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# EDITED TRANSCRIPT

BAYN.DE - Q3 2014 Bayer AG Earnings Call

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**OVERVIEW:**

Co. reported 3Q14 currency and portfolio adjusted Group sales of EUR10.2b and core EPS of EUR1.35.



## CORPORATE PARTICIPANTS

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**Marijn Dekkers** *Bayer AG - CEO*

**Werner Baumann** *Bayer AG - Chief Strategy and Portfolio Officer*

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

**Olivier Brandicourt** *Bayer AG - Chairman, Bayer HealthCare*

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

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

**Andrew Baum** *Citi - Analyst*

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

**Joe Dewhurst** *UBS - Analyst*

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**Ronald Kohler** *MainFirst - 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 third quarter 2014 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, Clio. Ladies and gentlemen, good afternoon; and welcome, also on behalf of my colleagues, to our conference call.

Today, we'd like to review our third-quarter figures with you. With me on the call are Marijn Dekkers, our CEO; and Werner Baumann; and Johannes Dietsch. Werner is our Chief Strategy and Portfolio Officer and was responsible as CFO for the third quarter. Johannes Dietsch is our new CFO as of October 1.

HealthCare is represented by Olivier Brandicourt; CropScience by Liam Condon; and MaterialScience by Patrick Thomas.

Marijn will start off with a brief summary of the developments in the quarter. We assume you have all received our briefing documents, the shareholders' newsletter, and we can focus on the main points.

Before handing over to Marijn, I'd also like to draw your attention to the safe harbor [wording] statement. (*See "Disclaimer" chart at the end of this transcript*).

Thank you. Marijn?

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### Marijn Dekkers - Bayer AG - CEO



Yes, thanks, Alexander. Ladies and gentlemen, good afternoon.

It's my pleasure to speak with you about our third quarter; a quarter during which we made good operational and important strategic progress.

Operationally, we saw positive business momentum in all our sub-groups, in particular in our pharma business and CropScience, which posted double-digit sales increase.

The strong underlying operational performance is only partly visible in our third-quarter earnings, as negative currency effects absorbed around EUR80 million of adjusted EBITDA.

We achieved significant strategic progress with the decision to float MaterialScience on the stock market; with the closing of the acquisition of Merck's consumer care business; and with the divestiture of our interventional business.

Against this background, and based on our expectations for the remainder of the year, we are raising our Group full-year earnings' guidance.

So let me now elaborate on some key figures for the third quarter. The sales data I will refer to are adjusted for currency and portfolio effects. Group sales advanced by 7% to EUR10.2 billion. As already mentioned, all sub-groups contributed to this increase.

Reported EBIT rose by 13% to EUR1.4 billion. There was net special income of EUR45 million in the current quarter versus charges of EUR99 million in the prior-year period.

Adjusted EBITDA increased by 1% to EUR2 billion in the third quarter. Adding back the negative currency effect of around EUR80 million would give a 6% increase in adjusted EBITDA, which demonstrates the operational strength of our business in the quarter.

We invested an additional EUR90 million in R&D and EUR90 million in marketing and selling, in particular at pharma and in CropScience.

Core earnings per share amounted to EUR1.35, which is an increase of 6% compared with the prior-year quarter.

From a regional perspective, we generated 41% of our Q3 sales in the emerging markets. Sales growth in these countries was, again, in the double-digit range, up by 12%.

Latin America showed the highest growth rate, with sales up 15%. Sales in Eastern Europe advanced by 12% and in emerging Asia, by 11%, with all sub-groups contributing in these regions.

In the US, business advanced 8%, mainly driven by CropScience and pharma.

Gross cash flow moved ahead by 9% in the quarter and net cash flow increased by 5% to EUR1.8 billion. With capital expenditures of EUR564 million (sic - see slide 6, "EUR546 million"), the operating free cash flow came in at EUR1.3 billion.

Net financial debt decreased from EUR9.9 billion at the end of June to EUR8.5 billion at the end of Q3.

Let's now move on to the performance of our sub-groups, beginning with HealthCare. Sales of the HealthCare subgroup increased by 7% in the third quarter to EUR5.0 billion.

Adjusted EBITDA came in at EUR1.4 billion, an improvement of 1% over the prior-year quarter, or up 6% if adjusted for the negative currency effect of around EUR70 million.

The improvements of HealthCare were mainly driven by the excellent business development at pharma and the strong performance of consumer care. However, earnings were diminished by higher marketing and selling expenses; higher research and development spending at pharma; and the already-mentioned negative currency effects.

At pharma we generated an impressive 10% sales growth, to EUR3.0 billion. This growth was in particular, driven by the Xarelto and Eylea.

The Xarelto continued to build on its position as the globally leading [novel] oral anticoagulant. Sales advanced by more than 70%, to EUR440 million in the quarter.



Eylea sales more than doubled compared with the prior year quarter. In September we launched Eylea in mCNV in Japan, and in DME in the first European countries.

Stivarga sales were down by 10%, due to accrual of provisions for rebates in France, where we remain in discussions with the authorities on the mutually acceptable conditions for reimbursement.

The launch of Adempas has progressed well, with sales of EUR26 million delivered in the quarter.

Xofigo also contributed to this sales growth at pharma. We reported for Xofigo, EUR49 million in revenue, in the quarter.

Unfortunately, at the moment we are facing a Xofigo shortage, due to a production issue. After identification of the root cause, Bayer has, in consultation with the relevant health authorities, implemented a program of corrective and preventive measures, in order to restore quality of product and resume patient supply, as quickly as possible.

Collectively, our recently-launched pharma products posted total sales of more than EUR2.1 billion, during the first nine months. We are thus able to reiterate our full-year guidance of around EUR2.8 billion in combined sales in 2014.

The performance of our established pharma products was mixed in the quarter. On the positive side, Mirena recorded sales gains of 27%, maybe as a result of volume increases in the US.

Sales of Aspirin Cardio rose by 13% and sales of Adalat by 7%, both products benefiting from volume increases in China.

On the negative side, Kogenate sales declined by 6%. We continue to experience capacity constraints caused by the utilization of existing manufacturing capacity, for the development of our next generation hemophilia products.

Sales of Betaferon receded by 12% and of the YAZ family by 3%.

Adjusted EBITDA of pharma showed a 5% improvement over the prior year quarter, but 13% when adjusted for the negative currency effect, of approximately EUR70 million, in the quarter.

Earnings growth was diminished by our announced step-up in sales and marketing activities, by higher R&D expenses and by the negative currency effect, already mentioned.

Now let's move on to our consumer health business, which improved revenues by 2% in the third quarter, of EUR1.9 billion.

Sales in our consumer care division rose by 6%. Our skin care product, Bepanthen, registered strong double-digit growth, especially in emerging markets. The launch of our next generation aspirin tablets in Germany and Italy, has put aspirin sales up by 6%.

Following the closing of the Merck consumer care acquisition on October 1, the integration process is off to a good start with a decision on appointments to the top two management level. Our goal is to combine the best people and capabilities of both organizations.

For the fourth quarter, we expect the business to contribute EUR300 million to EUR350 million of sales, and around EUR70 million of adjusted EBITDA.

Moving onto medical care, sales of the division receded by 4% in Q3. The diabetes care business continued to be hampered by reimbursement pressure, and price declines in the US and lower demand in Germany.

Sales in the animal health division rose by a solid 4%. Both our Advantage and Seresto product lines showed a gratifying sales development.

Adjusted EBITDA of our consumer health business declined by 7%, mainly as a result of higher marketing and selling expenses, as well as the weak top-line development in our medical care business.

So now let's turn to CropScience, the third-quarter development in CropScience, which benefited from a continued strong performance in North America and an early start to the season in Latin America.



Sales in the CropScience sub-group increased by an impressive 15% to EUR1.9 billion in the quarter. The crop protection business posted sales growth of 12%. We performed especially well in our fungicides and herbicide segment, both achieving double-digit growth rate.

Our insecticides and seed growth businesses showed continued growth with advancement of 9% and 4% respectively.

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 29% nominally, to EUR380 million in the quarter, and thus made a substantial contribution to the positive sales development.

The seeds business almost doubled, largely driven by canola and cotton seeds. We also saw a good contribution from rice, soya bean and vegetable seeds.

Then revenues of the environmental science business increased by 8% in the quarter, with higher sales in both the professional and the consumer business.

Adjusted EBITDA of CropScience increased by 24%, to EUR278 million, following the strong sales development in the quarter, and including around EUR25 million from insurance reimbursement.

The strong business growth with higher volumes and prices, overcompensated higher R&D and marketing costs, as well as negative FX effect in CropScience.

Now let's move on to MaterialScience. Sales of MaterialScience rose by 5% in the third quarter, to EUR3.0 billion, mainly driven by the polyurethanes and the polycarbonates business. This growth was the result of higher volumes in almost all regions, except Europe. Selling prices overall, were slightly below the prior-year quarter.

Adjusted EBITDA of MaterialScience declined by 3%, to EUR334 million. The prior-year quarter was possibly impacted by a EUR17 million gain from a business disposal.

In this quarter, increased volumes, a slight tailwind from raw material prices, and the success of our efficiency measures, supported earnings development. Nevertheless, earnings were hampered by lower selling prices and negative currency effects.

We believe that our MaterialScience business is fully on track for an improved performance in 2014, and capable of creating value as a separate company in the future.

The preparations for the legal separation from the Bayer Group are running at full speed. The project teams have been identified, and are proceeding with their respective work stream. We will keep you posted on the progress of this project.

So now on guidance. Let's look at our 2014 guidance. We have updated the underlying exchange-rate assumptions, and are now using MQ3 rates, allowing for expected negative currency effects of about EUR450 million on the adjusted EBITDA level.

As mentioned before, the updated guidance reflects the Merck consumer care business, with EUR300 million to EUR350 million of sales; and an adjusted EBITDA of around EUR70 million for the fourth quarter.

We confirm our expectation of growing Group sales organically by about 6%. We are more optimistic about the expected EBITDA performance, and are now planning to increase adjusted EBITDA by a mid-single-digit percentage.

We now aim to increase core earnings per share by a mid-to-high, single-digit percentage, versus mid-single-digit percentage increase previously.

Following the gratifying performance of the first nine months, we are adjusting our guidances for healthcare and CropScience as follows:

For healthcare we now expect a sales level of around EUR20 billion for 2014; and a low single-digit percentage increase in adjusted EBITDA.

We confirm our pharma sales guidance of around 10% organic growth, and are raising our earnings guidance.

We now expect to improve adjusted EBITDA by a mid-single-digit percentage. The EBITDA margin before special items in pharma is expected to come out at -- expected to come in at around prior-year level.

Additional marketing and R&D expenditures totaling about EUR0.5 billion are expected for 2014.



Then for consumer health we continue to target low single-digit organic sales growth, but are raising our adjusted EBITDA guidance, and expect underlying EBITDA now on the prior-year level, up from an expected performance below prior-year level previously.

For CropScience we're raising our top-line guidance to now around 10% organic sales growth, up from high single-digit increase previously; and now expect adjusted EBITDA up by a mid-single-digit percentage.

After an early start to the season in Latin America, we expect sales and earnings development during the fourth quarter consistent with the annual guidance.

For MaterialScience we expect a slight increase in sales in Q4; and EBITDA before special items to come in at prior-year level.

For the full year we thus expect a solid mid-single-digit organic sales growth, and a significant improvement in adjusted EBITDA.

So ladies and gentlemen, overall we are pleased with the first nine months for Bayer, in terms of both strong operational performance and the clear strategic direction we have laid out.

We believe our life sciences businesses are on track to deliver strong organic growth, and we have just started on our way to successfully transforming Bayer into a pure life-science player by 2016.

The MaterialScience business has performed favorably, and we'll start preparing for the planned Stock Market listing.

That concludes my remarks. We will now be happy to take your questions. Thank you.

#### QUESTION AND ANSWER

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#### Operator

(Operator Instructions). Amy Walker.

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#### Amy Walker - Morgan Stanley - Analyst

Morgan Stanley. I have three questions, please. The first one is on consumer health. The implied margin on your Merck OTC Q4 contribution is around 23% at the EBITDA level. Is Q4 a seasonally weak quarter margin-wise for the acquired assets?

And if not, can you help us understand why that implied margin is so much lower than the one that we saw in your press release at the time that the acquisition was announced for 2013, please?

The second question is on CropScience. That business has seen 8% or more volume growth in the last nine -- in nine of the last 11 quarters, which is well above market. Liam, can you help us understand how much of that excess volume growth for you versus the market has been due to, one, your introduction of new products; two, rotation of crops that favor Bayer's crop exposure; and three, perhaps your selling techniques, or other factors?

And then lastly, one on the pharma business. Can you talk about how you're seeing the gross-to-net pricing on some of your older projects, like Kogenate and Betaseron, developing in the US, please? And is the net pricing for these products still increasing in the US market? Thanks very much.

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#### Marijn Dekkers - Bayer AG - CEO

Okay. Thank you, Amy. We'll start with the margin question for Merck OTC, with Werner Baumann.

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#### Werner Baumann - Bayer AG - Chief Strategy and Portfolio Officer

Yes, let me comment maybe a little bit on where we really stand with the closing the beginning of October.



We have taken control of the business. There's a seasonal effect, so you can't really take quarter 4 as a proxy for full year and multiply it by 4.

Secondly, while we have closed and paid the purchase price, we are not really running the business across all jurisdictions. There's a number of so-called transitional service agreements in place, where Merck gives us a hand in running the business on our behalf, as long as some of the prerequisite, such as [final] regulatory approval, and so on, is not fulfilled in some of these markets. We are paying a service premium for that, which is [phased] into the margin you're referring to for quarter 4.

So from our perspective nothing has change in terms of margin profile; profitability; synergy level; and gross potential of the business compared to the announcements we have made in May.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Then Liam, on the market growth in crop.

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

Yes. Thanks, Amy. Let me try and explain a little bit. I think ultimately it comes back to our broad and very innovative portfolio, if you look at where the sources of growth are from us.

So we have a pretty broad portfolio; and also, within categories we tend to have alternatives available. So if you take seed growth as an example, there was an issue with neonics in Europe; a banning of certain products. We have alternatives, so we've been able to grow the business further. This is basically across the board; we have a pretty broad portfolio.

We have also a very innovative portfolio, so the innovative component is growing by 29% in Q3 versus previous year. So this is clearly the big driver for us from a growth point of view, also from an absolute growth point of view.

And of course, with the innovative portfolio we can do a better job on pricing than for older products.

I think we're spread pretty well, geographically. We're growing very strongly in all geographies; a little bit lower in APAC than in LatAm, in North America and in Europe. But APAC is also our smallest- and lowest-margin region.

Related to the commercial skills, which you've alluded to, commercial excellence. I think there you're seeing some -- really, some clear output of our commercial excellence programs, be it on pricing; our ability to take pricing in the market; our ability to pass on inflation in the market; and to get good prices for innovative products. So the 3% now in Q3, we've been carrying that basically for the entire year.

Other elements, segmentation I think we've been -- improved dramatically. So if the season starts early, we're able to take more benefit of that, maybe, than some competitors who haven't got the segmentation down to the same extent as us.

So overall, I would say it's a mix of broad innovative portfolio; good geographical spread; and clearly the focus on commercial excellence.

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**Marijn Dekkers - Bayer AG - CEO**

Good. And then, Olivier, on the more-mature products pricing in the US.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Yes, on established products you mention, Amy, Kogenate and Betaseron. I think no real change on Kogenate.

However, as you remember, we are under price pressure in the US on Betaseron. We have been delisted from a very large [PBM] in the US. So access creates, definitely, pressure on prices, which is not automatically compensated by the price increase we are regularly taking in the US.

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**Amy Walker - Morgan Stanley - Analyst**



Thanks, Olivier. So just to be clear, you're actually seeing negative net pricing on Betaseron, but not Kogenate.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

[That you could] (technical difficulty).

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**Marijn Dekkers - Bayer AG - CEO**

No, I guess -- maybe I can check in here. We -- as Olivier said, there are significant competitive pressure, and we see continuous volume-erosion. But that is partly offset by the regular price increases Olivier mentioned in Betaseron.

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**Amy Walker - Morgan Stanley - Analyst**

Okay. Understood. Thank you.

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**Operator**

Andrew Baum.

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**Andrew Baum - Citi - Analyst**

Citi. A couple of questions. Firstly, Betaseron did rather better than we had anticipated at least during the quarter. Could you talk about whether you have changed any of your defense strategies to slow the erosion and relative success?

Second, you may have touched upon it at the beginning of the call, if so, I missed it. But in relation to Eylea, where the contrast was true again, at least in our forecast, could you talk to the ongoing dynamics in terms of pricing pressure, Avastin and competition as it relates to that product within the European environment?

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**Marijn Dekkers - Bayer AG - CEO**

Thanks, Andrew. Olivier?

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

So on Betaseron, we did slightly better than in previous quarter year on year. You've seen our decline; it was about 12.5%. However, if you look at the nine months' results, we're still right in the guidance which we charged earlier this year, talking about double-digit -- high double-digit decline.

We don't see a major difference in the environment. We have, of course, strengthened our messages around the benefit of Betaseron to our physicians, but we still see a lot of pressure coming from managed care.

And the benefit of BETACONNECT which I described in the past cannot be fully accounted for yet in the US. So that's on Betaseron.

And on Eylea, you've seen that we've been sequentially going down by 3%. However, we did very, very well versus previous quarter. The sales, in general, of EYLEA are subject to new indications. We did get two very important indications, the myopic choroidal neovascularization in Japan where there is a fair amount of prevalence of that disease, as you know. And we got DME in the European Community very recently, and as late as September and August for the DME in Europe.

So the full benefit of those indications are still not there and we are very confident that you're going to see a development of our sales due to those indication in the future.





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**Andrew Baum - Citi - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Andrew. Thank you.

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**Operator**

Jo Walton.

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**Jo Walton - Credit Suisse - Analyst**

Credit Suisse. A few follow-up questions and an agro-chemical one, please, or healthcare.

Firstly, on the healthcare and the Merck consumer business. If we look at the sales that you look to be contributing, it's only about 20% of the full year sales that it would have been before.

I appreciate that there is some seasonality in this and we don't have a full view on that, but could you tell us whether you believe that that business is underlying growing or not growing at the moment before you take it over?

And can you also give us some help on the costs of integration and the timing of those costs, when we should be looking for them?

Within the pharma business itself, I wonder if you could give us any update on are you seeing any increased competition from Eliquis now that it has a broader label, or are you still managing to grow substantially in that market?

And on the agro-chemical side, could you tell us if you've got any early indications for how we should look at 2015, given the softening of crop prices? That normally seems to mean that farmers use agro-chemicals less intensively. Should we perhaps not look for 2% to 3% price rises for next year? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay, Jo. Thank you. So we'll start with the current state of the Merck's business. Werner, do you want to talk about that?

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**Werner Baumann - Bayer AG - Chief Strategy and Portfolio Officer**

Yes, Jo, first on, let's say, the sales development and what's the underlying performance of the business is these days?

You've probably seen that Merck has reported a fairly soft third quarter for the consumer health business. That was still under their watch. There's probably a little bit of disruption in there.

As far as I recall, year to date the business overall is flat. We do expect a growing franchise once we have taken full ownership, that's going to be the case, first time, in quarter 4.

For quarter 4, I mentioned earlier that that is very much also still in transition mode, in terms of us taking full control of the business. But, as we've mentioned as part of our early May communication, we have significant expectations in terms of, a, underlying growth of that business; and b, our ability to further develop it to really drive sales synergies of roughly EUR400 million top-line incremental contribution by 2017. Nothing has changed in our perspective on that Merck franchise we do own now.

Secondly, the cost of integration. If we look at the fourth quarter guidance and the EUR300 million which is mentioned there, half is due to the Merck and Merck sGC, yet it is to roughly half of it is non-cash. It is a technical adjustment.



In terms of phasing of the integration costs, we mentioned at the time of announcement that's roughly \$0.5 billion. We will update you as part of our annual release and full-year 2015 guidance on how the phasing is going to look.

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**Marijn Dekkers - Bayer AG - CEO**

Okay, thanks. Then Eliquis, Olivier.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Yes, Jo, so Eliquis continues to penetrate the market, more specifically in a couple of countries and more specifically the cardiology office. That's what we are seeing with their expansion of indication.

However, overall global market share when you combine retail and hospital, we continue to be in a very significant lead as of August -- end of August, because Xarelto had 31% share; Pradaxa 14%; and Eliquis 8%.

Now just to illustrate what I just mentioned, when you go to the US, market share in term of retail sales, we're still at 39% and apixaban at 12%. TRx when you are counting for the entire anti-coagulant market, not only the oral, then you have 15% for Xarelto and 5% for apixaban. NRx, so the new to grant, when you look at only the oral, Xarelto is 36.5% and apixaban at 14.5%.

Now moving to the cardiology office, then Xarelto is at 33% in term of NRx and apixaban at 32%. So that illustrates the point where they clearly are making inroads in that office.

However, NRx in the PCP office, showing that the cardiology penetration has not been translated in the general practice, Xarelto it's at 35% and apixaban at 12%.

So that's the US situation. Most of the European countries, we have a very large lead in term of market share. In Japan, however, we still are in the lead, but they are also penetrating the clinics -- the specialized clinic, and the NRx is now slightly above Xarelto. But beyond those two examples, I think we're doing still very, very well.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. And then 2015, Liam, for crop and commodity pricing?

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

Yes. Thanks, Jo. Let me just start by saying that we will be updating you when we present our fourth quarter numbers very concretely about the 2015 outlook. So here I'll just make a couple of more qualitative comments.

You're absolutely right, of course, that the commodity prices are very soft, at the moment; they're more or less on the level of 2010. Stocks on average in the market are pretty high and pharma incomes are expected, because of multi-price level to be somewhat hit now and this usually, historically, does have an impact overall on our ability to pass on pricing in the market. So I would expect that we will come under pricing pressure next year versus this year.

However, it's a differentiated picture because, again, if you have a more innovative portfolio, it's easier to pass on that premium to customers than if you have a more generic-type of portfolio.

A good example, just to be very concrete about that is Belt, our insecticide in Brazil, where there's a caterpillar plague, this Lepidoptera for soybeans, and at the end of the day, the farmer needs to save his harvest, if a product like Belt can save the harvest they're not going to put costs there. So there will still be, we think, a significant or a good solid market going forward.

Again, we'll update you properly when we present our fourth quarter results then early next year.

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**Jo Walton - Credit Suisse - Analyst**



Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Jo.

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**Operator**

Joe Dewhurst.

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**Joe Dewhurst - UBS - Analyst**

Joe Dewhurst, UBS. I've got three questions; first two on crop protection.

First of all, with the fungicides and again you've seen very strong growth rates and indications there that there's been again quite good strong growth from the soybean fungicides in Latin America.

Again given the fact that there's been key competitor Syngenta launching competing products, is there any way that potentially with the lower crop price environment that maybe farmers are sticking with what they know? Is there any kind of stickiness that that's brought in? Or is it largely due to just the performance of the product?

And then with the seeds doubling and you indicating again canola and also cotton, even though this is again a fairly small quarter, is there anything from a product perspective that's driven that? Or is it potentially then lumpiness?

And then finally if I may on the consumer health side, and I know this is a small area for you. But on the nutritional supplements and looking at your one-a-day-type products where you're seeing again a growth rate, a negative 10.5% growth, and it's been particularly bad the whole of this year, and there's been a lot of issues with the US markets. If you're seeing any indications there where the supplement market might be turning around and if you've got any thoughts as to really what's prolonging that weakness and that decline? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you very much. So let's start with fungicides in Latin America.

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

Yes, thanks a lot for the question. So we've been confronted for several quarters now with the immense threat that will be posed by new introductions from competitors. We've basically been saying consistently for some time and that from all the visibility that we have in the market and pre-orders, that we feel very comfortable about our product profile and our ability to compete in the market. I think you're seeing this now in the third quarter results.

The reason behind that is, of course, fungicides are, particularly in soybeans, the big issue is Asian soybean rust, but there are other fungal diseases. Basically, you require a product, you need a product that can also deal with secondary diseases, and this is exactly the product that we have.

So it has a pretty broad profile. Growers are used to using it, they know they can trust it and they're continuing to order it. So unless something much better comes along, we won't see a dramatic shift there.

There is, of course, a need for new innovation, for new products in the market. So also our competitors I'm sure will have some in this market, but not necessarily at our expense.



On seeds, as you say, its third quarter it's our smallest quarter by far. We actually had negative seeds results as many companies do, last year when you get returns at this time of the year, and here, we doubled the business. It is actually linked to the introduction of new technology, so it's specifically linked to both cotton and canola, where we had the big increases.

For cotton we introduced new traits for TwinLink, GlyTol, so double insecticide and herbicide resistance with high yield. For canola we introduced a new pod shatter trait, which also basically prevents the crops, the pods from shattering too early and reducing yield.

These have been taken up very, very -- received high appreciation in the market and they were basically the drivers between -- for those increases, particularly in cotton and canola, the big crops.

And then, of course, we have just introduced our own brand of soybean, Credenz, in North America and in LatAm and that's also a driver, and rice in APAC. So overall it is actually linked to new innovation in the market.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thank you. Olivier, a comment on --

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Joe, I understand why you're asking the question on Supradyn and one a day, we are on 10%/11% decline in the quarter.

There are a lot of debates around the value of nutritional and vitamins, clearly, including in the US. And there is a lot of discussion on social media, for instance.

However, when you are putting money behind and re-launching or launching like Berocca, if you look at our performance there, we grew by 6% or 7%. So there is a way of turning the situation around. And that's hopefully what we're going to be able to do in the coming quarters.

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**Joe Dewhurst - UBS - Analyst**

Thanks. So did you expect to see this continued trend of -- with a lot of it from the negative discussions around the need for human nutrition is something that's going to be with us for a little bit longer, you think?

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Yes. Yes, but again, there are ways of launching new products in that area and still reach a fairly good level of performance.

Now, the two others which I mention, as you know, are older products, may not benefit from the same growth and attention from the marketplace.

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**Joe Dewhurst - UBS - Analyst**

Yes. Thank you very much.

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**Operator**

Fabian Wenner.

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**Fabian Wenner Analyst**

Two questions; first on Kogenate and Xarelto, and the second one on the exit of MaterialScience.



On Kogenate, can you remind us when the capacity expansion from the EUR500 million investment comes on stream, to mitigate the supply restrictions you currently face?

And the other one is, can you remind us when you expect the approval of the plasma protein-free factor VIII, and the long-acting factor VIII one? That's the one -- that's the two questions on Kogenate.

And a question on Xarelto also. The quarter on quarter increase in US Xarelto sales was quite markedly. Is that due to, let's say, a royalty step-up from J&J, or is it really just FX? Thank you.

And lastly, on MaterialScience, I just wondered, when you've IPO'd the business, are there any lessons for you that you might have learned from Lanxess? Are you holding on or longer to a stake in it?

I also wondered how you intend to, let's say, offset the EPS dilution from exiting the business. Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. So Olivier, do Kogenate first; so when is the capacity expansion coming on, and the approval of plasma-free and long-acting.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Yes, Fabian. So we mentioned during the last quarter that we were expecting to see capacity constraint during the entire 2015 there, and start to see some relief in 2016, when we will be able to manufacture a plasma-free formulation in the new manufacturing site and, therefore, opening up a production capacity in the US. So that's what you should expect, and that's what we are planning for.

The second question is related to --

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**Marijn Dekkers - Bayer AG - CEO**

The second question was Xarelto quarter over quarter in the US.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Yes. So you're absolutely right, the US did very well during the first quarter. J&J, basically, doubled the sales in the quarter. So a very strong quarter in the US, and that is what you are seeing.

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**Fabian Wenner Analyst**

Sorry, and on the timelines for the plasma protein-free and long-acting?

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Sorry, yes. The plasma protein-free, we should be able to file this year in 2014.

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**Fabian Wenner Analyst**

Okay. And long-acting next year, yes?

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**



The long-acting, I must say, we have slightly delay and we think we will need a couple of additional quarters before filing. So instead of 2015, because of different processes which we need to go through, we'll file by mid-2016.

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**Fabian Wenner Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. And then, Fabian, quickly on BMS, and the analogies with Lanxess. Of course, Lanxess is 10 years ago, but some aspects of it are very similar, like what kind of services will Bayer, for a period of time, continue to provide. We are sharing, of course, with BMS production site.

We had the same experience with Lanxess, we know how we're, rather than one company, good neighbors in the future, these type of aspects, we have a lot of experience with Lanxess, and we're applying that experience now.

And I would say, from an EBITDA replacement point of view, obviously we have, we believe, significant momentum organically in our healthcare and CropScience business in the last years, and we expect that to continue, and that to continue to expand our EBITDA capability.

Plus we've done some acquisitions. Algeta is an example, now the Merck OTC business that are also accretive to EBITDA.

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**Fabian Wenner Analyst**

Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you.

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**Operator**

Richard Vosser.

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**Richard Vosser - JPMorgan - Analyst**

JPMorgan; a couple of questions. Just following up on the consumer business, you highlighted that you'll have Merck performing functions and paying service fees. Just wondered how long that's going to require -- you're going to require their help, when that might phase out -- fade out? In 2015, presumably.

And then, secondly, on Xarelto. Just coming back to the fact that we could have a doctor ban on the market next year, what your expectations are around the competitive threat from that, particularly in the light of, I think, the FDA questioning the weak data in the normal renal function of patients. So just what your expectations are, when it goes to a four-player market. Thanks very much.

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**Marijn Dekkers - Bayer AG - CEO**

Thanks, Richard. Werner will answer the first question.

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**Werner Baumann - Bayer AG - Chief Strategy and Portfolio Officer**



Yes, Richard. The first question is that -- it's actually a fairly broadly spread package of services received currently. But we do expect that that will actually rapidly phase out over the next couple of quarters.

The longest we have put into quarter 3 2015, but then actually for a very limited set of services, the most important and biggest one would be IT in selection areas, which is going to phase out in quarter 3.

Order of magnitude, to put a number to the package, we are talking about the annualized sum in the area of EUR60 million -- EUR50 million/ EUR60 million (inaudible), currently for this quarter. And again, it's phasing out rapidly over the next quarters.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Then edoxaban. So, you don't want to ignore right competitor and we're not going to do that, however, we don't see dramatically edoxaban having a very differentiated profile versus the other three on the marketplace.

So it's certainly going to grab some level of market share; we don't expect that to be very significant outside, of course, Japan where because of the strength of Daiichi locally we would expect them to be a very serious competitor. They have the full area of indication in Japan.

We are getting our approval for DVT or PE pretty soon and we'll be ready also to compete in that segment of the patient population. That's basically what I would say.

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**Marijn Dekkers - Bayer AG - CEO**

Okay, thank you. Thanks, Richard.

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**Operator**

Ronny Gal.

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**Ronny Gal - Sanford Bernstein - Analyst**

Sanford Bernstein; two questions. Xofigo manufacturing, can you give us a feel for what kind of promises this system is experiencing and a time for resolution? Should we expect pressure on that product to continue for manufacturing shortage.

And second, ODM-201, your AR antagonist, can you explain to us how it differs from the existing products in that category? Essentially why develop that product in, what seems to be, a reasonably well-served market?

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**Marijn Dekkers - Bayer AG - CEO**

Olivier?

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

So Xofigo you heard (inaudible). So we have experienced in the last few weeks a drug shortage for Xofigo related to a production issue.

We, in fact, determined that in some vials we were detecting some too-high level of particles. So we have stopped production; we are identified the root causes and we are working now with regulatory agencies to make sure that we can resupply or resume supplies of our key market as soon as possible. So that's question number one.

Now the ODM-201, there is one -- as you know we are developing the product for non-metastatic CRPC and they are not currently approved therapy, the labels there, in that indication.

This product binds to the androgen receptor with a very high affinity and it's -- we believe that that's going to be a clear differentiation factor with future competition.



It has shown in a non-clinical model that there is a very minimal blood buyer penetration. Therefore, we can expect eventually less CNS-adverse event in clinical practice or in clinical trials. So that I think is the profile we can expect from that product.

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**Ronny Gal - Sanford Bernstein - Analyst**

Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you.

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**Operator**

Odile Rundquist.

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**Odile Rundquist - Baader Helvea - Analyst**

Baader Helvea; three product questions.

The first is on Stivarga. The performance, as you said, has been dented by reimbursement and rebates in France, but looking at the US performance we also see a decline there. So maybe you can just elaborate? Is it competition, Avastin and Zaltrap or what is it exactly?

Then also on Nexavar, we have seen decline in Europe maybe also could you give a bit more color why Nexavar declined there?

And then if you can give us the performance of Essure or the level of sales of this small insert, that would be great. Thank you.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Okay, all right. So let me start with Stivarga. You're right, we have mentioned the accrual of provision for rebates in France where we are in very serious and continuing discussions with the authority to find the mutually-acceptable condition for reimbursement there. But that's coming, definitely, from Europe.

When you look at the US, we have a relatively steady number of patients there and it's mainly due to the fact that we are indicated in third-line therapy, but most of the time we are still used beyond third line, in fourth line and if you want, we are kept for the most severe patients.

So we are trying to modify that profile and to be used earlier in the treatment pathway. We think our efforts will pay off, especially because we are seeing more and more widespread diagnostic testing for RAS mutation.

At the same time, there is data showing that EGFR inhibitor used in first line for RAS wild-type patients have actually a better outcome than those treated with Avastin-based regimen.

So by displacing those products, it will create more space I think in -- we believe in third line, and therefore we would be able to increase our penetration.

Now, at the same time, just to add, overall, there are many markets where we are not yet fully reimbursed. And that's, of course, not optimizing yet the full extent of Stivarga; so that's Stivarga

Nexavar, your question was related to the performance this quarter. You have seen we were slightly declining by 4%. A couple of reasons behind that; it's related to pricing pressure in Europe, but also stock adjustment in China.





The fact that we put in place in China a revised patient-access program, to increase access but, at the same time, that triggered reductions in net income for all new patients, which are prescribed the product.

But, of course, we should increase volume expansion, right, over time.

So, in fact, for Nexavar, we are still confirming our guidance for the full year at mid to high single-digit percentage points. So is that --?

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**Marijn Dekkers - Bayer AG - CEO**

And then Essure?

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

And Essure, you may be aware that Essure in the US has been under pressure in the social media, and being the subject of negative comments from -- mainly from Erin Brockovich and her team there.

Having said that, the FDA recently reviewed all patient reports, results from a five-year Essure post-approval study and everything which was available in the clinical literature.

The conclusion was that, of course, like with every single medical device, you can see some complications sometimes. But overall, results from the study did not demonstrate any new safety problems or an increased incidence of problems already known.

So we are working on very clear promotional plans, in order to make sure that the penetration or the impact of social media negative comments are more limited than it has been until last two quarters.

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**Marijn Dekkers - Bayer AG - CEO**

Okay, thank you.

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**Operator**

Ronald Kohler.

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**Ronald Kohler - MainFirst - Analyst**

MainFirst. Three questions if I may; the first on Eylea and the DME introduction.

I believe actually when Novartis introduced Lucentis in DME they had to give some price concession in Europe on the DME labeling and, therefore, on the overall Lucentis. Did you have a similar experience or is your pricing absolutely identical to before with the DME indication?

The second is on Bayer MaterialScience. We have obviously seen the oil price crashing. Benzene price is also indicated down for, let's say, November at least.

What will be the impact on Bayer? So obviously, you have this deflation. Is there any kind of keeping lower raw materials, meaning increasing margin on the back of that? Have you any fear of inventory devaluation? Or could you a bit describe the impact that you see from that lower oil price?

Last question is on the financials. You had a Venezuelan FX impact you highlighted in financials as a special item. Can you a bit elaborate on that? Is there any risk to see anything additional on such a thing?

In addition, if you take today's currencies, any kind of rough outlook for 2015? Obviously, we might expect a significant reversal of the FX burden we had in 2014. If you can say anything on that would be great.



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**Marijn Dekkers - Bayer AG - CEO**

Okay, thank you Ronald, so start with Eylea and DME introduction.

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**Olivier Brandicourt - Bayer AG - Chairman, Bayer HealthCare**

Yes, there's a question on pricing, Ronald. We believe with EYLEA we have a very strong value proposition for DME. Our data from our pivotal trials have shown that patient gain on average [11] lateral vision with a bimonthly dosing regimen, when you follow five initial monthly injections, as you may know.

So our intention is not to lower our price at this point. I think our value proposition, again, is very, very strong. But, of course, it's difficult to negotiate country by country, payer by payer. In Germany, for instance, we have one year of automatic reimbursement at the current price, during which we submit to the earn-out process and we'll probably get into negotiations afterwards.

[...]

So overall, the value proposition has been really confirmed in DME and we're very excited by those results.

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**Ronald Kohler - MainFirst - Analyst**

Okay, thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, and then BMS, Patrick.

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

As we've seen oil prices decline, we've been looking at our planning assumptions and we would crudely believe that next year, we'll see an average oil price at or around \$95 for the full year. So this is a decrease of substance from \$105 to \$95.

Benzene is still riding high at a very high margin over naphtha and there is some room for descent. As you suggested, maybe that will happen in November earliest. In which case, it will have no impact on this year's results; the benefit of that raw material reduction will come in quarter 1 next year, if it's sustained.

In terms of the time between that reduction and any pressure on pricing, our history would suggest that there's at least one quarter to 1.5 quarters delay.

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**Marijn Dekkers - Bayer AG - CEO**

All right and then, Werner, the FX impact.

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**Werner Baumann - Bayer AG - Chief Strategy and Portfolio Officer**

Yes, Ronald, we adjusted our Venezuelan bolivar position from the set of differentiated FX rates we have used to another official rate, the so-called Sicad 1 rate.

The perspective on our current position is that we will be able to collect at that level. We have already collected a smaller portion of our overall exposure a few weeks or a week ago at a better rate than what we've accounted for now.

Yet, I will also say that, going forward, we cannot preclude that we may need to adjust again. It very much hinges on the commitments we have gotten from the Venezuelan authorities that they're really going to pay us and release those funds at the rate we have accounted for. So that's where we stand.



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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Ronald.

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**Ronald Kohler - MainFirst - Analyst**

The 2015 FX on a current basis, any kind of input on that?

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**Unidentified Company Representative**

(Inaudible) (laughter).

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**Marijn Dekkers - Bayer AG - CEO**

You'll be the first to know in February when we announce our full-year numbers, okay?

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**Ronald Kohler - MainFirst - Analyst**

Okay, thanks.

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

Clio, the next question please?

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**Operator**

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

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

Okay, in this case, ladies and gentlemen, also on behalf of my colleagues, we would like to thank you for being with us on the call. Thank you for your questions and the interest you have shown in the Company. We are now saying goodbye.

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**Operator**

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





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Page 2 - Q3 2014 Investor Conference Call - Marlijn Dekkers

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