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PRESENTATION

Operator

Welcome to Bayer's investor and analysts' conference call on the first quarter 2013 results. Throughout today's recorded presentation, all participants will be in a listen-only mode. The presentation will be followed by a question and answer session. (Operator Instructions).

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

Alexander Rosar - Bayer AG - Head of IR

Thank you, Cleo. Ladies and gentlemen, good afternoon, and welcome also on behalf of my colleagues, to our conference call.

This afternoon, we'd like to review our first quarter figures with you. With me on the call are Marijn Dekkers, our CEO, and Werner Baumann, our CFO. HealthCare today is represented by Wolfgang Plischke; CropScience by Liam Condon; and MaterialScience by Patrick Thomas.

Marijn will start off with a brief summary of the development in the first quarter. We assume that you have all received and reviewed our stockholders' newsletter, the briefing document and the presentation slides, so we will just run you through the main points.

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

Marijn Dekkers - Bayer AG - CEO



Thank you, Alexander. Ladies and gentlemen, good afternoon. It is my pleasure to discuss the highlights of the first quarter with you.

First, our LifeSciences businesses got off to a good start in our anniversary year 2013. HealthCare benefited from the continuing success of new product launches in Pharma, and also we saw strong growth in Consumer Care. CropScience had profitable growth in a persistently favorable market environment. On the other hand, higher than expected cost pressures at MaterialScience resulted in a weaker performance than we had anticipated.

In total, we grew Group sales organically by 4%. Reported EBIT improved almost 9%, due to lower special charges compared to last year. Adjusted EBITDA came in at the prior-year level.

Against this backdrop, and based on our expectations for the remainder of the year, we confirm our full year financial outlook for the Group.

So let me now elaborate on some key figures for the first quarter. When talking about sales, I will concentrate on portfolio and currency-adjusted data.

Our Group sales advanced by 4% to EUR10.3 billion. HealthCare and CropSciences contributed to the increase, while sales of MaterialScience remained at the prior-year level. Reported EBIT rose by 9% to EUR1.8 billion, mainly due to lower special charges. The special charges of EUR45 million, versus EUR169 million in the prior-year quarter, resulted entirely from restructuring measures.

Adjusted EBITDA was level with the prior year period at EUR2.5 billion. HealthCare improved its adjusted EBITDA, particularly due to the good business development at Pharma and ConsumerCare. Adjusted EBITDA of CropSciences grew largely as a result of higher selling prices and higher volumes.

Earnings of MaterialScience came in below the prior-year period, held back by increased raw material prices, lower volumes, and high costs for a maintenance shutdown.

In the reconciliation, adjusted EBITDA was diminished mainly by expenses of EUR36 million for stock-based compensation, and by costs related to our 150th Anniversary celebrations.

Core earnings per share amounted to EUR1.70, an increase of 2% over the prior-year quarter.

From a regional perspective, the strongest growth was generated in the US and the emerging economies. In the US, business moved ahead by 8%, driven by all sub-groups. The emerging economies overall saw business advance by 7%. These markets accounted for 34% of Group sales. Particularly strong growth was again generated in Eastern Europe and emerging Asia, especially China.

Gross cash flow in the first quarter moved ahead by 13% to EUR1.8 billion, mainly as the result of lower taxes. There was a largely seasonal increase of EUR1.5 billion in cash tied up in working capital.

Net cash flow advanced by 38% to EUR327 million. After higher investments of EUR365 million, the operating free cash flow came in at minus EUR38 million.

Net financial debt rose since the start of the year from EUR7.0 billion to EUR7.5 billion, mainly because of cash outflows for operating activities.

Now let's move on to the performance of our sub-groups.

Sales of the HealthCare sub-group increased by 5% in the first quarter to EUR4.4 billion. This positive development was primarily driven by our new Pharma products. Our Consumer Care division also experienced a strong quarter. So let me elaborate on these performances in more detail.

Sales in our Pharmaceutical segment rose by 5% to EUR2.6 billion. In regional terms, our business expanded mainly in China, Germany, and the United States. Our new products, Xarelto, Eylea, and Stivarga, made a particularly strong contribution to the business expansion in Pharma in the quarter. Xarelto continued to post very gratifying sales gains, especially in Germany and France, following indication expansions.

Eylea's initial uptake in Japan and Australia is very encouraging. Stivarga contributed significantly to sales growth following its successful launch in the US. Combined sales of our new products amounted to EUR244 million in the quarter. We are, thus, confidently reiterating our sales target of EUR1 billion for these products in the full year 2013.



The performance of our established Pharma products was mixed in the quarter. On the positive side, sales of Glucobay once again climbed significantly by 20%, as a result of the continuous expansion of distribution activities in China.

Revenues from Mirena edged forward by 5%, despite a strong prior quarter in the United States. The 4% growth in sales in Kogenate was largely the result of higher volumes. On the negative side, sales of our Yaz line were down by 13%, hampered above all by generic competition in Western Europe.

As expected, business with Betaferon receded by 7%, due to lower volumes particularly in the US and Brazil. We also registered a decline of 4% in sales of Nexavar, mainly due to inventory reductions of specialized oncology centers in the United States.

Adjusted EBITDA of Pharma moved ahead by 12%. The increase in earnings was mainly driven by the strong sales gains for our new products, and lower production costs resulting from an improved product mix. On the other hand, earnings were negatively impacted by higher expenses for marketing of our new products.

We remain optimistic for the future development of our Pharma business, not only based on the gratifying early-launch performance of our new products, but also because of the continued success of our innovation pipeline.

In the first quarter, the FDA granted two priority reviews. First, the new drug application filed in December 2012 for Radium-223 dichloride, under review for the treatment of patients with prostate cancer and bone metastases, and secondly, for Riociguat in STEPH (sic - see page 28 "CTEPH") and PAH.

In Japan, Stivarga was approved for the treatment of patients with unresectable, advanced, recurrent colorectal cancer. And Xarelto was recommended for approval in the EU for the prevention of a thrombotic events after an ACS, an acute coronary syndrome. The final decision from the European Commission is expected in the first half of 2013.

So let's now move on to Consumer Health. Sales in the Consumer Health segment improved by 5% in the first quarter, to EUR1.9 billion. This positive development was mainly attributable to sales growth in the Consumer Care division, especially in the emerging markets. Sales in our Consumer Care division rose by 9%.

Our cold medicine, Alka-Seltzer Plus, saw pleasing growth in sales as a result of a strong cold season. Business with our Bepanthen and Canesten lines benefited from higher volumes in Europe. Sales of Aleve and Aspirin advanced, particularly in Latin America, thanks to intensified marketing activities.

Sales of the Medical Care division fell by 2%. Diabetes care sales declined slightly, particularly as a result of price and reimbursement pressure. Also, sales of our Radiology and Intervention business were slightly below the prior-year period.

Sales in the Animal Health division rose by 3%. Growth was mainly attributable to the launch of our Seresto flea-and-tick collars in the United States.

Adjusted EBITDA of Consumer Health showed a slight increase of 1%, resulting from sales growth largely offset by higher marketing expenses in all divisions.

In summary, the performance of the HealthCare divisions resulted in adjusted EBITDA of EUR1.3 billion for the sub-group as a whole, an improvement of 8% over the prior year. Currencies had a negative impact of EUR34 million in the quarter.

Now let's move on to CropScience. Sales in the CropScience sub-group increased by 7% to EUR2.8 billion, despite a late start to the season in the northern hemisphere. Growth was particularly strong in North America, but the other regions also showed a positive development. Our business continued to be supported by the persistently high price levels for agricultural commodities.

The Crop Protection business posted sales growth of 11% and developed positively in all business units and regions. The steepest percentage increase occurred in SeedGrowth, largely as a result of higher product sales for application in corn and soybeans in the United States. The herbicides business also registered double-digit growth. The fungicides business expanded by 9%, benefiting particularly from sales of our Prosaro product family. Insecticides sales advanced by 5% driven by the Belt family.

The Seeds business unit came in at the very strong level of the prior-year quarter. The rise in sales of soybean seed did not fully offset the decline in business with cotton seed resulting from reduced cotton acreages. Sales of vegetable seeds increased slightly.

Sales of the Environmental Science business of CropScience decreased by 10% in the first quarter. This was primarily due to the long winter in the northern hemisphere which held back demand from both professional users and consumers.

Overall, adjusted EBITDA of CropScience moved ahead by 10%. This earnings growth was mainly the result of the higher volumes and higher selling prices.



Now let's move on to MaterialScience. MaterialScience posted sales of EUR2.8 billion in the first quarter, matching the prior-year period. An overall increase in selling prices compensated for a drop in volumes in Europe and North America. Sales of the polyur ethanes business unit rose by 4%, driven by higher selling prices in all product groups and regions.

Volumes declined overall, despite increases in Asia Pacific and Latin America, Africa, Middle East. This was mainly due to lower sales in Europe, and a maintenance shutdown in North America.

Sales in the poly carbonates business unit declined by 6%, due to lower volumes in nearly all regions. We achieved slightly higher price levels in North America and Europe.

Adjusted EBITDA of MaterialScience contracted by 27%. This decline was largely due to a sharp rise in raw material prices. Earnings were also hampered by a drop in volumes and high cost for the maintenance shutdown in North America.

Positive factors were selling price increases and savings from efficiency improvements.

In view of our first quarter results, and the attractive perspectives we see for our LifeSciences businesses, we confirm our full year 2013 Group guidance.

We continue to expect sales for 2013 to increase by 4% to 5%, after adjusting for currency and portfolio effects, to approximately EUR41 billion, based on unchanged currency assumptions.

As before, we plan to increase EBITDA, before special items, by a mid single-digit percentage, and core earnings per share by a high single-digit percentage.

We maintain our guidance for HealthCare and CropScience for the full year 2013, as published at the end of February.

In light of the business development in the first quarter, we have adjusted our full year earnings guidance, for MaterialScience. In MaterialScience we are now aiming for adjusted EBITDA to approximately match the prior year figures, whereas previously we have predicted a further improvement.

In the second quarter of 2013, we expect sales to exceed the first quarter, and adjusted EBITDA to come in significantly above the level of Q1.

So ladies and gentlemen, overall, we are pleased with Bayer's solid start to 2013, which was driven by the strong performance of our LifeScience business. But of course, especially pleased to see that our new Pharma products were the main driver of organic sales growth at HealthCare, and that CropScience continues to grow profitably in the quarter.

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

QUESTION AND ANSWER

Operator

(Operator Instructions). Mr. Vossler.

Richard Vossler - JPMorgan - Analyst

A few HealthCare ones, and then a CropScience one, please. Just on HealthCare or in Pharma, some of the tail products had a slightly weaker performance this quarter. I'm just wondering if you could comment whether you think you need to allocate any more marketing spend behind those, or whether there are other reasons for the slightly weaker performance. Obviously, I understand the performance of Yaz and Betaseron, but I'm thinking of other products and the tail we can't see.

Second question just on Eylea, obviously a very, very strong performance. Could you give us some idea of the market shares you might have in Japan and Australia, versus Lucentis, and how you're doing in Europe, and whether there is any stocking in the number for the European launches?



And then on to the CropScience question, just wondering how much of the sales from CropScience you think have been shifted in to Q2 as a result of the slow start to the season, because of cold weather. And hence, whether we should be thinking of record second quarter margins in a similar way to we've seen in Q1 this year. Thanks very much.

Marijn Dekkers - Bayer AG - CEO

Okay, thank you, Richard. So Wolfgang, the question on the tail products and Eylea.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Yes thanks Richard. Tail end product class, this is driven by rather a technical effect, because there are two products with a decline, [Diane] and Kinzal, which have been in the top 15 products before. Now they are in the tail end product portfolio, and, therefore, you see a stronger decrease of sales there.

Second question to Eylea, we are actually very pleased about the successes we had in the early launch of Eylea, on the basis of the countries we launched already. In Japan and Australia, we are quite successful. We have reached a market share in Japan now of 48%, and in Australia, a market share of 42%.

In Europe, we are also successful, as expected. Obviously in Europe, as you know, the progress will take a little bit more time, because there are negotiations ongoing with reimbursement agencies. But the general feedback, and the early successes we have now, are based on great feedback we get from doctors and also patients.

Marijn Dekkers - Bayer AG - CEO

Thank you, Wolfgang. Liam, the question on the cold weather and has that shifted sales into Q2?

Liam Condon - Bayer AG - Chairman & CEO, CropScience

Yes, as you know, particularly in the northern hemisphere, in Europe and North America, we've experienced very cold weather, and the season is for sure, somewhat delayed. If you compare this to Q1, 2012, and this is quite a different picture, because last year the season was particularly early, so it's a very different pattern.

It's too early to call the shot really, what will happen now, in the second quarter. It depends, at the end of the day, how the weather is going to pan out. We still have snow in Canada, and large parts of North America, which is hampering seeding and planting. So it's a little bit too early to make the call on what the impact will be.

And the overall season could be somewhat shorter than in 2012, but at the end of the day, we will know it by the end of quarter 2. Our working assumption at present is that we will have a normal quarter 2.

Marijn Dekkers - Bayer AG - CEO

Okay, good.

Richard Vosser - JPMorgan - Analyst

Thanks.

Operator

Mr. Race.

Tim Race - Deutsche Bank Research - Analyst



A few Pharma-based questions first. First on Eylea, just following on, in the number that you reported, is there any stock in there? And just on the European countries, could you just point out which ones you've actually launched in so far?

And maybe if you could just discuss perhaps on Eylea, what selling point is actually helped you so much in Japan and Australia, what are they buying into, in terms of the profile, and how are Novartis potentially going to fight back?

Then a question on Xarelto. You've seen, obviously, a very strong growth; when we look at the US sales, you're recording only EUR22 million, and that's sort of flat quarter on quarter. Just wondered how we should be forecasting that recognition of revenue coming through, and when you'll be reaching that 30% of revenues.

And then maybe just a question on the reconciliation. How much of the EUR109 million is recurring, versus non-recurring or one-off related to the 150 year anniversary? I'll leave the questions there, and then get back in the queue.

Marijn Dekkers - Bayer AG - CEO

Okay. Thank you, Tim. So the two Pharma questions, Eylea and Xarelto, Wolfgang.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Yes, Tim, Eylea, there are practically no stocking effects for Eylea. The countries in Europe we have launched a product, for example, Switzerland, Germany, and we are making starts in various other countries. But negotiations, as I said, with reimbursement agencies are ongoing.

[Selling point] is quite easy. I guess the market waited for an alternative choice in this very serious indication, and what we can see, I mentioned this already in my first answer, that the results we see in the actual treatment of patients, especially in Japan and Australia, where we have gained this tremendous market share already, is very positive.

Patients are very satisfied about the treatment, and doctors are. And this is further driving the success in these countries, and we hope to see this also in other countries where we will roll out this product.

Marijn Dekkers - Bayer AG - CEO

Xarelto, the strong growth in the US?

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Xarelto, in the US, you have seen the fantastic growth in the US. You know that Johnson & Johnson has reported in the US sales of \$158 million. In our [proceeds] regarding the US market are EUR22 million, and this is more or less reflecting what we make through this cooperation with J&J.

We are very satisfied about the progress we are making in the United States. I believe our partner, J&J, is doing a tremendous, excellent job. I want to just give you some market share figures, the development we see in the United States.

We have an overall market share now in retail of about 20% in the US, but much more important for the launch success of the products are the new brand prescription share in the overall oral anticoagulant market, and also in a part of this market, in the cardiology segment.

In the overall oral anticoagulant brand prescription, share is 31% for Xarelto. And just to mention the other competitors; Dabigatran is at 6%; [Apixaban] at 3%.

In cardiology, we are also increasing steadily. We are at 38% share in this market, and more important here is that Dabigatran and Warfarin are losing share in this market.

Marijn Dekkers - Bayer AG - CEO



Okay. Thank you, Wolfgang. Werner Baumann will answer the reconciliation question.

Werner Baumann - Bayer AG - CFO

Yes, Tim, regarding the question on recon. For the first quarter, the two major components which were recorded in recon were, one of the reclassification of our long-term incentive programs and the amount which exceeds the normalized expense which is covered inside of our operating business groups; e.g., everything which is beyond 100% performance of these programs would be captured in reconciliation.

In terms of whether that is recurring or not, it is very, very difficult to answer because it really depends on the stock price and the stock development, because that drives the program. So if you want to look at it this way, it's a strong statement of the stress we have had to see these expenses, even though it is still an expense which shows up in reconciliation.

But I have to say that also it is a technical change. It doesn't change anything in underlying performance, or the other cost has to be made up for in terms of incremental earnings to cover that cost.

So secondly, the second bucket somewhere in the area of a little bit more than EUR30 million, relates to the expenses we had in quarter 1 in the context of our 150-year anniversary. That is to the largest extent, of course, non-recurrent, both in terms of quarterly sequential development, but also in terms of year over year.

It happens to be the fact that we have that we somewhere in the area of little more than EUR50 million in anticipated expense to pay for this 150-year anniversary, and you also have to put that into context. We are not giving an additional salary, or something of that nature, to our employees. It is more a token, which is a small medal, and a book. But with 110,000 people, it still adds up, and in terms of total percentage of payroll, it is less than one-third of 1% of total payroll.

In terms of expense, of course, we also get quite a bit of positive halo effect and publicity with the surrounding activities, the scientific symposium and alike are planning for the year. So some of that money is also to be considered as an investment behind our brands.

Last but not least, full-year guidance for the recon for this year captures a stock price at the level of about EUR80. So that means that, in the next quarters to come, there will be additional accruals beyond 100% entitlement, and that is covered in the minus EUR200 million. It's actually the vast majority, or big majority of that increment which is showing up in recon, it relates to the stock price.

Marijn Dekkers - Bayer AG - CEO

Good. Thank you, Werner.

Tim Race - Deutsche Bank Research - Analyst

Thank you.

Operator

Mr. Cespedes.

Florent Cespedes - Exane BNP Paribas - Analyst

A few quick ones; first on Betaferon. Is your guidance on Betaferon for the year a little bit too aggressive? Where are you losing most of the sales? And is there any chance to see the release of provisions for discounts in Q2 or at the end of this year?

A quick question on the geographical performance in Pharma. What explains the still soft performance in Europe? Is it mainly due to Yaz decline? And in Latin America and Africa, other countries, what is behind this quite soft Q1?



And the last question on R&D. 2013 is a year of execution with a lot of product launches, but could you share with us what are your priorities for the products which are in earlier phase? And if you could share some thoughts in terms of potential partnerships. Thank you very much.

Marijn Dekkers - Bayer AG - CEO

Okay. Thank you. Let's start with the Betaferon questions. Is the guidance too aggressive and are we making provisions for discounts?

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Our guidance, as you remember, was a high single-digit decline for Betaferon. And as you can see from our first quarter results, the decline was 6.9%, so we are well within our guidance. This is mainly driven by a volume decline. There is some pricing effect in the United States still in the first quarter. And we will see this further volume decline throughout the year 2013.

Europe regional performance, we had a performance of 1.5% growth in the first quarter. This is mainly driven by some generic pressure, especially in the Mediterranean countries, and it's also driven by some decline of sales of Yaz. And with Mediterranean countries going better, that's mainly Spain and Italy where we see this generic pressure.

In terms of other European countries, I just want to mention Russia here where we put a lot of focus on, both in our Pharma business, but also in the Consumer Care business. And there we had a very successful quarter with a growth of the business of 37%. And also, in Germany, we are quite successful with a growth rate of 18% for our business.

Then I believe, remembering you also mentioned Latin America, there I can say that our business is also developing nicely in the areas where we put emphasis in, which is especially our Consumer Care business, totally in line with the strategic intent we have for our overall HealthCare business.

Then the last question you had was research and development, where do we put emphasis on. We put emphasis on the further lifecycle management of the products we just launched. You notice that is for Xarelto. We have started COMMANDER, PIONEER, etc., which are very important for us for the long-term growth of this brand.

Then we have a series of other clinical work still ongoing in the various additional indications for Eylea, because the success we have is just based on the first indication we launched now, which is already very successful, the wet age-related macular degeneration.

But we have developments ongoing on central retinal vein occlusion where we expect finalization of the trial in the first half of 2013. We have diabetic macular edema where we will have data in the second half, and we are also having activities ongoing in myopic CNV, which is very important in the [Asia] population.

Then we have activities ongoing, as you know, in our compound Riociguat, where we will inform you in due time about our plans in which further fields we would like to invest. And we have Radium-223 where we will get an indication for castrate-resistant metastatic prostate cancer but, for sure, we will look into other indications to make a much broader product out of this.

And then we have a couple of projects in our phase II pipeline we are highly interested. And, in due time, might be at our conference in New York, we will give you some more insight into these projects.

Florent Cespedes - Exane BNP Paribas - Analyst

Thank you very much. Very helpful.

Marijn Dekkers - Bayer AG - CEO

Thank you, Florent. Thank you, Wolfgang.

Operator



Mrs. Walker.

Amy Walker - Morgan Stanley - Analyst

I have three questions, all on MaterialScience, if I may, please? The first one is, it looks as though year-on-year volume decline in polyurethanes was round about 3.5% in the first quarter. Is that roughly right? And how much of that was underlying demand weakness in Europe, and how much was the turnaround in North America, please?

The second question; I'm a little bit confused as to why raw material costs were cited as a key impact on EBITDA in MatSci in the first quarter. Aromatics' price inflation in Q1 looks less severe than in Q3 or Q4, so was there some other raw material that caused the issue, or was it that actually idle facility costs were really the bigger driver of the weakness in profitability?

And the last question, please; you say you expect strong sequential improvement in MatSci EBITDA in Q2, but EBITDA would need to nearly double from the Q1 level to reach last year's Q2 level. So do you think that's possible, or does your guidance for flat MatSci EBITDA for the full year assume a substantial backend-loaded growth in H2? And if so, what drives your confidence that that's achievable, please?

Marijn Dekkers - Bayer AG - CEO

Okay. Thank you, Amy. Patrick?

Patrick Thomas - Bayer AG - CEO MaterialScience

Yes, thank you very much, Amy. I think you're right in terms of polyurethanes; we showed an overall 3% decline in total volume effect.

In terms of regional effects, Europe counted for around about that average, minus 3%; North America was actually up about 8%; and Latin America and Middle East up also. Asia Pacific was up double digits, around about 14%, so that was the overall effect. So clearly, a European-dominated volume decline.

If we look at quarter 1 aromatics, the reason in my bridge that I've highlighted this is because, if I take sequential quarters, quarter 4 to quarter 1, then we have an impact of about EUR100 million on EBITDA. The volume effect and price effect are negligible in comparison to that on a quarter-on-quarter comparison. If we go to the year-on-year effect, raw materials were up about EUR140 million, offset by about EUR117 million in price on equivalent quarters, quarter 1, '12 to quarter 1, '13.

The majority of that effect rolled through aromatics, primarily the benzene price, and I think you and I discussed this at the Meet Management event. We were expecting benzene to roll off this peak level and come down, whereas in fact, with our contract mix and our benzene derivative, we actually saw that raw material price staying longer at that higher level than we had expected.

In terms of how we look at guidance, let me try and help there with clearly, the first quarter was impacted by the effect you describe, which was primarily the extended maintenance shutdown we had to take in North America, and that had about a EUR30 million to EUR40 million impact sequentially, quarter on quarter. That's how much it cost in direct costs. There were also some minor indirect costs related to the purchase for resale of material to comply with our contractual obligations to supply.

Secondly, if we look at the rest of the year, particularly the second half, we're planning to increase prices through the rest of the year to try and improve our performance, and we're implementing further efficiency improvement.

And I think if we look particularly at China where we're concerned about the strength of the market, we believe that, in the second half of the year, the Chinese Government will start to release some of the infrastructure projects, which would stimulate the growth back to a more conventional level.

Amy Walker - Morgan Stanley - Analyst

Thanks. That's very clear.

Marijn Dekkers - Bayer AG - CEO



Thank you, Amy. Thanks, Patrick.

Operator

Mr. Baum.

Andrew Baum - Citi - Analyst

A couple of questions, please. So first on the Yaz litigation, I just want to make sure I understand this. So of the 14,500 plaintiffs, 9,000 of these are complaining of gallbladder rather than thrombotic-related issues, and then it goes on to say that you have offered a settlement. Could you just clarify that those 9,000 are solely gallbladder, that there's no other thrombosis-related issues? And also could you confirm the timeline for when that settlement was determined, whether you've got 90%, the requirement that you've set. So just help us understand the closure of liability risk associated with that product.

And then, second, in reference to Japan. Rather unusually, Novartis on the call admitted they'd effectively screwed up the launch in Japan and they were taking those learnings on to other markets. Perhaps you could comment maybe not on what Novartis did wrong, but really what are you doing right and what do you think are the secrets to success in that market that seems to have evaded your competitor?

Marijn Dekkers - Bayer AG - CEO

Okay, Andrew, hi. Werner Baumann will answer the Yaz question first, and then Wolfgang will dance around when he answers your Eylea question. (laughter)

Werner Baumann - Bayer AG - CFO

Okay, Andy. First of all I, can confirm your understanding that the 9,000 cases you quoted are exclusively related to gallbladder cases. Those we have offered a settlement for, which we reported on in the quarterly shareholder letter in the legal section. We have offered for that settlement \$24 million, not because we think that anything is at fault here, but simply for practical reasons, given the sheer size of these cases and the related legal cost, which we would have to expense in case of litigating them. And then it is also depending on reaching that 90% quota, which, of course, we are not entirely in control of, also in terms of timing, for that settlement to become effective.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Okay, and the Eylea success in Japan; I believe our success is based mainly on the following issues. First is that we put a lot of priority on this launch. We established a dedicated own sales force for this product with experts we hired in this field. And we have a great partner in Japan, which is launching the products together with us. This partner is Santen, which is the number one ophthalmology company in Japan. So both organizations are working closely together and I believe this made, beside the product quality and the market who waits for an alternative, made the success in Japan in the first quarter 2013.

Marijn Dekkers - Bayer AG - CEO

Good. Thank you, Wolfgang. Thank you, Andrew.

Andrew Baum - Citi - Analyst

Pleasure.

Operator

Mr. Jain.



Sachin Jain - BofA Merrill Lynch - Analyst

A few product questions in Pharma, please. Firstly on your launch preparedness for Radium-223, I just wonder if you could update us on the number of sites in the US with commercial license, how many patients you now have in your expanded access program, and where you are with sales force hiring for that product and whether you will be ready to launch ahead of a potential mid-August PDUFA?

Secondly on Betaseron, it was touched on briefly earlier, but I think you've seen 19% declines ex US, which is significantly below the minus 5% for your '12 run rate, so is there any specific factors you'd cite in that outside of FX? And is the reduced marketing, I imagine, behind this product having an impact?

And then finally on Xarelto and Japan, I understand the prescribing limitation has come off recently. Could you just comment as to the extent of volume inflection you may have seen there? Thank you.

Marijn Dekkers - Bayer AG - CEO

Okay. Wolfgang, Radium?

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Radium-223, as you know the PDUFA date, you can calculate yourself, is August of this year. We are prepared for a launch with all the details which are necessary for this rather complicated product, which means licensing of the units who will use the product, all the distribution chains, the supply chains you have to establish. So we are prepared for launch of the product.

In terms of the access program, we are running an access program for Radium-223. There is a high demand for this program, driven by the medical need within this indication, and we are carefully managing this access program these days.

Betaseron, yes, there is a decline as you mentioned. This is a volume-driven decline, as I said before in my comment to the Betaseron decline, which is about 7%, nothing special around this. I believe we will be within our guidance until the year-end, which is a high single-digit decline for Betaseron, mainly driven through volume decreases.

Xarelto, Japan, yes, you are right, there will be a change of the two prescription periods. Actually this will end, end of April, so in the first week of May we will have the opportunity of better -- the GP, General Practitioner, etc., they have the opportunity to prescribe it for a longer period. And we are confident that this will increase the penetration of Xarelto significantly in Japan.

Sachin Jain - BofA Merrill Lynch - Analyst

Thank you very much.

Operator

Jo Walton.

Jo Walton - Credit Suisse - Analyst

I've just a couple of questions on Xarelto. Looking at the US level that J&J gave us, and the level of that you gave us, it looks like you're effectively booking 18% of the end-user sales as your level of sales. Is that a fair reflection of the effective royalty rate that we should be looking for, for that product, going forwards?

Secondly, I wonder if you could give us a little bit more color on the market shares that you have for Xarelto in Europe. I appreciate that you're doing extremely well, relative to Pradaxa in the US, but Boehringer Ingelheim's home market is more in Europe than it is in the US, so I wonder whether you're experiencing stronger competition from competitors in Europe?



And if you could also tell us what risk we should put on the effective pricing that you have, given the comments that we keep seeing from AMNOG about if you have really successful products that were launched before the new pricing review came in, that we could see that pricing review process attached to the m. And I would imagine that this class of drugs in general would be pretty high up that list. So what sort of impact that could have, feeding out from Germany? Many thanks.

Marijn Dekkers - Bayer AG - CEO

Thank you, Jo. Werner is going to take the first question, and Wolfgang the next two.

Werner Baumann - Bayer AG - CFO

Yes, Jo. You cannot take the 18% of the proxy because it's multi-sectorial on what we book and what J&J shows as in-market sales. I give you a few of them in order to explain a little bit further. First of all, we sell the product in terms of the product price for physical product delivery; that's one part. Then we have milestones and royalty payments due. And last, but not least, there's of course a phasing issue between our deliveries to J&J and their in-market sales. And of course, as we have mentioned in other occasions, we do have a scale of royalties due to us which, depending on the sales milestones we hit, can go all the way up to 30% of sales.

Marijn Dekkers - Bayer AG - CEO

Okay. Wolfgang, market share in Europe for Xarelto.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Yes, thank you, Jo. To give you some flavor for our market share development in Europe, and let's start with normally the most difficult country, the UK in terms of acceptance of new drugs. There the market share is around 4%, and Dabigatran is about 5%. Then if you go to France, market share is now leading above Dabigatran, so we have a market share of 15%. Now Dabigatran is behind us with 14%.

And then if you go to Germany, we have a market share of 31%; Dabigatran is at 11%. So that's a little bit of a flavor of the European market share development, which is very promising for us.

Then pricing [effective pricing], you are right. You know that there will be an assessment of some therapies, including the new anticoagulants by the so-called IQWiG Institute, but that's a process which has been announced now; apixaban went through the procedure already. Dabigatran will also go through the procedure, so we will do.

All these drugs have comparable prices in Germany, and we are fully convinced regarding the benefits of Xarelto and we are looking forward to this assessment.

A little bit on the timeline, that you also get a flavor when this will happen. We expect a decision of the assessment by mid of 2014, and the final pricing decision which will be made through negotiations will not be before end of 2014.

Jo Walton - Credit Suisse - Analyst

Thank you. And if I could push my luck, I apologize, I forgot to ask a question on -- and I'm sorry to go back to Eylea -- you give Eylea less often than you give Lucentis, which effectively means that it is a lower price. You haven't mentioned price as being a key aspect of the success of this product. Would we be right in assuming that the effective price is significantly lower in Australia and Japan than for Lucentis?

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Our pricing strategy is to have comparable prices to Lucentis, but you can assume, including rebates, that we have a competitive price versus Lucentis. [To] also use this to drive our launch and our sales in the markets we are active in.

Jo Walton - Credit Suisse - Analyst



Thank you.

Operator

Mr. Faitz.

Christian Faitz - Macquarie Research - Analyst

Two quick questions. First of all, MaterialScience, Patrick, do you see any pick up in China a post the slow takeoff after the New Year celebrations? Can you elucidate that; how is Q2 going so far?

And then for CropScience, Liam can you share with us any general inventory issues in fungicides for example, as a result of last year's drought in the US?

And how's demand for glufosinate at the moment, benchmarking against glyphosate; also in LatAm, there's increasing glyphosate resistency issues? Thanks.

Marijn Dekkers - Bayer AG - CEO

Okay, Christian, thank you. Patrick, on China.

Patrick Thomas - Bayer AG - CEO MaterialScience

Thank you, Christian. The situation in China is still [relatively] slow and relatively weak. We're still waiting to see whether the Government picks up speed a little bit in the second half of the year. And I think there's a couple of other factors there which are coming into play; one is the relative value of the yen, which means our Japanese competitors, particularly in polycarbonate, are exporting a lot of material into China, which is really weakening prices in China as well. So this yen effect is causing us some problem in terms of trying to get [PCS] price movement.

But I think we'll going to have to really wait through the second quarter to see what the real underlying growth rate is going to be in China.

Marijn Dekkers - Bayer AG - CEO

Okay. Liam, inventories of fungicides and glufosinate demand.

Liam Condon - Bayer AG - Chairman & CEO, CropScience

As we stated previously, last year we didn't have an issue with fungicides, despite the drought, because most of our fungicides were pre-emergence, so they were already sprayed by the time the drought hit. What we did not know was whether there would be an impact on competitors; I think most of our competitors were stating that they would see fairly normal inventories.

Our impression at the moment is that there is an issue with inventories in fungicides in the US; sales are relatively slow on the fungicide side, so this is an indication for us that there are inventory issues. But as I said, this is not related to our products or any carryover from our products from last year; this is basically a market channel issue for fungicides.

On the glufosinate side, as you know weed management is a huge issue at the moment, particularly in North America, and for sure, becoming more important in Latin America as well. The demand for glufosinate ammonium, as a very effective alternative to glyphosate, is extremely strong. We have seen growth in the first quarter of approximately 50% year-on-year growth for glufosinate ammonium.

Plus we have other corn herbicides, for example adengo, where we're growing 24%/25%, so continuously strong demand. Here and Lat Am there is growing demand, but here, at the moment in the first quarter, it's more related to fungicide and insecticides than herbicide sales.



Christian Faltz - Macquarie Research - Analyst

Great, very helpful. Thank you.

Operator

Mr. Wendorff.

Daniel Wendorff - Commerzbank Corporates & Mkts - Analyst

Two questions remain, actually. One on the margin development you saw in the Pharma business in Q1, which looks strong year on year. I assume, in light of the unchanged guidance for the full year, that we are going to see a sort of declining level during the quarters. I wonder if you could give us a bit more color of how that would pan out; is it a particular quarter we should be thinking of being particularly weak in light of ongoing marketing initiatives?

And second question, a follow-up question on Eylea, could you say how many countries contributed to the performance in Q1, so how many European countries in particular outside of Japan and Australia? Thank you.

Marijn Dekkers - Bayer AG - CEO

Okay, thank you, Daniel. Margin development in Pharma, Wolfgang.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Margin development, you are referring to our margin in the third quarter and the guidance we have given that we will slightly increase our margin for Bayer HealthCare. What will happen in the quarters to come is that we will have some phasing of our marketing and sales expenses, because we want to drive our launches and our rollouts for our products in all countries.

And as you have seen, we have started very well with Eylea, and Stivarga, and we have to drive this through, which will add some more investment. And the same will true for the preparation of the launches for Radium-223, and for the preparation of the upcoming regulatory decision for Riociguat later this year.

So we have our hands full to secure the sales growth and the future of the Companies in the year to come, which needs additional strong investments. Further on, we will also see, as in previous years, phasing of the R&D costs, which will be higher in the quarters to come.

Eylea sales, I mentioned already Australia and Japan we have been quite successful trialing this, but we have launched in various other countries, in Germany, in Switzerland, Colombia, Austria, Sweden, Norway, etc., many other countries, and you will see the progress of this in due time.

Daniel Wendorff - Commerzbank Corporates & Mkts - Analyst

Thank you.

Operator

Mr. Grueten.

Lutz Grueten - Commerzbank Corporates & Mkts - Analyst

One follow-up on the guidance you've given on Bayer MaterialScience. Putting all together, it seems to be that a recovery on pricing power, Chinese demand, seems to be backend loaded for the second half. Wasn't it a little bit premature already to cut your guidance, or to adjust your full-year guidance after Q1 results? Thank you.



Patrick Thomas - Bayer AG - CEO MaterialScience

No, I think it was prudent to give the best guidance we can, and that's my honest judgment in what I think will happen this year. So I think we have to see our way through the second quarter and then we will update you of course after the second quarter.

Lutz Grueten - Commerzbank Corporates & Mkts - Analyst

Thank you.

Operator

[Mr. Iltgen].

Unidentified Participant

This is [Whitney on] for Cory Kasimov, JPMorgan. Quick Pharma question; could you please break out Nexavar sales between Japan and rest of world?

Marijn Dekkers - Bayer AG - CEO

Thank you, Whitney. Nexavar sales break out, Wolfgang.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Yes. Nexavar sales I can give you a break out. We have Nexavar sales in the third quarter of around EUR170 million. In Japan, our sales have been EUR22 million, being 2% above last year. Is this okay, or you need more information?

Unidentified Participant

Well, if you have more that'd be great.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

It will be great. I can give you also the sales in emerging countries which are 2.8% up, and if you look at China they are even 7.4% up.

Unidentified Participant

Great. Thanks for taking the question.

Operator

Mr. Race.

Tim Race - Deutsche Bank Research - Analyst

So just following up on the Xarelto royalty first of all. Now it's become more important the US revenues (technical difficulty)



Operator

One moment please while we relocate Mr. Race. Thank you.

Tim Race - Deutsche Bank Research - Analyst

My question is just following up on Xarelto. The US sales and the royalties that are coming through, or the revenues coming through, I understand the timing and phasing, but at 18% it feels a little bit low and now it's becoming more and more important, going forward. Could you just give us a bit more granularity on what point, or what sales revenues it actually steps up to this 30% level, and whether the 18% we've seen in this quarter is unusually low versus what you'd expect based on the in-market sales?

Then maybe just a strategy question on diabetes care. First of all, just given the reimbursement changes we're seeing in the sort of mid-point this year, what do you expect in terms of growth for diabetes care, going forward?

Then just, given this is going to be a more difficult market, given more competitors coming in, lots of pricing competition and reimbursement competition, but offset by good demographics, what is the strategy for this area, going forward? There's lots of players here that are either discussing pulling out, consolidating or just riding it through. What are your preferences here for diabetes care?

Marijn Dekkers - Bayer AG - CEO

Thank you, Tim. The first question on Xarelto royalty will be answered by Werner, and then the second question on diabetes care by Wolfgang.

Werner Baumann - Bayer AG - CFO

Okay, Tim, let me repeat what I said earlier, that actually not much more to be commented on. You can't take the 18% as a proxy, going forward. There are different drivers behind. Let's say the ratio of our sales to J&J's in market sales, one of them you've raised already in your question and that is the different phasing between our supply and J&J's in-market sales. On top of that, we have staggered royalties agreed with J&J; that means, depending on the sales level, we can reach up to 30% of J&J sales as royalties. First quarter sales of J&J were a little bit more than \$150 million. It will still take some time to get up to the 30%. From our end I can only say the earlier the better.

Tim Race - Deutsche Bank Research - Analyst

Okay. Thank you.

Marijn Dekkers - Bayer AG - CEO

Okay, diabetes care.

Wolfgang Plischke - Bayer AG - Head of HealthCare Pharma Division

Diabetes care, just strategic best for us, that's our business and we are committed to this business and we are driving this business. Yes, you are right, you see a slight decline in the first quarter but actually, we are doing quite well, if you compare this with other competitors in the market. For example, if you look at some countries like Germany, we had quite a success in these markets with our new products. And we are confident that we will compete nicely in the next three quarters with this business.

In addition, you have to understand that this business is providing quite a significant cash flow for us, which is important for our overall performance within Bayer HealthCare.

Tim Race - Deutsche Bank Research - Analyst



Thank you, guys.

Operator

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

Alexander Rosar - Bayer AG - Head of IR

Okay, thank you, Cleo. Ladies and gentlemen, also on behalf of my colleagues I'd like to say thank you for being with us on the call. and thank you for your questions.

Our next Investor Relations event will be at the Meet Management conference in New York on June 11. Hopefully, many of you will make it to meet us there again. Now we are saying goodbye.

Operator

Ladies and gentlemen, this concludes the first quarter 2013 results investor and analysts' conference call of Bayer AG. Thank you for participating, you may now disconnect.



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