

BUSINESS

How Bayer-Monsanto Became One of the Worst Corporate Deals—in 12 Charts

The \$63 billion gambit ranks as one of the most troubled acquisitions in recent times

By Ruth Bender / Graphics by Merrill Sherman

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BERLIN— Bayer AG [BAYRY -0.19% ▼](#) fought hard to take over Monsanto Co. Today, the \$63 billion gambit ranks as one of the worst corporate deals in recent memory—and is threatening the 156-year-old company's future.

Ten days after Werner Baumann became chief executive of Bayer in May 2016, he made a bid for Monsanto that was designed to turn the inventor of aspirin into the world's biggest crop-science business.

Within weeks of the acquisition closing in June 2018, Bayer lost a lawsuit alleging Monsanto's Roundup herbicide causes cancer. Another two defeats followed, landing Bayer with damage payments of more than \$190 million. More cases are coming: A total of 18,400 plaintiffs have filed suits.

Bayer is appealing and says Roundup is safe. But its shares have dropped roughly 30% since the deal closed, making it one of the worst corporate deals by lost share value so far, in the ballpark of AOL's combination with Time Warner and Bank of America's acquisition of Countrywide. Its market capitalization is now close to what the company paid for Monsanto alone, meaning the value of one entire company has almost entirely evaporated.

Shareholders withdrew confidence in Mr. Baumann at the last general meeting, a first in postwar Germany.

How did it all go so wrong? These charts help tell the story.

The idea

Mr. Baumann, who was Bayer's strategy chief before he became CEO, had long set his eyes on Monsanto, people familiar with his thinking said. A Bayer spokesman said Mr. Baumann wasn't available to comment.

The U.S. company, he calculated, would turn Bayer's smaller agrochemicals business into a market leader by combining its pesticides with Monsanto's seeds and high-tech crops.

It would also save Bayer \$1.2 billion a year in costs, help it develop new products more quickly and generate cash. The world's rapidly increasing population would assure growing sales, as per capita farmland shrinks and farmers seek to raise productivity.

With patents on Bayer's two top-selling drugs—blood thinner Xarelto and eye treatment Eylea—due to run out starting in 2023, the Monsanto deal would cushion a possible drop in pharmaceutical revenues. The extra heft would shield Bayer from unwanted suitors, people familiar with the Monsanto plans said.

In 2015, Monsanto's pursuit of Swiss rival Syngenta AG had sparked a frenzy of agrochemicals transactions, threatening to leave Bayer marginalized. When the Syngenta deal fell through and Monsanto's shares fell, Mr. Baumann made his move.

The deal

Mr. Baumann had been CEO for less than two weeks when he surprised Monsanto executives with his offer during a visit to the U.S. company's headquarters in St. Louis. He had the backing of Chairman Werner Wenning, according to people familiar with the matter.

After four months and several improved offers, and despite skepticism from investors, Mr. Baumann secured Monsanto's agreement.

By then, the deal had become the largest takeover by a German company in the country's postwar history—to be paid all in cash.

With Monsanto on board, Mr. Baumann now had the tough task of selling his idea to his own shareholders. Days before the first offer, Mr. Baumann told reporters the company wouldn't radically change under his tenure. Many investors had been pushing for a pharma deal. One concern, also at Bayer's pharma unit, was the amount of debt raised to fund the Monsanto deal. Some feared it might crimp investment in the pharma side. Bayer has said the Monsanto deal wouldn't hold back investments in other divisions.

Mr. Baumann's plan to close the acquisition by late 2017 was postponed due to scrutiny by European and U.S. antitrust regulators. In 2017, Bayer issued a profit warning because of high inventories at its own Brazilian crop science business and slower sales for consumer health products in a competitive U.S. market.

The meltdown

Bayer finally became Monsanto's official owner in June 2018, but it wasn't immediately allowed to run the business; the Justice Department had demanded the companies first sell some assets. Bayer executives weren't involved as Monsanto's lawyers geared up for the first Roundup trial.

The court ordered Monsanto to pay \$289.2 million in damages on Aug. 10, 2018. The size of the award, later reduced to \$78.5 million, spooked markets and dismayed Bayer directors, according to people close to the top executives. A sharp rise in the number of new plaintiffs further clouded the outlook.

The aftermath

Bayer has defended the deal and proclaimed the safety of Roundup. It announced a restructuring late last year in a bid to boost profits, selling various assets and cutting 10% of its workforce. People familiar with the company said the moves were geared to boost investor confidence. Mr. Baumann said the plan was independent of the Roundup legal woes. The share price continued to fall.

At the company's general meeting in April, shareholders withdrew confidence in Mr. Baumann in the first ever no-confidence vote in a CEO of a company listed on Germany's main stock exchange. Mr. Wenning said at the time he deeply regretted the vote but stressed that the board stood behind Mr. Baumann. Bayer later hired an additional legal adviser and boosted oversight of its legal issues, bowing to pressure from investors.

With three verdicts issued against Bayer so far, analysts' estimates of its total Roundup liability vary between €5 billion and €25 billion (\$5.5 billion and \$27.7 billion).

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How will Bayer's Monsanto acquisition play out? Join the discussion below.

Some jurisdictions already ban Roundup's active ingredient, glyphosate, and lawmakers

elsewhere have discussed implementing new bans. Analysts and investors have raised questions about the true value of the inherited Monsanto business. Some have speculated that it would make sense for the company to break up.

In December, Mr. Baumann predicted a steady climb in sales and profits through 2022 with the help of Monsanto.

Third-quarter results released in July showed unexpected weakness in the crop-science business, which includes Monsanto, due to extreme weather.

With Bayer succeeding in getting two more trial verdicts substantially reduced and investors pinning their hopes on a fast settlement, shares have come up from June's seven-year low. They're currently down around 50% from their high of April 2015, when Bayer was the most valuable German company.

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