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BAYN.DE - Q2 2016 Bayer AG Earnings Call

EVENT DATE/TIME: JULY 27, 2016 / 12:00PM GMT

OVERVIEW:

Co. reported 2Q16 Group sales of EUR11.8b and core EPS from continuing operations of EUR2.07. Expects 2016 Group sales to be EUR46-47b.



CORPORATE PARTICIPANTS

Juergen Beunink *Bayer AG - IR*

Werner Baumann *Bayer AG - CEO*

Dieter Weinand *Bayer AG - Head of Pharmaceuticals*

Johannes Dietsch *Bayer AG - CFO*

Erica Mann *Bayer AG - Head of Consumer Health*

Liam Condon *Bayer AG - Head of Crop Science and Animal Health*

CONFERENCE CALL PARTICIPANTS

Tim Race *Deutsche Bank - Analyst*

Florent Cespedes *Societe Generale - Analyst*

Richard Vossler *JPMorgan - Analyst*

Tony Jones *Redburn Partners - Analyst*

Vincent Meunier *Morgan Stanley - Analyst*

Luisa Hector *Exane BNP Paribas - Analyst*

Peter Verdult *Citigroup - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's investor and analyst conference call on the second quarter 2016 results.

(Operator Instructions)

I would now like to turn the conference over to Mr. Juergen Beunink, Investor Relations of Bayer AG. Please go ahead, sir.

Juergen Beunink - Bayer AG - IR

Thank you. Ladies and gentlemen, good afternoon and welcome to our conference call, also on behalf of my colleagues. Today we would like to review our second-quarter figures with you. With me on the call are Werner Baumann, our CEO, and Johannes Dietsch, our CFO.

Pharma is represented by Dieter Weinand, Consumer Health by Erica Mann, and Crop Science as well as Animal Health by Liam Condon. Werner will start off with a brief summary of the developments in the second quarter. We assume you have all received and reviewed our interim report, the briefing document, and the presentation slides, so we will just focus on the main points.

Before handing over to Werner, I'd like to draw your attention to the Safe Harbor Statement and the additional information.



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Page 2 - Q2 2016 Investor Conference Call - Werner Baumann

Additional Information



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Page 3 - Q2 2016 Investor Conference Call - Werner Baumann

Thank you, Werner?

Werner Baumann - Bayer AG - CEO

So, thank you, Juergen, and welcome to everybody, and thanks for making the time, and good afternoon. So it's my pleasure to welcome you to our Q2 conference call to share our business performance with you today.

During the second quarter, we grew our business and nicely improved earnings on a group level. Pharmaceuticals continued the strong growth trend. Consumer Health raised sales and our Crop Science business held steady, despite a continuously difficult market environment. Also in Q2, we made our all-cash offer to acquire all of the issued and outstanding shares of common stock of Monsanto.



We signed an agreement with SBM Developpement for the sale of the consumer business of our Environmental Science unit at Crop Science. Looking at our pharma pipeline, initial results from a Phase III trial showed that Regorafenib significantly improves overall survival in patients with unresectable liver cancer. We plan to submit this data for marketing authorization still during 2016. Based on our operational achievements in Q2, and our expectations for the remainder of the year, we are increasing our guidance for 2016.

Now let me briefly cover some key figures of the underlying Q2 performance. Please note that mentioning changes in sales, I'm referring to portfolio and currency-adjusted data, unless otherwise stated. Group sales advanced by 2% to EUR11.8 billion, primarily driven by our Pharmaceuticals and Consumer Health businesses. Reported EBIT climbed significantly by 17% to EUR2.1 billion, also as a result of lower special items.

Earnings were diminished by special charges of EUR104 million, mainly related to efficiency improvement measures, the integration of the acquired consumer care businesses, and the reorganization of the Bayer Group. Adjusted EBITDA for the group posted a gratifying increase of 6% to EUR3.1 billion, mostly driven by a significant earnings improvement at pharma. This excellent development on group level was achieved despite negative currency effects of around EUR90 million, as well as dissynergies from the Covestro IPO, and the divestiture of our diabetes care business.

Core earnings per share from continuing operations amounted to EUR2.07, an increase of 4% over the prior-year period. As a result of the improvement in EBITDA, gross cash flow increased by 9% in the quarter to EUR2.4 billion. Although more funds were tied up in working capital versus prior year, net cash flow improved slightly by 1% to almost EUR2 billion.

With Capital Expenditures of around EUR600 million, the operating free cash flow came in at roughly EUR1.4 billion. Net financial debt at the end of the quarter stood at EUR17.8 billion, an increase of EUR1.5 billion from the end of quarter one. Cash inflows from operating activities could not fully cover dividend payments in the second quarter.

I will now share the Q2 performance of our life science segments in more detail with you. Pharma sales advanced 8% to EUR4.1 billion in the quarter across all regions. This growth was mainly driven by our launch products, Xarelto, Eylea, Xofigo, Stivarga and Adempas, which posted combined sales of more than EUR1.3 billion in the quarter, up 29%.

Xarelto posted growth of 30%, with volume increases in Europe and Japan contributing. Eylea again showed impressive growth, up 41% versus the prior year quarter. This is mainly due to growth in Europe, Canada, and Japan.

Xofigo, which advanced 27% and Adempas up 45% in the quarter, also made positive contributions to the overall sales performance. In contrast, sales of Stivarga declined by 25%, due to intensified competition in the US. In the prior-year quarter, product sales had benefited from a reversal of a rebate provision in France.

Performance of our established product portfolio was mixed in the quarter. Sales of Kogenate declined by 6%, primarily due to fluctuations in Helixate volumes ordered. Sales of the Mirena family came in at almost prior-year level, despite volume declines in the US.

A sales decline of 9% for Betaferon resulted, among others, from a weaker business development in Europe. Following the strong sales growth, adjusted EBITDA in pharma showed a substantial 13% improvement over the prior-year period to nearly EUR1.4 billion. The division performed excellently despite high investments in R&D, as well as negative currency effects of around EUR40 million in the quarter.

Now let us move to our Consumer Health business. Sales were up 4% at EUR1.6 billion, driven by advances in all regions except North America. Despite a weak allergy season in the US, our top brand, Claritin, registered sales growth of 11%. This was primarily driven by business in China, and the launch of ClariSpray nasal formulation in the US.

Aspirin sales, including the business reported under pharma, grew at 13%. Bepanthen sales advanced an impressive 21%, especially in Europe, resulting from intensified marketing activities in Russia, and line extensions in France. Canesten benefited from strong volume increases across all regions, posting a 19% increase in sales; however, sales of Aleve declined by 5% in light of the deteriorating economic situation in Brazil, and increased competition in the US.

Sales of Coppertone came in slightly below prior-year level. Sales increases in China could not compensate the primarily weather-related shortfall in the US.

Adjusted EBITDA declined by 9% to EUR328 million. The only contribution from the good business performance and cost synergies were not sufficient to offset the higher selling expenses, as well as allocation effects. In addition, negative currency effects of around EUR25 million had to be absorbed.

Let me now elaborate on the Q2 performance of our Crop Science business. Overall, Crop Science held up well in a challenging market environment in the quarter. Sales were up 0.4% to EUR2.5 billion.



In Europe, sales of Crop Science came in at 1% above the prior-year quarter. While seed growth, insecticides and herbicides posted double-digit percentage growth, fungicides declined considerably.

In North America, we had to record a 3% decline on the back of a weak seeds business, due to seasonal effects. By contrast, we registered very pleasing growth at fungicides.

In Asia Pacific, we advanced sales by 8% due to the strong performance in China and Australia. Lastly, in Latin America, Africa and Middle East region, sales came in at prior-year levels.

Adjusted EBITDA at Crop Science was at EUR663 million, an 8% drop compared to the prior-year period. The positive effects of higher selling prices and lower marketing and selling expenses could only partially compensate higher crops, slightly lower volumes, as well as a negative currency impact of around EUR10 million.

Lastly, our Animal Health business posted sales that increased by 4% to EUR426 million. The business benefited from increased demand in all regions. Seresto, our new flea and tick collar for dogs, continued its successful growth path, supported by higher demand in the US and Europe; however, our Advantage product family had to post a sales decline of 4% on the back of increased competition. Adjusted EBITDA declined by almost 17% to EUR100 million due to especially seasonal shifts in selling costs and negative currency effects of around EUR5 million.

So based on our performance in the second quarter, and our expectations for the remainder of the year, we are adjusting our guidance for 2016. We are now planning group sales of EUR46 billion to EUR47 billion. This continues to correspond to a low single digit percentage increase on a currency and portfolio adjusted basis. We now plan to increase adjusted EBITDA by a high single digit percentage.

Full year core EPS from continuing operations, which includes our remaining stake of Covestro, is anticipated to improve by a mid to high single digit percentage. The 2016 guidance change is also reflected in the individual life science divisions. For pharma, we now expect the sales increase in the high single digit percentage range, and plan to increase adjusted EBITDA in the low teens percentage range. We aim to improve the EBITDA margin before special items. Given the strong dynamics in the first six months of the year, we now plan to grow the sales of our recently-launched pharmaceutical products toward EUR5.5 billion in 2016. We expect the biggest contributions from Xarelto and Eylea, with growth of toward 30% for Xarelto, and at least 30% for Eylea.

For Consumer Health, we now expect sales to increase in the low to mid single digit range, and adjusted EBITDA to come in at prior-year level.

In light of the challenging market conditions at Crop Science, we now expect to remain at prior-year level with our sales. Adjusted EBITDA is now forecasted to decline in the low single digit percentage range.

Our guidance for Animal Health remains unchanged. We are still planning sales and adjusted EBITDA to increase by a low to mid single digit percentage each. We continue to expect our Life Science sales to grow organically by a mid single digit percentage to approximately EUR35 billion, and are now planning to improve adjusted EBITDA in the mid to high single digit range.

So ladies and gentlemen, to wrap it up, overall, we are pleased with Bayer's operating and strategic progress in the first half of 2016. We continue our strategic focus for all our Life Sciences businesses. We did provide you with a strategy update at our Meet Management conference. My colleagues and I hope to see many of you in person on September 20.

Before opening the Q&A session, let me also make a remark regarding our proposed acquisition of Monsanto. As you know, we have engaged in discussions with Monsanto concerning our offer; however, we do not have anything further to say at this time about the proposed transaction beyond what has already been published, and we appreciate your understanding.

That concludes my remarks. We will now be happy to take your questions. Many thanks.

QUESTION AND ANSWER

Operator

(Operator Instructions)



The first question comes from the line of Tim Race.

Tim Race - Deutsche Bank - Analyst

It's Tim Race here from Deutsche Bank, so a few questions if I may. First of all I know you don't want to comment further on Monsanto, but if I just may ask, what level of information you have received so far from Monsanto that allowed you to raise your bid, and what level of information you're hoping to get from Monsanto, before you can potentially pencil in another bid, and if you can just confirm that you are still in active discussions with Monsanto as it stands?

And then some questions on the actual business. If you could just discuss Eylea and Xarelto, just discussing the market share that you have in the various different segments in your regions, and also how penetrated you are in these different products so far, and how much growth is still to come on the products?

Then just one last question on Covestro. What's holding you back at the moment from divesting the stake? Is this just market timing and waiting for the market to be better, or are there other considerations we need to take into account such as tax or something like that? Could you help explain that? Thank you.

Werner Baumann - Bayer AG - CEO

Yes, so thanks, Tim. Very quickly, on your first question on Monsanto, as we already communicated, we increased our bid from \$122 to \$125 on the basis of additional information received, I hope you understand and appreciate that we cannot get further into further details at this point in time.

Both companies also communicated a few weeks ago that they were looking forward to going back into private discussions, and with it also cease all public communication from that point on, and that's where we are. So let me now hand over to Dieter, who is going to answer your questions on Xarelto and Eylea regarding market share and penetration, before Hanno Dietsch is going to address your question on Covestro.

Dieter Weinand - Bayer AG - Head of Pharmaceuticals

Hello, Tim. Let me start by saying we have, we continue to be pleased with our performance of Xarelto. We have maintained a leadership position with Xarelto, overall it's shaping and maintaining our 33%, or above 33% market share with Xarelto. And as we have previously discussed, we adjusted our targeting, we adjusted our messaging, we have become more effective in the way we address our customer base, and that has been reflected in the performance first, as I mentioned already before in Japan, where NBRx share has continued to do well, and we are in close range with Apixaban, and continue to be there.

And you asked about market shares, if you look at IMS market share in major regions, you'll see that in LatAm we have almost 44% share going to IMS in sales, and Canada 28%, 29%, in Europe around 26%, in Asia Pacific 35%. In Japan, total market share in sales is over 31%, and I mentioned already that NBRxs are doing very well. Brazil we have over 55% almost 56% share. So all-in-all our, we have great momentum, and that is not only reflected ex-US, but we are also very pleased with the results reported by J&J, and we are quite optimistic with our continued performance regarding Xarelto.

Eylea, as was mentioned already by Werner, we grew 41%. It is a fantastic performance with Eylea, with all regions contributing, especially Europe, Canada, and Japan. All major markets have a market share over 40%, just some smaller markets with some 35% or so and the 30% range but significantly growing.

We have already achieved 70% market share in Japan, and that is driven by continued expansion in the wet AMD market segment, as well as recent launches of new indications, DME, BRVO, and so on. And there is -- these recent launches continue with expansion in wet AMD give us significant optimism for continued substantial growth going forward. So I hope that I addressed your questions.

Werner Baumann - Bayer AG - CEO

Very comprehensively. Thank you. Johannes?

Johannes Dietsch - Bayer AG - CFO



Yes, thank you, Tim. Regarding the Covestro stake, after having contributing 5% of our stock into the pension funds in April, we are currently not announcing any further plans. Of course, we have various options, and we remain committed to our guidance at our midterm. We want to have a complete separation from Covestro. And currently, of course, there's no need to rush into any transaction, and in the absence of major maturities in the second half of the year and given the strong cash flow which we expect in the second half, there is no need to pile up further cash, which currently is not able to be invested [with a reasonable yield].

Tim Race - Deutsche Bank - Analyst

Understood, thank you.

Operator

Next question comes from the line of Florent Cespedes.

Florent Cespedes - Societe Generale - Analyst

It's Florent Cespedes from Societe Generale. A few quick questions. First on consumer could we have more color on why the performance is a bit softer than expected, and could we have an update on your cost and sales synergies. Second question, quickly on emerging markets, could we have more color on the performance in the emerging markets in China in particular?

And then the last one, on the pipeline, could we have a quick update on Molidustat? On your plans behind this product, are you still looking for a partner, and could you confirm that on Copanlisib, you should report some results in the coming weeks or month? Thank you very much.

Werner Baumann - Bayer AG - CEO

Yes, very good. Thanks, Florent for your question. On Consumer, Erica is going to take the two questions on performance and synergies. On Emerging Markets, just one question. Is that related to consumer, or is it related to the entire business?

Florent Cespedes - Societe Generale - Analyst

I would say for the entire business and then a quick focus on Pharma, as well, of course.

Werner Baumann - Bayer AG - CEO

Okay and then Erica is going to also answer emerging markets performance for her business before we then hand it over to Dieter, who's going to comment on Emerging Markets for pharma and the two pipeline assets, Molidustat and Copanlisib, as you mentioned. So Erica?

Erica Mann - Bayer AG - Head of Consumer Health

So regarding positive performance, obviously the results on broader line was clearly disappointing, and was largely impacted by a weaker cough and cold and allergy season in the United States, as well as the soft start to the summer season. This was also coupled with negative currency impact of around 7%, as well as increased allocation.

Now it's important to remember that quarter two and also quarter three traditionally requires higher investment to support these traditional seasonal brands, and on top of that, we had a number of launches in quarter two, the most significant of those being ClariSpray and Aleve Direct. With regards to the integration and synergies, the integration has now successfully been completed. We are ahead of target on cost synergies.

We are also doing well in Europe, but as I said we have significant headwinds with regards to the United States, and they have taken some macroeconomic conditions, coming to your question on emerging markets. We are still facing these conditions in Russia and Brazil, and more specifically, we have noticed some recovery in Russia, but Brazil is currently in a heavy decline.



Werner Baumann - Bayer AG - CEO

So Dieter?

Dieter Weinand - Bayer AG - Head of Pharmaceuticals

So I'll briefly update you on Molidustat, as we mentioned before, we are currently evaluating all our options with regards to Molidustat development, the environment has significantly changed, the external environment requiring large outcomes trials. We have not completed our process, we want to exercise due good diligence in doing so, and we therefore we don't have a more specific update.

On Copanlisib, specifically as you know, we have completed the Phase II clinical trial. We are currently analyzing the data. It is obviously an open label, and we want to make sure that we are disciplined and not peeking at the data. And once the data has been completed, which would be a little bit later this year, we will take decisions based on the data going forward.

With regards to the emerging markets performance overall, we grew in emerging markets 12.5%. We're very pleased with our performance. As you know, in particular in China in the pharma market, there have been some related changes implemented in terms of reimbursement, and so forth. So the IMS revised their growth substantially to market growth lower looking forward, in particular in May this year, they lowered their growth projection to roughly 6.8%.

If you look at a currency adjusted basis, we outgrew the markets in China with roughly 10%, so we're very pleased with our progression in China. We have not yet experienced what we previously anticipated significant price impact, we have actually done very well thus far and China remains a significant growth market for us going forward. If you specifically refer to Russia, it remains a challenging situation.

We continue to monitor the situation. On a currency-adjusted basis we grew over 22%, driven primarily by Xarelto. So excellent performance from an operational perspective, and long term, we have to monitor the China situation and see how we manage.

Werner Baumann - Bayer AG - CEO

Okay, thank you, Dieter.

Florent Cespedes - Societe Generale - Analyst

Thank you very much.

Operator

Next question comes from the line of Richard Vossier.

Richard Vossier - JPMorgan - Analyst

It's Richard Vossier from JPMorgan. A few questions, please. Could I just follow-up in terms of Xarelto and Eylea? I think you had guidance for 20% growth for Xarelto, and at least 20% for Eylea. I presume those have been upgraded, but if you could give us how you see those growing this year, that would be useful.

And then on to Crop Science. Could you talk about your expectations for the length of the weakness in the Crop Protection market, or the Crop Science market? Is this now your thinking, that this continues into 2017, given continued low commodity prices? And then secondly, are there any concerns over stock in the inventory hitting either the second half or impacting 2017?

And then finally, perhaps on the second half in particular for Crop Science perhaps you could talk about the demand in Latin America, and how that's impacting your expectations for the second half. Thanks very much.



Werner Baumann - Bayer AG - CEO

Okay, thanks Richard for the questions. So first on Xarelto, market share growth for both Xarelto and Eylea, and the upgraded expectations, maybe also including the peak sales potential for 2015 for all our new products, that is what Dieter is going to comment on now.

Dieter Weinand - Bayer AG - Head of Pharmaceuticals

So we upgraded obviously our guidance for Xarelto toward 30% growth this year, reflecting our continued momentum and optimism we have going forward. And Eylea, we told you earlier, Werner told you earlier, at least 30%, based on the great momentum that we have experienced and the significant remaining growth potential and the newly launched products. So the outlook for all of our new products was actually quite favorable.

Werner Baumann - Bayer AG - CEO

All right, so now let's switch then to Crop Science and Liam first on the length of the trough, stocking levels 2016 2017 and then what's the expectation for Latin America?

Liam Condon - Bayer AG - Head of Crop Science and Animal Health

Thanks a lot, Richard. So of course right now it's very hard to make a call for the remainder of this year, particularly next year, because most important thing right now is the harvest in the northern hemisphere, so particularly now in North America, but let me try and give a bit of flavor, how we're looking at the market. Overall, we're expecting a very subdued market for the remainder of the year.

The reasons behind that are, if we look at the biggest crop, corn, the weather is so good so far in North America, it's looking quite good, and if the weather continues as is right now, there could be another strong harvest, which would result again in a relatively strong supply of corn onto the market. Argentina has been coming onto the market, the global market for corn again this year due to a removal of export taxes. So corn overall, and I think this is weighing down a bit on the futures commodity prices, there is not much impetus unless there's a change in the outlook for northern hemisphere, from a harvest point of view.

So we will only know that later in the year, and I guess in September, when we meet for the Meet Management that would be a good point in time to talk about the outlook, because then we will know what the harvest has been in the northern hemisphere, and we will know what planting conditions are like in the southern hemisphere. And specifically in LatAm and Brazil, the outlook is actually from a farming point of view, farm demand point of view is actually good. The growers, particularly if you look at soybeans, demand has been relatively strong, continually strong from Asia. Commodity prices have been going in the right direction, stocks-to-use ratio has been declining, so overall there, the outlook is relatively good, plus we have the depreciation of the Real and the farmers are making good money.

The whole problem in Brazil is really related to the overall economic crisis. There is a lack of liquidity in the market. There is a lack of access to credit, and this is what is holding back the entire market in Brazil. And quite honestly, we don't see any change here, any quick change until the overall economic climate improves in Brazil, so this is just holding back the entire market.

One additional specific item in Brazil is channel inventories, particularly for insecticides, is also an issue. We've been pretty diligent in managing our own inventories, but this for sure lower pest pressure, *Helicoverpa* pressure, and this is also for sure partially due to the penetration of Intacta soybeans into the market. So given that outlook for Brazil being the biggest market and LatAm for the remainder of the year, it's hard to imagine that there could be a sudden return to growth, and we rather think it would be a slow return to growth in 2017. But I would say that we're in a better position than at the Meet Management in September to give you a more qualified statement around that.

Werner Baumann - Bayer AG - CEO

All right, thank you, Liam.

Operator

Next question comes from the line of Mr. Jones.



Tony Jones - Redburn Partners - Analyst

Tony Jones, Redburn. I've got two. So following on from the last question actually, on the Crop Science performance, if I benchmark Bayer volumes compared to your peers, the performance has actually been pretty good in a very tough environment. So I wanted to ask, could you talk about what you think the main differentiators are? And then also, is there anything non-recurring in the operating results from the first half?

And then secondly sorry to go back to this, but on Monsanto, I get the industrial logic from the deal but from a capital allocation point of view, from a Bayer point of view, could you talk a little bit about how you favor this versus a transaction in healthcare? Thank you.

Werner Baumann - Bayer AG - CEO

Yes, thanks Tony for your questions. So the first one on Crop Science and what do we do differently and why our performance has been differentially quite good. Liam is going to comment, and I'm going to answer the question on Monsanto.

Liam Condon - Bayer AG - Head of Crop Science and Animal Health

Thanks a lot for the question. So I think we've spoken quite a bit about this in the past, and our overall strategy is very much focused on innovation on the one side, and commercial excellence on the other. So simply the portfolio that we have, and which we've always had a relatively strong portfolio, but we haven't always been as successful commercially in the market and we paid a lot of attention to that over the past few years, that we get closer to our customers and adjust our products also more to our key customers needs.

So I think this combination of portfolio and very innovative Crop Protection portfolio and the more niche seed portfolio, and we would like to be bigger in seeds, but the areas we are in, we're very successful. We lead the market in each area that we're in, whether it's canola or cotton, even rice, and based on this experience, we want to build out further our seeds profile. So it's that combination of innovation portfolio on the one side, and a much stronger emphasis on commercial excellence on the other side, and I think that's really the key differentiator for us right now.

From a results point of view, first half of the year, looking at first half and going into the second half, anything non-recurring, there's nothing special to highlight there. There's no major differences in first versus second half from our expectations.

Tony Jones - Redburn Partners - Analyst

Thank you.

Werner Baumann - Bayer AG - CEO

Thanks, Liam. So on Monsanto, there is very, very sound logic and rationale for looking at a significant capital deployment into the acquisition of Monsanto versus doing something different, either in consumer or in pharma, but I would suggest that it would actually be a longer explanation, you have to get the full picture that we follow-up with you Tony, in a separate call.

Tony Jones - Redburn Partners - Analyst

That sounds great, thank you very much.

Werner Baumann - Bayer AG - CEO

Okay, you're welcome.

Operator



The next question comes from the line of Vincent Meunier.

Vincent Meunier - Morgan Stanley - Analyst

Vincent Meunier from Morgan Stanley. The first question is for the launch products, in the context of the first 29% growth, would you update your targets for the long term? And the second question is in consumer, would you consider divestments to refocus on top products, and would you expect margin leverage in the midterm, and what will be the driver for that? And maybe lastly in crop, do you see any risk for Europe to turn in the red like in North America?

Werner Baumann - Bayer AG - CEO

All right, Vincent, thanks for the question. The first on the launch products, Dieter is going to take your question in terms of longer term perspective, before I answer Consumer Health and then Liam is going to take your Europe question on crop.

Dieter Weinand - Bayer AG - Head of Pharmaceuticals

As you know, Werner had mentioned for this year, we have guided towards the EUR5.5 billion range, and we are not in a position today to update the long term guidance.

Werner Baumann - Bayer AG - CEO

Yes, and just let me tag on to that. What our plan is, and as I mentioned it briefly, is that we would love to update you on the longer term view of all of our businesses in the upcoming Meet Management on September 20, and that's where we would also fairly comprehensively address your question on Consumer Health. We are not looking at any product divestitures at this point in time.

We of course continue to actively monitor and manage our entire portfolio, but there's nothing that I would highlight at this point in time that we are actively looking at, in our OTC portfolio. Secondly, on margin leverage, where we are today is where we are today, with our midterm aspirations. That those are quite dated, I have to say.

While there's not going to be any anticipated fundamental change going forward and I also suggest here that you attend our Meet Management on the 20th of September, because then you will see the entire picture. So with that, let me hand it over to Liam.

Liam Condon - Bayer AG - Head of Crop Science and Animal Health

Yes, thanks for the question. So I'm less concerned about Europe going forward, or Europe turning red or similar situation as in North America. Europe is of course less export oriented, and with that, to a degree less dependent on commodity prices. What actually happened in the first half of the year is a very weak Western European business due to weather, it simply rained too much, and this really hurt the fungicide business, and that part of the business is then gone for the season. You can't catch up that later in the year, that's a high margin business.

Where we were actually very strong in Europe this year was in Eastern Europe, with strong volumes, also strong price increases. But there of course we have more volatile currencies and those tend to have more volatile currencies in those regions, and so it is important that we do have those price increases as well. So overall Europe for us is actually okay, and we would have just preferred to have a somewhat different balance between Western and Eastern Europe. But again given the lower dependents on export, we don't see the same vulnerability as in the Americas.

Werner Baumann - Bayer AG - CEO

All right, thank you, Liam.

Operator



Next question comes from the line of Luisa Hector.

Luisa Hector - Exane BNP Paribas - Analyst

It's Luisa Hector from Exane BNP Paribas. I wonder if I could touch upon the pharma margin in a bit more detail, and perhaps understand some of the strengths in the second quarter, whether there were particular cost lines or royalty lines that were helping you? And then specifically on R&D, is there any change to your guidance for the full year, and is that helping for example, in pharma, the upgrade to your guidance for the full year, given some of the pipeline updates that you've had during the course of the first half? Thank you.

Werner Baumann - Bayer AG - CEO

Okay Luisa, thanks for the questions and Dieter is going to address margin and R&D.

Dieter Weinand - Bayer AG - Head of Pharmaceuticals

So as you know, we had previously expressed our desire to continuously work on enhancing our margin, and in line with that interest, as you also know, Werner spoke a little bit earlier about the pharma margin increased guidance for the remainder of the year. And in line with that, that guidance, we remain optimistic for the remainder of the year with our margin we have been working on. You ask for some specifics.

We have obviously, as previously mentioned also, significantly enhanced the rigor with which we deploy our resources, particularly in the commercial area and marketing and sales, as that has allowed us to continuously increase our investment in our future, meaning in research and development and innovation in our pipeline, that now is bearing the fruit, we have a really full pipeline now and hopefully at Meet Management we can discuss that a little bit. We're very optimistic with the investment we have made in that pipeline, and at the same time enhance our margins. So we're balancing investment in our future with enhancing our margin, and we continue to be optimistic going forward.

Werner Baumann - Bayer AG - CEO

Thank you, Dieter.

Operator

The next question comes from the line of Mr. Verdult.

Peter Verdult - Citigroup - Analyst

Thank you, it's Pete Verdult here from Citi. Three questions on strategy, crop, and hemophilia. So Werner, I totally understand you aren't commenting on Monsanto, so my question is on how the Board is strategically thinking about the long-term outlook at pharma? And I'm trying to tally Dieter's recent comments about having a full pipeline with the setbacks that you announced in Q1. So the simple question is do you believe the pipeline as it stands today that Bayer has, will you be able to sustain, would you believe you can sustain revenue growth post the Xarelto patent expiry?

Secondly, on crop for Liam. Can you just provide an update on the capacity expansion timeliness for Glufosinate, how you think about that Glufosinate dynamic longer term and the latest on the HPPD collaboration with Syngenta? And lastly for Dieter on hemophilia, you mentioned the Helixate order volumes, but wondering if you can just characterize a little more the dynamics that you're seeing in the FX rate market given Kogenate, Kovaltry and other recent competitive launches? Thanks.

Werner Baumann - Bayer AG - CEO

Yes, Peter thanks for your questions and again let me give you the headlines on strategy pharma, and how the Board is looking at pharma before we then also update you in more detail in the Meet Management. I can fully subscribe to and share Dieter's optimism. We have a very strong business. It runs well operationally. I think quarter two has been a testimony to it, and also the update of the guidance and the upgrade of the guidance for the remainder of the year.



We see this business continue to grow for the next years to come. Xarelto patent expiration is something that I think is being looked at differently, depending on who you talk to, in terms of how close it is. We do think that there's quite a bit of run way in terms of our pipeline development, and the focus we have put behind our pipeline and the increased investment, before we see any significant impact in the Xarelto patent expirations. You have to simply think about Xarelto going off patent in the US, as that is the largest market, on August 28, 2024, after the US PTO has granted its patent expiration. And on top of it if you add the pediatric extension it reaches into 2025, so this is about nine years from now.

So we are sometimes kidding about the fact that people are getting very concerned about the closeness of the patent cliff, so our perspective is that's quite some time, and quite some water that flows down the Rhine here until that really happens, yes? So with that, let me turn it over to Liam on glufosinate-ammonium before Dieter takes your question on Helixate.

Liam Condon - Bayer AG - Head of Crop Science and Animal Health

Yes, thanks a lot. So as you know, we're in the process of doubling our manufacturing capacity for glufosinate-ammonium, and this has been a program that's been going on now for a couple of years, so it's constantly expanding every year, we have more capacity coming to market, and the last part of this expansion program is projected for start up in 2017. And we basically then expect to be fully on tap from 2018 coming into the market.

And as you know, there's considerable demand out there for additional herbicides, particularly given the issues around glyphosate resistance, so plenty of demand and now we wish we could produce faster, but unfortunately, this is the fastest we can go. Related to our collaboration also with Syngenta, so we are probably the only companies who are developing new or interested in developing new herbicides, at Bayer we've always remained in herbicide research and this program is overall so far on track, and when exactly we will make it to market, we obviously aren't quite sure, but it will be within the next we expect two to three years.

Werner Baumann - Bayer AG - CEO

All right, thank you Liam. And Dieter, Helixate?

Dieter Weinand - Bayer AG - Head of Pharmaceuticals

This fluctuation order pattern is nothing unusual, if you go back and look at our quarters in history, there's always a fluctuation with order pattern, where you get tenders either in certain countries or regions so it's up, or you have a delivery pattern to our distributor, so this is not an unusual fluctuation. You'll see year-to-date we have 3.4%, and that is in line with what we wanted to see, this is after quarter calendar fluctuation, so there's nothing unusual.

Peter Verdult - Citigroup - Analyst

Sorry Dieter, just to be clear, I was putting the Helixate order volume issue to one side. I wanted you to comment on more of the other dynamics you're seeing with the recent competitor launches, and what you're seeing with Koginate and Kovaltry, so just to be clear, I'm relaxed about the order volume fluctuation, I just wanted to get more insight from you in terms of what you're seeing in terms of the dynamics of the market?

Dieter Weinand - Bayer AG - Head of Pharmaceuticals

The dynamics in the market have not really changed much. It's a very slow switch market, as you know. I think the expectation when first Elocate came into market was significantly higher than what the actual performance was. We have seen it go into the US on a slow, steady, incline, Elocate taken most from Advate, being the market leader of course.

And the newer longer-acting products with which Kovaltry would compete in two to three times we would be dosing on a similar successful but slow switch market, and that dynamic hasn't changed significantly, and we are now in a position to compete with Kovaltry in that market, as we roll out the launches and continue to roll out launches of Kovaltry, so nothing really significant has changed in that market, as we can see it.

Peter Verdult - Citigroup - Analyst



Thank you.

Operator

There are no further questions at this time. Please continue with any other points you wish to raise.

Werner Baumann - Bayer AG - CEO

Thank you. Also on behalf of my colleagues, I'd like to thank you for being with us on the call and thank you for your questions. That's all we would like to say, goodbye.

Operator

Ladies and gentlemen this concludes the second-quarter 2016 results, investor and analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.

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