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## BAYN.DE - Bayer AG Meet Management in Leverkusen

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## CORPORATE PARTICIPANTS

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

## PRESENTATION

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**Alexander Rosar** *- Bayer AG Leverkusen - IR*

So, good morning, everybody. I hope that those of you who arrived yesterday evening have had a nice dinner, a nice relaxing evening with us. Everybody else, I'd like to welcome, also on behalf of the entire management team of Bayer, to our eighth Meet Management conference here in Leverkusen. My name is Alexander Rosar; I'm responsible for our Investor Relations program.

So, what have we prepared today for you? Firstly, Marijn, our CEO, will start off the conference with a brief presentation on recent developments, our 2014 targets, and our mid-term aspirations. After his presentation, you will have the opportunity to discuss all aspects of Bayer in four breakout sessions -- one session focusing on the corporate aspects and one session for each subgroup. And in order to facilitate that discussion, we have split the entire audience into four groups -- A, B, C, D -- and that's indicated on your nametag. For example, in this case Group A starts with Corporate, continues to HealthCare, then CropScience, and, lastly, MaterialScience. Our hostesses will walk you to the appropriate breakout rooms. All are located on this level of the venue, with a beautiful view on the playing field.

So, with that, one last aspect I have to mention is the disclaimer slide. Please be aware that during the entire conference we will make forward-looking statements, so we request that you kindly and carefully read through this statement which governs our conference. *(See "Disclaimer" chart at the end of this transcript).*

With that, I'd like to ask Marijn to take the floor for his presentation. Marijn? Thank you.

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

Thank you, Alexander, and good morning, everybody. I hope also that you had a good evening yesterday in the chocolate museum. The chocolates I brought home were a big hit with my family. We are very excited about you all coming and spending so much time with us again for the eighth time here in Leverkusen for Meet Management this year and we hope to make the program very meaningful so that you really can drill down and find out what is going on at an operational level in the businesses. And that's really the priority of today.

I am just going, in the next 20 minutes or so, give a quick overview of basically a look back a little bit the last four or five years and then, as Alexander said, the look forward to our aspirations for 2014 through '16.

We think that the last four years have been a period of significant success. And I'll show you some data on it. We've done a nice job in delivering growth and performance. We had really unprecedented R&D productivity. And the pharma launch products are well beyond our expectations so far. We feel very good about our over-the-counter strategy in consumer care, and we'll talk about that.

CropScience changed its strategy in 2011 to become much more marketing-oriented, customer-oriented. And that is bearing fruit, of course, also supported by a strong CropScience business in general. And then, MaterialScience is having its challenges from a market point of view, but there I will also show you that we are very disciplined from a cost and capital and cash flow point of view.

Here you see a look back over the last few years. The blue bar is the sales organically. The CAGR for the last four years was 5%. And you see, in green, the adjusted EBITDA, 6% CAGR -- sorry, yes, adjusted EBITDA is 6% CAGR. And then, in red, the core EPS with a 10% CAGR. So, nice continuous improvement in the numbers.

I mentioned unprecedented success in R&D productivity point of view. This is just a look back at some of our clinical trials and the successes we've had in pharma since 2010. Most of you are familiar with this list, but it's just nice to put it altogether on one page. And then, even Nexavar recently had approval for thyroid cancer. And then most recently, just a few weeks ago, our long-acting regulated PEGylated Factor VIII, as a next-generation hemophilia product, had a very good result in a Phase III trial. So, across the board, we have had really nice successes in this area.

That is also now beginning to translate itself into revenue. And you can see here on the 2013 bar that of the EUR11.2 billion of sales in pharma, which was 9% organic growth over the previous year, EUR1.5 billion of that was the five recently introduced products. You see the breakout here on the right -- Xarelto, almost EUR1 billion; Eylea, over EUR300 million; Stivarga, up almost EUR200 million; Xofigo, EUR40 million; and Adempas, EUR3 million. So, it's really becoming a meaningful contributor to overall our pharma business and obviously also to pharma growth. That EUR1.5 billion, by the way, was EUR500 million over the original budget that we had in 2013, so we surpassed our own expectations in this area in 2013.

OTC is really a very good business for us, almost EUR4 billion. And often, when we talk about the three subgroups -- Healthcare, CropScience, and MaterialScience -- OTC doesn't always get the attention because very quickly we move to pharma when we talk about healthcare. But this is a terrific gem of a business that we have. And you can see, 7%, 6%, 5% organic growth over the last three years is really very solid and we have really leveraged our global brands here very well. And I'll come back to that also for the future in just a moment.

We are aspiring to be what we say the number one OTC company in the world, the leading OTC company. This is an aspirational goal. And two of the acquisitions that we did recently -- Steigerwald and then also Dihon in China -- add small pieces to that ambition over time.

CropScience. 2010 was a very tough year for CropScience. We lost significant market share. Our margins decreased significantly -- you can see it here on the chart, 19%. And as I mentioned, we really put a new, very customer-centric strategy together where it's not just about developing good products, but also getting really good at market segmentation and selling these products to the right customers at the right time. And that is bearing fruit. You can see it, of course, helped by high prices for agricultural commodities, 9%, 12%, 9% top-line growth over the last three years. And again, I will show you later the ambition to continue this trend also for the next few years.

We have not experienced good market conditions in MaterialScience over the last few years, unfortunately. But as I mentioned, our focus has been very strongly on making sure that returns are as good as they possibly can be under this set of conditions. And we plotted this chart just to give you an indication of what's happening, for instance, from a free operating cash flow in the business over the last years.

You can see that the bar most to the right, EUR418 million, is the free operating cash flow for the business in 2013. And that's basically net cash flow minus CapEx, as you can see. And when you look at that, compared to the year before, EUR114 million, or '11, EUR210 million, in 2010, EUR265 million, we have generated very good positive cash flow, which I think is an indication of the diligence with which MaterialScience is running its business. And this is very important, and I'll come back to our expectations for the next few years in a moment.

So, overall we would say that operationally, and also financially, 2010 to 2013 has been a nice period of progress. That's not really, I understand, why you are here, to listen to that. You want to know what is going on now and what are we going to do in the future. So, let me spend some time on that.

We said in the earnings release and on the call a few weeks ago that we are really very excited about the growth opportunities we have in our life sciences businesses. But to really optimally take advantage of these growth opportunities, we also need to turn up our investments in R&D and in marketing activities, and that is what we are doing. That overall leads to the Group guidance for 2014 that we communicated, which is, on sales, 5% organic sales; adjusted EBITDA, low to mid single digit increase; and core EPS, mid single digit increase.

And, of course, we have there significant headwinds from FX-related changes in the euro. We have taken as a benchmark for these guidance principles the average FX rates of the fourth quarter of 2013. And you can see in brackets here -- I don't want to go into too much detail -- on what that headwind for FX really means for us, particularly in EBITDA and EPS.

From an incremental investment point of view, as I mentioned, total of EUR1.2 billion in the budget for '14, compared to actual 2013. And you see it here, marketing and sales, EUR600 million extra; in R&D, EUR300 million extra; and in CapEx, particularly to build capacity for some of our key products that are short in capacity at the moment, another EUR300 million extra. So, we're really putting our money where our mouth is. We believe in the opportunities, we believe in the growth, and we are investing accordingly.

So, some individual business highlights from an outlook point of view, from '13 to '16, start with pharma. There, obviously, the big opportunity for us is to maximize the value of the launch products. And here they are, the five of them, and a few weeks ago we increased for Xarelto and Eylea the peak sales potential -- for Xarelto, from EUR2 billion to EUR3.5 billion; Eylea, EUR1 billion to EUR1.5 billion; and then Stivarga, Xofigo, and Adempas, we kept at the same rates as we had before, but this now is adding up to a total of a minimum of EUR7.5 billion peak sales potential for these three.

But what we need for that is obviously continued successful launches in the different indications, but also investments in R&D and life cycle management to see if we can get these products also approved for other indications than the ones they have been approved for so far.

And here's a quick slide on some detail of the launches, almost too much to talk about. This is an enormous amount of work. We are active in 120 countries in pharma. In all these countries, over time, we have to introduce these new products for all these different indications. It sounds very simple to say it in one sentence, but it really is an enormous amount of work. And we are very proud of how our pharma organization is accomplishing that.

Just in 2014, over 100 launches. And you can see them here on the list. In Xarelto, we have the new ACS opportunity, of course, that needs to be introduced. In Stivarga, we are just beginning in the EU. Also, in Xofigo in the EU. Adempas is just getting started; last year it had only EUR3 million of sales. Nexavar, thyroid indication. So, it goes on and on with different launches that we are doing across the world.

Now, as I mentioned, also life cycle management to get our products approved in new indications. And you can see here -- I'm not going to read all of this -- but you can see here, for instance, Eylea AMD subtypes are planned. Stivarga, liver cancer. Xofigo, breast cancer opportunity in addition to prostate cancer, bone metastasis. So, Adempas new indication. So again, the list goes on. We need to do Phase III trials for these type of products, and that simply costs money.

Now, what does this mean? As I said, the goal is to maximize the value of the launch products. Our guidance for 2014, for sales in pharma, is high single digit, and our aspiration till 2016 is a CAGR of 8%. EBITDA, as a result of the extra investments and the headwind in FX, we think low to mid single digit. And then, the margin for 2014 to be level with 2013. And you can see our aspiration there is to be 33% or higher in 2016, pharma margin.

Quickly, on our aspirations in consumer care. We're the number two player, behind Johnson & Johnson. It's still a relatively fragmented market of almost 100 billion and we have some really very strong brands, of which we want to maximize the brand potential, particularly in the emerging markets. And then, as I mentioned, bolt-on acquisitions to strengthen the portfolio and our regional presence.

You're familiar, most likely, with these brands. And the interesting thing is that some of these brands are very strong, but then in just one major geography, and have not really been able to spill over its strength in other geographies. And that is what we are planning to do, particularly in emerging countries, So Brazil, China, and Russia, also a very important country for this business. [I actually think] here is the 2013 sales growth for these three countries -- 14% in China, 38% in Brazil, 26% in Russia. A tremendous opportunity, as I mentioned, to take these very well known brands and introduce them in these emerging countries.

Now, consumer health. The way we report it consists of consumer care, which is the OTC business that I just talked about; animal health; and medical care, and medical care is the radiology and the diabetes. And we are optimistic for the next few years in terms of our performance in consumer care and animal health, but we are cautious in terms of the medical care performance because there we really see a challenge, particularly pricing environment and particularly in the US, for both radiology and diabetes.

And all of that adds up to guidance for 2014 of low to mid single digit top-line growth organically and EBITDA slightly below last year, particularly as a result of the FX effects. And then, the aspiration for 2016 is a CAGR of 3% in top-line and maintain the margin level that we had in 2013 going forward at around 24%. And that altogether, Pharma and consumer health, then leads to mid single digit percent guidance for sales and adjusted EBITDA slight increase and longer-term 6% CAGR for -- till 2016 with a margin of around 30% for healthcare.

So now, let me move to consumer -- sorry, to CropScience. CropScience, as I mentioned, a very good last three years, a customer-centric strategy that has really helped us, but also really good new products that are picking up in sales. And there, the definition of new products, products that are launched since 2006. Sometimes when I think that it's 2014, it doesn't sound like a new product anymore, but in CropScience things move in that respect a little slower and these products have really quite a long durability. And also, when a patent expires in CropScience, when you compare it to pharma, there is not this immediate cliff in term of sales. There is much more opportunity through life cycle management to keep sales going in a no longer patented but still meaningful product.

You see here 2013, the bar, EUR1.5 billion of sales of those new crop protection products. Again, this was EUR100 million above our original target for the year, and we feel very good about our innovation portfolio and competitiveness portfolio in crop protection.

Now, in addition to our core strength, chemical crop protection, as you know, we're also very active in building capabilities in two other areas -- in seeds and in biological crop protection. And you see here an overview of our activities for the next few years there. In seeds, we are spending over EUR300 million in R&D, so a significant investment on an annual basis. We're leaders there in cotton and oilseeds. We have a good position in vegetable seeds, and we're building up positions in soybean and wheat. And we do that sometimes also with acquisitions and last year, particularly, in Latin America.

Biologicals is the new wave also of providing crop protection. To me, it's all chemistry, but some people make the differentiation between chemical and biological protection on the basis of where the molecule originally came from. And you see here one example of how meaningful that is becoming already with one product we have, Poncho/Votivo, for which sales in 2013 were EUR150 million. So, very significant, and that's based on biological basis. We did the AgraQuest acquisition in

2013, augmented that capability with Prophyta, we're working on Biagro, so we're over time strengthening our capability here because we think there will be meaningful growth in the next five to 10 years in biological crop protection.

From a guidance -- to guidance, mid to high single digit in top-line growth for 2014, which is really, I think, a reflection of how optimistic we are that the success of the last years will continue in 2014. And then, an adjusted EBITDA increase, again, low single digit, a reflection of our increased investments in R&D and marketing as well as the FX headwinds that we have. And then, longer-term aspiration CAGR, 6%, top-line. And this adjusted EBITDA margin, 24% to 25%.

Now, you can ask yourself the question, "Why don't we just bump up the margin to 26%, 27%, 28%, 30% in CropScience?" We really believe that we need to invest also there, just like in HealthCare, behind our growth opportunities. It is a very competitive arena, and we want to stay head of the technology curve there. So, in that sense, we've said EBITDA margins of 24% to 25% are really benchmark profitability. We are, with those margins, one of the best in our industry. And it's better to make sure that the organic growth is well positioned for the next number of years than to strive for a singular focus, margin improvement.

MaterialScience, the challenge really is to improve the returns of this business, improve cash flow rate of investment. And what has happened in 2013, again, is that -- I would say particularly as a result of the change in the Chinese government at the end of 2012, the demand in China in general for chemicals was lower last year than we had hoped for. That, in combination with high raw material prices, that, in an area of overcapacity to some extent, cannot be passed on to our customers, made for a challenging environment.

Now, MaterialScience is very actively managing its business on the basis of cost and cash flow. And I don't really want to go into too much detail as you saw the cash flow improvement significantly in 2013, and I think this is a good topic to talk to Patrick about and his team in the breakout about what we can do that's within our own control. But, of course, the most important thing is that demand further increases, which will improve capacity utilization in the industry. And with improved capacity utilization, we have more opportunity to raise prices and pass on the higher raw material costs to our customers.

And that's really where we are, I would say, quite optimistic for 2014 and '15 and '16, that this trend is going to take place, that the demand is going to pick up faster than the new capacities are added, and this will then also get us, as you can see here, for 2014 to mid single digit organic growth and a good increase in adjusted EBITDA. And then, the aspiration long-term is till 2016 to get our CFROI to be higher than our cost of capital, which has been our goal for the last few years, but as a result of the situation I described, has not been achieved yet.

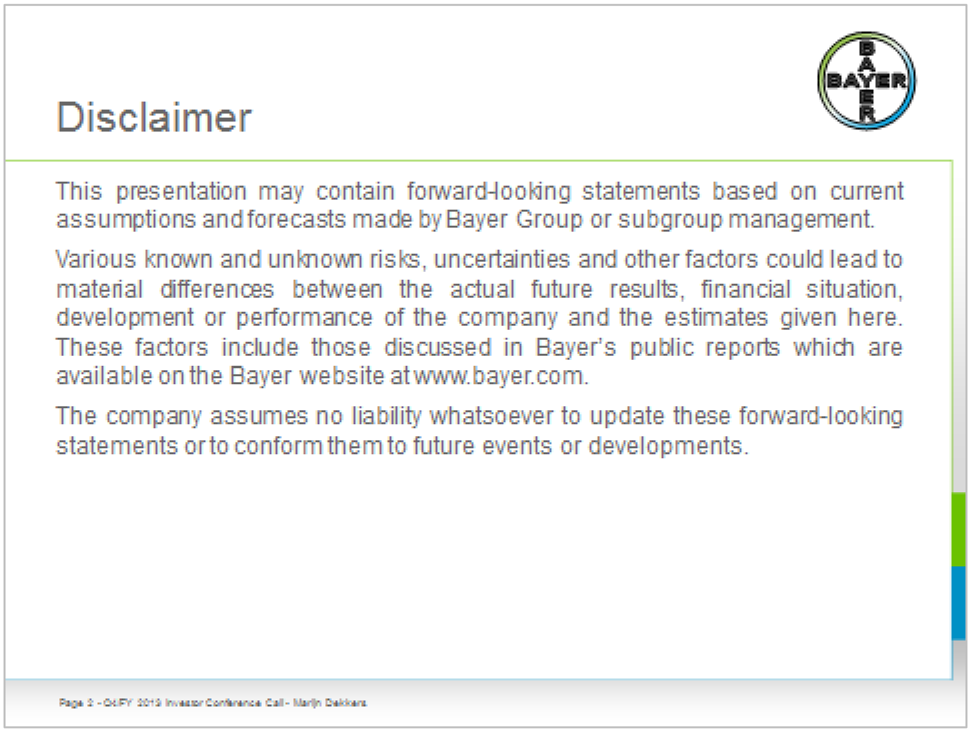
When somebody asked me in the elevator, just 10 seconds, what's the strategy of Bayer, I basically say we really want to grow organically on the basis of our new products and augment that with some very tailored, specific bolt-on acquisitions. So let me just give you a quick overview of some of the acquisitions we've done recently, because what we've done recently is probably also not a bad proxy of what we would do in the future. We look very selectively for opportunities in life sciences that improve our portfolio -- product portfolio, our technology capability, or our geographical presence.

So, HealthCare last year, we bought Conceptus, which is an addition to our women's health portfolio; Steigerwald for consumer care; we're getting very, very far with Algeta, and you've seen the updates on that where we have 98% or more of the shares tendered by now; and also Dihon, a recent acquisition in China for OTC.

And then CropScience, Prophyta in biologicals. As I mentioned, some of these seed capabilities -- soybean, in this case -- in Latin America and then a seed treatment -- biological seed treatment business in Argentina that we are working on right now, as an indication of what it is that we are interested in with respect to bolt-on acquisitions.

So, let me just wrap it up before we go into the breakouts. We feel good about our performance last year with a CAGR and EPS of 10%. We feel good about particularly the pharma products and their peak sales opportunity; we're investing, as I said, aggressively behind that to reach this. Overall, for the next three years, the combination of R&D and CapEx is a total of EUR18 billion investment, so we are, as I mentioned, putting our money where our mouth is. But I do believe that the aspirations that we are showing for 2016 reflect that optimism and we are achieving -- hopefully achieving this higher performance level that we are talking to you about today.

So, with that, I would like to wrap it up. Alexander, we still have, I guess, 10 minutes before the -- so, we at quarter of ten we'd like you to be in the breakout rooms to start the breakout sessions. So, thank you very much.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