Bayer

Investor News

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Cautious optimism in light of business development so far this year

Bayer expects growth in operating result in 2003

2002 figures: Net income up 10 percent to 1.1 billion euros /
Sales from continuing operations 1 percent lower /
Net debt down significantly to 8.9 billion euros /
Ambitious medium-term profit targets declared

Leverkusen – The Bayer Group expects to see an increase in its operating result from continuing operations in 2003. "To achieve this we are relying mainly on the steps we have taken to improve our earning power," the Chairman of Bayer's Board of Management, Werner Wenning, told the spring financial news conference in Leverkusen – although a precondition, he said, is that the present economic situation does not radically deteriorate. He regards the development of sales and operating result in the first two months of 2003 as encouraging and as grounds for cautious optimism.

The Bayer CEO described 2002 as "a year of transition." The targets set for realigning the Group were reached. Bayer delivered on its goals and in some cases exceeded them. "I am convinced that our realignment has given us an excellent foundation for future success," he said.

He said he was not satisfied with the business trend in 2002. The adverse economic environment, high one-time costs connected with the acquisition of Aventis CropScience (ACS) and a large number of restructuring measures all had an impact on the operating business. Sales from continuing operations declined by 1 percent to 29 billion euros, while the operating result before exceptional items fell by 46 percent to 985 million euros. Net income, on the other hand, rose 10 percent to 1.1 billion euros. A major factor here was the proceeds from the extensive program of divestments.

To enable the stockholders to share appropriately in this exceptional income, the Supervisory and Management Boards are to recommend to the Annual Stockholders' Meeting an unchanged dividend of 0.90 euros. Based on Bayer's current share price this represents a return of about 8 percent. "This underlines that, even in difficult times, we maintain continuity in our dividend policy in the interest of our stockholders," said Wenning.

Business in HealthCare was down by 12 percent to 9.4 billion euros, and the operating result before exceptionals dropped by 21 percent to 739 million euros. Wenning said this was mainly due to the pharmaceuticals division, which had to contend with the effects of the withdrawal of Lipobay/Baycol and declines in sales of the medicines Ciprobay and Adalat. Pharmaceutical sales fell by 23 percent to 3.7 billion euros. There was also a marked decline in the operating result pre-exceptionals.

Bayer's CEO reported that the number of lawsuits filed in connection with Lipobay/Baycol, which was voluntarily withdrawn from the market in summer 2001, has reached 8,400. Of these, he said, 4,600 are virtually identical complaints filed by a single law firm which has not provided details regarding the ailments claimed by the plaintiffs. More than half of the approximately 600 new suits also originate from this firm. These numbers are subject to change and the company is providing periodic updates on its website.

Without concession of liability, Bayer has so far have entered settlement agreements with more than 500 individuals who experienced serious side effects. To date, a total of approximately 140 million euros has been paid for such settlements. Where serious side effects are involved, Bayer is continuing its efforts to reach out-of-court settlements on a case-by-case basis and is currently in settlement negotiations for several hundred further cases. Wenning reiterated that Bayer is vigorously defending itself in all cases in which there is no connection between Lipobay/Baycol and the health problems that are the subject of the claims, or where a fair settlement cannot be reached.

In the event plaintiffs substantially prevail despite existing defense arguments, it is possible that Bayer could incur charges in excess of its insurance coverage. Due to the considerable uncertainty associated with these proceedings, it is currently not possible to more accurately estimate potential liability. For this reason, provisions for any amount for which liability might exceed insurance coverage have not presently been made. Bayer's auditor agrees with this assessment. "We continue to watch the situation very closely," said Wenning, "and, as the litigation progresses, we will regularly reconsider the need to establish provisions."

The Board Chairman also pointed out that a shareholder lawsuit has been filed in New York against Bayer AG and against Dr. Manfred Schneider as former Management Board Chairman and himself as current Chairman. "We will examine the complaint and vigorously defend ourselves," he said.

Wenning said Bayer remains firmly convinced it acted responsibly and appropriately in the management of Lipobay/Baycol. The drug was prescribed for over six million patients worldwide. The overwhelming majority of these individuals took it safely and effectively, with no serious side effects.

In the courtroom Bayer is showing evidence that Lipobay/Baycol was a safe and effective drug when taken as directed. The company is also showing documents that prove that it shared all pertinent safety information with the health authorities, including the U.S. Food and Drug Administration, beginning before Lipobay/Baycol ever went on the market and continuing until after Lipobay/Baycol was voluntarily withdrawn from the market. "And, most importantly, we are demonstrating that at all times patient safety was, and is, our first and foremost priority."

Bayer CropScience saw sales rise by 66 percent to 4.7 billion euros through the acquisition of Aventis CropScience. "It was especially significant that the existing Bayer business, despite the integration process, was able to increase its share in a market which shrank 9 percent," said Wenning. The operating result before exceptionals was negative to the tune of minus 15 million euros, although this has to be seen against the background of the ACS acquisition. While the acquired business contributed 120 million euros to earnings, 536 million euros in amortization and inventory write-downs associated with the first-time consolidation of ACS, along with 125 million euros in integration costs, had a negative effect.

Programs to improve efficiency show results

Bayer's industrial business was hit in 2002 by the economic situation, exchange rate fluctuations, falling prices and increased raw material costs. Polymer sales fell 2 percent to 10.8 billion euros, although the operating result before exceptional items was held at 418 million euros, the same level as the previous year. "This was an indication of the success of our extensive programs to improve efficiency, which already produced significant savings in 2002," said Wenning.

Chemicals saw sales fall by 12 percent to 3.3 billion euros; the operating result before exceptionals declined by 41 percent to 160 million euros. Account should be taken, he said, of the situation at subsidiary H.C. Starck, which suffered especially from the slump in the electronics industry. Excluding H.C. Starck, the decline in the operating result for Chemicals pre-exceptionals was only 2 percent, while sales fell 9 percent. This shows the action taken in Chemicals, too, is bearing fruit.

Bayer's top priorities for the current year are to improve performance and resolve strategic issues. This includes strictly implementing the efficiency improvement programs, which will bring planned savings of 500 million euros in 2003 alone, streamlining the investment program, and further optimizing current assets. It is planned to bring down net debt, which was already reduced to 8.9 billion last year, to about 7 billion euros by year end.

Capitalizing on value creation and growth potentials

Finally, according to Wenning, every effort will be made to capitalize on potentials to increase value creation and growth. The Group is deliberately targeting markets which promise future growth and will continue to do so, he said. Bayer is now a leader in 80 percent of the businesses in which it operates, and "only activities which can earn more than the capital costs in the long term will remain in our portfolio."

As part of the corporate realignment, the Chairman said, medium-term profit targets have been redefined. "Our targets are ambitious, but we believe they are a realistic reflection of our strategic scenario," he said. Assuming that overall economic demand will pick up from 2004 at the latest and without counting possible portfolio changes, the Group is aiming for an EBITDA margin of 21 percent (2002: 10 percent) by 2006. In Polymers and Chemicals the medium-term profit targets are 19 and 17 percent EBITDA, respectively, and 29 percent for Bayer CropScience.

In HealthCare the profit target is 20 percent EBITDA. "We are very confident we will also be able to significantly improve our performance in the HealthCare field," said Wenning. The four divisions – Animal Health, Biological Products, Consumer Care and Diagnostics – are already leading players in their respective markets today.

Bayer is currently making maximum efforts to strengthen the earning power in Pharmaceuticals. This relates not only to the restructuring, in which great progress has been made, but also to the launch of new products. Wenning cited the very recent E.U. approval for Levitra and other very promising launches such as Cipro XR in the United States and the availability of the hypertension drug Kinzalmono in five European countries. Bayer's research is to be concentrated on cardiovascular drugs, products to treat metabolic disorders, and anti-infectives. Activities and investments in the field of cancer therapy will be continuously expanded.

With these measures, already announced at the news conference in November 2002, Bayer has strengthened its business in order to maximize the value of its pharmaceutical activities. "This is an important precondition for finding a strategic solution for our pharmaceuticals division, a process we are energetically pursuing," said the Bayer CEO.

In his review of the financial statements for 2002, CFO Klaus Kühn highlighted the positive cash flow development and the related reduction of net debt to 8.9 billion euros. The operating cash flow rose by 3 percent to a little more than 3 billion euros. A reduction of 1.4 billion euros in working capital boosted net cash flow by 75 percent to a record 4.4 billion euros. "We easily surpassed our target of bringing indebtedness down to below 10 billion euros," said Kühn. "Achievement of this goal was aided by the reduction in capital expenditures, aggressive working capital management and the proceeds of the divestment program, which was successfully implemented despite difficult conditions on the capital market."

Bayer is also taking a longer-term view of its financing and will continue to pursue its sound financing policy in the future, Kühn stressed. The proceeds of divestments already agreed upon will be used primarily to repay debt.

"Thanks to consistent reduction in debt, Bayer therefore continues to have a very healthy balance sheet," said Kühn. Total assets rose by 4.7 billion to 41.7 billion euros. Financial liabilities increased by a net amount of 2.8 billion euros due to the financing of the ACS takeover. Stockholders' equity fell by 1.6 percent to 15.3 percent, mainly because of currency factors, and equity coverage of total assets was thus 37 percent.

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