

Bayer AG – Investor Relations
Investor Conference Call:
Q1 2020 Results
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Welcome

Oliver Maier

Head of Investor Relations, Bayer AG

Good afternoon and thanks for joining us for our first quarter 2020 earnings conference call. With me on the call are Werner Baumann, our CEO, and Wolfgang Nickl, our CFO. And the businesses are represented by the responsible Management Board members, who are also on the line. For Pharma we have Stefan Oelrich, for Consumer Health we have Heiko Schipper and for Crop Science we have Liam Condon. Werner will begin today's call with an overview of our priorities, in light of the pandemic crisis, our group financial performance and the performance of the divisions. Wolfgang will then cover the financials for the first quarter, the outlook and our key focus areas, before we open up the Q&A session.

Let me start, as always, by drawing your attention to the cautionary language that is included in our safe harbour statement, as well as in all the materials that we have distributed today.

[See disclaimer](#)

And, with that, I'll hand it over to you, Werner.

CEO Remarks

Werner Baumann

Chief Executive Officer, Bayer AG

Alright, thanks, Oliver, and good afternoon, ladies and gentlemen. It's my pleasure to welcome you to our conference call. Let me start with what is certainly top of mind. The current pandemic is unprecedented and affecting all of us, both personally and professionally. Never has our vision been more relevant: health for all and hunger for none. We recognise that our strong expertise in health and nutrition provides us with a unique opportunity and responsibility, and we have responded with both medical and financial support to those most acutely affected.

We are currently evaluating the potential for our more than 80-year-old malarial drug, Resochin, to treat patients suffering from COVID-19 and have made significant tablet donations in various countries. We are also providing assistance in the search for a new active substance to treat

COVID-19 as a part of the Innovative Medicines Initiative and have donated financial resources to severely affected regions in China, Italy and Spain. In addition, we also provided medical equipment like face masks or disinfectant liquids and have been able to greatly expand the PCR-testing capability in Germany with the provision of free-of-charge testing capacities. More than 140 of our colleagues in Berlin work as volunteers to generate these tests.

Beyond these humanitarian efforts, we are focused on safeguarding the health and safety of our employees, which is of utmost importance to us. We have implemented strict health and safety measures in all locations. On top, wherever possible we have mandated people to work from home. Our IT is doing an outstanding job in keeping our IT infrastructure running, despite volume increases unheard of. We have up to 140,000 video calls or conferences per day right now.

As a global leader in health and nutrition, we also have a huge responsibility to the patients, consumers and growers who rely on access to the products that they need. Serving them well with uninterrupted supply of our medicines and agricultural products is top of mind for us. We are very proud of all of our employees who are driven by the purpose and the vision of our company and who see, day in and day out, the difference their work makes.

Before we move on, I'd like to share a few comments on the glyphosate litigation, which has also been affected by the crisis. The trial schedule remains fluid and subject to change, and currently there are now no new trials scheduled to begin before the end of June 2020. However, the California Court of Appeals continues to move forward with its process and has scheduled the hearing in the Johnson trial for June 2, with a decision expected by August 31. On a parallel path, we've made progress in the Roundup mediation discussions, but the COVID-19 dynamics and related restrictions have slowed the process significantly and we expect this to be the case for the immediate future. We cannot speculate about the potential outcome from negotiations but remain committed to engaging in mediation in good faith, and will consider a solution only if it is financially reasonable and puts in place a mechanism to resolve potential future claims efficiently. Against the background of a looming recession and – in some cases considerable – liquidity challenges, this applies now more than ever.

Let me also give you an update on our Capital Markets Day we had planned for the end of June. In consideration of the ongoing pandemic, the related health risks and that ongoing uncertainty, it is unlikely that we can host a Capital Markets Day with your physical presence. Hence, we have decided to postpone the event until later this year. In the meantime, we will focus on safeguarding our employees and, of course, on business continuity, to serve farmers, patients and consumers who are in dire need of our products.

With this as a backdrop, I'd now like to share an update on our group and divisional performance for the first quarter. Sales grew to more than €12.8 billion, which represents a 6% currency and portfolio-adjusted improvement, while EBITDA before special items increased by 10% to €4.4 billion. Our core EPS rose close to 10% versus prior year, reaching €2.67. Our free cash flow stands at minus €793 million compared with roughly a positive €500 million in quarter one of last year. This decrease is expected and not driven by the pandemic crisis. It is the result of anticipated working capital phasing as well as expected special effects that Wolfgang will discuss shortly.

Finally, let me comment on our outlook. I'll remind you that the full-year guidance we provided in February did not include any financial impact from the coronavirus outbreak. Since then, the virus rapidly developed into a pandemic and its impact in the coming months will be defined by duration and intensity. Given these unprecedented dynamics, we cannot yet reliably quantify its effects; some of them are negative, while others are positive. Wolfgang will provide you with the variables

we are continuously evaluating for their potential impact on our business. We will share an update later this year.

Let me now turn to the performance of each of our divisions, starting with Crop Science. Farmers in the northern hemisphere are beginning to plant; harvest in the southern hemisphere is underway; and Crop Science is off to a good start in 2020. We delivered 6% currency and portfolio-adjusted sales growth, with growth in every region, largely driven by EMEA and Latin America. Latin America saw strong sales in corn, soybeans and fungicides, as Intacta Roundup Ready 2 PRO acre penetration grew by nearly 9% for the season, while Fox XPro fungicide continued its growth path in Brazil. EMEA's growth came from corn, fungicide and insecticide sales with an early start to the season in central Europe and an expected recovery from the dry weather across the region driving these trends. In North America, where we continue to expect 10-12 million additional planted acres of corn and soybeans in the US, we saw good growth in corn seed and traits, herbicides, insecticides, and cotton seeds and traits. This was partially offset by declines in soybean seed and traits, where the competitive dynamic from last year continues.

From an earnings perspective, Crop Science increased its EBITDA before special items by 14% to €2.6 billion. This improvement was driven primarily by volume increases and continued cost synergies from the integration of our acquired business. We remain on track to deliver more than 70% of our targeted synergies for Crop Science by the end of 2020 and to reach the overall targeted cost synergies of approximately €870 million by 2022.

Let's look at Pharma next. Sales of Pharmaceuticals rose close to 4%, currency and portfolio adjusted, to €4.5 billion in the first quarter. Xarelto, our best-selling product, has continued its good performance. Overall, it grew by 19%, driven by EMEA, partially due to changed order patterns related to COVID-19. Eylea only showed a slight increase of 1% in the first quarter. Growth in the United Kingdom, Germany and Canada was partly offset by declines in Japan, France and Italy. Whereas Japan was driven by phasing, France and Italy were primarily impacted by price list reductions. Sales declined in China, mainly due to the anticipated lower pricing from volume-based procurement effects for both Glucobay and Avelox, expected to go into effect on April 1. Note that the government has started to introduce the next round of volume-based procurement with a slight delay, actually in mid-April. As a result of this sales growth, our EBITDA before special items increased by 7% to €1.6 billion for Pharma.

We also saw some encouraging product developments. Starting first with Nubeqa, we received approval in the European Union for Darolutamide as a new treatment for men with non-metastatic, castration-resistant prostate cancer. Nubeqa features a chemical structure that inhibits the growth of prostate cancer cells, while limiting certain side effects for patients who are battling cancer. In addition, just weeks ago, we received an approval from the European Medicines Agency for the Eylea pre-filled syringe, which provides ophthalmologists with a more efficient and convenient way to use Eylea. The pre-filled syringe requires fewer steps to prepare the injections than the existing vial, so great news for one of our most important offerings in Pharma.

We'll turn next to Consumer Health to close the divisional updates. The division achieved sales growth of 14%, driven by a substantial increase in demand due to the COVID-19 pandemic, partly for inventory build-up. We were able to respond very flexibly to significantly higher volumes and shifts in the product mix thanks to our supply chain operation. Most notably, nutritionals and multivitamins in Asia/Pacific and Latin America were our biggest growth contributors. Generally, demand was strong across all regions, although a bit softer in China, given the impact of the lockdown during the peak of the coronavirus infections and some supply disruption in connection with COVID-19. On the earnings side, we saw an increase in EBITDA before special items, driven

by higher volumes, despite the missing contributions from our divested businesses. Furthermore, our growth acceleration Fit to Win programme is contributing positive results.

And with that, over to you, Wolfgang, to expand on our financial results and outlook.

CFO Remarks

Wolfgang Nickl

Chief Financial Officer, Bayer AG

Thank you, Werner. Ladies and gentlemen, also a warm welcome from me. I will now walk you through some additional financial details for Q1, followed by a discussion of major impact variables and focus areas for the remainder of the year.

Let's start first with Q1. Sales increased, currency and portfolio adjusted, by 6% to €12.8 billion. EBITDA before special items came in at €4.4 billion, up 10% year-on-year, driven by sales volume growth across all divisions and ongoing efficiency improvement efforts. Our Group EBITDA margin improved by 170 basis points to 34.2%. Foreign exchange effects had a positive year-on-year impact on sales of €44 million, and a positive impact on EBITDA of €41 million. While we have seen a positive impact for the first quarter, we currently expect material negative effects for the full year driven by the Brazilian real, Russian rouble and the Mexican peso, given their recent devaluations.

Core earnings per share were up 10% year on year to €2.67. The core financial result decreased from minus €352 million to minus €493 million, mainly relating to currency losses including hedging costs and the change in the fair value of debt instruments. Our core tax rate came in at 24.4% for the quarter. We continue to expect it to be around 23% for the full year, as guided.

Finally, compared to the prior year, free cash flow decreased in the quarter from €508 million to minus €793 million. This effect was within our expectations. The decrease is not driven by the pandemic crisis but rather the result of working capital phasing and special effects. In the Crop Science division, relatively early collections and prepayments at the end of last year, as well as reduced payables, led to this phasing effect. Furthermore, we made our expected payment for the Xarelto settlement and initiated a shift in US incentive payments from the second quarter into the first quarter. Needless to say that safeguarding liquidity in these unusual operating environments is of paramount importance for us.

Let's next discuss the bridge from core EPS to reported EPS from continued and discontinued operations. On the left side of this chart, we start with the €2.67 core EPS for continued operations in the first quarter. The next column describing an adjustment of minus €0.86 per share is mainly comprised of acquisition-related amortisation of intangibles and PPE. It includes a write-up on the consumer health brand Afrin and an expected further impairment related to a herbicide plant. EBITDA-relevant special items had a negative impact of minus €0.63, mainly related to restructuring, integration and litigation costs. The latter contains a provision for ongoing litigation efforts for Essure. Special items in the financial result mostly relate to the change in the fair value of our Covestro shares. The next column is showing the offsetting tax effect on the sum of the items I just explained, bringing us to the EPS from continuing operations of €1.39. Finally, there is

a strong contribution from discontinued operations, the Animal Health business, of €0.13, leading to an EPS from continued and discontinued operations of €1.52 for the first quarter of 2020.

Let's move next to our balance sheet. Our net financial debt balance slightly increased by €1.3 billion compared to the end of last year, mainly as a result of the negative free cash flow discussed earlier and the appreciation of the US dollar during the quarter. As a reminder, almost 60% of our financial debt is denominated in US dollars. As a result, every percentage point appreciation of the US dollar against the euro increases our net financial debt by about €200 million and vice versa.

As Werner shared at the outset, the pandemic is a constantly evolving situation. While we are unable to reliably quantify the impact of COVID-19 today, I can share the most relevant variables we are monitoring. Our priority is to safeguard our supply of critical medicines and agricultural products to our patients, growers and consumers. All of our production sites are currently running, and we have seen limited disruptions in our supply chain to date. However, this is obviously a challenge, also considering that the supply of active ingredients and APIs from places like India may be hampered. This also requires that we are closely monitoring and managing levels of safety stock to offset potential delays in logistics or future shortages in raw materials. Furthermore, we are re-evaluating logistics and acknowledge that costs for logistics have increased substantially in many instances.

At the same time, we're closely monitoring the credit situation and payment behaviour of our customers as well as the liquidity of our suppliers. We are monitoring the debt markets and have taken appropriate measures to ensure our own liquidity in an environment where, for example, the commercial paper market is significantly limited. Credit spreads have gone up as well as new issue premia, which may increase our funding cost going forward. As already mentioned, the crisis led to significant movements in the currency markets where, at current rates, we will have a substantial negative impact on our results.

In addition, we monitor demand dynamics that impact our businesses. First, shifting demand patterns could reduce demand for some of our pharma products, for instance for Eylea or Mirena, if patients are not able to visit the doctor for refills or elective procedures. Second, in Consumer Health, we saw a spike in demand for some products in the first quarter, which included stockpiling but also increased consumption, in particular in nutritionals. And lastly, in Crop Science, shifts in demand for biofuel and key grains have the potential to change acres planted in our focus crops, influencing expected sales and production plans for future years.

Within Pharma, we could see some delays of products in development from reduced enrolment or participation in our clinical trials. Furthermore, we could see delays in regulatory processes across our businesses, as governments grapple with different priorities as the situation unfolds. To offset some of the negative effects we are actively managing our flexible spend. Due to the movement and meeting restrictions, we would expect, for example, lower travel and event costs. The impact on project costs is also to be evaluated depending on the duration of the crisis and potential changes in project priorities. Furthermore, we have experienced in recent weeks how much can be done digitally, and we will strive to maintain the positive elements and accelerate our digital agenda. Finally, we have also recently experienced that the role of science in our society has been elevated, which we, as an innovation company, consider a very positive development.

Clearly, we had a solid start into 2020 with the first quarter, and we maintain our operational targets for the year. However, we will need to react to the dynamics I just described. We hope to have a better line of sight to quantify the positive and negative impact variables and will provide you with revised guidance as soon as possible.

Let me close with our focus areas for the year. I just shared with you our intentions regarding our operational targets with a special focus on cash flows across the group. Second, we will continue with our post-merger integration processes, as well as our continued focus on pipeline execution in Crop Science following a year of significant progress in 2019. Similarly, we expect to continue to progress our pipeline and new-product launch plans within Pharma, including for products like Nubeqa, Vitrakvi, Vericiguat and Finerenone. In Consumer Health, we continue to drive our growth acceleration programme. Finally, we continue to follow through with our Bayer 2022 efficiency improvement programmes and look forward to the closure of the Animal Health divestiture, expected by mid-2020.

Thanks for your time today and we look forward to sharing our progress on these focus areas on a regular basis. With that, I will hand the call back over to you, Oliver, to start the Q&A.

Questions and Answers

Oliver Maier

Great. Thank you, Wolfgang, thank you, Werner, for the overview. Before we begin, I would remind you to keep your questions to about two per person, because the list is pretty long, so we are able to take questions from as many participants as possible in the time allotted.

Vincent Andrews, Morgan Stanley

Liam, if I could ask you to remind us of how you hedged the Ag business, particularly against the Brazilian real, which has obviously had an extreme move, and then also just some comments on what you can do from a pricing perspective in the back half of the year. And I guess I'm thinking specifically about Intacta, where I believe there are some pricing restrictions in your contract, and then also what you might be able to do in the seed business versus what you might be able to achieve in the crop chemistry business. Are there any differences in your pricing power there? Thanks.

Werner Baumann

Okay. Are you going to start, Wolfgang, with the hedging?

Wolfgang Nickl

Yeah, I can talk about hedging in general.

Werner Baumann

Then over to Liam.

Wolfgang Nickl

Yeah, I'll give you a few overarching things on hedging, and then Liam can go into the Brazilian real in particular. Like I said, we saw significant devaluations of major currencies, such as the

Brazilian real that you mentioned, but also the Mexican peso, the Russian rouble towards the end of the year. Because we hedge more at the beginning of the year than at the end of the year, and we have more business in the southern hemisphere than in the second half than the first half, you could see that effect that Q1 was actually positive, but we view it negative for the remainder of the year. We do, just as a reminder, hedge the transaction exposure with the full booked exposure hedged and approximately 50% of the forecasted exposure hedged, and that's also the same thing that we did in the past. We don't hedge the translation exposure. We always give our guidance, because of high volatility, at constant currencies and we will continue to update you also, throughout the year, how this develops.

Again, in Brazil, it's very important to us. It was in 2019 the second-biggest revenue country for the year. And with that, I'll turn it over to you, Liam, for the views on Brazil.

Liam Condon, President Crop Science Division, Bayer AG

Thanks, Wolfgang. Thanks, Vincent, for the question. So I think, luckily, we've been around in Brazil and Latin America for quite some time and, unfortunately, we're used to big currency swings, so over the years we've developed many different mechanisms to try and balance out or mitigate these risks as far as possible. In essence, what we try and do is link pricing, as far as possible, to the US dollar. A classical example here is particularly crop protection: we have to price in real and invoice in real, but we basically constantly update the pricing lists whenever there's a significant move in the currency markets. So this is one key method for us to try and mitigate risk. In Argentina, our functional currency is actually US dollar, so there we have a natural hedge built in. We've built up a substantial portion of our business to tie it to barter, so that we have another additional hedge in here. And then, as Wolfgang already alluded to, we have various financial hedging possibilities wherever that makes sense.

So, by and large, there's always a degree of exposure in Latin America to significant currency swings, but we have a variety of mechanisms in place to try and mitigate that, as far as possible.

Vincent Andrews

Just as a follow-up, if I think about, in the crop chem business, outside of countries where the farmer exports his or her crop after harvest and can benefit from that stronger US dollar, are you seeing any demand changes, whether it's from dealers or distributors, or from farmers themselves, as farmer economics have deteriorated a little bit?

Liam Condon

No, but it's probably too early to say right now, in all honesty. We're closing out the LatAm season, particularly the Brazilian season, and we're really only starting now in the northern hemisphere, so I would say very honestly it's just too early to make that call, and I would hope, in Q2, we'd be in a better position then to give you a further update on that.

Vincent Andrews

Thanks very much. Nice start to the year.

Wimal Kapadia, Bernstein

Thanks for taking my questions. If I could just start with Eylea, please, are you able to quantify how much of the weakness in Q1 was related to Japan/France price declines, how much was actually related to COVID-19? And then just trying to get a sense of what impact you've seen in the last few weeks of March, and what you're seeing in early April, you previously guided to a high single digit. Is that still the case and should we expect a catch-up in 2H?

My second question is on Vericiguat. You recently presented the phase III data in reduced ejection fraction, where the headline risk reduction looked somewhat modest, but in certain populations clearly you saw a much larger benefit. So, I guess, what kind of feedback have you had since the data was presented, and has that changed your thinking around where the product fits into the treatment paradigm, so here I'm thinking SGLT2s as a threat? And do you still stand by the 0.5 billion peak sales guidance for the product? Thanks very much.

Stefan Oelrich, President Pharmaceuticals Division, Bayer AG

Hi, Wimal. Thanks for the questions. On Eylea, we've seen some phasing linked to pricing in Italy and in France, and also in Japan, so that's the major impact that we've seen through the first three months. COVID, hard to see if it already has impacted in March. There may be something in there, but it's hard to say, so first quarter we see mostly all the phasing through pricing adjustment effects here on those three markets.

And for Vericiguat, we're getting a lot of good feedback following our presentation of the data. You're right that, at first sight, the reduction of 10% in relative risk doesn't look overwhelming, but when you look at the absolute risk reduction of 4.2%, and when you dig into the data and you realise that we were studying an extremely sick population, then this is a very good result. And, as you dig into it – and you've probably seen the data – in the lower three quartiles of baseline NT-proBNP levels, we see relative risk reduction up to 27% in some populations. So we're hearing a lot of good feedback on that from the physicians we've been talking, post the ACC presentation, which was virtual this year, so it's really hard to really gather the type of feedback that we would normally have in face-to-face discussions at these meetings, but positive. No reason for us to change our peak sales assumptions, and we think this continues to be a good fit.

Where will it go? So this is a not-so-easy to answer question, because we'll have to see what the guidelines will say later this year or early next year, probably more next year that we're going to see this in the guidelines. What we've proven so far is we've proven efficacy in a population that no one has studied like we have. This is the most difficult to treat population that's out there and I think that speaks volumes to the quality of Vericiguat.

Wimal Kapadia

Great, thank you very much.

Jo Walton, Credit Suisse

Staying with Pharma and then Consumer, please, I wonder if you could try and tease out for us what you think the underlying rate of growth in the first quarter was, ex-ing out the positives and negatives that you have seen for COVID. And, to the extent that you have wholesaler stocking within that, what timeframe are you planning on that being reversed? Within Pharma, could you

also tell us a little bit more about Nubeqa? And in the US we've seen a very nice uplift just recently in the prescription there. Is that because you've reduced some reporting restrictions, so we are seeing something that was already there but it's now more evident to us, or are you gaining strong share? And if I could ask you for the same thing from a consumer perspective, what you feel the underlying performance was in the first quarter and when any stocking might unwind. Thank you.

Stefan Oelrich

Jo, thanks. So underlying growth linked to COVID and non-COVID, it's really hard to say. We're seeing some good impact on Xarelto in the first quarter, and we'll have to see if this is really inventory build-up or if there's also an effect – we're hearing that there's also an effect of increased switching over from vitamin K antagonists because there's less monitoring of patients that is involved when you go to a NOAC. I would expect that to stay, but we'll have to see. So it's really hard to tease out those two. We've also seen some good development on haemophilia, so that may have been some inventory building, but it's really hard to tease out. On the flipside, we've had low volumes on Glucobay in China, so we've got some pluses and minuses along the way.

And thank you for your Nubeqa question, because you've been one of the more critical people on Nubeqa, so I'm glad to see that you're seeing now, in the numbers, some of the things that we had been telling you, because of the programme that we have put on for patients so that they would get better access to our medication. We're very happy with the development of Nubeqa. It's so far beating our expectations in our first launch country. We now have approval in Europe, which adds to our excitement. We're introducing in Germany as its first launch country in Europe, so this is going in the right direction.

Werner Baumann

Okay, thanks, Stefan. Heiko, you want to say a few words to underline demand in Consumer Health in quarter one?

Heiko Schipper, President Consumer Health Division, Bayer AG

Yes, sure. Thank you, Werner. Obviously this is the million dollar question and obviously we are ourselves also trying to uncover how much is really more inventory building and how much is truly consumption, and we are very closely monitoring that with consumers and customers. The fact of the matter is it's just too early to say. I mean this is not a whole-Q1 effect; it really accelerated very significantly, as you all know, in March, so fundamentally we're basically in month two of the real acceleration of this crisis, or this pandemic, particularly of course in Europe and also in North America, where our largest businesses are.

Just some underlying – without breaking down the clear numbers, because simply we cannot yet – obviously consumption of supplements, of vitamins and minerals, is definitely also up. I think we know it ourselves; we take more of those in these days, and we're also seeing that maybe some other categories, like allergy or cough and cold, where people simply really want to avoid just getting sick because they don't want to end up at the doctor or at the hospital, or want to act immediately on the first cough that they have. We're also seeing definitely some increases there.

I think, once we get through Q2, we should start to form ourselves a clearer opinion, but it's really too early to really break it down for you at this moment.

Werner Baumann

Okay, thanks, Heiko.

Emmanuel Papadakis, Barclays

I'll try and restrict myself to a couple of questions, maybe one on the other piece of data that was presented at ACC. Stefan, you could give us your perspectives on the potential implications of VOYAGER and whether that was going to do anything to address the somewhat lacklustre medical reception to COMPASS, in terms of expanding utilisation of Xarelto. And then maybe the second question on the Ag side, one to Liam, you could just flesh out your thoughts in terms of potential impact on the corn outlook if the collapse in bioethanol demand persists in the US for any period of time, and perhaps you'd like to quantify what period of time you think it would take to translate into a potentially meaningful negative impact, particularly as we think about 2021. Many thanks.

Werner Baumann

Okay, thanks, Emmanuel. So Stefan first and then Liam is going to take the second.

Stefan Oelrich

Hi, Emmanuel. On VOYAGER, yes, of course we're excited that we have another positive study after so many positive studies on Xarelto. 15% relative risk reduction for the primary endpoint is really good, and what we like about this study is that we think the PAD patient is somewhat easier to identify for a physician than is maybe the CAD patient, so we believe that this will help us to even better make clear the benefits of this new dosing for patients. So that should give us a plus and help identify the relevant patient groups for key prescribers. So, yes, we are confident that that will help boost and we agree that, so far, CAD/PAD has not really been as exciting as we would have hoped.

Werner Baumann

Liam.

Liam Condon

Okay, thanks, Emmanuel, for the question. So I think a very important question: very difficult to call right now the impact that the decline in biofuel demand and ethanol will have on corn demand going forward. We think the impact will be in this season, in the northern hemisphere, probably very limited. We think most growers have probably already made their growing decisions, their planting decisions, so if at all it would rather be an issue for the next growing season in the northern hemisphere. So possibly end of this year or going into 2021 we might see an impact. We've been trying to quantify this. You know USDA has been forecasting corn acres this season of about 97 million acres. If you take the fact that 30% of [corn] demand is coming from [ethanol] and you translate that into acres, and look at some of the different estimates that are out there, the impact on acreage could be anything between 2 and 5 or 6 million acres.

Question is: will this really happen? We simply don't know. There's a lot of insurance and assistance, governmental programmes, out there to support growers right now, and what we are seeing is also anecdotal reports about increased demand out of China and a possibility that China

might increase imports of corn, which they haven't really done in the last few years, and there's talk of approximately 20 billion tonnes of additional corn being purchased, possibly purchased from China. That would translate into about 4 or 5 million acres of corn as well, so a lot of swings and roundabouts. It's just too early to call which way it will go, but we wouldn't really expect, again, the impact in this growing season. If there's going to be an impact, probably rather in the next growing season, and apart from the ethanol demand will depend on what kind of stockpiling China is doing for the next season as well.

Werner Baumann

Thanks, Liam and Stefan.

Richard Vossler, JP Morgan

Hi, thanks for taking my question. A couple please, firstly on the volume-based pricing in China: obviously some impact on your pricing, but could you maybe give us an idea of how you're thinking volume demand might recover in Q2 and 3 and 4? We've seen others having substantial volume uplifts due to the price cuts they've taken, which is offsetting some of the impact, so just your thoughts there for Avelox and Glucobay. And then, next question, just going back on to Crop, please, and just maybe you could give us an idea of the future soybean demand that you're seeing, both volume and price, how we should think about that in the second quarter, and maybe into the Latin American season in the second half as well. Thanks very much.

Werner Baumann

Thanks, Richard. So Stefan is going to go first.

Stefan Oelrich

Hey, Richard. I'm sorry; I don't think I have really good guidance for you on this. I wish I knew it with precision. I've also seen other competitors that have seen some volume reaction following their wins and VBP, so some of that would probably be expected, but I can't quantify it at this point.

Werner Baumann

Okay, thanks, Stefan. Future soybean demand.

Liam Condon

Yeah, thanks, Richard. So, as all topics, the outlook right now, calling it is very difficult, but let me try and give you a few pointers, how we look at it. Of course, in the US now, it's still very early days, so there basically hasn't been any planting yet, so it's pure guessing now how things will play out, but our original forecast is based on what we'd call return to normal weather, that we would see an additional 5-7 million acres of soybeans this year in the northern hemisphere. Originally we were also forecasting an additional 3-5 million areas of corn, which we're still hoping to see. How that actually turns out really depends on now weather and trade, and, as you remember, this time last year we were making certain calls and then the weather took a big turn for

the worse later in Q2. There was already heavy rains at this time last year, but then later on the soybean planting season was basically destroyed.

So very early to call it right now, but we would expect, in normal circumstances, 5-7 million additional acres. For us, we are reckoning on having still about 50 million acres of the Xtend system within this year. We have planned in some market-share decline and a low-single-digit price decline for Xtend for us this year. This is simply based on the fact that, of course, with Enlist, there is a new competitive system in the market that was just launched. That will take some market share. Because the yield performance isn't as good, there's a very aggressive pricing in the market. It makes no sense for us to go to that level of cut-throat pricing because we would just be devaluing the market, so we have to accept that there is some decline in market share, which we're willing to accept because we are coming with a new system then, XtendFlex, which we hope to get approved later this spring and have a small commercial launch this year and then a full commercial launch then in 2021. So that's broad, broad strokes how we're thinking about the soybeans overall, particularly in the northern hemisphere.

In LatAm right now we're – originally, before COVID, we were predicting basically flat soybean acreage, and I wouldn't make any additional forecasts around that right now. We just need to see how it plays out.

Werner Baumann

Okay. Thanks, Liam

Florent Cespedes, Société Générale

Good afternoon. Florent Cespedes from Société Générale. I have a question for Stefan. First of all, on clinical trials potential COVID impact, could you elaborate a bit on which are the most likely clinical trials that may be impacted and may be delayed? Could it be possible to see some delay on the phase III programmes, notably in ophthalmology, maybe?

My second question, still for Stefan, on the marketing campaigns do you see any negative impact from the current situation on your marketing campaigns in your portfolio? And which are the products which are the most likely to be a bit softer due to less impactful marketing campaigns? Thank you.

Stefan Oelrich

Bonjour Florent, so, clinical trials, I'm happy to report that this is actually going quite okay for us, for the time being. So we've finalised on the clinical trial, basically, on FIDELIO, so which is our pivotal, big phase III for Finerenone, so this is an important one for us. And all in all we're – on the ones that we're informing this year, we're actually in pretty good shape in terms of our clinical trials. We may have some delays in starting new ones early on. Actually, I saw yesterday information that the FDA's pretty much overwhelmed now with COVID-19 applications, which we have luckily one of them also for a phase II product which is going to go in ARDS indication, which we're advancing and we're seeing record-fast reactions from the FDA, and we hope to be able to benefit patients with COVID-19 with that. But all in all we're actually doing quite well. Obviously I was the most concerned if we could get the FIDELIO trial in, but it looks like we've finalised that.

And on the marketing campaigns, this is a really good one. I mean, we've seen record-fast adoption by our troops of digital. I mean we've made a leap, like I think anyone, in four weeks that would normally take us four years. We were lucky to have a really strong lever-based infrastructure in place that we're now seeing incredible adoption from.

In terms of impact and how that could positively or negatively impact, we'll have to see. In the first quarter I don't think that this has any impact yet and we'll have to monitor it as we move forward because, you're right, it is for now difficult to do face-to-face outside of video conferencing with customers, but even there, I must really say that our platform allows us to do these types of interactions with customers and they're very responsive to it, maybe more so than we would have expected. But I guess that holds true for everyone right now.

Werner Baumann

Good. Thank you very much, Stefan.

Peter Verdult, Citi

Good afternoon. It's Peter Verdult here from Citi. Just two questions for Wolfgang, please: cash and synergies. Just to – thanks for the explanation on the free cash flow in Q1. I just wanted to clarify two numbers: free cash flow guidance for 2020 still 5 billion, and am I right that the net proceeds from the divestments you hope to complete middle of the year is just north of 8 billion? And then on synergies, some of your European pharma peers who are also undergoing restructuring are hinting strongly about the COVID crisis, highlighting areas to drive further efficiencies. Wondering if you could talk to that in a little more detail in terms of further opportunities for you to drive home your synergy programme and where you are in terms of considering deliveries.

Wolfgang Nickl

Okay, Peter. Thanks for your questions. Let me start with free cash flow, just reconfirming, yeah, it was significantly less than the prior year, but it was basically what we expected for Q1. You may recall last year we guided 3-4 billion until the middle of the last quarter. We thought we would be in the middle of that range but we came out at 4.2 billion at the end, so there were some pretty significant phasing effects into Q4 and out of Q1, and that was amplified by some special charges like the settlement of Xarelto and I mentioned also on the call that we advanced some payments into Q1 that would otherwise have happened in early April.

The free cash flow guidance, our objective is 5 billion. Free cash flow is, by the way, if you have read the invitation to the AGM, also now part of our board of management incentive system. But you will appreciate that all the vectors, or most of the vectors that we described during the call and during the Q&A, may also impact the free cash flow for the year, so we will give an update on that as we go. Obviously free cash flow also in the guidance was pre potential settlement, if that would come in.

On the net proceeds of 8.4 billion, I'd like to remind you about two things. First of all, Coppertone, Dr Scholl's, Derm Rx, Currenta have all already happened in 2019, so there is no fresh cash, and it's also not counted in the free cash flow anyways.

So what's coming in, in 2020, after closure is the proceeds from Animal Health, and you know 70% of that is a cash portion. We, based on the statements that we hear from Elanco, are quite

confident that this could close by the middle of the year. I think you have seen that they have filed the appropriate Form CO with the EU and we're now going into these proceedings, so that looks rather positive.

And then you know the other 30% we get paid in Elanco shares, and they're subject to a collar, but there is some risk and opportunity related to the Elanco share price. We of course have the choice when we sell them and that would, depending – so the cash portion, of course, would come in this year. Portions of the share sale could come in this year but most likely not the whole effort.

Related to synergies and efficiency programmes, I think, Werner, you had it in your prepared remarks: we're doing actually really well, not only in the synergy programme on post-merger integration, but also in all the efficiency programmes. In 2019 we achieved 30%; we want to go to 50% now in 2020, 80% in 2021 and then the full effect in 2022.

Of course we're looking beyond this at discretionary spending throughout the company. I mentioned in the prepared remarks travel expense come to mind. There's no travelling going on, basically, and event expenses, and we also look at other discretionary spending, and obviously do our utmost to offset any potential negative effects.

Peter Verdult

Thank you.

Tony Jones, Redburn Partners

Good afternoon. Tony Jones at Redburn. Thanks for taking my questions. I've got two left. A question for Wolfgang: could you talk about what the cost synergies were in Q1 and maybe help split by business segment if it wasn't all in crop science? And then I just wanted to go back to Liam's point on soybeans. In the release it shows reported sales – sorry, constant currency sales down 8%. You talked about pricing down low single digits, but it also talks about some sales going in South America. Could you maybe quantify those different blocks, and does that therefore imply that volumes went down just under 10%? Thank you.

Wolfgang Nickl

Well I'll take the first one and I hope you can appreciate that we don't want to break it out by quarter and project because we have the Fit to Win initiative, we have the PMI initiative, we have the platform initiative, we have initiatives in Stefan's business. Just take it for granted that we're advancing this from 30 to 50%. I will remind you at the capital markets day we actually wanted to get to 30% by 2020, so we are actually ahead of the game here and we're moving very well along in all the initiatives.

Tony Jones

Thank you.

Liam Condon

Yeah, thanks, Tony, for the questions but we don't break it out in detail, but there was indeed an increase in soybeans overall in LatAm due to increased Intacta penetration. However, this is

relatively minor in the bigger scheme of things. So the ballpark numbers still hold through. The price impact is low single digit and the volume impact will be in the ballpark of mid-single digit that you'll be seeing there.

Tony Jones

Great, thank you.

Keyur Parekh, Goldman Sachs

Good afternoon and thank you for taking my question. It's Keyur Parekh from Goldman Sachs. Two questions, please. First, wondering, your opening commentary, you suggested that, as it related to litigation settlement, it's difficult to see something happening in the immediate future, given the COVID-19 outbreak. It would be great if you could provide some quantification of what you meant by 'immediate future'.

And then secondly, Wolfgang, as we think about the potential kind of pushes and pulls on the pension side of things, it would be great to understand your perspective for what is it that you expect to be paying into the pension clients for this year, given your perspective on discount rate versus asset valuation, and how do you think that would be different to what you have done over the last couple of years. Thank you.

Werner Baumann

Yeah, Keyur, let me start with your first question on the litigation. Unfortunately that is an area that doesn't lend itself to the application of predictive analytics. It's near impossible to kind of give you frame in terms of your timing considerations for two reasons: one - is this is a constant back and forth, as you can imagine, I guess, with the plaintiff side. The second one is that the content of the discussions is of course confidential and we agreed to strict adherence to our confidentiality obligations, which we continue to do. But I meant by you saying that things have slowed down is that meetings don't take place. Some of the lawyers are difficult to track down. Everything has really slowed down significantly and, for the sake of transparency, we want to make sure that you also get that information, that things are not progressing the way they would have progressed in the absence of the outbreak of the pandemic.

On the flipside, when it comes to the appeals process, the courts continued to work essentially almost a normal schedule. So all of that at that end is okay. Now let me hand it over to Wolfgang on the pensions question.

Wolfgang Nickl

So you have seen for the quarter a decrease in the net pension liability by about €700 million. There were two opposing effects in there. One is losses on the plan assets. You can appreciate that there is a fair amount of equities in the portfolios. We estimate that it's less for us than for other firms. We also have a pretty good hedge mechanism in there. So it was somewhat limited by the impact on the equity market that was about 1.3 billion. On the other side we had a 2 billion positive effect from increased return expectations, which basically comes from the spreads on bonds and so forth. So that's, in Europe, not driven by the base rate but by the spreads, and in the US you had that same increase in the spread, but it was offset, obviously, by the base rate – the changes of the FED.

So two opposing effects. It's very difficult to forecast for the yearend in the past. If any, we made contributions in the low €100 million, but, again, that's the past. We can't forecast the future.

And just, I'm sure you're aware that that would be a payment that would not impact our free cash flow, but it would of course impact the cash balance of Bayer.

Keyur Parekh

Thank you.

Michael Leuchten, UBS

One question for Liam, please. As we think about inventory build and safety stock with the memory that we still have of Brazil, what can you do at the moment to risk-manage the scenario where the inventories are being high and that they negatively impact the pricing as we come out of COVID-19? Any thoughts around that would be helpful, thank you.

Liam Condon

Thanks a lot, Michael. So I think we all recall vividly, going back to '17, issues around inventory management in Brazil and, as a result of those issues, a lot of mitigation measures were put in place, in essence ensuring a lot more transparency on how much core protection products we actually have in the channel. As you know, in Brazil it's a very extended channel; there's many, many parts of the channel – hundreds of different distributors – and we put in place enough measures that we have an extremely high transparency over our own inventories and stocks and can manage them much more tightly than it was possible to do a few years ago.

So from everything that we can see as of – up until today, channel inventories from our side look quite positive in Brazil. We're not flagging any issues, so we don't have any big overhangs from the last season and we'll be going into sell-in then in the middle of the year for – and starting taking more orders and preparing for the new season later on in the year. But right now we're not seeing any, let's say, reasons for concern. And at the end of the day, with the strong dollar, for those export-oriented farmers, they can still actually make good money in Brazil, so also our accounts receivable are pretty healthy right now, everything we can see so far. So I think we've got enough mitigation measures in place and are tracking this extremely closely as the overall situation develops.

Sachin Jain, Bank of America

Hi. Sachin Jain from Bank of America. Just a couple of questions, please. Firstly, just to kick off with liquidity, it's been mentioned a couple of times on the call in different contexts – Werner, you mentioned it in the context of litigation; Wolfgang, you've mentioned it of paramount importance now, referencing the tough commercial paper and debt market. I just wanted to check if there's any Bayer-specific background to that commentary or it's more just referencing a broader market context.

Second, and sort of related, I wondered if you'd just remind me of the dividend policy going forward in light of the broad market concern around dividends at the moment and whether there is any link to glyphosate cash-out. The reason for the question is the dividend futures market is

pricing quite a substantial cut for next year – not for this year's dividend, for next year – so I wondered if you could just clarify that.

And then the third question is on revised guidance and you will provide that as and when you have visibility. Would that be with a quarterly update or could we think that you may get visibility intra-quarter and require guidance adjustments between quarters? Thank you.

Wolfgang Nickl

I'll probably start out with liquidity and dividend and then Werner can go into the guidance outlook again.

Liquidity, probably channel update that you also see, that in general we see bond markets available, albeit at higher new issue premia and higher credit spreads. We do see constraints in the commercial paper market, and that's the market where we finance our short-term cash needs. Market is actually okay-ish at our credit level in the US, but it's not quite open yet back in Europe. We're working along with other companies with the ECB to get this rectified. We're in decent shape though, because we have bilateral lines in place with some of our relationship banks. If you recall, we also have a 4.5 billion revolving credit facility, which we don't want to pull, and we have also pre-established other facilities, for instance factoring facilities.

Why do we have all these safety nets? Because Q2 is always a cash-intensive quarter for us, we of course have the dividend, and I'll get to that in a second. We have also our pay-out of short-term incentive plans for the company, with some acceleration into Q1, and this year we also have an exchangeable bond becoming due at the end of the quarter.

So we're in pretty decent shape, but nevertheless, in a crisis like this, everybody should focus on liquidity, and so do we. Dividend policy: unchanged. We have our AGM tomorrow. We have proposed a dividend that is flat with the prior year, at €2,80 per share. That's a reward for good results last year both operationally and strategically with some of the divestitures. Quite frankly I think it's also important that some money flows to investors, and retail investors in particular, since share prices have gone down quite a bit.

Our liquidity planning has all planned this in, so we have no reason to deviate from what our policy states, that we want to provide for growing but at least stable dividends to our shareholders. Our rule of thumb guideline is 30-40% of core EPS. Now last quarter – last year, sorry, this was more like 44%, but we think we could justify it because of cash inflows being better than assumed and the divestitures.

We do right now not assume that any potential settlement would have an impact on future dividends, and with that I'll give it over to you, Werner.

Werner Baumann

Alright, so thanks Wolfgang. Quickly on guidance, as such, as both Wolfgang and I mentioned during our prepared remarks, the issue is really one of lack of visibility and, quite frankly, also solid grounds that we could update our guidance on. And with it we look at it like, let's say, multiple months until we come to that situation because we are in the middle of the crisis still and the path out of it continues to be unclear. The only thing that we can describe right now, the vectors that are of relevance, and that's what Wolfgang did during the call. So you will have to bear with us. We are not looking at any type of in-quarter guidance update for quarter two.

Sachin Jain

Thank you.

Falko Friedrichs, Deutsche Bank

Thank you. It's Falko Friedrichs from Deutsche Bank. I have two quick questions left. Firstly, in Europe it appears that the weather has been very dry in April. Do you expect this to impact the planting season and your business, and was the weather in the relevant regions in the US supportive for planting so far?

And then secondly, could you provide an update on the Dicamba litigation and where we currently stand here?

Liam Condon

Yeah. Thanks, Falko. So, weather-wise, we think we're in a much better starting position than we were last year both in the US and in Europe. US, of course, last year was dominated by the flooding. This year we have a much more normal pattern. We'll still get some swings and roundabouts here, but so far, from a planting point of view, season preparations have gone well. As long as it's dry now at the right time planting will proceed well, and right now we're still assuming a normal planting season in the US, of course heavily dependent on what happens now in the next six weeks, in essence.

For Europe, we had, you recall, actually, over the winter very heavy rains and now it's been dry for quite some time, but forecast rain again in this coming week. So right now conditions would still be okay to be more in what I would call the normal bracket, and hopefully we can avoid the drought of the previous years. But again, this will only be seen in the coming months whether or not there will be continued drought or not.

For us so far, if I look at the orders from the both the seeds and a crop protection point of view, still currently looks like a normal season, but then what actually gets put in the ground and what crop protection products get used completely depends on what weather we will have over the next couple of months. But so far so good.

Werner Baumann

On the Dicamba litigation we've seen one of the trials with a first instance verdict that we heavily oppose. It's also not representative of the Dicamba litigation because that was a peach farmer by the name of Bader. We are completely at odds with the verdict because it's actually not substantiated at all, based on our assessment and our perspective. All of the others are by and large soybean farmers, and we are talking about roughly 175 farmers that are consolidated in about 35 cases. We are discussing with plaintiff lawyers on a potential resolution, but that is an ongoing process, so there is no update out of that discussion at this point in time. Of course the value also as a one-year crop is substantially less in soybeans and, for that reason also, it's not comparable at all with the first case, so no read-through with that.

Michael Friedrich

Okay. Thanks very much.

Oliver Maier

Okay, great. Thank you very much, everybody. Really appreciate you taking the time and for your input and questions. Wish you guys all stay safe and healthy and we talk soon. Thank you.

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