Opinion **Lex**

Bayer/Monsanto: let us spray

Fears that the $63bn deal will destroy value are making investors jittery

YESTERDAY

Say it with kale. Billboards around the headquarters of Monsanto have sprouted a crop alongside the slogan “St Louis, let’s grow together”. Acquirer Bayer is behind the hearts and minds campaign. Investors may prove harder to win over than locals. On Wednesday morning, they sent the shares down 3 per cent, on news the deal would boost this year’s earnings less than hoped.

That reaction speaks volumes about investors’ attitude to the June acquisition. The downgrade was a result of regulatory delays to the deal’s completion, rather than serious problems. The jitters reflected fears that the Monsanto purchase — at $63bn, including debt, one of the biggest deals in German corporate history — will destroy value.

Shares in Bayer have already fallen by a fifth since May 2016 when news of the deal first leaked. They are trading on 12 times next year’s earnings, at least 3 percentage points below the sector average.

The share price has been battered by a US jury’s verdict last month linking Monsanto’s Roundup weedkiller to cancer. Even before that, there were grave doubts. Yes, the deal had some logic: it combines the companies’ strengths in crop sprays and seeds. But the premium paid — more than 40 per cent over the undisturbed share price — is unlikely to be justified by the expected $1bn of annual cost savings and $200m from cross-selling products. If those benefits fail to fructify, the balance sheet will stay under pressure.

Another worry is that empire-building will take Bayer’s eye off its traditional métier of pharmaceuticals. The group is too reliant on heart drug Xarelto, and has a weak pipeline. Its consumer health division is struggling. Investors who see Bayer primarily as a drugs and healthcare company are particularly sceptical about the new focus. Bayer’s claims that Monsanto is essentially a biotech business have fallen on stony ground.

Investors might hope for a split. If Bayer separates healthcare from crop science, the conglomerate discount might narrow. But that would still depend on the successful integration of the sprays and seeds business. This is far from guaranteed. Most acquisitions destroy value. In the case of Bayer and Monsanto, cultural differences exacerbate the risks. It will take a lot more to close the gap than green garlands for St Louis.

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