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BAYN.DE - Q1 2015 Bayer AG Earnings Call

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OVERVIEW:

BAYN reported 1Q15 Group sales of EUR12.1b and core EPS of EUR2.10.
Expects full-year 2015 Group sales to be EUR48-49b.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's Investor and Analyst conference call on the first quarter 2015 results. Throughout today's recorded presentation, all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session. (Operator Instructions) I would now like to turn the conference over to Mr. Alexander Rosar, Head of Investor Relations of Bayer AG. Please go ahead, sir.

Alexander Rosar - Bayer AG - Head of Investor Relations

Thank you, Cleo. Ladies and gentlemen, good afternoon and welcome also on behalf of my colleagues to our conference call. Today, we would like to review our first quarter numbers with you. With me on the call are Marijn Dekkers, our CEO; Johannes Dietsch, our CFO; Werner Baumann, our Chief Strategy and Portfolio Officer, today also representing HealthCare; CropScience is represented by Liam Condon; and MaterialScience by Patrick Thomas. Marijn will start off our call with a brief summary of the developments in the first quarter. We assume that you have received and hopefully found some time to review our internal report, the briefing document, and the presentation slides.

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 gentleman, good afternoon. It gives me great pleasure to welcome you to our first quarter conference call to share a good set of numbers with you today and I'm pleased to report we've had a strong start to the year. HealthCare generated significant sales and earnings growth on the back of our recently launched products and good organic growth in all Consumer Health businesses. CropScience had slight organic growth over the strong prior year's quarter despite the weaker market environment. MaterialScience as expected registered a slight decline in sales, but significantly improved earnings driven mostly by lower raw material prices. Our portfolio transformation into a pure life sciences company, the integration of the acquired businesses, and the preparations for the floatation of MaterialScience remained on track.

Based on our achievements in the first quarter and our expectations for the remainder of the year, particularly considerably more positive currency rates at the end of March, we are raising our full-year sales and earnings guidance for 2015. Now, let me briefly cover some key figures underlying Q1 performance and please note when mentioning sales, I am referring to portfolio and currency adjusted data unless otherwise stated.

Group sales advanced by 3% to EUR12.1 billion supported by our Life Science businesses. Reported EBIT fell 5% to EUR2 billion. Earnings were diminished by special charges of EUR244 million mainly due to expenses for the integration of acquired businesses, consolidation of production sites, and additional efficiency improvement measures. Including the contributions from the acquired businesses, adjusted EBITDA for the Group posted an increase of 10% to EUR3 billion.

This good development was accompanied by higher R&D and selling expenses. Positive currency effects increased earnings by EUR50 million. Core earnings per share amounted to EUR2.10, an increase of 8% over the prior year. As a result of the improvement in EBITDA, gross cash flow inched up 1% in the quarter. Net cash flow more than quadrupled to over EUR720 million as less funds were tied up in working capital versus the prior year. With capital expenditures of almost EUR350 million, the free operating cash flow came in at roughly EUR380 million. Net financial debt at the end of the quarter stood at EUR21.3 billion, an increase of EUR1.7 billion from year-end 2014 mainly due to currency. Now, let's move to some key figures for our individual subgroups. Sales of the HealthCare subgroup increased by 7% in the first quarter to EUR5.7 billion.

Both Pharma and Consumer Health businesses contributed to this strong performance. Adjusted EBITDA increased by 24% to EUR1.6 billion. The strong business performance, the contributions from the acquired businesses, and positive currency effects of approximately EUR50 million drove the improvement in earnings. Earnings growth was held back by increased investment in R&D as well as increased expenses for marketing and sales. Pharma sales advanced 7% to EUR3.2 billion in the quarter. This growth was driven by our recently launched products; Xarelto, Eylea, Stivarga, Xofigo, and Adempas; which collectively posted sales of close to EUR900 million in the quarter compared to EUR600 million last year.

Xarelto was able to build on its leading position worldwide with market gains in the anticoagulant space. These gains translated into sales growing globally at 38% with all regions contributing. Looking at sequential performance that is comparing Q1 this year to Q4 last year, sales were negatively affected by US royalty accounting. In this context, it's important to note that the US in-market performance reported by J&J increased sequentially. To underscore the optimism that we have on Xarelto's performance, we are raising our guidance and now expect for 2015 Xarelto to grow 30%, a significant increase from our previous estimate of 20%.

Eylea again significantly expanded sales, up 55% versus the prior year and this is mainly due to growth in Europe and Japan where it has been launched in DME. Sales of Stivarga increased primarily in the US. Xofigo and Adempas also made positive contributions to the sales performance. Performance of our established product portfolio was mixed in the quarter.

Sales of the Mirena family grew strongly at 14% mainly due to higher demand in the US. Sales fell for Kogenate due to the fact that we are utilizing part of our production capacity for our next generation hemophilia drugs. The sales decline of Betaferon in Europe and Japan was mostly compensated by growth in the United States.

Following the strong sales growth, adjusted EBITDA of Pharma showed a 13% improvement over the year at nearly EUR990 million impacted by increased investments in R&D and marketing and sales. Currency effect added EUR30 million to the quarter.

So now let's move to our Consumer Health business, which strongly improved revenue in the first quarter. Organic sales were up 7% to EUR2.5 billion and this positive development was driven by all divisions particularly Consumer Care. Overall, Consumer Care grew 8% with key brands driving good organic growth. In addition, the launch of product innovations such as for Aspirin and Aleve contributed to growth. Aspirin sales grew at 9% especially in Europe, Aleve recorded increases of 9%, and Bepanthen grew an impressive 14%. In addition, we are pleased with the performance of the acquired Merck OTC business, which added EUR500 million in sales. Medical Care rose by 6% to EUR600 million with Diabetes Care and Radiology contributions in the US. Importantly in Diabetes Care, we see a stabilization of the market environment in the US. Animal Health sales also posted gains increasing by 6% to EUR390 million. Consumer Health's adjusted EBITDA increased 46% to close to EUR630 million mainly as a result of the business expansion, including the contributions from acquisitions. Higher investments in marketing and sales had a negative effect. Currency effects added EUR20 million to the improvement. So, that was HealthCare.

Let me now elaborate on the Q1 performance of CropScience. Overall, CropScience held up well in a challenging market environment in the quarter. Sales increased slightly by 1% to EUR3.1 billion. In Europe we saw significant currency-adjusted growth of 17% where our Fungicides and Herbicides businesses post strong double-digit sales growth while Insecticides was down. Seeds and Environmental Science also achieved significant growth in the region. We posted currency adjusted sales declines of 15% in North America in the quarter. There, our Seed growth and Herbicide businesses experienced a sharp drop in sales, despite the encouraging growth in Insecticides and successful expansion of our seeds business. Sales in Canada remained at the prior year's levels. In the Latin America, Africa, Middle East region; sales



currency-adjusted retracted 3% largely due to lower pest pressure in Brazil. The considerable growth of the Fungicide business and higher sales of vegetables seeds were not sufficient to compensate this effect.

Adjusted EBITDA at CropScience was EUR1.040 billion, 5% lower than last year. The positive effect of higher selling prices was offset by decreased volumes and higher expenses for marketing and sales. And additionally, there was a negative currency impact in CropScience of around EUR40 million.

Now, let's move on to MaterialScience. In MaterialScience, as expected, sales fell in the first quarter by 2% to EUR3.0 billion due to lower selling prices following a sharp decline in raw material prices. Volumes overall were up 2%. Notably, adjusted EBITDA rose 16% to EUR420 million. Significantly lower raw material prices more than offset the decline in selling prices. In addition, currency effects contributed approximately EUR50 million.

We are well on track with our internal preparations for the MaterialScience capital market transaction. There are no changes in our plans to float the business latest in the first half of 2016. We expect to disclose details on the transaction structure in the second half of 2015.

So to wrap it up, let me now briefly discuss our full-year guidance. Based on our performance in the first quarter and our expectations for the remainder of the year, in particular more positive exchange rates, we are raising our guidance as follows. We now expect Group sales between EUR48 billion and EUR49 billion versus previously EUR46 billion. This corresponds to a currency and portfolio adjusted increase in the low single-digit percentage. For adjusted EBITDA, we now anticipate an increase in the high-teens percentage versus previously in the low-to-mid-teens percentage and this includes a positive currency impact of 8%.

Core earnings per share we now expect to increase in the high-teens percentage versus previously in the low-teens percentage including a positive currency effect of 7%.

So, ladies and gentlemen to wrap it up. Overall, we are pleased with Bayer's start to 2015. We expect our innovative products to continue driving sales growth in our Life Science businesses. We are especially pleased to see that our Pharma launch execution continues to pay off and that the integration of the acquired businesses is making good progress. Moreover, we remain on track for the separation of the MaterialScience business. For the Group as a whole, we expect to deliver significant sales and earnings growth in 2015.

And that concludes my remarks and we will now be happy to take your questions. Thank you.

QUESTION AND ANSWER

Operator

Ladies and gentlemen, at this time we will begin the question-and-answer session. (Operator Instructions) Richard Vossler, JP Morgan.

Richard Vossler - JP Morgan Cazenove - Analyst

Firstly on Xarelto, I can see that the royalty agreements in the US sort of affected the US sales, but perhaps you could help us. We have limited visibility on the dynamics ex-US and those sales seemed a little bit light relative to at least my expectation. So, if you could go through the dynamics you're seeing relative to Eliquis and how you expect those dynamics to play out going forward this year, that would be great? Second question just on the Consumer business and if you could give us some color on the underlying demand for the Merck products? When we can see sales synergies presumably that's not in the numbers now and will be contributing going forward and also, what elements as the strong Consumer growth might have come from a strong cough and cold season and therefore what was coming from the ongoing stronger demand and what does that look like going forward? And maybe I'll just ask about Polycarbonates and the demand picture that you're seeing and how that is impacting the pricing dynamics at a time when you're also getting the low raw material costs, whether that's more than offsetting the potential price declines from that as well? Thanks very much.

Marijn Dekkers - Bayer AG - Chairman & CEO

So, Werner Baumann in his capacity as the leader of the HealthCare business will answer the first two questions. Then we'll go to you, Patrick.



Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

First of all on Xarelto, as you already pointed out, the sequential performance of Xarelto was somewhat distorted by technical effects mostly driven by the US. And here we are on a staggered royalty scheme where the royalty percentage on our sales increases over the quarters as cumulative sales increase and with it, we have that distortion which accounts for roughly two-thirds, maybe 70% of the difference you see between quarter four and quarter one. And then to put in simple terms, if there was a royalty scheme of 4%, 6%, 8%, and 10% and if that was going to materialize over the individual quarters; it would have accounted for a 4% royalty on our quarter one sales only and the blended rate of 7% could only be reached by the end of the year. So, that's a technicality you see in the US.

Other than that and just coming back to what Marijn said, we have absolutely no reason of any concern in terms of the trading of Xarelto in all other markets even though quarter one was somewhat lighter. And you see that based on a, the fact that we are increasing our guidance and b, also the fact that if you look at our market performance. We are very much able to hold our market share and the Eliquis growth, which is there particularly in the US, actually is not on our (inaudible). So, Eliquis continues to take share as we do from of course warfarin and then also from the other compounds. So, we happen to continue to be okay in terms of market share position. In quite a number of markets, we also continue to grow our market shares.

And if you look at that for the US, we have been fairly steady at a 15% market share overall, that is also what we see in quarter one. Our NBRXs are at about 33%, they are up by 1 percentage point quarter-over-quarter in the US. Apixaban is at 20% and they have gained 2 percentage points. Market shares overall continue to be very strong and again selectively even increasing. We have quoted some of these numbers before just for [such] purposes. Germany we are at 46%, Japan we are at 29% and also here the situation we saw last year has stabilized and we continue to slightly grow our market share. I hope that answers your question on Xarelto.

Coming to Consumer, there is actually very very solid underlying performance on our quote-on-quote legacy business. Marijn mentioned that the growth in Consumer has been predominantly driven by our legacy consumer business because the rest is of course not reported as it is portfolio effect. And we have grown by 8.3% in our legacy consumer business. Some of that is, as you pointed out, driven by the strong cough and cold season, but also in other product groups. And now particularly if you look at Merck, we have had a very strong start with Claritin and also with Coppertone. We see significant sequential improvement of course that these are seasonal products. But also if you go back and look at the Merck reported figures from quarter one 2014 on Coppertone, we see very, very strong growth.

Just for the notes, we had EUR170 million sales number that was published by Merck for quarter one 2014, our reported number for quarter one in Claritin is EUR202 million. So, a significant dynamic we see here. Sales synergies yet to come. You know that we only published what we expect these synergies to be in 2017 so we expect an incremental sales of EUR400 million. We are solidly on track. The first contributions we do see in Brazil where we have repositioned and relaunched a number of products. We have also started to combine our promotional efforts at the point of sale where we use for example the mobile stands we have for Dr. Scholl's and populated with other bio-products as well. So, that is coming through and we feel overall very confident for the prospects of the OTC business for this year.

Marijn Dekkers - Bayer AG - Chairman & CEO

Thank you, Werner. Patrick, Polycarbonate?

Patrick Thomas - Bayer AG - CEO, Bayer MaterialScience

The Polycarbonates supply and demand balance was quite tight in the first quarter primarily because of competitor plant turnarounds and some permanent shutdowns and that led to a margin expansion in what was quite a tight market. The underlying demand I believe this year for Polycarbonates will stay at around about 5% although some of the turnarounds clearly will not be in place in the second half.

Operator

Amy Walker, Morgan Stanley.

Amy Walker - Morgan Stanley - Analyst



I have a few on CropScience and maybe one follow-up on Richard's question on MaterialScience, if I may. In CropScience, one of your competitors announced that they saw considerable sales growth in North America this quarter versus your sales which fell in the region despite the FX tailwind and the competitor mentioned strong demand for its herbicides whereas you mentioned a sharp decline in North America in demand for your Herbicides. So, I just wanted to understand are you losing market share in North America because of crop mix shifts or is there something else going on that's driving that shift? And then another question on CropScience around South America, one of your competitors said that they are seeing generic pressure in the South American market particularly in insecticides.

I know you mentioned lower pest pressure as a negative in LatAm this quarter, but I wondered have you seen any generic incursion in Insecticides in that region and if so, do you think that might intensify going forward? And then very lastly, Patrick, just to expand on Richard's question, you're guiding for flat sequential development I think in the second quarter overall. The oil price seems to be rising again now so presumably you need price to grow sequentially as well to offset that. Do you think the demand environment will continue to support price increases even though we're starting to see signs of new capacity for instance in MDI in Asia now? Thanks very much.

Marijn Dekkers - Bayer AG - Chairman & CEO

Thank you very much, Amy. Liam?

Liam Condon - Bayer AG - CEO, Bayer CropScience

So to North America, we have basically two major issues which held back our growth in the first quarter. The first one is in the area of seed growth, this is completely related to the decline in corn acreage. And so seed growth is a very important business for us and because there was less corn acreage, we had a smaller seed growth business and this is an impact that will simply stay with us throughout the year. We do these sales once unless significantly more corn is planted in the current planting season than is currently forecast. So, that's an issue for us. And the other area as you rightly pointed out is Herbicides and this is more related simply to phasing of our herbicide supply and I think what you will see basically from second quarter on is a more normal trajectory then. So overall, we expect in North America to have a relatively healthy growth for the rest of the year. We are held back in the first quarter by these two particular elements, of which one is I would say a real issue and the other one is related to phasing.

Latin America, as has been announced by several companies already as well, I think we all see very clearly much lower insect pressure, particularly lepidoptera insect pressure, than in previous years and with that, overall the Insecticides business has seen a decline. For sure there are some channel inventories in Insecticides in Latin America, particularly in Brazil, but we don't see additional increases in generics for Insecticides related to this.

Marijn Dekkers - Bayer AG - Chairman & CEO

Patrick, oil pricing in the second quarter.

Patrick Thomas - Bayer AG - CEO, Bayer MaterialScience

I think, Amy, when we look at raw material prices, clearly we have quite good visibility at the moment looking forward. And because of the 60 to 90 day delay between us buying materials and then getting into the marketplace, we actually expect raw material prices to be below quarter one level in quarter two. So, the rises you were referring to primarily in benzene will impact us more in quarter three. In the meantime because of the supply and demand tightness in Polycarbonates, we've actually seen price announcements in the upward direction around the world. That's because of the supply and demand balance and also there were some price movements in MDI. TDI prices have pretty much bottomed out and don't seem to be dropping any further.

Amy Walker - Morgan Stanley - Analyst

Thanks very much.

Operator

Sachin Jain.



Sachin Jain - Bank of America Merrill Lynch - Analyst

Sachin Jain from Bank of America. Just two product questions, please. First is on Xarelto, a couple. Just given the royalty change in treatment, just wondering if you can confirm whether the average royalty for 2015 that you've got within your guidance is above the average royalty that was realized for 2014 or are there any other sequential effects we should be aware of? Secondly, on the guidance up to 30% from 20%, can just clarify how much of that is FX? And of the better underlying demand, what are the specific trends you're seeing? That latter question is related to in the US. Warfarin as a percentage of NBRX has been hovering around kind of the high 30%s, 40% for close to six to nine months now. So, just wondering a, if you agree with that and b, what do you think is limiting the warfarin degradation and is there anything that could accelerate that from here? And then just a second question on Finerenone, I just wondered if you are any closer to finalizing a Phase III trial program and design and potential timelines there? Thank you very much.

Marijn Dekkers - Bayer AG - Chairman & CEO

Werner?

Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

Let me start with the first question on Xarelto and royalties. Since Xarelto grows and we have an escalating royalty scheme which does not change over the years, the average royalty for 2015 will be higher than that of 2014. Secondly, on the sales guidance for 2015, the 30% versus 20% guidance is exclusive of currency. This is underlying growth so there's no currency effects at all. And the last question on warfarin, based on the data I've been looking at, we have seen let's say a slow but steady decline of warfarin vis-a-vis other novel NOACS. And then I've already described our market position has been evolving in the last quarter, but also over the last quarters that we continue to participate in the underlying growth of the markets and defend our share. I don't think that there's anything else I could say at this point in time.

Last but not least on Finerenone, you know that we are starting Finerenone in two indications; one is diabetic nephropathy and the other one is worsening chronic heart failure. On the worsening chronic heart failure, we are going to report first of all Phase IIb data later this year in August, September at the European Society of Cardiology Congress. Secondly, we are actually preparing a Phase III program in diabetic nephropathy. I hope that answers your question.

Sachin Jain - Bank of America Merrill Lynch - Analyst

I just wanted to check whether you're in preparation for Phase III program in heart failure? I'm imagining you've got data in-house.

Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

Well, as I said, we are first going to report on Phase IIb data and assuming they are positive, we will be preparing for Phase III, yes.

Sachin Jain - Bank of America Merrill Lynch - Analyst

Thank you.

Operator

Tim Race.

Tim Race - Deutsche Bank - Analyst

Tim Race here from Deutsche Bank. Just following up on Sachin's questions. First on Finerenone, could you just talk us through the recent dose response data that we got in diabetic nephropathy and perhaps talk us through the kidney aspects as well and just basically what about signals for what we should expect in heart failure hopefully and why that should enable a cardiologist to actually use this product more than they do with perhaps the current MR antagonist? Just following up on Xarelto as well. Can you just talk through what clinical data or what do you have in your arsenal or J&J's arsenal to actually stimulate scripts rather than protecting share to

drive share before we get any data for instance from the COMMANDER study or any of the other studies? Is there anything that you can do to actually regain that sort of relative share of growth that you're seeing in the US? And then maybe just a last general question. You obviously got a busy time in terms of a general split on MaterialScience, but obviously you get questions on the diabetic business and various other parts of the business. Are there any plans this year to separate or acquire? Any comments generally there will be useful?

Alexander Rosar *Bayer AG - Head of Investor Relations*

Tim, on Finerenone, hopefully you can do us a favor. Can we come back to you on that via telephone call?

Tim Race - *Deutsche Bank - Analyst*

Sure.

Werner Baumann - *Bayer AG - Chief Strategy & Portfolio Officer*

Let me briefly comment on Xarelto and what we are doing. We are working or have been working on different topics in order to further strengthen the Xarelto performance and that happens to be the case both for us and for J&J. First of all, we have been working on let's say more precise messaging around the product and also the differentiating factor, it happens to be proven in much more challenging patient populations. And secondly, it is the best studied NOAC out there with some impressive real experiences behind it. Third, there's always improvements to be had in sales force execution. We have mentioned that I think also in one of our last quarterly calls that we had been working specifically in Japan on improved execution.

As I said earlier, we see signs of the improvement in execution there, which translate in sales performance. And last but not least, in terms of value proposition, it's also important just to remind ourselves that Xarelto happens to be the best value in access and the most affordable NOAC in the US. Last but not least, of course there's other differentiating characteristics to Xarelto such as the excellent efficacy and safety data, the fact that it is a once daily. And as we have also commented on, together with J&J we really have an absolutely unprecedented lifecycle program underway with more than 50,000 patients in Phase II and Phase III studies.

Marijn Dekkers - *Bayer AG - Chairman & CEO*

And then, Tim, I'll take your question; this is Marijn; on new business development. It's a relatively busy time for us doing the administrative and financial separation of BMS. What we are doing now is really quite a lot of work, but as I mentioned to you, we are on schedule and on track. And then needless to say, the integration particularly of the Merck OTC business is quite a lot of work as well. I don't really feel like speculating about additional acquisition or divestiture activity for this year at this point. But let's just say that what we have done and what we have underway, we're trying to do as well as possible.

Tim Race - *Deutsche Bank - Analyst*

Okay. Thanks.

Operator

Peter Verdult.

Peter Verdult - *Citigroup - Analyst*

Pete Verdult from Citi. Just one question, most of the other key topics have been covered. But can we come back to Consumer HealthCare, you're well underway now with the integration of Merck. Just wanted to get an update on the timing of some of the major launches you plan in the ex-US markets with these Merck brands? Basically trying to engage your confidence in achieving and more importantly beating the revenue synergy targets you laid out at the time of the deal? Thanks.



Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

To start with your last question first, we will update you on our new targets for sales synergies once we have hit the old targets so that will be the case early as 2017, yes. So, we are working diligently towards our EUR400 million sales synergy target. And just to remind you, this is on top of the underlying standalone growth we have expected and assessed as part of our business case we developed in the context of the Merck integration and that was somewhere in the area of 3.5% to 4% CAGR for the next years to come. So, that EUR400 million is really incremental to standalone growth profile and with that, we feel right now that it is very much achievable. We are very confident, but we are not in a position to raise it as we are only getting into let's say the combination of our sales and marketing organizations and then also the leveraging of the registrations we have outside of the US.

To that point, I said earlier that we have started in the first markets to launch and reposition the existing Merck portfolio. We see good early signs of traction in Brazil just as an example and we actually will plow along as the year progresses in doing that in other markets as well. The last point I would make on Consumer Health, on the Consumer Care integration and the sales synergies. There is of course some investments coming with the repositioning and relaunching of these products and we will need somewhere in the area of three to five years until we see the full potential in these different brands as we invest behind the incremental growth we want to have.

Peter Verdult - Citigroup - Analyst

That's helpful. Thanks.

Alexander Rosar Bayer AG - Head of Investor Relations

Next question, please.

Operator

Kerry Holford.

Kerry Holford - Exane - Analyst

Kerry Holford, Exane. Couple of product questions and one on crop, please. Firstly on Kogenate, it was weaker than we had anticipated in Q1. Now we know there were all the capacity constraints, but I wonder if you'll just comment on whether the performance in Q1 is really indicative for the full year and we should really see that ease into next year? Nexavar declined in the quarter, you cited China and Japan as the key drivers of that, I wonder if can just provide some more color and your expectations for the remainder of this year for Nexavar. And then just on crop, you talked about the weakness in Q1 reversing through the year, but I wonder if you can comment on what you've seen thus far in Q2. Do you see a stronger picture already because I guess we need to see strong improvement in the context of your low to mid-teens EBITDA growth guidance for the full year? And then how should we think about the FX impact for the remainder of this year assuming current FX rates prevail? Thank you.

Marijn Dekkers - Bayer AG - Chairman & CEO

So start with Kogenate, Werner.

Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

Kogenate was actually fairly soft year-over-year with a 10% decrease. It continues to be an issue of let's say availability of commercial products for the organization as we are preparing both for the launch of BAY-81 and also BAY-94 where we continue to run production lots or pre-production lots. And with that, we are simply limited in the availability of commercial products that we can sell under the Kogenate brand. That will continue for the remainder of the year as we are building launch inventories for BAY-81 that is going to be launched in quarter one 2016 and that is also the point in time when you should assume this supply limitation to relax. So it



will actually continue this year, but it will relax early quarter one in 2016. In terms of perspective for the remainder of the year and with it full-year 2015, our guidance stays as is so even though we had let's say a somewhat softer start in the first quarter, we expect Kogenate to be flattish versus 2014.

Marijn Dekkers - Bayer AG - Chairman & CEO

And the Nexavar, China and Japan?

Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

On Nexavar, we had the first quarter somewhere in the area of 4% lower than quarter one 2014. We have seen selective good growth, yet overall it still translated into a somewhat softer first quarter. The market has been good also driven by some price increases in the US for example. For the remainder of the year, we expect actually a normal growth pattern and with that an overall sales expectation that is roughly 10% above 2014 levels.

Marijn Dekkers - Bayer AG - Chairman & CEO

Okay. Thanks, Werner. So Liam, expectations beyond Q1?

Liam Condon - Bayer AG - CEO, Bayer CropScience

I'll just remind you again our original forecast was to grow in the low-to-mid single-digit sales basically on topline and also on the bottom line and we had expected to start the year softly so we are basically fully in line where we feel we should be to achieve our full-year target. So, we're still targeting the low-to-mid single-digit currency and portfolio-adjusted sales growth. But of course we have a tremendous uplift now from currency so in absolute terms, the numbers change quite dramatically. So, we'll be moving from a guidance of originally EUR10 billion in sales to approximately EUR11 billion in sales so approximately 11% positive currency effect. And originally again we had guided for low-to-mid single-digit growth on the EBITDA side and we have the same impact and of course here so that we now guide for low to mid-teens growth for EBITDA, which will mean we will keep a very competitive margin and at the same time to remain growing above the market. Everything that we can see today where we are in Q2 now at the end of April gives us the confidence that we can maintain that strong outlook.

Operator

Matthew Weston.

Matthew Weston - Credit Suisse - Analyst

Matthew Weston from Credit Suisse. A number short product questions if I can. Just coming back to Richard's first question about Xarelto ex-US. Clearly management's upgrade in guidance gives investors a lot of confidence, but I would love to understand why ex-US revenue in calendar 1Q 2015 was lower than ex-US revenue in calendar 4Q 2014. Was it something to do with stocking in 4Q, was that tender activity, was there a particular FX issue due to exposure in an emerging market that weakened heavily versus the euro? It's just rare within a growth product that we see sequential revenue drop and I think I'd love to understand why. And then quickly on a couple of others. Xofigo, can you update us on the supply issues? Adempas, the number looked to be very strong in 1Q, was that all underlying or is there some one-time issue associated with the joint venture there? And then finally on Eylea, have you had any opportunity to discuss the recent Protocol T data with ex-US payers? And if so, how have they responded with respect to segmenting the patient population and only concentrating on those that saw a very substantial benefit from Eylea?

Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

Let me start with the first question on Xarelto ex-US. Sequentially quarter one versus quarter four 2014 we have seen some softness in some markets. Germany was just about flattish with a 3% lower level of sales than in quarter four 2014. In Japan and France, the difference was somewhat bigger in the teens and that has been driving to a certain extent the overall performance you see documented. So, it's actually not spread across many markets and we had some market specific issues in those countries that have led to the sequential performance. Secondly on Xofigo, the supply situation has normalized completely already in quarter four, we see strong



growth performance and very, very good demand for Xofigo and against that normalized supply situation, we have also upped our guidance for Xofigo for 2015. So, overall things are going well again for Xofigo also as we I think have done a reasonable job in restoring prescribers and patient confidence with our ability to supply.

On Adempas, you pointed out the answer in your question already and that is that the EUR38 million does not reflect in-market performance because we do have also some effects of that cooperation with Merck going through the topline. And that is also true for the full-year guidance 2015 we have given so the sales target of EUR150 million again includes some revenue which stems from the partnership and it's not related to in-market sales. To the next question you have on Eylea. With Eylea, we are of course very pleased about the outcome of the Protocol T study in DME and the differentiation it gives to the product. We are currently in discussions, but there is nothing I would be able to disclose in terms of further detail at this point in time. The only thing I would dare to say is that the Protocol T data will certainly help in the commercial performance for the remainder of the year.

Matthew Weston - Credit Suisse - Analyst

If I could just come up with one follow-up on Xarelto ex-US. Given the market specific problems, can you just walk us through how you aim to address them or if you don't feel you can address them this year, what drives the confidence of the increased guidance?

Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

Again, I can only come back to what I said earlier. These are transitional and to a certain extent also phasing issues. There's absolutely nothing wrong with the underlying in-market performance of Xarelto nor with our liability to execute against the growth targets we have and that is not fully visible to you, it's certainly visible to me, I can say that with quite a bit of confidence looking at the current trading of Xarelto into quarter two.

Matthew Weston - Credit Suisse - Analyst

Thank you very much indeed.

Operator

Daniel Wendorff.

Daniel Wendorff - Commerzbank - Analyst

Daniel Wendorff from Commerzbank. One follow-up question on the acquired Merck & Co. OTC business. In light of what you have already said on Coppertone and Claritin, is this the sole explanation for the difference in sales of course aside from currencies we saw in Q4 and now the strong uptake in Q1 particular sequentially and any more color there would be helpful? And second question would be a follow-up question on Adempas. Could you potentially walk us through the dynamics of the product in the two different indications. It's currently being marketed and is it as successful in PAH as it is in CTEPH, that will be helpful? And lastly on the cash flow generation, you had a very positive one in particular in the HealthCare division. Is this solely related to working capital changes and if so, is that a sustainable effect or should we expect quite high fluctuations in the course of 2015? Thank you.

Werner Baumann - Bayer AG - Chief Strategy & Portfolio Officer

First on the Merck OTC business, we had a seasonally soft quarter four with the Merck business we took over. And at the same time as you can imagine with the closing as of October 1 when a business is kind of in between two different worlds, it more often than not does not perform perfectly well. The next thing is that it has also taken us a few months to really gain full control of the business as we had to rely on Merck and on the Merck organization to actually manage and execute the business even though economically it was already ours. That is behind us and we fully control 95% of the global business by now.

And with the integration of the organization with clear responsibilities and some of the pre-work which has been done in order to stimulate growth, you see the effect of that plus the seasonal effect also of selling into the channels, particularly for Claritin in advance of the allergy season, you see that very, very strong sequential performance. So it's a combination of both; a, some integration-related issues and b, market and actually selling issues. Second question on Adempas and the ratios between CTEPH and PAH. Adempas actually both ex-US and in the US has a market share of about 30% in CTEPH. In PAH it's actually fairly small; India is about 7% and in Germany just as a proxy for ex-US, it's about 4%.



Marijn Dekkers - Bayer AG - Chairman & CEO

Johannes Dietsch, cash flow?

Johannes Dietsch - Bayer AG - CFO

Regarding working capital, we had a swing. Actually last year in Q1 we had EUR1.9 billion increased working capital in first quarter and this year at EUR1.3 billion. The improvement here was one effect in inventories where we had higher inventories level one year before Q2 planned turnaround in Bayer MaterialScience, should not occur this year. And a EUR400 million impact we had in other working capital and that are provisions being set up and being worked in our EBITDA numbers, which have not yet let to payouts, especially (inaudible) which are one-time charges which you could see in our P&L statement. Overall, we expect that for the full year the net debt will go below EUR20 billion again.

Daniel Wendorff - Commerzbank - Analyst

Okay. Thank you very much.

Operator

Marietta Miemietz.

Marietta Miemietz - Primavenue - Analyst

Marietta Miemietz from Primavenue. The first is on capital structure post the BMS transaction. Now, obviously the debt and cash you're going to transfer into BMS will depend on the deal structure and you'll tell us about that in the second half. But can you already tell us very roughly what the maximum gearing levels are that the rating agencies would basically accept in a pure-play life sciences company if you wanted to maintain your rating? And then I just had a couple follow-up questions on the guidance. The first is could you please just explain the reason for the dilutive ForEx effect on the Pharma EBITDA margin because I would have assumed that a fair chunk of your cost base is actually denominated in relatively weak currencies? And then just coming back to the core EPS guidance upgrade, I got a little bit confused earlier because my impression was that a couple of percentage points of that upgrade are actually not explained by ForEx. So, I just wanted to check is that entirely due to your higher confidence in being able to retain a fair portion of the oil price benefit or were there actually any other moving parts at all in your guidance? Thank you.

Johannes Dietsch - Bayer AG - CFO

Let me try. So, you're absolutely right. For Bayer MaterialScience, we cannot reveal any capital structures because we simply have to decide on the exit way. What we also mentioned before is that from a rating perspective, we want to keep our rating at Bayer within a target rating of A minus and in order to do that, we had to look at the key rating metrics which are provided by the rating agencies. And for example, the S&P way defines the target on cash flow to total net debt of 35% and that's the level which we want to keep even in separating Bayer MaterialScience. We expect that we can keep our rating also with the separation of Bayer MaterialScience. But more details we can only give to you later once we have decided how we exit Bayer MaterialScience. The ForEx situation in general is that for all business we have a full impact on stronger US dollar and also other currencies in sales, but not yet the full impact in profitability.

The reason for that is that we have nine major currencies being hedged with 50% where we smoothen the impact on our EBIT and secondly, we had positive hedging effects one year ago; in Q1 2014 spending from hedges made in Q1 2013 and that of course were not repeated. This year we had hedging losses due to the strong currencies and that is the reason that at the beginning when we see stronger currencies that we have less margin overall. And in core EPS, I think it fits relatively well if you have the 9% impact on sales and the 8% on EBITDA and 7% on core EPS makes for me perfect sense. We have a little bit more hedging costs in the financial result and we have also a portion of interest costs that are denominated in US dollar which makes it more expensive. But I think from the modeling, it should work relatively well. Did I answer your questions?

Marietta Miemietz - Primavenue - Analyst



Yes. I just wanted to clarify on the first question. So the rating agencies don't look at your Life Science business as being higher risk than MaterialSciences so let's say the cash flow to total net debt ratio that they need to see does not actually change because of MaterialSciences exiting. Is that correct?

Johannes Dietsch - Bayer AG - CFO

It a question on diversification because we have a premium from the rating agencies on having run several businesses, but we still remain diversified from the rating perspective and we will get the same benefit since we are operating in three different lines; Pharma, Consumer Health, and Crop; which are mostly not related to each other. So, we are still very much diversified and now with a very strong franchise in Consumer Health due to the OTC acquisition as well.

Marietta Miemietz - Primavenue - Analyst

Okay. Thanks very much.

Operator

Alex Comer.

Alex Comer - JP Morgan Cazenove - Analyst

Alex Comer from JP Morgan here. I just had a couple of questions relating to the MaterialScience business and particularly Polycarbonate. If we just look at where you were in Q4 and where you are in Q1, am I right in thinking that there's been a very major movement in margins on top of the back of weaker raw materials. So, are we talking about a sort of 20% increase in margin in Polycarbonate? And also, this has been an industry with a lot of overcapacity for a while, I mean are we kind of finally through that now? It looks to me like there's not a huge amount of capacity coming into the system so if we do see sort of reasonable demand, would you expect that to sort of tighten up and us to see sort of more stable margins and better profitability going forward?

Patrick Thomas - Bayer AG - CEO, Bayer MaterialScience

What happened in the first quarter was one of the very big plants in the Middle East of about 0.25 million tons was on a major two month turnaround and that was sufficient to drive the supply and demand balance to the point where prices were not being impacted, but we did benefit from the much lower raw material costs. So, that's the basic effect. There is an additional plant in Singapore that is being slated for closure and is currently being closed and dismantled, that's a similar size. Therefore there is structurally an improvement in the supply and demand balance, which will roll forward. But of course, the plant in the Middle East has restarted again so some of the material that has been in stock and has been particularly in the traders' hands has now moved out into the marketplace. So, the whole thing is slightly tighter. So I think during the second quarter we will continue to see a benefit from those Polycarbonate expanded margins, but there's a risk in the third and fourth quarter that that will reverse slightly.

Alex Comer - JP Morgan Cazenove - Analyst

Okay. And my comment on the size of that margin movement, was that roughly correct or not?

Patrick Thomas - Bayer AG - CEO, Bayer MaterialScience

Not able to comment on the exact margin shift, I'm sorry.

Alex Comer - JP Morgan Cazenove - Analyst

Okay. Thanks.

Operator

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 Investor Relations

Thank you, Cleo. Ladies and gentlemen, also on behalf of my colleagues, I'd like to thank you for being with us on the call and for your questions. We'd now like to say goodbye and hope seeing you all again during our Meet Management Conference in New York on June 25. Goodbye.

Operator

Ladies and gentlemen, this concludes the first quarter 2015 results investor and analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.



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