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PRESENTATION

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

So, good morning, everybody. I'd like to welcome also on behalf of the entire management team to our meanwhile third meet management conference here in New York. My name is Alexander Rosar, I'm responsible for Bayer's investor relations program.

So about today I have prepared for you. Firstly, two presentations, the first one by Marijn, our CEO, with a brief summary on recent development of [our key] targets and our mid-term aspirations.

After him, Erica Mann, she is heading our consumer care business, will outline -- briefly outline, again, let's say our consumer care strategy, following the announced acquisition of Merck's OTC business.

And with that, one last point I have to mention, please be aware that during the entire conference, we will make forward-looking statements, so we kindly request that you carefully read through this statement. (See "Disclaimer" chart at the end of this transcript).
And with that, I'd like to ask Marijn to take the floor.

Marijn Dekkers *- Bayer AG Leverkusen - CEO*

Yes, good morning, ladies and gentlemen. Welcome to the meet management day of Bayer here in New York. Sorry we cannot provide you with any better weather, but I've been told this is a great opportunity for our crop science business to get some extra fungi growing, so we're not complaining.

I am going, as Alexander says, to give a relatively quick overview of some of the charts that are in the beginning of your handout, just to make a few points reminders of what it is we're working on, and what it is we're saying at the moment. And then Erica Mann will go into some specific detail about the Merck OTC acquisition.

So first of all, just a quick look back over the last 4 years, and you see here our sales and adjusted EBITDA and core EPS development over the last 4 years with organic sales growth, 5% on average CAGR, adjusted EBITDA 6%, and core EPS 10%.

And it's a track record that we feel really quite good about, and positions us well also for significant improvements in the next years. So I am going back here, one second. You have seen the results in the first quarter.

They were, I thought, specifically very strong across the board, all 3 subgroups had a positive development in organic sales and in profits, and you see here overall sales for the company in the first quarter were 8% growth organically, adjusted EBITDA 12%, and core EPS 15%.

And even though it's of course only one quarter, we feel good about the start, and it led us to say back in April that we are maintaining our guidance for the full year, and I think it's important to say here, this is in spite of significant foreign exchange headwind that we continue to experience.

So a little bit of deep dive quickly on pharma. Our goal is to have top line 8% CAGR over the next years in pharma, really by maximizing the value of the launch products that have come out in the last number of years.

And when we sort of look back at the last years, and we look at the success that we've had in our phase III clinical trials since 2010, it's really a remarkable story with 24 successful clinical trials in the last 4 years.

And we've made a little bit of a summary here, Xarelto, Eylea, Stivarga, Xofigo, Adempas, but also Nexavar and thyroid cancer, and then the new PEGylated Factor VIII, which also showed very, very nice results in a phase III trial.

So we feel very good about this momentum, and obviously these products have also been in the process of being introduced over the last few years, and you can see here in 2013 of the 5 products you see on the right, Xarelto, Eylea, Stivarga, Xofigo and Adempas, we had EUR1.5 billion of sales in 2013.

And what's also interesting to see at the top of those bars, organic growth and pharma, from 2010 to 2011 it was 1%, and then the acceleration starts, 4%, and then 9% last year, clearly driven by those launch products.

So that was EUR1.5 billion last year, and then we have a current estimate of EUR2.8 billion of those 5 products for the full year this year, where in Q1 we've made quite a good start as you can see at the bottom of that 2014 bar.

What is important to mention is that introducing all these products, and doing life cycle management, so new phase III trials on these products, actually it's quite expensive. We have just in 2014, 100 launch -- more than 100 launch events for these 5 products in different countries over different indications.

And we continue to invest significantly in life cycle management to identify other opportunities for indications for these products. And this doesn't come for free, but we think that this money is very, very wisely spent by us, and this is why we are doing that.

Now we updated back in February our expectation of big sales potential for these products. Before we had said EUR5.5 billion in total, but you can see here at the top of the page, Xarelto and Eylea both increased, Xarelto from more than EUR2 billion to more than EUR3.5 billion, and Eylea from more than EUR1 billion to more than EUR1.5 billion.

So that gets us now to that gets us to know a big sales potential of more than EUR 7.5 billion for these 5 products. Now in addition to that, we have completed two significant steps in 2014 to make our pharma position stronger.

You've all seen these steps, but just to remind you, one is the acquisition of Algeta, and Algeta was our Xofigo partner, and as a result of now this acquisition, a EUR2 billion, we have full control over this -- what we think very promising therapy.

And then recently, in the context of also the consumer care, OTC acquisition of Merck, we initiated a strategic collaboration with Merck in SGC, cardiovascular medication, of which Adempas is a part, and where Merck and Bayer will combine their capabilities, both in R&D and commercial capabilities, to build out this SGC franchise.

Now the guidance on pharma has not changed. For this year you can see, we expect high single-digit organic growth, low- to mid-single digit adjusted EBITDA, and a margin level with the prior year, around 31%, then our aspiration for 2016 is to get the margin to at, or higher, than 33%.

Then OTC, and as I said, Erica will talk more about it, but just quickly a reminder of what we've accomplished in OTC, you see at the top of these bars really respectable organic revenue growth numbers, 7%, 6%, 5% is really very good performance of our business.

And also disciplined performance this track record gave us the confidence to make this very significant, to do this very significant acquisition. We're essentially focusing on two things. We have very good brands, but typically they are very good brands in a limited number of countries. They're not globally everywhere so well-positioned.

So that is one focus to get these very strong brands in more countries, and then specifically in China, Brazil, and Russia, where there is a lot of untapped growth. We've done some smaller acquisitions, Steigerwald, Dihon, and China. Dihon is still in process, and then the big one with Merck.

And that combination of Bayer and Merck gets us after GSK/Novartis joint venture announcement, to the number 2 position, and I have to say, we say we want to be the leader in OTC, and that is absolutely true. This is an aspirational goal.

It's sort of harder when other people get together to with one move, become the leader. And of course it's not just about being number 1 or number 2, but our aspiration is really to be a very, very significant global player in the OTC business, and we're well on our way to accomplishing that.

The numbers on it, we've said by the third year, 2017, EUR400 million of revenue synergies, EUR200 million of cost synergies. These revenue synergies will continue beyond 2017, but we picked the third year as a good benchmark to give you guidance on that. Of course we'll have tax benefits from day one since it's an asset deal.

And then we believe that we can improve our EBITDA margins and consumer care as a result of this acquisition by 1 basis point and core EPS for the total company 2% accretive in the first year.

Just want to say that overall for consumer health and therefore overall for healthcare, once we have completed the acquisition, we'll do an update of our goals and ambitions for the next 3 years.

So I showed you the pharma numbers, but I'm not showing you the total healthcare numbers, because we will update that once we have gone through the integration process, and we've closed on Merck.

So we're proud of the progress in healthcare, we're also very proud of the progress we've made in crop science, and let me show you why I say that. Here you see sales development from 2010 to 2013, EUR6.8 billion of sales, 19% margin in 2010, and last year, EUR8.8 billion and 25.5% margin.

And look at these top line numbers there, plus 9%, plus 12% and plus 9% top line organic growth in crop science, and in 3 fantastic years that we've had. Now obviously the market has been good for us, but we've also really picked up significant competitive momentum.

And this is, I think, a very, very important aspect in crop science, where we've always had very, very good products but our marketing and sales were not as good as our products, if I can say it that way, and that has changed significantly.

We have a very customer-centric strategy introduced in the last years, and that is really bearing fruit, and that's why we believe that this top line has developed so well. We're also off in the first quarter to a good start in crop science again a lot of success in crop sciences just like pharma driven by new products.

And I don't want to go into too many details but I think this is definitely a good topic also for the breakout, so where new products in crop protection are really driving very significant growth and over the next number of years.

Beyond what you call chemical crop protection which is basically molecules that we synthesize in a chemical way and spreading those out over crops, we have two areas that are focused where we have a less significant position today, but where we really want to grow, and that is seeds and biological crop protection.

And in seeds, we have a very significant number of R&D projects going on, in cotton and oil seeds, but also to develop a much stronger position in soybean and wheat. And then we have done some selective acquisitions in seeds to strengthen our position, particularly in Latin America.

And biologics, biologics is basically instead of traditional chemical crop protection, it's basically molecules that are produced by bacteria or by biological means, and also there we've done a number of acquisitions like Agraquest, Prophyta, and Biagro, and have built up a nice position, but also our largest product in that area, Poncho/Votivo, was also EUR150 million of sales in 2013.

Now in crop science, we're basically saying we think we can grow 6% on average top line CAGR over the next few years, and you see here adjusted EBITDA margin 24% to 25%. And you say OK, wait a minute, 2013 was already 25%, why aren't you more ambitious?

And the reason is quite simple. We think that this 24% to 25% is really very, very good margins, the best in the industry. And we are driving here, really, a top line growth model at very, very good margins.

Our goal is not to get those margins in the direction of 30%, and as such potentially jeopardize us in our ability to really grow the business and take market share with good new products. So it's a very conscientious decision to say we're happy with the margins where they are, and we're investing in growth for the future.

Material science, we had in the last year, 2013, a tough year in material science, where particularly as a result of high raw material prices, we decreased our EBITDA by around EUR200 million, from EUR1.3 billion to EUR1.1 billion.

The problem with this high raw material prices were that we couldn't pass them on to -- these extra costs to the customers because of price pressure due to overcapacity in some of the product lines that we represent.

Fortunately, the situation is steadily improving when material science had a very good first quarter in 2014. You can see here, on the earnings side, adjusted EBITDA went from EUR204 million to EUR366 million, 79% improvement.

That's not going to happen every quarter in 2014, but it is a very good start, and we see a situation of somewhat more favorable raw material prices for us, and also a little bit more ability to pass on these extra costs in prices to our customers.

In the end of course, the goal is to improve the returns, get better asset utilization, we're driving a lot of efficiency programs and material science that we'll talk about in the breakouts as well, and we're very optimistic that we will relatively soon get to the point again where the cash flow return on investment is clearly better than our WACC in material science.

So with that, just quickly, we feel good about our track record, 10% CAGR in EPS. We intend to keep going and continue to perform. Of course the pharma products with new big sales potential target of more than EUR7.5 billion plays significant contribution there.

Also our OTC growth strategy we're very excited about, and in that context I would like to ask Erica to tell us a little bit more about the Merck acquisition. Erica?

Erica Mann *- Bayer AG Leverkusen - Head - Consumer Care*

Thank you, Marijn. I have to admit it's really fantastic to be here this morning, and to talk about a strategic plan that is coming to fruition. I'm very excited about sharing this with you.

I'll start off first by talking about Bayer's long history in the consumer care world. It started way back in 1899 with the introduction of aspirin as an OTC product, and subsequently we've had a number of key milestones, more particularly back in 2005, with the [Russia] acquisition, and then a mega year in 2014, hopefully, with the close of both Dihon as well as the Merck acquisition.

Now I think if you look at this business, and you assess it over the years, you'll see that we have had a consistent track record of performing against our targets. And this is based on a really good strategy that is being implemented.

And the strategy centers around maximizing our growth potential around our brands, making them truly global. It also means exploiting our innovation pipeline. Consumers demand and expect innovation around these products, so very important.

Growing where the markets are growing, and if you heard me talk about this in the past, 50% of the OTC growth is coming from 3 markets, Brazil, Russia, and China. So it's really important that establish a good footprint there. And then of course strategic acquisitions like the one that we'll talk about today.

When I talk about the Merck acquisition, we started talking about this as a really good fit for our business back in 2011 already. And the reason for that is that it's a highly complementary portfolio.

If you look at this, it gives us scale and scope not ony in the United States, but certainly in key categories as well. On top of that, it allows us to build on top of our core competencies. So we have a strong record for growing, we have a good geographical presence now, and we have certainly good skill sets in integrating businesses over the last few years, and we can build on that.

And if you look at the acquisition criteria, I think we fully fulfilled those. So first of all, it gives us good size and scope in the categories and countries where we need to go to. It gives us an improved margin, and is also immediately accretive on an EPS perspective.

This is what excites me most, when you look at how these two businesses fit together. And if you look at categories, you can see what it does for us in the cough and cold area. I remember being on the job about 2 days, and meeting a number of you in Leverkusen, and somebody saying to me what are you doing, Erica, about cough and cold?

Well at that point I wasn't able to answer that question, but today I am. And so we now are playing really significantly in the single largest category in our space. And you can see the addition there. Also, other categories are nicely filled out, and we take leadership positions in 5 of these categories, and 5 categories is where you need to be in the OTC space.

From a regional perspective, you can see that we double up in North America, and again, scale and scope, and I'll talk a little bit later about that, is really critical in terms of your presence with retailers. And you can see also it adds significantly to Latin America where we'll become a number one player and improves our position in Asia-Pacific quite significantly.

Now, our top 10 brands changes with the addition of the Merck business. Claritin becomes our second largest brand, and you'll see that both Coppertone and Dr. Scholl's are now in the number 8 position and number 6 position respectively, so very important to our overall portfolio.

And as you know, as I've said to you before, in the OTC space EUR100 million brand is really a blockbuster brand, and compares to what you normally talk to in the pharma world of about $1 billion or EUR1 billion brand.

Now our top priority is obviously our focused around a couple of things. First of all, we have to ensure a smooth integration, and we want to do it quickly, and we want to realize our synergies very quickly as well, and we have a clear plan focused around that.

We have to make sure that we use our critical mass in the US, and use that as good as we can, and implement on that very, very aggressively, and make that a big advantage for us, especially with our relationship with regards to retailers.

And then of course we have to very aggressively roll out these brands ex-US, because as you just saw, these brands are highly centered in the United States, in fact 70% of the Merck portfolio has a footprint only in the United States. So the geographical expansion is going to be absolutely key.

And I think we also have a clear plan in place. We're hoping that the deal will close either in the third quarter and fourth quarter, we're waiting for all the regulatory approvals to come in, which we expect should happen shortly.

We hope to have by 2015, the full integration executed very, very well, and then by 2017, you heard Marijn, we start releasing some of the synergies that we have planned in the business case, and I can tell you that, that my team is working incredibly hard towards making this happening as we speak already.

And this is what I spoke about earlier, about scale and scope, and I wanted to give you an example as to why this is so important. And I'm going to use the cough and cold area just to explain some of the thinking behind it.

If you look at Bayer in the cough and cold area in the United States, we were ranked at position number 6 -- 7 prior to this acquisition. If you combine that with the Merck business which has a strong presence in cough and cold, we move up to the number 2 position, and what does this mean in real life?

It means that we have greater opportunity to co-promote and co-position brands at a retailer level, it means that you have better shelving opportunities, it means that you have better merchandising efficiencies, and that you actually can start developing strategic partnerships with these retailers at a much better level than we were ever able to do before.

And that's what I mean by scale and scope, and why that is so important in the OTC world. If you look at the Merck brands, you'll see that again, like I've spoken before, and Marijn also mentioned that, that we have this incredible opportunity to expand these products beyond the United States or North America.

Look at Coppertone, 95% of sales are coming from the US, and look at Claritin, 80% of their turnover happening in the United States. Now remember what I said, 50% of the OTC market growth is coming from outside of the US, so this is where the opportunity lies.

And, to that, you've heard me speak before about our focus on key countries, and let me say -- take a step back. This business plan is centered around 6 key countries, and 5 key brands, 6 countries will generate 85% of our sales, and 5 brands will do 75%.

So we have a very clearly focused implementation strategy. And if you look at China, what we want to do in China is use our existing footprint, we want to use our brand-building capabilities.

We want to revive Claritin and really make it that much more successful in China, and we can, we have 1,700 people compared to the 300-[odd] people that Merck have in China, so our ability to execute is that much greater.

And we also want to build on the sun care category. We know that fair skin is really a key need within the Chinese population, so we see a big opportunity there. If I go to Brazil, again, we'll use our core capabilities in terms of channel expansion, and also brand-building.

And yes, if you look at the sun care market, Brazil is the second largest sun care market in the world, and this is an enormous opportunity for us to build and expand the Coppertone franchise, but also to expand Claritin and Dr. Scholl's.

And in Russia, I cannot tell you the same story about sun care, because I don't see too many Russians sun tanned that often, so our focus in Russia is going to be on the cough and cold category, because yes, it is a third of the market.

We have hardly any footprint in the cough and cold category, and we have a unique opportunity, again, to use our brand-building capabilities and our in-store execution to drive Claritin and Afrin to much greater success.

And with that, I'm sure you can see that we have a really good position for growth, and that this OTC market is a market that is exciting. It does generate consistent growth, and it allows you to build equity in brands that last a lifetime.

We have a really strong position, we have really access to fantastic brands, and we have a record for having outperformed the market. Now our future plans I think are clearly articulated, and we are ready to execute against those.

And so we'll really work hard on establishing these brands outside of the US, we'll work hard on bringing innovation to the market, and we'll focus on those markets where growth really matters. And we will continue to look for strategic assets that fit well, either in a category, or in a region.

And with that, I hope you will be as excited as I am about what is happening in the OTC space, and it's a story that is unfolding and a very, very exciting, and I look forward to answering your questions later today.

And I'll hand back to Alexander.

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

Thank you, Erica, Marijn.

I'd say we meet again in the breakouts, if you turn, yes, your face, if you can see that say our assistants are guiding to - you to the respective room.

And I'd say we meet in five, seven, eight minutes, yes? See you.

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