Bank, shot

The once-proud Deutsche Bank is in dire straits

BY MARK SCHIERITZ

It should have been the high point of its global conquest. In 1999, after a series of acquisitions, in terms of its balance sheet Deutsche Bank rated as the biggest bank in the world. In actuality, it was the beginning of its downfall. Today's Deutsche Bank is but a shadow of its former self. Its share price, at $144 in 2007, is now less than $10. The largest German bank is now smaller than the second-largest French bank.

The outlook is so grim that Germany's federal government is alarmed. It fears that the Frankfurt institution is a prime candidate for a takeover and that the fourth largest industrial nation in the world will soon be lacking an internationally successful major bank. Hence, the possible merger with Commerzbank, to save whatever might be left to be saved.

The recent history of Deutsche Bank is a history of bad decisions, missed opportunities and scandals. To understand its decline, one must first consider its rise. From the very beginning, it has always been something more than just a normal bank. In the postwar years, CEOs like Herman-Josef Abs enjoyed intimate links to political networks and were valued advisors on fiscal matters. Under Chancellor Konrad Adenauer, Abs would even take part in cabinet meetings. Plus, Deutsche Bank held considerable equity stakes in German industrial corporations such as Daimler and Krupp, making it a critical player at the heart of corporate Germany.

Ever in the (un-)making? The headquarters of Deutsche Bank and Commerzbank in Frankfurt am Main are under construction.

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When the globalization and deregulation of financial markets eventually reached Germany in the 1980s and 1990s, Deutsche Bank changed its business model. It saw how much money American and British banks were making in capital markets with bond trading, currency hedging and interest-rate transactions – and wanted to join the party. In 1990, Deutsche Bank bought the British investment bank Morgan Grenfell, and nine years later the American trading house Bankers Trust.

There was just one problem: the market was already divvied up, and getting one foot in the door required Deutsche Bank to become especially aggressive. During his time in real estate, Donald Trump was still getting loans from Frankfurt when the American banks would no longer lend to him due to his high amount of debt. Deutsche Bank became deeply involved in the controversial shopping of American subprime mortgages during the real estate boom at the start of the new millennium. When the bubble broke in 2008, these adventures ended in heavy losses and costly legal disputes.

At this juncture, a second poor decision was made. Other banks very quickly recognized that the crisis would permanently transform the financial world. They adapted their business models to the significantly more rigorous regulatory environment. The Swiss financial services company UBS largely retreated from commercial transactions to concentrate instead on more stable realms such as asset management.

Only very late did Deutsche Bank draw the necessary conclusions from the financial crisis. When CEO Josef Ackermann, who had overseen the rampant internationalization of the bank, relinquished control of the institution in 2012, Anshu Jain, one of Deutsche's trading stars, took the reins. Hopeful for a return of the good old days, he assumed that if Deutsche Bank could just hold on for long enough, it could then move in on the markets vacated by other banks.

But things turned out differently and the bank's position grew ever direr. Jain was then succeeded by the equally unfortunate John Cryan. However, only when Christian Sewing took the helm in 2018 was the long-overdue strategy discussion conducted in earnest.

Government policy during this time was hardly free of blame. While the US government forced the big American banks to accept state capital at the peak of the crisis and urged them to pursue a corrective course, the German government elected to follow a more cautious path. Berlin ultimately left it up to the banks to decide whether or not they would accept government assistance, and otherwise opted to steer clear of corporate policy.

Deutsche Bank was in fact proud of forgoing government aid, but its major clients and investors saw its insufficient capitalization as problematic, which only accelerated its demise.

The government acquired an interest in Commerzbank, which is faring better today as a result. The difficulties undergone by Deutsche Bank are thus also a consequence of misguided government bank-rescue policy.

Another factor is that Deutsche Bank had to contend with an obstacle that every private German bank had to face: the structure of the German banking market. Germany has private banks and public savings banks as well as cooperative banks. The latter two are protected by the government, locally anchored and forbidden to make a profit. Thus they can offer conditions which private institutions can often not match. This limits profit opportunities on the domestic market while leading to a situation where, to a lesser extent than their international competitors, large German banks cannot draw on private savings deposits as a source of funding for their other commercial activities.

What does this mean for the future? A merger with Commerzbank would increase market shares on the domestic front, which could have positive effects on earnings. Moreover, the fact that the German government's stake in Commerzbank would be the equivalent to a stake in the merged entity would probably be seen by investors and an implicit state guarantee, which could reduce financing costs for the institution.

The merger would of course carry certain risks, as the new entity would be somewhat self-absorbed for several years, which the competition will be sure to exploit. But one thing is clear: simply carrying on as before is out of the question. Tough times lie ahead for Deutsche Bank.

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Round down

Bayer's purchase of Monsanto is giving the aspirin makers a big headache

BY WOLFGANG MULKE

The chief executive of the pharmaceutical and chemical giant Bayer is preparing for a tumultuous meeting with his shareholders. They will convey their displeasure about the company's massive loss in value to Werner Baumann at the corporation's general meeting on April 26. Their anger is understandable. While before the acquisition of Monsanto, a share of Bayer was worth €105, it currently sells for around €60. For a short time, the market capitalization plummeted below the €63 billion Bayer had paid in 2018 to acquire the controversial US-based seed producer. Within three months, Bayer became "the biggest and fastest destroyer of value in the history of the DAX," as shareholder Christian Strenger ranted in a motion to the general meeting.

Baumann views this very differently. The stock exchange tends to exaggerate trends, he claims, downplaying the crash. He maintains the acquisition was still a good idea.

This disaster is in no small part due to the 11,200 pending lawsuits filed by US citizens against Monsanto. At issue is the question of whether the herbicide glyphosate can cause cancer in humans. The courts have issued two groundbreaking rulings thus far. In each case the plaintiff won. The first was in August 2018, when a jury awarded the plaintiff a payment of $289 million. A higher court then reduced the penalty to $78 million. In a test case in March of this year, a jury in San Francisco ordered Bayer to pay approximately $80 million to a Monsanto customer who had developed cancer. The projected maximal financial risk stemming from the wave of lawsuits is a staggering $800 billion. The worst-case scenario is nothing less than the permanent demise of the long-standing company.

While small shareholders are groaning and calling the acquisition of Monsanto a flop, the management is standing by its decision. Critical shareholders were told that "the executive and supervisory boards are convinced that the acquisition of Monsanto was the right choice." In doing so, Bayer has presumably become the world's leading agricultural company.

The executive board sees no reasons for stepping down. Indeed, Bayer will fight these verdicts using all legal means at its disposal and is certain that the herbicide glyphosate in its weedkiller Roundup, which is at the center of this legal morass, does not cause cancer. "The verdict in this case has no influence on future cases," Bayer assured the public in a press release.

Bayer continues to refer to more than 800 studies submitted in connection with the marketing authorization of Roundup in the US and Europe. These claim that the Bayer products in question are safe when used properly. Current studies have also concluded that there is no cancer risk for humans. But it's not quite as simple as that. The World Health Organization's International Agency for Research on Cancer (IARC) has found that glyphosate is "probably carcinogenic."

Corpus delicti

IMAGO/STEINACH

Bayer shareholders fear that the executive board has not sufficiently addressed the hidden risks of Monsanto products. "Bayer looked only at the numbers during the acquisition," claims the Coalition against BAYER Dangers (CBG), which counts among its activists shareholders critical of the corporation. "Glyphosate represents not only billions in sales, but also cancer, genetic engineering and a danger to biodiversity."

Critics of Bayer management will not prevail in their demand to discharge the executive board at the general meeting on April 26. The supervisory board stands firmly behind CEO Baumann. The executive board has attended to its legal obligations, said Supervisory Board Chairman Werner Wenning to the business journal *Handelsblatt*. "Once more we have expressly approved this strategy."

Nevertheless, the dual messaging inherent to the acquisition of Monsanto remains a "big problem," according to the Munich-based branding expert Alexander Biesalski. While the pharmaceuticals manufacturer would like to be known for its promotion of human health, Monsanto's herbicide may actually be making humans sick. "This contradiction alone creates distrust," observes Biesalski.

Biesalski doubts that the pharmaceuticals giant will win back stakeholders' trust by making lots of noise: "Bayer should operate much more delicately in public."

This is not the only problem facing the Leverkusen corporation. On paper, Bayer is still a behemoth. Revenues in 2018 reached nearly €40 billion, a rise of 13.1 percent over the previous year. But earnings before interest and taxes (EBIT) declined by a third to roughly €3.9 billion, mainly because of write-downs to assets.

The jump in revenue is thanks to the crop science division, which grew by almost a half to around €14 billion thanks to Monsanto. Other divisions look worse. Revenue from pharmaceuticals declined slightly, while the consumer health and animal health divisions suffered more significant losses. Still, the executive board is sticking to its goals, which foresee strong growth in years to come in terms of both revenue and profit.

This worries Bayer's work force as well. With 117,000 employees at the end of 2018, the drug company is one of the largest employers in Germany. 12,000 are slated to be let go. And of all the locations to be shuttered, the company will close up shop in the very town where its two young founders mixed their first chemicals in 1863.

The company's history began when Johann Friedrich Weskott and Friedrich Bayer started producing dyestuffs in the industrial town of Barmen, which is now part of Wuppertal. In 1888, they added the development of pharmaceuticals to their portfolio. What has probably been the company's most famous drug is still appreciated today: aspirin. This brand's first analgesic tablet hit the market in 1899 as the company grew in leaps and bounds. But Bayer's history also has its dark sides, such as the invention of heroin and the fusion of German chemicals giants to form IG Farben, the manufacturer of the poison gas used in concentration camps.

Whether or not the whole company now goes dark will depend on the outcome of the wave of lawsuits blanketing the US. Some analysts are already predicting a takeover and breakup if the loss in value persists.

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