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BAYN.DE - Q3 2012 Bayer AG Earnings Conference Call

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OVERVIEW:

BAYN.DE reported 3Q12 Group sales of EUR9.7b and core EPS of EUR1.20. Expects full-year 2012 currency and portfolio adjusted sales increase of between 4-5% and full-year 2012 core EPS to improve by about 10%.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's Investor and Analyst Conference Call on the Third Quarter 2012 Results. (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 IR

Thank you, Cleo. Ladies and gentlemen, good afternoon. It's my pleasure this afternoon to welcome you also on behalf of my colleagues to review our third quarter results with you.

Joining me on the call today are Marijn Dekkers, our CEO; and Werner Baumann, our CFO; and the representatives from our subgroups, Joerg Reinhardt from HealthCare; Sandra Peterson from CropScience; and Patrick Thomas from MaterialScience.

Marijn will start off with a brief summary of the developments in the quarter.



We assume you have all received and reviewed our stockholders newsletter, the investor and analyst briefing document, and the conference call slides so that Marijn can focus his introduction on the main points.

Before we get into the results for the quarter, let me remind you to carefully read through the safe harbor statement. (See "Disclaimer" chart at the end of this transcript). Thank you.

Marijn Dekkers - Bayer AG - CEO

Good afternoon, ladies and gentlemen.

During the third quarter, Bayer continued to be on track for a successful 2012. The quarter was marked, above all, by the continued expansion in our life sciences businesses. MaterialScience showed good quarterly sales and earnings power. However, there was a weakening trend as the quarter progressed.

Reported earnings were impacted by high special charges. Adjusted earnings, however, improved, driven by the good business momentum at HealthCare and CropScience.

Our innovation pipeline continued to develop positively. We achieved important regulatory milestones and reported positive phase III results on riociguat last week.

Further strategic progress was made with the acquisitions of Schiff Nutrition for consumer care, Teva's US animal health business, and AgraQuest for CropScience.

Against this background and based on our expectations for the last quarter of 2012, we are reiterating our guidance for the full year.

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

Group sales rose by 5% to EUR9.7 billion. All subgroups contributed to the increase. HealthCare and, particularly, Pharmaceuticals gained further growth momentum. At CropScience, the strong business development seen in the first half of the year continued unabated. And MaterialScience also registered good quarterly sales.

Reported earnings in the quarter were impacted by special charges of EUR356 million. Included here were EUR205 million in further accounting measures for all cases in connection with the oral contraceptive Yasmin/YAZ of which we are currently aware and which we consider to be worthy of settlement. Other special charges were restructuring expenses of EUR134 million and impairment losses of EUR68 million on intangible assets.

Special gains of [53 million] resulted from adjustments to certain post-employment benefit entitlements in the United States.

Reported EBIT thus decreased by 24% to EUR838 million.

Adjusted EBITDA improved by 2% to EUR1.8 billion, driven by higher sales at HealthCare and the continued, strong business momentum at CropSciences, which overcompensated for a weaker performance at MaterialScience.

Margins at MaterialScience weakened, especially towards the end of the quarter.

In addition, the rise in Bayer share price in the third quarter led to a substantial additional allocation of about EUR110 million to our stock incentive programs.

Currency effects of around EUR160 million, primarily at HealthCare, contributed positively to earnings growth. Core earnings per share rose by 7% to EUR1.20.

From a regional perspective, the strongest growth was again generated in the US, where business moved ahead by 9% in the quarter, driven by the strong business expansion at HealthCare and CropSciences and solid growth at MaterialScience. In the emerging economies, we achieved a 7% sales increase. These markets accounted for 39% of Group sales. The highest growth rates were in Latin America and eastern Europe. Emerging Asia grew by 7%, with China posting a 17% increase.

Gross cash flow in the quarter declined by 23%, mainly because of the lower operating result. Net cash flow, however, rose by 26% due to a decrease in cash tied up in working capital.

Net financial debt declined by EUR7.9 billion at the end of June to EUR6.8 billion on September 30 due to the strong operating cash flow.



So let's now move on to the performance of our subgroups, beginning with HealthCare.

Sales of the HealthCare subgroup increased by 5% to EUR4.6 billion, driven by the positive developments at both Pharma and Consumer Health.

From a regional perspective, business developed particularly well in the US and in the emerging markets.

Adjusted EBITDA moved ahead 6% to EUR1.3 billion.

At Pharma, sales rose by 6%, driven by the growth of Xarelto and other key products.

With Xarelto, we achieved sales of EUR81 million in the quarter, following market launches in further countries and the expansion of indications. Given the positive development during the first nine months, we are confident of exceeding our original sales target of EUR250 million to EUR270 million for the full year of 2012.

Sales of Kogenate improved 9% due to increased shipments to our distribution partner in the quarter and by higher volumes resulting from Atenza business in Australia.

Revenues from Mirena increased significantly, by 22%, mainly as a result of higher volumes in the US.

Glucobay sales advanced 24% on strong performance in China.

Good growth momentum was also achieved with Aspirin Cardio, up 13%; Zetia, up 8%; and Fosrenol, up 36%.

As we expected, revenues from our YAZ/Yasmin line of oral contraceptives and from Betaseron declined by 4% and 6%, respectively.

From a regional perspective, growth at Pharma was achieved mainly in North America, where business was up 11%, and, in the emerging markets, especially China. Business moved ahead 9% in the emerging markets as a whole and by 34% in China.

Adjusted EBITDA of Pharma increased by 8% to EUR827 million. Earnings benefited from higher volumes and from positive currency effect. This was partly offset by increased expenses for the marketing of new products and the steady expansion of our commercial activities in the emerging markets.

Also important for our Pharma business is that we achieved significant regulatory and scientific milestones in recent months. Eylea achieved a positive opinion from the CHMP for approval in Europe in wet AMD and was approved in Japan for the same indication.

Regorafenib, or Stivarga, was approved in the US for metastatic colorectal cancer, was granted priority review in Japan for this indication, and was filed for GST in the US.

On Xarelto, we got positive CHMP opinion for the treatment of PE in Europe and were granted priority review in the US for the treatment of DVT and PE.

And then, lastly, just last week, we reported exciting, new data from two phase III trials on riociguat. Riociguat was the first drug to demonstrate efficacy in both PAH and CTEPH, and this is a major achievement. And we're looking forward to further explore the potential of this asset.

Now let's look at Consumer Health.

Sales in the Consumer Health segment rose by almost 5% in the third quarter, with our OTC pharmaceuticals in the consumer care division generating a top line expansion of 5%, our medical care division of 1%, and our animal health division of 11%.

Also, the Consumer Health segment developed especially well in the emerging markets and in North America.

Adjusted EBITDA of the Consumer Health segment came in at EUR470 million, 3% above the prior-year quarter.

Further, strategic process was made with two bolt-on acquisitions in our Consumer Health business. In September, we announced the acquisition of the US animal health business of Teva for up to \$145 million. This acquisition will strengthen our animal health business in the food and the companion animal segment.

And, this morning, we announced our plan to acquire Schiff Nutrition International for approximately \$1.2 billion, representing \$34 per share in cash. This acquisition will strengthen Bayer's leading OTC business and complement our existing nutritional business with well established, strong brands -- Move Free to promote joint



health, MegaRed to support cardiovascular health, Airborne to support the immune system, and Digestive Advantage, a digestive support product containing a probiotic. Schiff generates some 70% of its sales with these four products. We believe that the products to be acquired have further market potential also outside of the US.

In addition, Schiff's products will, effectively, complement our existing OTC portfolio. One example is the possible interplay between Aleve to relieve acute joint and muscle pain and Move Free to support joint health.

On a standalone basis, Schiff is planning more than \$370 million in sales in fiscal year 2013. The relevant market is growing at 6% per annum.

Significant synergies can be realized in areas such as administration, as well as in the improvement of working capital management and other efficiency measures. Sales synergies are expected from expansion of the product portfolio into additional markets.

The transaction values Schiff's business at 17.8 times consensus EBITDA for the fiscal year 2013. This acquisition is immediately accretive by EUR0.03 to core EPS and dilute Bayer's reported EPS by EUR0.02 in 2013 and is expected to be accretive thereafter.

We are convinced that the planned acquisition will further strengthen our leading OTC business and add value for Bayer's shareholders. The transaction has already been approved by Schiff's shareholders. Closing is subject to the relevant regulatory approvals and expected by yearend 2012.

Now let's move on to CropScience.

Sales of the CropScience subgroup advanced by almost 13% in the quarter to EUR1.6 billion, thus continuing the strong business momentum of the first half year.

Crop Protection sales advanced 12% and developed positively in all product groups and regions. The expansion of business with our seed treatment products, renamed as seed growth, was particularly strong, gaining 24%.

Crop Protection sales in Europe rose by 17%. This increase was mainly driven by strong seed growth sales in Germany, France, and the United Kingdom. The herbicides business also registered significant gains, mainly due to fall applications in [cereals].

We achieved strong third quarter growth in North America, as well, with sales up by 11%. The drought in the United States has only a marginal effect on our business so far. Sales in the Asia Pacific region rose by a moderate 3%. This was largely attributable to increases for herbicides and seed growth products. Sales in the Latin America, Africa, and Middle East region advanced by 11% year on year. Growth there was mainly driven by increases in Latin America, especially Brazil, where the fungicides business developed especially well in the third quarter.

Sales of seeds climbed by a substantial 39%. Growth there was driven by sales gains in North America, particularly for canola seed.

Sales of the environmental science business unit developed positively overall, rising by 9%.

Adjusted EBITDA of CropSciences advanced by 15% to EUR189 million, driven by higher volumes and favorable currency effect. Progress made with our efficiency improvement programs also had a positive impact on earnings. However, manufacturing and selling expenses increased.

Further strategic progress was also achieved at CropScience. The acquisition of AgraQuest will allow us to integrate innovative, biological pest management solutions based on natural microorganisms into our portfolio to significantly strengthen our fruits and vegetables business. The transaction price here was EUR340 million, plus milestones. The acquisition will allow Bayer to offer farmers a truly comprehensive range of integrated crop solutions based on seeds, traits, and combined chemical crop protection and biological control.

Now, let's move to MaterialScience subgroup, where sales advanced 3% in the quarter to almost EUR3 billion. This growth was the result of higher volume. Selling prices declined slightly overall.

The Polyurethanes business unit raised sales by 10%. This increase was mainly driven by higher volumes in all product groups and regions. We also achieved price increases in all regions, except North America.

The Polycarbonates business posted sales down 11%. This was attributable, particularly, to lower selling prices and somewhat lower volumes.



Sales in CAS, the Coatings, Adhesives, and Specialties business unit, moved forward by almost 3%, driven by higher volumes. Prices as a whole were slightly lower than the prior-year level.

Adjusted EBITDA of the MaterialScience subgroup declined by 4% to EUR333 million, largely as a result of higher raw material and energy costs and a slight drop in selling prices. These factors were only partly offset by volume growth, savings generated by efficiency improvement programs, and positive currency effect.

So, following the good operating performance in the first nine months of 2012, we're also confident for the remainder of the year and are, thus, reiterating our sales and adjusted earnings forecast for the full year that we had already raised in July. So, for the Group, we continue to anticipate currency- and portfolio-adjusted sales increase of between 4% and 5%. We plan to increase EBITDA, before special items, by a high, single-digit percentage. Core earnings per share are expected to improve by about 10%.

On HealthCare, guidance is unchanged compared to the previous quarter. We expect sales to increase by between 3% and 4%, and we plan to improve adjusted EBITDA by a mid, to high, single-digit percentage to which high, positive currency effects will contribute.

On CropScience, our guidance is also unchanged. We anticipate organic sales growth of approximately 10% and adjusted EBITDA approximately 20% up over last year.

For MaterialScience, our guidance is also unchanged, except a slightly more positive view on the top line development. In the fourth quarter of 2012, we anticipate a significant currency- and portfolio-adjusted sales gain and significantly higher EBITDA, before special items, compared to the weak, prior-year quarter. For the full year 2012, we plan for a small currency- and portfolio-adjusted sales growth and EBITDA, before special items, in 2012 to remain level with the prior year, 2011.

So, before we open the Q&A session, let me just summarize the main points.

First, we delivered good business momentum in our life sciences business groups, HealthCare and CropSciences.

Further, strategic progress was made with the acquisitions of Schiff Nutrition for consumer care, Teva's US animal health business, and AgraQuest for CropScience.

Our innovation pipeline continued to develop favorably.

We are confident that Bayer is on track for a successful 2012 and are reiterating our guidance for the full year.

And that concludes my remarks, and we would now be happy to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). [Mrs. Sachin].

Sachin Jain - Merrill Lynch - Analyst

Hi. I think that's me, Sachin Jain, Bank of America Merrill Lynch. Three questions, please.

Firstly, some more details on the cost progression in CropScience that hampered margin progression in the quarter. How do we think about marketing and selling expenses going forward from here?

A second question on YAZ litigation. Any comments on what you can say regarding how near the end of this provisioning process we are? I think we've been through the course of this year -- each quarter, we believe we're adequately provided for, and then more provisioning comes. So anything you can give us on that and what particularly surprised in the quarter there.



And then, thirdly, on riociguat. Now that you have the phase III data, I just wondered if you could give us any color on peak sales guidance and how you're thinking about that, that you usually give for products where you have data delivered. Thank you.

Marijn Dekkers - Bayer AG - CEO

So, Sandy, cost progression in Crop?

Sandra Peterson - Bayer AG - CEO CropScience

As you know, the third quarter for CropScience as it relates to earnings is the smallest quarter of the year. So, it's usually around 10% of total. So you have to think about it in that context.

Overall, we continue to see positive progression in terms of COGS as a percentage of sales, as well as sales and marketing as a percentage of sales, both through all the initiatives we've done through the cost restructuring, as well as the positive progress we're getting from some of our higher volumes and demand for our business. So the top line is helping us.

What you see in the third quarter, specifically, is there are two, very small, one-time adjustments that were made to the numbers. One of them has to do with what you already have heard about, shifting some of our trade income to earlier in the year from the third quarter. And the second one has to do with a small amount of one-time costs associated with the acquisition of AgraQuest.

So, in general, we continue to make positive progress, both in our COGS performance, as well as our sales and marketing reinvestment but, also, managing them as a total of our top line growth. So we're feeling good about where we are on costs, and we believe that we will continue to see the positive progress through the rest of the year.

Marijn Dekkers - Bayer AG - CEO

Okay, Sachin, Werner Baumann will answer the YAZ question.

Werner Baumann - Bayer AG - CFO

Yes, Sachin. We had quite a significant number of additional claims in the third quarter. Overall, it's about 12,400 by now which have been served as lawsuits. In addition, we had a little more than 700 claims which were pending and had not been filed in court. Those have been included in our calculations. We assume that they have been sitting at the plaintiffs' lawyers' desks, and now we're served after us having taken that provision out for quarter two.

We also continue to receive further claims on a weekly basis, yet we don't have enough data of, let's say, the normal, weekly filing pattern which would allow us at this point in time to take an overall provision. We will need a few more months until we hope to be in that position.

Marijn Dekkers - Bayer AG - CEO

And then riociguat?

Joerg Reinhardt - Bayer AG - CEO HealthCare

Obviously, riociguat is a quite interesting molecule and has shown really exciting data in two indications. As you know, Sachin, in CTEPH, there is nothing on the market at the moment. And, actually, the absolute numbers of patients who are eligible for treatment in that indication is not that clearly defined

But, when we assume that there are between 20,000 and 30,000 patients that are eligible for treatment with riociguat in CTEPH alone, then I think one can estimate that the potential for the product should be exceeding a EUR500 million threshold.



Now, in addition to that, as you know, we have shown quite exciting data also in PAH, which data which are, in my eyes, comparative to what others have shown. And I believe that, also in PAH, there's an opportunity for the product which is difficult to quantify at the moment. So, in addition to that, we will continue to exploit its mechanism of action, and we'll see what we can do with this compound.

Sachin Jain - Merrill Lynch - Analyst

Thank you very much.

Operator

Mr. Weston.

Matthew Weston - Credit Suisse - Analyst

Three questions, if I can, the first relating to the Schiff acquisition. Just very simply looking at the share price chart, clearly, it's a stock that's done extremely well over the course of 2012. I guess my question is -- why now, when you didn't think it was interesting at \$10 per share?

Secondly, also continuing from Schiff, previously you had said that you would use incremental cash flow to move pension liabilities off the balance sheet. Does the acquisition and spending mean that you're going to delay doing that?

But, also, we've seen a number of your competitors over the course of 3Q raise the issue of additional charges for IAS-19 being restated from next year, and I just wondered whether or not you could give us some indication of what P&L impact IAS-19 will have on Bayer.

And then, finally, following on from Sachin's question, clearly, we've seen positive data from riociguat. Xarelto is in the process of launching. And we have three other compounds due to be commercialized next year. Can you give us some indication of how we should look at Pharma SG&A going into 2013? Clearly, the Pharma margins have been impressive this year. How much should we assume will need to be reinvested going forward?

Marijn Dekkers - Bayer AG - CEO

Okay, Matthew, I'll take the first question.

You know, it's a funny thing when you want to buy something. It has to be for sale. And, in this case, with Schiff, there are two majority shareholders that have the majority of the voting rights. And we've been talking to these two shareholders for a particular point in time -- for a period of time. And, at \$34, now we could convince them to sell their company to us.

But, given the shareholder structure, it's a little bit hard, given the somewhat limited float to just look at share price alone as an indication of the value for the company. If you look at the ratios in terms of sales and EBITDA for 2013, we think that we paid a very fair price for Schiff.

Werner Baumann - Bayer AG - CFO

Yes, Matthew, we have, of course, been a little bit more acquisitive with the liquidity position we have during the year. At the same time, we have also been generating significant free cash flow. And, with that, we continue to look at the possibility to fund some of our unfunded pension liabilities by the end of the year. Yet, at this point in time, we have not made a final decision to do so.

Secondly, you asked about IAS-19. All effects together are looking both at the pension side and also at the US (inaudible) would result in an incremental, high, double-digit million expense for 2013.

Last but not least, riociguat -- that's a question --

Marijn Dekkers - Bayer AG - CEO



(Inaudible). It's an SG&A question for Pharma going into 2013.

Joerg Reinhardt - Bayer AG - CEO HealthCare

Yes. So, we have been guiding midterm, as you know, for Pharma margin of above 30% in 2014. Now, when you look at Pharma margins at the moment, this quarter, were 30.2%. And, when you look at nine months, it was 29.9%. So we are pretty much around that order of magnitude. Now, that also implies that there is not a significant improvement to be expected now in the next two years as compared to this year's situation.

Now, we know that we will have to continue to invest significantly for the new products to come up, but you also know that two oncology products, for example, or even Eylea, are not at the same level of investment what you had for Xarelto -- or we did have for Xarelto.

So, overall, I mean, we will strive to keep our Pharma margins at this level, and we will -- we still believe that the opportunity to reach above 30% in 2014 exists, and we will make sure at the same time that we will not under invest because these products need to be adequately supported. And we will do everything we need to do to keep them growing.

Matthew Weston - Credit Suisse - Analyst

Thank you.

Operator

Mr. Wenner.

Fabian Wenner - Kepler Capital Markets - Analyst

Three quick questions, please. I just wanted to confirm that you already include potential impacts from Sandy for the fourth quarter. We know you operate out of Baytown, but you may be impacted by delays in input factors.

And, secondly, just a follow-up on the selling and marketing. Where do you still see major gaps in the distribution networks that you may need to close? And how much will that cost approximately?

And then, third, the capital costs in MaterialScience. The gross cash flow stands at EUR730 million after nine months, and that's versus EUR10.5 billion of capital invested. Are you confident to cover that cost of capital this year for the division? And, if not, how does the board think about this issue going forward?

Alexander Rosar - Bayer AG - Head IR

Fabian, would you mind repeating the second question? We didn't get it.

Fabian Wenner - Kepler Capital Markets - Analyst

Sure. That was just a follow-up on the selling and marketing. Where in your distribution network do you still see major gaps that you need to close, and how much will that cost approximately? So, infrastructure.

Marijn Dekkers - Bayer AG - CEO

In Pharma?

Fabian Wenner - Kepler Capital Markets - Analyst



Well, I think, across the Group, really, because you also said that, in CropScience, you're building up infrastructure.

Marijn Dekkers - Bayer AG - CEO

Okay. On the impact of Sandy, this is very hard to say. It's very early. But I think the good news is we do not have very large manufacturing facilities on the northeast side of the United States. We have a very important one in Berkeley on the west coast. We have a very important one, of course, for MaterialScience in Texas. We have one in the Midwest, in Kansas. But nothing really big. And, therefore, from a disruption from a production point of view, we're really not that nervous.

It's very hard to generically answer your question with respect to no commercial presence. I think, in general, we have very good commercial coverage.

But, of course, this wonderful pipeline that we are introducing in Pharma requires very, very dedicated, new sales and marketing capability that is incremental to what we already have. And it's also an incremental sales opportunity, so very justified.

And I would say, on the CropScience side, that, with the growth that the crop sciences industry is experiencing in Latin America, that's an area where incremental, commercial resources are very much required, and we're investing there significantly.

Then, on the capital cost of MaterialScience, I would like to ask Patrick Thomas to answer the question.

Patrick Thomas - Bayer AG - CEO MaterialScience

Yes, Fabian, I think the way to look at this is that, at the moment, we're running very close to the cost of capital. As we came out of the recession, we've been at or close to that cost of capital for the last couple of years.

Looking forward, of course, we now have the investments we've already made over the last five years, particularly in China, to now fill up in terms of occupancy and utilization. So it's rather like it's growing into our clothes now, having made a significant level of investment in new capacity in China.

Forward looking, our CapEx over the next three years will run pretty much at depreciation level. So I think you'll see that recovery over the next 18 months to above the cost of capital.

Fabian Wenner - Kepler Capital Markets - Analyst

Thank you.

Operator

Mr. Race.

Tim Race - Deutsche Bank - Analyst

A few questions; first, on CropScience pricing. I know I ask this all the time. But, in terms of the price element that we see, it seems to be relatively low compared to peers. Is this due to the mix effect not quite being captured in what you would class as price? Or is this that you're actually going for the volumes these days? And maybe a comment on how you expect price to look going forward.

Then a question just on the tax rate outlook. In your guidance, you've lowered the tax rate for this year. I presume this is due to the one-off items and the YAZ settlements. If you could, just explain on that but, also, what you expect going forward. Should we expect a lower level?

And then maybe just on the Pharma side on Alparadin. Could you just give me a progress report on your regulatory submission there? Are we still confident for 2012?

And I'll leave it there. Thank you.



Sandra Peterson - Bayer AG - CEO CropScience

Yes, we try to explain this. We're actually pretty satisfied with our price impact in the third quarter and also what we're seeing in terms of our ability to take price in the fourth quarter and as we're preparing for 2013. And, as you said, the impact for us -- to a large degree, it is because we have so many new products that are not incorporated in the base business price effect, which has positive pricing associated with it. So there's a mix effect. We absolutely are not driving a volume strategy.

The business has continued to drive a strategy that's focused on providing meaningful innovation to our customers. And we're seeing very high demand for those products because they do add meaningful innovation. So the business has not shifted to a volume strategy, and there's no plans for the business to shift to a volume strategy over the next number of years. We're investing heavily in new plant and equipment because of the ability to drive innovative products that are actually being desired across the globe.

Marijn Dekkers - Bayer AG - CEO

So tax rate outlook, Werner?

Werner Baumann - Bayer AG - CFO

Yes, Tim, your assumption is correct. We have lowered our tax rate guidance on the back of the significant special charges, which comes with the very high tax rate in the US, and that's created bigger than average deferred tax assets.

For the future, I am not in a position to give you guidance on what our ETR is going to look like in 2013 and following. Yet, I would say that, as part of our tax strategy, we are working diligently and quite successfully towards lowering our overall ETR going forward.

Marijn Dekkers - Bayer AG - CEO

And, Joerg, our Alfaradin progress?

Joerg Reinhardt - Bayer AG - CEO HealthCare

Yes. I'm happy to confirm that we have made significant progress together with our partner in the last few weeks and months. We have completed the production runs, the first validation runs on the production lines, three of them, and the product is now in stability. So we are confident that we can make the first submissions before the end of the year, as we indicated all along.

Tim Race - Deutsche Bank - Analyst

Perfect. Thank you, guys.

Operator

Mr. Baum.

Andrew Baum - Citi - Analyst

A couple of questions, please. A little while ago, you outlined a number of products which you classified as billion-dollar opportunities. You held back from committing on rociquat ahead of the data. I would assume that you're happy to put it within that space. If you could, confirm (technical difficulties).

And then, second, it was addressed, the potential downside risk from Sandy. (Inaudible) in the devastation the hurricane's causing. How do you think your demand patterns could be impacted looking at the current trajectory?



Marijn Dekkers - Bayer AG - CEO

Okay. So let's talk about the billion opportunity for riociguat.

Joerg Reinhardt - Bayer AG - CEO HealthCare

Essentially, I have nothing to add to what I said earlier, where I indicated that we believe that there is a EUR500-million-plus opportunity, especially for CTEPH. I also left the door open a little bit for higher sales by indicating that there may be other indications to come in the midterm. But I believe, at the moment, we think today exceeding EUR500 million opportunity.

Marijn Dekkers - Bayer AG - CEO

Andrew, I'll say what I said before, as well, about the Hurricane Sandy. From a demand point of view, I don't know. I don't really know how serious it really is because we have been preparing for this conference call all morning. We haven't been watching TV. We'll have to see. It's really too early to tell. But we'll see. Hard to say anything about it at the moment.

Andrew Baum - Citi - Analyst

Thank you.

Operator

Mr. Leuchten.

Michael Leuchten - Barclays Capital - Analyst

Two questions, please, one on the medium-term outlook in Consumer Health. You've guided here for a margin target of around 25% by 2014. Given the acquisitions that you've announced in the recent past, is that guidance still something you feel comfortable with? Or should we disregard that at this point in time?

And then the second question, on the Xarelto. Is there any color you can give us on the contribution by indication in the markets where you've launched? Thank you.

Marijn Dekkers - Bayer AG - CEO

Okay. Your Consumer Health margin development?

Joerg Reinhardt - Bayer AG - CEO HealthCare

For me, given the current situation, there is no reason to make any changes to the forecast we have given earlier. I mean, as you heard, we believe that Schiff is going to be accretive as of 2014. We also believe that the investment needs that we still see for significant emerging markets in Consumer Health, like China, Russia, and Brazil, we are making now will be also in the midterm. So, overall, still confident in Consumer that Consumer Health is going to achieve those margin targets.

Now, regarding Xarelto, I'm not quite sure whether the direction of the question is margin contribution in the individual regions. That's something I cannot comment on.

What I'm happy to comment on is the focus that we're making in these individual regions. And, overall, as Marijn pointed out, so far, we are very happy with the performance of Xarelto, assuming that we will over achieve our target for this year. I mean, we gave guidance of EUR270 million. We hope that it's going to be more by the end of the year. And that is, to a large extent, driven by the excellent performance that we still see in Germany, where we are now at a 23.5% market share, which keeps on growing. I mean, it's really marvelous how this product develops in Germany.



We are still not so happy with the performance in Japan, where we are now at a market share of around 4%. It's getting a little bit better week after week, but, overall, we really need to get this two-week prescription limitation lifted early next year to see a significant difference.

On the other hand, we are very happy with the performance in Latin America. In Brazil, we are at a market share of almost 22%. We are ahead of dabigatran by now, which we are -- our colleagues in Brazil are certainly very proud of. And we also (inaudible) in Mexico, where we have a market share of 23% as well. So Latin America, we're quite happy.

In Canada, we keep on increasing market share. We are now at around 7%. And we also see that Canada is a little bit like the US. We have a higher share now of new-to-brand patients. You'll remember, in the US, this was also an early indicator that we get closer to the big advance. It's the same in Canada. We are beating them in that measure. However, we still have warfarin in new-to-brand patients of over 50%. So it's still a tough nut to crack, like the situation in the US, where warfarin is even at more than 70% of new-to-drug patients.

In the US, we -- and our partner, J&J, I believe, shares this level of confidence. We keep on growing market share week after week. We are now at above 9%. So that's pretty good as well.

And then I come to the last two countries or three countries, which is the UK, France, and Spain. As you know, UK uptake has been slow and still is. We are still light dabigatran at a range of around 2% to 3%, whereas, in France, we're doing much better. But it's very early days. We are now at a market share of 6% to 7%. And, when we look at Spain, difficult country, market share is a little bit below that, but it's really, really early days.

So, overall, we are quite happy with the performance of drug.

Operator

Mr. Vosser.

Richard Vosser - JPMorgan - Analyst

A couple on CropScience to start with. Just wondering on the visibility you have on what crop protection products might have been left over with the farmer from the 2012 season, given the drought, and whether you see any impact on this -- on next year's North American season.

And, secondly, on CropScience, I think your run rate for local currency growth going out of Q3 is 13%. Just wondering how that tallies with the 10% growth for the full year. What uncertainties should we see in the Latin American season, which is, potentially, strong, given, again, the drought in North America?

Then a quick accounting question, just on the Schiff acquisition. What proportion of the goodwill would be intangibles and, therefore, going through as amortization? Would it be all of the sort of, roughly, EUR750 million above the net asset value? Or what sort of proportion would that be? If you could give us some help there, that would be great.

And then, finally, on MaterialScience, just some perspectives on whether you'll be able to pass through any price rises in the fourth quarter or early into 2013, given the demand picture and the high raw material price -- the high benzene price at the moment. Thanks very much.

Marijn Dekkers - Bayer AG - CEO

Okay, Sandy, start with visibility on inventories of crop protection products in the US.

Sandra Peterson - Bayer AG - CEO CropScience

So, it's a great question. And what we -- the visibility that we have at the moment is that inventory levels for insecticides and herbicides are relatively normal, which is -- you know, given the nature of the drought, that makes a lot of sense.

The one place where we're still trying to understand and look at with customers is their truing up and giving us a better sense of it is the fungicides in the channel. For us at BCS, we actually have relatively normal channel inventories. And part of that is because of our portfolio and when the product actually got on the ground in many



parts of the Midwest before the drought really hit. So the question for 2013 is really how much is in the channel of our competitors and how the customer is going to be thinking about that in 2013. But, generally speaking, the rest of the channel inventories are pretty normal for this time of the year.

You also had a second question having to do with looking at our run rate and looking at the Latin American season and through the end of the year. At the moment, the Latin American season is running well, and we're pleased with our performance and the uptake of our products. And so, at the moment, things look like they're going quite well.

The fourth quarter for us, as you know, is a Latin American dominated season. But, in addition to that, there is some question about early purchasing in some key markets, in places like Japan, North America, and parts of Europe, and so that will also have an impact on the fourth quarter and how we actually end the year.

But we're feeling pretty good about the Latin American season at the moment.

Marijn Dekkers - Bayer AG - CEO

Good. Then, on the financials for Schiff, Werner?

(Multiple Speakers)

Werner Baumann - Bayer AG - CFO

That's a very good question. And, while we are done with signing, we are not done with purchase price allocation at this point in time.

Yet, I will say, to give you an order of magnitude, if you just look at the amortization of trademarks, it's going to be somewhere in the mid double digits. So call it between EUR30 million and EUR45 million, in all likelihood.

But, again, very early days because no such thing like purchase price allocation has been performed at this point in time. It's an educated guess.

Marijn Dekkers - Bayer AG - CEO

Okay. And then BMS pricing Q4/Q1 with respect to benzene pricing as well.

Patrick Thomas - Bayer AG - CEO MaterialScience

Yes, Richard. I have to do this a little bit by sectors because the story is a little bit different by each sector.

If I look in polyurethanes, then, on the MDI streams, we have seen prices rising during quarter three. We expect that to continue and hold in quarter four for a number of reasons. There's been a number of plants that have been unreliable or under scheduled maintenance, and that continues into quarter four with Yantai Wanhua announcing a 200,000-ton unit which will be out for more than four weeks during the fourth quarter. The other thing that's happening in China, which is supporting prices, is there's a level of tension between China and Japan, which is causing some of the imports from Japan to be not successful. The other thing is with raw material prices being higher, of course, there's a strong pressure on pushing up the MDI price.

On TDI, there's been a recent announcement published that Zchem, the Polish producer, will close its facility in central Europe. That is certainly pushing prices up in the European region, as people are concerned about supply availability. In Asia, supply has been slightly more fluid and more matched to market and to market growth.

On polyether polyols, then, we're seeing pretty much feedstock prices being passed on in both directions because we've actually seen some falling propylene prices, which have caused a bit of a run on polyether polyol prices. But, there, the margin has been pretty much protected.

In polycarbonates, we see a more complex picture. Certainly, in our results, you can see a pricing effect which is caused to a very large degree by mix. The main sectors in polycarbonates that are under pressure at the moment in terms of demand are the automotive and, more particularly, the electronics sector, where demand has reduced significantly during quarter three. Normally, we would expect a pickup at the end of quarter three in polycarbonate demand for electronics, as you see the pre-stocking before Christmas coming in for domestic electronic devices -- flat-screen TVs, laptops, and tablets. That just hasn't happened this year. There's a number of concerns



there that either the normal pre-Christmas peak is moving later or it's not happening at all. Those are generally higher-priced, more sophisticated markets using compounded material.

And, when you reduce yourselves in that segment, then the mix effect on price is quite significant because the other large segments of optical data storage and construction tend to dominate the price mix at a much lower level.

So there's a bit of a price mix going on, which I suspect will roll onto the fourth quarter. We'll see whether the electronics industry picks up or not. But, at the moment, we haven't really seen any pickup at all, which would normally happen during August through into September. It was just missing altogether.

Automotive is surprisingly strong for us at the moment, given all the news from automotive producers. We see automotive from a polyurethane position as relatively strong compared to the announcements that you've seen from the industry. And, also, polycarbonate. But, again, that's driven by us, primarily, supplying the high-end cars. And, for example, in China, we've seen a growth in market share of the foreign, direct-invested brands, where we have a disproportionately high share and a loss of share with the Chinese, national brands.

So it's a mixed picture. It's different by segment. But our ambition is to hold onto prices and, of course, recover raw material price increases.

Operator

Mr. Gruten.

Lutz Gruten - Commerzbank - Analyst

Two follow-up questions, one on the CropScience and the cost progression program. You have mentioned that you feel good about the achievements after the third quarter. Could you, please, quantify your feelings regarding what was achieved on cost cutting so far in 2012?

And the second question, regarding polycarbonates. You just stated that the pre-stocking ahead of Christmas might not happen. What's the reach of the current inventories with your clients, with the most important customers? Are we talking about a pickup in volumes in the beginning of Q1 next year, or could this be also end of next -- end of the first quarter next year? Thank you.

Marijn Dekkers - Bayer AG - CEO

So, Sandy, can you quantify your feelings?

Sandra Peterson - Bayer AG - CEO CropScience

Quantify my feelings? It's just a great question. Thank you. So, I'll just give you some sense of where we are on it. As you know, we said in the end of 2010 that, over a two-year period of time until the end of 2012, we would take EUR265 million of structural costs out of the business. We're ahead of that plan. So we will be close to EUR300 million by the time we're done at the end of this year.

So that has helped us significantly, also, in terms of our ability to invest in some of the important emerging, growth markets, such as Brazil, with more marketing and sales and commercial talent that Marijn mentioned.

But, if you look at the proportion of our cost progression -- so, for example, in the third quarter relative to third quarter last year, we saw a 1-point improvement in our COGS as a percentage of sales. So that gives you some sense of -- even though we're investing behind growth, we're doing it with better leverage on the COGS line, as well as on the marketing and sales line.

In the third quarter, the reason why the -- even though we saw improvement in our EBIT, it looks less than you might have anticipated. It's because there were some very small adjustments on other income and expenses around trade income shifting, as well as some costs related to the acquisitions and some of the other things that Marijn mentioned, some of which is allocated down to the CropScience business.

So, hopefully, that gives you some sense of -- some quantifications about feeling good about where we are in the cost position.



Lutz Gruten - Commerzbank - Analyst

Yes, indeed. It's very helpful. And all the best. Thank you.

Marijn Dekkers - Bayer AG - CEO

Okay. And, then, Patrick, polycarbonate inventories.

Patrick Thomas - Bayer AG - CEO MaterialScience

Yes. Stock levels are relatively low with most of our direct customers, and that's been a progression over the last two years; really, post crisis. People have learned to run with much lower inventory levels.

The big unknown we have, particularly with traders, roughly 30% of the polycarbonate market is now in China, where traders are extremely active. And there are some industry estimates that there could be 100,000 or 200,000 tons of material sitting in the system, which is actually managed by traders, where there's almost no visibility on their activities.

I think, overall, clearly, there was a lot of buildup in capacity, and you'll have seen some public statements from our other major competitor that they have been very aggressive on a volume strategy. We can see that overall because the market growth numbers we're getting over the first three quarters are relatively high and support the long-term growth rate of 6% in polycarbonates.

So I think the problem is more to do with consumer demand, particularly around the electronics sector, which, for us, is an important sector because of these very high, value-added, specialty compounds. And, if that picks up toward the end of the year, it will pick up very quickly because my guess is the inventory levels are very low at the moment in that segment.

Lutz Gruten - Commerzbank - Analyst

Thank you very much.

Operator

Mr. Faitz.

Christian Faitz - Macquarie - Analyst

Two small questions; first of all, also on the US drought. You are one of the major cotton players. Can you talk about your reproduction facilities in cotton seed? Have they been affected by US drought; i.e., you're able to deliver next year in terms of seed reproduction?

And then, second of all, MaterialScience. I think you already mentioned a couple of key trends for a few key customer industries. Can you talk about the rest of your customer industries which are important to you; for example, furniture, shoes, et cetera? What's happening there? What do you see there, especially out of China? Thanks.

Marijn Dekkers - Bayer AG - CEO

So, cotton seed production.

Sandra Peterson - Bayer AG - CEO CropScience



Yes, cotton seed production. So, actually, we haven't had any issues in the last 12 months as it relates to cotton seed production in the United States because the drought was actually -- you may remember over the last couple years the issue of drought in cotton was two years ago in the western part of Texas, where there's a lot of cotton seed production. So this past year's season -- our cotton seed production happens around a large swatch across the bottom part of the United States, which was much less affected by drought.

The issue that is more relevant for cotton is how many acres are planted because, as the soybean prices went up as much as they did, a lot of farmers started making choices to plant soybeans instead of cotton in 2012. So there were about -- we don't know the exact number -- but 1.5 million or 1 million less acres of cotton planted in 2012 to be grown for production than in the prior year.

We're not impacted by the drought as it relates to our cotton production.

Christian Faltz - Macquarie - Analyst

Would you see that for 2013, as well, that trend, soy for cotton, simply because, if you look at soy and cotton prices, that trend would be (inaudible)?

Sandra Peterson - Bayer AG - CEO CropScience

So, what's interesting is we're seeing it a little bit in Brazil at the moment. And so there are choices being made with farmers of planting their second season, making choices between soy and cotton. Some of them are still planting cotton because they've got significant infrastructure in place. If you look at the economics of it, they're making bets on cotton versus soybeans. But we have seen a slight decline in this growing season in the southern hemisphere in cotton. It's way too early to tell what's going to happen in the planting season next year because the farmers aren't making those decisions yet. It's too early in the season for the US next year.

Marijn Dekkers - Bayer AG - CEO

Okay. And then BMS, Patrick? Other markets -- furniture, shoes, et cetera?

Patrick Thomas - Bayer AG - CEO MaterialScience

Yes. The story line really is partly driven by the construction industry. So what we see at the moment is a slight pickup in construction in the US, which may, following the current disaster, lead to an even greater pickup in construction activity, which always is, post bad weather, a big industry driver in the US. We see the principal driver as insulation and also the carb regulations in the US driving the polyurethane, rigid-foam insulation business and, to some extent, now also in China. Some of the provinces in China have now approved polyurethane for building standards, which makes an increased market opportunity there. So that's the construction industry.

If we fit the furniture industry, furniture follows on from construction. And the push-down of the government on the housing bubble in China has certainly started to roll through into the furniture industry as well. And we actually see the furniture industry in APAC dropping a little bit, compensated, interestingly, by [NAFTA] in Europe, where we're seeing, overall, a world increase in furniture demand. So that drives, particularly, our TDI business.

So it's quite an interesting picture, not quite what you'd expect, where the roles of the world regions have been reversed somewhat.

In the footwear industry, we're seeing industry move more than anything else. It's still continuing to grow rapidly. The move, though, is from China, where labor costs are too high for the industry, even in western China. And, now, you're seeing the whole footwear industry move south down into the Asean countries, into Cambodia, Laos, Vietnam, Indonesia, as people search for much, much lower labor costs because labor is such a high component of the footwear industry.

So, hopefully, that helps give a bit more color to what's going on.

Christian Faltz - Macquarie - Analyst

Thanks a lot.



Operator

Mr. Kohler.

Ronald Kohler - MainFirst - Analyst

The first question is actually on Consumer Health. You were targeting a high, single-digit EBITDA growth for the full year. After nine months, you had 3.2%. So there must be, obviously, a significant acceleration in the fourth quarter on EBITDA growth. If you just could, give a little bit of flavor on what is the driver on that Consumer Health acceleration.

The second point, on the Schiff acquisition. You guide for EUR0.03 earnings accretive on adjusted earnings, EUR0.02 dilutive on reported. So the EUR0.05 difference -- how is the rough split? How much is the, let's say, kind of restructuring cost, and how much is amortization, as a rough guidance, in that EUR0.05?

Marijn, you actually talked about a weakening trend during the quarter, if I rightly catch that. Can you a little bit elaborate on that? What's the implication and, potentially, also the kind of outlook -- what we recently saw in October?

Marijn Dekkers - Bayer AG - CEO

Let's start with Consumer Health and EBITDA growth for the year versus the first nine months.

Joerg Reinhardt - Bayer AG - CEO HealthCare

So, traditionally, in Consumer Health, the fourth quarter is a very promotion-and information-heavy quarter, so significant P&I costs are normally spent in the fourth quarter. And that, of course, is, let's say, flexible. We also had in the first nine months of this year significant infrastructure investments, especially also in China and in Brazil, where we have added significant [assets]. Both of these markets have been relatively weak in Consumer Health over the last five or six years. We didn't see much growth, for example, in Brazil for three consecutive years. And we have now invested to actually accelerate the growth there.

The same applies to China, where we have added significant capacities to go into new cities, which we haven't been active so far. Essentially, we are doing a little bit of what we have been doing with Pharma over the last few years. That has cost us some money in the last nine months. And that, together with, let's say, discipline in spending for the fourth quarter will drive margins up in the fourth quarter. And I hope that there is still a good chance to achieve the guidance for this year.

Marijn Dekkers - Bayer AG - CEO

Okay. Then the difference between accretion and dilution from a core EPS and a normal EPS point of view, EUR0.05, Werner.

Werner Baumann - Bayer AG - CFO

In terms of what are the drivers, your assumption is correct. It's actually restructuring, integration, and also the effects from the inventory step-up which you would see subsequent to the acquisition. Further details in terms of playing it up are not available.

Marijn Dekkers - Bayer AG - CEO

And then I just want to make a clarification on the weakening trends I was talking about. This was in the context of BMS within the quarter; so, from July to August through September. And I'm going to ask Patrick to elaborate on that.

Patrick Thomas - Bayer AG - CEO MaterialScience



The whole sequence of seasonality during the third quarter is usually driven by polycarbonates seeing their pre-Christmas demand for the electronics sector that I mentioned earlier. And, because that didn't come along, we actually saw the first couple of months of the quarter very strong and, then, in the third month of the quarter, clearly, a deviation from our expectation, and that's really what Marijn was referring to as we saw that weakening trend. It was more a flat line rather than weak.

As we move into quarter four, we see the normal seasonality.

Ronald Kohler - MainFirst - Analyst

Okay. Thank you.

Operator

Mr. Wendorff.

Daniel Wendorff - Commerzbank - Analyst

Two remaining, starting off with a follow-up question on riociguat. I'm not going to ask about the market potential. Again, however, one question I have, and that is if you want to explore the more than EUR500-million market opportunity and, also, having in mind the competitive landscape in PAH. And would you see the product being able to market itself, or would you look for a kind of joint venture or marketing partnership, also, in light of potential other indications to follow. And that would be my first question.

And a second question on Glucobay, which is developing very nicely this year, year to date, driven by China, if I understand that right during the presentation. Is that only a one-off effect we are going to see this year, or would you see this trend to continue also in light of the changes in lifestyles in that country? Thank you.

Joerg Reinhardt - Bayer AG - CEO HealthCare

Yes. Well, regarding riociguat, I mean, when you follow the [field], you, of course, know that it's a little bit of a complicated picture; also, with regard to potentially new competitors coming up.

When you compare the clinical data, I believe that riociguat has an absolutely competitive profile, even in PAH. We believe that the product, given its specialty in nature, can be handled by ourselves adequately. So, for the time being, we do not intend to team up with anybody. We believe that we can build enough necessary infrastructure to distribute and market this product adequately. I believe, as you know, it's an area that the clinical data and the clinical performance of the product is extremely important. And, here, I believe we have been showing so far with riociguat -- we have a very, very good basis.

Regarding Glucobay, yes, we have a very good year in China. As you also know, China, you are never completely sure how pricing is developing, and that obviously has significant impact on all primary care products. So we are happy to see the good performance of Glucobay for this year. It's a little bit difficult to predict how it's going to develop next year. I would not be surprised if we see some price cuts here. On the other hand, we do still have significant expansion plans for China.

So I believe that we will continue to see good performance of Glucobay, maybe not at the same extraordinary level in this year.

Daniel Wendorff - Commerzbank - Analyst

Thank you.

Operator

Mr. Heine.

Andreas Heine - Barclays - Analyst



One question on MaterialScience and one on the seed business.

In MaterialScience, I look forward to the fourth quarter and look on the guidance that would be fulfilled if you earn in the fourth quarter only half of what you have earned in the third quarter. And I do understand these trends you have described. But is the seasonality and the impact of polycarbonate that strong that the seasonality can be that harsh looking forward in the fourth quarter?

And, on seed, I would like to understand what is the driver behind the 39% increase, especially in canola. I guess it's nothing to do with acreage, so it has to be something else.

These were my questions.

Marijn Dekkers - Bayer AG - CEO

Okay, on MaterialScience, I don't think you're stating the facts completely in terms of what we need in the fourth quarter. But, Patrick --

Patrick Thomas - Bayer AG - CEO MaterialScience

I'd just repeat the guidance we've given, I think, on quarter four. I don't think -- normally, we see construction holidays. We see the construction industry slow down. We see seasonal demand slow down around some of the other sectors. So quarter four is always a weaker quarter than the other three. But we expect to be significantly higher adjusted EBITDA than last time around because quarter four last year was particularly weak in terms of earnings.

Marijn Dekkers - Bayer AG - CEO

Then, on seeds? 39% in canola?

Sandra Peterson - Bayer AG - CEO CropScience

So, the third quarter is a funny quarter. So I think, if you're asking a question about canola, we should look at it for the first nine months because most of the business in canola is done in the second quarter.

So, for the nine-month period, the year-over-year performance was close to 40%, and that actually was a combination of market share gains as well as acreage gain. So there were more acres planted because Canada, in particular, did not have issues with flooding, which they've had in prior years. So it was a combination of both market share gains as well as slightly higher planting, particularly in Canada but, also, in the northern parts of the United States. So the business performed very well on both dimensions this past year.

Andreas Heine - Barclays - Analyst

Okay. Thank you.

Operator

Mr. Spengler.

Peter Spengler - DZ Bank - Analyst

I have a question on the Schiff acquisition. It seems to me that it was not an opportunistic acquisition. So how did Schiff qualify to make it to the top of your short list? And what makes those four brands you mentioned so special to Bayer?



Marijn Dekkers - Bayer AG - CEO

Okay. I'll take that question. I mean, we have -- Schiff has been on our radar screen for a while, particularly because of the fact that they are active in the nutritional supplement part of the business, where we would like to strengthen our portfolio. In the US, we have a number of vitamin products, like One A Day and Berocca and Flintstones for children. And Schiff is a nice opportunity to augment the nutritional supplements. So that's one part of why we were interested in terms of the complementary portfolio.

It's also sort of a bite-sized acquisition, if I can say it that way. It's not huge, but it's not tiny either. And it has four, really, very good, recognizable brands in the United States that we think we can build on within the US but also outside of the US.

So, altogether, Schiff was not for sale, but we developed an interest and had good conversations. And that led to this announcement today.

Peter Spengler - DZ Bank - Analyst

Thank you very much.

Operator

Mr. Cespedes.

Florent Cespedes - Exane BNP Paribas - Analyst

A few quick ones on HealthCare. First, on Eylea, could you tell us how you will position Eylea against Lucentis? How do you see the ramp-up? And do you believe that this launch could also expand the use of approved drugs versus off-label use of Avastin in this space?

Secondly, on Betaseron, could we have some details and color on where you see the pressure and which countries? And any change on the trend in Q3? Any idea for next year?

And the last, on the M & A side for the HealthCare division, which are the areas in healthcare where you believe you are sub-scale? And where do you still see some opportunities for acquisitions? And could you decide to divest a division which is sub-scale even if you don't have any opportunity immediately available? Thank you.

Marijn Dekkers - Bayer AG - CEO

Okay. Let's start with Eylea.

Joerg Reinhardt - Bayer AG - CEO HealthCare

Well, as you know, the position of Eylea -- and it hasn't changed over the last few weeks and months -- has always been that there is a reduced need for injections, given the same level of efficacy than the major competitor, Lucentis. That is a positioning that actually worked quite well in the US, as you can see, with the -- what is it now? [800 million] guidance for the first year of the introduction of the product in the US. So it seems to fly.

Now, when we then look at where the patients are coming from, there is actually -- obviously, a significant percentage of patients are new patients. But they're also switches out of Lucentis and out of Avastin, which is a positive surprise. We might not have expected to see significant switches out of Avastin. But it seems to be the case.

So, overall, there's no reason to believe that, in the rest of the world, the situation would be drastically different. Obviously, as you know, I mean, country by country, there are different rules of reimbursement and different use of Avastin. And people stick to the label, and they don't. That differs significantly country by country. And we'll have to see how it works out.

But, overall, I would expect that the positioning of less frequent dosing at the same level -- at least, the same level of efficacy will also fly in the rest of the world.



Now, with regard to Betaferon, yes, I think we have been guiding already earlier this year that the beginning of the year, what was particularly strong, mainly based on a number of one-time effects, also some accruals that we took where dissolved this year. We also saw a significant impact of the increased pricing in the US.

But we also stated that the underlying trend for Betaferon volume-wise is continuing to be negative. And that is going to be the case now in the third quarter and the fourth quarter, which also explains the numbers in the third quarter.

Now, with regard to next year, it is our expectation that we will see the trends that we saw last year and, now, see in the second half that that trend is continuing, which is a mid-single-digit decline for the Betaferon trend.

And, Marijn, you'll take --

Marijn Dekkers - Bayer AG - CEO

Yes. I would just comment on the M&A strategy really quickly.

I mean, our strategy is to drive very aggressively organic growth, particularly with new products. And I think we're very successfully doing that, augmented by bolt-on acquisitions. Schiff is an example of that. Teva is an example of it. AgraQuest is an example of that. We've done an additional [three-seats] acquisitions, [smaller seats] acquisitions in the last year and a half. And I think, when you look at those acquisitions and which areas they will fall, that's a good indication of where our interest is also going forward.

Florent Cespedes - Exane BNP Paribas - Analyst

Thank you very much.

Operator

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

Alexander Rosar - Bayer AG - Head IR

Thank you, Cleo. Ladies and gentlemen, also on behalf of my colleagues, I'd like to thank you for being with us on the call. And thank you for your questions. We are now saying goodbye.

Operator

Ladies and gentlemen, this concludes the third quarter 2012 results investor and analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.





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Page 2 - Investor Handout - Q3 2012

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