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BUSINESS

Bayer's Roundup Problem Sends Shares Spiraling Down

As the stock-market value of the German company plummets, investors and analysts say even radical change is unlikely to help

Bayer's market capitalization has plunged amid investor worries about its potential liabilities related to weedkiller Roundup. Above, a farmer sprays Roundup. PHOTO: JEAN-FRANCOIS MONIER/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Ruth Bender

Updated May 19, 2019 6:11 p.m. ET

BERLIN—Less than a year after Bayer AG acquired Monsanto Co. and its Roundup weedkiller, the German company is stuck at what could be one of its darkest hours. Plaintiffs claiming Roundup caused their cancer have won in three jury trials, lawsuits have multiplied and damage awards so far exceed $2 billion.

Bayer is worth less today than the $63 billion it paid for Monsanto roughly a year ago.

Since the Monsanto deal closed, Bayer's market capitalization has shrunk by more than 40% to roughly €53 billion, or $59.13 billion. Worried that liabilities from the allegedly carcinogenic weedkiller are going to rise, investors have abandoned the stock, sending the shares into a downward spiral.

Several major shareholders withdrew their support for Bayer management at last month's general meeting—an unprecedented move in German corporate history—and say radical changes, such as appointing new management or breaking up the company, would do little at this point to allay fears about the 155-year-old company's future.

Bayer, the inventor of aspirin and owner of a soccer team in Germany's top league, saw its current troubles begin just weeks after it bought Monsanto in June. A California jury found that Roundup caused a man's cancer and ordered the new owner to pay $289 million in damages. A judge later reduced the amount, but suits have since multiplied. Bayer has lost two more jury trials and is currently up against 13,400 total plaintiffs. Last week, another California jury awarded punitive damages of $2 billion to a couple who blamed their cancers on the use of Roundup.

Bayer is appealing the verdicts and argues that hundreds of studies and regulatory bodies around the world including the U.S. Environmental Protection Agency have concluded that Roundup and its active ingredient, glyphosate, are safe.

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More cases need to go to trial and more appeals heard before the direction of the legal fight becomes clear, Bayer and some investors say.

Others, though, say only a win in court right now would help them regain confidence in the company.

Many investors, with no way to compute the scale of a final total liability, have pulled back and sent Bayer's shares down 45% in the past year.

"Bayer is in a dangerous situation," said Marc Tüngler, who heads DSW, Germany's association of private shareholders. "It's no longer in the driver's seat."

Markus Manns, a fund manager with Union Investment, a major Bayer shareholder, said, "With every new verdict, people are less confident that Bayer will get away with a settlement below €5 billion"—about $5.58 billion.

Ratings firm Moody's Investors Service recently said Bayer could cope with such a settlement without losing its credit rating but might face a downgrade if the cost reached €20 billion. Bayer's net debt ballooned to €35.68 billion in 2018 from €3.6 billion in 2017 as a result of the Monsanto acquisition, its biggest ever.

Some shareholders blame Chief Executive Werner Baumann for driving Bayer into what could go down as one of the biggest miscalculations in corporate history. Having launched the

Monsanto bid within weeks of taking the top job at Bayer in 2016, he appears to be on solid ground for now.

That is partly because shareholders including DWS, Deutsche Bank AG's asset-management branch, said a management reshuffle would only deepen the crisis. Moreover, many investors believe that any such change would likely have to include Bayer Chairman Werner Wenning, a mentor to Mr. Baumann and another driving force behind the Monsanto deal. Investors also are divided over whether the acquisition will ever pay off for Bayer.

Bayer declined to comment on Messrs. Baumann and Wenning. Bayer's supervisory board has said it stands behind Mr. Baumann. Still, investors may run out of patience with the CEO later this year if Bayer loses more U.S. trials or, worse, begins to lose cases on appeal, analysts and investors said.

Meanwhile, shareholders including Germany's Deka Investment are demanding that Bayer at least make some changes on its supervisory board. They want to see more people with expertise in U.S. litigation and crop science, which now generates more than half the company's sales. Some investors also have suggested that Bayer bring in a prominent U.S. mediator. At the shareholder meeting last month, Mr. Wenning said Bayer was working on strengthening its board's crop-science expertise.

Most analysts and shareholders agree with Bayer that it would be unwise to settle before some appeals have been heard. Company attorneys told reporters Wednesday that Bayer would participate "in good faith" in mediation ordered by a judge overseeing hundreds of Roundup cases but that the outcomes of appeals are critical before any possible settlement.

Union Investment's Mr. Manns said it would be risky for Bayer to draw a line under the Roundup liability with a settlement as long as the products are still being sold, potentially expanding the pool of future suits.

Talk among some shareholders that aggressive investors could push for a drastic move, such as a breakup, has recently grown louder. Activist investor Elliott Management Corp. holds an undisclosed minority stake, according to people familiar with the situation.

A spinoff of Bayer's pharmaceutical arm might extract more market value, because it could insulate that segment from the company's legal troubles, some analysts said. Others, though, said such a move might prove futile if the pharmaceutical business—even as an independent entity—is called on to backstop legal liabilities.

Bayer management remains determined to oppose a breakup, according to people familiar with the matter.

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