

A PRESENTATION ON MONSANTO CHEMICAL COMPANY/ BAYER AG

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## Introduction

Monsanto was founded as Monsanto Chemical Works of Saint Louis, Missouri, was founded in 1901 by John Queeny and named after his wife, Olga Monsanto. The company's first commercially successful product was saccharin, followed shortly thereafter by refined caffeine, vanillin, and aspirin. In 1933, the company was renamed Monsanto Chemical Company (Anon.). Based in St. Louis, Missouri, the company evolved to become one of the biggest biotechnology companies in the world. It also dominated the agrochemical industry after a merger with Pharmacia Corporation in 2000 placed agricultural work into a subsidiary known as Monsanto, which became a separate company in 2002. Pharmaceutical work remained with the Pharmacia Corporation, which became a subsidiary of Pfizer in 2003. As of 2009, Monsanto focused exclusively on agricultural work, with two main divisions: Seeds and Genomics, and Agricultural Productivity (Anon.).

With the German company, Bayer, transitioning into a Life Sciences company, it acquired Monsanto in 2018. This presentation will focus on the years since the acquisition, i.e 2018, 2019, 2020, 2021, and 2022, and then recommend if it is advisable to invest in Bayer or not.

## Bayer AG Company Overview

Bayer AG is a German Life Science Company based in Leverkusen, Germany. Founded in 1863 with the objective of manufacturing and selling synthetic dyestuffs (Bayer, 2023), it has now grown into one of the world's largest agrochemical/pharmaceutical behemoths (Wikipedia, last updated: August 23, 2023) with its own unique challenges (Dunleavy, 2022).

It has three divisions:

- Crop Sciences
- Pharmaceuticals
- Health Sciences.

# Most Recent Stock Performance



From the above chart, it can be seen that Bayer’s stock performance increased significantly after an all time low in early 2022 and rose to as high as 68 in the second quarter of 2022. The stock has since then been dropping till it started picking up in the first quarter of 2023, but has again dropped to well around 51. This indicates that Bayer is having difficulties on the surface, but let us delve deeper to see what is happening across the market before we make any conclusions.

## Financials

	Value in Millions of US\$			
Year	Revenue	Operating Income	Net Income	EBITDA
2018	46,751	4,622	2,002	12,124
2019	48,770	4,692	4,582	10,700

2020	47,291	-18,470	-11,988	-3,324
2021	52,152	3,967	1,183	7,582
2022	53,459	7,388	4,372	14,239

From the table above, we can see the impact of Covid 19 on the Operating income, Net Income, and EBITDA of Bayer. But around this same time, Bayer was also facing multiple court suits that were inherited from the acquisition of Monsanto. The table goes on to show a massive turnover in 2021 and 2022 with the company recording huge sales and positive figures for its Operating Income, Net Income, and EBITDA. The forecast for 2023 seems to indicate that the company might not be able to reach its 2022 heights in terms of revenue and other key financial indicators.

### Sector Overview

Here, a brief overview of the sector is presented.

### Sector

Bayer operates in the Chemical sector within the following sub-sectors:

- Healthcare
- Wellness
- Agrochemicals.

### The Competition

The following are some of the major competitors of Bayer:

- Cargill Inc.
- BASF SE
- Archer Daniels Midland Company Ltd.
- Wilmar International Ltd.
- Bunge Ltd.
- Baywa
- Nutrien
- Syngenta AG.

### Challenges faced by the sector

Below are some of the challenges that plague that agrochemical/chemical sector:

- Regulatory

With lots of countries tightening regulations restricting the movement of goods, especially at the height of covid 19 and the Russia-Ukraine war, most companies, and indeed, companies in this sector are facing many challenges.

- Environmental

With global concerns and the rise of environmental activists, the world is witnessing a sustained campaign that is aimed at chemical companies over their contribution to climate change and other environmental issues (Demi & Sicchia, 2021). In fact, Bayer, since its acquisition of Monsanto, has had to face many lawsuits related to some of Monsanto's products like Roundup and most of the Glyphosate products over its effects on groundwater and human health (Gaines, 2023).

- Rise in Chemical resistant pests

The recent phenomenon of pesticide resistant pests is also posing challenges to agrochemical industries (Hagstrum & Subramanyam, 2006).

- Wars and Natural Disasters

With covid not entirely abated and the war in Russia-Ukraine, we are sadly served a reminder of what kind of challenges every sector may face in the world.

## Risks and opportunities

These flow directly from the challenges. With pharma companies investing heavily to find a cure for the coronavirus, we have seen how innovation has led pharma companies to claw their way back after the global economy slumped due to the coronavirus induced restrictions.

Innovative solutions to dealing with natural disasters and wars will go a long way to help companies in this sector, especially, Bayer to restore confidence in their stocks going forward.

## Peer Comparison Chart

Company/Ratio	P/E	EV/Sales	EV/EBITDA
Cargill	17.07	0.66	7.76
BASF AG	9.68	0.53	14.10
Archer Daniels	11.90	0.44	7.80
Wilmar Int	8.89	0.25	11.73

Bayer AG	7.26	1.67	6.87
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From the above tables, it can be seen that compared to its peers, Bayer has a higher Enterprise Value to Sales ratio, but the lowest Price to Earnings ratio and Enterprise Value to Earnings Before Interests, Taxes, Depreciation, and Amortisation ratios.

These data show that despite a strong performance in terms of sales compared to its major competitors, its earning margins and costs related to taxes, interests, depreciation and amortization are so high that it affects the other ratios such as P/E and EV/EBITDA.

## Conclusion

With the court suits that was inherited from Monsanto, Bayer looks like a massive risk to gamble on should one intend to invest in it as a business. But, Bayer has proved itself to be both innovative and resilient, and with some positive pronouncements from the courts, it seems like, the company is about to turn a corner. My advice is to be cautious when investing in Bayer and not put all your funds in it. Diversification with less amounts going into Bayer presently would be the best option for the investor.

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