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BAYN.DE - Q3 2015 Bayer AG Earnings Call

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OVERVIEW:

Co. reported 3Q15 Group sales from continuing business of EUR11b and core EPS from continuing business of EUR1.69. Expects full-year 2015 Group sales from continuing business to be EUR46b and core EPS from continuing business to increase high-teens percentage.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's investor analyst conference call on the third-quarter 2015 results. (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 IR***

Thank you, Emma, and good afternoon, ladies and gentlemen, and welcome to our conference call also on behalf of my colleagues. Today we would like to review our Q3 numbers with you.

With me on the call are Marijn Dekkers, our CEO; Johannes Dietsch, our CFO; HealthCare is represented by Werner Baumann and CropScience by Liam Condon. Marijn will start off with a brief summary of the developments in the quarter, and as always we assume that you have received and reviewed the interim report, the briefing documents, and the presentation slides so that we can focus on the main points.

Before handing over to Marijn, I'd 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***

Yes, thank you, Alexander. Ladies and gentlemen, good afternoon. We made in the quarter further good operational and significant strategic progress. Notably MaterialScience, now Covestro, saw its successful debut on the Frankfurt Stock Exchange, and this was a major achievement. Going forward, we will focus our entire resources to further develop our life science businesses.

The life sciences generated good organic growth and significantly improved earnings in the quarter. We continued to build growth momentum at Pharma and saw solid performance of our Consumer Health business. Sales at CropScience came in slightly above the strong prior-year quarter.

Based on our performance so far and our expectations for the remainder of the year, we reiterate our financial outlook for 2015.

Now let me briefly cover some key performance figures of our continuing business in the quarter. Please note: when mentioning sales development, I am referring to portfolio and currency adjusted data unless otherwise stated.

Group sales climbed by 2% to EUR11 billion in the quarter, driven by our life sciences businesses, in particular by Pharma. Reported EBIT came in 16% ahead of the prior year's quarter after net special charges of EUR204 million, mainly related to expenses for the stock market flotation of Covestro, integration costs, as well as legal charges. Adjusted EBITDA for the Group strongly increased by 28% to EUR2.5 billion, driven by the positive business development.

Currency effects increased earnings by about EUR170 million in the quarter. Core earnings per share amounted to EUR1.69, also an increase of 28% over the prior-year quarter.

Gross cash flow declined by 3% in the quarter to EUR1.4 billion mainly due to higher taxes paid or accrued relating to the Covestro carveout. Net cash flow rose by 29% to EUR2.3 billion, driven by less funds tied up in other working capital versus the prior year. With capital expenditures of EUR654 million, the operating free cash flow came in at roughly EUR1.7 billion.

Net financial debt at the end of the quarter stood at EUR19.3 billion, which is a decline of EUR1.9 billion compared to the end of Q2.

Now let's move to some key figures of our individual businesses, beginning with HealthCare. Sales of the HealthCare subgroup increased by 8% in the quarter to EUR5.6 billion. All businesses contributed to the sales growth.

Adjusted EBITDA surged 23%, and this was chiefly attributable to the continuing good development of business at Pharma and Consumer Health. In addition, the acquired Consumer Care businesses of Merck contributed. Currencies added EUR70 million to the increase.

At Pharma, sales grew 12% to EUR3.5 billion in the quarter on the back of our recently launched products. Collectively, Xarelto, Eylea, Stivarga, Xofigo, and Adempas reached sales of EUR1.1 billion versus EUR750 million in the prior-year quarter. We remain on track for our above EUR4 billion full-year sales target for these five products.

Now some comments on our key assets. Xarelto generated sales in the quarter of EUR571 million, and that's up 31% compared to the same quarter last year. Looking at the first nine months, Xarelto achieved EUR1.6 billion in sales, an improvement of 37% over the same period last year.

We are thus confidently confirming our sales growth projection of a 30% year-over-year increase in Xarelto. In the course of the third quarter, we saw continued market share gains of Xarelto in the majority of our markets. Global sales market share in the novel anticoagulant space has risen to 34.4% in August, and that is an improvement of 2.2 percentage points since December, or 0.6 percentage points since June this year.

Then Eylea significantly expanded sales, up 67% versus the prior year. New approvals for additional indications and market share gains continue to successfully expand Eylea in the retinal disease market. Hence, we are able to raise our 2015 sales projection for Eylea and are now targeting a 50% increase over last year, versus 40% previously.

Stivarga, with sales up 43%, remains the most commonly prescribed drug for third-line-plus metastatic colorectal cancer patients in key markets such as the US and Germany. We expect to generate approximately EUR300 million sales this year.

Xofigo's sales increased 24% in the quarter. Xofigo is meanwhile launched in 34 countries and reimbursed in 20. We're making good progress in educating physicians on the benefits of Xofigo; however, we were probably a bit too optimistic regarding the speed of the uptake and are thus lowering our sales projection for 2015 in the range of EUR260 million to EUR280 million this year, from EUR300 million previously.

Adempas generated sales of EUR49 million in the quarter. We are pleased with the uptake so far and expect to exceed the EUR150 million sales mark this year.

Following the strong sales growth, adjusted EBITDA of Pharma showed a 19% improvement over the prior year at EUR1.1 billion, with currency effects contributing EUR50 million to this improvement. Importantly, we also made progress with our innovative Phase II pipeline.

Finerenone, our nonsteroidal MRA, is moving forward. We've shared with you during the ESC meeting the Phase II finerenone results in chronic heart failure. Following these results we decided to study finerenone in worsening chronic heart failure in a large Phase III clinical trial; and this is the third significant Phase III study of finerenone after the initiation of two Phase III trials in diabetic kidney disease earlier this year.

We're also analyzing the first data from the vericiguat SOCRATES program and plan to present these data at the AHA meeting on November 8.

Now let's move to our Consumer Health business. This business grew 2% organically to EUR2.2 billion in the quarter with contributions from all divisions. Consumer Care grew 2% organically to EUR1.4 billion against the strong prior-year quarter. Sales growth was driven by Bepanthen and Canesten, advancing 15% and 20%, respectively.

This quarter, emerging market sales demonstrated a smaller growth momentum following the overall geopolitical and macroeconomic situation in key emerging markets like Russia and China.

The performance of the acquired Merck OTC business added EUR366 million in sales in the third quarter. The integration of the Merck organization, employees, and business systems has been tracking according to plan. We have exited more than half of the Transitional Service Agreements with Merck.

Medical Care sales rose by 4% to nearly EUR390 million. Animal Health sales also posted gains, increasing by 2% to EUR357 million.

Consumer Health adjusted EBITDA increased 32% to EUR538 million with positive contributions from all divisions in the acquired Merck business. Currencies added about EUR20 million to the improvement.

That was HealthCare, so Pharma and Consumer Health. Now let me elaborate on the third-quarter performance of CropScience.

Having delivered four years of double-digit annual growth on average, we believe that our CropScience business continues to hold up very well this year in an unquestionably more challenging environment. Sales came in at 2% above last year's record level in the quarter at EUR2.1 billion.

Overall, we see a positive performance in all regions except in Latin America/Africa/Middle East region where sales declined by 1%. In this region, sales were impacted by weaker insecticide sales due to lower pest pressure in Brazil and to the overall difficult economic situation. Significant sales growth in herbicides and fungicides could not fully compensate the sales decline in this region.

But looking at the other regions, they all nicely showed growth. Q3 sales in Europe advanced 3% to EUR465 million, where we achieved double-digit growth in herbicides. We were also able to expand our insecticides and vegetable seeds business. As weather conditions led to low disease pressure, fungicide sales fell significantly below the strong prior-year quarter.

Then in North America, sales were up 4% to EUR367 million with nice growth in herbicides, fungicides, insecticides, and seeds. The SeedGrowth business, however, strongly declined, mainly due to the high inventory levels of previously treated seeds in the market.

Lastly, Asia Pacific grew quite nicely, up 7% in the quarter to EUR363 million. The herbicides and SeedGrowth businesses each delivered double-digit percentage growth. In addition, sales of insecticides and fungicides as well as vegetable seeds also significantly expanded.

Adjusted EBITDA at CropScience was EUR309 million in the quarter, an 11% increase versus the prior year with a positive currency effect of EUR30 million.

On Covestro, on October 6 Covestro made its debut on the Frankfurt Stock Exchange. We're able to place 31% of Covestro shares on the market. Covestro pre-released key financials on Tuesday, last Tuesday; and management will report its full financial results on November 12.

I recommend that you liaise directly with Covestro if you have specific questions on their performance and outlook. As we still at Bayer own 69% of the Covestro shares, Covestro will continue to be included in Bayer's financial statements as a fully consolidated subsidiary. In Bayer's Q3 financials, Covestro was included with EUR3 billion in sales, down 8%, and an adjusted EBITDA of EUR470 million, and that's up 41%.

Now let me outline our Group's full-year guidance. We have updated our exchange rate assumptions to current developments and consider the exchange rate of September 30, 2015, now for the fourth-quarter 2015. Our guidance for continuing operations -- so that excludes the Diabetes Care business -- is as follows.

In the new currency scenario, we anticipate a little less FX tailwind, now 6% versus our prior assumption of 7%. Therefore we now expect Group sales in the order of EUR46 billion versus our previous guidance of what we said, in the region of EUR47 billion. As before, this level corresponds to a low single-digit percentage increase on a currency and portfolio adjusted basis.

It remains our goal to increase adjusted EBITDA in the high teens percentage, and this includes an expected positive currency effect of 4% versus our previously communicated 5%. For core earnings-per-share, we continue to target a high teens percentage increase, allowing for expected positive currency effects of around 4% versus our previously communicated effect of 5%.

We remain confident in the sales growth outlook for Pharma and now expect to grow this business at a high-single-digit percentage rate. versus mid- to high-single-digit percentage growth before. We confirm our Consumer Health outlook of mid-single-digit percent organic growth and mid-30s percent adjusted EBITDA increase. In the new currency scenario, nominal sales are expected to be around EUR9 billion.

At CropScience, we continue to plan to outgrow the market and target organic growth in the low-single-digit percentage range. We now expect EBITDA to improve by mid-single-digit percentage versus mid- to high-single-digit improvement previously.

In our Group outlook we have included lower Covestro sales but significantly improved earnings of Covestro.

So, ladies and gentlemen, in summary, overall we're really pleased with Bayer's progress thus far in 2015. We expect our innovative products to continue driving sales growth in our Life Science businesses, and 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.

We believe that we continue to gain market share in CropScience even in this more challenging market environment. Moreover, the Covestro business is off to a good start as a separately listed company.

For the Group as a whole, we expect to deliver further growth and significantly higher earnings in 2015. That concludes my remarks, and we will now be happy to take your questions. Many thanks.

QUESTION AND ANSWER

Operator

(Operator Instructions) Amy Walker, Morgan Stanley.

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

Good afternoon, team. It's Amy Walker at Morgan Stanley. I'll start with two, please.

The first, on your external growth priorities: with the leverage trending down again now on the back of the Covestro separation, can you just update us on your priorities regarding investments and external growth?

Marijn, I think you mentioned seeds as a focus area this morning; but is there appetite in HealthCare? And if so, which specific therapeutic areas and geographies? And would you be willing to raise equity for a sizable acquisition?

And then a second question on a different topic: in oncology, several players have taken aggressive action to up their game in immuno-oncology in the last six to 12 months. You list oncology is among your key Pharma pillars, but you aren't chasing the herd into the immuno space.

Is this a strategic hole for you? And if not, do you consider your lifecycle extension programs and copanlisib and ODM-201 as sufficient to meet your strategic aims in oncology midterm? Thanks very much.

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

Yes, Amy. Thank you for the question. I will answer your first question and then Werner Baumann, in his capacity as the leader of HealthCare, will answer your question around oncology.

I think our focus on opportunities to strengthen our portfolio has not really changed. But of course, we've done quite a lot in 2014; and with now, as you heard, EUR19 billion of debt, the flexibility with respect to doing particularly larger acquisitions is not as high as it was two years ago.

But having said that, we continue to look at opportunities that may come up. I would say areas where we are particularly interested would be continued interest in Consumer Care, so the over-the-counter market; we're also in CropScience particularly interested in seeds, what I said this morning; and we are also in Pharma selectively interested in acquisitions in certain indications or maybe also, very importantly, increase the number of partnerships we have on the Pharma side.

That is really all I want to say about it. I don't really want to speculate beyond that.

When you say, would you be willing to raise equity, that is a question that is extremely hard to answer without knowing what for. Of course the A- rating is extremely important to us, and we have been saying that repeatedly, so we have a level of conservatism there.

When you would really go and make a big bet, where we would have to raise equity, it needs to be something of very, very major significance for us. And that is, at the moment, not in front of us, I can say.

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

Thank you.

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

So, Werner, on oncology?

Werner Baumann - ***Bayer AG - Chairman Bayer HealthCare***

Yes, Amy, of course the two compounds you mentioned are not enough in order to get ourselves to a sustainable position in oncology. We know that. Hence the oncology strategy we have is also somewhat broader than that.

But let me first specifically answer your question on immuno-oncology. If you're dial back 10, 15 years ago when some of our competitors made their investments into immuno-oncology, that was at a time when we really didn't have funding -- even though we saw that as an interesting area to actually venture into -- to finance it. The only thing we had at the time was a Phase II, and that was by today's terms known as a product by the name of Nexavar.

Since, and with the broadening of our portfolio in oncology, we have taken a number of steps also in areas where we can potentially differentiate with technologies. In immuno-oncology specifically we have embarked on collaborations with Compugen and also with the German Cancer Research Center in Heidelberg.

Beyond that, complementing our overall oncology strategy is also the thorium platform in radiopharmaceuticals that is really proprietary to us, and we are investing in that area as well. So it's actually quite a bit broader than only the answer to the question of, do we have a current position in immuno-oncology or not, and is that driving sustainability of our strategy.

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

Thank you very much.

Operator

Richard Vosser.

Richard Vosser - ***JPMorgan - Analyst***

Hi, it's Richard Vosser from JPMorgan. Thanks for taking my questions.

First question on Eylea. Could you give us an idea of where you are with market shares, and whether you are now seeing a response from Novartis or potentially greater use of Avastin that could threaten future growth of the product, which is obviously doing exceptionally well?

Second question, just following on, I suppose on Xofigo. I think there was some pretty interesting data at the European cancer meeting on the combination of Xofigo and Zytiga that are pretty positive.

Are you seeing use together already? And could you remind us when we could see your Phase III data on that combination?

Then final question, just on CropScience. Just if you could venture a view potentially into the dynamics going into 2016, if possible, and the risks potentially this year of returns or on stock levels going into 2016. Thanks very much.

Marijn Dekkers - *Bayer AG - Chairman, CEO*

Okay. Thank you, Richard. First two questions, Werner; and then Liam will take the crop question.

Werner Baumann - *Bayer AG - Chairman Bayer HealthCare*

Yes, Richard, on your first question regarding the market shares in Eylea and overall the growth drivers we have seen, we are doing particularly well in a number of very, very important markets for us -- for example, Japan, Germany, and Canada and also the UK -- that have been driving the year-over-year growth. And that is driven by a broader number of indications Eylea is now approved in and of course the positive effect, the halo effect, of the protocol p-study.

If we look at market shares and where we are in market shares just [lateratively], and just looking at the market shares at the end of August: Japan, 65%; Switzerland, 48%; Germany, 43%; the UK, roughly 42%; France, close to 40%. And all of these market shares, they are continuing to grow.

If you look at our growth profile and that of the ex-US Lucentis franchise, Lucentis overall versus year ago had a growth of roughly 2%. So you see that in terms of competitive performance we are doing quite well and we can also keep Lucentis at bay, similar to what we see actually to an even larger extent with what Regeneron was able to do in the US.

As far as the use of Avastin -- off-label Avastin -- is concerned, that is an area we are monitoring. You may know that both in France and in Italy legislation has been passed to authorize that use, which is actually unheard of, and we are also through EFPIA heavily contesting that situation with the European Commission because that is something that goes completely against anything you would expect in a highly regulated industry, that the off-label use is actually authorized by legislation in those two countries.

So far, we have not seen a major impact in terms of, let's say, monetary impact on sales level. It's also a question of principle.

As far as Xofigo and abiraterone is concerned, our Phase III status is as follows. We are recruiting into the study, and we expect primary completion of the study by the end of 2017.

Marijn Dekkers - *Bayer AG - Chairman, CEO*

Okay, thank you. Liam, on 2016?

Liam Condon - *Bayer AG - CEO Bayer CropScience*

Yes. Thanks, Richard, for the question. We'll be updating you early next year on our outlook for the year and in concrete terms, so let me just be a bit more qualitative now how we view the market.

We've had some very strong harvests both year-to-date and predicted now also for LatAm, particularly for corn and soybeans. This has been of course depressing, low -- depressing the commodity prices, as you know.

Historically what we've seen is, given that this is a cyclical industry, when there's a downturn it tends to last on average two years. So we clearly have a very slow no-growth year this year; and if you were to look at historical indicated, you'd probably say then next year as well will be a low to no-growth year for the overall market.

A lead indicator as well for us is SeedGrowth, where we treat seeds of major -- of other companies, particularly corn and soybean. Here our sales are down year-to-date by about 10%, which is also an indication of next year, that the outlook of those bigger seed companies is not so optimistic. That being said, for us overall our goal is clearly to outgrow the market wherever the market is going to be.

And, yes, specifically about returns, we've been managing this pretty diligently throughout the year. I think the biggest risk overall on the market side is in LatAm, specifically in Brazil with pesticides. But we've been managing this very diligently, so we see for ourselves a low risk of returns simply because this is something that we're constantly managing.

Richard Vosser - ***JPMorgan - Analyst***

Splendid. Thank you very much.

Operator

Sachin Jain.

Sachin Jain - ***BofA Merrill Lynch - Analyst***

Hi, it's Sachin Jain from Bank of America. Just a couple questions, please.

Firstly, just to follow-up on the first question around just balance sheet capacity, given the existing debt levels, I wonder if you could just remind us what your potential target gearing could go to and any flex around the A-. I know a couple years ago you did take the credit downgrade to a B rating; so just suggest any updates there.

Secondly on Consumer Health and the slower growth, you've referenced some pressure in emerging markets. Maybe just give us any color as to anything you can do to mitigate that, how long-lasting you think it is, and whether it's any risk to your midterm targets for that division.

Then finally on vericiguat, you referenced data upcoming at AHA. I believe you've have that data in-house for a while. Any decision on Phase III progression for that asset as yet? Thank you.

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

Okay. Thank you, Sachin. So balance sheet capability, capacity, ratings, Johannes Dietsch, our CFO.

Johannes Dietsch - ***Bayer AG - CFO***

Yes, good afternoon. Debt capacity, you know that we have loaded quite some debt on our balance sheet with the acquisitions from last year. We are currently in a situation where there are credit metrics, as being defined by the rating agencies, are below target for an A- rating. We nevertheless have a stable outlook we see from both agencies, because we are able to go quickly back into those credit metrics which are required for A-. However, if we want to keep A- then there's little room right now to load further debt on the balance sheet.

If you ask about financing of acquisition, of course we will have a deeper look on the acquisition target, on the additional cash flow generated over there, and then the mix of financing.

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

Okay. Then Consumer Health, emerging markets dynamics?

Werner Baumann - ***Bayer AG - Chairman Bayer HealthCare***

Yes, Sachin, as you know, some of our growth markets that have also been driving our Consumer Care business for the last years are in turmoil right now. If you look at the specifics, we see a significant slowdown in Russia. We see a significant slowdown in China in the market environment. We also see a significantly more difficult market than was a year ago in Brazil.

The in-market performance of our business, I can give you some color on. If we start in China, in China we have a second compounding effect, if you want, so that is one of the countries where integration of our new businesses has been the hardest and the most complex. Because it was not only the Merck business that had to be combined with ours but also the Dihon business, because both acquisitions kind of happened at the same time.

And we have combined these businesses also with, let's say, some impact on underlying performance that typically caused disruption. That hit in quarter one. We have seen sequential improvement of our businesses since quarter one, but we are not quite back to normal yet.

In Russia, the situation is difficult in the market. We see some volume losses followed by significant price increases, so they protect our profitability in that market. We also continue to protect our market position overall, but we cannot completely fend off the overall market environment.

And last but not least, the market that is actually doing well, very well, despite the market turmoil in Consumer Care is Brazil.

So in a way it's a mixed bag. There is absolutely nothing wrong with our underlying business performance, nor is there anything wrong with our perspective on the long-term growth potential we have for these markets. But we are -- similar to all of our competitors, of course -- exposed to the overall geopolitical and then specific market volatility situation in these markets.

Coming to vericiguat, Marijn mentioned it in his introductory remarks. We will update you on November 8; and I hope you understand that we cannot use that call, even though everybody is a very nice person here, for selective disclosure.

Sachin Jain - ***BofA Merrill Lynch - Analyst***

Thank you very much.

Operator

Rebekah Harper.

Matthew Weston - ***Credit Suisse - Analyst***

Thank you. It's actually Matthew Weston from Credit Suisse. Two questions if I can, on changes in the competitive environment.

I'd just be very interested in your comments around Xarelto. We now have a fourth entrant in that market; we have Boehringer Ingelheim with the launch of its reversal agent, clearly signaling that they want to take incremental share in the new antithrombotics.

So I'd like to understand: have you seen any changes in competitive environment? And what are your plans in terms of incremental investment in Q4 in 2016 to defend Xarelto?

Then secondly, with Consumer, I note that the pain and cough/cold franchise growth seems to be slowing; and that obviously coincides with a period where there's been consolidation, with GSK now having the Novartis brands. I'd be very interested to understand how you're seeing the environment change in terms of that acquisition and what impact it's having on you.

But also now having added the Merck business, seasonality-wise what should we expect from 4Q, both in terms of seasonal sales relative to the year so far, but in particular seasonal investment and what that might mean for the Consumer margins? Thank you.

Werner Baumann - ***Bayer AG - Chairman Bayer HealthCare***

Okay. Let me start with the first question on, let's say, the competitive environment for Xarelto. Yes, it's true that BI has seen the approval of its reversal agent for dabigatran. We also see a little bit of noise in the market that it's requested that a reversal agent needs to be provided for the other NOAC as well.

You know that we are working with Portola, for example, on a reversal agent for Xarelto. Yet from a practical perspective, even without the reversal agent, the coagulation levels are back to normal, quote-unquote -- similar to warfarin -- even without giving a reversal agent.

With it, that would of course go substantially quicker, actually in a matter of hours rather than roughly a day. Whether that is going to lead to a different competitive performance of Boehringer Ingelheim remains to be seen, because it was just approved I think in September.

Our perspective on that is that it is in all likelihood not going to have a huge impact. You can also see that in terms of, let's say, your competitive punching power, dabigatran and Boehringer overall have lost quite a bit and continue to lose market share in major jurisdictions.

As far as the fourth entrant is concerned, we see edoxaban making some headway. It's actually only in one market to a more significant extent, and that is in Japan. The edoxaban has by now roughly 10%. In all other markets it's more a footnote rather than a, let's say, aggressive development in terms of market share development.

As far as Consumer is concerned, I think if I recall correctly we are the number two player in the cold and pain arena globally, so we have competitive strength there. It is, compared to other segments, a somewhat slower-growing segment.

To which extent we will see incremental, let's say, competitive pressure by Novartis, GSK remains to be seen once they have sorted themselves out completely. They are still not finally done with that.

Last but not least, on seasonality of our investments, we do have with the acquisition of the Merck portfolio of course large, seasonally driven brands, yet at the same time a substantial larger business base. So the impact is not going to be as big as it has been for the Merck OTC franchise.

What it means in terms of investment for quarter four, I think overall we continue to invest behind the business in the normal course of our business, including also quarter four. We do not give specific guidance neither for the level of investment as a percentage of sales, e.g., for the business on a quarterly basis, nor do we do that selectively for the businesses' profitability on a quarter-by-quarter basis. So on that one you will simply have to refer to our overall full-year guidance.

Matthew Weston - ***Credit Suisse - Analyst***

Thank you.

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

Good. Thank you, Werner. Thank you, Matthew.

Operator

(Operator Instructions) Tim Race.

Tim Race - ***Deutsche Bank - Analyst***

Hi there, team. This is Tim Race here from Deutsche Bank. So two questions.

First, sort of bigger picture, you are one of the few European large-cap pharma companies that's not really exposed or too exposed to the US price environment compared to peers, I suppose. Could you just talk big picture how you are seeing the evolution of US price at the moment in terms of increasing rebate pressures? And perhaps if you've got any comments on what you're seeing in Xarelto, generally, as well, would be interesting just from a competitive market dynamic there.

Then just perhaps a discussion in terms of acquisitions and divestments. People are talking obviously and asking you questions about what's your balance sheet capacity to acquire. Would you be interested -- I mean, would you even consider the notion of actually selling perhaps businesses like CropScience and Animal Health, where there are acquirers out there potentially? What would make you consider those sort of prospects?

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

Okay, Werner will answer the pricing environment question, and I will answer the second question. Go ahead, Werner.

Werner Baumann - ***Bayer AG - Chairman Bayer HealthCare***

Well, you know, I think everybody that's acutely aware of the ongoing discussion as far as pricing, the pharmaceutical pricing in the US is concerned. Unfortunately, we have to say that an entire industry is suffering and is being brought into miscredit by two of our competitors who simply jack up the prices without, let's say, real substance in terms of innovativeness of their products.

Our position here is that, of course, we also take price from the US, as any other company, but with, let's say, a very measured approach and in line with some of our competitors in their respective indications.

As far as our exposure to potential, let's say, governmental, legislative, and regulatory action is concerned, we for a change say that our below-average exposure in the US plays to our advantage here. Compared to, let's say, a typical pharmaceutical company that is headquartered in the US with 40% to maybe even 50% of their sales base in the US, our total exposure to the US is just about 20%. So it's a substantially less exposed business to the US that again here plays to our advantage.

Of course, we know that it has a, let's say, negative impact on our margin comparability because of the high profitability of the US. But again here there is not a huge impact should something come that is going to put incremental pressure on pricing.

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

Thank you, Werner. Tim, I'll try to answer your second question and basically say as much as I want to say about it. It might not be a satisfactory answer for you, but it's the answer I would like to give.

I think that Bayer wants to be a diversified company. Our intention is not to have a business model where we are in just one single industry in a relatively narrow way. Another way of saying that is it's not our ultimate goal to be just a pharma company.

We want to be more diversified and that we like to have good businesses that to some extent beat to a different drum, because there are different conditions in the marketplace that determine their success. And we feel that after the portfolio changes that we've done over the last years we have come to a really, really nice point now where we have a number of businesses that are all life sciences related; there is commonality between those businesses in terms of how you invent new molecules, how you produce molecules. But there is also enough diversification in the customer base and the drivers of the customer base that we feel the portfolio is diversified enough.

As I've said, we've done a lot in the last 18 months. We have gotten Covestro as an IPO. We have announced that we are selling Diabetes Care, which is a significant $1 billion business as well, to Panasonic.

In 2013, at the end of 2013, we sold our interventional business to Boston Scientific. Also we have sold selectively life sciences businesses where we felt that there was a better owner for it than we were.

So, long story short, we like to have a certain level of diversification in the portfolio and are really quite happy with where we are today.

Tim Race - ***Deutsche Bank - Analyst***

Thank you. You answered that probably more than I expected, so thanks. (laughter)

Marijn Dekkers *- Bayer AG - Chairman, CEO*

I'm glad. I'm glad we have a happy customer.

Operator

Marietta Miemietz.

Marietta Miemietz *- Primeavenue - Analyst*

Yes, good afternoon. It's Marietta Miemietz from Primeavenue. I have a few financial questions, please.

The first is, can you just tell us roughly the constant currency growth rate in China in Q3 specifically for your Pharma business?

The second question, on CropSciences, you gave us a lot of background on crop protection including SeedGrowth. Can you give us some color as well on the substantial sequential deterioration in your seeds business and your expectation for a recovery in the coming quarters? And also clarify whether your comment relating to outgrowing the market relates to seeds as well or just to your crop protection business.

Then a question on the Covestro guidance, and I appreciate that this is probably not the forum to discuss it in detail. But given that your outlook is very guarded, can you just give us a very rough idea how you expect the division to perform in Q4 sequentially?

Because you said you expect Q4 2015 clean EBITDA to be above Q4 2014, and that you expect the division to return its cost of capital this year. But of course, both statements would be technically correct even if Q4 2015 EBITDA was only about half of what we saw in Q3. So I'm just trying to understand whether you're just being deliberately vague or whether there really is a risk of a very substantial sequential deterioration in Q4.

And finally, I was wondering if I could just follow up on the Xarelto and Praxilene question. You said that there was not going to be a big impact. My understanding is that the bleeding risk during emergency surgery is not really a huge concern with the new oral anticoagulants, and it's very manageable if a hospital has a proper protocol with drug-specific algorithms.

But my understanding is also there is a bit of a concern in the community that a number of hospitals just don't have that protocol. So I was just wondering; do you have any insight from your market research as to what Xarelto prescribers are maybe fairly indifferent between Xarelto and Pradaxa and might just flip to Pradaxa given the availability of a reversal agent? And do you actually have any specific plan of action to address that risk?

Any additional thoughts there would be very helpful. Thank you very much.

Marijn Dekkers *- Bayer AG - Chairman, CEO*

All right; thank you. I would say let's bundle the two Pharma questions, China Pharma, Werner, and then Xarelto?

Werner Baumann *- Bayer AG - Chairman Bayer HealthCare*

Yes. Marietta, on Pharma growth quarter three, currency and portfolio adjusted -- it's actually only currency adjusted; there is no portfolio in there -- 3.7% year-over-year. For the first nine months, growth is 7.6%, also currency adjusted.

As far as Xarelto and its competitive profile vis-a-vis dabigatran and the reversal agent is concerned, there's actually not much more I can say at this point in time, other than the fact that we are really not concerned due to the fact that there is reversal opportunities or let's say agents available, going to be available going forward in all likelihood also for Xarelto. We don't see it as a major competitive issue at this point in time.

Then, as far as further details are concerned going into, let's say, individual prescribing doctors' behavior and further market research, that goes beyond the level of knowledge I have, quite frankly, because I am not the product manager of Xarelto. So I hope for your understanding that we have to leave it at this level for the call.

You can for sure follow-up with Alexander and Juergen in a follow-up phone call.

Marijn Dekkers - *Bayer AG - Chairman, CEO*

Not because Alexander or Juergen know the answer, but -- (laughter)

Werner Baumann - *Bayer AG - Chairman Bayer HealthCare*

I know who knows it.

Marijn Dekkers - *Bayer AG - Chairman, CEO*

(multiple speakers). Okay, so, seeds business, Liam, sequentially?

Liam Condon - *Bayer AG - CEO Bayer CropScience*

Yes, thanks, Marietta, and so a bit of flavor on the seeds overall performance and the outlook going forward. First point up front is third quarter is by far the smallest quarter for us in seeds. So any changes can be -- they look a bit over-amplified.

Year-to-date our growth is 7% in seeds, so we are clearly very, very significantly above the market year-to-date. The decline that you saw in Q3 is almost exclusively related to APAC, and more specifically rice seeds and to a degree crop seeds in India, due to less rain because of the lack of monsoon there. So a very specific event, weather related, and that doesn't impact the overall dynamics of the business.

In contrast to that, we had a continuing very successful vegetable seeds development in Q3 to the tune of 13% growth, a double-digit growth in Q3 for vegetable seeds. And year-to-date we're at 8% growth also there for vegetable seeds.

So clearly here as well going forward, when we talk about outgrowing the market, our ambition is clearly not only related to crop protection but also very, very clearly to seeds as well.

Marijn Dekkers - *Bayer AG - Chairman, CEO*

Then the Covestro guidance, Johannes Dietsch?

Johannes Dietsch - *Bayer AG - CFO*

I will try a little bit to talk about Covestro. You of course have seen that they are growing fairly above the expectations in H1 as well as in Q3. Right now we've a clean EBITDA of EUR1.4 billion for the first nine months.

We are taking into our projection now a level for the fourth quarter which is at least a level of previous year. That would give then Covestro an EBITDA of more than EUR1.6 billion, which is quite a substantial level for this company.

And that is all what I want to say regarding the fourth quarter which is, by nature, a quarter with lower profit levels because of the season. More detail certainly will be given to you on the investor call from Covestro on November 12.

Marietta Miemietz - *Primeavenue - Analyst*

Thank you very much.

Marijn Dekkers - *Bayer AG - Chairman, CEO*

Does that help? Thank you.

Operator

Peter Verdult.

Peter Verdult - ***Citigroup - Analyst***

Hi, it's Peter Verdult here from Citi. Two questions.

Firstly, for Liam on Crop, you talked pretty openly over the summer about competitor actions becoming a little extreme especially in areas like LatAm. Just want to know whether there have been any changes there or other regions lately following a potential consolidation in the sector receding?

Then for Werner, realize you don't want to talk about the vericiguat data per se, but I would like you to frame how you're thinking about or help us to understand your thought process behind SOCRATES-REDUCED. I mean, the trial design here is very similar to the Phase II LCZ study; and that showed a 20% NT-proBNP reduction.

So is it right to think that you are looking for that level or magnitude of reduction or more, to warrant a second heart failure drug entering into Phase III development? Interested in any thoughts there. Thank you.

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

All right. Liam?

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

Yes, thanks, Peter. Actually there's nothing I would want to specifically highlight at this point in time related to competitors. I think we spoke a little bit in the summer about the potential for irrational behavior also because of rumors of industry consolidation and the various noise that's in the industry because of the cyclical downturn.

At the end of the day, I think you can see at least it's not having a negative impact on our relative competitive performance. So there's nothing that at this stage I would like to complain about.

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

Okay.

Werner Baumann - ***Bayer AG - Chairman Bayer HealthCare***

Peter, I fear I cannot get into more details than what I said earlier and simply have to relate to the AHA on November 8. There are different perspectives on what the profile of the results of the study should be for it to be a, let's say, competitive compound. You'll see that disclosure, and that's where we have to leave it at this point in time.

Peter Verdult - ***Citigroup - Analyst***

Fair enough. Thank you.

Operator

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

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

In that case, ladies and gentlemen, we would like to thank you for being with us on the call, for your questions. And I'd like to say also on behalf of my colleagues, goodbye.

Operator

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