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# EDITED TRANSCRIPT

BAYN.DE - Full Year 2013 Bayer AG Earnings Conference Call

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**OVERVIEW:**

BAYN.DE reported 4Q13 Group sales of EUR9.9b, net income of EUR455m and core EPS of EUR1.10. Expects to grow 2014 sales organically by about 5%.



## CORPORATE PARTICIPANTS

**Alexander Rosar** *Bayer AG - Head of IR*

**Marijn Dekkers** *Bayer AG - Chairman, CEO*

**Olivier Brandicourt** *Bayer AG - CEO HealthCare*

**Werner Baumann** *Bayer AG - CFO*

**Patrick Thomas** *Bayer AG - CEO MaterialScience*

**Liam Condon** *Bayer AG - CEO CropScience*

## CONFERENCE CALL PARTICIPANTS

**Richard Vosser** *JPMorgan - Analyst*

**Sachin Jain** *BofA Merrill Lynch*

**Amy Walker** *Morgan Stanley - Analyst*

**Tim Race** *Deutsche Bank - Analyst*

**Michael Leuchten** *Barclays Capital - Analyst*

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**Thomas Gilbert** *UBS - Analyst*

**Jo Walton** *Credit Suisse - Analyst*

**Daniel Wendorff** *Commerzbank - Analyst*

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**Lutz Grueten** *Commerzbank - Analyst*

**Caroline Brugere** *Credit Agricole - Analyst*

**Ronald Koehler** *MainFirst Bank - Analyst*

## PRESENTATION

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### Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's investor and analyst conference call on the full-year and fourth-quarter 2013 results. (Operator Instructions) I would now like to turn the conference over to Mr. Alexander Rosar, Head of Investor Relations of Bayer AG. Please go ahead, sir.

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### Alexander Rosar - Bayer AG - Head of IR

Thank you, Cleo. Ladies and gentlemen, good afternoon and welcome, also, on behalf of my colleagues to our Q4 conference call. With me on the call are Marijn Dekkers, our CEO, and Warner Bowman, our CFO. And from our subgroups we have HealthCare represented by Olivier Brandicourt, CropScience by Liam Condon, and MaterialScience by Patrick Thomas.

Marijn will start off with an overview of the highlights in 2013, give a brief summary of the developments in the fourth quarter, and then elaborate on the outlook for 2014. We assume you have all received and reviewed our annual report, the briefing document, and the presentation slides; so Marijn will focus his introduction on the main parts.

Before handing over to Marijn, I would also like to draw your attention to the Safe Harbor statement. (*See "Disclaimer" chart at the end of this transcript*).

Thank you. Marijn?



**Marijn Dekkers - Bayer AG - Chairman, CEO**

Thank you, Alexander; and ladies and gentlemen, good afternoon. 2013 was a special and successful year for Bayer. It was special because we celebrated the 150th anniversary of Bayer's founding, and we celebrated the benefits of our innovations. And it was successful because we achieved again important targets, in particular in our Life Science businesses.

HealthCare realized encouraging growth, largely due to the very successful introduction of our recently launched Pharma products. With combined sales of EUR1.5 billion in 2013, we significantly exceeded our initial expectations.

CropScience also had a very dynamic year, generating portfolio- and currency-adjusted sales growth of 9% and record margins. Here too our innovative products were the key growth drivers.

The performance of MaterialScience, however, came in below our expectations. High feedstock prices and weak market demand created headwinds for this business. We were not able to fully compensate this headwind with the savings from our efficiency initiatives.

Further progress was achieved in strengthening our Life Science businesses through acquisitions. The planned acquisitions of Algeta and Dihon Pharmaceutical Group are two other good examples of our strategy to augment organic growth with targeted bolt-on acquisitions.

Looking forward to 2014, we remain optimistic that the continued and focused execution of our strategic agenda will drive further revenue and earnings growth. So let me now briefly review some of the key figures for 2013 and compare them against our objectives.

During 2013, we increased Group sales organically, as targeted, by 5% over the prior year to a record EUR4.2 billion (sic-see presentation slides "EUR40.2b"). EBITDA before special items grew by 1% to EUR8.4 billion, and substantial negative currency effects held back adjusted EBITDA by around EUR260 million compared to the previous year.

Core earnings per share increased by 6% to EUR5.61. Based on average Q4 2012 exchange rates, which were the basis for our original guidance, adjusted EBITDA grew 6% EPS and core EPS advanced by 12%. In this context we believe we can say that from a purely operational perspective we have achieved the targets we set ourselves for 2013.

Against this background we are proposing a dividend of EUR2.10, representing a year-on-year increase of 11% and a payout ratio of 37% of core EPS.

Let me now elaborate on some key figures for the fourth quarter, and when talking about sales I will be referring to portfolio- and currency-adjusted data. Q4 saw good growth momentum. Group sales grew by 6% to EUR9.9 billion, with all three subgroups contributing to the increase.

HealthCare sales rose 7%, driven especially by the strong performance of our launch products that came in collectively at around EUR530 million. As a result, our Pharma segment grew 12% in the quarter with all regions contributing.

Sales of the Consumer Health segment advanced by 1% compared to the prior-year quarter. CropScience sales increased by 13%, driven by strong growth in Latin America, especially Insecticides and Herbicides. Sales of MaterialScience were 2% above prior-year level, sustained by higher volumes.

Reported EBIT dropped by 10% to EUR655 million. We incurred special charges of EUR439 million mainly relating to restructuring and litigation. Adjusted EBITDA of EUR1.8 billion was 3% below the prior year.

The Group's earnings development was held back by incremental R&D expenses in the quarter as well as significant currency headwinds. Both affect in the amount of around minus EUR90 million each. In addition, expenses for long-term stock-based compensation increased by around EUR20 million in light of the strong increase in Bayer's stock price.

Higher R&D expenses and negative currency effects mainly impacted our HealthCare business, which showed a decline in adjusted EBITDA of 2% to EUR1.3 billion. CropScience increased its adjusted EBITDA by 8% to EUR319 million, supported by positive currency effects, whereas earnings of MaterialScience dropped by 6% to EUR248 million in what remains a difficult market environment.



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The financial result improved in the fourth quarter to minus EUR84 million, primarily due to the EUR77 million gain from the sale of our shares in Onyx Pharmaceuticals. Net income came in at EUR455 million versus EUR366 million in the prior-year quarter, and core EPS rose by 9% to EUR1.10.

From a regional perspective, we generated 40% of our Q4 sales in the emerging economies, which grew by 8%. Latin America showed a double-digit growth rate; and sales in emerging Asia advanced by 6%, with all subgroups contributing. This more than offset the slight decline we experienced in the Africa and Middle East region.

To improve our regional positioning and round out our product portfolio, we continuously pursue our strategy of augmenting organic growth with bolt-on acquisitions. As you all know, we plan to further strengthen our oncology portfolio with the acquisition of Algeta, which would give us full control of Xofigo.

Almost 98% of Algeta's share capital have been tendered, so we can expect to close the transaction next month. We are convinced that we can now efficiently realize the full potential of this drug.

Just yesterday we announced the signing of an acquisition agreement with China-based Dihon Pharmaceutical Group. Dihon would bring a portfolio of well-known local OTC brands and move us into a leading position among multinationals in the OTC market in China. We expect to close the transaction in the second half of 2014.

Our strong focus on successfully commercializing our five new Pharma products is clearly paying off. Above all, we will continue to support the rollout of our recently launched Pharma products with the appropriate funding.

The product update allows us to target about EUR2.8 billion in new product sales in 2014, and that EUR2.8 billion is much more than we originally aspired for 2015. To maximize our growth opportunities, we plan for incremental EUR0.5 billion in marketing and R&D in 2014. We are preparing for more than 100 launch events during this year, and R&D investments in lifecycle activities for our five newer products will also continue.

Additionally, we aim to further built our innovation pipeline and accelerate the development of our five new drug candidates with highly promising activity profiles that we presented during our last Meet Management conference in October in London. We also then, top of it, plan to increase our marketing and sales investments in the emerging markets.

So the promising growth momentum, together with our updated investment plans, allow us to raise the combined peak sales potential for the five launch products to at least EUR7.5 billion. We now expect around EUR3.5 billion in annual peak sales for Xarelto, and that is up from more than EUR2 billion before; and then at least EUR1.5 billion for Eylea, which adds EUR500 million to our original assumption. Then the individual peak sales expectations for Stivarga, Xofigo, and Adempas are unchanged.

This then leads me to the financial guidance for 2014. Our Group guidance for 2014 is based on average Q4 2013 exchange rates, and that includes a rate of the US dollar against the euro of \$1.36.

We plan to grow sales organically by about 5%. We are aiming to raise EBITDA before special items by a low to mid-single-digit percentage, allowing for expected negative currency effects of about EUR450 million, or roughly 5%. We aim to increase core earnings per share by a mid-single-digit percentage, allowing for expected negative currency effects of around 6%.

We expect our research and development expenses to rise to approximately EUR3.5 billion, of which more than 90% will be spent on R&D in our Life Sciences businesses. We plan increased capital expenditures of around EUR2.1 billion for property, plant, and equipment and EUR0.3 billion for intangible assets.

The guidance for our subgroups is also based on average Q4 2013 exchange rates. For your information, we have added the estimated currency effects on this slide; we hope that you find this useful.

For HealthCare, we expect sales to advance organically by a mid-single-digit percentage. We predict that EBITDA before special items will slightly exceed the prior-year level.

In the Pharmaceuticals segment we expect sales to move ahead by a high-single-digit percentage on a currency- and portfolio-adjusted basis and predict EBITDA before special items to increase by a low- to mid-single-digit percentage. This is after the EUR0.5 billion in additional marketing and R&D expenses I just spoke about and negative currency effects of EUR150 million. We expect the adjusted EBITDA margin in 2014 to come in level with the prior year at around 31% and aspire to improve it to at least 33% in 2016.



In the Consumer Health segment, we predict that sales will grow organically by a low- to mid-single-digit percentage. We expect EBITDA before special items to come in slightly below the prior-year level. We expect to see further slight shrinkage in the Medical Care market in 2014 and negative currency effects of EUR100 million.

For CropScience, we expect to raise sales by a mid- to high-single-digit percentage on a currency- and portfolio-adjusted basis. We plan to increase EBITDA before special items by a low-single-digit percentage.

In MaterialScience, we plan to raise sales organically in 2014 by mid-single-digit percentage, and we anticipate an increase in EBITDA before special items. Then for the first quarter of 2014, we expect sales to increase on a currency- and portfolio-adjusted basis and EBITDA before special items to gain significantly over the prior-year period, during which earnings were held back by high costs for a maintenance shutdown in North America. Then in addition, we see early signs of improving demand from key customer industries.

Our 2016 aspirational targets, beyond the aspirations for Pharmaceuticals that I just mentioned, will be disclosed at our Meet Management conference in March in Leverkusen. So, ladies and gentlemen, operationally we believe 2013 was a very successful year for Bayer, despite negative currency effects and difficult market conditions for MaterialScience. We have the right strategy in place, expect continued good growth momentum with our innovation, and are optimistic that we can also continue to deliver further growth and higher earnings in the future.

So thank you. This concludes my remarks, and we are now happy to take your questions.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions) Richard Vosser.

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### Richard Vosser - JPMorgan - Analyst

Hi, it's Richard Vosser here from JPMorgan. Three questions please. First question just on the Pharma margins. Just thinking about -- we have seen the new Pharma product launches have ramped much faster than we or you expected. So if there is an incremental revenue from a faster ramp going forward towards 2016, how would we think about this in terms of the margin improvement?

Second question on the hemophilia franchise and the long-acting factor VIII. Noticed that you are in litigation over the factor VIII with -- which could have royalties from Baxter's factor VIII. So just wondering whether you could get royalties from Baxter's factor VIII there.

And actually on your hemophilia asset, what is the first reaction from KOLs to the longer-acting -- or the longer dosing interval that has been shown by your drug? And if you could give us any more details on the hypersensitivity reactions for the long-acting product, I think there were two there.

Then just a final question on MaterialScience, just thinking about the capacity expansion that is predicted to come from BASF and potentially local players in TDI. How should we think about this in terms of the effective selling prices through, potentially I suppose, 2014, but more importantly in 2015 and beyond? Thanks very much.

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### Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. Thank you, Richard. Marijn here. So the first question on Pharma margins, Olivier, can you answer that please?

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### Olivier Brandicourt - Bayer AG - CEO HealthCare

Sure. In 2013, clearly we made very good progress, right? Top line increased by 9% organically, but also we showed a significant progression in our adjusted EBITDA margin by 130 bps at 31.2%, which I think it's important to notice was our aspirational level for 2015.



So we're definitely convinced, to your point, that the top-line leverage combined with our additional investment will ultimately result in further margin progression. That's why we are saying by 2016 we should be at least around or at 33%.

Now, our guidance today on a flattish margin for 2014, that reflects the necessary flexibility we think we need during 2014, which is a decisive year, to react to the big FX impact we are seeing and any unforeseen market development.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thanks. So we have two questions really on factor VIII. First, the legal royalty question; Werner, can you? And then Olivier, can you answer the reactions of the KOLs? But let's do the legal part first.

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**Werner Baumann - Bayer AG - CFO**

Yes, Richard, maybe to answer the second half of your question first, in terms of our royalty rights to, let's say, potential IP Baxter is using, we don't see that at this point in time. What we have done is that we have filed a lawsuit against Nektar, not against Baxter, because Nektar is the originator of the IP in question, in the District Court of Munich. Because we believe that there are certain rights we have to their patent applications, which stem from a former collaboration on the subject with Nektar. And that is the substance of the current trial or upcoming litigation with Nektar.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Good. And then the reactions of the KOLs?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

The KOL on Kogenate, I must say were very excited by the results. The results are actually hitting all our primary endpoints the way we wanted, and therefore the KOL reaction is actually very positive, in general.

To answer to your question regarding adverse reaction, there was two cases of hypersensitivities. One was considered serious but came back to normal spontaneously; and the other was not serious, as we mentioned. And therefore we think that it's actually something which might may be linked to factor VIII in general, which -- where it's seen in that [GA], but not specifically to the PEGylated formulation of long-acting.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thanks. Then, Patrick, there was a TDI selling price question.

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes. Richard, if we just go back to the growth rate of TDI, that is the starting point, I guess, for this question. In 2012 we actually saw a very high growth rate; it was above 6%.

We have just seen the full year data for 2013, which was just above 5%. So we are actually running the industry at the moment above the normal corridor of historically 4% to 5%. So I see that as a positive factor.

If we then look at the capacity expansions that you referred to, I listened very closely to the BASF call and they made it clear that their positive 300 increase was offset by their Polish acquisition and by the closure of Schwarzheide. Our increase of 300,000 tonnes is offset by the closure of Dormagen and the closure of Brunsbuettel, which is more than 200,000 tonnes. And I have seen the announcement in Japan of Mitsui closing 120,000 tonnes of capacity sometime between now and 2016.

So if we then look at our capacity levels, in 2012 we were running at 82%. It has actually gone up for the full year of 2013 to above 87%, and it will be higher and tighter in 2014. And we are already seeing the price increases as we speak that are going through on TDI.



Then in 2015, it will be slightly lower again. Difficult to tell exactly how much lower because then we would have to forecast the growth rate. But if we stay at the 4% to 5%, I am not so worried about the 2015 position.

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**Richard Vosser - JPMorgan - Analyst**

Excellent. Thanks.

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**Operator**

Sachin Jain.

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**Sachin Jain - BofA Merrill Lynch**

Sachin Jain from Bank of America. Three HealthCare questions, please.

Firstly, Pharma margin question, perhaps a slightly different tilt. The guidance implies 200 basis points increase 2014 to 2016. Any color on the phasing of that? Just trying to get a feel of whether 2015 would still be a year of investment.

Secondly on the long-acting factor VIII, is filing still planned for 2H 2015? Or have you been able to accelerate filing -- sorry, manufacturing timelines at all?

And given the delay before your long-acting product comes on, if you just reappraise us on the Kogenate outlook in the interim, I understand you might have lowered your guidance for Kogenate to flattish from mid-single-digit growth.

Then finally on Xarelto, you're always commented that the breadth of label has served as advantage. The Eliquis label is due to be broadened through this year. Any comments on the impact you're expecting that to have? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. So, start with the Pharma margins again, Olivier.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Margins, there is not much more I can say versus what I said earlier. I won't give any guidance for 2015 on the margin. But again, we had a very good year and we were at 31.2% this year; and we are aiming at 33% in 2016. The second was on?

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Long-acting factor VIII, manufacturing timeline.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Yes. We are still shooting for 2015 filing. And to your point, we still need time to build up manufacturing capacities.

In the meantime, in 2014, we are going to file the other formulation of Kogenate, the PF formulation. So that is the plan for Kogenate.

In term of growth, you mentioned something which was our growth for 2013, which we observed in 2013. For this year, for 2014, our guidance is actually flat.



We are actually continuing to supply the market but at the same time working on preparing the launch of the two other formulations. And therefore there is a little bit of stretch on manufacturing capacities.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Then, Xarelto, the breadth of the label, the impact of the breadth of the label of competitors. (multiple speakers)

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

We still -- Xarelto has still the broadest label of all NOACs. Even when you don't count for ACS in the US so far, we see the profile of Xarelto still extremely competitive.

Even if, to your point, we are seeing in the cardiology office NRx for Eliquis climbing recently, we still are largely in the lead, both in term of retail and in the cardiology office. So that would be my answer.

And then we have a very significant lifecycle plan, which includes broadening the spectrum of our indication, notwithstanding one of the most significant studies, called COMPASS, which look at the potential of major cardiovascular event in both CAD and PAD patients. And we see that as a very significant potential market development.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. Thank you, Olivier. Thank you, Sachin, for your questions.

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**Sachin Jain - BofA Merrill Lynch**

Thank you.

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**Operator**

Amy Walker.

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**Amy Walker - Morgan Stanley - Analyst**

Good afternoon. It's Amy Walker from Morgan Stanley. Thanks for taking my questions. I'm going to try for three, please.

The first, coming back to the long-acting factor VIII. I think the Phase III data that read out earlier this month supported an annual bleed rate of 3.9 for the 7-day infusion arm. I think from memory, Eloctate had something like 3.6 for the 6-weekly dose, which seems quite comparable. Can you just remind us what you see as a key differentiator between your long-acting factor VIII and the competitor's, please?

Also, I understand the guidance for flat development for this year. But do you expect from there on that the long-acting is going to allow you to return to what you guided to in 2013 of a flat to positive growth going forward?

Then on CropScience, your guidance for 2013 excluding currency effects seems to apply a broadly flat margin progression year-on-year. But you were still seeing positive price growth on top of very strong volume growth in Q4, which would seem to suggest there could still be some scope for operating leverage this year.

Do you agree with that? Are you guiding conservatively? How should we think about that?

And also, if you could just explain a little bit the currency impact, the negative impact on the top line versus the positive impact at operating profit, just to give us some idea of how we should think about that going forward. Thanks very much.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. You ready for the first question? (technical difficulty)

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

The first question relates to the bleeding rate. It's very difficult to compare, as you know, the two studies because of the very different design. In our design, we randomized what a patient in prophylaxis at 4, 5, and 7 days, right? The data are representative of 88% of all prophylaxis patients which were enrolled in the study. We only excluded from the study very few patients actually, and the most severe of them.

Biogen, however, selected 30% of their prophylaxis patients on dosing every 5 days, based on a very specific bleeding pattern and also PK data. As you know, they had no patient in that cohort tested in a 7-day treatment regimen.

So, the two designs are very different. So for that reason it is very difficult to compare the 3.6 versus a 3.9, which actually are very close to each other.

But the bottom line is they obtain theirs with 30% of the patients in that arm which were -- you could qualify them of the easiest patients; while all of our patients in the 5-day arms stayed in until the end of the treatment and went all the way with that 3.9 you are referring to. So again, we think we have the strongest set of data when it comes to long-acting.

And the average 3.5 Eloctate obtained 5 days, we don't think is significantly different from what patients are obtaining today. So, that's the first question.

And the second question on Kogenate was?

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

What is the growth profile going forward on Kogenate?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Well, as you would expect, we will probably see when we launch the long-acting a little bit of cannibalization of the current formulation. But what we see over time is the franchise growing up, thanks to the long-acting. Can't give you a number, but definitely strengthening our franchise there.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. Then CropScience, Liam?

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**Liam Condon - Bayer AG - CEO CropScience**

Thanks, Amy. So we had a very significant negative impact of currency on top line last year, in the region of EUR400 million. But we had a somewhat positive impact on the bottom line, and this was largely due to hedging results, positive hedging results, which gave us an EBITDA margin of roundabout 1%.

Based on the fourth-quarter exchange rates that we are using now for 2014, we are of course carrying over this negative currency effect into 2014 both on top line and on bottom line. And at the end of the day, we expect this negative bottom-line impact to amount to approximately EUR150 million for us in total, which will be again -- will be around about 1 percentage point.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**



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Okay. Can I just -- there is some background noise on the phone.

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**Alexander Rosar - Bayer AG - Head of IR**

Maybe that was Amy.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay.

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**Alexander Rosar - Bayer AG - Head of IR**

Cleo, would you mind calling the next question and then we'll check again, yes?

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**Operator**

Of course, of course; the line is clear from our side. Tim Race.

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**Tim Race - Deutsche Bank - Analyst**

Hi there, team. It's Tim Race here from Deutsche Bank. Three questions if I can, please.

First of all, on Xarelto, obviously you have had a big increase in your guidance. Just wanted to first confirm that those sales of EUR3.5 billion are sales realized by Bayer, not total market sales.

Then just if you could talk me through what the components are that has made you change from EUR2 billion to EUR3.5 billion, very much appreciate that.

Then, perhaps if we could discuss on CropScience, you expect to have market-share gains in that area. Syngenta and BASF and other companies are perhaps less optimistic than yourselves. Can you just talk us through the components of why you effectively are taking market share? That would be great.

Then just a question on the Pharma unit in emerging markets. Could you just tell me the growth in emerging markets in the fourth quarter and perhaps comment on what you saw in the Chinese growth as well? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. So Xarelto, the increase in the peak sales potential.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Okay. There is definitely the Bayer sales, right, which includes ex-US revenues of Xarelto, sales of Xarelto plus what we are getting from our partner J&J in the US. So I can definitely confirm that.

Why are we optimistic and changing our guidance? First, the product, the excellency in the profile is definitely confirmed.

It is also built on the convenience of once a day; a lot of good feedback from clinicians on that one. The fact that there is a fixed dose for renally impaired patients, in cases of renal insufficiency, that is also considered by a prescriber as being very important.



The second point is clearly this product has been launched very well, ahead of expectation, which increased our -- increasing our confidence. There is a very clear market expansion potential. You still in the US, for instance, have in terms of TRx 71% going to warfarin, and those patients can definitely over time -- including the fact that we are going to expand our indication -- be transferred to NOACs and to Xarelto.

And talking about those lifecycle activities, I mentioned COMPASS. But also, we have a major study called COMMANDER-HF, which will expand our indication in patients with HF, CHF, and CAD.

So overall, through market expansion, having the bulk of the patients today still on the warfarin, we think that there is tremendous growth possible with Xarelto.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Thanks. Then on CropScience share gains optimism vis-a-vis competitors?

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**Liam Condon - Bayer AG - CEO CropScience**

Yes, thanks a lot. This basically comes back to our core strategy, which is all about offering integrated solutions. Just to give you a concrete example, if you take oilseed rape canola in Canada, we offer high-yielding seeds; we have SeedGrowth products; we have fungicides, insecticides, herbicides. So we offer an entire package, not just individual products.

And this is something that we are rolling out around the world, which is really gaining a lot of traction because we have such a broad portfolio covering chemical and biological solutions, together with Seeds and Traits. So I think this is one key element.

Second one is a strong focus on high-growth markets. To give you an example, if you take Latin America, we have a high emphasis on Brazil, but also in Argentina. And last year we grew by 29% in Brazil, 46% actually in Argentina. Other parts of the world, Asia Pacific as an example, India is a core country for us; we grew 23%.

So we really focus our investments on markets where we think we will get the highest return for our investments. So I think it is really a combination of our integrated solution innovation approach on the portfolio side and a very focused investment approach on the geographic customer side.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

On emerging markets, for BHC emerging markets represent about 33% of our sales and we grew about 6% FX-adjusted. If you look at Pharma more specifically, as Marijn said earlier, we grew during the quarter at 12%, and 11% for the full year.

We also observed very good and significant growth in Consumer Care, and especially in China at 13%. So the perspective we have on China, we are very confident that the business there will continue to grow in 2014. We are actually anticipating to grow volume by 17%, 18% next year. But we are also facing price cuts, and therefore we are planning to be in the range of 11% or 12% next year in China for Pharmaceuticals.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. Tim, does that answer your questions?

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**Tim Race - Deutsche Bank - Analyst**

Yes, it does. Thank you very much.

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**Operator**

Mr. Leuchten.



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**Michael Leuchten - Barclays Capital - Analyst**

Hi, it's Michael Leuchten from Barclays. Two questions from my side. One, the EUR2.8 billion revenue target for the novel products, the launch products, that actually implies a healthy amount of acceleration throughout the year. I was wondering if you could either break that down by which product is going to be the biggest driver of that, and whether that is launches that are driving that, or just natural progression.

And then an accounting question on reconciliation. The guidance for 2014 of negative EUR200 million in that line, I was wondering if you could break that down, what the components of that are. Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. Olivier, EUR2.8 billion Xarelto -- sorry, all five products; where is it coming from for next year -- for this year, 2014?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Yes, so the EUR2.8 billion, we said Xarelto is going to be between EUR1.4 billion and EUR1.3 billion and EUR1.5 billion; and Eylea between EUR500 million and EUR600 million. So that gives you already a pretty good understanding of what that acceleration will be.

As Marijn said, we are going to launch those products this year, and we are actually in the launch mode in more than 100 cases. It's a combination of new indication, new countries.

But a lot of those new products are actually not being launched. For instance, we are right in the middle of Adempas rollout, which is expected to start, for instance, very soon in Japan, Germany, UK; and altogether the drug is going to be launched in 20 countries in 2014 and in two indications.

Xofigo also is expected to be launched in 20 countries this year.

We are also in the middle of Eylea rollout. Even if we have obtained already very significant results in four or five countries, it is already the market leader in that segment in Australia and Japan; and we are between 20% and 30% market share in Germany and France, so very successful there. We need to roll out the new indication for Eylea: CRVO, but also DME.

Stivarga, we are not really launched yet in Europe. It is definitely launched in the US.

But -- so it gives you an understanding of the magnitude of the activities, which are going to take place in 2014 and therefore what you are calling the acceleration.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Reconciliation, Werner?

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**Werner Baumann - Bayer AG - CFO**

Yes, Michael, maybe a couple of explanations. If you look at the progression from 2013 to 2014, the level of recon comes down a little bit, so it's less negative.

And that is mainly driven because of the fact that there is roughly EUR50 million less in our long-term incentivization plans there, where the exit performance over and above the normal provisioning is captured inside of reconciliation rather than in the businesses. That was a change we made last year of the document in our annual report.

Secondly, if you look at the level where it was 2012 and before, we do see a slight increment driven by the fact that we are funding some of the cross [pieces] early R&D projects through a central funding mechanism, and that happens to sit in our reconciliation as well.



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**Michael Leuchten - Barclays Capital - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. Thanks, Michael.

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**Operator**

Mr. Faitz.

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**Christian Faitz - Macquarie Research - Analyst**

Yes, thanks. Christian Faitz from Macquarie. I have three questions, if I may.

First of all, starting with Pharma, Levitra sales in Q4 with minus 15% currency-adjusted were particularly weak if you look at the sales progression over the year. Can you share any background for this?

Then second, agrochemicals, can you tell us if the so-called Polar Vortex in the US will have any impact on early Crop Protection shipments? And by the way, on top of that probably the drought situation in California.

Third, MaterialScience, what is your observation of demand patterns in China after the Chinese New Year celebrations? Thanks.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Christian, would you mind repeating your second question? We did not understand it 100%.

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**Christian Faitz - Macquarie Research - Analyst**

Okay, in agrochemicals, crop spraying, can you --

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

The first in ag, the first in ag. Your second question.

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**Alexander Rosar - Bayer AG - Head of IR**

Yes, the agrochemicals question.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Polar Vortex, I think it is.

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**Christian Faitz - Macquarie Research - Analyst**



Yes, Polar Vortex. Can you share just your thoughts on how that is impacting early demand patterns? And on top of that polar vortex also the drought in California.

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**Alexander Rosar - Bayer AG - Head of IR**

There we got it. Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, Olivier, Levitra?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Levitra. Last quarter 2013 the sales were, you're right, down. It was mainly due to phasing into Q3 in US where, as you know, the product is marketed by GSK, and definitely facing very strong generic competition. Remember that Viagra is genericized in Western Europe. So that is what I think are the drivers.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

So, agrochemicals, the Polar Vortex situation?

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**Liam Condon - Bayer AG - CEO CropScience**

The Polar Vortex, the impact of the very cold weather in North America -- which is hard to understand here from Leverkusen, because it's a very mild winter. But overall we've been talking to farmers and distributors and in the US in the past few weeks, and this isn't seen at the moment to have any significant negative impact on early demand.

Our early -- let's say our bookings for us are on what I would call a normal pattern. And it would only really become a problem if the, let's say, very cold weather continued for a significantly longer amount of time. Because in general snow at this time of the year is just resulting in moisture for the ground, which is not such a bad thing.

So we don't see any significant negative impact at this stage. But it depends how long the cold weather will last.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thank you on that weatherman comment. MaterialScience, the demand in China after the New Year.

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes, Christian, the demand in China issue is you have to start before the New Year, because demand is remarkably strong ahead of the New Year, which was unusual. So we saw surprisingly good demand ahead of the Chinese New Year. Whether that was preordering or restocking or real demand is very difficult to tell.

Since the New Year has continued, particularly strong on automotive and on furniture. But I'd really wait to see the end of the first quarter before pass a full judgment on what is happening in China. I've been there all this week, and optimism is quite high; but let's wait and see what the full quarter brings us.

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**Christian Faltz - Macquarie Research - Analyst**

That's very helpful. Thanks. Thank you.



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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Thank you very much.

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**Operator**

Mr. Gilbert.

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**Thomas Gilbert - UBS - Analyst**

Thomas Gilbert, UBS. Three questions on chemicals. One for Liam, two for Patrick.

Obviously a great result in CropScience; just still trying a dissident question. If you look at the cash flow in CropScience, obviously of course cash flow up 20%, and up 70% for the quarter; but down after working capital again by 70% in the quarter and I think 24% for the full year.

Can you explain whether it is the inventories that has gone up there? And if so, why that is.

Again, is it a weather phenomenon, a bit of a late ordering? Or is it receivables, i.e., strong activity in the business and early ordering? If you can just shed some light on the somewhat poorer working capital performance in the ag, on the ag side.

Then second for Patrick, I don't know whether you can do this after the call or very quickly now, if you can give an EBITDA bridge for the past year in terms of the key deltas for volume-price, raw materials, cost savings, either now or maybe after the call, that would be much appreciated.

Then the third question is on your Q1 guidance for a significant gain EBITDA. Obviously last year was particularly weak because I think it was a Baytown turnaround, etc. Can you remind us what the maybe call it one-off burns last year, but can you quantify that? And would you still, even if you adjust for that, see the progress versus last year in MaterialScience EBITDA year-over-year? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thanks. Working capital, CropScience, Liam?

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**Liam Condon - Bayer AG - CEO CropScience**

Okay. Thanks a lot. We do see this primarily as a transitory impact, and it is mainly coming both from higher inventories and from accounts receivable. This is purely related to the high demand. We simply had to massively increase production because demand is so high.

And related to that we have also, of course, higher receivables, particularly in LatAm. So there is, let's say, what we would call a transitory negative impact.

But this should return to a very positive impact in 2014, simply because our accounts receivable are very solid, where we have a very high rate of -- let's say we don't have any problem in getting the money in. And the inventories is basically turning relatively quickly into sales.

So this is actually a basis that we need to continue to grow, and we believe it is a healthy basis. So this isn't something that is going to result in a negative working capital situation over time. It will become significantly more positive in 2014.

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**Thomas Gilbert - UBS - Analyst**

Thank you.



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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Patrick, are you willing to do a simplified BMS EBITDA bridge for 2013?

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

If my colleagues will be patient enough with me, then I will do a very fast one. The price and volume effect is pretty minimal; it is about EUR50 million up on volume and about EUR25 million down on price overall across the whole business. The big item is a EUR250 million negative on raw material and energy, offset by EUR160 million of restructuring benefit.

Then, in answer to your third question, the impact of the first-half-year turnaround in Baytown, roundabout EUR50 million negative. And then the final effect to complete the bridge is about EUR70 million in fixed costs coming out of stock as we managed working capital towards year-end.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Then, you know, taking out the effect of Baytown in the first quarter, which is still --

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes, that is about a EUR50 million, and we expect the year to be better.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Year to be better.

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes.

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**Thomas Gilbert - UBS - Analyst**

So even if I add back EUR50 million, you would expect to be still better than that?

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes.

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**Thomas Gilbert - UBS - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

All right. Thanks, Thomas.

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**Operator**



Jo Walton.

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**Jo Walton - Credit Suisse - Analyst**

Jo Walton from Credit Suisse. Just three quick ones, please.

I wonder if you could tell us on Eylea whether Novartis has started to fight back. You mentioned very strong early gains in both Japan and Australia. Novartis said that they had learned their mistakes and they were fighting back. So I wondered whether you are seeing that, and whether they learned anything which was making it more difficult to penetrate other markets because they were there and waiting for you.

Secondly, are you going to have another go at getting ACS in the US for Xarelto? Or should we just assume that that is something that you can only really revisit in a few years' time when the FDA is happy with all of the other broader indications that you have got to; and then perhaps you could revisit that at that point?

Finally, I wonder if you could just tell us. Foreign exchange is obviously extremely important to you. We can look at the dollar; we can all see that. Are there any other currencies that are perhaps more important to you in terms of your sales or costs than we perhaps might realize?

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Good. Okay, Eylea, first question, Olivier.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Well, I don't know how to answer that question. We didn't notice that they were not competing.

And as I said, the product has been very, very well received. We think that the bimonthly injection, after the first 3 months, in fact is a real competitive advantage.

Now, in some countries, of course, Lucentis is used more or less the same way. It is on demand. It is not automatically going against the label which says monthly injections -- which was, by the way, what we used in our pivotal study.

But anyway, so we think that is a very strong advantage we have. And we're getting anecdotal reports that in terms of efficacy it is working eventually better; and it's certainly working when Lucentis has not automatically made a difference.

So that is the only thing I can, frankly, say at this point. And I confirm Australia at 51% market share and Japan at 46%.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Good. Then on Xarelto, what are your comments around going back for ACS in the US?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Yes, so you know FDA issued a Complete Response Letter recently for Xarelto for the ACS indication and the risk of stent thrombosis. So to answer your question, we remain committed with J&J to ultimately provide patients with Xarelto in that indication. So we're consulting with our partner, and we are putting plans as we speak.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Good. Then other currencies than the dollar and the euro affecting us, Werner?



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**Werner Baumann - Bayer AG - CFO**

Yes. If you look at last year 2013, out of the net EUR260 million, roughly 40% of that was due to the Japanese yen. The second biggest currency -- it was actually a couple of them.

One is the dollar you mentioned. But then you can have significant impact also on smaller currencies.

There was another EUR50 million coming out of the Venezuelan bolivar. And then a lot of smaller currencies, since all of them have weakened against the euro, accounted for another EUR90 million.

Secondly, different currencies affect different businesses of ours to a different extent. If you look at last year, the FX effect on HealthCare was EUR290 million negative, whereas BMS was virtually neutral, and CropScience had a small pickup at the bottom line.

And last but not least, if you look at currency sensitivities for this year -- it is very difficult to predict which currencies are going to move against or in favor of our business overall. But in terms of sensitivity, a percentage point move up or down means EUR260 million roughly in top-line and roughly EUR70 million in bottom-line effect for the whole of Bayer.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. Thank you, Jo.

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**Operator**

Mr. Wendorff.

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**Daniel Wendorff - Commerzbank - Analyst**

Daniel Wendorff, Commerzbank. Thanks for taking my questions. Three if I may, starting off with a follow-up question on Eylea.

We saw nice uptake quarter-on-quarter from Q3 to Q4. I was just wondering what is driving this. Is it a particular region, a particular country? Or it is just in the existing marketed regions the penetration increasing? And should we expect this quarter-on-quarter growth rate going forward?

Second question on Adempas. You generated basically the first revenues there in Q4. I was just wondering whether you could update us on how do you see the market uptake in the different divisions and in the different indications. That would be quite helpful, to get any color there.

Lastly, on your R&D costs, you mentioned how they should look like in 2014. I was just wondering whether you potentially could give us a bit more color on how this line is going to develop further. Is the EUR3.5 billion, EUR3.5 billion a level we should expect going forward? Or will this increase at a similar pace, like your guide for 2014, beyond 2014? Also any more color there would be helpful. Thank you very much.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thank you. Eylea, the Q3 to Q4 momentum?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Yes. We launched in a few countries in the meantime between Q3 and Q4, and we have done specifically well in a couple of markets during those quarters. I mentioned then earlier -- Germany, UK, and France -- and that has been definitely an important growth driver during the quarter.



Again, you can expect very significant growth based on the launch execution and what I was describing earlier in terms of perception of the product profile in different markets. Since our guidance talk about for this year EUR500 million to EUR600 million, so quite a significant growth there. The second question?

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Adempas, on the update on the market uptake?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

I would say, Adempas, it is very early. Our experience comes from the US.

It has been very well accepted; it's been prescribed in CTEPH and PAH, but definitely CTEPH. It is seen, as that indication, is seen as a very significant advantage versus competition and the PDE5, which have only the PAH indication.

We have to work with the payers, too, to ensure that the product is covered, including in the US. So it is very early on; and we probably need the wave of launches in Europe to give you a clearer description of where we are.

But we're still very positive, by the way, because you have seen that the peak sale we believe can reach EUR500 million in that indication -- or in those two indications.

In terms of lifecycle, to your question regarding the future, we will broaden our indications through -- under the umbrella of pulmonary hypertension with something which is called IIL, which is idiopathic interstitial pulmonary hypertension. So we have a lifecycle which tackles the other groups under the umbrella of pulmonary hypertension.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thank you. Then just comment on how does R&D percentage develop over the next few years.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

So next year, we mentioned the EUR500 million for both marketing and sales and R&D; and it is roughly 50-50 there. Over time, the spend will be on the upper end of our target range, which is between 15% and 17% of sales for Pharma. So that is what I can say.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Good. Thank you. Thank you, Daniel.

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**Daniel Wendorff - Commerzbank - Analyst**

Thank you.

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**Operator**

Mr. Cespedes.

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**Florent Cespedes - Exane BNP Paribas - Analyst**

Good afternoon, gentlemen. Florent Cespedes from Exane BNP Paribas. Two quick ones.



First, on the old products, could you have -- could we have an update on the trend you see for the old big products, Betaferon and YAZ?

Secondly, question on Consumer, how do you see the operating margin trend in Consumer after the soft 2013 performance and the cautious 2014 guidance?

The last question, a general question for Olivier. Could you share with us your impressions after a few months at Bayer what you find as unique? What would you like to reinforce or improve? Just your thoughts on that. Thank you.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Well, I guess --

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Can he answer that last question in French, so that none of us -- (laughter). Okay, the old products.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Well, the old products. Betaferon, which is a very significant product, of course, for Bayer Pharma, for the full year reached EUR1 billion. However, year-on-year FX-adjusted it's still a decline of 12%.

I must say that is a result of increased competition, and more specifically competition coming from Tecfidera and Biogen in the US. So overall it is declining, and we are going to make everything possible to ensure that the rate of decline is as small as possible. And we are spending some time putting plans together there, so that is number 1.

Number 2 was --?

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

The Consumer operating margins in Consumer Health, the trends there.

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

Margins for Consumer are pretty much stable next year, right? Our EBITDA before special item is slightly below prior-year for Consumer Health; and that's it.

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**Florent Cespedes - Exane BNP Paribas - Analyst**

Maybe may I ask a follow-up question? Could you share with us the trend on Betaferon beyond, let's say, 2014?

Also could you give us your view on the YAZ trends as well?

And if for the Consumer operating margin [decision], is there any chance we see some recovery of the margin? Or do you expect the margin to remain pretty much stable going forward?

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**Olivier Brandicourt - Bayer AG - CEO HealthCare**

On Betaferon, the guidance for 2014 is that we would stay in mid-teen percentage decline for 2014. So very similar again to what we have experienced in 2013.



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**Florent Cespedes** - *Exane BNP Paribas - Analyst*

And for YAZ, please?

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**Olivier Brandicourt** - *Bayer AG - CEO HealthCare*

So for YAZ, decline 5%, 10%. That is our guidance.

But our women's healthcare overall is represented by three buckets. We also have our long-term contraception devices, which are Mirena, which is growing; when you consider Skyla and [JDAS]. And our OB/GYN, our gynecological line is basically flat.

So overall, if you consider all women's healthcare, all three buckets included, which represents a very significant level in volume of more than EUR2 billion, I think it is going to be flat.

For our aspiration in 2016 regarding margin, it's going to be --

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**Alexander Rosar** - *Bayer AG - Head of IR*

Published in --

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**Olivier Brandicourt** - *Bayer AG - CEO HealthCare*

Published in management meeting in March.

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**Alexander Rosar** - *Bayer AG - Head of IR*

In two weeks. Last question.

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**Marijn Dekkers** - *Bayer AG - Chairman, CEO*

Then you want to share any impressions of Bayer AG?

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**Olivier Brandicourt** - *Bayer AG - CEO HealthCare*

All right. For me it's been very exciting because it's different, very different from what I have done before. I am now in charge of a portfolio of businesses which is much less operational versus what I was doing and in a sense much more strategic, which is exciting.

I have always been around the non-Pharma businesses, but I never ran them. I have never been in charge of them. And that's something I find extremely exciting.

Second point is I like very much what we are seeing in our Pharma business. I only experienced that type of growth when I was at Parke-Davis 25 years ago or maybe 20, and at Pfizer in the early 2000s.

But we are (technical difficulty) largest growth in this industry, and due to those launches. And again, that is a very exciting feeling.

Last but not least, what I really enjoy also, which I've never been in charge of -- if I had development before, I never had the full R&D. And the fact that now I am working very closely with Andreas Busch, our head of research, is tremendously exciting. So all in all, very very good experience. And of course I am not going to mentioned that I'm getting along pretty well with my boss.



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**Florent Cespedes - Exane BNP Paribas - Analyst**

Thank you very much.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Thank you.

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**Operator**

Mr. Grueten.

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**Lutz Grueten - Commerzbank - Analyst**

Lutz Grueten, Commerzbank. Two questions for Patrick, please.

One follow-up on TDI. You have mentioned the BASF deal with Zchem consolidating the industry. Is Bayer also interested to play a bit more active role in this regard? Or are you focused only on -- not only, but are you focused on organic growth only here?

A second question on polycarbonates. Could you run through your expectations on supply-and-demand balance for the next quarter, and also touching on the imports we have seen lately on polycarbonates into Europe on a quite cheap level? Thank you.

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Okay, yes, a quick update on TDI. We have been participating in a way in the consolidation of TDI. You may note -- have noted it was probably 18 month ago we acquired Air Products' TDA business, which led us into an interesting position of supplying quite a few of the TDI assets around the world.

We don't plan, because of our scale, to go out and buy TDI businesses, because that really would be impossible with our current market share. That would be too big a concentration.

I think one of the other issues is we have a gas phase technology which has a competitive advantage, and we are using that in the market. We have implemented it in China, and the plant has sold out.

We are now implementing it in Dormagen, and that will allow us to close two older facilities. And we have a good economics in America with our facility because of the low energy price. So we feel in a strong position to win with the assets we've got.

In terms of polycarbonates and supply and demand, polycarbonates industry didn't grow last year at all. In terms of industry demand it was pretty much a zero.

But if you examine quarter by quarter the growth figures, it started the first quarter at about minus 4%; and the second quarter at minus 4%; and then it jumped up to plus 1.5% and then plus another 1% during the year. So it is at its turning point.

The important thing is to see now whether we get a full year of growth. We are expecting something between 4% and 5% this year on PCS.

And we are starting to see prices creeping up on PCS. A lot of price letters out at the moment in North America, where there is certainly some tightness; and beginning to see price letters creeping out in the rest of the world as well. So I am slightly more positive about PCS at the moment than I was this time last year.

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**Lutz Grueten - Commerzbank - Analyst**

Thanks. That's very helpful. What about the cheaper imports into Europe we have seen in Q4? Are they still existing?



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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes, this is something that is -- there is traded material flying around the world on polycarbonates all the time. So sometimes it shows up and it gets reported in ICIS, and sometimes not.

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**Lutz Grueten - Commerzbank - Analyst**

Okay, thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thank you.

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**Operator**

Mrs. Brugere.

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**Caroline Brugere - Credit Agricole - Analyst**

Yes, good afternoon. Caroline Brugere from Credit Agricole Credit Research. Thank you for taking my question. It is related to your guidance on net debt, below EUR9 billion at 2014 year-end.

I was surprised to see that guidance, which feels very large compared with the net debt position at the end of 2013, below EUR7 billion. The Company has always generated a free cash flow after dividend of EUR1 billion to EUR2 billion in the past five years, and you are going to spend EUR2 billion on Algeta.

So the EUR9 billion setting looks large. Should we expect further acquisitions? Or am I missing anything in terms of 2014 capital or anything else? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, Werner.

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**Werner Baumann - Bayer AG - CFO**

Yes, thank you for the question. First of all, you already alluded to it; the net debt guidance we have given for 2014 can only be understood in the context of debt including, of course, the financing of the Algeta acquisition. So that adds just about EUR2 billion.

We do have, driven by the further business expansion and also some of the mixes of our businesses, some further working capital lockup is part of our overall profile we see for 2014. Yet I will say that also historically we have been quite conservative on our net debt guidance; and there is a chance that that below-guidance will be quite a bit below.

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**Caroline Brugere - Credit Agricole - Analyst**

Okay. So like this year, when basically it was more than EUR1 billion below the guidance?

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**Werner Baumann - Bayer AG - CFO**



Let's see how we fare, and then we will update you in the course of the year. So there will be multiple opportunities to do that.

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**Caroline Brugere - Credit Agricole - Analyst**

Okay. Is it possible to have the guidance on working capital change, please?

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**Werner Baumann - Bayer AG - CFO**

No, other than the fact that it is going to be a higher operational lockup compared to last year [not]. And that is very much driven by the strong expansion we continue to see in Crop. Liam has alluded to it.

We think the mix issue I referred to was that we see tremendous growth dynamics in Latin America, where historically our working capital lockup on the receivables side is somewhat higher than what you would normally expect, for example, in Western Europe.

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**Caroline Brugere - Credit Agricole - Analyst**

Okay. Okay, thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Thank you.

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**Operator**

Mr. Koehler.

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**Ronald Koehler - MainFirst Bank - Analyst**

Yes, hello. It's Ronald Koehler from MainFirst. First question is again on foreign currency for Werner. I actually calculated with my model that based on today's currency rate you might face a 4% hit on your top line. You obviously calculated on the average rate of Q4 2014.

But that would then mean, also given your sensitivities, that you have around EUR150 million higher impact here on the EBITDA. Can you a little bit comment, looking at that number? So additional 2% based on today's currency; did you have a similar result here?

Second question is on CropScience. You had last year good price increases. What is your outlook actually for pricing in 2014?

Also, given the currency weaknesses, obviously historically you counterbalance at least part of the currency weaknesses by increasing prices in emerging markets. Would you plan to do the same in 2014? Any thoughts on that would be welcome.

Second question also for CropScience. There is this new class of SDHI fungicides, and you were the first to launch it with, let's say, with two products, significantly getting market share here. Nevertheless, we know that BASF got an approval in Brazil. We see -- we are waiting for the Solatenol approval for Syngenta.

How do you see the competition changing in 2014 when the other two guys will push in their SDHI class? Thank you. That's the questions.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Werner?



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**Werner Baumann - Bayer AG - CFO**

So, Ronald, let me start with the currency model. We still have to compare notes. You may be a few million off here, but other than that I would say it is fairly correct.

We are certainly in a situation, given the strong movement of some currencies in the beginning of the year, that there is an exposure compared to quarter 4 if you take current estimates. Where it's going to be at the end of the year and where it's going to be at an average level, yes, that remains to be seen.

But other than that, I can confirm directionally what you are saying.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay, thanks. CropScience, Liam?

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**Liam Condon - Bayer AG - CEO CropScience**

Yes. As you say, we had a strong price improvement throughout 2013 in the region of 2.6%, 2.7%. And we are forecasting for the year 2014 that we will also have a positive price impact, but not to the same extent as 2013, simply because we are expecting, because of commodity prices where they are today, that overall market growth will slow down somewhat in the second half of the year. So that will make pricing a little bit difficult, but we still forecast a positive price movement.

In emerging markets, we have a large part of our sales is already today locked up in what we would call emerging markets. For example, Brazil, which is actually one of the most advanced agricultural markets in the world. And here we have multiple ways of, let's say, ensuring that we can extract value, be it through US dollar index based sales or barter or other areas, to ensure that we are not losing any value in the market.

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**Ronald Koehler - MainFirst Bank - Analyst**

If you do that, is that accounted as price increases? Or how do you account these kinds of protection, like in Brazil dollar-based price increases?

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**Liam Condon - Bayer AG - CEO CropScience**

We have two ways. Basically if it is -- if you say we go for pricing, I am thinking of hedging versus pricing, that would -- wouldn't --

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**Werner Baumann - Bayer AG - CFO**

Hedging is not part of the (multiple speakers)

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**Liam Condon - Bayer AG - CEO CropScience**

Yes, hedging is not at all part of our pricing. So it wouldn't actually come into play in that. That is just a mechanism for us to maintain value in the marketplace so that we don't lose to currency, let's say to currency movements. But it is not reflected in the pricing.

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**Ronald Koehler - MainFirst Bank - Analyst**

Okay.

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**Liam Condon - Bayer AG - CEO CropScience**

Okay?



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**Ronald Koehler - MainFirst Bank - Analyst**

SDHI, Liam?

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**Liam Condon - Bayer AG - CEO CropScience**

Yes. SDHI, you will have seen we had growth in fungicides of about 15% last year, so a tremendous growth rate for us overall. Market demand is driven to a heavy extent by Latin America, particularly Brazil, because of the high disease pressure. And there is simply a high need for further innovation in the market.

So not only, let's say, us, but also competitors are coming with new products. But we are also coming with new fungicides in the market, and I think there is plenty every for everybody to continue to grow in this market segment.

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**Ronald Koehler - MainFirst Bank - Analyst**

Okay, thank you.

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**Marijn Dekkers - Bayer AG - Chairman, CEO**

Okay. All right, thank you for your question.

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**Alexander Rosar - Bayer AG - Head of IR**

Cleo?

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**Operator**

Excuse me. There are no further questions registered at this time. You may continue with any other points you wish to raise. Thank you.

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**Alexander Rosar - Bayer AG - Head of IR**

Okay, ladies and gentlemen, also on behalf of my colleagues, I would like to thank you for being with us on the call and your questions. We are saying goodbye and hope to meeting you all again during our Meet Management Conference in Leverkusen on March 12.

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**Operator**

Ladies and gentlemen, this concludes the full-year and fourth-quarter 2013 results investor and analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.



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