Bayer AG

Q3 Earnings Investor Conference Call

13 November 2018

Opening Remarks

Oliver Maier

Head of Investor Relations, Bayer AG

I would like to welcome all of you to our third quarter/nine- months- 2018 conference call. With me on the call are Werner Baumann, our CEO; and Wolfgang Nickl, our CFO. The different businesses are represented by the responsible management Board members. For Pharma, we have Stefan Oelrich, who has joined Bayer recently again; for Consumer Health, we have Heiko Schipper; and for Crop Science we have Liam Condon.

Werner will start off today's call with presenting some of the key takeaways for the third quarter and the outlook for 2018. Wolfgang will then go into the financials for Q3 in some more detail and also cover the performance of the divisions before we go into the Q&A session. For the Q&A, I would like to remind everyone of one the housekeeping items – to ask two questions max, so that we have a chance to get through most of the questions within the available time, because we only have most probably 45 minutes today left.

I will start the call today by mentioning the cautionary language that is in our safe harbour statement, as well as in all the materials that we have distributed today. And with no further ado I would like to hand it over to you, Werner. The floor is yours.

See disclaimer

Business Update Q3 2018 and Outlook 2018

Werner Baumann

CEO, Bayer AG

Alright, thanks, Oliver, and good afternoon also from my side, ladies and gentlemen. It's my pleasure to welcome you to our conference call. I'd also like to take the opportunity, as Oliver already mentioned, to give a warm welcome to Stefan Oelrich, who joined us from Sanofi and who succeeded Dieter Weinand as the head of the Pharmaceuticals Division, as of 1 November. And the good thing is really that Stefan is not new to Bayer. Before Sanofi, he previously had a long and successful career in Bayer's Pharmaceuticals division already.

So with that, let me get into our performance for the third quarter. In Q3, we achieved an overall good performance in a quite challenging environment, I have to say. We also confirm our Group outlook for 2018. During the last few months, we had positive news coming out of our pharma pipeline, especially with regard to Xarelto, Larotrectinib and Darolutamide. I will come back to that in a minute. The necessary anti-trust divestitures to BASF closed on 1 August and 16 August, respectively, which then enabled us to take full operational control of the newly acquired business as of 16 August.

This being said, we had a successful start to our integration activities. Among others our Crop Science leadership team met with more than 2,000 customers in 15 countries to explain how we will serve them even better in the future as the leading agriculture company in the world. We also validated and confirmed the communicated top and bottom-line synergies of, in total, US$1.2 billion by 2022. We have used the proceeds from the BASF disposals to further reduce our net debt and have already achieved a net debt level of €36.5 billion after nine months.

I believe we all have been very surprised by the final ruling on the Johnson post-trial motions in October. We believe that this verdict is dead wrong and we are, therefore, preparing an appeal with the California Court of Appeal in view of the more than 800 scientific studies and regulatory authorities all over the world confirming that glyphosate is safe for use when used according to label instructions; including an independent federally funded study which followed more than 50,000 licensed pesticide applicators and farm workers and their spouses for more than 20 years, which found no association between glyphosate-based herbicides and cancer. In addition the US Environmental Protection Agency's 2018 risk assessment, which examined more than 100 studies and concluded that glyphosate is 'not likely to be carcinogenic to humans', we continue to strongly believe that we have meritorious defences and intend to defend ourselves vigorously in all of these lawsuits.

That being said, let me now move on to the divisional highlights in the third quarter. At Pharma, our key growth products have continued their strong performance. Xarelto sales once again rose significantly at 19%, driven by higher volumes in Europe, particularly in Germany, and China. Our licence revenues in the US also showed a positive development. We also recorded substantial sales gains for Eylea, up 18%, primarily due to expanded volumes in Europe and Canada. In addition, we benefited it from the differentiated clinical profile of Eylea compared with competitor products.

As already mentioned, we also had quite some positive pipeline news for example Xarelto, for which, in combination with aspirin, we have seen FDA approval for patients with CAD and PAD in October, following the first approval in this indication in the EU in August already. Also in October, expanded Larotrectinib data confirmed findings on efficacy and safety in adult and paediatric patients with TRK fusion cancer across various tumour types. Larotrectinib is currently under regulatory review in the EU and the United States.

In addition, the phase III ARAMIS trial on darolutamide in patients with non-metastatic castration-resistant prostate cancer met the primary endpoint. The safety and tolerability observed in the trial were consistent with previously published data on darolutamide. We plan to discuss the data from the ARAMIS trial with health authorities regarding the submission of our marketing authorisation application. Bayer has been granted fast-track designation by the FDA for darolutamide in men with non-metastatic castration-resistant prostate cancer.

At Consumer, we have seen a solid sales development in quarter three, which was supported by all regions. Asia-Pacific grew by almost 10%, partly benefiting from the Kang Wang brand being

back in the OTC market since late July. In Crop Science, the positive Q3 pro-forma sales performance was driven by growth in soybean and corn seeds and traits in the Americas, as well as by improved pricing and volumes for glyphosate-based herbicides. So, as you can see, the demand for glyphosate remains very robust. Fungicide and insecticide sales were negatively impacted by the prior-year benefit from accounting measures taken in Brazil, as well as dry weather conditions in Europe.

Beyond these results, in October we were pleased to see the EPA announce the continued registration for Xtendi Max herbicide with Vapor Grip Technology. Building on the success of the 2017 and 2018 seasons, this continued registration ensures that growers in the US will have access to this vital weed control tool for the 2019 season and beyond. Sales of Animal Health in the third quarter were impacted by shifts in demand from the third quarter into the second quarter and the competitive situation in Europe. In September, we signed a global licence agreement with Neuro Cycle Therapeutics to advance innovative allergy treatment options for companion animals.

Before I hand it over to Wolfgang to shed more light on our Q3 performance from a financial perspective, I want to provide you with the outlook for our fiscal 2018. Overall, we confirm our Group outlook for fiscal 2018. Our guidance is based on the exchange rates as of 30 September and adjusted for currency effects to enhance the comparability of operating performance. We still expect Group sales of more than €39 billion, with more than €5 billion attributable to the newly acquired business. The necessary divestment of selected businesses to BASF will reduce anticipated sales by approximately €1 billion in full year 2018. This forecast corresponds to a mid-single-digit percentage increase on a currency-and portfolio-adjusted basis. We anticipate EBITDA before special items to increase by a low-to-mid single-digit percentage. On a currency-adjusted basis, this corresponds to an increase by a high-single-digit percentage.

We still expect core earnings per share to come in at between 5.70 eurocents and 5.90 eurocents. On a currency-adjusted basis, this corresponds to a decrease by a high-single-digit percentage, mainly driven by the later closing of the transaction, incremental financing costs thereof and an increased share count. And with that, let me now hand it over to you Wolfgang.

Financials Q3 2018

Wolfgang Nickl

CFO, Bayer AG

Thanks, Werner. Ladies and gentlemen, also a warm welcome from my side. I will now walk you through some more financial details for Q3 and then comment on our pro-forma forecast for 2018.

Let me dive right into Q3. Our numbers include for the first time a full quarter for the former Monsanto business. Our reported sales number of €9.9 billion included a contribution of approximately €2.2 billion from our newly acquired business. Continued negative FX effects burdened the Bayer legacy business with more than €200 million for the quarter. The underlying business performance was good, especially when taking into account the quite challenging environment. When adjusting for currency and portfolio effects, we achieved year on-year sales

growth on a Group level of about 2% organically. EBITDA before special items for the Group came in at €2.2 billion, including a contribution from the acquired business of €255 million. This was on par with the prior- year-quarter, despite a negative FX impact of about €160 million on Bayer's legacy business.

Core earnings per share in the third quarter were down 18% year on year to €1.19. This was primarily driven by increased interest expenses due to the acquisition debt financing and a higher number of shares due to two equity measures during the second quarter. The market consensus for our core EPS was €1.03 per share.

Despite the current strengthening of the US dollar, negative FX effects from other currencies will continue to be a headwind for the remainder of the year. Year to date, the impact on earnings for the legacy Bayer business was a negative €442 million. The expected impact on earnings for the full year is expected to be around €500-550 million. As a reminder, going forward and including the newly acquired business, a 1% change of the euro against our currency basket is impacting our revenue by about €340 million and our earnings by about €100 million.

Let me now switch to our Pharma business. Sales of Pharmaceuticals rose by 5% to about €4.2 billion in Q3, with all regions contributing to this positive development. Our key growth products, Xarelto, Eylea, Adempas, Xofigo and Stivarga, maintained their strong performance overall, with their combined sales rising by 16% to €1.7 billion for the quarter. As expected, Pharma's Q3 sales were held back by temporary supply disruptions in our supply centre in Leverkusen for some of our established products, such as Adalat and Aspirin Cardio.

EBITDA before special items for the Pharma business increased by 4% to €1.55 billion. On the one side, we benefited from an overall good operating performance and an income of around €190 million from our Xarelto development collaboration with Janssen R&D, a subsidiary of Johnson & Johnson. But on the other side, negative currency effects of €73 million, higher COGS and the already -mentioned temporary supply limitations held back an even better development.

The Leverkusen remediation activities are on track to be closed out by the end of this year and we expect the FDA inspection in early 2019. We continue to forecast the full-year negative effect of these supply interruptions at roughly €300 million for both sales and EBITDA.

Let me move on to Crop Science, where we achieved a significant year-over-year improvement in both reported sales and earnings. In the third quarter, the newly acquired business has, for the first time, fully contributed to our Crop Science business and added significant sales and EBITDA, while the divested business to BASF only had a minor contribution left. Overall, Crop Science sales increased to a level of about €3.7 billion in Q3, mainly due to revenues of €2.2 billion from the newly acquired business. For Bayer on a standalone basis, the currency and portfolio-adjusted development showed a 10% decline, particularly due to the accounting measures taken in Brazil in the prior year, and a decline in the EMEA region.

Crop Science increased its EBITDA before special items by 26% to €386 million, mostly as a result of the newly acquired business, which contributed €255 million to overall earnings. The perceived somewhat sluggish performance of the legacy Crop Science business can be explained as follows: first, strong negative currency effects of €59 million; second, lower volumes in Europe; and third, a positive effect in the mid-double-digit millions taken in the previous-year quarter, in conjunction with the accounting measures in Brazil.

Let me now come to Consumer Health. The third quarter was a quarter with a positive 3% FX and portfolio-adjusted-sales growth. This growth was driven by all regions, with a particular strong contribution from Asia-Pacific, which was up 9%. Also China showed a good performance, benefiting from Kang Wang, which is back in the market also in its OTC version since late July.

EBITDA before special items declined by almost 10%, but this was largely due to negative FX effects. In addition, one should bear in mind that prior-year earnings included one-time gains of approximately €30 million that mainly related to the sale of small tail-end brands. In addition, we have closed the divestment of the prescription dermatology business in the US in September. And as a reminder, we expect to close the rest of world business in the summer of 2019.

And finally, let me comment now on Animal Health, which had a soft quarter largely due to shifts in demand from the third quarter into the second quarter, as already mentioned by Werner before me. These shifts in demand mainly relate to US distributors, who built up bridging stock in the prior quarter to prepare for a packaging change in our Advantage product line. While sales in EMEA came also down due to a challenging competitive environment, especially in the UK, we have seen a continued positive growth momentum for our product Seresto, which is on its way to become the biggest product of Animal Health by year-end. Year to date, this product grew approximately 23% compared to the same prior-year period.

Q3 EBITDA before special items was down to €44 million, primarily due to lower volumes. A decline in expenses, especially selling expenses, was insufficient to offset the negative volume effect.

So far I have focused on sales and EBITDA before special items. I would now like to spend a minute to explain how we get from EBITDA before special items of €2.2 billion to a core EPS of €1.19 for the third quarter of 2018. Special items in our EBITDA for the quarter amounted to a positive €3.1 billion, largely driven by the divestitures gains of €3.9 billion coming from the sale of businesses to BASF. This number was somewhat offset by expenses, mainly due to acquisition-related effects, including €518 million relating to the step-up of inventories to fair market values.

Our reported financial result of -€678 million included special charges of €166 million, mainly as a result of the deconsolidation of our company in Venezuela. For modelling purposes for the full fiscal year, you can assume a financial result of approximately -€1.3 billion for 2018. The core tax rate of 14.3% was lower than the reported or effective tax rate of 22.7%, mainly due to one-time effects from the integration of the two Crop Science businesses. For modelling purposes for the calculation of core EPS for 2018, you can assume the core tax rate to be around 21%. The two equity measures in the second quarter also had an impact on our number of shares in Q3, which amounted to 980 million. This is also the total number of shares exiting 2018, while the average for the full year is estimated at around 941 million shares.

Let me briefly turn to the balance sheet. Mainly driven by the proceeds from the divestment of certain Crop Science businesses to BASF for a total purchase price of approximately €7.6 billion, we have been able to further reduce our net financial debt from almost €45 billion at the end of June to about €36.5 billion at the end of September. We now forecast a net financial debt level of around €36 billion by year-end. Our current estimate is based on the US dollar/euro exchange rate, as of the end of September 2018, of 1.16. Please keep in mind that at year-end about 65% of our financial debt is in US dollar.

The impact of exchange rate changes to our net financial debt is quite significant, as every percentage-point appreciation of the US dollar against the euro would increase our net financial debt by about €250 million and vice versa. I would like to take this opportunity as well to emphasise again that we are committed to continue to deliver our balance sheet quickly.

Let me cover one more topic before I close my remarks. Realising that the reported core EPS numbers are hardly indicative of the real underlying performance of our business, we decided back in September for our Q2 call to include illustrative pro-forma core EPS information for the full-year 2018. We have included the same chart in the Q3 presentation for your convenience. You will recall that this demonstrated that our newly acquired Ag business will be accretive to core EPS already in the first full year, assuming that the acquisition had closed on 1 January 2018. You will also recall that, when also including the conversion effects from US GAAP to IFRS, the pro-forma core EPS was estimated at approximately €6.70 for 2018.

Today, we would like to give you some further details on the underlying EBITDA that the pro-forma EPS number is based on. This further detail should also help you in modelling the baseline of our earnings profile for 2019 and beyond. Starting from the adjusted core EPS number of around €6.70, we calculate back to a pro-forma clean EBITDA of around €11.5 billion for 2018. You will note that we only add back depreciation of about €1.2 billion, because we always disregard acquisition related amortisation when calculating core numbers. Please also consider that this pro-forma number already includes a full year of synergies.

The table on the right of the corresponding chart in our deck shows the breakdown of the pro forma clean EBITDA numbers by segment. For the new combined Crop Science business, we expect an overall contribution of around €4.5 billion, which takes into account a standalone contribution from Monsanto, on a pro-forma basis, of around €3.3 billion, as well as a €2 billion contribution from the legacy Bayer Crop Science business. Again, you can see that we added a full year of synergies and deducted the contribution for the divestments to BASF, and finally also made the adjustments for the non-cash US GAAP-to-IFRS conversion. With that, I will hand the call back over to you, Oliver.

Questions and Answers

Oliver Maier

Great. Thank you, Wolfgang. Thank you, Werner. Emma, with that we can open up for Q&A.

Wimal Kapadia, Bernstein

Great, thanks very much for taking my question. Wimal Kapadia from Bernstein. Could I get some comments on initial feedback that you've had on the launch of Jivi. I want to get a sense of how the company is going to compete with the factor VIII peers, as well as Hemlibra. Does Bayer have a strategy for preventing a switchback from new products back to the older generation factor VIIIs? Just tied to this, can you give us an update on your anti-TFPI programme?

My second question is on Animal Health. Could you just talk a little bit about the competitive dynamics of the Advantage franchise and if there is any reason we should expect to see an improvement of the product in those regions where you've seen competition, specifically within EMEA? Thank you very much.

Werner Baumann

Let's start with the launch of Jivi and the anti-TFPI. Stefan, do you want to take it?

Stefan Oelrich, President of the Pharmaceuticals Division

Thank you, Werner, and thanks for the question, Wimal. The first indicators that we get from the US team are positive. We get a lot of good feedback from our customers and from patients who have gone over to Jivi, but these are early days. We have just been on the market for a very short period of time, so stay tuned a little bit before we can give you more, but the first signs are quite positive, I must say.

On the anti-TFPI, we will come back in a second. Maybe we will take the Advantage question.

Liam Condon, President of the Crop Science Division

As Wolfgang explained, we had a packaging change related to Advantage in the second quarter and, with that, there were very significant stocking and phasing effects, basically a pull-in of sales into the first half of the second quarter. You see a very big negative effect, particularly in the US, related to that now in the third quarter. The second effect here is related to the UK to increased generic competition that we're facing in the UK. The way we would classify it is, because I think you're asking about the dynamics, is the phasing effect is of course a one-time related to the packaging impact, whereas the generic competition we would expect to continue. This we're seeing primarily in the UK related to a UK based- generic company.

Stefan Oelrich

I'm sorry for not having the answer right away on anti-TFPI antibodies. What we can tell you is we've concluded our phase I and that we've just started phase II. Enrolment there is on track and so far there's nothing more that we can comment on.

Peter Verdult, Citi

Thank you. Pete Verdult, Citi. I have two questions, the first one for Werner or Stefan. I realise you're not going to quantify the ARAMIS data but, with market expectations for darolutamide minimal, versus multi-billion-dollar forecasts for the entrenched competitors, I was wondering if you'd at least be willing to give your perspective, now you've seen the data, as to how competitive darolutamide might be and when we might see that data.

Secondly on Crop for Liam, again I'm not asking for guidance going into 2019, but I would like to get some of your earlier thoughts in terms of regional developments or anything in terms of the seeds pricing environment that you're thinking about going into next year. Thank you.

Stefan Oelrich

Hi, Peter. Good to hear from you again. The darolutamide data is obviously quite encouraging, given that we have reached our primary endpoint. You know the rule of the game though; we cannot really give you much more information before we present this at a scientific meeting, which is going to happen very soon, and then hopefully publication will follow. To give just a little bit of colour, we are very pleased with where we stand, and that is as much as we can tell you for now.

Werner Baumann

Thanks, Stefan, and then on 2019 pricing and any other recent developments or trends in Crop, Liam.

Liam Condon

Thanks, Pete. As you rightly say, without giving any kind of more guidance for next year – and we'll have plenty more opportunities to do that in the near future – what we've seen so far is, very clearly, a very strong start to the season in Latin America. It's a strong agronomics start helped by the overall conditions, plus the very robust demand. Of course, what plays a role is now the relatively positive currency development of the Brazilian real after the election. That effect really kicked in from the fourth quarter and we expect it to continue with a degree of stability now, post-election. LatAm had a very strong start to the season and we expect, given the agronomic conditions, that this will also lead to more positive conditions for the Safrinha, for the second season, particularly for corn then going into next year. On the seeds side, at least we can say that it looks pretty robust now going into the new year.

On the crop protection side, what we've been noticing for some time now is increasing prices coming out of China, actually. This is related to the fact that the Chinese government has a relatively large ongoing effort to enhance the environmental situation overall in China. This is resulting in the shutting down of various plants, but kind of a limiting of supply, to a degree. We're noticing this in the market with prices creeping up. We notice it particularly on the glyphosate side, what's happening in the market, and this is something where we want to pass on any kind of cost inflation into the market. They're the two things that we can see right now and otherwise, where we are in the season, it's too early to make any calls otherwise, but they're the two points I would highlight.

Jeff Zekauskas, JP Morgan

Hi, this is Jeff Zekauskas from JP Morgan. Is it the case that your Intacta plantings this year are about 60 million acres, maybe 45 million in Brazil and 15 in Argentina? Can you give us an update on patent issues for Intacta, both in Brazil and in Argentina?

Liam Condon

Thanks, Jeff. The Intacta penetration has been quite phenomenal. It is at about 60 million acres in Latin America, thereof about 50 in Brazil, so a bit larger than you what you estimated, and we expect further growth next year. Of course the growth rate's going to decline because it's so heavily penetrated right now, but we do expect this to continue to grow.

From a patent point of view, you know we had litigation from a group called Aprosoja de Mato Grosso, which is a growers' association in Mato Grosso, which accounts for about 25-30% of soybeans in Brazil. The litigation was related to patents for the Intacta Roundup Ready 2 Pro, claiming that one of the patents was invalid. It's important to highlight here that there are multiple patents related to this technology and this is challenging one of those multiple patents. The lawsuit is still in the very early stages and we believe all the patents that we the patents that we hold are absolutely valid, and are going to continue vigorously defending ourselves here.

There was an interim basically judgment made that we would have to put a part of future payments into escrow. This is related to future royalties on Intacta. However, this case is still ongoing and it's unclear what percentage of revenues related to this 25-30% of sales in Brazil this would be related to. This is one of the questions that's currently ongoing, and we continue to book all sales, all revenues, according to both GAAP and IFRS as our revenue. We expect this issue to be cleared up, hopefully, in the near future.

Florent Cespedes, Societe Generale

Good afternoon, gentlemen. Thank you for taking my questions. Florent Cespedes from Societe Generale. I have two questions, the first on Crop Science. Could you elaborate on the situation in Europe where the volumes are down, if there is a trend there, which are the businesses that are impacted and when we should see a recovery in this region?

My second question is on Consumer. Your best-selling products are declining 2%. We can understand the weak Claritin explained by the soft allergic season, but on aspirin is it fair to assume a recovery as early as next year, as you were mentioning earlier on this call? Regarding Coppertone and Dr Scholl's, they are still in negative territory. When should we start to see a recovery for these two brands? Thank you.

Werner Baumann

Thanks, Florent. The first question is going to be answered by Liam on Europe and the situation there, then Heiko is going to take your questions on Claritin, Coppertone and Dr Scholl's.

Liam Condon

Thanks, Florent. On Europe, we basically have two quite different regions within Europe, the way we look at it. There's Western Europe, where we are not seeing any kind of growth momentum, and then there's Eastern Europe, where we've seen quite strong growth momentum. In this particular quarter, what is noticeable is the effects of the drought in Western Europe. This effect on the region is about €50 million in sales and this is primarily related to fungicides in Western Europe. There's a second effect in here, which is related to France to the deregistration of neonics in France from 1 September, which also has a double digit- million- impact. They're the two most significant impacts that we face in Europe, both in Western Europe – one related to weather, one related to registration in France. They're the elements that we see. We would expect, going forward, growth momentum rather to come from Eastern Europe – Ukraine, Russia, that region of the world – as opposed to Western Europe.

Heiko Schipper, President of Consumer Health Division

Florent, thank you for the question on the four key brands in Consumer. If we start with Claritin, I think you've picked up already it was not a great allergy season indeed, -3.7 year to date for that business. If I look a bit more deeply at market share performance, it's actually quite okay, so that's mainly a season issue. Aspirin, on the other hand, is frankly mostly related to our supply disruptions. That brand is generally healthy and underlying demand trends are good but that, together with Canesten, are the two brands that really are impacted by these supply disruptions. As we go through the next year, we should gradually start to see some improvements in that.

Then specifically to Coppertone and Dr Scholl's, Coppertone year to date -6. I think it's fair to say it's still not at where it should be and the performance this season was behind our own expectations also. If I look at next year, this brand is probably one of the brands that had a fairly weak innovation pipeline when we took it over. If I now assess the way the 2019 picture looks, we're already starting to sell this into the customers, actually, so we already have a fairly good view of the acceptance of our large customers, be it Walmart or CVS. We see very high acceptance of the new products that we're planning to bring into the market, so I'm optimistic that, actually, 2019 will start to see more positive numbers there.

Dr Scholl's year to date is actually positive. The quarter was maybe a bit tainted by last year, when we did the relaunch, so obviously cycling over a fairly large Q3 last year. If you look year to date, the brand is positive. If you look since the brand has been relaunched, probably Dr Scholl's took the innovation that was needed there a bit earlier than Coppertone. There we can see since the relaunch that the brand has performed well and actually has gained share in the past 12 months. I hope that gives you the feeling of where those four brands stand.

Florent Cespedes

That was very clear. Thank you very much.

Matthew Weston, Credit Suisse

Thank you very much. It's Matthew Weston from Credit Suisse. Two questions, if I can, the first on Pharma R&D, which obviously saw a material drop on a reported basis because of the one-time milestone but still, on an underlying basis, was a significant step down versus previous run rates. I guess with COMPASS, MARINER and some of the darolutamide trials now over – and I think I counted five phase IIs that you dropped during the period – what should we expect for Pharma R&D going forward, in terms of mid-term spend?

Then secondly on guidance, clearly, Werner, you've reiterated the guidance for the full year, but there is that language in there that both the Consumer and Animal Health outlooks look increasingly challenging in order to deliver your previous target. So really the question is what's doing underlying that means you're comfortable with the full-year outlook for the Group. Thank you.

Werner Baumann

Okay, Matthew. Thank you for your question. On first Pharma R&D, as our rightfully said, we see a significantly lower quarter three- number on our Pharma R&D, which is entirely driven by the

€190 million of milestone payment that was recorded as a reduction of our R&D spend in the third quarter. That's in line with the prior R&D investment and also ran through our P&L. Actually, we are not stepping down our R&D investments. We have guided for and are on track for an R&D margin that is edging up towards the upper end of our 15-17% R&D margin guidance. It's in the upper part, so closer to 17% in the underlying. We have had a few fallouts in our pipeline but, as I mentioned earlier, also some quite positive news in our later stage- pipeline that is encouraging. On top of that, we will continue to invest both in our internal R&D activities and pipeline, and we continue to be on the lookout also for some external further infusion of innovation. A good proxy for that is what we did with Loxo, which appears to be on a very good track with filings recently, both in the US and in Europe.

Coming to the guidance, we have first of all confirmed Group guidance. If you look at Group guidance and the EBIDTA level we have as the Group, and then contrast it to Consumer and Animal Health, the only reason why we mentioned Consumer and Animal Health is because we had given separate guidance for those two sub-segments earlier this year and, for the sake of full transparency, we also wanted to make sure that we communicate with you that the remainder of the year is not being called off, but looks increasingly challenging. With that, we have also confirmed our overall guidance, so there's a little bit of give and take.

If you look at the Animal Health business, the Animal Health business is going to be somewhere in the area of between €350 and €400 million EBITDA, in terms of absolute EBITDA earnings. We have about €1.2 billion in [Crop] and then, if you contrast that to our combined Crop and Pharma business, there are very small variances to our existing underlying business. All the guidance we have given based on that is going to make up for the small differences we are going to see. In a nutshell, in summary, we fully stand behind the guidance. We are very solidly on track. Liam already mentioned a strong start into the season for our Crop business in Latin America, and that's where we are. I hope that gives you the colour you were looking for.

Michael Leuchten, UBS

Thank you. It's Michael Leuchten from UBS. I have questions for Liam, please, on herbicide and seeds. Backward looking, comments in the opening remarks around glyphosate doing okay for now, I was just wondering if you talk about what you're seeing going forward. I do appreciate your statement about not seeing impact yet but, as you look into the growing season, are you seeing any changes?

The second question is on dicamba. It's good to see the licence coming through. Was that in time to go out or was there a delay? If so, what would that mean? On seeds, there was some commentary in Q2 around some ill disciplined- pricing coming from competitors. I believe it was mostly in the US. Are we still seeing that? Are you still seeing that going into next year or was that a temporary issue and we're not seeing that recurring? Thank you.

Werner Baumann

Okay, thanks, Michael. Liam is going to take the three questions.

Liam Condon

Thanks, Michael. On glyphosate demand, at least I've tried to say a couple of times, the demand is really not related to any kind of litigation or jury decision. It really heavily depends on the agronomic conditions in the field, and what we've seen is very robust demand, both from a volumes point of view and because of what I mentioned earlier – Chinese pricing creeping up. Because our product is always at a premium to generics, our prices also increase, so we've seen strong demand and we would expect to continue to see strong demand, simply because growers need this product.

On dicamba, we were, I would say, very happy to see the reregistration that was given. It was given for two years. There was some discussion initially of whether it would only be one and then another review after a year, so it was very good to have the certainty of the two years. It was very much in line with our expectations. From a timing point of view, it was also totally okay in the sense that we already had a lot of pre-orders. A lot of farmers had already kind of priced in themselves an assumption that this was going to get reregistered, again based on the heavy demand for alternatives to glyphosate. There is no up- or downside related to the reregistration. It is basically priced in but very good to have it. We were relieved to get it.

On seeds pricing, the softness that we have seen in the market is particularly related to soybeans in the US, which we have to acknowledge is a very special situation right now with the US/China trade conflict, China being a major import market for the US in the past. That importing has basically stopped and is now being sourced largely out of Brazil. With that, there is of course heavy pressure on pricing and this is reflected simply in the market as well. There's a lot of uncertainty around where the soybeans are actually going to end up, so that has an overall market impact. We think this will eventually be worked out, because the soybean demand hasn't changed. It's more an issue of from where the demand is basically being fulfilled. Overall, we have premium pricing in the market based on the quality of our hybrids and our goal is always to maintain that premium pricing but, if we're losing share because of premium pricing, we do of course look at how we can defend our share. We will always endeavour to have the premium prices in the market, simply based on the fact that we have the best quality- hybrids. I hope that gives a bit of flavour for those three questions.

Tim Race, Deutsche Bank

Hi, there. It's Tim Race here from Deutsche Bank. My first question is for Consumer Health. Basically, now you've got your feet under the desk, as it were, can you just talk about what you think is going on in the consumer health market, particularly the US, and where the light at the end of the tunnel may be there? Also on Consumer, can you talk about what you can actually control and whether you feel that the third quarter is the bottoming out and, actually, we- should see a better improvement of your underlying performance, going forward? I'll leave it there, if you want to expand on that.

Then on Xarelto, we're seeing in the US market share losses relative to apixaban and we're seeing some pricing compression there, yet ex-US you're doing extremely well. Can you give us understand or give us some visibility on ex-US where you're doing well, particularly how you're outperforming, in which markets and how we should see that going forward? Thank you.

Werner Baumann

Thanks, Tim. On your first questions regarding the consumer health market perspective and also in particular with a perspective on the US and quarter three, the Consumer Health trends, whether they have bottomed out and what to expect going forward, Heiko is going to take those three and then Stefan is going to comment on Xarelto US and ex-US.

Heiko Schipper

Okay, Tim, if we first maybe look at the market generally and North America specifically, generally the market is still performing good. It's growing at around 3% to 4% globally. North America is a bit lower than that, more in the magnitude of around 2% or so. If we look specifically at our business there, it's fair to say that it's still in a challenging position. I don't think we have totally turned the corner everywhere. We already spoke about some of the brands earlier on in the call. What I propose, rather than to give a lengthy answer right now, is that we move this question to three weeks when we have the capital markets day. Obviously I'm going to give a bit of a deeper perspective on how we think we can bring Consumer Health to the right level of performance that this business deserves. If you can bear with me until then, I can give you a bit more of a comprehensive answer.

Stefan Oelrich

On the US, we're not going to directly comment on this, but J&J, in their earnings call, my understanding is, has commented on the performance in the US, including some rebate-induced- negatives that they have been suffering from. On our end, we are very pleased with how Xarelto has been doing, especially in Europe demand continues to be strong. Germany is very strong, and we're also happy to see what's happening in China. In China, we're now included on the drug reimbursement list and that gives us a significant volume boost in China, so all in all a global very positive for the Bayer side on Xarelto.

Werner Baumann

Maybe one comment to be added is on the opportunity for CAD and PAD, which is huge and clearly differentiates Xarelto from all other NOACs out there. We're seeing, as Stefan mentioned, a very pleasing and early uptake in Germany, strong performance in the quarter and we will be the only company that is going to enjoy sales and scripts in these two indications.

Emmanuel Papadakis, Barclays

It's Emmanuel Papadakis from Barclays. Thank you for taking the question. Maybe one on Pharma products, Xofigo. You've got your full year- guidance. Is there a floor to where that goes or is that brand now in terminal decline, given the clinical data we had at the end of last year?

Then I may have one on Pharma margins. You've kindly reiterated the €300 million guidance for us. You had previously said most of that would be booked by Q3. Could you confirm and perhaps quantify if that is the case and maybe give some thought about how that trends from here into 2019? Is there any reason we should not expect 2019 to start from 2018 plus €300 million, with additional potential for leverage? Thanks very much.

Werner Baumann

Thank you, also. Xofigo, the first question on where it's going to go from where we are today, the impact of the readout of the abiraterone combo is going to be taken by Stefan, and then I'm going to briefly comment on margins and the €300 million you mentioned.

Stefan Oelrich

As you may have seen, in the first nine months, there was roughly a 7% decrease in our Xofigo business, which has led us to issue some revised guidance on the product with a high-single digit-decline. That goes from previously what we stated, mid single-digit-decline. What I would like to state, however, on Xofigo is, while we have seen some label adjustment in Europe, in the United States it's a very minor label adjustment. The safety of the product as confirmed in the pivotal trials with the non-combination treatment is confirmed, and this product continues to enjoy a lot of support from the specialist community, given its very strong efficacy as proven in our pivotal trial. This product has absolutely a reason for being and is needed by patients who suffer from this type of prostate cancer.

Werner Baumann

With that, let me give you briefly some perspective on margin and margin development. We've seen a fairly good performance of the Pharma business for the first nine months and, while originally we had guided for a significant part of the supply shortages already to hit in the first half, that has changed during the year, so we are expecting the bigger hit of the supply constraints in the second half of the year, a mid-to-high double-digit amount actually hitting in quarter three and some more to come. Beyond that, the fourth quarter is always a little bit more resource-heavy and with that carries a lower margin compared to what we have seen in the first three quarters. Bottom line, we land down where we had guided for the business, that we are going to see a slight single digit- increase of our underlying EBITDA for 2018 in the Pharma business. Going into 2019, we are a little bit early to give guidance. I would also refer you to the capital markets day, because we will give you a more comprehensive perspective, not only on single and individual pieces, but more on the overall direction of the business and, with that, clearly also where we see our businesses going in 2019.

Oliver Maier

We are running late, so we have time for one or two more people asking questions.

Richard Vosser, JP Morgan

Hi. It's Richard Vosser from JP Morgan. This is just a question on the legacy Crop business, please, and your pro-forma guidance. Just looking at that guidance as €2 billion for EBITDA, it seems to be a little bit lighter than previously would have been expected, given the growth targets for this year, in Q4 2017. Liam has talked about maybe €100 million of impact from Europe on fungicides, drought and the neonics being removed, but thoughts on the rest of that impact on that business, please?

Secondly, going back to that €300 million impact, when I look at the sales for things like Adalat, aspirin, Levitra, Canesten, I probably see a decline year on year that may be between €50 and €100

million. There does not seem to be much impact on sales, so perhaps give us some thoughts about the sales impact in Q4. Should we be expecting a massive impact or potentially not? Thanks very much.

Liam Condon

There are a few points to note for the legacy Crop Science bottom line, as you point out. Two things I've already mentioned are the EU drought, so less fungicides and less neonics. These are very high-margin- products of course in Western Europe, so they have a disproportionate effect on the bottom line. I guess you have already taken into account the effect of the change in provisions in Brazil. This was factored in at about a €50 million impact on the bottom line. It actually translated into about €150 million on the top line, and then there's a very significant forex impact in there as well, not to mention the missing BASF or the sales that go to BASF. If you add all of that up, you very quickly get to the difference that you're probably sensing versus, let's say, a blue-sky scenario where nothing would have changed.

Werner Baumann

Thanks, Liam. Stefan on the €300 million, product portfolio and what we expect in quarter four.

Stefan Oelrich

Hi, Richard. Werner had commented before on the numbers, but let me give you some more colour on the tail-end-. Obviously with the warning letter, we're seeing a more dramatic or stronger impact on the mature product portfolio, including our tail-end. What we've seen so far is tail-end products have been down by 5%, including third quarter. I hope that gives you the colour you need.

Keyur Parekh, Goldman Sachs

Thank you. I have two questions, please. The first one is big picture. Werner, there seems to be a lot of confusion and nervousness in the market around the profitability for the Group as a whole going into next year, based primarily on the pro-forma EBITDA number for Crop of €4.5 billion. I'm not looking for any specific guidance on numbers here, but can you tell us how comfortable you feel with consensus EBITDA at €12.8 billion next year, given you have so many moving parts within the business?

Secondly more specifically on the Crop side of things, given the strength you're seeing in the Latin American businesses this quarter, how should we think about the potential impact on the North American planting cycle into the first half of next year? Thank you.

Werner Baumann

Thanks, Keyur. The first question on consensus and pro-forma numbers is going to be answered by Wolfgang, then followed by Liam on Latin America and the read-through for North America and the season there.

Wolfgang Nickl

Thanks for your question. This is precisely the reason why we gave our pro-forma illustrative EPS last quarter and put the EBITDA amounts next to it this time. When we look at this and we look at the street expectations for EPS for the Group, we are in the right zip code in most of the divisions. If you look at Crop Science in particular, you will see that we would have to have a very significant increase to the street expectation. That is clearly on the high end and one of the reasons why we have provided this detail. We believe that this could be because some analysts still use a very old jump-off point for the acquired business, which did not consider FX effects over the years and did also not consider that we are not in the upswing of the crop cycle yet. Bear with us for another three weeks; we'll shed more light on 2019, as we talk to you on 5 December in London.

Werner Baumann

Thanks, Wolfgang. Clearly you do have a baseline you can work from now, with the data we have provided beyond the core EPS pro forma, so €11.5 billion. The only thing you have to adjust for, for Group level, if you start with the clean EBITDA proxy we have provided for 2018, is that that number, as Wolfgang already mentioned – I just want to repeat it – includes a full year of synergies in the pro-forma number. As you know, we have barely started to get some synergies out of the business, because we actually could only start working with each other from late August, so that is the only piece that you would have to adjust. Then you are in a perfect position to model out what 2019 might look like, even prior to us getting together in early December.

Liam Condon

On the question of what we could expect as the impact on North America going into the new season, based on the strong start to the season in LatAm, it is of course right now too early to tell but, in simple terms, what we would expect is more corn acreage for sure and less soybeans. If that's the playout, then there's more corn in the US and more soybeans in Brazil. That would be something where we would definitely benefit from.

Oliver Maier

Thank you very much, everybody, for participating. Talk to you soon. Thank you.

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