and generate additional operational savings to address a challenging market environment, enable additional float investment at the same time. I am stating the obvious when I say that this year is extraordinary in many regards, impacted by an unprecedented pandemic that is far from over. And while COVID-19 has demonstrated the systemic relevance of our businesses, we also see substantial pressures in our key markets, which are hampering our growth. Let me first share our view on 2020. Like most companies, we see continuous headwind from the pandemic in 2020 that pressure our top line in the Crop Science and Pharmaceuticals division, however, for relentless focus on strict cost containment measures and the acceleration of existing efficiency programs we can confirm the outlook for 2020 be communicated during our Q2 investor call in August. We continue to expect our core earnings per share to be at EUR6.40 to EUR6.60 including exchange rates at June spot rates for the second half of the year, and EUR6.70 to EUR6.90 with exchange rates at prior year level. This is always against the background of the more detailed discussion we had in the Q2 call when it comes to the contributing effects to stabilising our results for 2020 despite a fairly significant loss of top line growth in the year. Looking beyond 2020, we reviewed the mid-term business situation as a part of our annual strategic planning processes. Clearly, from a macro-economic perspective the world has changed since we communicated our mid-term targets in November 2018, and we do find ourselves in a new and more challenging operating environment. So I would like to illustrate that division by division. We expect the COVID-19 situation to particularly weigh on our Crop Science business in the second half of 2020, and then throughout fiscal 2021 where diminished ethanol and cotton demand in the US as the potential to reduce acres planted in the coming season. We now expect a low growth environment in the agriculture market in the near term, spurred by higher stock to use ratios in our key crops and competitive dynamics in the US soybean market. Sales and earnings are also burdened by the detrimental currency developments, which impact our absolute earnings. For example, in the second quarter of this year we saw a devaluation of 36 percent for the Brazilian Real compared with previous year average. The negative currency development Brazil will particularly weigh on the second half of 2020 as the majority of sales from Brazil is generated in these months to come. We expect these dynamics to weigh on the growth performance of our Crop Science business with corresponding downward pressure on earnings and cash flows. Against that background we expect to take non-cash impairment charges in the mid to high single digit billion Euros range on assets in the agriculture business in our Q3 results. Let me emphasize that our company remains in the best position to shape the future of the agricultural industry. Our portfolio of crop protection seeds and trades and digital capabilities remains unmatched. With game-changing technologies like short stature corn and next generation herbicide tolerance in soybeans on the horizon combined with the leading digital agricultural platform we remain very excited for the mid to long-term. Let's now move to our Pharmaceuticals division. While the COVID impact on our Pharmaceuticals business was most pronounced in the second quarter, the situation is expected to sequentially improve for the remainder of the year and we anticipate that the business returns to growth in 2021. To ensure long-term growth, free cash flows will increasingly be invested in external research and development and in licensing and also bolt-on acquisitions in order to further strengthen the Pharmaceuticals pipeline and build a next generation innovation platform. Lastly, the Consumer Health business is expected to sustain its good growth trajectory and we expect that it will outpace peer growth in the coming years. Taking all of this in consideration we now anticipate growth and cash flows in 2021 to be lower than planned and expected. We now do expect revenues for 2021 to be at 2020 levels while core earnings per share for the group for 2021 will be slightly below 2020 levels, all based on constant exchange rates. As a consequence, we have decided to enhance and accelerate our transformation program announced in 2018. Measures will be defined to maintain our competitive profile, generate margin improvements, and free up resources for needed investments into innovation and growth as well as debt reduction. The annual savings from these additional measures are expected to be more than EUR1.5 billion as of 2024 and may include additional job reductions. We will also look at selective divestments of certain brands and businesses below the divisional level and further optimise our working capital and also capital expenditures. Let me underline that just as in the past we will implement the planned measures in a fair and responsible manner and after discussions with relevant internal bodies including our employee representatives. In terms of capital allocation, deleveraging our balance sheet remains a key priority. Also, our dividend policy which targets the distribution of 30 to 40 percent of core earnings per share to stockholders each year will remain in place; however, pay-outs in the coming years will be at the lower end of this corridor as compared to being at the upper end or even exceeding this corridor in previous years. Lastly, let me reiterate our commitments to investments in bolt-on acquisitions and in-licensing opportunities predominantly in Pharma to build a next generation innovation platform in both our pipelines. For Consumer Health, we will also selectively invest in external growth. We will provide our specific guidance for the upcoming year in the end of February 2021 when we publish our full year results for 2020, and also provide an updated mid-term outlook at a capital markets day thereafter. Despite the challenges, we are facing our company's potential for long-term growth and profitability remains intact as the need for innovative healthcare and agriculture solutions has never been more evident than now. Our life science business hold leading positions in markets posed for long-term growth and we are well equipped to lead and transform our industries and help society tackle major challenges. Over decades we have demonstrated great resilience and the ability to evolve and just as in the past we will adapt to this new reality, act swiftly, secure future growth opportunities and contribute to our vision:Health for all, and Hunger for none. With that, I will pass it back to Oliver to open the Q&A session.

Oliver Maier: Okay, great. Thank you so much Werner. Let us move to the Q&A Emma straight away. I think you can open up the lines for questions now.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question/ answer session. If you have a question please press the star, followed by the one on your telephone. If you wish to cancel your request, please press the star, followed by the two. If you are using speaker equipment today, please lift the handset before making your selection. One moment for the first question please. The first question comes from Mr Leuchten. Please state your name, company name, followed by your question.

Michael Leuchten: Thanks very much, it is Michael Leuchten from UBS. Three questions please. One, just the timing, sort of whether you could give some colour on why now after the update you gave us with Q2. Second question is on the synergy targets, the updated synergy targets. The timeline here for 2024, the run rate at 2024, why have you picked that as a landing zone for the EUR1.5 billion and then a question for Wolfgang. On foreign exchange, your commentary for 2021 is on constant FX. Where we stand today can you help us with what the FX impacts are for 2021 so we can try to work out what the reported number might look like? Thank you.

Werner Baumann: Thanks Michael. So, on timing, this is, let's say, a situation where we would much rather have you informed as part of our regular disclosure but as things go, once we have seen that we have a situation that requires us to be right out there with you to tell you what we are seeing, we have chosen to do that tonight because we do have number one, not insignificant earnings challenge for the 2021 year and we reviewed the mid-term outlook for our businesses as part of the planning process that has come to an end today and that has triggered the communication tonight. The outcome has been quite significant for 2021 while at the same time we remain very, very confident and positive for the following years to come, and that has been the main trigger and on top of that with the lower growth environment in Crop Science, it of course has also led to the direction reassessment of our balance sheet values and a fairly educated perspective right now that is part of firming it up now. In our quarter three closing we will see that impairment in the mid to high single digit billion area. The synergy targets, the running programs are well advanced, all of them actually and they have actually contributed more than expected also towards mitigating the situation in 2020. Just remember that we expected let's say a solid growth of about 4 percent plus this year which on our top line of 40 billion plus means somewhere in the area of about 1.8 to 2 billion on a like-for-like basis and we just don't have the growth due to the effects that have already been described. So, making ends meet means contingencies and acceleration of existing programs and then of course, also things like your variable paid will be way down so that accrues back into the bottom line for 2020 and that has helped the situation in 2020. Now since our programs are accelerating we are now sitting in 2020 looking at the next three years to come which I think is a good timeframe to seize the opportunity for further savings and adjust our infrastructure further to a lower growth environment, actually across the entire value chain. So, there is no magic behind the 2024 number, it is just that three-year perspective as it has served us well in framing the prior programs and now we enhance, accelerate and also go into your further contribution pools with that 1.5 billion target. And now over to Wolfgang.

Wolfgang Nickl: Yes, let me, Michael give you a little bit of colour on the currencies that is obviously as Werner pointed out highly, highly volatile. I will tell you a little bit about this year and an approach that you could use for next year. First of all, the 6.40 to 6.60 that we have reconfirmed today, I just want to reiterate that again, that was on June spot rates and if you go back to the investor deck back then, page 13 for your reference, you will see in the footnote that we assumed 1.12 for the US Dollar and 6.09 for the Brazilian Real. Those are the two major impact currencies. We have of course questions on Mexican Peso, on Russian Rubel, Turkish Lira and so forth but those are the two major impact currencies. So, since then we have seen these currencies go up and down. The US Dollar right now, as you know, is in the 1.17 range and highly dependent on what the US election will do probably. The Real has gone all the way to 6.60 then it went back down to 6.20 and now I guess it is at 6.59 as of yesterday or something like that so we all need to be clear on that as we look at this year. What we have done in our statement where we looked at this year versus next year core EPS and that led us to the statement that it will be slightly below 2020 level in 2021, we used the forward rates; that is the best way how you can predict what you have next year. At the time we used the 12 months forwards but you can also use the eight months and we will continue to give complete transparency as we go on.

Werner Baumann: Thanks Wolfgang.

Michael Leuchten: Thank you.

Operator: The next question comes from the line of Mr Vosser. Please state your name, company name, followed by your question.

Richard Vosser: Hi, thanks for taking my question. I have a couple of questions please. First of all, maybe a follow up on that FX impact. I mean just to help us we can of course do some of the maths but that 6.40 to 6.60 is therefore lower than given where the US Dollar is I would assume. So, just your thoughts on that, maybe give us the absolute impact in Euro millions or EPS points would be helpful and then just a question on the Crop Science growth environment. Maybe thinking about volume and pricing you call out a price pressure on soybeans but just that you highlighted the acreage impacts but your guidance of flat top line revenues, that see us with Pharma and Consumer growing next year it seems would suggest that Crop Science is down. So, could you talk about the magnitude, if you can, of the decline in volume through acreage of your major crops and how you see that picture in '21 and maybe thinking about beyond that you said the growth would be improved, how should we think about that and what gives you the confidence, I suppose, '22 could be still a depressed level of impact, hopefully not because of vaccines but just your thoughts there and then just one question on Pharma growth. Clearly, just to give us a bit of a dimension on that Pharma growth. Clearly this year is depressed because of the impact of COVID so we are anticipating; I think the market is, quite a big bounce back in pharma. Is that the sort of picture that you are seeing of significant mid-single digit growth in Pharma or any colour there in Pharma would be useful too. Thanks very much.

Werner Baumann: Yes. So, let Wolfgang and then I take your other two questions Richard.

Wolfgang Nickl: Richard thanks for your question and I hope you appreciate because it is changing every day that I can't link it to a specific number but I want to help you with what we always say. If you look at our currency basket, a one percent change to the Euro leads to about a 350 million impact on revenue and about 100 million impact on EBITDA. So you can see that there are quite significant moves possible and I want to, on the flipside of that, of course mention if we look at the US Dollar, when the US Dollar weakens it is a problem for us on the P&L but of course, on the balance sheet we have a lot of our debt in US Dollar so it actually helps us, and there the sensitivities, a one percent move is about 200 million in debt level. That is as precise as I can get today but I hope it helps you Richard. Over to you Werner.

Werner Baumann: So, first of all, on the overall growth we have framed directionally so that you have some orientation what to expect next year. Don't nail me on 100 or 200 million on the top line. Of course, this is let's say fairly preliminary and will be confirmed and then firmed up with much more specificity as part of our full year disclosure at the end of February 2021. Now when it comes to the growth environment let me start with Crop. I think if I recall the discussion during Q2, Liam already went into some of the drivers that we expect to have an impact not only on the second half of the year but also beyond. One of the things that he talked about was that we simply see less demand due to the COVID crisis, and the one specific example that was mentioned was the significant reduction on bioethanol production since there is substantial reduction in mileage that is being driven and that has done two things and we see that to burden 2021 as well. Lower mileage, ethanol capacities are down, stock to use ratios are going up, price pressure on commodities, which will overall dampen the sentiment in the agriculture market going into 2021 and we think that there is going to be a transitional effect in that year before all of that washes out again, and hopefully we will get back to a more normal environment in 2022 and beyond. So, our clear perspective also with the new launches that are coming, our short stature corn for example, is that we will resume growth in 2022 with a changed environment where that immediate COVID effect has then vanished. So, in terms of acreage and the specifics by crop, Liam can certainly shed some light early on perspective quarter three certainly for the southern hemisphere, but overall acreage for full year fiscal 2021 would be shared as part of our annual earnings release and the guidance for 2021 in February. Now let me quickly come to Pharma. Pharma was actually impacted, and we talked about it already in April and then confirmed that at the end of quarter two. There is a significant reduction of elective treatments that neared close to double-digit erosion of our top line in quarter two. Now, against that backdrop, we said that we expect our full year top line to be close to level with 2019, maybe slightly below but for that to happen we have to see sequential return to growth over the remainder of the year and that is exactly, you know, we are not at the point of discussing quarter three, but you should assume that with the confirmation of our guidance today for the year that that is one of the major contributing factors, that as a matter of fact, we do see that. Now going into 2021 we expect to let's say resume growth. So that would be a typical V-shape recovery in that business and then last but not least, just for completion sake, of course, our consumer health business has quite a bit of tailwind. Not across the entire product portfolio but certainly in nutritionals that has contributed to significant absolute growth but quite frankly, also a remarkably strong performance relative to where our peers are in 2020 and that will carry on in '21 as well.

Richard Vosser: Thanks very much. Very helpful.

Operator: The next question is from the line of Mr Parekh. Please state your name, company name, followed by your question.

Keyur Parekh: Hi, good evening, it is Keyur Parekh from Goldman Sachs. Three questions please if I may. The first one is: clearly what you are guiding to today or alluding to for 2021 represents roughly 14 to 15 percent delta versus where consensus is for next year. So, I would be interested in your thoughts on where the difference between consensus and your planning assumption lies on a divisional basis. So that's question number one. Question number two is, at the time of the Monsanto acquisition you had guided to double-digit EPS accretion in the third full year. I was wondering if in the context of what you are announcing today, if you can give us an update on where you think that accretion would actually end up being. And then lastly, as you look beyond 2021, if you look at the period from '21 to '24, in the context of your long-term plans today, how widely off the mark do you think consensus is? Do you think that underappreciates the V-shape recovery that you were just talking about or do you think consensus across the board is too high? Thank you.

Werner Baumann: Thanks, Keyur. So, first of all, let's say our perspective of our own plans that we have announced today, we know where consensus is, I would guess that the 14 to 15 percent that you are mentioning, it's about 10 percent I guess, is what the number is and of course, it is a combination of things. Growth expectations that underlie the consensus are different in 2021 compared to what we see, that is certainly a major contributing factor. We do not know which currency expectations and assumptions are baked into the consensus so there is a little bit of tealeaf reading. I would assume that the major contributing factor, without going into each and every business, quite frankly, is that you net-net will see a very different growth trajectory in 2021 compared to the one that is underlying the consensus. On the individual businesses, I think I have already covered that for 2021 that the V shape recovery, just want to make sure that that is well understood, relates to our Pharmaceuticals business. That is where we see that. So, Consumer Health was not impacted, you had continuous growth trajectory, it is actually a little bit better than we expected at the beginning of the year and the market environment that really weighs on us and with that on the top line for the company going into 2021 is what I described for the Crop business. Maybe with the additional topic that I mentioned or forgot to mention, there is of course a fiercely competitive environment in the soy market that contributes on top of that which is not a reflection of COVID quite frankly but more the competitive environment with Dicamba and the strong Enlist platform that we compete against. Now in terms of the double-digit EPS accretion that we had guided for as part of our midterm aspirational plans in 2018 is totally clear that that is out of the question with a flat year 2020. You just have to look at 2020 being a lost year where the top line related margin does not accrue to our bottom line and with that there is also going to be missing going forward and then the knock-on effect on the overall situation that I described, in particular for Crop, will hold back our growth for 2021 as well. Now, I am not sitting here telling you that we can't do anything; we are very, very clear that we are addressing our cost structure in order to make sure that the lack of growth in 2020 and '21 does not drop down into our margin profile, but that we do something to restore it and then move on further in improving it. The details for how that is going to pan out over 2021 through 2023 and '24 is what we would be sharing with you as part of the mid-term guidance that we give once the work has been done which means at the end of February with full year 2020 disclosure. And last but not least, maybe just to add that that as I mentioned, one of the reasons for being on the call today, is that with the midterm planning that we have concluded today we see that your gap between where we think we are going to be in 2021 and where the market is but that gap you should expect would close over the next years to come because that's also one of the reasons why we put all these measures in place.

Keyur Parekh: Sorry, Werner, just to clarify that last comment you made. So, you think the gap versus where your planning assumptions are versus consensus narrows beyond 2021? Does it actually close by the time you get to 2024 or do you still see a gap?

Werner Baumann: So, what I can say, maybe help you a little bit is that the gap we have in 2021 will narrow down and become a substantially smaller gap, maybe it can be even eliminated. I can't tell you right now but you should assume that what we start with as a gap to consensus in 2021 again, driven by a no growth or very, very low growth environment that we see for our business in 2021. They are not carried through the entire period of our midterm planning but there will be measures in place to close that gap, and on top of that beyond the cost measures and the structure measures there will of course be growth contributions beyond 2021.

Keyur Parekh: Thank you.

Operator: The next question comes from the line of Mr Favre. Please state your full name, company name, followed by your question.

Laurent Favre: Yes, good evening, Laurent Favre from Exane BNPP. Two questions please. The first one, when we look at all the moving parts since Q2 I guess on the agriculture side, if anything, we have seen a lot of good news on soft commodities both on corn and in soy. So, I was just wondering if you could tell us a little bit more about some of the newer information you've had over the past couple of months, and in particular around soy pricing. Are you able to share a rough idea of what you are doing with your price counts for 2021 and a second question on the dividends. When you talk about being at the lower end of the range on the pay-out does that apply as well for the 2020 dividend? So, am I right that you are flagging that the dividend could be closer to EUR2 than to 2.80? Thank you very much.

Werner Baumann: Maybe on the first question Laurent, Liam just stepped in. Maybe Liam can address your question on the commodity price and I would then ask Wolfgang to briefly talk about your dividend.

Liam Condon: Yes, sure. Thanks a lot Laurent. So, maybe first in general because you start out as well rightly so with second quarter results, and leading now into the second half and we pointed out in the second quarter the biggest impact in the second half is actually the currency decline that we see of the Brazilian Real which has actually even gotten worse compared to the situation that we had in Q2. So, that is the single biggest negative impact we have in the second half of the year which also carries over into '21. I think that is really important and the second one is simply, we have of course, now all the true ups from the third quarter. So we can see what has happened with corn and cotton where there was first impacts, let's say, lower, clearly lower acreage than was originally expected. So, let's say, that has become clearly apparent right now and as we look forward to next year, given the overall bioethanol demand situation, it is hard to imagine that demand is going to pick up. So from an acreage point of view we don't really see any expansion possibility there and the third element that I think is really important to remember, and Werner referred to it, we have this highly competitive situation in soybeans and we are very confident that we will get our approval for XtendiMax in the fourth quarter but reality is we don't have it now and as long as we don't have it we can't sell product and so we are already in selling season. So these all impact us and carry over into '21, and that's just the overall situation.

Laurent Favre: So, Liam, if I may just jump in. So, when we hear that the guidance for the second half at group level is maintained and at earnings level, am I right that then from a divisional standpoint it's a bit tougher on Crop Science compared to what you guided to at Q2 level?

Werner Baumann: I did not get that at all. Can you repeat the question please?

Laurent Favre: Well, that the group guidance you have maintained at 6.40, 6.60 core earnings, but am I understanding right that compared to the divisional guidance you gave at Q2 stage for the full year that the Crop Science side of the guidance is a bit tougher?

Just particularly because I see it and everything that Liam just mentioned.

Wolfgang Nickl: Yes, Laurent there are many moving parts but I think that is something I think Werner had hinted to that as well that that is a decent assumption offset of course by other parts of the business. Let me also take your dividend question. Let me stress again and it was in Werner's prepared remarks as well, we are sticking to the policy. We have just paid above the upper end for the last two years at least, and what we do in this situation right now we are saying that we are orienting ourselves at the lower end which is 30 percent and if you would take that 6.40 to 6.60 range achievement in 2020 so the '21 payment for '20 would be somewhere in the 1.90 to two range. We'll cross that bridge when we get there but you should assume that we apply this direction ASAP.

Laurent Favre: Thank you very much.

Wolfgang Nickl: You're welcome.

Operator: The next question comes from the line of Ms Walton. Please state your name, company name, followed by your question.

Jo Walton: Thank you. Jo Walton from Credit Suisse. I would just like to tackle the cash impact here. So, you are accelerating, restructuring, should we see a higher level of restructuring charges and cash-out? You will obviously be saving a fair amount of money because you will be paying out a lower dividend. You've talked though about doing some targeted acquisitions. So, on the one hand you want to pay down debt, on the other hand you are talking about doing some targeted acquisitions. I wonder if you could talk a little bit about so we can understand that cash element and of course cynically one could say that you are concerned that it's going to cost you a lot more than you had originally anticipated to close out Roundup, and therefore that is one of the other reasons that you are looking to sort of horde cash. So, it's that cash element I would like you to address please.

Wolfgang Nickl: Yes, I can do this Werner; thanks for your question. So, let me start out by saying for the current year we continue to forecast a net financial debt in the 33 range like we said in July as well and then you're right, some of the cash projections we have to address at the beginning of next year when we look at the midterm forecast but there are puts and takes. Of course, we have lower growth so there will be a lower free cash flow. I don't think we are in a position to say what an impact on the settlements would be, we're preparing now our formal submission right now, and yes, we will do some bolt-on investments like we said in the scripts. On the other hand, you mentioned the dividends. You will probably have also noticed in the script that we are also addressing working capital and CapEx, we will look at that, and we are also looking at the potential to do further divestments at the subdivision level of course and then on the savings the greater than 1.5 billion effective in 2024. Yes, you always have the situation that in that case you have one-time cost before you have the savings effective so that is a bit of a drain and we have not defined the measures so it is a little bit hard to tell you what the one-time costs are. It will depend of course on the type of measures and the regional distribution, but as orientation, just if you look at the PMI for instance, I think it was around 1.5 times and on the Bayer 2022 it was about 1.7 times and absent any other number you may use that as an orientation. Reducing net debt continues to be a major focus item of ours and I think that is very clear and that is why you see these decisive actions that we outlined today.

Werner Baumann: Maybe adding to what Wolfgang has just laid out I think if I understood you correctly, Jo, you mentioned that we might be kind of hording money for a bigger than guided for Roundup settlement. On that one, there is no news and that is certainly not the subject of discussion, the communication that we are sharing with you as we speak.

Jo Walton: Can I ask please if you could be a little bit more specific as to where some of these savings are likely to be coming from? I thought you already had looked in the cupboard a fair few times in the Pharma business, you've got an excellent Consumer business. Should we assume that the majority of the restructuring is coming once again from the agrochemical part of the business?

Werner Baumann: Yes, that's a very good question Jo. So, let me frame it as follows. Our Consumer business is beyond the turnaround and we are setting course towards let's say sustainably outperforming our competitors. That is what the task and actually also the ambition is. So, while the Consumer business will benefit from some further structural, infrastructural, savings and efficiency measures, that business is looking towards accelerating growth and that is where some of the investment is going to get into, and then we will give you a further colour on the profile of the business going forward. As I mentioned earlier, if anything, it's doing better than originally expected with actually some COVID related tailwind to be truthful. Now the savings, the majority of the savings will come from the following areas: it will come from our functional infrastructure, in the support functions and it will come from the value chain of our Pharmaceuticals business, and also in parts, so not the majority, and also in parts from the Crop business. We are not completely through with our synergies that come from the integration. We do have to adjust our overall business operations to say a lower growth environment and that is what we are doing across the enterprise. So, it is actually contributing from different angles of the businesses and the functions towards the 1.5 billion.

Jo Walton: Thank you and just to finalise, Liam said that you were completely confident that you would get the Dicamba re-registration. If for some reason that was delayed and it wasn't there by December, would there be another adjustment to these numbers?

Liam Condon: Thanks Jo. So, the only thing, maybe two points on this: one is we got the XtendFlex registration, the import approval from Europe on Monday which is really important for the coming season because we want to launch on the 20 million acres in the US, and now the head of the EPA announced yesterday that he expects a decision by middle of October. So that's our base kind of assumption along the lines what we said that we expect approval in fourth quarter.

Jo Walton: Thank you very much.

Operator: The next question comes from the line of Mr Bray. Please state your full name, company name, followed by your question.

Sebastian Bray: Good evening, this is Sebastian Bray of Berenberg Bank speaking. My questions would be as follows please: the impairment to the agricultural growth business must in parts be linked to lower long-term growth assumptions. Relative to the 4 percent per annum top line growth guidance provided at the time of takeover, is the number more like one to two percent per year? My second question is on the potential divestments from Bayer. The portfolio looked pretty well rounded as it stands. Where exactly could these come from and my third question was on royalty fees. Liam, you mentioned the competitive environment in soybean. Could you perhaps quantify the reduction in royalty, if any, related to licensing of traits to this area for 2021 given that this is disproportionately a contributor to profitability of the group? Thank you.

Werner Baumann: Many thanks for the question. Maybe I start with the first two and then Liam is going to take on the royalty question. So, what we have seen against our original assumptions at the time of announcement is that the growth assumptions for the market that were actually the result of the market research that was used at the time have not materialised for the industry. There have been different impacts that have been weighing on the growth. Be it the African Swine Flu, be it the trade tension, or as of recent as we, you know, just talked through, the COVID impacts, all of which have led to a substantially lower growth for the last two and a half years looking back, and it was certainly with 2021, as I mentioned, be another lower than trend growth year that we have in front of ourselves. We continue to expect the industry to grow along the secular trends that we see but clearly what we have under our belt and the immediate future looking at 2021 and maybe 2022, a little bit lower still is what we have to deal with. If you summarise those years that we have lacked the growth we would have needed also to further increase our absolute earnings, it is totally clear that the impairment is driven by that lack of growth. We have delivered and we are delivering actually a higher than expected synergy savings. We have delivered and are delivering higher than expected top line synergies that partially mitigate, but we cannot outgrow to the extent of our original assumptions in market that doesn't grow at the level we need it to grow to begin with. So, our ambition to grow above the market is unchanged, that is what your leading business should do, but we cannot decouple ourselves from the market environment and that is the long and the short of it. When it comes to divestments, yes, our portfolio overall is well rounded but just as much as we look at regular pruning of the portfolio, below the divisional level we look at smaller brands that we can sell or smaller businesses that we can sell. That is what we are looking at right now. There is no Board discussion yet set on the specifics on that one. So, nothing to be shared at this point in time but that it is on-going and with that I hand it over to Liam.

Liam Condon: Thanks Sebastian, I can keep this fairly short. So, the royalty situation is basically immaterial for soybeans for us next year, these are multiyear contracts. The issue is rather simply that we do not yet have the registration, as I mentioned, for XtendiMax and as long as we don't have that we can't promote the system, and that is the competitive disadvantage until we get the registration. That's the real issue.

Sebastian Bray: That is helpful. Thank you for taking my questions.

Operator: The next question is from the line of Mr Verdult. Please state your full name and your company name, followed by your question.

Peter Verdult: Thank you. I am Peter Verdult from Citi, apologise for any background noise. I was caught a little bit on the hop by the short notice of the call. You've articulated obviously that, you know, the operational challenges facing the business are going to play out through 2021. The equity narrative or the equity story takes another step back but these relay the litigation side of the story that could potentially improve in the short term. I know you earlier said there is no news on that but just can you help, to the best of your ability, mediation happened or started almost a year ago where you had a concept in place at the start of the summer. Judge Chhabria has decided that is not good enough. What can you, if anything, point us to that might give us some comfort that some resolution is near or coming or what the next steps are on the litigation side of the equation? Thank you.

Werner Baumann: Yes, thanks Peter. Very briefly, I think there is no substantial news compared to what we had mentioned in our last calls other than the last update that we gave as part of the status conference in front of Judge Chhabria. You for sure know that he was not that happy with the progress of the inventory settlements and he made it very clear to us the solutions that we need is both: a settlement of the inventories or a solution for the inventory, and then of course the longer-term solution for the futures. The discussion in front of Judge Chhabria was exclusively related to the inventory settlements and I think we gave him some comfort that we make significant progress including some of the more difficult Plaintiff lawyers with Mr Wisner who was present in that status conference and if I paraphrase, what he said was: he's happy where we are in terms of the settlements which we have also concluded with him. So, we do make progress along the lines of the original announcement of the 75 percent, and potentially beyond that but still we are working through and negotiating the final terms of the settlement agreement that addresses the futures that will be then resubmitted to Judge Chhabria addressing the concerns he raised on July 6th. That is where we are.

Peter Verdult: Thank you.

Oliver Maier: One more.

Operator: The final question is from the line of Mr Friedrichs. Please state your full name, company name, followed by your questions.

Falko Friedrichs: Thank you. It is Falko Friedrichs from Deutsche Bank. I would have one question left please. In the Crop segment could you share to what extent you have lost larger customers due to the Dicamba registration process and if that is the case are you hopeful to eventually win these customers back if the product hopefully gets registered in Q4?

Liam Condon: Right now, but what I can say is the assumption is that with Xtend that we run 50 million acres this year in the US which is basically the same as last year. The issue is that there was an increase in acreage and we didn't participate in that increased acreage. So, I don't believe we have actually lost current customers, we just haven't gained in the current uptake. That is the situation and we can only really participate in that when we have a chance with the new registration.

Falko Friedrichs: Okay, thank you.

Operator: Ladies and gentlemen, we kindly ask your understanding that we have to close this call now due to time constraints. Excuse me, Mr Maier, please continue with any other points you wish to raise.

Oliver Maier: Yes, great, thank you so much Emma and thanks everybody for your time and your questions tonight. I know it is late and short notice so we greatly appreciate it and this would close the call. Thank you so much. Talk to you soon.

Werner Baumann: Thank you. Bye-bye.

Wolfgang Nickl: Thank you, bye-bye.

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

Forward-Looking Statements

This release may contain forward-looking statements based on current assumptions and forecasts made by Bayer management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Bayer's public reports which are available on the Bayer website at www.bayer.com. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.