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## PRESENTATION

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### Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's investor and analyst conference call on the third-quarter 2013 results. (Operator Instructions).

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

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

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

With me on the call are Marijn Dekkers, our CEO; Werner Baumann, our CFO; and from the subgroups, we have by HealthCare represented by Wolfgang Plischke; CropScience by Liam Condon; and MaterialScience by Patrick Thomas. Marijn will start off with a brief summary of the developments in the third quarter. As always, we have assumed that you have all received and reviewed our stockholders newsletter, the briefing document and the presentation slides summarizing the focuses and introduction on the main points.

Before handing over to Marijn, I'd 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 - Chairman & CEO**

Thank you, Alexander. Ladies and gentlemen, good afternoon. It's my pleasure to speak with you about our third quarter. We saw continued positive momentum, driven by our life sciences businesses. MaterialScience performed on the prior-year level, but with a sequential improvement over the second quarter. Outstanding progress was achieved with the continuing rollout of our new Pharma products. In addition, we achieved important regulatory milestones with the FDA approval of Adempas, also known as rocigat; the positive CHMP opinion on Xofigo, as well as the European approvals for STIVARGA and EYLEA for CRVO.

Based on our continued optimism in terms of our launch execution, we have now raised our 2013 new Pharma product sales target to more than EUR1.4 billion. Driven by the good business growth, earnings developed positively, despite significant headwind from adverse currency movements.

Against this background and based on our expectations, for the remainder of the year, we are maintaining our full-year guidance for the group, although it's increasingly ambitious.

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

Group sales advanced by 6% to EUR9.6 billion. Healthcare and CropScience both contributed to the increase, while sales of MaterialScience came in at the prior-year level. Reported EBIT rose by 47% to EUR1.2 billion, due in part to a drop in net special charges to EUR99 million versus EUR356 million in the prior-year quarter. The special charges in Q3 were mainly related to expenses for restructuring and the integration of acquired businesses.

Adjusted EBITDA posted an increase of 8% against the prior-year period to EUR2.0 billion, despite negative currency effects of around EUR130 million in the third quarter. Core earnings per share amounted to EUR1.27, which is an increase of 9% over the prior-year quarter.

Then, from a regional perspective, 40% of total sales in the quarter were generated in the emerging economies where our sales grew by 9%. We delivered double-digit growth in Latin America, as well as in Eastern Europe and also expanded our business in Africa Middle East. Growth in emerging Asia was held back by the relatively weak performance against a very strong prior-year quarter in our business in China. This was partly due to a slowdown of the growth rate in Pharma.

Gross cash flow in the third quarter moved ahead by 36% to EUR1.4 billion, mainly as a result of the significant improvement in reported earnings. Net cash flow fell by 13% to EUR1.7 billion because less working capital was released than in the prior-year quarter. After investments of EUR514 million, the operating free cash flow came in at EUR1.2 billion.

Net financial debt declined from EUR9.0 billion at the end of the second quarter to EUR7.7 billion at the end of Q3, largely as a result of cash flows from operating activities.

So let's now move on to the performance of our subgroups, starting with Healthcare. Sales of the Healthcare subgroup increased by 7% in the third quarter to EUR4.7 billion. We saw a very dynamic increase in sales of our Pharma segment, which moved ahead by 11% to EUR2.8 billion. This strong growth was driven by our new products, Xarelto, EYLEA, STIVARGA and Xofigo, which posted combined sales of EUR407 million or around EUR440 million if adjusted for currency effect.

Strong growth was again achieved for Xarelto, especially in Japan, Germany, and France. We've gained leadership among the new oral anticoagulants.

Then sales of EYLEA grew strong as well, particularly in Japan, Germany and Australia. Our new cancer drug, STIVARGA, made encouraging contributions to the sales development at Pharma. Xofigo posted sales of EUR12 million in the third quarter, following the product's launch in the US. And based on this success, we are now targeting more than EUR1.4 billion in new product sales for 2013.

The performance of our established Pharma products was mixed in the quarter. On the positive side, sales of Kogenate rose by 15%, largely due to phasing effects. Our cancer drug, Nexavar, recorded sales gains of 11%, particularly as a result of price increases in the US. But on the negative side, sales of Betaferon and YAZ continue to recede by 7% and 15% respectively due to increased competition.

Sales of Avelox and Glucobay receded by 11% and 13% respectively, partly due to weaker demand in Asia-Pacific. Following the strong sales growth of our new products, adjusted EBITDA of Pharma showed an 8% improvement over the prior-year period. The earnings increase was partially offset by higher sales and marketing expenses for these products, as well as negative currency effects. Currency effects diminished earnings of Pharma by approximately EUR60 million in the quarter.



Now let's move on to our consumer health business, which improved revenue by 3% in the third quarter to EUR1.9 billion. Sales in our consumer care division rose by 5%. Our skincare product, Bepanthen, registered strong growth in the emerging markets and in Western Europe. Sales of the dietary supplement, Supradyn, also developed well, particularly in Russia.

Sales of the medical care division were level with the prior-year period. Sales of contrast agents and medical devices in the radiology and interventional business improved, while the diabetes care business was hampered above all by reimbursement pressure and price declines.

Sales in animal health division rose by 1% with the launch of our Seresto flea and tick collar in the United States contributing to growth.

Adjusted EBITDA of consumer health showed a slight decline of 1% as a result of higher marketing expenses in the emerging markets. In addition, currency effects diminished earnings.

In summary, on healthcare, the performance of healthcare results in adjusted EBITDA of EUR1.4 billion for the subgroup as a whole, which is an improvement of 5% over the prior-year period. Currency movements lowered adjusted EBITDA by EUR100 million.

Now let me elaborate on the Q3 performance of CropScience, which benefited from a favorable market environment. Sales in the CropScience subgroup increased by 12% to EUR1.7 billion. The crop protection business posted sales growth of 14%. The largest increase in percentage terms was achieved for insecticides and fungicides. Herbicides grew only moderately. A strong development in Latin America was partly offset by declines in our serial herbicides business in Europe.

Sales of seed growth remained at the prior-year level.

We are particularly pleased with the performance of our new crop protection products. These new products defined here as products launched since 2006 were up 35% nominally to almost EUR250 million in the quarter and thus made a substantial contribution to the positive sales development.

The seeds business came in at minus 30%, which was largely the result of reduced cotton and canola acreages in North America, which also led to higher product returns. However, business with vegetable seeds registered double-digit growth overall.

Sales of the environmental science business increased by 19% 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% to EUR224 million, and this was especially due to higher volumes in Latin America, as well as to the overall gratifying business development.

So now let's move on to MaterialScience. Sales of MaterialScience grew by 1% in the third quarter to EUR2.9 billion. This growth was the result of higher volumes in North America and Europe. Selling regions were slightly below the prior year quarter. Sales of the polyurethane business unit rose by 4%, driven by higher volumes in all regions, except for Latin America and Africa Middle East. Selling prices were down overall against the prior-year period. Sales in the polycarbonates business unit declined by 3%, mainly because of lower selling price.

In addition, volumes showed a year-on-year decline due to weaker demand. Adjusted EBITDA of MaterialScience increased by 3% versus the prior year quarter to \$346 million. The earnings figure includes a EUR17 million gain from a business disposal. The earnings improvement was supported by the slight rise in volumes and our comprehensive efficiency improvement measures, which contributed EUR50 million in savings in the quarter. Adjusted EBITDA was, however, diminished by a drop in selling prices and increases in raw material price.

In the first nine months, our life sciences business, Healthcare and CropScience, recorded very encouraging growth, compensating for the market-related weakness in MaterialScience. We expect this development to continue in the fourth quarter. Operational earnings have increasingly been held back by currency effects during the course of the year.

The forecast for the full year is now based on the average exchange rates for the first nine months of 2013. We are maintaining our guidance, although it is increasingly ambitious. For Healthcare, we reiterate our guidance of mid-single-digit organic sales growth and higher EBITDA before special items.

Earnings growth in Healthcare is likely to be restrained by negative currency affecting the order of EUR200 million to EUR250 million. We also reaffirm our sales guidance for CropScience of high single-digit growth and are becoming more positive on earnings growth. We plan to raise EBITDA before special items by at least 10%.

And then in MaterialScience, considering the weak business development in the first nine months of 2013, we anticipate that full-year sales will be level with the previous year on a currency and portfolio adjusted basis. We expect EBITDA before special items to come in below the prior-year figure.



In the fourth quarter of 2013, we expect sales on a currency and portfolio adjusted basis and EBITDA before special items to come in at the level of the prior-year period.

For the group as a whole, we expect sales for the full year 2013 to increase by currency and portfolio adjusted 4% to 5% to EUR40 billion, and we aim to increase EBITDA before special items by a mid-single-digit percentage, and we aim to improve core earnings per share by a high single-digit percentage.

So, ladies and gentlemen, this concludes my remarks, and we are now happy to take your questions. Thank you.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions). Mr. Race.

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### Tim Race - Deutsche Bank - Analyst

This is Tim Race here from Deutsche Bank in London. Three questions if I may.

First of all, just upon MaterialScience, relative to our expectations by consensus, it was actually an okay quarter this quarter. Just do you think you've now sort of turned the corner at least in terms of the downgrades, and could you just expand on your cost-saving initiatives that you're making in MaterialScience, and what you can really drive through that? And just generally, does that reflect the reality that it's going to be very difficult to recover MaterialScience margin through market developments and that you're going to have to focus more and more on cost savings going forward?

Then a question just on China in pharmaceuticals, relatively flattish performance is obviously a big market impacts going on for other companies in this area. Just any comments that you can say about what you're seeing on the ground and what you think whether you think the market is picking up again would be helpful.

And then lastly, just a question on Xarelto US royalties. It seems to be that you're receiving somewhere in the region of about 20% royalty on sales in the US. Obviously, it's a bit lumpy. We all know this escalates to about 30% eventually, but could you just help us understand when we might see this ramp up? Is it gradual, or is it once J&J annualizes over \$1 billion, etc.? Just a little bit of clarity there would be very helpful. Thank you.

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### Marijn Dekkers - Bayer AG - Chairman & CEO

Thank you, Tim. We'll start with Patrick Thomas addressing the BMS question.

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### Patrick Thomas - Bayer AG - Chairman of the Board of Management, Bayer MaterialScience AG

Okay. Thank you, Tim. Yes. In the first part of your question, have we turned the corner, the first important thing to look at is market growth. What we're seeing this year in terms of market growth for the full year on MDI is around about 6%, which is slightly below the long-term average. On TDI, we've gone up to 4% to 5%, which is relatively strong compared to historical average, and at PCS I think we're in the process of turning the corner because after 6% growth last year we started the first quarter sequentially minus 6%, second quarter minus 1%, and then third quarter plus 5%. So I expect to end that roughly at last year's levels at the end of this year. It's going to be roughly around a zero. So that's the important drivers for our major business units.

In terms of the cost-saving initiative, we announced before that this program, which runs through to 2015, is 150 basis points improvement, and what we're recording here is the first 1/3 of that, which is being delivered through this year, and that's what you see in the third-quarter numbers. And as you say cost improvement will be a key part of our agenda as we move through to 2015.

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### Marijn Dekkers - Bayer AG - Chairman & CEO



Okay. Thank you. The China Pharma situation, Wolfgang?

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**Wolfgang Plischke** *Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare*

Yes, thank you, Tim, for the question. In China we have been more or less in last year's sales. But you have to understand that the comparable quarter in the last year was exceptionally high around 34% currency adjusted, and therefore, you have to balance your assessment.

Going forward, through 2013, we expect low double-digit percentage growth as 34%, and in the midterm we see continued growth in China. So that's how I understand your question, but we don't want to comment on the royalty rates.

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**Marijn Dekkers** *- Bayer AG - Chairman & CEO*

Next question, please.

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**Operator**

Mrs. Walker.

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

It's Amy Walker from Morgan Stanley. I also have three questions, if I may, please.

The first is I think I saw that there had recently been a change in the formula -- the formulary position for Betaseron in the US. Is that correct, and do you expect that that will have an accelerating effect on the decline in your share in that market, please?

The second question, on CropScience, can you remind us whether there is any significant structural difference in your margins between the herbicides, insecticides and fungicides products? Some of your competitors have claimed that fungicides are significantly higher margin than herbicides for example, and I just want to get a sense of whether that's something that's inherent in the type of product or if it's more about the average age of the portfolio and so can vary from company to company.

And the last question on MaterialScience, can you just give us a sense, Patrick, of where you've ended up from an operating rate perspective in each of polyurethanes and polycarbonates in the third quarter and how that compares to where you were at the end of the first half? Thank you.

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**Marijn Dekkers** *- Bayer AG - Chairman & CEO*

Okay. Wolfgang, Betaseron.

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**Wolfgang Plischke** *Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare*

Betaseron, you're right. It was published at -- it was formally positioned in Express Scripts. You have also seen that during the last nine months we lost about 9% of our sales currency adjusted, and that's in line with our guidance we have given at the beginning of this year. And we see a continuation of this decline going forward.

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**Marijn Dekkers** *- Bayer AG - Chairman & CEO*

And then Liam, CropScience's structural differences in margin between the products.

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**Liam Condon** *- Bayer AG - CEO, CropScience & Chairman of the Board of Management, Bayer CropScience AG*



Thanks for the question, Amy. If you look at the overall portfolios across the entire industry, basically in herbicides there hasn't been that much innovation in the last years, and of course, where there is innovation, there tends to be premium prices.

So on average, you could say you could expect more higher margins on fungicides and insecticides simply because there is more innovation, more newer products with premium prices coming out there just as a general overall statement.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. And then Patrick, MaterialScience earning trends?

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**Patrick Thomas - Bayer AG - Chairman of the Board of Management, Bayer MaterialScience AG**

Yes, Amy, the operating rates question, I'm going to answer in terms of what I see the industry or capacity moving to. So, at the moment, I think MDI is around about 85% to 90%, probably closer to 90%, than it was in the first half. TDI is up about 85% plus, which is a good zone for TDI. That should be positive as we're seeing this reasonably strong 4% to 5% growth. And then on polycarbonates, we're still sitting down at about 80% of capacity rates. There are some changes in the industry. We've seen one of our Japanese competitors announce a closure of a relatively significant plant in Singapore we've taken off-line and also the closure of the only Brazilian player in polycarbonates. So that should help improve the supply/demand balance a bit in the polycarbonate area.

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**Amy Walker - Morgan Stanley - Analyst**

Excellent. Thank you.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Next questions, please.

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**Operator**

Mrs. Walton.

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**Jo Walton - Credit Suisse - Analyst**

Jo Walton, Credit Suisse. Two questions, please.

Firstly, you talk about your guidance being increasingly challenging. I wonder if you could just talk about what the key elements to that are, and in particular, what sort of impact at the EPS level foreign exchange is likely to have contributed to it?

And secondly, could you tell us a little bit about how you are getting on with price negotiations for EYLEA in Europe. You've talked about success in Germany, but can you tell us where else we should be looking for sales? Because there wasn't much of a sequential increase between the second and the third quarter, presumably Europe has really yet to kick in significantly for that product.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. Werner Baumann will start.

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**Werner Baumann - Bayer AG - CFO**



Yes, so on the increasingly challenging guidance, you will have read in some of our colleague comments that we had a few phasing issues in Kogenate, which is a fairly margin-rich product. But at the same time, we do also see some further investments going into quarter four, particularly behind our new product launches in pharmaceuticals.

That is the operational piece of the question. When it comes to foreign exchange and EPS, throughout the year we have seen increasingly negative effects of foreign exchange, which have been actually weighing on our results. For quarter three, it was an amount of EUR133 million, and for quarter four, it is another very, very significant amount.

So that overall if you look at the total Company, the changes are somewhere in the area between EUR200 million and EUR250 million we expect for the full year. So if you were to translate debts into an EPS proxy, it would be somewhere in the area of probably EUR0.20. It's difficult to do it that way, but as a proxy, it would be almost EUR0.20.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. And then EYLEA, the price negotiation in Europe, Wolfgang?

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**Wolfgang Plischke - Bayer AG - President & General Manager, Pharma Group**

Thanks, Jo, for the question. Germany you mentioned just as a remark here, we are reaching 29% market share in Germany now for Eylea, and you have to consider that in Germany this market is composed by a couple of indications. Therefore, the 29% actually if you just look at that AMD is a much bigger market share in Germany showing the real success there.

We're going forward in the other various other European markets with the price negotiations, but this takes naturally time. It's much more complicated. We're also negotiating, and that's probably the biggest part with authorities in France, you know, and as you know, that's one of the biggest markets for this indication, but it's too early to say we have finalized this. But in due time, you will hear probably more about this.

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**Jo Walton - Credit Suisse - Analyst**

Thank you.

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**Operator**

Mr. Wenner.

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**Fabian Wenner - Kepler Cheuvreux - Analyst**

It's Fabian Wenner from Kepler Cheuvreux. Thanks for taking my questions. I have all Pharma questions, please.

Kogenate, first of all. You mentioned phasing effects. When I look at the organic growth rates in this year, I can't see that phasing effect really, and 15% in Q3 looks a little bit like general staffing. Can you just reconfirm that that's not the case?

And then with regards to STIVARGA, we've seen the third quarter with about EUR35 million of sales in the US. I just wonder what's happening there, and why that is not moving up? Do you see the third line setting basically saturated? Are you catching any patients in the second line setting? Thank you for that.

And then lastly, on Adempas, just with regards to the sales reps you're going to use there, are you hiring or have you hired incremental reps, or are you sufficiently equipped with the Ventavis ones? Thanks a lot.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Wolfgang?



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**Wolfgang Plischke** *Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare*

Okay. Kogenate. Yes, we had a good quarter for Kogenate. If you look at the full-year effects just for sales were 9%, as you can see. But it's really a phasing effect throughout the year, and we will stick to our guidance we have given for Kogenate.

STIVARGA in the United States, yes, there is, let's say, coming now into a more intense phase in our launch in the United States. Throughout the last two quarters, we have benefited from many patients who have been in need for this new pharmaceutical. And now we are working our way through, getting more positive familiar with the product. The oncologists will also get more experience in the next couple of months.

So we're confident that we will be successful in the United States.

In addition, as you know, we have launched the product recently in August in Europe and we have launched it recently in Japan, and we are quite satisfied, you know, with the early performance that we can see for STIVARGA in Europe and in Japan.

Adempas, we have recently launched in Canada, but that's just a launch for the private sector, so far as you know, and we launched in the United States. Actually in the United States, we have hired specialists for this market and for this indication who have had experienced a high percentage of just population for sales reps in the specific market. So I believe we will have a very competitive marketing and sales organization for Adempas in the United States.

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**Marijn Dekkers** - *Bayer AG - Chairman & CEO*

Good.

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

Thank you.

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**Operator**

Mr. Gilbert.

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**Thomas Gilbert** *UBS - Analyst*

Good afternoon. UBS in Zurich. Thanks for taking my questions. On CropScience, can you just -- I'm just trying to dissect the segment and the regional comments. Obviously for CropScience North America and Europe for CropScience showed stagnant to declining results, whereas then at the segment level, you show very strong environmental science, which I guess is an North American and European business.

Can you just flesh out again where in the three segments -- seed crop, protection, environmental science -- the business retracted, and whether that's more of a backwards looking issue or reflecting sort of more caution in the supply chain because of falling crop prices in the northern hemisphere? That is the first question.

The second question, coming back to Amy's question, the strong growth in fungicides and the strong growth in Latin America probably belong together. Is that one new product launch driving this, or is this a broad -- is this a category phenomenon, or is this one specific product rollout that is winning you obviously so much share down there in Latin America?

And then the third question is an awkward one for Patrick. Patrick, forgive me, but can you make a weather comment on the third-quarter result in terms of whether more favorable weather has favored the construction-related business, especially in Europe? If you can talk around the European performance of MaterialScience, that would be good. Thank you very much.

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**Marijn Dekkers** - *Bayer AG - Chairman & CEO*



Okay. So let's start with the person who we never ask for a weather forecast, Mr. Liam Condon of CropScience. The regional companies, yes.

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**Liam Condon - Bayer AG - CEO, CropScience & Chairman of the Board of Management, Bayer CropScience AG**

Okay. I'll try and dissect it a little bit. A big, let's say, a big reason for the overall performance is, of course, our crop protection business is doing very strongly with 14% growth, and this is basically in all regions with the exception of Europe in quarter three. And in Europe we have some phasing issues. We expect that this will be, let's say, back to normal in quarter four. So no structural issue apparent there. But basically in all other regions, we have very strong growth specifically for herbicides when we talk about the crop protection being the biggest part of the market.

So, on overall with the seeds business, the big hit that we take is in North America, and this is entirely due to the acreage declines in canola and in cotton. And in all other regions, we grow in seeds, particularly with soybean and rice, but this is from a very small base. But from a significantly larger base, the vegetable seeds business is doing very well basically across all regions. So this is -- we're now in double-digit growth territory again after a weak year last year.

And in the environmental science, we're back on track, I would say, across all regions, stronger in professional than in consumer. But basically, let's say, it's has come back across the board.

So, overall the biggest growth driver for us, just to summarize again, is crop protection across the board very strong growth driven by fungicides, insecticides, and the only weakness, real weakness, has been the herbicide area, and that has been specifically related to Europe, which, again, we don't think is structural. We think it is more a phasing issue, just to summarize it.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

And then Patrick, the weather for building infrastructure?

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**Patrick Thomas - Bayer AG - Chairman of the Board of Management, Bayer MaterialScience AG**

This is the first time I get the weather question. I'm quite intrigued by that.

Weather and construction in Europe is always an issue. And certainly in the first-half year, some of the bad weather had reduced demand for polyurethanes in construction, and that has picked up in the third quarter. There's no doubt with that.

The other industry that has picked up, which is not so weather dependent but it does tend to follow construction, is the furniture industry in Europe, and that's heavily driven by TDI, but it's not really in Western Europe. Most of that growth is in Eastern Europe, Africa, and the Middle East. Western Europe was relatively flat on furniture. And then just for completion on polycarbonates in Europe, the main drivers being automotive, but mainly export to automotives from Europe. That's probably the picture for Europe that's best.

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**Thomas Gilbert UBS - Analyst**

Thank you. Can I just follow up on the fungicide in Latin America whether there is one specific product or there's a category phenomenon in Latin America?

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**Werner Baumann - Bayer AG - CFO**

It is a category phenomenon. We're seeing exceptional growth. I'll just give you an example in Brazil. It's 35% growth that we're seeing in currency-adjusted growth for fungicides, and this is basically driven by the soybean market, which is the same story for us for the insecticides due to high pest intensity, and there we're even seeing 60% growth in Brazil for our products. So it's heavily soybean crop related.

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**Thomas Gilbert UBS - Analyst**

Okay. Very clear. Thank you very much.



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**Operator**

Mr. Vosser.

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**Richard Vosser - JPMorgan - Analyst**

It's Richard Vosser from JPMorgan. Thanks for my questions. A few Pharma ones and one crop one, please.

So just on Xofigo, obviously a very good second quarter of the launch in the third quarter. I just wondered if you could give us an update on the site licensing in the US to give us some perspective there, and also, whether you could comment on whether any patients have finished their treatment of Xofigo now?

Second question on EYLEA, just wondering whether you're seeing any sales and other indications other than at AMD at the moment and whether you could comment on how you would expect the market to change when you get DME approved or rather on your label next year?

And then on to the CropScience question, obviously I think we're looking at margin expansion year on year based on your guidance, maybe around 25% for the year. So, I'm just thinking about the long-term guidance for margins and just wondering what sort of incremental spend we should be thinking of for 2014 to take that margin back down to 24%. Thanks very much.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. Xofigo, Wolfgang?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

Yes, I can -- Richard, I can give you some feedback on patient-ready sites. We have 626 now. So we have good coverage.

In respect to patients treated finishing the treatment, I'm not aware of this. I cannot give you an answer.

EYLEA, used in other indications we're not aware of this. No knowledge about this. Obviously, your question about DMEs, yes, it will be a positive situation for us. You know that we have indicated that we will do submissions in DME in the last quarter in Europe. And, if you look at another indication, CNV will do a filing at the end of 2013, which was I think already communicated. But and that for sure is quite favorable to Asia for us and Japan, even our market opportunities.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

And then margins in CropScience Liam?

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**Liam Condon - Bayer AG - CEO, CropScience & Chairman of the Board of Management, Bayer CropScience AG**

So last year 24.2%, and we're expecting this year that it will be somewhat above that. And we are being helped, however, this year on the bottom line with the currency. So we don't see next year -- in our guide going forward, we don't see any fundamental changes in our spending patterns and any changes in margin. My guess is that they will be explained through currency fluctuations and not through fundamentals of our spending.

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**Richard Vosser - JPMorgan - Analyst**

Thank you.

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**Operator**



Mr. Jain.

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**Sachin Jain - Bank of America - Analyst**

I think that's me. Sachin Jain, Bank of America, and three product questions if I may.

Firstly, Xarelto at ACS. It's been refiled in the US. Could you give us any color on what was contained in that refile and your level of confidence out of the February PDUFA given you've already had two complete response letters?

Secondly on hemophilia, the long-acting factor VIII, if the data that's due early next year is positive, would you be ready to launch in 2015 from a manufacturing perspective? The reason for the question is the manufacturing delays in both nova and Biogen have suffered, and how do you assess your time lag with that long-acting relative to where Biogen now sits?

And then the final question is just a follow-up on Xofigo. If I heard you right, you're at 626 patient rates. I think the initial target had been 600. So how do we think about where that target -- initial target of 600 now goes to?

And then a related question, we obviously spent 3 to 6 months thinking about logistics as a key hurdle to adoption; it doesn't seem like that is the case. So what do you now see as the key hurdle to Xofigo sales progression? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Wolfgang?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

Good. Thanks for the question, ACS in the United States. You mentioned it has a PDUFA date of February next year. This is in the hands of our good partner, J&J. We're all confident that we will get the approval as we have gotten it in Europe.

Kogenate, we communicated already that we will get first data at the beginning of 2014. The filing we will not assume to do in 2014 because we will need some time to finalize at the trial to put the data together and to prepare our manufacturing processes to be able to launch the product then after the approval.

Xofigo, 600, yes. We are at 626 now. There are still opportunities for us to extend this number by. I cannot give you the exact one -- probably about 100 or 200 additional sites. But what I can say is we are on track with our plans. We have set ourselves for Xofigo. The sales we have moving forward are also in line with our expectations, and we are working our way through in the next couple of months, and we're confident that this will -- this product will grow step-by-step in the next months.

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**Sachin Jain - Bank of America - Analyst**

Thank you.

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**Operator**

Mr. Wendorff.

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**Daniel Wendorff - Commerzbank - Analyst**

Daniel Wendorff, Commerzbank. Thanks for taking my question. One question on Pharma, actually two questions on Pharma, one financial and one product-related one, and also one margin question on Pharma and starting off with a follow-up question on EYLEA. Could you potentially quantify the negative currency impact on the direct sales in Q3? And could you update us on the market penetration or the market share that the drug has and in particular Japan, Australia, and Germany as you mentioned in your briefing documentaries that these are the most important countries for the drug right now?



And then also on Pharma, the operating cash flow development was quite weak compared to Q3 last year. Could you potentially comment on why that was? And lastly, on the Pharma EBITDA margin, the adjusted EBITDA margin, which has held up quite strongly during the course of this year, and should we expect really a downfall for Q4 in anticipation of the increased launch costs, or is the level we've seen over the first three quarters a good proxy also for the fourth quarter? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. So EYLEA, Wolfgang, can you quantify the negative foreign exchange effects in the third quarter?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

Thanks for the question again. The foreign exchange effect is more or less not -- makes no sense here because we had no sales in 2012 here. So that's just what we get with the currencies we have currently.

On the level of market performance, let me just add a few data. I just want to repeat Germany 29%, and again I said it's higher if you look at the overall market we're comparing to.

Then in Australia, we are at about 43%, and this is fluctuating in the given months a little bit, one month we're at 46%, 47% and 43% and then going up again. But steadily at about 45% or even 50%. And in Japan, at the end of September, we had the market share of 48%. Then, the question about the EBIT margin.

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**Werner Baumann - Bayer AG - CFO**

I can certainly answer that. When we look at both margin and probably also your cash flow question, we have given guidance for the Healthcare margin for full year, and additional detail we would give now for the specific quarter, we have already made a comment that certainly quarter four and specifically also in Pharma, we have a few things, which will weigh on the Pharma results. One being the further negative currency impact as we've seen in quarter three already and second, some of the further launch and R&D investment behind on your product.

Coming now to your point of net cash flow development, from an operating perspective, healthcare overall is doing actually very, very well in terms of operating working capital management. So that is not the reason. It's actually more of a technicality. We're seeing the net cash flow development, and that is that the amount we reserved in 2012 for the YAZ/Yasmin litigation settlements and also defense costs has started to now become out flux of liquidity out of the Company, and that is what you have seen in net cash flow development. So nothing to do with any operating deterioration or anything of that sort.

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**Daniel Wendorff - Commerzbank - Analyst**

Thank you.

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**Operator**

Mr. Koehler.

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**Ronald Koehler - MainFirst - Analyst**

Yes, thank you. It's Ronald Koehler from MainFirst. I have three questions.

The first question is on the guidance. Your guidance is now based on average currency rates of the first nine months. We know obviously that currently the rates are much more, unfortunately although the Euro is much stronger now than it is on the average of the first nine months. If we take today's currency rate as a projection for the fourth quarter, would that then threaten your guidance, or would it be only a marginal impact? That's the first question.



And the second question I have on your healthcare R&D budget, I think you had given the guidance of around EUR2.1 billion for the full year previously, which implies around EUR600 million in the fourth quarter. Is that still the right number, or should we now look for a high number as you accelerate some of your projects here?

And the third question is on consumer health. When I look at the regional development, actually I see Europe's strongest and Asia-Pacific weakish and also North America weakish, whereas obviously, let's say, GDP would just have something different. Is that -- how is the development right now in North America and Asia-Pacific from a consumer perspective, or are these very specific things which drags you down in sales in consumer health?

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. So Werner Baumann will take the first question on the currency rate.

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**Werner Baumann - Bayer AG - CFO**

Yes, Ronald. As I mentioned before, we have seen progressive burdening of our earnings dynamics by currency, and I mean for the first half year, we are roughly EUR40 million. In quarter three alone, it was EUR133 million. And now if you look at the average versus the quarter three end rates, it was up to you for the remainder of the year. In, let's say, order of magnitude, you could assume that that would have a negative impact somewhere in the area of, call it, mid-double digits, EUR1 million on the bottom line.

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**Ronald Koehler - MainFirst - Analyst**

Mid-double digits, so EUR50 million?

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**Werner Baumann - Bayer AG - CFO**

EUR50 million plus minus.

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**Ronald Koehler - MainFirst - Analyst**

Okay. Because I thought on the [EUR130 million] in Q3, it might be even something similar in Q4 at current rates. That would be then overshooting. Okay.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. Then the R&D question for healthcare?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

R&D? No, there is no change of our guidance. But you have to understand that in the fourth quarter, as every year, it is just normal that our R&D expenses are higher than the previous quarters, and that will also be the same in 2013.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Consumer health?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**



Consumer health, if you look at our overall performance for consumer health, you have seen that currency adjusted. As in Europe, we have been up 3.6%, and in emerging economies, about 11.6%. In the US, we have a tougher time minus 3.9%. But you have to see that there are very mixed picture across our consumer health businesses.

If you look at our consumer care business, we are especially strong in this quarter like in the previous quarter in Brazil, and in Russia, as you mentioned here, where we have been up by 32% in Russia and in Brazil up by 43%.

If you look at our medical care business, then we have a tougher time in the United States because of the reimbursement pressure we have in our diabetes care business. But we have also a tough time in our radiology business because we have a declining market there actually because we have less utilization of the radiology unit and, therefore, also less utilization of our products.

And if you look at animal health, we had quite a good performance in the United States for Seresto. You know, our new flea and tick collar in the United States. But on the other hand, we have also seen some entry of generic competition for Baytril. So also a mixed picture there for our consumer health business.

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**Ronald Koehler - MainFirst - Analyst**

Okay. Thank you.

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**Operator**

Mr. Conover.

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**Damien Conover - Morningstar - Analyst**

This is Damien Conover calling in from Morningstar. Just a couple of questions on the Pharma division.

I was wondering how you might characterize the competitive positioning of Kogenate as you look into 2014 with a new competitor coming to the market with potentially a better dosing profile? And then secondly, just a question on the five products that are being accelerated into Phase III development by 2015. It looks like there's a heavier emphasis on product development in the cardiovascular space, and I just wanted to see how you might characterize the risk reward of those two products, in particular, 94-8862 just because of some notable failures in that therapeutic indication. Thank you.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay, Wolfgang. Kogenate?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

Kogenate, you are referring to the competitive situation we will face in the upcoming years with new competitors coming, and you are probably referring to the first long-acting product of Biogen. And there I just repeat what we said many times before.

What they are offering is an extension of the treatment period to 3 to 3.5 days. And that's not really exciting. You will only make a difference in this market if you can extend this to 5 or 6 or 7 days, and the trials we're making are designed if the product works at the end to demonstrate.

Your question about the new pipeline assets that we have and we have especially presented at the last management meeting, yes, your observation is right. You know, there are a couple of cardiology projects between them, which is just in part a phasing issue. You have all the time with your development portfolio. But it also demonstrates, you know, besides the strengths we have demonstrated in oncology now, that's one of our other strengths is cardiology that also behind Xarelto we have really interesting developments coming up.



The MR antagonist you are mentioning the 94-8862. We see this as a very interesting product and an indication where new therapies are needed. We are fully aware that other attempts have failed in the past there. But we believe that the profile of our compound is suited to really show differentiation when we have performed successful trials in the future, and therefore, we will take this better to move this product forward.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Good. Thank you.

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**Operator**

Mr. Chesney. Excuse me, Mr. Chesney, the floor is now open, and we are ready for your question.

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

Cleo, we continue and ask him again.

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**Operator**

Mr. Baum.

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**Andrew Baum - Citi - Analyst**

It's Andrew Baum from Citi. Just one question. Could you just update us what you're seeing in terms of competitive impact in the US from [Eliquis], and what are your expectations of the impact following the inclusion in Medicare Part D, as well as what you're seeing as an impact to the DTC advertising within the various channels? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Wolfgang?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

Thanks for the question about Xarelto in the United States. Just a few data about the performance of Xarelto. Currently in the United States, if you look at the overall market share, we are currently at about 28% market share in the United States, and if you look at especially the new prescription among cardiologists, our compound Xarelto is at a market share of about 38%.

So we're keeping this on a very, very high level since quite some time. It's true that [apixaban Eliquis] is doing better there in this special segment of the business, having reached about 20%. But if you look at the overall market share, they are still at about 4% in the United States. And if I go to the other markets -- Germany 3%, UK 1%, Japan 1% -- where we have now jumped from 9% to 24% after we got the possibility to prescribe the products for more than two weeks.

For sure, our competitor will do what they can for the product in the United States. It's obviously a main asset of them, but we are very confident that in the future success and the competencies and skills of our good corporation partner, Johnson & Johnson, that we can succeed with Xarelto in the United States in the future.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Thank you.

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**Operator**



[Mrs. Miemitz].

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**Marietta Miemitz - Prime Avenue - Analyst**

Good afternoon. [Marietta Miemitz] from [Prime Avenue]. Just following up on the question of how robust your guidance is. You said earlier that your guidance is based on 9-month foreign exchange rates, but that if current exchange rates were to hold for the rest of the year, the incremental negative impact would only be about EUR50 million on the bottom line.

So, did I understand this correctly that basically unless there is a marked further deterioration in exchange rates, you should be able to meet your guidance irrespective of foreign exchange rate movements? And what issues besides foreign exchange could realistically jeopardize your guidance? Are there any items that stand out? I mean, for example, if we had a massive negative development in raw material prices for BMS for the rest of the year, would that potentially be something that could jeopardize your guidance?

And then I was just wondering when you set targets for divisional management, how do you actually factor in currency? Do the managers actually have to make their targets in euros irrespective of foreign exchange rate movements, which I think some of your peers actually do, or do you set the targets in local currency and then adjust them as the currency moves? Thank you very much.

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**Werner Baumann - Bayer AG - CFO**

Yes, so thanks for the question. Let me first come to the guidance and the Fx impact. The guidance has been qualified in so far it has been given on the average 9 months. If you see a further deterioration, that makes us achieving our guidance. Of course, it makes it a little bit more difficult and more ambitious, and that is exactly how we have framed it. It doesn't mean that we wouldn't make it, but it's certainly somewhat harder because whatever currency takes away has to be made up by further curbing on expenses and investments in the fourth quarter, which can be done to a certain extent, but only not to an extent that it would actually damage our business going forward. You know, that wouldn't make any sense.

In terms of other things which might put our guidance into jeopardy, it's either less sales or more cost, and it can sit different areas. One is that being in a cyclical business, we also have, let's say, significant feedstock positions, which drive earnings up or down. Volatility around our main feedstocks in material science is up for something, which needs to be watched. Our full-year guidance is based on, I would say if you look at it as a proxy for raw oil, it's based on \$106 per barrel. It's not exactly translatable into derivatives, but let's say, further cost increases would again, yes, everything being equal make it somewhat harder to achieve our guidance.

Likewise in other areas, but, again, based on what we have been looking at in terms of year-to-year performance and the remainder of the year, we believe that we can certainly reach our guidance in the metrics we have given, and the only point is that the more negatives we see, the harder it's going to be, and then we'll see how we feel towards the end of the year.

Now coming toward to the question on how we incentivize and whether management has to deliver on local currencies or foreign exchange, when we start the year, our operational targets and, of course, our guidance are always based on a set of currency assumptions, and that's what we start with. Positive and negative deviations will be absorbed in the business. So we don't adjust our incentivization for positive and negative currency fluctuations. Whatever the margin or absolute euro objectives are is what we're shooting for, besides other objectives such as across growth performance with competitors and so on.

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**Andrew Baum - Citi - Analyst**

That's very clear. Thank you very much.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. Thank you.

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



Next question, Cleo.

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**Operator**

Mr. Chesney.

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**Steve Chesney - Goldman Sachs - Analyst**

Great. Steve Chesney from Goldman Sachs. Thanks for taking the questions.

Just a quick question on healthcare, back to China. You said it was roughly flat year on year. I was wondering if you could just quantify the growth you were seeing individually for Pharma in the consumer subsegments and then additionally how the growth dynamics evolved from July and then into August and September?

And then a question on crop. Prices seem to be moving ahead more than they were in first half. To what extent do you believe you can maintain this level of pricing as we head into the North American season in 2014? Thank you.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Okay. Wolfgang, China?

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

Yes, thank you for the question. I just want to repeat we are more or less in line with the last quarter compared to a very, very high third quarter of last year, and we don't split it according to the businesses.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

And not according to the sequence of the numbers.

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**Wolfgang Plischke Bayer AG - Member of the Board of Management and temporary chairman of Bayer HealthCare**

And the sequence of the months.

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**Marijn Dekkers - Bayer AG - Chairman & CEO**

Liam?

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**Liam Condon - Bayer AG - CEO, CropScience & Chairman of the Board of Management, Bayer CropScience AG**

Yes, we've been very pleased with our pricing so far this year. Usually that dips a bit in the fourth quarter because we're strongly dependent on Latin America. But we're also seeing so far this year actually quite good price development also in Latin America and specifically in Brazil. And what we can see of the market so far going into 2014, we expect to continue to be able to take good price in the market. It might not be as high as the current level, but for sure it will be a positive price development going into the new year.

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**Steve Chesney - Goldman Sachs - Analyst**

Thank you.



**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 of IR**

Yes, ladies and gentlemen. Also on behalf of my colleagues, I'd like to thank you for being with us, your questions, and we all wish to see you soon again, and we are now saying goodbye.

**Operator**

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



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