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# EDITED TRANSCRIPT

BAYN.DE - Q2 2013 Bayer Earnings Conference Call

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**OVERVIEW:**

Co. reported 2Q13 Group sales of EUR10.4b and core EPS of EUR1.54. Expects full-year 2013 Group sales (based on avg. exchange rates for 1H13) to be EUR40-41b.



## CORPORATE PARTICIPANTS

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

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

**Wolfgang Plischke** *Bayer AG - Healthcare*

**Werner Baumann** *Bayer AG - CFO*

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

**Liam Condon** *Bayer AG - CropScience*

## CONFERENCE CALL PARTICIPANTS

**Sachin Jain** *BofA Merrill Lynch - Analyst*

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

**Fabian Wenner** *Kepler Cheuvreux - Analyst*

**Jeremy Redenius** *Sanford C. Bernstein & Company, Inc. - Analyst*

**Matt Weston** *Credit Suisse - Analyst*

**Andrew Baum** *Citigroup - Analyst*

**Florent Cespedes** *Exane BNP Paribas - Analyst*

**Richard Vosser** *JPMorgan Securities Inc. - Analyst*

**Christian Faitz** *Macquarie Research Equities - Analyst*

**Steve Chesney** *Goldman Sachs - Analyst*

**Damien Conover** *Morningstar - Analyst*

**Ronald Koehler** *MainFirst Bank - Analyst*

## PRESENTATION

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### Operator

Welcome to Bayer's investor and analyst conference call on the second 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, of Bayer AG. Please go ahead, sir.

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

Thank you, Kleo. Ladies and gentlemen, good afternoon. Also on behalf of my colleagues, welcome to our conference call. As already mentioned, today we would like to review our second quarter figures with you. With me on the call are -- Marijn Dekkers, our CEO; and Werner Baumann, our CFO; Healthcare is represented by, Wolfgang Plischke; CropScience by, Liam Condon; and MaterialScience by, Patrick Thomas. As always, Marijn will start with a brief summary of the developments in the second quarter. We assume you have received and reviewed our stockholder's newsletter, the briefing document and the presentation slides, so Marijn can focus his presentation on the main points.

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

Thank you, Marijn?



**Marijn Dekkers - Bayer AG - CEO**

Thank you, Alexander. Ladies and gentlemen, good afternoon. It is my pleasure to speak with you about our second quarter this afternoon. It was a quarter of significant progress with our pharma innovation pipeline and with new product launch execution, but also a quarter that was mixed in terms of subgroup performance. We saw a strong operating performance by our LifeScience businesses. The Healthcare performance was driven by successful product launches in pharmaceuticals and strong growth at consumer care. CropScience saw another quarter of good profitable growth in a persistently favorable market environment. Our new pharma products performed considerably better than expected. In light of, this and based on our continued optimism in terms of launch execution, we have raised our 2013 new product sales target by 40%, from EUR1 billion to approximately EUR1.4 billion.

Unfortunately, the second quarter also saw a weak performance in the challenging market environment in our MaterialScience business. Both top and bottom lines missed the level of the prior-year quarter, even though the performance improved sequentially over the first quarter. On the Group level, we delivered an organic sales increase of 5%. Reported EBIT improved by 74%, mainly due to lower special charges. Adjusted EBITDA came in slightly above the prior-year level. Core EPS increased by 6%. Against this background and based on our expectations for the remainder of the year, we are currently maintaining our full-year financial outlook for the Group, even though it appears increasingly ambitious.

Let me now elaborate on some key figures for the second quarter. When talking about sales, I will concentrate on portfolio and currency adjusted data. Group sales advanced by 5% to EUR10.4 billion. Healthcare and CropScience both contributed to the increase, while sales of MaterialScience did not quite reach the prior-year level. Reported EBIT rose by 74% to EUR1.3 billion, mainly due to lower special charges. The special charges of EUR256 million versus EUR762 million in the prior-year quarter, mainly comprised impairment losses on a pharma research project, restructuring charges and expenses related to litigations, mostly in connection with Cipro settlements in the US. Adjusted EBITDA posted a small increase against the prior-year period to EUR2.2 billion.

Healthcare improved to suggested EBITDA, due particularly to the positive business developments at pharma. 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, mainly as a result of lower selling prices and increased raw material costs. Core earnings per share amounted to EUR1.54, which was an increase of 6% over the prior-year quarter. Then from a regional perspective, 37% of total sales were generated in the emerging economies, growing at a rate of 6%. We delivered double-digit growth in Latin America and also expanded our business in Asia and Eastern Europe.

Looking at the developed regions, growth in the US was hindered by a slow start to the season in CropScience. In Western Europe, sales growth again by 4%, following a weak Q1, with Germany accounting for most of the increase. Then gross cash flow in the second quarter moved ahead by 37% to EUR1.7 billion, mainly as a result of the improvement in earnings. Net cash flow advanced by 10% to EUR1.5 billion. After investments of EUR502 million, the operating free cash flow came in at EUR1.0 billion. Net financial debt rose from EUR7.5 billion at the end of Q1 to EUR9.0 billion at the end of Q2, because cash inflows from operating activities only partly offset the outflows for the dividend payment in April and the acquisition of Conceptus in June.

So let's now move on to the performance of our subgroups, starting with Healthcare. Sales of the Healthcare subgroup increased by 8% in the second quarter, to EUR4.8 billion, with gains in all businesses. The strongest growth was achieved in our pharma segment where sales rose by 10% to EUR2.8 billion. As already said, the continuing good development of our new products, Xarelto, Eylea and Stivarga, made a particularly strong contribution to the business expansion with combined sales of EUR339 million in the quarter. Xarelto built on its leading position among the new oral anticoagulants. The robust sales growth for this product continued, especially in Germany, Japan and France.

In May, Xarelto was approved in the EU for secondary prevention after an acute coronary syndrome. Eylea also made a strong contribution to sales development. Significant progress was reported in developing additional indications for Eylea. Just last week, we received the CHMP recommendation for approval for the treatment of Macular Edema following Central Retinal Vein Occlusion in Europe. In addition, the MYRROR Phase III study delivered positive results in Myopic Choroidal Neovascularization. The first filing in this indication is expected for the second half of this year. Furthermore, the market introduction of Stivarga continued successfully. On top of that, we saw the first sales of our new bone cancer drug, Xofigo, following the product's launch in the US. So based on this success, we are now targeting approximately EUR1.4 billion in new product sales in 2013, EUR400 million more than we had originally planned.

The performance of our established pharma products was mixed in the quarter. On the positive side, sales of Kogenate climbed by 10%, partly due to shifts in the order patterns of our distribution [timing]. We also expanded revenues from Nexavar by 7%, partly in light of the price increases in the United States. In June, Nexavar was submitted to the EMA and FDA for the treatment of thyroid cancer. The 6% growth of Glucobay and the 5% grow of Aspirin Cardio were largely the result of higher sales in China. Mirena was basically flat versus a strong prior-year quarter. On the negative side, sales of Betaferon continued to recede, mainly by 14% in the second quarter. Sales of our YAZ line were hampered by generic competition in Western Europe and the US, resulting in a decline of 11%. We also registered a decline of 4% in sales of Avelox, primarily due to lower demand in the US. Adjusted EBITDA of pharma moved ahead by 14%. This earnings growth was mostly the result of good sales development.



Now, let's move on to our consumer health business. Sales in consumer health segment improved by 4% in the second quarter to EUR2.0 billion. Sales in our consumer care division rose by 5%, mainly driven by the performance in the emerging markets. From a product point of view, highlights include the improvement for Aleve, partly due to higher demand in Brazil and our business with the [Pantheon] and Canesten alliance, which benefited from existing market activities in the emerging markets. Sales of the medical care division improved by 3% in a challenging market environment. Higher sales were recorded in diabetes care, especially for our CONTOUR line, driven by the launch of CONTOUR Next in the US.

Sales of our radiology and interventional business came in at the prior-year level. Sales in the animal health division rose by 2%. Strong gains there were registered by our new Seresto flea and tick collar, which just this year has also been launched in the United States. Despite the sales increase in all divisions, adjusted EBITDA of consumer health fell by 7%, as a result of higher marketing expenses, especially our investments in the emerging markets. In sum, the performance of Healthcare resulted in adjusted EBITDA of EUR1.3 billion for the subgroup as a whole, which is an improvement of 6% over the prior-year period.

So let me now elaborate on the Q2 performance of CropScience. Sales in the CropScience subgroup increased by 7% to EUR2.4 billion. Growth was particularly strong in Latin America, with positive development in Asia and Europe as well. Our business continued to be supported by persistently high-priced levels for agricultural commodities. The crop protection business posted sales growth by 8%. The largest increase in percentage terms was achieved for fungicides, driven mostly by sales growth in Latin America and Europe. Sales of herbicides and insecticides also registered slight increases.

In seed growth however, business declined, largely because of sales in Europe that had already been realized in the first quarter and also due to reduced canola acreages in Canada. The seeds business came in at plus 2%. Here, we were particularly successful with our vegetable and rice seeds. On the other hand, business with canola and cotton seeds declined, due to reduced acreages in North America. Sales of the environmental science business increased by 6% in the quarter, with higher sales both in the consumer business and in products for professional users. Adjusted EBITDA of CropScience moved ahead by 14%. Earnings growth there was mainly the result of higher volumes and higher selling price.

Now, let's move on to MaterialScience. Sales of MaterialScience came in 1% below the prior-year quarter at EUR2.9 billion. This was attributable to lower sales prices, sorry, selling prices in Asia and Europe. Volumes matched the prior-year period. Sales of the polyurethanes business unit rose by 3%, driven by higher volumes in all regions except Europe. Selling prices overall were at the level of the prior-year period. Sales in the polycarbonates business unit declined by 8%, due to lower volumes in all regions, resulting from weaker demand. In addition, selling prices as a whole, were below the prior-year period, due to market overcapacities. From a sequential perspective, adjusted EBITDA of MaterialScience came in above the first quarter figure, but was down by 28% compared to the second quarter of last year. The year-on-year decline was largely the consequence of lower selling prices and a concurrent increase in raw material costs.

So let's now talk about full-year outlook for the Group. In view of our first half 2013 results, we are currently maintaining the Group forecast for 2013 that we published at the end of February, even though it appears increasingly ambitious. It remains to be seen to what extent the unexpectedly weak development in MaterialScience will be offset by our improved performance in the LifeScience businesses. We are, as I said, becoming more positive on pharma because our new products are so successful. We are a little more cautious on consumer health and are just able to reiterate our guidance for Healthcare as a whole. We are also confirming our CropScience outlook for the full year.

For MaterialScience, following their weak performance in the first six months, we have adjusted our full-year guidance. We now believe full-year sales will not quite reach the prior-year figure. We now expect adjusted EBITDA to come in below the prior-year level. So for the Group as a whole, we expect sales for the full-year 2013 to increase by 4% to 5%, after adjusting for currency and portfolio effects. Based on average exchange rates for the first half of 2013, we expect to achieve Group sales of EUR40 billion to EUR41 billion. We expect to increase EBITDA, before special items, by a mid single-digit percentage. We expect to improve core earnings per share by a high single-digit percentage. So ladies and gentlemen, this concludes my opening remarks. We are now happy to take your questions. Thank you.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions)

Sachin Jain, Bank of America.



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**Sachin Jain - BofA Merrill Lynch - Analyst**

Sachin Jain for Bank of America. A few questions please. Firstly, just kicking off for the consumer health division and the margin progression there. I think in your three comments you attributed that to SG&A in emerging markets. I wonder if you could just clarify the trends within the diabetes care margin segment? I'm on the assumption the margin declined in that business. Could you comment on what drove that, given the stable top line outlook? Whether you have any intentions of putting cost measures to try and protect the margins? Second question on Xarelto. Bristol and Pfizer are aggressively flagging on their recent calls an increase in SG&A in the second half. Would you intend to match that share of voice perspective and its increase in SG&A for that product that's your moving guidance for the year? Finally, on the MaterialScience, I think the guidance says for a sequential improvement in EBITDA in the third quarter. Could you just discuss the drivers of that? Where you're seeing any evidence of that through July? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thank you, Sachin. We will start with the consumer health-diabetes question. Wolfgang?

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**Wolfgang Plischke - Bayer AG - Healthcare**

Yes. Thank you, Sachin, for our product question. Consumer health, the reasons for the declining profitability is, as we said it already are our further investments in emerging markets in consumer health. But we also see some market related weakening in medical care. You have observed that we have increased our sales in diabetes care, but that is kind of a mixed picture, because we have some pricing and reimbursement pressure in this market, especially in Europe and Germany, et cetera. We also see some Healthcare reform impact in our R&I business. In terms of cost reductions, we have started to do cost reduction efforts. But the full effect is not visible now in the second quarter. I hope this will answer your question.

In Xarelto, we are making, I would could say, applause to our colleagues from J&J, a fantastic progress in the United States. The market share including the United States and overall market is now at 24%. Dabigatran at 20%. Apixaban at 2%. Even more impressive is -- are the figures for the new prescriptions. For example, in the oral anticoagulant market, the share of Xarelto is now 34%, just for the new prescriptions, where as it was 6% for dabigatran, which shows you how Xarelto is progressing in this market. The comparable picture you see for the new prescription share amongst cardiologists, we have a share now of 39% versus 12% of dabigatran and apixaban 16%. So we also have read about in the press that there are some activities planned from our competitors and especially from Pfizer, Bristol Myers. We are well-prepared, and willing to further invest into our success in the United States -- I understand that's the intent of our colleagues from J&J.

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**Marijn Dekkers - Bayer AG - CEO**

Good. Okay. So BMS sequentially?

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**Patrick Thomas - Bayer AG - MaterialScience**

Yes, Sachin, thank you for the question. Quarter three traditionally is a stronger quarter for us in terms of sales. Certainly through July, we've started to see some evidence of that case. Secondly, our supply reliability in the first half has been poor, both from the point of view of planned and unplanned shutdowns. We expect much lower planned maintenance in the second half, so that plays to a stronger result in Q3. Certainly, from what we can see in the rest of the industry and recent announcements on ISIS, some of our competitors are having problems with reliability in the next couple of months. The third element is really around raw materials and energy. While we hope to see some positive benefit role in the third, with benzene coming off its peak and some of the aromatics getting back to their normal margins over NAFTA. So that is really the reason behind the guidance on Q3.

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**Sachin Jain - BofA Merrill Lynch - Analyst**

Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Sachin.

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**Operator**

Amy Walker, Morgan Stanley.

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**Amy Walker - Morgan Stanley - Analyst**

I've got two questions if I may. The first on Healthcare. You very helpfully gave some indications on market shares, I think in the US for Xarelto. But would you be able to share with us an update from market shares in Xarelto and Eylea in the key European territories and Japan, if you can, please? Second question, Patrick, just coming back on the trends you were mentioning in MaterialScience. It looks as though from a raw material perspective, you should actually get some year-on-year relief in raw material costs in the second half. Do you think you would be able to retain all of that raw material cost benefit in H2? Maybe keep EBITDA flat year-on-year? Or do you think the vast majority of that benefit will be eaten up by weakness from the top line? Just some color around the dynamics there would be great. Thanks very much.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Wolfgang?

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**Wolfgang Plischke - Bayer AG - Healthcare**

Yes. Thank you, Amy. Two facts, I'm happy to answer (inaudible) or some insight. You have seen in the figures that sequentially from quarter-to-quarter, we have seen a close of more than 40% for Xarelto on a world wide basis, which shows further progression of the success of Xarelto. The market share, I have mentioned for the US. For Germany, the current market share is at 38%. Dabigatran at 11%. Apixaban 2%. Two other countries, France, we are at what? 18% -- have also a higher market share now, in France than dabigatran, which is at 16%. In Brazil, 34%, dabigatran 23%. Then Japan, which is a major importance for us. Do you remember that we had this two big prescription restrictions in the first year, after the launch of the product? This changed in April.

In early April, we had a market share for Xarelto of 9%, beginning of April. At the end of April, we had a share of 21%. Currently we are at 19%. So we are very happy to see this. That is a very good progression, demonstrating the success of our organization in Japan. Eylea, also there, we have seen a very nice progression quarter by quarter of 49%, to EUR73 million in sales now in the second quarter. Where is this coming from? Mainly from Japan, Australia and Germany, and the market share again in Japan, we have now about 56% market share. These figures are fluctuating now a little bit over the weeks, but a very high percent is at the market share of 40% in Japan. In Australia, the market share is around 48% for our product. In Germany, the market share is at 22%, also progressing upwards.

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**Marijn Dekkers - Bayer AG - CEO**

Good. Thanks, Wolfgang. Patrick, the third quarter a little bit more color?

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**Patrick Thomas - Bayer AG - MaterialScience**

Yes. Amy, maybe if I just help in terms of explaining the bridge year-on-year for quarter two in terms of the impact. Raw materials impacted two-thirds of the gap in EBITDA, in a negative sense year-on-year. But sequentially, if we look at the gap it is the other way around, it's only one-third and it's an improvement in raw materials sequentially in the quarter. So it's about a EUR35 million improvement in raw materials going from quarter one to quarter two. As we look forward, how much of that could be held in terms of pricing? I think that depends upon supply and demand. In the polyurethanes and coatings arena, then I think we will hold on to that margin expansion. I think it is going to be more difficult in polycarbonates because the supply and demand balance is not so strong. Finally, previously on the call -- first quarter, we guided that the total raw material impacts for the full year might be as much as a third of a billion. I would now say it is closer to about a quarter of a billion Euro impact in the negative sense. So that captures our overall view on raw materials.

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**Amy Walker - Morgan Stanley - Analyst**

That is very helpful. Thank you very much.



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**Marijn Dekkers - Bayer AG - CEO**

Thanks, Amy.

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**Operator**

Fabian Wenner, Kepler Cheuvreux.

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**Fabian Wenner - Kepler Cheuvreux - Analyst**

The first question to Patrick. As a consequence of the difficult MaterialScience demand situation, do you foresee any changes to your own CapEx plans? Or maybe to that of competitors as you implicated, specifically talking about polycarbs in Krefeld. Are you pushing that out a little further? Also polyurethanes in Caojing, are you ramping up slow -- more slowly? Or what are you doing with regards to that? Also could you give a little more insight in the utilization in quarter two for polycarbs and polyurethanes. Then lastly, you -- basically in your guidance for Q3, you said, well, basically for the full-year, the reconciliation would be better year-over-year. It wouldn't be like EUR200 million impact, but more like EUR120 million. What is that triggered by? Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Patrick, on the CapEx plans and utilization?

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**Patrick Thomas - Bayer AG - MaterialScience**

Yes, Fabian. Thank you for that. In terms of CapEx, we are moving forward with CapEx levels pretty much at depreciation for the next few years. We do have some expansion plans. I think the polycarbonate unit in Krefeld-Uerdingen is not a plan that we announced or talked about. No, I don't think we have had any announcement on that there. On polyurethane, we are just completing a debottleneck in Caojing, which is needed, particularly to get our product balance correct. In terms of polycarbonates, we can bring the capacity that we are expanding and challenging to the market at the right time. There is no pressure in terms of project completion. The projects are underway.

We can manage to a large degree the planning of supply and demand to meet the needs of the market in that case. So that is the overall view in terms of CapEx. In terms of utilization, then certainly in polyurethanes, I would say that the supply and demands in terms of total industry for MDI is running into the top 80%, somewhere around about 87% of nameplate. In TDI, it is slightly lower. It is always slightly lower because TDI class is slightly less reliable. In polycarbonates, it is running at about the level of 85% as an industry utilization. So all of those are lower than we would like them to be. But we see particularly, the polyurethanes by (inaudible) balance tightening as we go into the next 2-year period really. There's very few new capacities coming on stream.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thank you. So Werner Baumann, can you answer the reconciliation question? Why it has come down?

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**Werner Baumann - Bayer AG - CFO**

Yes, Fabian. The (inaudible) factors which drive the recons up from our former guidance. We do have a somewhat better performance of our service units that should contribute to that positive development. On top of that, we have also reduced costs and investment in a number of areas, in a number of function of the areas. In, already the second quarter of this year, which should now start to contribute in the second half towards that positive development.

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**Fabian Wenner - Kepler Cheuvreux - Analyst**



Can I just pull up on the MaterialScience quickly? Patrick, can you tell us, you were mentioning something about competitors being maybe less reliable in terms of supply. Can you name anything in particular, any region at least, if you don't want to name a corporate --

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**Patrick Thomas - Bayer AG - MaterialScience**

Fabian, in Europe at the moment, there are a couple of MDI firms that are struggling. But if you check out (inaudible), you will be able to see the fate of one.

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**Fabian Wenner - Kepler Cheuvreux - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Good. Thank you, Fabian.

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**Operator**

Jeremy Redenius, Sanford Bernstein.

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**Jeremy Redenius - Sanford C. Bernstein & Company, Inc. - Analyst**

It is Jeremy Redenius from Sanford Bernstein. First on CropScience, could you talk us through the success or potential success you're having with the integration you've talked about between your seeds and chemicals -- go to market models? Have you been seeing cost synergies or revenue synergies as part of that model so far? Second, what are you seeing about the price and volume developments for CropScience as we move into the second half of the year? What are your expectations? Then on MaterialScience, could you quantify the impact and the downtime you saw in this quarter, please? I'm just trying to get a feel for the EBITDA impact or perhaps the volume lost? Then lastly, with polycarbonate, what do we need to see in terms of demand outlook to absorb the surplus capacity that were you describing? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay, Liam Condon, you can talk about integration of seeds and crop protection?

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**Liam Condon - Bayer AG - CropScience**

Yes. We tend to talk about our integrated solutions offers that we have. Here we're talking very specifically about offering total solutions ranging from crop protection, which are for us including synthetic chemicals, but also biologicals, on to seed growth and the treatments to enhance seed growth, then to seed itself. I think the best example for us is the area of canola and where we are particularly strong in Canada, as a market leader. This is a model that is working very well in many of our markets. Reality is, this year, now specifically in quarter two, that most of our growth is driven by crop protection. This is because the seeds business was particularly hit hard in the second quarter by the long, too long and too cold and too wet winter in the northern hemisphere.

So I think overall, the model is working very well. What's driving our growth in the first half of the year -- in the first quarter -- the second quarter and the first half of the year, is very specifically crop protection. On the outlook for the year, we are definitely very confident about maintaining our guidance for the year. We don't see any reason to change that. It is a little bit too early to call how the harvests are actually going to come in and how commodity prices will develop. But we feel very, very confident about our overall guidance. We traditionally have, let's say, a relatively weak third quarter. It tends to be the off-season. We get returns from seeds, which will for sure happen this year because of the lack of seeds that was planted in the second quarter. But overall, we feel very confident about the outlook for the remainder of the year.

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**Marijn Dekkers - Bayer AG - CEO**



Good. Thanks, Liam. Patrick, do you want to answer the question on quantifying the impact of downtime and polycarbonate demand?

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**Patrick Thomas - Bayer AG - MaterialScience**

Yes. Jeremy, the rough impact to the plants have turn-arounds and shutdowns during the second quarter was around about EUR15 million to EUR20 million on the bottom line. In terms of polycarbonates growth, we actually saw a minus 1% between quarter one and quarter two in the polycarbonate market and in our own sales. That is driven primarily by Asia. Remember, it's 60% of the whole polycarbonate market is now Asia and about half of that is in China. The industry segments within that, which are causing that decline, is really a slowdown in the electronics industry, particularly consumer electronics. Also some slow down to a less extent with some in the automotive industry in Asia as well. We are also seeing much increased competition in Asia, which is the pricing effect. There's two dynamics there of the highest concentration of competitors in Asia, because it is the main market. We also have three Japanese players who are benefiting from the weaker yen and able to compete much more easily in the Chinese market. So what we would need to see to make it look happier, we need to see a return back to the 5% underlying growth rate. To see that, we need to see the recovery primarily in the electronics and automotive sectors.

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**Jeremy Redenius - Sanford C. Bernstein & Company, Inc. - Analyst**

Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Thanks, Jeremy.

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**Operator**

Matthew Weston, Credit Suisse.

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**Matt Weston - Credit Suisse - Analyst**

A number if I can, please? The first, could you please just clarify your comments around full year 2013 guidance being increasingly ambitious? As I see it, your two biggest divisions were significantly better than the market expected in the second quarter. We've just heard from Liam about being very, very confident in the guidance. You've raised expectations in pharma. So I'm just trying to understand the message. Is it highlighting that you've kept it flat but that's actually a significant improvement because there's the drag from the MaterialScience? Or are you actually telling us there is a real chance that you may have to revise down in the second half of the year?

Then a couple of other quick ones. US Stivarga sales seemed to plateaued 2Q on 1Q, is there a reason why? Do you believe that we'll see a recovery in the second half of the year? Then on China, clearly an important geography for the Healthcare business at Bayer. Comments already of increased investments in SG&A in that category. Given that some of the problems of your competitors in that market, are you confident that you have the right compliance and control in place within your Chinese business? Have you been approached by the local authorities over any concerns around marketing practices? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Matthew, thank you. Just to -- I'll answer the question first on the guidance. So what we have said is we are reiterating our guidance that we gave in April of 2013, three months ago, even though it looks to be increasingly ambitious. There is another sentence in the earnings release, which basically states, remains to be seen now due to weakness in MaterialScience. This is weakness vis-a-vis our plans, not vis-a-vis consensus. But we guide vis-a-vis our own plans. That weakness is compensated by the good performance, stronger particularly in pharma, than we expected, in our LifeScience businesses. So that is one part of it.

The second part is that we of course through certain foreign exchange assumptions, which we are doing based on the average of the first half of the year and then carrying forward into the second half of the year, where there is also some uncertainty. So I would say that the sentence of increasingly ambitious comes from the weaker-than-expected performance in materials and the question on, to what extent the LifeSciences will be completely able to compensate for it. But for now, we believe that is the case. That's why we reiterated our guidance.



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**Marijn Dekkers - Bayer AG - CEO**

Okay. Then the Stivarga sales.

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**Wolfgang Plischke - Bayer AG - Healthcare**

Yes, thank you the question. Stivarga, I believe, had a very strong launch trajectory over the first months in the US, reflecting the unmet need of the patient population who was waiting for this new treatment. We continue to see growth in the US at a slower rate than at the initial launch. We will, I believe, see further progress in the United States. We are fully committed to further drive the progress of Stivarga in the United States. What we also will see, a pickup with the launches in Japan. Later, this year, probably in Europe. This is already somehow exemplified in the progression we have seen from the first to the second quarter.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Matthew, then your question about the GlaxoSmithKline situation in China, let me just start with saying that compliance is a very important focus in Bayer. It is obviously our strict policy to comply with all laws, rules and regulations. We have a zero tolerance policy for employees who do not fully comply with these rules and regulations. To answer your specific question, we have not been contacted by the Chinese authorities in connection with the GlaxoSmithKline situation.

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**Matt Weston - Credit Suisse - Analyst**

Many thanks indeed.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you.

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**Operator**

Andrew Baum, Citigroup.

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**Andrew Baum - Citigroup - Analyst**

It's Andrew Baum from Citi. Four quick ones. First, you guided down for the full-year tax rate. Perhaps you could outline what is driving that? Whether that is sustainable and can be further improved on? Second, could you comment, after R&D, whether Xarelto will be profitable as early as next year? Thirdly, Xofigo, perhaps you could comment on both the rollout as well as the timing of initiation of Phase III combination trials? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Let's start with the tax rate.

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**Werner Baumann - Bayer AG - CFO**

Yes, Andrew. As we have taken our guidance on tax rate down by a percentage point to around 25%, (inaudible) year to date. We believe that is a very achievable rate. Yes, I can also confirm that level is going to be sustainable going forward.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Then profitable. Why they're just so profitable, Wolfgang?

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**Wolfgang Plischke - Bayer AG - Healthcare**

I guess we can follow your expectations and we will be profitable next year. Xofigo, might be just a little bit more insight. We have started to roll out Xofigo, end of May, so we have one month experience in the second quarter. Two months experience now. The primary focus so far is to get [sites] licensed to be able to procure and administer the drug. There, I can give you one figure, an update on the number of patient ready sites across the US. As of July 12, this stands at 164 sites. We are positive that we will see a progression of these sites. We see a progression of the sales, but for sure at a slower rate than we have seen it with the Stivarga, for example. Because it is a more difficult set-up. In terms of trials, for different studies, you asked. I checked with people and we have said that so far, we intend to conduct studies in earlier settings of prostate cancer, including combination studies. We will also go for some exploratory studies in other tumors like breast cancer and osteo sarcoma.

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**Andrew Baum - Citigroup - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Andrew.

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**Operator**

Florent Cespedes, Exane.

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**Florent Cespedes - Exane BNP Paribas - Analyst**

Florent Cespedes from Exane BNP Paribas. A few quick questions. First, on Healthcare, you could give some color on the emerging market performance pharma and consumer products? Secondly, on Xarelto, could we have a quick update on where you stand with the antidote? The last question for Werner. On net debt, what is the reason why you now expect there's an EUR8 billion net debt at the end of the year versus EUR7 billion? Thank you.

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**Wolfgang Plischke - Bayer AG - Healthcare**

I go ahead. So thank you for the question. The emerging markets, you have seen that in Healthcare, we have had a growth in the emerging markets by 8%. If you are interested in the performance in the areas -- countries, in China, we had a growth rate of 12% in the second quarter of 2013. In Russia, for example, we had a growth rate of 12%, especially driven by our consumer care business, 27% growth in the second quarter. In Brazil, I would like to highlight here totally in the second quarter, also impressive 9% growth. Also very much driven by our consumer care business, 45% growth, in Brazil. Then in answer to Xarelto antidote, this development of the antidote is ongoing, also with an external partner. As you know, we entered into a clinical collaboration agreement with Portola. We have our own activities ongoing. There is nothing more which has to be reported now.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Werner, the debt situation --

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**Werner Baumann - Bayer AG - CFO**

Yes, Florent. It is by and large explained by two factors, one is M&A. We have acquired debt and already part of our net debt at the end of quarter two, Conceptus. As of July 1, we have closed [Steigerwald]. These two together account for close to EUR1 billion. Next to that, you will have seen that we have plans to take an additional charge for the acquisition of Schering that a recent jury -- verdict by courts in Berlin, that is another EUR300 million. Those two together lead to the change in guidance by roughly EUR1 billion in net debt.



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**Florent Cespedes - Exane BNP Paribas - Analyst**

Okay. Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Florent.

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**Operator**

Richard Vosser.

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**Richard Vosser - JPMorgan Securities Inc. - Analyst**

It's Richard Vosser from JPMorgan. Just going back to the consumer business. Just wondering how you are going to ensure that your investments in consumer, where you're getting obviously very good growth in the emerging markets, bringing you profitable growth? How should we align to that? How should we think of the margins going forward? Are they going to be under pressure while these rollouts continue and the rollouts that you -- of the brands in the US as well? So an idea there would be very helpful. Then on the CropScience business, the EBITDA that we've got so far in the first half, is substantially stronger than last year.

I think we will be heading towards more than single-digits, high single-digits growth for the year. So just trying to understand what headwinds we should see in the second half? I think you've alluded to returns. But are there any other substantial headwinds we should think about when thinking of the EBITDA? Also, on the top line, for the CropScience business, are we going to see any spillover of demands from the northern hemisphere into the third quarter from the delayed season? Or is it effectively going to be shorter? I noticed that the Latin America, there was very strong in the second quarter, is this going to have any impact on the development in H2? Has there been any pull forward here? Thanks very much.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. So Wolfgang, the consumer care investments, do they lead to profitable growth? How should we think about margins?

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**Wolfgang Plischke - Bayer AG - Healthcare**

Thank you for the question, first off. You should assume, Richard, that we carefully assess our investment into the consumer care business. We are carefully selecting the countries and the trends we are investing in, to assure the appropriate margin development also in the future.

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**Marijn Dekkers - Bayer AG - CEO**

Good. CropScience, potential headwinds in the second half?

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**Liam Condon - Bayer AG - CropScience**

Yes. Apart from what I mentioned about the seeds, returns, which we can expect in the third quarter, we have the issue of basically the fourth quarter for us being very, very dependent on Latin America, where we have this specific product mix. Simply a different profitability than what we have in -- what we tend to have in the first and second quarter, which is driven by the northern hemisphere. So this issue of product mix and with that, also a variance we expect that we would have on the logistical side. These are headwinds that we normally face in the third and fourth quarter. The issue of spillover of -- do we reckon there might be spillover of demand somehow, in the northern hemisphere from second quarter into the third quarter?

We don't necessarily see this. We think that the second quarter had ended relatively normally -- the second quarter, from our perspective. In Europe, there was for sure a lot of purchasing of fungicides, due to the rain and then the heat that followed towards the end of the second quarter. But this is more or less factored in to our plans, but then the third quarter tends to be a little bit weaker. So we see that is a normal pattern. So we don't expect, let's say, a higher third quarter in the northern hemisphere.



We do believe that there are some missed applications, we believe the season will be shorter, particularly on the herbicides side, and because of the very long cold and wet winter.

In LatAm, it is correct, we had a very strong it's an unusually strong second quarter, particularly on fungicides, but also insecticides. This is for sure related to pre-ordering for the season later on. This has to do I think with, at the end of the day, it's a big sign of confidence in the LatAm, particularly in the Brazilian market. There is I think some concern in the market about ability to deliver. So a lot of customers want to ensure that they can actually get adequate supplies. They are ordering earlier than before. We expect the fourth quarter to be very, very strong in Latin America. We don't see, let's say, this early purchasing having any negative impact on our ability to deliver, particularly in the fourth quarter. So we think it is more a sign of confidence in the overall market development, particularly in the fourth quarter for Latin America.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thank you, Richard.

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**Richard Vosser - JPMorgan Securities Inc. - Analyst**

Thanks.

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**Operator**

Christian Faitz.

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**Christian Faitz - Macquarie Research Equities - Analyst**

Christian Faitz from Macquarie. I have a couple of questions. First of all, on CropScience, a complement on your great first half. Can you talk about potential channel inventories (inaudible) in the US on the crop protection side? Then also on CropScience, there seems to be additional competition on the rise for canola in Canada. Can you tell us how you feel about a new entrant trying to get some of your own comfortable market share? Then MaterialScience, can you talk about the current demand situation in China? Also, Patrick, you mentioned that there is some weak demand in automotive having effected your polycarbonates. If I look at global automotive volumes, they seem to be quite okay. So what is the specific issue there on the demand side for automotive? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Yes. Okay. Go ahead, Liam, on the inventories.

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**Liam Condon - Bayer AG - CropScience**

For the inventory side, particularly in the US, we believe there is no, let's say, unnecessary or additional stock buildup. There was, at the end of the day, there was -- all the information that we got, there was absolutely no additional buildup whatsoever. I think what was interesting was, if you split out North America, between US and Canada, you see a very different development. The US was hit pretty hard, both on crop protection and on the seed side. Whereas in Canada, there was actually a very strong crop protection business in the first half of the year, which was largely driven by cereal. So we see it a little bit differentiated in North America. We're not concerned about buildup of stock -- or of inventories at this stage in the US.

Related to canola in Canada, we have a situation that we are basically the -- very clearly, the market leader with approximately 50% market share. As I mentioned earlier, we have what we call a total solution here with not just seeds -- top, top quality seed, but also crop protection and seed growth supporting products. This total package is pretty compelling. There is a new competitor entering the markets, but we don't believe their total package will be as compelling as ours. We would -- let's say we're confident of maintaining our market leadership in canola and cotton, which is a very profitable business for us. So we will do everything to defend it.

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**Marijn Dekkers - Bayer AG - CEO**



Okay. Thank you. Thanks, Christian.

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**Patrick Thomas - Bayer AG - MaterialScience**

On the China effect, there are a couple of effects going on in China going on polycarbonates, one is in quarter one, the traders had very, very high stocks and according to those stocks things were reduced. So that is actually (inaudible) positive news. All industries are relative in China. What we see is very strong footwear and furniture demand, which is good news for our polyurethane business. Automotive is mixed. The foreign brands are taking market share in China at the moment. They're growing better than domestic China demand -- domestic China production. In construction, we see the weakness, which is really the cooling off of the property bubble, which is government driven. The other effect we see in automotive is a rather unusual one. It's the first time we've ever seen it. That is, the refinish business, which is dominated by two component polyurethane, has really dropped off dramatically in the first half of the year.

This can be put down to a number of effects. One is people are just not getting their cars fixed because just knock off of cash or they're taking the cash from the insurance and not using it to repair their vehicles. That is noticeable. That market, the refinish business, which is very important to us, is down about 12% year-on-year. So, an unusual effect, never seen it before. (inaudible) two component polyurethane is growing in its use in OEMs but it is still really dominated by this refinish business. Typically, people don't repair crashes in lots of Asian countries. So the refinish business, which was beginning to grow, has slowed down. We can't really explain it, nor can any of our customers.

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**Christian Fultz - Macquarie Research Equities - Analyst**

Just to clarify, Patrick, when you talk about refinish, you talk about global trends minus 12%?

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**Patrick Thomas - Bayer AG - MaterialScience**

Yes.

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**Christian Fultz - Macquarie Research Equities - Analyst**

Okay. Great. Thanks. Thank you. Very helpful.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you.

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**Operator**

Steve Chesney.

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**Steve Chesney - Goldman Sachs - Analyst**

Steve Chesney from Goldman Sachs. The first, back to guidance, given the update to the pharma new product guidance for 2013, just wondering how we should think about your EUR2.5 billion target for 2015? Then a quick question on the earlier stage pipeline, it seems you have published some fairly interesting Phase II results for the MR antagonist in chronic heart failure, particularly in terms of safety. I was wondering if you could just give us a quick update on development plans and timeline here for heart failure and diabetic neuropathy indication? Also finally or on riociguat ahead of the advisory committee in early August. I wonder if you could describe the evolution of your commercial organization. Assuming you receive a positive recommendation, when do you think you can launch the product? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. First start with guidance, for 2014 or 2015 on the new products.



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**Wolfgang Plischke - Bayer AG - Healthcare**

Yes. I understand your interest in this, but I guess -- let's see the progress in the third quarter, fourth quarter, and the guidance we have given this year. For sure, we are positive about this, but it is not the time to do this, [especially today]. Second, MR antagonist, I'm not in the situation today to share any more insight with this part, I have to apologize. When we have the next opportunity at our Management Meeting, more than willing to share some more insight into the MR antagonist. Riociguat, I can. We are in preparations for the launch of the product. Because of being optimistic, we are expecting or are prepared for launch still in 2013. You have probably heard or are aware of the fact that we have an ADCOM at the FDA on August 6. The PDUFA date also public. The action date is in October, in the United States. We are quite excited about this new entry, because it is further strengthening our cardiology franchise. Especially in this segment, with this new mechanism, with this new target, we are approaching here, we are rather unique. There is no competitor around, with the ability to create a pulmonary arterial hypertension and CTEPH and probably look at a pool for both of these indications.

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**Steve Chesney - Goldman Sachs - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you.

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**Operator**

Damien Conover.

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**Damien Conover - Morningstar - Analyst**

This is Damien Conover with Morningstar. Just two questions. I had a question on Betaseron. Just was wondering if you could update us with your outlook for the product given the strong launch of Tecfidera? Then secondly a question more strategically on the pipeline. Given the very strong success that you've had over the recent years of bringing products through the late stage. The late stage pipeline now looks a little bit more depleted. Was wondering if there is an effort here to really try to reinvigorate that part of the pipeline? Then also, if you would highlight any late stage pipeline products that you think have the most potential? Thanks a lot.

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**Wolfgang Plischke - Bayer AG - Healthcare**

Yes. Thank you for this question. First one was around Tecfidera, Biogen. What I can tell you is there is, yes, they are increasing market share. That's happening, that's what we are observing in the market. In terms of our pipeline and the next interesting assets here, you will see that we mentioned only two or three of them for the time being. The MR antagonist was mentioned already by one of your colleagues. That is a very exciting asset. PI3-Kinase, we also have one in development. Also a very interesting pipeline asset. Then we have another sGC compound in development. Also very interesting, very unique, for Bayer. So what we are currently doing is to further push our ability to accelerate these assets in order to have a clear sustainable growth story also for the future.

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**Marijn Dekkers - Bayer AG - CEO**

Thanks, Damien.

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**Operator**

Ronald Koehler, MainFirst.

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**Ronald Koehler - MainFirst Bank - Analyst**



It is Ronald from MainFirst. A quick question on Healthcare, precisely on Nexavar value, you spoke about price increases. Can you a bit elaborate of what this price increase is? Where in the US? Did you have any other kind of meaningful price increases in your portfolio? Second question, on CropScience, obviously everyone is extremely bullish on Brazil. We heard [Syn-genta] saying that they had 25% higher inventories prepared for Brazil. You said at the same time, people are a bit scared that they do not have enough product available. Is there a risk that, meaning if the weather would be better or so, that you will sit on a lot of inventories, including your own, I guess? So how your preparation is for the season? Yes, 25% or something like that, is it really an achievable number?

Third question for Patrick on bio MaterialScience. China. Could you a bit elaborate or obviously or would/could inform, in terms of what you would expect from some, let's say smaller stimulus or anything, what you're looking for versus the second half in China? A second question on polycarbonate. Obviously you are talking about these long-term growth trends, 5%, 6% or so. When you look at, let's say, the last 1.5 years, I haven't seen any growth in your portfolio. So, either you are losing market share and the market is growing or the market stopped growing. Obviously if you can a little bit elaborate, is there still a growing market? Are you losing market share? Or what is the development? Why are you not growing?

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thanks. So let's start with Wolfgang, the mix of our price increase.

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**Wolfgang Plischke - Bayer AG - Healthcare**

The effect you see in the sales here is partly in light of price increases in the US. That is the only price increase we did for Nexavar. I don't want to comment on future steps. Then I have to go back because I missed one point for Betaferon, the outlook for Betaferon. For Betaferon, we have guidance now. The sales growth declined by about 10%, in the future. You might have also seen an effect in the second quarter, from the decline. But there, you have to compare the second quarter of 2012, which was exceptionally strong, because at this time, we had price increases in the US. We also had some other effects like some FX headwinds, et cetera.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Good. So let's go to Brazil. CropScience.

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**Liam Condon - Bayer AG - CropScience**

Yes. You're absolutely right that everybody is very bullish on Brazil at the moment -- or Latin America in general, but specifically in Brazil. This is, I would say, largely based also on our pre-order books. So apart from sales that we have already invoiced now in the second half, what we clearly have as well, is very firm indications of what the orders will be, for the fourth -- for the third and fourth quarter. It is very, very strong pre-ordering. So we are, let's say, not at this moment concerned about inventory buildup. Our main concern is ensuring that we can supply the market adequately. That is a top priority and top attention for us at the moment. As always, the issue of weather impact and the risk that something might happen. But the reality is in Brazil, this tends to be a much less volatile just from an agriculture weather point of view than from the northern hemisphere -- is in that sense, a much more reliable with great heat and usually fairly reliable rain. So it is perfect ingredients that come together there, which is at the end of the day, why the region is booming so much from an agriculture point of view.

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**Marijn Dekkers - Bayer AG - CEO**

Good. Patrick, on MaterialScience, any insight in the politician's minds with respect to common stimuli?

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**Patrick Thomas - Bayer AG - MaterialScience**

No, particular insights in terms of the politicians minds. Particularly in China, there has been some announcement of new stimulus to try and avoid the economy slowing down too much. I guess, everybody's seen that in the paper. What we -- I think probably the most common sentiment people feel at the moment is when the government announced its 7.5% GDP. We feel like 2.5% GDP. I think a lot of the industrial players are feeling the same sort of sense in China at the moment. So this lack of infrastructure projects, railway transportation, the latent ban by the Chinese government on any new government buildings, so all the regional governments are now stopped from building their large opulent office buildings. That is slowing down the construction sector. I think the stimulus that we've seen in the past around domestic appliances and things hasn't really been repeated. The scheme that was running to promote electro mobility and electric vehicles, doesn't -- although the scheme is there, it doesn't seem to be being picked up by consumers. So I think there is a bit of a mismatch sometimes between the aspiration of the Chinese consumer



and the stimulus zone which is being used by the government. So that's all I can really say about China and the stimulus. In terms of polycarbonates, in last year 2012, polycarbonate grew worldwide by 8%.

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**Ronald Koehler - MainFirst Bank - Analyst**

Sorry, I didn't catch that, 8% you said?

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**Patrick Thomas - Bayer AG - MaterialScience**

8%. Yes. Last year, the world market grew by 8%, which was well ahead of the norm. This year, we saw, I think, it was a minus 6% in quarter one, and then a minus 1% between quarter one and quarter two. That's -- we haven't gotten the year-on-year numbers yet. But when we next get together, we will have a chance to share the detailed numbers as they come out on polycarbonates. It's something we're watching very, very carefully. The construction industry is certainly the lower end of the value chain. It's not growing strongly. We are following, what I would call, a value before volume approach in polycarbonates. If you look at our mix, the reason our price levels are relatively stable, in peace yet in quarter two is because we have increased the volume of compounded and more advanced resin material business, compared to the more commodity grades that would be going into our full [data] storage and into extruded sheets, for example, for construction. So there is a bit of a remanagement, rejuvenating of our portfolio to reduce the vulnerability to the construction industry, in particular, to reduce vulnerability to the declining onto our data storage market.

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**Marijn Dekkers - Bayer AG - CEO**

Okay.

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**Ronald Koehler - MainFirst Bank - Analyst**

Okay, thank you.

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**Operator**

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

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

Okay. Ladies and gentlemen, also on behalf of my colleagues, I thank you for being with us on the call and for your questions. Before closing the call, let me draw your attention to our next Investor Relations event, which is our Meet Management Meeting on October 8, in London. Hopefully, we will see you all there again. Thank you. Goodbye.

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**Operator**

Ladies and gentlemen, this concludes the second quarter 2013 results investor and analyst conference call of Bayer AG. Thank you for joining. You may now disconnect.





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