



Research on Bayer (BAYRY)

Description: A German multinational pharmaceutical and life sciences company

Price: \$20.00

Performance:

- YTD: -34.42%

- 1 YR: -38.74%

- 3 YR: -36.74%

- 5 YR: -29.70%

Market Cap: \$74.4B

Fundamentals:

See image below as we compared Bayer to Johnson&Johnson, GlaxoSmithKline, and Novartis. We must note that it is a bit difficult to value BAYRY right now. Their \$63B acquisition of Monsanto has officially cleared and will be on the books fully going forward. Not only is it hard to calculate and value the synergies the two companies will have it's also difficult to value Monsanto's seed business. As many of you may know, BAYRY has been having an awful year mainly due in part to the \$289M that was awarded to Dewayne Johnson because Monsanto

failed to warn the school groundskeeper and other consumers of the cancer risks posed by glyphosate-based RoundUp and Ranger Pro. Mr. Johnson has terminal non-Hodgkin's lymphoma that he alleges was caused by the herbicides but Bayer denies the claims and is still in an ongoing lawsuit. The judge later reduced the award to \$78M but it is still going through appeals. If damages get bad enough, there is a possibility Bayer just shuts down the entire business segment but they are a long way from doing that at this moment in time.

The biggest reason shares are where they are is not only because of this one case but the fact that they have 8,700 similar cases on their table now, up from 5,200 at the beginning of the year. Also, we did a little more research and also found that 16,000 women have sued Bayer over their "Essure" contraceptive saying it has caused a wide range of health issues including autoimmune disorders, hair loss, anemia, and/or unintended pregnancies. Bayer announced it would pull Essure from American markets in December but says the decision is based on a decline in sales... I think in the time we wrote this their lawyers made a few mill hahaha

As tempting as you may be to buy the 40% dip here its not always about buying low but whether the money will grow or not. Bayer has been in a 5 year slump as the rest of their businesses seem to be maturing with low organic single digit growth rates. For example in their most recent quarter: (edited)

- Group sales rose by 8.5% (Fx & portfolio adj.) to €9,481 million (reported:+ 8.8%)
- Pharmaceuticals posted a sales gain of 3.1% (Fx & portfolio adj.) to €4,217 million.
- Sales at Consumer Health came in slightly below the prior-year quarter at €1,413 million (Fx & portfolio adj. – 1.4%).
- At Crop Science, sales climbed by 21.4% (Fx & portfolio adj.) to €3,011 million. On a reported basis, sales increased by 39.2%, thanks mainly to a portfolio effect of 25.0% (€543 million) from the acquisition of Monsanto.
- Animal Health sales grew by 7.6% (Fx & portfolio adj.) to €453 million
- EBIT of the Bayer Group fell by 7.7% to €1,351 million (Q2 2017: €1,463 million)
- EPS was €0.87 in the Q2 2018 (Q2 2017: €1.38), while core earnings per share from continuing operations increased by 1.3% to €1.54 (Q2 2017: €1.52)

Just a quick note on the balance sheet:

- Net financial debt increased to €44.7B in the second quarter of 2018 due to the acquisition of Monsanto
- Between March 31, 2018, and June 30, 2018, total assets increased by €61.1B to €136.5B, mainly due to the acquisition of Monsanto
- We did a little more digging and also noticed Moody's has a negative rating on their credit at Baa1

Below you will see some screenshot related to their drugs on the market and another screenshot of those that are in Phase 2 with the FDA.

Technically, the stock was considered oversold but is now within normal ranges here at \$20.00. The trend is still downtrend and the 50 day moving average is going to act as a resistance level at \$21.72. There appears to be some support at \$17.93 and some more at \$17.30.

Overall, there are two reason CUBE won't touch this. One, there is too much legal headwinds (which granted if overcome will prob cause a nice pop in shares) and two, I truly can't stand these two companies, especially Monsanto. They have such a dirty track record and we're all about making money but from a socially responsible perspective we'd rather just find another pharma company to invest in. The company posts Q3 earnings on the 13th and that quarter will fully reflect the Monsanto acquisition.

Refer to below for images:



Research and Development Projects (Phase II)¹

Projects	Indication
Anetumab ravtansine (mesothelin ADC) ²	Malignant pleural mesothelioma
BAY 1093884 (anti-TFPI antibody)	Hemophilia
BAY 1128688 (AKR1C3 inhibitor)	Endometriosis
Fulacimstat (BAY 1142524, chymase inhibitor)	Heart failure
Fulacimstat (BAY 1142524, chymase inhibitor)	Chronic kidney disease
BAY 1193397 (AR alpha 2c rec ant.)	Peripheral artery disease (PAD)
BAY 1213790 (anti-FXIIa antibody)	Prevention of thrombosis
BAY 1902607 (P2X3 antagonist)	Chronic cough
BAY 2253651 (TASK channel blocker)	Obstructive sleep apnea
BAY 2306001 (IONIS-FXIRx) ³	Prevention of thrombosis
Levonorgestrel + indomethacin combi IUS	Contraception
Neladenoson bialanate (BAY 1067197)	Chronic heart failure with reduced (HFrEF) and preserved (HFpEF) ejection fraction
Radium-223 dichloride	Breast cancer with bone metastases
Radium-223 dichloride	Multiple myeloma
Riociguat	Systemic sclerosis
Rogaratinib (pan-FGFR inhibitor)	Urothelial cancer
Vilaprisan (S-PRM)	Endometriosis

Best-Selling Pharmaceuticals Products

€ million	Q2 2017	Q2 2018	Change % ¹		H1 2017	H1 2018	Change % ¹	
			Reported	Fx & p adj.			Reported	Fx & p adj.
Xarelto™	834	891	+6.8	+10.6	1,585	1,705	+7.6	+11.7
of which U.S.A. ²	117	126	+7.7	+7.2	203	209	+3.0	+3.0
Eylea™	458	540	+17.9	+22.5	904	1,044	+15.5	+20.9
of which U.S.A. ³	0	0	.	.	0	0	.	.
Xofigo™	105	89	-15.2	-9.2	205	181	-11.7	-3.7
of which U.S.A.	62	52	-16.1	-10.3	124	103	-16.9	-7.1
Adempas™	75	89	+18.7	+23.4	148	170	+14.9	+22.3
of which U.S.A.	38	41	+7.9	+16.2	76	78	+2.6	+15.5
Stivarga™	83	82	-1.2	+7.5	158	152	-3.8	+5.5
of which U.S.A.	46	41	-10.9	-4.8	85	70	-17.6	-8.2
Subtotal key growth products	1,555	1,691	+8.7	+13.2	3,000	3,252	+8.4	+13.6
Mirena™ product family	276	276	0.0	+7.4	591	593	+0.3	+10.7
of which U.S.A.	176	177	+0.6	+8.2	395	401	+1.5	+13.7
Kogenate™/Kovaltry™	260	213	-18.1	-13.7	535	427	-20.2	-14.9
of which U.S.A.	91	74	-18.7	-11.8	185	154	-16.8	-6.5
Nexavar™	229	193	-15.7	-10.5	436	355	-18.6	-12.3
of which U.S.A.	86	59	-31.4	-24.8	161	102	-36.6	-29.1
Adalat™	171	165	-3.5	-1.2	345	341	-1.2	+3.9
of which U.S.A.	0	0	.	.	0	0	.	.
Glucobay™	139	151	+8.6	+10.3	297	319	+7.4	+12.2
of which U.S.A.	0	1	.	.	1	1	.	.
YAZ™/Yasmin™/Yasminelle™	158	159	+0.6	+8.2	328	311	-5.2	+3.0
of which U.S.A.	25	22	-12.0	-7.6	45	37	-17.8	-10.1
Aspirin™ Cardio	148	139	-6.1	-3.1	305	287	-5.9	-0.9
of which U.S.A.	0	0	.	.	0	0	.	.
Betaferon™/Betaseron™	185	142	-23.2	-18.6	356	272	-23.6	-17.6
of which U.S.A.	108	77	-28.7	-22.3	202	135	-33.2	-25.4
Gadavist™/Gadovist™	97	103	+6.2	+13.0	186	190	+2.2	+9.0
of which U.S.A.	34	38	+11.8	+21.8	61	63	+3.3	+15.2
Avalox™/Avelox™	87	77	-11.5	-6.6	187	174	-7.0	-1.2
of which U.S.A.	2	0	.	.	5	3	.	.
Total best-selling products	3,305	3,309	+0.1	+4.8	6,566	6,521	-0.7	+5.3
Proportion of Pharmaceuticals sales	77%	78%			77%	79%		
Total best-selling products in U.S.A.	785	708	-9.8	-4.0	1,543	1,356	-12.1	-3.2