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BAYN.DE - Q1 2014 Bayer Earnings Conference Call

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OVERVIEW:

Co. reported 1Q14 Group sales of EUR10.6b and 1Q14 core EPS of EUR1.95. Expects to grow full-year 2014 sales organically by about 5%. Also expects to increase full-year 2014 core EPS by mid-single digit percentage, allowing for expected negative currency effects of around 6%.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's investor analyst conference call on the first-quarter 2014 results. (Operator Instructions)

I would now like to turn the conference over to Mr. Alexander Rosar, Head of Investor Relations at Bayer AG. Please go ahead, sir.

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 first-quarter conference call. With me on the call are Marijn Dekkers, our CEO; and Warner Bowman, our CFO; HealthCare is represented by Olivier Brandicourt; CropScience by Liam Condon; and MaterialScience by Patrick Thomas.

Marijn will start off our conference call with a brief summary of the developments in the first quarter. We assume you have received and reviewed our stockholders' newsletter, briefing documents, and the presentation slides; so we will just focus on the main points.

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.*) With that, I would like to hand over to Marijn. Thank you.

Marijn Dekkers - Bayer AG - Chairman, CEO

Yes, thank you, Alexander, and good evening -- good afternoon, sorry, ladies and gentlemen. It is my pleasure to report that all our businesses got off to a very successful start to 2014.



Our Life Sciences businesses continued their dynamic revenue growth, organic revenue growth, and increased earnings despite significant negative currency effects. HealthCare reported considerable sales increases and higher earnings, driven by the continuing success of recent product launches in Pharmaceuticals.

CropScience benefited from an early start to the season in Europe, showing another quarter of profitable growth. And MaterialScience delivered on our expectations, with higher sales and a substantial increase in adjusted earnings.

Thanks to our strong operational performance we were able to fully compensate the considerable currency headwinds and delivered double-digit growth rates on the EPS level. Further, strategic progress was achieved with the closing of the Algeta transaction in mid-March and the signing of an acquisition agreement with China-based Dihon Pharmaceutical Group.

Against this background and based on our expectations for the remainder of the year, we are maintaining our full-year guidance for the quarter. Let me now elaborate on some key figures for the first quarter; and when speaking about sales, I will refer to portfolio- and currency-adjusted data.

Group sales advanced by 8% to EUR10.6 billion. All subgroups contributed to this increase.

Reported EBIT rose by 18% to EUR2.1 billion. There were net special items of plus EUR7 million versus minus EUR45 million in the prior-year quarter.

Adjusted EBITDA posted an increase of 12% to EUR2.7 billion, and that is despite negative currency effects of around EUR200 million in the first quarter. So adding back the negative currency effect would give a 20% increase in adjusted EBITDA, which really demonstrates the operational strength of our businesses in the quarter. Core earnings per share amounted to EUR1.95, an increase of 15% over the prior-year quarter.

From a regional perspective, we generated 34% of our Q1 sales in the emerging markets. Sales in those countries grew by 11%.

Latin America, Eastern Europe, and Africa Middle East showed double-digit growth rates. Sales in emerging Asia advanced by 9%, with all subgroups contributing. Our Pharma business in China demonstrated a strong rebound, with sales up 20% in the quarter.

Revenues in the US increased by only 2% in the quarter. Our HealthCare business came in at the prior-year level, while CropScience and MaterialScience showed solid growth rates of 3% in 5%, respectively.

As a result of the improvement in EBITDA, gross cash flow moved ahead by 13% in the first quarter. Net cash flow fell by 50% to EUR163 million because more funds were tied up in working capital than in the prior-year period.

With capital expenditures of EUR357 million, the operating free cash flow came in at minus EUR194 million. Net financial debt increased from EUR6.7 billion at the end of 2013 to EUR9.1 billion at the end of Q1, largely, of course, as a result of the Algeta acquisition.

So let's now move on to the performance of our subgroups. Sales of the HealthCare subgroup increased by 9% in the first quarter to EUR4.6 billion.

We saw a very dynamic increase in sales of our Pharma segment, which moved ahead by 15% to EUR2.8 billion against a relatively weak prior-year quarter. The strong growth was driven by our recently launched products, Xarelto, Eylea, Stivarga, Xofigo, and Adempas, which collectively posted sales of EUR598 million.

Sales of Xarelto maintained the strong momentum of prior quarters, especially in Japan, Germany, and France. Eylea grew strongly as well following its launch in France at the end of last year.

Our cancer drugs Stivarga and Xofigo made encouraging contributions to the sales development of Pharma. And Adempas posted sales of EUR9 million following the product's launch in the US in the fourth quarter.

The performance of our established Pharma products was mixed in the quarter. On the positive side, sales of Nexavar rose by 14%, with all regions contributing. Mirena recorded sales gains of 12%, particularly as a result of price increases in the US. Aspirin Cardio experienced a substantial increase in demand especially in China, resulting in overall sales growth of 19%.

On the negative side, sales of Betaferon run continue to recede this quarter by 22% due to increased competition in the US. Kogenate sales declined by 6% compared to a strong prior-year quarter, and sales of the YAZ family contracted by 3% due to generic competition in Europe. In the US, YAZ sales improved by 12%.



Following the strong sales growth of our recently launched products, adjusted EBITDA of Pharma showed a 5% improvement over the prior-year quarter for an expansion of almost 18%, if adjusted for the negative currency effect of approximately EUR100 million in the quarter. The earnings increase was diminished by our announced step-up in sales and marketing activities, our increased R&D expenses, and then of course the negative currency effects already mentioned.

Now let's move on to our Consumer Health business, which improved revenue by 1% in the first quarter to EUR1.8 billion. Sales in our Consumer Care division rose by 2%.

Our skincare product Bepanthen registered strong growth in all regions, especially in Brazil and Russia. Sales of Aspirin were mainly held back by a weak cough and cold season in Europe.

Sales of the Medical Care division receded by 6%. The Diabetes Care business continued to be hampered by reimbursement pressure and price declines, especially in the US. Revenues from a contrast agents and medical devices in the Radiology & Interventional business declined only slightly.

Sales in the Animal Health division rose by 8%, mainly driven by our Advantage product line.

Adjusted EBITDA of our Consumer Health business showed a decline of 4%, as a result of higher marketing expenses and negative currency effects of around EUR30 million. Adding back the negative currency effect would give a 2% increase in adjusted EBITDA in the quarter.

So in summary, the performance of HealthCare produced adjusted EBITDA EUR1.3 billion for the subgroup as a whole, an improvement of 2% over the prior-year quarter, or of 12% if adjusted for the negative currency effect of around EUR130 million.

So that was HealthCare. Let me now elaborate on the Q1 performance of CropScience, which benefited from an early start to the season in Europe.

Sales in the CropScience subgroup increased by 12% to EUR2.9 billion in the quarter. The Crop Protection business posted sales of 12%.

We performed especially well in our Fungicides, SeedGrowth, and Insecticides segments, all of which showed double-digit growth rates. Sales of herbicides, which advanced by 8%, benefited, from the positive development of the cereal herbicides business.

We were again particularly pleased with the performance of our new Crop Protection products. These products, defined here as those launched since 2006, were up 27% nominally to around EUR620 million in the quarter and thus made a substantial contribution to the positive sales result.

The Seeds business came in at 12% with growth in all regions, largely driven by cotton seed in Latin America and the US. We also saw double-digit increases in Europe and Asia with strong contribution from vegetable seeds. Revenues of the Environmental Science business increased by 8% in the quarter, with higher sales growth in the consumer business and in products for professional uses.

Adjusted EBITDA of CropScience moved ahead by 2% to EUR1.1 billion. Earnings growth was held back by increased expenses for marketing and sales as well as R&D.

Currency movements diminished adjusted EBITDA by around EUR70 million. Adding back the negative currency effect would give an 8% increase in adjusted EBITDA.

Now, let's move on to MaterialScience. Sales of MaterialScience grew by 5% in the first quarter to EUR2.8 billion. This growth was the result of considerably higher volumes in all business units and regions, except for Latin America and Africa Middle East.

Selling prices overall were below the prior-year quarter. Sales of the Polyurethanes business unit rose by 6%, driven by higher volume, following increased demand from our key customer industries, especially in North America and Asia Pacific. A further factor was the negative impact of a maintenance shutdown in North America in the prior-year quarter.

Sales in Polycarbonates business unit advanced by 2%. This growth was driven by the positive development in the automobile industry in Asia Pacific as well as Europe.

Adjusted EBITDA of MaterialScience increase by 80% from EUR204 million to EUR360 million. In the prior-year quarter, earnings had been hampered by high costs for the maintenance shutdown in North America.



Apart from this base effect, the improvement in the first quarter was mainly driven by raw material price tailwind. Higher volumes and our comprehensive efficiency improvement measures also contributed to this development.

So overall, after the very encouraging first quarter we maintain the guidance for 2014 issued at the end of February, which is based on average exchange rates for the fourth quarter of 2013. Compared to these assumptions, we experienced higher negative currency effects in the first quarter of 2014; but so far, these have been more than offset by the improvement in our operational performance and seasonal effects.

For the full year we plan to grow sales organically by 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 effect of around 6%.

Overall, we are very pleased with Bayer's start to 2014, which was driven by all three subgroups. We expect our innovative products to continue driving sales growth in our Life Science business. We were especially pleased to see that our Pharma launch execution continues to pay off.

We remain cautiously optimistic for MaterialScience. The improved demand from our customer industries during Q1 is a positive sign.

For the Group as a whole, we expect to deliver further sales and earnings growth in 2014.

And that now, ladies and gentlemen, concludes my remarks. We are happy to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Tim Race.

Tim Race - Deutsche Bank - Analyst

Hi there, gentlemen. It's Tim Race here from Deutsche Bank. A few questions if I may, mainly on Pharma and then one on M&A.

So starting off on just Pharma questions, Betaseron trends, could you just discuss the patterns here in terms of what we are really seeing in terms of the impact from contract losses versus our competition? Also, perhaps -- obviously sales is one part of the issue. Could you talk about the profitability here?

I presume Betaseron is a high-margin product and much of the costs are already removed. But are there any other further cuts you can make behind that?

Then perhaps on Kogenate, if you could just talk about the lumpiness that we are seeing here and how much of this lumpiness is caused by perhaps capacity constraints that you have got at the moment.

Then a couple of questions on perhaps M&A. Diabetes business, basically it's a drag that we have been seeing for this business for some time; yet other companies are improving. What do you need to see before you decide to actually dispose of this business? Or what is the turnaround strategy here for Diabetes?

And then just on the M&A that we have seen perhaps over the weekend or at least the stories on Reuters and Bloomberg, you have always been shown to have a lot of discipline around looking at your -- in your M&A criteria, particularly regarding looking at NPVs, value creation, and giving away only a limited amount of the synergies, versus perhaps a more US focus on accretion/dilution. Can you just discuss where we stand with your M&A priorities and how we look at it in terms of a valuation perspective? Thank you.

Marijn Dekkers - Bayer AG - Chairman, CEO



Okay, Tim, thank you. Let's start with the three specific Pharma questions. Olivier, if you can take those; and I will take the M&A question. So Betaseron, Kogenate, and Diabetes.

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

Okay. Hi, Tim. So Betaseron, we have seen our sales continuing to recede in the quarter, and it is of course mainly coming from the US, where we are seeing an increased competition from Biogen. And in addition, we had been delisted at the end of last year from two large pharmacy benefit managers in the US, and that is definitely having an impact.

We are a little bit post cycle now, but we are trying to put Betaseron back on the formularies of those two very large PBMs. So that is for Betaseron.

As a consequence, I just want to mention that we are changing our guidance for Betaseron for 2014, and we see now a decline in the high-teen percentage range versus 2013, which we are changing from the previous one which was mid-teens.

You may ask: what are you doing about it? Definitely, it is a very profitable product and I mentioned that we were trying to put back Betaseron on those large formularies. But also we do provide additional support to patients through the development of a program and a tool which is called [BETACONNECT], which helps physician and patients to connect better and hopefully to improve compliance.

On Kogenate, you have seen the decline of about 6% for the quarter. It is mainly coming from the US. And if you -- as you know, we are reporting in the Kogenate revenues both Kogenate and Helixate; our guidance for the year was level sales in 2014 and we -- basically they're for the Kogenate brand.

What happened is we have seen a reduction and a significant one on Helixate; and this is due to a shift in the ordering pattern from CSL. So hopefully we can see that being corrected during the coming quarters.

Tim Race - Deutsche Bank - Analyst

Okay.

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

On Diabetes Care, yes, Diabetes Care has become a tougher business, no doubt, but most specifically in the US. And I think you are fully aware of what happened last year with the national competitive bidding that lowered reimbursement not only for what was the intention -- initially the mail order channel -- but also causing drastic price cuts in the retail, due to retail price equalization.

So tremendous price pressure on the Diabetes business. And as a consequence you see that minus 6% for the overall global business, but a much more significant in the US, which is about 40%. So those are the reasons.

Now, we have restructured our business to a great deal last year, and so that helps protecting partially our margins there.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. Thank you, Olivier. And then, Tim, on your question on our M&A activities, I cannot, of course, say anything specific because I don't want to add fuel on the fire. But I would like to say that, yes, we are disciplined.

Our goal is to create value for our shareholders. Our most important goal is to drive organic growth. I think if you take Pharma we are very well on the way there, with 15% organic growth in the quarter in Pharma, so we don't feel we have our back against a wall in terms of having to do acquisitions to drive growth.

And then of course, we just completed the Algeta acquisition. Algeta is now 100% owned by us. We paid EUR2 billion for Algeta, but we think it is a significant strengthening of our oncology franchise now being the 100% owner of Xofigo.

Operator



Sachin Jain.

Sachin Jain - BofA Merrill Lynch - Analyst

Hi, Sachin Jain from Bank of America. A couple of questions, please.

Firstly, just on the FX impact within guidance of 6%; believe that is still based at fourth-quarter rates. What would the FX headwind be at current rates? I am expecting that would be around 8%; wanted to check that was broadly correct.

Secondly on MaterialScience, I think the margin you reported this quarter is the highest in five or six quarters. So any color behind the contributing factors you have cited? So the sequential benefit you have seen from raw material costs, and the exact amount of the cost-cutting that has fallen through to the bottom line.

Quick question on two products, firstly Kogenate. Your guidance continues to assume no impact from Eloctate, I think. Do you remain comfortable with that as you get close to launch, and getting any feedback that suggests different?

And then Xofigo, the sequential growth is in the single-digit millions of euros. Any color on how that launch is progressing in both US and Europe? Thank you,

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. We start with FX impact. Thank you Sachin. Werner Baumann?

Werner Baumann - Bayer AG - CFO

Yes, Sachin, the impact on the quarter versus the quarter four 2013 is roughly between EUR50 million and EUR60 million or [about] (technical difficulty) on earnings. In terms of full year, since that is a question which probably will come up later on, based on where we are with currencies right now you would have to take into account the negative FX effect of an incremental EUR200 million on top of the EUR450 million we have guided at current rates.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. Then BMS margins, Patrick?

Patrick Thomas - Bayer AG - CEO Bayer MaterialScience

Yes, thanks, Sachin. If I look sequentially from quarter four into quarter one, then there is around about a EUR50 million volume effect; a smaller positive effect on price; around about EUR50 million, on raw materials; on costs, around about EUR40 million. And then the main bridge there is to all those into this first-quarter result.

You talked about how much of the savings program has dropped through into quarter-one earnings. If I look at that year-on-year, it is about EUR16 million after adjusting for inflation; thus it would be about EUR34 million in the first quarter without inflation.

Marijn Dekkers - Bayer AG - Chairman, CEO

All right. Then Olivier, Kogenate question and the Xofigo question.

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

Yes, so on Kogenate, the answer to your question is: no, we are not changing our position. We still -- we think through the results, and the very, very strong results of the study we have reported last quarter. For now, we think we're going to -- well, we continue to believe that we are going to compete very effectively against Biogen.



Going to that we will reach the market clearly after them; but all of that is part of our plan and our long-term guidance. So we feel pretty comfortable there.

I am not sure I gathered your question around Xofigo. Xofigo achieved -- and if it's related to performance, so EUR36 million for the quarter. But as you know, it is pretty much the beginning.

Xofigo has been launched in about 10 countries, slightly more, but significant countries are US, Germany, UK, and France. It continues to be well received.

In the US we have now activated about 950 sites. They are now patient ready and they cover basically 96% of the potential patient population. So that is great achievement.

In Germany, we are progressing also. And in Europe, as you know, very well. Through March -- through the end of March, we had opened 170 sites, which are now fully licensed; and they will cover about 80% of potential patient population.

So, it is really too early to make any description of the uptake in Europe, but we are still feeling very positive about Xofigo based on KOL feedback and what we are seeing happening in the marketplace.

Sachin Jain - BofA Merrill Lynch - Analyst

Okay. Thank you very much.

Operator

Jo Walton.

Jo Walton - Credit Suisse - Analyst

Three quick questions, please. Jo Walton from Credit Suisse. On the product side, I wonder if you could tell us a little bit about whether you are seeing any fight back from Eliquis, given your continued success for Xarelto, in particular in Europe where it is more difficult for us to see the script trends.

And in Eylea, can you give us a little bit more background into where you are gaining sales in Europe and whether there is any use in DME, whether it is all AMD, and how you are seeing the pricing.

And a quick question on the CropScience business. Presumably, you lost some sales in the US because of the late winter. I was just wondering if you could tell us to what extent you expect that to be caught up in the second quarter.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay, thank you, Jo. So, Olivier, the Eliquis question.

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

It's a very good question and a fair question. We know that in the US Eliquis has done relatively well in the cardiology office, right, and with an Rx level now for apixaban which is around 29%, 30%. However, much less translated in the PCP office, where it remains around 8%.

So do we see that happening in Europe? Yes, same strategy, and going through the cardiology offices. However, the impact so far is much, much less than what we are seeing in the US.

Overall, as you said, we don't have the same granularity in terms of TRx and NRx-es in Europe. But in Germany, the market share for apixaban is 4.5% when we are at 43%; in the UK, it is 3% versus 13%.



In Japan, where they have got, the full 30-day prescription now, they are at 7% versus 31%. And in France, at 1% when [we] are up with a 22%. So to answer your question specifically about Europe, I think we're still leading by a very large margin.

Referring to what is happening in the US, we are putting plans together to make sure that we're also very active in the cardiology office through our J&J partner. And we are starting a DTC campaign which we hope will have some impact.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. Eylea? Eylea, basically the question is also where are the sale gains coming from in Europe and what is going on with pricing.

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

Eylea, we have sales coming from Germany to a very large extent, the UK. And it has been very successful in France; the launch is actually very successful.

So I will give you marketshare for wet AMD. Germany has grown during the quarter from 28% to almost 29%; the UK has gained about 4.4 points; and France about more than 6 or 7 points in terms of market share. So it's going very well in Europe.

Marijn Dekkers - Bayer AG - Chairman, CEO

All right. Thanks, Olivier. Then, CropScience, what is going on in the US? Will they have any spring at all there?

Liam Condon - Bayer AG - CEO Bayer CropScience

Okay. Yes, thanks, Jo, for the question. As you say, it has been very cold now in the first quarter in the US, and there has actually been a lot of drought in California. So there's a double impact there.

From our numbers, as I give you a bit of flavor, North America we grew by about 4%. We break that down, it was the US 3%, Canada 7%, and so we did significantly better in Canada.

By indication: Crop Protection 2% growth; Seeds 8% growth; and Environmental Science we grew by 3%. So where we have been held back is on the Crop Protection side because of the delayed planting. Simply there hasn't been much activity at all except for in Canada on the Crop Protection side.

At the moment, we are still assuming there is still time to have -- even though planting is delayed, there is still time for a halfway normal, albeit a much more intense, season in the second quarter, and we hope that we can catch up. And if we don't catch up, there might be a delay or we might miss one spray application in Crop Protection.

On the positive side, there might due to the weather be an additional spray application in Europe. So at the moment, overall, we're not that concerned and we do hope that we can still catch up, particularly in the US.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. Thank you. Thanks, Jo.

Operator

Amy Walker.

Amy Walker - Morgan Stanley - Analyst



Good afternoon, team. It's Amy Walker at Morgan Stanley. I have got a few questions please.

The first on CropScience. Liam, you call out Latin America as a strong growth driver for Crop quarter after quarter. I presume you are still taking market share in this region, given your 21% growth rate.

Is that indeed the case? And what is your current Latin American share in Crop Protection, and where do you think you could get to? What is the sustainable level that you could achieve there?

The second question is on the OTC business. Can you just remind us? Do you still have ambition to be number-one globally in OTC?

And if yes, how is that still realistic given the announced deals that we saw last week and obviously what's being discussed in the press at the moment? I know the market is very fragmented, but presumably it is going to take a long time to get to number one if you limit yourselves to deals the size of Steigerwald and Dihon, so if you could give us some color there.

And lastly, just for Patrick, can you remind us, Patrick, of the expected timing of BASF's new polyurethanes capacity starting up this year? And do you think that that is going to have a negative impact on industry operating rates once it is ramped up? Presumably not all of this will be offset by closures. Thanks very much.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. Thank you, Amy. Let's start with CropScience and marketshare in Latin America.

Liam Condon - Bayer AG - CEO Bayer CropScience

Yes. Just let me talk a little bit about the numbers, Amy. The 21% refers to LatAm, Africa, and Middle East, the way we define it. And we had a very strong Africa Middle East business in this quarter.

The LatAm business grew by 18%, just to take that out of those numbers in total. So still very strong, especially given the fact that this is not a typical LatAm; it's the end of the season now for LatAm.

So still surprisingly strong growth. This was more or less across-the-board; again, heavily driven by Fungicides and Insecticides, but also by our still very small Seed business. We had very strong growth there.

And we do believe that this is sustainable to continue at the relatively high growth levels in Latin America. From a marketshare point of view, we don't break it down now quarter by quarter. It's constantly moving, and we reflect always what the competitors are basically reporting.

From what we have seen I would say in the last 12 months, if you look at the 12-month moving average and what we are reporting, what competition is reporting, I'd say it is very clear that we are gaining marketshare in Latin America. And this is clearly part of our strategy; Latin America is very much in focus.

Marijn Dekkers - Bayer AG - Chairman, CEO

Amy, I will answer the question on OTC, because it is really an acquisition question, asked in a very elegant way; my compliments for that (laughter). But you will understand that we don't want to comment on specific situations, other than that I would say that OTC is an important business for us, and we have this ambitious goal that we want to be number one. That hasn't changed.

For that we need, of course, significant organic growth, but also some bolt-on acquisitions. And really our ambition overall in that area has not changed by the announcement of Novartis and GSK this week. So that is something that is still on our list to do things.

And then, Patrick, polyurethane capacity of BASF?

Patrick Thomas - Bayer AG - CEO Bayer MaterialScience



Yes, I mean I am not the expert on this at all. You should ask BASF, really.

But according to the trades press, I think the TDI facility in Europe has been delayed a little bit; I think that is due in 2015. And certainly the MDI capacity in China at Chingqing has been delayed by a certain amount. And I think if you check on Kurt Bock's comments on his last conference call, he gave some color around their timing and the delays.

And in terms of supply and demand, there is still a good growth rate persisting in TDI. Historically it is a 3% to 4% growth market. It has been much higher than that: in 2012 the market grew 6.3%; in 2013, it was about 5%.

This year, already in the first quarter, we have seen strong growth. So I think the catch-up on the demand side is quite fast, and I think there is still safe rationalization on the supply side.

Amy Walker - Morgan Stanley - Analyst

Thanks. Patrick, just a very quick follow-up on that, if I may, coming back to Sachin's point about you doing 13% underlying margin this quarter. If we are nowhere close to the top of the operating range for the industry yet, could you annualize at that kind of level again?

I think you have been there in the past. But is that something that is conceivably within reach now, do you think?

Patrick Thomas - Bayer AG - CEO Bayer MaterialScience

I think we already struggle to make one-quarter forecast in Materials (laughter). As you know, to start stretching to long-term EBITDA forecasts, of course we aim for those sort of levels in the long term.

But I think if you were looking at the guidance we have given for the second quarter, which is where I would rather focus, because that is already quite tricky for me, there is around about EUR50 million of costs that we are going to have to take in the second quarter, which comes from two places. One is round about half of that from the turnarounds that we are having to do; these are the statutory, legally required maintenance.

And the second is fixed costs coming back out of stock, because we have been building quite a lot of stock ahead of those turnarounds. So that is roughly giving you the reasons for the guidance that we have given for second quarter.

Amy Walker - Morgan Stanley - Analyst

That's okay. Thanks.

Operator

Ronald Koehler.

Ronald Koehler - MainFirst Bank - Analyst

Yes, hello. It's Ronald Koehler from MainFirst. The first question is actually on Stivarga. It is down 8% quarter-on-quarter. That just was -- thinking it is not plateauing or had you any kind of stocking effect? Or could you a little bit elaborate on the quarter-by-quarter development of the further outlook for Stivarga?

Second question, Bayer CropScience pricing, 1.6% up in Q1. Is it a rate you would expect for the full year, or will it ease during the next quarters? Any kind of outlook on the pricing would be helpful.

Last question, a financial question. Algeta acquisition, have you any view on the amortization you will now face for the next quarters? Have you already something booked in Q1? So I doubt it; but just a bit on the additional amortization for intangibles driven by that acquisition. Thank you.



Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. Thanks, Ronald. So Stivarga, Olivier?

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

Yes. So you have seen the Stivarga sales declines, mainly coming from the US and by 11%. And it is mainly because of temporary decrease in detailing activity we think, which has been very much connected to the termination of the copromotion agreements we had with Onyx, in the context of course of the acquisition of Onyx by Amgen.

So now, since beginning of the month of April, we are now fully assuming the US responsibility for the promotion of Stivarga in the US, and we have expanded our field force. So we think that situation will correct over time.

Overall, we think the early launch phase was actually very well executed, not only initially in the US but also in what we are seeing in the US, Japan, and Europe, especially when you compare the ramp-up with the other oncology technologies indicated in third-line or second- and third-line, such as Zaltrap or Vectibix. So we feel very comfortable and confident that we are going to hit our numbers with Stivarga.

We have penetrated the easiest part of the market in the US initially, for the most severe patient. Now we have to enter the academic centers in the US. And as you probably know, the development of Stivarga did not rely so much on the academic center in the US and, therefore, we have a little bit of work to do there. But over time we will definitely be there.

Marijn Dekkers - Bayer AG - Chairman, CEO

Good. Thank you, Olivier. Then, Liam, pricing in CropScience.

Liam Condon - Bayer AG - CEO Bayer CropScience

Yes, thanks, Ron. Let me give you a bit of flavor on the pricing between Crop Protection and Seeds, and how it's broken down geographically. So basically we have a mix, pricing gains both in Crop Protection and in Seeds.

Geographically so far in Crop Protection we have taken good pricing in EMEA and in Asia Pacific. And in North America we are flat, simply because the season hasn't really started.

And in Latin America the season is more or less over. So later on in the year we would expect here, of course, to see some pricing impact as the new season picks up and feeds basically across all geographies.

We are seeing a positive price development. So we have guided for the year by saying that we expect positive pricing, but it will be below the level of last year. Last year was 2.6%. So with the 1.6%, I would hope that we can maintain this type of pace throughout the year.

Marijn Dekkers - Bayer AG - Chairman, CEO

All right; thanks. And then Werner, can you talk about amortization of Algeta?

Werner Baumann - Bayer AG - CFO

Yes, Ronald, you have to take these numbers on the [con] because our purchase price allocation is not completely finalized yet. But you should calculate it somewhere in the area of magnitude around EUR25 million per quarter. That is the rough number you can work with in your model.

Ronald Koehler - MainFirst Bank - Analyst



Okay. Thank you.

Operator

Christian Faitz.

Christian Faitz - Macquarie Research - Analyst

Yes, thanks. Christian Faitz from Macquarie. Thanks for taking my question. Two questions, actually.

First of all, Crop Protection. Can you please share with us the growth pattern of your nonselective herbicides in the US in Q1?

And would you believe that the current drought pattern we see in Europe, except for the rain from last weekend, is impacting your business in Q2? Is there any chance that could be the case?

And then MaterialScience, it was pleasing to see that the automotive sector seems to have driven demand in Q1. Can you talk through the current demand situation and to other key industries for you, furniture and building and construction? Thanks.

Marijn Dekkers - Bayer AG - Chairman, CEO

All right. Liam?

Liam Condon - Bayer AG - CEO Bayer CropScience

Yes, so nonselective herbicides in the US were basically flat, so 1% growth, which is clearly held back simply by the lack of planting in the US. We believe that this -- let's say we are hoping that this is simply a delayed season and in the second quarter that we will pick this up again.

And as I mentioned earlier, our fallback position is if it doesn't pickup we are hoping for an additional spray in Europe because of the good weather at the moment. And the situation is we're basically flat, as is the entire market in the US with herbicides at the moment.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. And then MaterialScience, the other two industries?

Patrick Thomas - Bayer AG - CEO Bayer MaterialScience

Yes, Christian, if I look at the industry basic growth rate, then construction I would say is growing at around about 1 percentage point more in 2014 than the year before; so up to about 4%. But what, as you know, is always important is to look at what the relevant market is growing at.

So if you take construction, 4% growth, insulation within that is growing at 6%; polyurethane insulation within that is growing at 9%. So we are seeing a very, very strong insulation growth rate coming out of the construction sector.

Continued recovery certainly there, and pretty robust investment still going on in Asia and North America. Europe much slower.

If we take the furniture industry, there is a lot of regional variation, but the picture is rather similar to construction. There has been some slight increase in Europe, continued recovery in North America, and Asia is fairly stable. So the industry growth rate is around about 4%.

But rather as I have said, the relevant market is much higher. Asia with the TDI furniture industry is growing at around about 6% at the moment. So the relevant market is still quite strong, and that has been a lot of the growth that we have seen in China.



Christian Faitz - Macquarie Research - Analyst

Okay, great. Thanks.

Operator

Fabian Wenner.

Fabian Wenner - Kepler Chevreux - Analyst

Good afternoon. It's Fabian Wenner from Kepler Cheuvreux. Thanks. Two quick questions to Marijn.

Firstly, I would be keen to understand and maybe you could remind us who decides and how do you decide about deals of size within the organization? And to what extent is the Supervisory Board involved?

And the second question is more about -- let's assume you were approached by a bidder for MaterialScience. At what valuation would you feel it worthwhile to notify shareholders about it? Thank you.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. First of all, how do we work with the Supervisory Board? They have to approve every acquisition or divestiture of any significant size. And significant size (inaudible) million. So really everything we do goes to the Supervisory Board for approval.

And then, your second question, I have never given that question any thought and don't have the answer to it, quite honestly. But when it would come, then we will think about it and let you know, if that is okay.

Fabian Wenner - Kepler Chevreux - Analyst

Okay. And just maybe in terms of relative to invested capital, what kind of premium you think. And basically that means you have not been approached, otherwise you would have notified shareholders. Is that -- can we infer that?

Marijn Dekkers - Bayer AG - Chairman, CEO

First of all, my understanding is that normally things get announced when they have been decided by a company; and that pre-announcements of offers that are received or offers that are made before a decision has taken place for a transaction -- I have never really actually seen that done. So normally, things get decided when they are decided and then they get announced, and not the other way around.

So I don't really, therefore, understand the question, quite honestly.

Fabian Wenner - Kepler Chevreux - Analyst

Okay. Thank you much.

Operator

Michael Leuchten.



Michael Leuchten - Barclays Capital - Analyst

Thank you. It's Michael Leuchten from Barclays. Just going back to Kogenate, if I could. Given the comment about your guidance, Biogen Idec decided to price their hemophilia B asset flat for annual treatment costs, which seems to me that when they are thinking about the hemophilia A asset they are thinking about market share as opposed to premium pricing.

So for Kogenate, in your thinking about the product, what is your pricing assumptions going forward? Do you assume there will be stable pricing in this market for the short-acting agents? Do you think you will have to concede some that you make up with the longer-acting agent? Just how do you think about the pricing dynamics in general?

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

Okay. Good question, but I may not have the answer, because we have not actually decided yet. As you know, we are launching in 2016, so we are going to observe what is happening on the marketplace probably before deciding on our pricing. And therefore I can't make any forecast here about how the market is going to play for the long-acting.

Michael Leuchten - Barclays Capital - Analyst

Thank you.

Operator

Richard Vosser.

Richard Vosser - JPMorgan - Analyst

Hi, it's Richard Vosser from JPMorgan. A couple of questions, please. First question, just on the upcoming Nexavar studies in breast cancer. Have you got any more detailed timelines on when we can expect those?

Secondly, in light of the LCZ news in heart failure at your competitor, Novartis, just how does that impact your program around the MR antagonists? Does it mean that that program is accelerating, or how should we think about that?

And then finally, a couple of questions. One on MaterialScience, and I apologize if this has already been asked. But how should we think about the raw material cost inflation impacting for the second and third quarters for MaterialScience?

And then on CropScience, it sounded like with the continued strong Latin American growth that the visibility on CropScience might have improved into the second half. Just how you think about that relative to your guidance for that division; and whether that is true, that visibility is getting better into the second half for that business. Thanks very much.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay, Richard, we were worried about you, but it is good to hear you are on the phone. Upcoming Nexavar breast trial?

Olivier Brandicourt - Bayer AG - CEO Bayer HealthCare

Yes. So you are referring to the RESILIENCE study in breast cancer combination with capecitabine. Actually, we are planning to report the result later this year. The primary completion for final data collection is planned for the third quarter 2014. So, that I think is your question on Nexavar.



Your question on the Novartis products, the LCZ in CHF. We have seen the data last month, and they are important data to take into account while we are designing the future Phase III program for finerenone in -- what was in CHF. So we don't have the full understanding of the data; they are going to be published in the meantime.

We are not going to start that Phase III before, as we communicated recently, mid-2015. So we will have all the elements we need in order to incorporate those very important results in our (inaudible) profile. But we still see a lot of value of the HTC platform in that indication.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay, thank you. Raw material costs, Patrick?

Patrick Thomas - Bayer AG - CEO Bayer MaterialScience

Yes. If I just look at it year-on-year there was about a positive EUR100 million impact; sequentially quarter four to quarter one, about a EUR50 million impact.

If I look at quarter two, I expect to see some slightly higher raw material costs flowing through. If I look at the full year, full-year 2014 will be less than full-year 2013 by a small amount in terms of total raw material costs.

Marijn Dekkers - Bayer AG - Chairman, CEO

Okay. And then CropScience visibility for the second half, particularly with respect to Latin America, Liam?

Liam Condon - Bayer AG - CEO Bayer CropScience

Yes, it is still too early to make the call. The only thing what we are clear on so far is that Europe is going to have a very strong season because of the early start.

Where we don't yet have the visibility was very crucial going forward is the full extent of the yield in LatAm. So what are the final yields actually going to be? Because that will have the influence then, commodity pricing and planting decisions going forward.

And where we don't have any visibility or not enough visibility is on when exactly, how much, and what will be planted in the US. So that is two huge variables at the moment, which will have the impact the second half of the year. And until that is clear, we wouldn't change our guidance, so as of today we stick very clearly to the guidance that we have given.

Richard Vosser - JPMorgan - Analyst

Thank you very much.

Operator

Excuse me, Mr. Rosar, there are no further questions at this time. Please continue with any other points you wish to raise.

Alexander Rosar - Bayer AG - Head of IR

Yes, ladies and gentlemen, also on behalf of my colleagues, we all like to thank you for being with us on the call and for your questions. We are now saying goodbye and all hope to meet you soon again.

Operator



Ladies and gentlemen, this concludes the first-quarter 2014 results investor analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.



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Page 2 - OctFY 2014 Investor Conference Call - Marijn Dekkers

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