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BAYN.DE - Q2 2014 Bayer AG Earnings Call

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OVERVIEW:

Co. reported 2Q14 currency and portfolio adjusted Group sales of EUR10.5b and core EPS of EUR1.53. Expects 2014 organic Group sales growth to be about 6% and to increase core EPS by a mid-single digit percentage.



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PRESENTATION

Editor

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's Investor and Analyst Conference Call on the second quarter 2014 results. (Operator instructions.) I would now like to turn the conference over to Mr. Alexander Rosar, head of IR of Bayer AG. Please go ahead, sir.

Alexander Rosar - Bayer AG Leverkusen - IR

Thank you, [Jasmine]. Ladies and gentlemen, good afternoon and welcome to our conference call also on behalf of my colleagues. Today we'd like to review our second quarter figures with you. With me on the call are Marijn Dekkers, our CEO, Werner Baumann, our CFO. Healthcare is represented by Olivier Brandicourt, CropScience by Liam Condon, and MaterialScience by Patrick Thomas.

Marijn's going to start off with a brief summary of the developments in the second quarter. We assume that you have received and reviewed our stockholder's newsletter, the briefing documents, and the presentation slides, so we'll just focus on the main points.

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



Thank you Marijn?

Marijn Dekkers - Bayer AG Leverkusen - CEO

Yes, thank you, Alexander. Ladies and gentlemen, good afternoon. It's my pleasure to report that we continued to make very good progress operationally in the second quarter, especially in our Life Science businesses. At pharma, we generated double-digit organic growth, driven by the continued success of our launch product, which collectively posted sales of EUR702 million, and that's fully on track for our 2014 sales target of EUR2.8 billion.

At CropScience, we also reported excellent performance. We achieved organic growth of more than 10%, and we achieved further market share gain. MaterialScience benefited from higher demand from key customer industries. The strong operational performance is only partly visible in our earnings numbers because negative currency impact absorbed more than EUR160 million in adjusted EBITDA. And further, strategic progress was made in the quarter with the signing of the Merck Consumer Care acquisition and the Pharma sGC collaboration. And then, we also signed an agreement to divest our interventional devices business to Boston Scientific.

Against this background and based on our expectations for the remainder of the year, we are maintaining our full year total group guidance. So, let me now elaborate on some key figures for the second quarter, and the sales data I will refer to are adjusted for currency and portfolio effect.

Group sales advanced by 6% to EUR10.5 billion. All subgroups contributed to this increase. Reported EBIT rose by 14% to EUR1.5 billion. There were net special items of minus EUR48 million versus minus EUR256 million in the prior year quarter. Adjusted EBITDA increased by 1% to EUR2.2 billion in the second quarter. Adding back the negative currency effect of around EUR160 million, that would have given an 8% increase in adjusted EBITDA, which really demonstrates the operational strength of our business in the quarter. Core EPS amount to EUR1.53 and came in at prior level.

From a regional perspective, we generated 36% of our Q2 sales in the emerging markets, and sales in these countries grew by 8%. Latin America again showed a double-digit growth rate, and sales in Eastern Europe advanced by 8%, and in emerging Asia by 7%, with all subgroups contributing in both regions. Our pharma business in China advanced strongly, with sales up 15% in the second quarter.

Gross cash flow moved ahead by 1% in the second quarter. Net cash flow increased by 4% to EUR1.6 billion because fewer funds were tied up in working capital than in the prior year period. With capital expenditures at EUR529 million, the operating free cash flow came in at EUR1.1 billion. Net financial debt increased from EUR9.1 billion at the end of March to EUR9.9 billion at the end of Q2 because cash inflows from operating activities only partly offset the outflows for the dividend payment in April.

So, let's now move on to the performance of our subgroups, beginning with healthcare. Sales of the healthcare subgroup increased by 6% in the second quarter to EUR4.8 billion. Adjusted EBITDA came in at EUR1.4 billion, an improvement of 2% over the prior year quarter or up almost 11% if adjusted for the negative currency effects of around EUR120 million. The improvements at healthcare were mainly driven by the very good business developments at Pharma. At Pharma, we generated an impressive 10% sales growth to almost EUR3.0 billion. The growth was driven by our launch products, Xarelto, Eylea, Stivarga, Xofigo, and Adempas, which collectively posted sales of EUR702 million. Sales of Xarelto maintained the strong growth momentum of prior quarters. Eylea grew strongly as well, mainly in Western Europe. Our cancer drugs, Stivarga and Xofigo, made encouraging contributions to the sales development at Pharma, and Adempas posted sales of EUR23 million following the product's launch in further countries.

The performance of our established Pharma product was mixed in the quarter. On the positive side, sales of Nexavar rose by 3%, with particular contributions from the emerging markets and the US. Mirena recorded sales gains of 13% mainly as a result of price increases in the US. And Aspirin Cardio experienced a substantial increase in demand, especially in China, resulting in overall sales growth of 9%.

On the negative side, Kogenate sales declined by 17% mainly due to capacity constraints that were caused by the utilization of existing manufacturing capacity for the development of our next-generation hemophilia product. Sales of Betaferone receded by 16% mainly due to increased competition in the US. Sales of the Yaz family contracted by 3%, and sales growth in the US only partly compensated for the revenue decline in Western Europe due to generic competition.

Adjusted EBITDA of Pharma showed a 1% improvement over the prior year quarter, or 11% when adjusted for the negative currency effect of approximately EUR100 million in the quarter. Earnings growth was diminished by our announced step-up in sales and marketing activities, higher R&D expenses, and the negative currency effect already mentioned.

Now, let's move on to our consumer health business, which improved revenue by 1% in the second quarter to EUR1.9 billion. Sales in our consumer care division rose a solid 4%. Our skincare product, Bepanthen, registered strong growth in all regions, especially in the emerging markets. Sales of Aspirin were mainly held back by the



weak cough and cold season in Europe. Sales of the medical care division receded by 5%. The diabetes care business continued to be hampered by reimbursement pressure and price [line], especially in the US. Sales in the animal health division rose by 5% mainly driven by strong (inaudible) of our Seresto product line in the US.

Adjusted EBITDA of our consumer health business showed an increase of 5% mainly as a result of efficiency measures in our medical care business. Currency effects of around minus EUR20 million negatively impacted the earnings performance. Adding those back would give a 9% increase in adjusted EBITDA in the quarter.

So, now let me elaborate on the Q2 development of CropScience, which benefited from a strong performance in North and Latin America. Sales in the CropScience subgroup increased by an impressive 11% to EUR2.5 billion in the quarter. The crop protection business posted sales growth of 10%.

We performed especially well in our seed growth, fungicide, and insecticide segment, all of which achieved double-digit growth rate. Our herbicide business showed continued growth and advanced by 6%. We were again particularly pleased with the performance of our new crop protection products. These products, defined here as those launched since 2006, were up 20% nominally to around EUR532 million in the quarter, and thus made a substantial contribution to the positive sales development. The seeds business expands by 16%, largely driven by canola and cottonseed, and we also saw good contributions from rice and soybean seeds, whereas sales in vegetable seeds were slightly down. Then, revenues of the environmental science business increased by 8% in the quarter, with higher sales especially in the consumer business.

Adjusted EBITDA of CropScience declined by 1% to EUR615 million. Despite the positive impact of selling price and volume increases, earnings growth was held back by higher expenses from marketing and sales and for R&D. In addition, currency movements diminished adjusted EBITDA by around EUR40 million. Adding back the negative currency effect would give a 4% increase in adjusted EBITDA.

So, now let's move on to MaterialScience. Sales of MaterialScience rose by 4% in the second quarter to EUR2.9 billion. This growth was the result of considerably higher volumes in all regions except Latin America and Africa-Middle East. Selling prices overall were below the prior year quarter.

Sales of the polyurethanes business unit rose by 3%, driven by increased global demand from our key customer industries. Sales volumes increased especially in North America and Europe, but came in only at the prior level in Asia-Pacific. Sales in the polycarbonates business unit advanced by 8%. This growth was driven by the positive development from all regions, except Latin America and Africa-Middle East. We were especially pleased with the higher demand in the automotive and the electrical-electronics industry in Asia-Pacific.

Adjusted EBITDA of MaterialScience declined by 2% from EUR274 million to EUR270 million. Here, increased volume, the tailwinds from raw material prices, and the success of our efficiency measures support earnings development in the quarter. Nevertheless, earnings were then hampered by lower selling prices, costs for scheduled maintenance shutdowns in Asia and North America, and negative currency effects of around EUR10 million.

Now, on guidance for 2014, we have updated the underlying exchange rate assumptions and are now using end Q2 rates. And actually, based on these rates, the negative currency impact on sales and earnings will increase versus our original guidance. Nevertheless, in light of our strong operational performance, we are updating our full year financial guidance as follows.

We now plan to grow Group sales organically by about 6% compared to the 5% previously. As before, we are aiming to raise EBITDA before special items by a low to mid single digit percentage, allowing for expected negative currency effect of about EUR550 million, or roughly 6%. We continue to aim to increase core EPS by a mid single digit percentage, allowing for expected negative currency effect of around 9%.

Our guidance for HealthCare remains unchanged despite additional R&D and marketing investments in particular during the second half of 2014. We can reiterate our full year guidance for pharma. However, due to a weaker than anticipated diabetes care business, we are adjusting our consumer health earnings guidance and now expect underlying EBITDA below the prior year.

For CropScience, we are raising our top line guidance to high single digit organic sales growth. And for MaterialScience, we can reiterate our full year guidance. And for Q3, we expect to increase sales and EBITDA before special items compared to Q2.

So, ladies and gentlemen, overall we are pleased with the first half-year of Bayer in terms of both operational performance and the clear strategic progress that we are making. We believe our life science businesses are on track to deliver strong organic growth, and we remain cautiously optimistic for MaterialScience. The improved demand from our key customer industries in BMS during Q2 is a positive sign. We expect to successfully close the announced transactions during the second half of the year.

And that concludes my remarks, and we would now be very happy to take any questions you may have. Thank you.

QUESTION AND ANSWER



Operator

(Operator instructions.) Florent Cespedes, Exane BNP Paribas.

Florent Cespedes - Exane BNP Paribas - Analyst

Good afternoon, gentlemen. Thank you very much for taking my questions. First, on Kogenate situation, could you give us more color on how you see the performance of this product given the situation on the manufacturing side? Then, second question is for Olivier, after nine months on the driving seat, could you share with us what remains to be done? What are the next challenges for Bayer Healthcare? And regarding the pipeline, could you remind us when we will have the next set of clinical results for the five products that you have prioritized in phase 2, and which are the most meaningful results that you are waiting for? Thank you very much.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay. Olivier?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

All right. Okay. Kogenate, let me start by saying that we are selling every single vial we are producing, and that's very important. It has nothing to do with [better] launching in certain markets. The reason why the sales of Kogenate receded is mainly, as Marijn said, because of capacity constraint due to our commitment to develop line extension, the PF formulation, and the N, long-acting formulation. And in order to do that, we needed to limit our capacity production in Berkeley, and that is the explanation.

So, we are managing that as well as we can, and, for the rest of the year, you heard the guidance. We expect 5% to 10% decline due to those capacity constraints versus what we had (inaudible), which was basically flat sales for (inaudible).

Florent Cespedes - Exane BNP Paribas - Analyst

And Olivier, do you believe that you will have an impact next year as well?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

It's a good question. We see that capacity constraint going through until 2015, at which time we are going to be able to produce Kogenate and also the N formulation ready for the launch. So, yes, the answer is yes. We see that all throughout next year.

Regarding your pipeline question, all right, so you know that we have our five focus projects. I can give you a quick update. For Molidustat, which is our therapy for kidney disease, [severe] chronic kidney disease. As you know, it induce endogenous [erythropoietin] production. We have three phase 2 going on actually, dose-ranging and otherwise, and we are expecting results during the second half 2014.

For Copansilib, our inhibitor of [phosphatidylinositol]-3 kinase, our PI3K, we are expecting to see the results in the first half of 2015 of our phase 2. The third one is Vilaprisan, our steroidal progesterone receptor antagonist. The [PIG] trial is ongoing, and reporting our phase 2, and we see the results, the primary study completion, coming during 2016.

Finerenone, the two study, as you know, we are looking for two different indication. One is in worsening chronic heart failure and the second in diabetic nephropathy, and we are expecting those results to be available during the second half of 2014.

And finally, Vericiguat, which is our sGC stimulator, which is now part of our partnership with Merck, we are looking at worsening CHF in two different population, one with reduced ejection fraction and the other with preserve ejection fraction, and we should have the results by first half of 2015.



Marijn Dekkers - Bayer AG Leverkusen - CEO

Would you make any general comments about your challenges, going forward?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Actually, we have a few challenges, of course, but that's normal business. And I think Bayer Healthcare is living through a terrific momentum, and launchings of products continue to be very exciting and very successful, becoming the number two, and maybe in the future the number one OTC company globally, and integrating the Merck CC will also will be extremely, extremely exciting. So, overall, I'm very pleased about [make that movement]. I'm looking forward to the future.

Florent Cespedes - Exane BNP Paribas - Analyst

Thank you very much.

Operator

Richard Vosser, JP Morgan.

Richard Vosser - JP Morgan - Analyst

Hi, thanks, Richard Vosser, JP Morgan, couple of questions, please. Firstly, on CropScience, just wondered if you could take a look into the future in how the second half is developing, and whether your -- so, particularly the picture for Latin America, whether you're going to see, or whether there could be potential product returns, or any risk of product returns from the North American business, given the season is so short over there. And also, allied to that, how you expect the impact from lower commodity prices to affect the business in the second half, and also into 2015, if you can.

Second couple of questions, just on Eylea, the sales were clearly very strong. Just wondering whether you're seeing any off-label use in DME already. Clearly it's not approved, but whether you're seeing that and whether there would be a boost in growth with the launch in a couple of month's time. And then, finally, just on Stivarga, the growth in the US seems to be flattening. Just what can you do to change the trajectory there, or do we have to wait for more phase 3 data first-line colon to change the trajectory? Thanks very much.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Thank you, Richard, for your questions. We'll start with Liam, CropScience business outlook.

Liam Condon - Bayer AG Leverkusen - CEO, CropScience

Yes. Thanks a lot, Richard. As you know, second half is mainly LatAm driven and some [30%] APAC for us. At the moment, our outlook is that still, particularly in Brazil, grower profitability is okay. It's of course gone down compared to the highs of last year. And because most of the sales are usually denominated in US dollars, and because of the devaluation of the reais locally, the growers are still actually making good money. So, we think this is good overall for sentiment.

And another element here is that El Nino is forecast to come into play with the probability of 85%. And El Nino has usually very different impacts on different countries, but, as a generalization, it tends to be more positive for Brazil. Flip side of that is it tends to be more negative for parts of Asia, for example Australia. So, that can help a little bit.

The big, I would say, question mark in LatAm at the moment is Argentina, and that's not related to the agricultural market. That's just simply the overall situation how the Company is -- or how the country is going to manage through the current bankruptcy negotiations. Once again, that's not an ag-specific issue, but that's the only one that we would flag as a concern.



In APAC, I've already mentioned the impact of El Nino could be somewhat negative for Australia. Key thing in APAC for us is a very strong India business and overall for the market. Here the key issue is whether the monsoon comes or not, and just this morning I spoke with our country head in India, and he was very happy because it was pouring rain. So, we've had the delayed monsoon up until now, and now it's pouring rain, so I'm hoping that it's going to remain like that because that will, of course, be good for the overall business.

So, looking forward at the key thing, and you said it yourself, I mean, commodity prices are very low where they are today, let's say relatively. I mean, we're [partly] down to 2010 levels. Historically they're still okay, but compared with last few years, they're relatively low. And this is, of course, based on forecast for increased supply in the market, and that's going to basically depend on what happens now that the harvest in the northern hemisphere, how strong they're really going to see, and what the planting conditions are going to be in the southern hemisphere. These are two variables that we simply don't know.

Right now, it's going to depend, as always going forward, somewhat on the weather, so it's very hard to make the call at this point in time how things are going to develop. If you take, for example, corn, it is short in North America, particularly the US, huge market. It's a short growing season. So far, conditions are very good, but because it's a short growing season, it's only 100 days, and corn needs 100 days in the ground. If you get early frost some time in September, it's going to have a major negative impact overall on yields.

So, there's a lot of variables in play. We are forecasting overall for the second half of the year that there will be continued growth and that we're expecting overall for the year, overall market growth of around about 5%, and going forward into 2015, similar market levels, but it's highly dependent -- market growth levels. It's really highly dependent now what happens in the coming months when harvest -- northern hemisphere and planting conditions in the southern hemisphere.

And product returns in North America, we don't have any specific concerns right now from feedback we've gotten from the market. This is not a [specific] concern to us.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, thank you, Liam. Olivier, Eylea and Stivarga?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Yes. Eylea is, as you said, doing very well, and we continue to do well. We are, of course, the company that own the DME indication. I have no indications that off-label use, despite the fact that in that therapeutic area, off-label use seems to be very prevalent, as we know, is actually happening. So, I have no indication of that.

But, as I said, DME is going to be a major indication for Eylea, and we're expecting positive news pretty soon now. Our data are very, very strong, right, showing a difference of (inaudible) and lateral vision with the bimonthly dosing regimen. So, with that strong condition, we think DME will be very successful for Eylea. And it represents about -- in term of revenues, the market is estimated to be approximately two-third of the wet AMD market. That's what I can say on [that].

I think you had a question on Stivarga, it's in the US and-or globally. I think it's a good question. If you look at our second quarter number in the US, been pretty steady in the number of prescriptions, too, and patients treated, or new patients treated. We see also relatively slow growth from academic center in the US, and you know, US center have not been automatically involved, these (inaudible). However, we think we had very good results and a very good ramp-up of the launch because we had that initial bolus of patient waiting for new treatment, and that is now stabilizing.

We are positive for the future for Stivarga for different reasons, both in the US and ex-US. And by the way, [this] Stivarga is already the market leader in the US in third line, I would say third line plus, [I think], with about 25% overall of market share. And when you are considering the payer (inaudible) population, it's about 30%. And the reason why we're positive is physician are gaining experience with the drug. They are improving their patient selection, and they are using more and more Stivarga as early as the label allows instead of reserving the patient, right, for the -- as a last resort. There is definitely an indication around adverse event management, too.

And we got very -- a set of very positive data with our second clinical study for the [CONCUR], which was conducted in Asia, and it was presented recently in Barcelona. And those results confirm that Stivarga's efficacy and safety is actually higher and outcomes are better in less pretreated mCRC population.

So, that -- for all those reasons, including also the fact that we don't have reimbursement in Europe in all the important markets, and we are trying to gain that reimbursement. We are currently in negotiation. All of those factors should help the brand to continue to grow significantly in the future.



Marijn Dekkers - Bayer AG Leverkusen - CEO

All right. Okay, thank you, Richard.

Richard Vossler - JP Morgan - Analyst

Thanks.

Operator

Daniel Wendorff, Commerzbank.

Daniel Wendorff - Commerzbank - Analyst

Good afternoon, and Daniel Wendorff from Commerzbank. Three questions, if I may, two product-related ones and on Xarelto and the strong momentum you saw there really in the second quarter also compared to Q1. And what is driving this? Are you gaining market shares in terms of new prescriptions? And how does your competition do there? And second question, on Adempas and the jump in Adempas sales, is this related to a certain country, and which indication? Is it more CTEPH or PAH?

And last question on the phasing of the additional EUR500 million you intend to spend in marketing and R&D, can you potentially comment on how we are there in this spending chain, or is the majority coming in the second half of this year? Any more color there will be helpful. Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, so thank you. We'll start with Xarelto.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Yes. So, yes, as you said, there is very strong momentum behind Xarelto. We achieved EUR381 million, [80%] growth for the quarter. And clearly, it is because we are gaining market share in the different regions of the world.

The current market share globally for Xarelto is 28%. Pradaxa is at 14% and Eliquis at 6%. That's the global overall anticoagulant market, including orals and injectable, right, so that's [important]. In the US, we are seeing Eliquis competition kick in in certain physician populations, right? So, we still have, in term of retail sales, we are at 39%, Pradaxa at 15%, and Apixaban at 10%.

When you look at TRXs (ph), with all anticoagulants for the entire market in the US, then you realize that Warfarin is still prescribed in 70% of the cases. So, there are - the Warfarin stickiness is still there. Xarelto shows 14% of share, Pradaxa 5%, and Apixaban 3.5%. Where you see more competition is when you look at new brand Rx and you look at oral [in] only, and not [to automatically use] a new oral, but oral with Warfarin.

So, Xarelto is at 40%, Warfarin is still at 45% but declining, and Eliquis at 12%. Well, Pradaxa is at 4%.

Cardiology is where the competition is strongest with -- again in the US and TRXs, Xarelto at 40%, Warfarin 25%, so much less than the 45% I just mentioned, and Apixaban is getting momentum there at 28.5%. But, we're still leading by more than 10 points.

However, that is not yet completely translated into the P&T market, where Xarelto is at 38%, Warfarin got 49%, and Apixaban stays at 8%. So, there is still a lag between [popular] (inaudible), and so we're very -- we definitely are the market leader. And it's also in the US. It's also true in Europe. Xarelto is at 45 in Germany, and the others have 10% and 6%. In France, 23% for Xarelto, 13% for Pradaxa, and 2% for -- we still -- it's the strength of the brand is clearly demonstrated, as well. I think that's it for Xarelto.



Marijn Dekkers - Bayer AG Leverkusen - CEO

Yes. Adempas? So, there is -- in which country are we having the sales and in what indications are particularly going well.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Well, Adempas, we are really at the beginning of the rollout of the launches. For now, it's mainly a US brand, [which] just starting to launch in Europe. We are still, therefore, in the very early days. Sales were about EUR23 million, but we can, nonetheless, state that we are taking -- really [reaching] our original expectation.

In terms of CTEPH versus PAH, approximately we have 50% of CTEPH, 50% of PAH in the US. Ex-US, the ratio is more like 60%-40%, and if you look at Europe, it's more 80%-20%. I think your question was mainly related to the ratio.

Daniel Wendorff - Commerzbank - Analyst

Yes. Yes, absolutely. Thank you.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

And then, the last question is to answer as well, which is Xarelto, a simple answer, and that's the question of what about phasing of the increased marketing and R&D expenses in pharma in 2014.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Yes. Well, I can only confirm what you just said -- you said in your remark, which is definitely it's heavier during the second quarter and--.

Marijn Dekkers - Bayer AG Leverkusen - CEO

--Second half.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Second half, sorry. And more specifically, when it comes to R&D, we have a lot of study going on, with more spending during the second half.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay. Thanks, [David].

Daniel Wendorff - Commerzbank - Analyst

Thank you.

Operator



Andrew Baum, Citi.

Andrew Baum - Citi - Analyst

Yes, good afternoon, three question. Firstly, could you clarify your strategic intent regarding animal health? I sometimes get the feeling when speaking to various Bayer senior executives that there is a active internal discussion as to Bayer's internal commitment. I'd be interested in your views.

Second, regarding your heart failure portfolio, obviously with the early termination of the PARADIGM trial with Novartis's LCZ696, the standard of care may be changing. How do you think about initiating phase 3 programs? Or do you think, by the time you come to initiate the phase three, you'll have a firm idea of where LCZs fits in?

And then, finally, obviously the pressures continue on the diabetes monitoring business. How are you thinking about managing that, going forwards? Are you still committed to running it for cash, or is a divestment still a possibility?

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, I'll answer the portfolio questions one and three, and then Olivier will answer the heart failure question.

I think with animal health, we really like the animal health industry. We have a good animal health business, but of course things are happening in the animal health industry with Zoetis going public, and now the Novartis business going to Lilly, and that makes us take a look at I think mostly the question, to what extent is critical mass important in animal health, right, and that is not a discussion that is super-urgent because things don't change in days or months, or probably even in a couple of years. But, it is something that we're very aware of.

You know that we believe that in consumer care, critical mass is extremely important, that size is extremely important. This is why we really wanted to do the Merck acquisition. Whether that's all translatable also in an animal health business is an interesting strategic question that Bayer is occupying itself with, and has for some time. So, stay tuned on that.

Diabetes is a tough environment. In general, I would say diagnostic businesses are tough, particularly in the US. But, as we have mentioned before, this is a business that requires very little cash investment from Bayer and is generating good cash flow. So, we are committed to this business particularly because of the very good cash flows that it continues to generate.

And then, Olivier?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Yes. On the cardiovascular side, as I mentioned earlier, I think your question is in regard of Vericiguat, where we have those two phases B studies ongoing with two different population, one with reduced injection fraction and the other with preserve. And as you know, the Novartis compound was one with reduced injection fraction. So, they have no doubt strong results, and to your point, before starting phase 3, we will analyze definitely their data, right, which we can [anticipate] by then will be fully published. And as part of our own preparation for phase 3, we discussed the design with KOL and authorities, so -- and what I can say was we expect our phase 3 to involve very large outcome studies and pretty typical in cardiovascular indication, and we committed to do that.

Andrew Baum - Citi - Analyst

Thank you.

Operator

Sachin Jain, BofA Merrill Lynch.

Sachin Jain - BofA Merrill Lynch - Analyst



Hi, a few questions, please, firstly a follow-on on diabetes care. competitors I think have been commenting they've been seeing stabilization in that business as last year's reimbursement pricing pressure annualizes. So, just the question is for 2H of this year. Are you seeing any stabilization, or are your trends continuing?

Second question is for Werner, and I guess also follow-on on the portfolio question prior. As you transition to this new role from October, can you just give us a bit more color on exactly where your focus will be in this newly created portfolio and strategy role?

Third question is on the phase 2 clinical data. Olivier, you very kindly listed the timelines of that data in-house. Wonder if you could just clarify how that data will be communicated to the market. Would we expect press releases as soon as you have the data, or are we waiting for conferences?

And then, a clarification question on Kogenate, as well. You suggested that the capacity constraints would continue into 2015. Just to be clear, are we expecting another step down in sales in '15 or just annualizing the capacity constraint of this year? Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, let's start with the diabetes question, Olivier.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

I think that's a pretty straight answer. The answer is yes, we are planning to see continuous decline of our diabetes care, mainly driven by the US, as I mentioned, and in Europe, Germany. And that explains -- it's the main reason for the guidance we have, actually issues regarding consumer health EBITDA for the full year. So, the two are very strongly related.

The second question?

Marijn Dekkers - Bayer AG Leverkusen - CEO

Well, it was for Werner and his future role.

Werner Baumann - Bayer AG Leverkusen - CFO

Yes, Sachin. Very simply said, I wouldn't read too much into it in terms of portfolio and strategy, because the way the German Board (inaudible) said that, certainly in our case, we [grandly] take responsibility for everything which is going on in the Company, and I'm taking on kind of a sponsorship role now for the corporate development area, which is right now reporting to Marijn. Just to put that into perspective, it used to report to Richard Pott, who retired last year before, yes? So, again, not a lot to be read into it.

And last but not least, in terms of portfolio management, which is the M&A piece, there is no change in terms of my responsibilities here because that is the M&A department, which does currently report to me and will continue to report to me.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, then Olivier, the [delta]?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Oh, data publication, data release. Usually Bayer goes through a conference and congresses for data release, and I think we will continue to do that with this [light] asset we are talking about here.

And I think your last question--.



Marijn Dekkers - Bayer AG Leverkusen - CEO

--Kogenate--.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

--was Kogenate and whether or not we should see it very difficult for me to give you an exact number. We said 5% to 10% for 2014. What it will be for '15, it's difficult to predict. Again, we are trying to manage that as well as possible, not impacting too much of [what here] in the main countries and is a major market. Overall, I would say it would be pretty stable with really flat versus 2014, but I don't have much elements to guide you for 2015 there except that the capacity constraint will still remain during the year.

Sachin Jain - BofA Merrill Lynch - Analyst

Thank you very much.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Thank you, Sachin.

Operator

Christian Faitz, Macquarie.

Christian Faitz - Macquarie Research - Analyst

Yes, thanks. I have two questions. First of all, on CropScience, what percentage of a 3% price increase was caused by forex adjustments, i.e. you pricing on the forex you experienced in, for example, developing markets?

And then, second of all, on MaterialScience, what is the split of volume and pricing in your 2.5% FX adjusted growth in Asia, please? Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, Liam?

Liam Condon - Bayer AG Leverkusen - CEO, CropScience

Okay. On the pricing, I think it's pretty easy. We separate that quite [strictly]. So, the pricing that you have seen is not related to the pricing increases, is not related to any currency devaluation. But, it's just for us straight price increases.

Christian Faitz - Macquarie Research - Analyst

Okay, thanks.

Marijn Dekkers - Bayer AG Leverkusen - CEO

And then, MaterialScience, Patrick--.



Patrick Thomas - Bayer AG Leverkusen - CEO, MaterialScience

--Christian, that's the best answer I can give you, is just give you the size of the quantum of the price effect in quarter-on-quarter sequential EBITDA bridge. It was really a mid single digit absolute number of millions, so it's a very small number. The volume effect is far greater than that. And of course, the biggest effect sequentially was because of the turnarounds, which is running around about EUR50 million. That was the biggest. Second largest was the (inaudible) and oil price effect, which led to around EUR50 million impact on the raw material costs.

Christian Faitz - Macquarie Research - Analyst

Okay, very helpful. Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Thanks, Christian.

Operator

Michael Leuchten, Barclays.

Michael Leuchten - Barclays Capital - Analyst

Thank you. Two questions on pharma and one on finance, please. On pharmaceuticals, just yet again going back to Kogenate, does the capacity issue have an impact on your ability to file long-acting factor 8? Does that filing slip because you need to build it at capacity?

Second question on Xofigo in Europe, just wondering what the plans are for introduction across the region.

And then, the finance question is on foreign exchange. In the first quarter, you were saying that, at March rates, the additional foreign exchange headwind will be EUR200 million on top of what you expected at the beginning of the year. That has gotten better now with your guidance in Q2. Looking ahead, for modeling purposes, I just wondered whether you could give us some sensitivity as to what currencies helped you out to reduce that additional headwind by EUR100 million. Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

So, first, Kogenate?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Kogenate [DN]? The answer is no. It's because we want to be fully ready to launch this new formulation, right, that we have that capacity constraint. So, it's not the reverse [terms of] capacity (inaudible). It's not limiting us to be ready for filing and launch. So, that's the answer to the first question.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Xofigo Europe?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Xofigo Europe, Xofigo now is approved in 38 countries, and we launched in 18. And in Europe it includes Germany, Austria, UK, Ireland, France, Netherlands, and a set of smaller countries. So, it's very early days, but it's going well. We have insofar about 4,100 US patient who have received Xofigo since launch, and in Europe we are getting close to 1,000 patients. So, that's the numbers.



Marijn Dekkers - Bayer AG Leverkusen - CEO

And Werner, FX?

Werner Baumann - Bayer AG Leverkusen - CFO

Yes, okay. On FX, thanks, Michael, for the question. I think a clarifying comment may help here. What we said in March, and what we are saying now is in March we said it's really going to be bad compared to our initial guidance, with an incremental EUR200 million negative impact on the bottom line. What we are saying now is that it continues to be bad, but it's less bad, yes? So, it's not actually going to be better in terms of upside, and hence we have also further qualified our full year guidance. The reasons why we didn't do this in March was because it was only three months into the year, and we wanted to see how rates are developing, going forward.

Now, with half a year under our belts, we see that we have actually really significant negative variations in FX in our year-to-date performance. And just illustratively, in terms of what it means, if you look at HealthCare overall, we guided for I think EUR250 million in total for full year. That EUR250 million has already materialized as of first half of the year, and there's still some more to come.

And that is the overall background in terms of our updated FX guidance, which now is incremental EUR100 million [verse] compared to the rates we use for our guidance, and that is reflected also in the wording of the different business.

Marijn Dekkers - Bayer AG Leverkusen - CEO

And these all rate in Q2.

Werner Baumann - Bayer AG Leverkusen - CFO

In Q2.

Marijn Dekkers - Bayer AG Leverkusen - CEO

30 of June.

Michael Leuchten - Barclays Capital - Analyst

Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, thanks, Michael.

Operator

Matthew Weston, Credit Suisse.

Matthew Weston - Credit Suisse - Analyst



Thank you very much. Three questions, if I can, the first two simply on pharma. Just a quick follow-up on Eylea. Can I just check that all the growth that was reported in the quarter was underlying and there were no stocking impacts? And then, secondly, just looking at Mirena, great performance in the US, which you attributed to price, but ex-US seems to have deteriorated quite rapidly. Is there a specific reason for that in the quarter?

And then, finally, on crop, LatAm fungicide has been a key driver of growth over recent quarters and years. We've now eventually seen your competitor launch Solatenol. A quick question - have you seen any impact to date in Brazil of the Solatenol launch, and what are you assuming for the second half of the year?

Marijn Dekkers - Bayer AG Leverkusen - CEO

Olivier? Eylea, [if there's] anything to do with stocking.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

No, I can answer. The answer is no.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Okay.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Mirena ex-US?

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Mirena ex-US, we were actually flat or slightly declining to 1%, and the increase was definitely coming more from the US. And impacting market share may be linked to the launch of Nexplanon, and that is what I would answer, yes.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay. And then, the Latin America fungicide?

Liam Condon - Bayer AG Leverkusen - CEO, CropScience

Yes. Yes, you're right. We say we've been growing very strongly in the recent years with fungicides, and particularly in Brazil. And the reason is quite simple, because of the disease pressure is so strong, and so there's huge demand in Brazil for innovative -- for new fungicides, and the fact that a competitor is coming with a new product is clearly, I would say, good overall for the market, because there is a strong need for further innovation. We're also developing new fungicides.

But, overall, we will continue to grow our fungicide business in Brazil. It's very clear in all indications that we get from the market preordering there for the remainder of the year in Brazil. We are confident that we will reach [our state of] (inaudible).

Matthew Weston - Credit Suisse - Analyst

Perfect. Many thanks indeed.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

Just coming back on Mirena numbers, I gave the Western European number, but Mirena is ex-US still growing at 3.1% because of--.



Marijn Dekkers - Bayer AG Leverkusen - CEO

--In total--.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

--emerging -- no, total is 13%, US is 20%, ex-US in total is 3%. And it's driven by emerging economy on (inaudible), double-digit.

Matthew Weston - Credit Suisse - Analyst

Thank you.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

What I mentioned was mainly for Western Europe.

Matthew Weston - Credit Suisse - Analyst

Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Thank you, Matt.

Operator

Tim Race, Deutsche Bank.

Tim Race - Deutsche Bank - Analyst

Hi there, team, two questions, please. First, on CropScience, just big picture, you've had sort of [large] management changes over the last few years, and we've gone from a position of underperforming many of the years to actually now continually taking share. What do you pinpoint this change in sort of performance, and what's the secret of success? Is this new management, new incentives? Is it a change of [box] into marketing? And basically, how long can we expect this sort of share taking to continue before the competition comes back at you, just sort of big-picture here?

And then, the second question on Xarelto, the royalty in the US is pretty hard to predict how it comes in in the quarter as to what rate it's going to be (inaudible) when we see the step-up. Could you just help us understand -- or help to explain a better way of forecasting the US royalty revenue for me? Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Yes, Tim, thanks for the questions. I will take the first question because it's a little hard for Liam to answer, although he does know the answer, but it's still hard maybe to say it.

What CropScience is doing significantly better now than a number of years ago is marketing and sales. We always had good products. We were always good at inventing new molecules, new technologies that were really important to the farmers in the marketplace. But, we had a tendency to be satisfied when, say, the top 10% of our customers, the most sophisticated ones, the early adapter would like the product as much as we do, and say that was then our justification for all that wonderful R&D work that we've done.



Well, now we say, sure, those first adapters of new technology are important, but we also want the other 90% of our customers for these new, better products. So, we don't stop when we get some good feedback. We keep going and keep selling. And that is making a real difference, because now we have a mechanism to get these good products transitioned into real sales results. And Liam and his team are doing a fantastic job doing that, and that is why we're gaining share. It's in the end that simple, translating good stuff from a product point of view into real sales.

Xarelto?

Werner Baumann - Bayer AG Leverkusen - CFO

Xarelto (inaudible)? On Xarelto, Tim, you know that we have given limited guidance so far in terms of what the composition of our sales number and then also the profit contribution of our US relation with J&J, and this call is actually not the appropriate one to elaborate further on that. What I can say is that, if you look at Xarelto in the US and J&J's sales number they have reported, I think the quarter was at about \$360 million. And the overall royalties we are due are staggered, and they go up to a maximum of 30% based on the contracts we have, and that's about it and [how we think over here].

Tim Race - Deutsche Bank - Analyst

Okay, thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Thanks, Tim.

Operator

Jeff Holford, Jeffries.

Jeff Holford - Jeffries & Company - Analyst

Hi, thanks for taking my question. Wonder if you can just talk a little bit more about the pricing environment in MaterialScience. Last quarter we definitely began to hear a bit more about some green shoots from you on pricing. This quarter, the language in the release at least has seemed a little bit more conservative about where pricing is, at least year-on-year. So, wonder if you can just talk a little bit more about the pricing environment in MaterialScience first, going forwards. Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, Jeff, thanks. Patrick?

Patrick Thomas - Bayer AG Leverkusen - CEO, MaterialScience

Yes. In Christian's question, I answered the question as to what it meant quarter-on-quarter. Let me just try and bridge year-on-year, and it might take a full half year you'll see the magnitude of the pricing effects.

So, pretty much volume and price offset one another year-on-year if we bridge from '13, '14. That's a number of about EUR130 million total price effect. Going forward, we intend to increase prices. I think the environment is moving in that direction, and I think we've seen somewhat of a turning point in polycarbonate. We've just seen the growth numbers coming through the second quarter where the overall market grew at above 7%. So, if we go back sequentially back to the beginning of 2002 there when we saw the negative decline in the polycarbonate world market of around minus 4%, quarter two was minus 4% in 2012, then it got to about a 1% to 2% growth in quarter three, 1% in quarter four, then plus-4% quarter one this year, and now plus 7% and a bit.



So, I think that turning point on polycarbonates will start to tighten the market. We've seen some assets close around the world, as you'll have seen in the publications, and we can sense that there is going to be some movement [in a] price at some point, but not [declining].

Marijn Dekkers - Bayer AG Leverkusen - CEO

Sorry, Patrick, you said 2002, but you meant 2012, from--.

Patrick Thomas - Bayer AG Leverkusen - CEO, MaterialScience

--Sorry, 2012, yes, sorry, (multiple speakers). Yes, 2012, yes. So, that's the decision on polycarbonate. On the isocyanate, there's some pressure on TDI pricing at the moment as there's anticipation of new assets coming onstream. I was actually at our new TDI plant in Dormagen this morning where we've already started decommissioning the old unit so we can transfer operators. So, that's starting to come to market and give us a fixed cost boost.

And then, on MDI, there's been a lot of volatility in price primarily because of really volatile demand in the MDI market at the moment. So, that's the overall effect and outlook.

Jeff Holford - Jeffries & Company - Analyst

Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Thank you, Jeff.

Operator

Thomas Gilbert, UBS.

Thomas Gilbert - UBS - Analyst

Yes, good afternoon, (inaudible), four questions, please, three on CropScience, one on finance. First of all, the top three seed companies out there grew in the first half, if anything, on price and not on volume. How can your seed care business grow double-digit, how, why, and how forward, please?

The second one is on investments in CropScience, saying you're setting that up. Is that mainly related to you rolling out your own soybean brand, and how is that -- I think it's called CredeNZ -- how is that going, schedule-wise, still looking for Latin America season later this year, and then northern hemisphere next year? And will these investments have to actually further increase incrementally as you approach that rollout?

Thirdly, thank you for the guidance on the P&L on CropScience. Can we expect the usual cash inflow from the business, i.e. are the capital requirements for you to harvest that growth the same, or is this anything with payment terms, advanced payments, i.e. is the cash conversion this year the same as in any average year?

And then, finally, on the pensions, pension deficit has increased a bit on an IFRS basis. You injected, I think, EUR1 billion into CTA couple years back. I don't remember exactly when that was for my memory, a couple years back. So, my question is how do you look at the pensions at the moment in terms of cash contributions, and can you remind us whether -- what the Merck consumer OC business brings in terms of pension deficit onto the balance sheet? Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

All right. You got those three questions, Liam?



Liam Condon - *Bayer AG Leverkusen - CEO, CropScience*

Yes. So, first, as you've seen, we had a much stronger seed business than our competitors, and this is simply due to the fact that we are very strong in canola and cotton, and they bounce back. You will also remember that we had quite a weak year last year in canola and cotton. They bounced back very strongly, canola typically in Canada and cotton, it finally rained West Texas from the US, but also in Brazil.

Related to that, also our seed growth business is doing better, so particularly see growth for canola in Canada has been very strong, but also our seed growth business for corn and soy has clearly gained market share in the US. So, this is the way I would answer the question specifically related to seed growth.

Thomas Gilbert - *UBS - Analyst*

Can I ask, is this the biologics offering that is driving that, the Poncho Votivo?

Liam Condon - *Bayer AG Leverkusen - CEO, CropScience*

Yes, exactly, yes, the Poncho Votivo, so a combination of a chemical and a biologic.

Investments going forward, as we laid out several times, we continue to invest in production capacities in research and development and marketing and sales. And specifically you had asked about soybean and upcoming investments and the rollout of Credenz, our soybean brand in Brazil and Latin America. We are on track to launch this brand this year. This is part, of course, of a multi-year soybean market development strategy, so we've been investing in various smaller germplasm soybean companies. In Latin America, we've been investing in breeding centers, particularly in Latin America, and the rollout plan here is very much on track. So, we will launch the first brand this year and continue to roll that out for continuous years. And this is something where we see also flow-through for our crop protection business by linking then the seeds offering together with crop protection which, again, is something that's benefiting our overall business.

And the third question on cash conversion, will it be the same this year as let's say an average year, as far as you can have an average year in agriculture, we would say yes.

Thomas Gilbert - *UBS - Analyst*

So, nothing unusual in payment, extension of payment terms, advanced payments in the US? It's the typical seasonality in the cash flow?

Liam Condon - *Bayer AG Leverkusen - CEO, CropScience*

Yes.

Thomas Gilbert - *UBS - Analyst*

Okay, thank you.

Werner Baumann - *Bayer AG Leverkusen - CFO*

Okay, Thomas, then let me come to your pensions question, and you rightfully so referred to the accounting rules. What we see here is very much technically driven volatility in our long-term obligations, and it (inaudible) simply with the variance of -- and the variability of the long-term rate, and then we do that on a quarterly basis without any immediate payout obligation with such a long-term set of provisions on the balance sheet.

What has happened here, the second quarter, is that, almost exclusively, the vast majority of that increase has been driven by a further erosion of the long-term rates in Germany. They [have been] a large part of our pension obligations, yes? So, we saw the long-term rates go down by half a percentage point, and just to illustrate what half a percentage point means on a global basis, that refers to roughly EUR1.5 billion, yes, between EUR1.4 billion and EUR1.6 billion, going up and down in terms of our obligation.



So, in terms of our plans to further fund our pension deficit, we currently do not have any plans to do so further, yet as we've mentioned in prior calls, we will look at it periodically, and if we have the opportunity, we would not preclude from doing that.

Last but not least, in terms of Merck, Merck OTC, the OTC business, there is no impact at all, certainly not a material impact in terms of our pension obligation, which stem from defined benefit obligations, which would be impacted by some of the Merck people in the US (inaudible).

Thomas Gilbert - UBS - Analyst

Very clear. Thank you.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Thank you.

Operator

Andreas Heine, Barclays.

Andreas Heine - Barclays - Analyst

Yes, one small question -- two small question on MaterialScience, then two on CropScience. At first, MaterialScience, it was the only area where you have reduced the FX impact. Why is that? And looking forward to the second half, is there any other major turnaround we have to be aware of, or is this (inaudible) period over?

And then, coming to Bayer CropScience, you had also very strong increase in North America, and you are also basically the only crop protection company telling this. Is that also strongly linked with the two crops, cotton and canola, where you have this integrated business model, or did you gain market share also in other crops? Thanks.

Werner Baumann - Bayer AG Leverkusen - CFO

Yes, maybe I can answer the first question. Our businesses are impacted by different variances of exchange rates based on the mix of the businesses in different countries, and hence you may see from time to time that we have opposite directions in terms of currency impact as [our] -- changes over the year. And in terms of BMS, that is exactly the case, yes? Since we take discrete rates and apply them to the basket of currencies we are active in, we have in this case now a reduced impact in MaterialScience and, on the flip side, a significantly increased impact potentially in pharma. That's where most of the negative is.

Patrick Thomas - Bayer AG Leverkusen - CEO, MaterialScience

Yes. And in terms of turnaround, we have, Andreas, one further turnaround this year of any significance, and that is in Baytown. It's predominantly in the fourth quarter, although it will incur some costs in the third quarter. It's not of the scale of turnarounds we experienced in quarter two.

Andreas Heiner - Barclays - Analyst

Okay.

Marijn Dekkers - Bayer AG Leverkusen - CEO

And then, Liam?



Liam Condon - *Bayer AG Leverkusen - CEO, CropScience*

Yes. And related to North America, as you rightly state, due to our strength in cotton and canola and our integrated business model, this for sure has a positive impact on our overall ability also to pull in crop protection sales. And -- but, I think it's also clear that we have gained some market share also in other areas related to soy and corn. So, for example, because there was a shift from corn to soy, there has been -- there was an increased demand for pre-emergent soy herbicides, and because of the shorted season for corn, there was a demand for post-emergent corn herbicides. And these are all areas where we have a broad and innovative portfolio, so I think this is basically helping us a lot. And this combined with what they already mentioned, SeedGrowth on Poncho Votivo, it's a combination of a chemical and a biological. This is on the one side canola in Canada, but it's also corn and soy in the US. So, it's clearly -- it's not only related to cotton (inaudible).

Marijn Dekkers - *Bayer AG Leverkusen - CEO*

Good. Okay, thank you.

Operator

Amy Walker, Morgan Stanley.

Amy Walker - *Morgan Stanley - Analyst*

Good afternoon, team, it's Amy Walker at Morgan Stanley. I apologize in advance. I was a little late to the call, so I hope you haven't covered this ground already. But, I had a couple of questions for Olivier to start off with, please.

Olivier, firstly, in the women's health franchise, can you give us a bit of an update on the progress you're making with the Essure non-surgical sterilization technology you acquired last year? When do you think there'll be enough mass there to start reporting the sales? And can you give some color on how you plan to extend that outside the US and whether that's happening already, and how that's developing, please?

And the second question on oncology, given the recent line extension disappointment for Nexavar and the slightly weaker than expected trajectory versus consensus anyway for Stivarga, do you feel that Xofigo and the PI3K in phase 2 are enough to sustain the franchise, given the immuno-oncology revolution? And on that topic, can you maybe update us on what's happening with Compugen and your activities in checkpoint inhibitors, please?

And then, very lastly if I can, on MaterialScience, Patrick, I don't know if I've missed something here, but the year-on-year changes in price, volume and currency weren't very different in the second quarter from what they were in Q1, and yet profit was down a lot sequentially, nearly EUR100 million. I think EUR50 million of that you've guided for at the EBITDA level to be an impact from the turnaround. Was the rest mainly raw materials, or is there something else going on? And if it was raw materials, what are you seeing there in Q3, please? Thanks.

Marijn Dekkers - *Bayer AG Leverkusen - CEO*

Okay, Olivier, Essure?

Olivier Brandicourt - *Bayer AG Leverkusen - CEO, Bayer Healthcare*

Yes, Essure, the sales of Essure came at EUR28 million in this quarter, and about EUR50 million for the first half. We see a little bit of social media containing, as you probably know, (inaudible) against Essure in the US, but things seem to improve. And we're having -- we're seeing -- it's really the beginning, but we're seeing a good momentum (inaudible). So, overall, again, it's a business that we should see growing more significantly in the next -- in the near future.

The second question you had was related to Stivarga. Would you -- I didn't catch exactly what--.

Amy Walker - *Morgan Stanley - Analyst*



--It was just around perhaps a little bit of disappointment on Stivarga's rate of momentum and wondering whether you think that, given Nexavar has had a couple of failures in terms of pipeline and Stivarga is a little slow, are you comfortable with the medium-term outlook for oncology? Does it worry you that there's sort of potential headwinds from immuno-oncology? Are you doing enough there? What's happening with Compugen? Just a little bit of thinking around the strategic and the medium-term on the oncology franchise.

Olivier Brandicourt - Bayer AG Leverkusen - CEO, Bayer Healthcare

What I would propose, Amy, is just to give you a sense of where we stand on Stivarga, and then maybe having the full discussion around immuno-oncology and what we're doing there with the different partners during our September management meeting in London, where I will have both Jörg Möller (ph) and Andy Busch (ph), who would be able to get into the details about our portfolio.

But, I must say we do have a lot of things going on. We have a large phase 1 portfolio of oncology assets. We are not part of the first wave. As we discussed during the last Meet Management meeting, we're not part of the first phase of immuno-oncology, but we're getting ready for the second. And I expect that you would be in agreement that we can be a player then later on.

Regarding Stivarga, as I said, we -- earlier during the call, we got a lot of -- a bolus of patients very quickly during launch and after launch in the US to third and fourth line patients were waiting for something new to come, and we got that bolus of prescriptions. It has now (inaudible), and physicians are -- we are now the leading brand in term of market share in third line and fourth line therapy in the US. We had 30% (inaudible) population of about 25 overall.

So, that's good and strong foundation -- formation, but we need to continue to support the brand, and I think it would come from two or three directions. The first one -- and again, I mentioned that earlier, but I think it's very important that improving the patient selections by physician will be very important for the future growth of the brand, and specifically selecting earlier patients than what they are doing today, which is to see the patient for fourth line.

Physicians are also learning the safety profile -- the adverse event profile of this brand and learning how to deal with it, and more and more effectively. And finally, I think we have a good--.

Marijn Dekkers - Bayer AG Leverkusen - CEO

--Just a second. Amy? Amy?

Amy Walker - Morgan Stanley - Analyst

Yes?

Marijn Dekkers - Bayer AG Leverkusen - CEO

We hear you type, so can you -- there's a lot of noise and a lot of static on the line because of the typing.

Amy Walker - Morgan Stanley - Analyst

I apologize, Marijn. I will mute my line now.

Marijn Dekkers - Bayer AG Leverkusen - CEO

Okay, thank you.



Olivier Brandicourt - *Bayer AG Leverkusen - CEO, Bayer Healthcare*

And Amy, the last one, and I referred to that earlier, too, it's a result of our second phase 3 [people] study called CONCUR in the Asian population, really showing that outcome can be very significantly improved when you are dealing with (inaudible) re-treated population in mCRC.

So, overall, we're still very confident with reporting the brand. We're rolling out the launches in Europe. We are in price negotiation with many payers in Europe, and we're remaining very positive.

Marijn Dekkers - *Bayer AG Leverkusen - CEO*

Okay, thank you.

Patrick Thomas - *Bayer AG Leverkusen - CEO, MaterialScience*

And finally, Amy, you're right in your analysis. The other EUR50 million of turnaround, EUR50 million was the raw material EUR50 million. And I expect quarter three raw materials to be pretty much on quarter two levels.

Amy Walker - *Morgan Stanley - Analyst*

That's all very clear. Thank you very much, gentlemen.

Marijn Dekkers - *Bayer AG Leverkusen - CEO*

Thank you, Amy.

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 Leverkusen - IR*

In this case, ladies and gentlemen, also on behalf of my colleagues, I'd like to thank you for being with us on our call today and your questions. Now, we'd like to say good-bye and we all hope to meet you soon during our Meet Management conference in London on September 30 again.

Operator

Ladies and gentlemen, this concludes the second quarter 2014 results investor and analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.



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