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BAYN.DE - Q1 2016 Bayer AG Earnings Call

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OVERVIEW:
Co. reported 1Q16 Group sales of EUR11.9b and core EPS of EUR2.37.

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 2016 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. Juergen Beunink, Investor Relations of Bayer AG. Please go ahead, sir.

Juergen Beunink ***- Bayer AG - IR***

Ladies and gentlemen, good afternoon and welcome to our conference call, also on behalf of my colleagues. Today, we'd like to review our first-quarter figures with you. With me on the call are Marijn Dekkers, our CEO; Johannes Dietch, our CFO; and Werner Baumann, Chief Strategy and Portfolio Officer. Pharma is represented by Dieter Weinand; Consumer Health by Erica Mann; and Crop Science as well as Animal Health by Liam Condon. Marijn will start off with a brief summary of the development in the first quarter.

We assume you've all received and reviewed our interim report, the briefing document and the presentation slides so we'll be just focused 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***

Thank you, Juergen. Ladies and gentlemen, good afternoon. It gives me great pleasure to welcome you to our Q1 conference call to share a good set of numbers with you today. And I'm pleased to report that we've had a successful start to the year. We started off with good sales and significant earnings growth on the group level. Especially the Pharma division showed substantial sales increases.

The group's earnings growth was driven by all segments. We have received approval in Europe, the US and Japan for Kovaltry for the treatment of hemophilia A. We were also granted marketing authorization for Xofigo in Japan. We are also pleased with the recent decision of the US Patent and Trademark Office to grant the patent extension for rivaroxaban, the active ingredient of Xarelto. The US compound patent will now expire in August 2024.

To reduce our remaining stake in Covestro further, we decided last week to transfer 10 million Covestro shares into the Bayer Pension Trust and this funding now reduces our remaining stake in Covestro from 69% to 64%. Based on our achievements in Q1 and our expectations for the remainder of the year, we are confirming our full-year sales and earnings guidance for 2016.

Now let me briefly cover some key figures of the underlying Q1 performance. And please note when mentioning sales, I'm referring to portfolio and currency-adjusted data unless otherwise stated. Group sales advanced by 3% to EUR11.9 billion driven by all life science businesses. Reported EBIT climbed significantly by 20% to EUR2.3 billion. Earnings were diminished by special charges of EUR272 million mainly due to extraordinary amortization in relation to our pharma product Essure.

Adjusted EBITDA for the Group posted a strong increase of 16% to EUR3.4 billion driven, as I said, by all segments. This excellent development was accompanied by higher R&D expenses of about EUR160 million in the quarter and negative currency effects of around EUR60 million. Core earnings per share amounted to EUR2.37 and that's an increase of 14% over the prior-year period.

As a result of the improvements in EBITDA, gross cash flow increased by 28% in the quarter to EUR2.6 billion. Although more funds were tied up in working capital versus the prior year, net cash flow almost doubled to over EUR1.3 billion as a result of the divestiture of our Diabetes Care business.

With capital expenditures of EUR363 million, the operating free cash flow came in at roughly EUR960 million. Net financial debt at the end of the quarter stood at EUR16.3 billion, a decrease of EUR1.1 billion from year-end 2015 following cash inflows mainly from the Diabetes Care divestment.

So in summary, in the first quarter, all life science divisions drove the good organic sales growth. Actually the life science organic sales growth rate was 5.9%. The substantial improvement in adjusted EBITDA was generated by all divisions.

I will share the Q1 performance of our life science segments in more detail now and also provide you with an update on some key Pharma pipeline assets.

Start with Pharma. Pharma sales advanced 12% to EUR3.9 billion in the quarter across all regions. This growth was driven by our recently launched products -- Xarelto, Eylea, Stivarga, Xofigo and Adempas -- which posted combined sales of close to EUR1.2 billion in the quarter compared to about EUR900 million last year and that's up 35%.

Xarelto was able to build on its leading position worldwide with marketshare gains in the anticoagulant space. These gains translated into sales growing globally at 31% with volume increases in Europe and Japan contributing. Eylea again significantly expanded sales, up 49% versus the prior year and this is mainly due to growth in major European countries in Japan. Xofigo sales, which advanced 37%, and Adempas, now at EUR56 million in the quarter, also made positive contributions to the overall sales performance. In contrast, sales of Stivarga declined by 5% due to increased competition in the US.

Performance of our established product portfolio was mixed in the quarter. Compared with a weak prior-year quarter, sales of Kogenate advanced by 14%. We started marketing our new hemophilia drug, Kovaltry, in the first quarter. Sales of the Mirena family grew at 7% mainly due to higher demand in the US. The sales decline of 8% for Betaferon resulted from shifts in tender business in Latin America. Sales in the US, however, increased.

Following the strong sales growth, adjusted EBITDA of Pharma showed a substantial 16% improvement over the prior year to nearly EUR1.3 billion. The division performed excellently despite an increased investment in R&D, as well as negative currency effects of around EUR30 million.

Let me also provide an update on some key assets of our mid-stage pharma pipeline. As you know, we prioritized five Phase 2 projects for which we expected to be ready for a Phase 3 decision by the middle of this year. And these assets are finerenone, vericiguat, vilaprisan, Molidustat and copanlisib. Now for four out of these five assets, we now have positive Phase 2 data available. Two of those are already in Phase 3 and for two, we currently plan to enter Phase 3. For the fifth one, we are still awaiting Phase 2 data. Let me give you a few individual details.

Start with finerenone. Finerenone is already in Phase 3 for diabetic kidney disease. We decided to focus our efforts in this clinical program and will at this time not proceed with a Phase 3 trial in heart failure.

Then vericiguat. For vericiguat, we will pursue the Phase 3 development in heart failure with reduced ejection fraction together with our partner, Merck & Co. However, the Phase 2 study in heart failure with preserved infection fraction did not meet its endpoint.

Thirdly, vilaprisan. For vilaprisan, we completed the first Phase 2 trial in uterine fibroids and top-line data suggests a very competitive profile in this indication and we plan to proceed to Phase 3 of the clinical development here as well.

Then Molidustat. For Molidustat, our HIF-PH inhibitor, in development for renal anemia, we recently completed three Phase 2 studies. And top-line results indicate positive outcomes of the program. But given the competitive environment, the Phase 3 program will require large outcome studies and against this background, we are currently evaluating options, including a potential licensing of Molidustat.

And then, finally, copanlisib. Decisions on copanlisib, which is in the development for non-Hodgkin's lymphoma, will depend on the results of the Phase 2 study, which is running in parallel to Phase 3 and those data are expected in the third quarter this year.

So that's the update on the pharma pipeline and now let us move to our Consumer Health business. Sales were up 2% at EUR1.5 billion driven by strong advances in Latin America/Africa/Middle East and Asia Pacific. The economic situation in Russia hampered sales development in Europe and also North American sales declined slightly.

Our key brands showed a mixed performance. Aspirin sales, including the business reported on the pharma, grew at 4%. Bepanthen sales advanced an impressive 10%, especially in the emerging markets in Western Europe. Canesten benefited from strong volume increases across all regions posting a 21% increase in sales. Nevertheless, our top brand, Claritin, had to register a decline of 7% mainly resulting from lower quarter-over-quarter sales in China. A gratifying performance in the US for Claritin could not compensate this development.

Adjusted EBITDA in Consumer Health increased by 4% to EUR383 million mainly as a result of the business expansion and cost synergy. Negative currency effects of about EUR20 million held back the improvement in the quarter.

So let's now look at Crop Science Q1 performance. Overall, Q1 for Crop Science was a quarter in which we held up well in a weak market environment. Sales increased by 1% to EUR3.0 billion. In Europe, sales remained at prior level. In North America, we posted a 4% growth on the back of a double-digit increase in our seed growth, as well as seeds business. In the Latin America/Africa/Middle East region, sales advanced 1% driven by the fungicides business and higher sales of vegetable seeds. Lastly, in Asia-Pacific, we had to record a sales decline due to the development in our insecticides and fungicides businesses.

Adjusted EBITDA at Crop Science was EUR1.1 billion. That's a 6% increase compared to the prior year. The positive effects of higher selling prices and lower cost of goods sold could overcompensate higher expenses for R&D, as well as negative currency impact of around EUR15 million.

Lastly, our Animal Health business advanced sales by 9% to EUR408 million. This business benefited from increased demand in the US where especially our Advantage products achieved sales increases. Sales of Seresto, our new flea and tick collar for dogs, almost doubled in the year, supported by a higher demand in both the US and Europe. Adjusted EBITDA for Animal Health improved by almost 20% to EUR122 million thanks, of course, to this group's business development.

So then with respect to the guidance, based on our performance in the first quarter and our expectations for the remainder of the year, we are reiterating our guidance for 2016. We plan to grow our Life Science sales organically by a mid-single digit percentage to approximately EUR35 billion and to improve EBITDA before special items by a mid-single digit percentage. And for full-year core EPS, and that includes our remaining stake of Covestro, it is anticipated that we also improve this by a mid-single digit percentage. The 2016 guidance is also reiterated for all business segments as we published it in February.

So, ladies and gentlemen, we are overall pleased with Bayer's start in the first quarter of 2016. Each of our business segments contributed to our earnings growth momentum in the first quarter, and for the group as a whole, we expect to deliver important sales and earnings advance in 2016. And that concludes my remarks and we will now be happy to take any questions you may have. Thank you.

QUESTION AND ANSWER

Operator

(Operator Instructions). Sachin Jain.

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

It's Sachin Jain from Bank of America. A couple of pipeline-related questions following those introductory comments. So first, could you comment on the reasons for not progressing finerenone in heart failure and why you view the situation differently for vericiguat given it's a similar indication with similar headline Phase 2 data? Is the predominant reason the cost-sharing on vericiguat with Merck?

Secondly on Molidustat, how long do you expect partner decisions to take? Have those commenced as yet? I wonder if you can comment at a high level on any aspects of differentiation you see in the Phase 2 data you have in-house? And then the final question is sort of financials around pipeline and mid-term R&D spend. Given fewer fully-funded large outcome studies internally, just where do you sit within the 32% to 34% range now for the 2017 pharma margins? The indication had previously been that if you progressed a lot of these assets, you would be at the bottom end of that range. Clearly that has changed a little bit. Thank you.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay, thank you, Sachin. Let's answer the pipeline questions first. Dieter, start with finerenone.

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes, I start with the question on finerenone. We recently completed a routine portfolio review and where we reconsider all our assets that we have from a competitive and a commercial perspective and as a result confirmed that the main value driver for finerenone has always been DKD and we reached decision, it was a commercially-driven decision not to pursue finerenone in congestive heart failure. So that is what drove that decision.

With regards to vericiguat, it's a different situation. As we already and Merck already disclosed, we are planning to move this product forward into Phase 3 later this year with our partner, Merck, in congestive heart failure with reduced ejection fraction and that decision has already been reached and we are now finalizing the best way forward on protocol.

In Molidustat partner discussion, I don't think we should be in a position to comment on any particular partnering discussions we might have. We continue to -- we had top-line data that was positive and we are considering all options now to see how we move that product best forward in that regard.

Pipeline R&D funding, I don't think we are going to be revising our guidance at this point. We have a rich Phase 3 and Phase 2 pipeline. We continuously evaluate what our biggest opportunities are. We focus our resources strictly on the biggest value drivers within our portfolio and continue to move our portfolio forward and make the necessary R&D investments to ensure sustainability and success for our continued growth in the future.

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

Apologies. Can I take a follow-on? I still don't quite understand the reason for difference between finerenone and vericiguat. Is it data-driven? Is it new mechanisms of action? Is it cost-sharing? Just exactly where do you sit on that?

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

There is no new data on finerenone that drove this. As I indicated, this was a commercially-driven decision looking at the commercial environment, competitive environment that there is and the perceived opportunity for finerenone. And we look at the commercial potential of vericiguat separately in that commercial environment in which vericiguat would be competing.

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

So again, just to clarify. Why would you view that differently?

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

We see both of these -- the competitive landscape where we would be competing in congestive heart failure differently, how it would fit in the armamentarium of physicians.

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

Okay. Thank you.

Operator

Florent Cespedes.

Florent Cespedes - ***Societe Generale - Analyst***

Florent Cespedes from Societe Generale. Three quick questions. First, on Kogenate franchise, is there any stocking effect following the launch of Kovaltry of your new product? Secondly, on the consumer, could you elaborate a little bit on why the sales are down in the US and what do you intend to do to re-energize these trends? And maybe on vericiguat, on preserved ejection fraction population, you announced that the results didn't reach a primary endpoint. Just wondering if you could give a little bit more color and maybe just a question on are you planning an investor day during the second half of this year maybe with a focus on your R&D projects and the usual questions for management. Thank you.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay, thank you, Florent. We will state with the Kogenate question for Dieter.

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

So Kogenate is obviously impacted a little bit by buying patterns and shipping patterns and we are growing in the first quarter this year off a much weaker quarter in the first quarter of 2015 combined with some additional orders we received this first quarter so that drove a stronger first quarter. Kovaltry stocking did not have a significant impact on the performance of Kogenate; although I would mention that Kovaltry launch is proceeding in line with our expectations. We are pleased with that launch.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay, then Consumer Health. Erica, sales in the US.

Erica Mann - ***Bayer AG - Head of Consumer Health Division***

The decline of minus 1.6% in the US was mainly driven by a weak cough and cold season combined with additional competitive pressure impacting Aleve. These negative effects were partially offset by an increased demand for other US products, so Claritin grew at twice the allergy market at 6.3% versus 2.6% of the market. We saw aspirin in the US up 7%, MiraLAX up 8.7% and MIRAFIBER was also launched in the first quarter, so the fundamentals in the business is good. We continue to execute on our plan and I think that should answer your question.

Florent Cespedes - ***Societe Generale - Analyst***

Thank you.

Marijn Dekkers - *Bayer AG - Chairman*

Then vericiguat, maybe a little bit more detail. Dieter. Preserved ejection fraction did not meet its endpoint.

Dieter Weinand - *Bayer AG - Head of Pharmaceuticals Division*

Yes. There's not much more to say than it didn't meet its top-line results endpoint, so we are not moving that product forward in preserved ejection fraction. More detailed data will be released at an upcoming scientific conference.

Marijn Dekkers - *Bayer AG - Chairman*

Okay, so Florent, stay tuned till then. On the management meeting, you will understand that, with the CEO change that is taking place at the moment with Werner Baumann becoming the new CEO of Bayer, we didn't think it was in the last few weeks a good idea to do a meet management meeting like we always do in March. But I think there's good news on the horizon. Werner, do you want to say something on that?

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

I can only second what Marijn said. The news is indeed extremely good here, so we are just about to send out a hold-the-date within the next days and the plan, Florent, is that we continue the same routine we have had before, but as Marijn just mentioned, the timing was not ideal for the spring meet management. So the spring meet management will eventually then move to a timeslot right after summer, and it's going to be in the beautiful Leverkusen surroundings, so it's going to be a meet management in the stadium or whereever, we don't know yet. And what you should expect is a comprehensive update on the strategy of the businesses. You will have a chance to interact with our senior management in each of the businesses and the corporate arena. And last but not least, we will also update you on our mid-term targets.

Florent Cespedes - *Societe Generale - Analyst*

Excellent. Thank you very much. I look forward to that.

Operator

Mr. Race.

Tim Race - *Deutsche Bank - Analyst*

It's Tim Race here from Deutsche Bank. So a few questions, if I may. So first on the pipeline. Obviously, you've had a few setbacks and a few products move forward. Lots of investor questions obviously on this aspect. Clearly, the root of this is that they don't feel there's enough in the pipeline, so do you feel there is enough in the pipeline to do [or] replace Xarelto on your [other] products in the long term organically, or do you feel you'll have to go to the market at some point and buy or do more M&A, or inlicensing and what's your preferred route and where would you be focusing?

Then maybe another question on portfolio management. Could you discuss Covestro, the timelines in terms of your stake, how long you intend to hold it for? We've obviously seen first signs of some further divestment, so any further focus there?

And just, finally, on Animal Health, if I may, we have lots of comments in the press to you liking this business. The key issue is that there's a scarcity of assets to buy, so what do you see as the current market environment and how long do you feel you can operate in this environment before your lack of scale impacts the business going forward? I will leave my questions there and thank you for your answers and thank you, Marijn, for hosting these calls.

Marijn Dekkers - *Bayer AG - Chairman*

Okay. Thank you, Tim. So Dieter, with general comment around the strength of the pipeline.

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes, as I mentioned before, we believe we have a very strong pipeline with 17 projects in Phase 3 and 18 in Phase 2, so I think we have a very strong pipeline going forward. We focus, as you know, in the areas of oncology, cardiovascular medicine, women's healthcare, hematology and others. So really in our focus areas, we have significant pipeline assets. You mentioned already finerenone in DKD. We mentioned vericiguat in congestive heart failure. We also have a partial A1 agonist where we are moving forward. We have vilaprisan in uterine fibroids, so we believe we have a very strong pipeline.

We will not comment on any particular partnering opportunities we might or might not be considering, but every company, and ours as well, have partnered with other companies to enhance our pipeline, licensing and other products in the past, and see no reason why we would not continue that practice to look around at what we have internally and complement that as need be externally.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Then Johannes Dietsch, our CFO, on the Covestro timeline.

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

Thank you, Tim, for the question and with Covestro, we can reiterate our intention to fully divest the remaining stake to Covestro mid-term. We have not attached a detailed timeline to that, but we are committed and we are currently evaluating all our options. We have a nice, very (inaudible) since we can -- we are very pleased with the development on the Covestro stock and we want to exit in a very optimized way. Therefore, we have started with one transaction recently that was last week when we transferred 10 million shares into the Bayer pension trust fund. So stay tuned on further development in this respect.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. And then the Animal Health question, Tim, Werner Baumann will answer that.

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

First of all, and as further testimony of quarter one, we currently don't lack critical mass in order to show that growth. It's always also a question of product portfolio and we are particularly pleased with the excellent performance of Seresto, which in a very short period of time made it to becoming a blockbuster in the animal health industry with annual sales of more than EUR100 million, so significantly also surpassing our own expectations. At the same time, it is a great industry. A lot of people would die to be present in that industry. It has been on record that we would love to strengthen this business. That is a position that we have had for a long period of time. You can be assured that we continue to look at ways to strengthen the business. There are, of course, different ways to do that. You will also not (inaudible) go into further detail on what it is we will eventually be looking at, and that each business in our portfolio, we continue to look at performance, strategic framework of the respective industries we compete in and take the right decisions to further develop our portfolio at the Company with it. So that's all I can say at this point in time.

Operator

Jo Walton.

Jo Walton - ***Credit Suisse - Analyst***

A few questions please. Firstly, on the Pharmaceutical division, you've got a very strong improvement in the margin in the first quarter despite increasing your R&D as a percentage of sales. I wonder if you could just tell us how representative you feel this margin improvement is, or whether there have been any one-off effects? And looking at the portfolio, perhaps you could give us this opportunity just to update us on what you think your share is with Xarelto relative to your key competitors, whether the ACS indication has made a difference in Europe? Clearly, for our valuation, looking at the longer-term trajectory of Xarelto is still extremely important.

And also, just on the cancer products, you've alluded to strong competition for Stivarga. I wonder if you could tell us what your plans are for turning that around and whether if that has now reached a peak and declining. Maybe Nexavar will as well because that's about to receive much more serious IO competition in renal cell carcinoma. Thank you.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thank you, Jo. So let's start with margin improvement, Dieter, in Pharma.

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes, so we are not revising guidance, as I mentioned before. There were no one-offs driving that per se. We have previously stated that we will be very prudently managing our expenses, focusing our resources on the greatest value drivers. That is in commercial and in R&D. Going forward, you asked why we would not see growth. I think you are alluding to the question that what's impacting our margin going forward, so let me explain it a little bit. As you know or may know, on April 1 in Japan, we got a biannual price decrease of 6% to 7% overall range for the portfolio. That is in the high double-digit million euro range impact.

We have price pressure in China. You know healthcare reform and cost containment measures, in particular the pricing, the provincial bidding in China and the provincial price harmonization in China followed by hospital bidding, that then triggers again synchronization with the provincial pricing, that will put pressure on us in the second half in the year in pricing.

The third aspect is we see end commercialization of Stivarga in Germany that will have an impact in the second half of the year, and as our Eylea sales grow, that is a profit-sharing product, that obviously has lower profit than some of our internal products. This is a profit-sharing product. That impacts overall profitability going forward.

You asked about Xarelto. We have roughly a 34% share for Xarelto based on IMS. And that's a gain versus the fourth quarter by 0.1%, 2.1 percentage points versus the end of Q4 -- versus the end of December 2014, so we continue to expand our marketshare for Xarelto. We have good performance for Xarelto and that's global share. We have good performance of Xarelto in Europe, also in Japan. You know that in Japan we took some measures to focus our promotional efforts and targeting messaging and so on that had some impact. Our NBRx share there has substantially improved over the last year, particularly since mid- last year, so that's driving performance.

You asked about Stivarga competition. We have seen Lonsurf coming into Japan a while earlier, but now in the US -- in the US, we see a bolus impact where there's patients waiting. What has happened in Japan, although the labeling was slightly different, physicians have opted to use Lonsurf after Stivarga in patients that are over low performance status and have been through numerous courses of therapy, so in later stage disease utilization for Lonsurf. That has helped move Stivarga into earlier phases of disease treatment in patients that are of a better performance status and therefore can tolerate the product better.In the earlier use Stivarga, the better potential for completing the course is an outcome, so we anticipate a similar evolution in the utilization of Lonsurf, a 5-FU pro-drug versus Stivarga and expect us to respond commercially in the US to correct and to regain our share there.

Oh, Nexavar. Yes, we see Nexavar competition will continue to come, but are possibly -- we are in a good position to continue to perform well with Nexavar going forward.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thank you, Jo.

Operator

Mr. Verdult.

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

It's Peter Verdult here from Citi. Three questions. Number one is on oncology. Given the pipeline setbacks this morning for the MEK and the CDK, I was wondering if you could remind us when your internal efforts in IO, or immuno-oncology, are likely to enter mid or late-stage development? And sorry for the prickly question, but would you accept the statement that Bayer is now looking increasingly at a competitive disadvantage in oncology? And if not, can we discuss why that's not the case?

Secondly, on Kovaltry, I realize it's early days, but could you give us any sense of whether patient starts are coming mainly from Kogenate, or are you seeing switches from other products?

And then lastly on crop, just wanted to get an update on the landscape there. Are you still seeing signs of irrational behavior from competitors in markets like LATAM? And can you remind us on the level of appetite you have to entertain JVs and partnerships with respect to your seeds business? Thanks.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thank you, Peter. So oncology, we will go first to the oncology question, Dieter.

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes, so we have been focusing more on the small molecule side than immuno-oncology and we did not participate in the first wave of the immuno-oncology product development that we saw in the industry. But we have initiated decent collaborations with Compugen and the German Cancer Research Center. We are focusing specifically in immuno-oncology with BITE-antibody and prostate cancer in the Phase 1 clinical trials. With the Compugen collaboration, we are focusing on a couple of products as well, so I think that it's the next wave that will come in immuno-oncology.

Overall, in the oncology pipeline, you know we have ODM-201 in development in Phase 3 for non-metastatic castrate-resistant prostate cancer. You are aware of copanlisib. We are in Phase 2 with anetumab, so I think we have a focused effort in certain areas such as the radiotherapeutic platform with Xofigo, as well as with the thorium platform, and we are making our first trials into the second wave of the immuno-oncology portfolio. With regards to Kovaltry?

Marijn Dekkers - ***Bayer AG - Chairman***

Where do the patients come from?

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes, it's too early to delineate where the patient starts come from. It is to be expected some will come from Kogenate; we expect some of that. But also as patients are switched, that are not very well served by other compounds from other products as well and normally you will see a proportional switch from market leader by marketshare coming to these longer-acting products, as we have seen also for (inaudible) in the market. But it's too early to have any numbers to delineate that.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Then Crop, Liam, are your competitors rational or irrational I think was the question and what is your level of appetite for partnerships in Seeds?

Liam Condon - ***Bayer AG - Head of Crop Science Division***

Yes, so related to the level of irrational behavior, and you mentioned specifically LATAM, honestly, I think it's relatively limited. Normally, we see this through pricing and excessive discounting, but given the fact that most of our competitors are challenged from a margin point of view, I don't think anybody has a major interest in irrational pricing behavior. So I do think this is rather limited right now.

On the collaboration in Seeds side, the way forward -- we've always said that we want to build out further our Seeds business and there are different ways of doing that. We've been investing organically. We've had some acquisitions, minor, smaller acquisitions that we've made and we continue to look at all options that create value for Bayer, but we remain very committed to further building out our Seeds business.

Pete Verdult - ***Citigroup - Analyst***

Thank you.

Operator

Mr. Vosser.

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

It's Richard Vosser here from JPMorgan. Thanks for taking my questions. First question, just around the women's health franchise, and I saw obviously the Essure product had an impairment, so a couple of questions. Just wondering what's left in terms of the writedown there and perhaps outside of Mirena and Yasmin, we can see how first the commercial franchise is developing behind the scenes and how you are seeing that franchise developing going forward together with your pipeline.

Second question just on Crop Science. And just thinking about -- I think it's been a very solid development in terms of a wet winter in the northern hemisphere, in Europe at least, but just If we could have some color on how the seasons are developing and with respect to the northern hemisphere and probably too early for Latin America, but is this a representative quarter, or have we had any pullthrough of demand in Europe?

And then, finally, one question on Animal Health. As you mentioned, a very strong quarter. Just wondering if you are seeing any benefits from disruption from other players where some uncertainty over their businesses might be weighing on their abilities to sell into the market, but just some thoughts about how sustainable that level of growth is. Thanks very much.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay, we are going to split the women's health question in two. Our CFO will first comment on the Essure (inaudible) and then you comment, Dieter, on basically the strategy of the business with Mirena and Yaz and the other components of it.

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

Yes, thank you. For Essure, the (inaudible) numbers are available. We acquired this company, Conceptus, for roughly $1.1 billion, allocated at that time roughly 50% into goodwill and 50% into IP. And out of the IP part, we impaired now 50% of it, so the remaining 50% is still in our books.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. And then women's health business portfolio.

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

So we are coming off a good quarter with higher demand for the Mirena family in the US. As you know, there's a trend that more women are for long-acting contraception. We fully anticipate to continue to partake in that trend to take advantage of it. The launch of Jaydess and Skyla is proceeding very well. We have successfully copositioned the products in the market where you see the smaller, shorter-acting product adjacent to Skyla being utilized by younger women, approximately 10 years younger than those utilizing the five-year, slightly larger and longer-acting Mirena product. That market will continue to evolve with longer-acting intrauterine devices and we will continue participating in that, so I think the market is slowly, but steadily growing and we will partake in different market segments within that market of the longer-acting contraceptives.

Marijn Dekkers - ***Bayer AG - Chairman***

Good. And then our weatherman, Liam.

Liam Condon - ***Bayer AG - Head of Crop Science Division***

Yes, so as you know, kind of first quarter, 75% of our sales tend to be in the northern hemisphere and where we had a unique result was especially with canola, a very profitable seeds franchise for us in Canada in the first quarter in March. Some years, it can be March, in some years, it can be April, but what it basically means is because we have that booked now in the first quarter, we won't see that stellar outperformance in Seeds in the second quarter. And simply because we only sell it once then in the first half of the year in the northern hemisphere.

So North America, that being a big seeds market, will be relatively weak. And in contrast to that, Europe, which was flattish in the first quarter, will see probably very solid development on the crop protection side. So they will probably balance each other out. And then we get into the interesting second half of the year, which is southern hemisphere-dominated, LATAM and APAC and there, we are expecting a slight pickup in growth and we are not seeing much growth right now, but we are expecting some growth then in the second half of the year. And with that, if you balance all of that out as the reason why we are sticking to our guidance, saying low single digit growth for us.

The little shimmer of hope we have for the future, we see this year remaining a difficult market environment for the large part of the year. The question is when do we come out of the downturn. We are all hoping this is going to be 2017. There is not much signs that it's going to be at the end of 2016. We hope there might be a small pickup at the end of 2016 and that this shimmer of hope that we have now is good sales development of our seed growth products, which are kind of a future indicator of potential growth in the market. We had minus 15% sales for seed growth last year as a treatment of seed products and in the first quarter, we had a plus 5% sales growth, so that gives us a little bit of confidence that the future outlook looks probably okay, but this year will remain a very tough market environment.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thanks, Liam. And then as you know, ladies and gentlemen, Animal Health business also reports to Liam Condon, so he will comment on whether or not we are benefiting from the destruction of some of our competitors.

Liam Condon - ***Bayer AG - Head of Crop Science Division***

No, I don't think this was the case. In the first quarter, we had a very strong sell-in to the market, particularly of our Seresto and Advantage brands for flea and tick treatment of dogs and cats and this is sell-in in North America especially in the US and then what we hope to see is then consumption from thereon in. So our very strong performance was purely related to very strong sell-in to the market.

Marijn Dekkers - ***Bayer AG - Chairman***

Good. All right. Thank you, Richard.

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

Thanks very much.

Operator

Mrs. Hector.

Luisa Hector - ***Exane BNP Paribas - Analyst***

It's Luisa Hector from Exane. I have a few questions, please. So on the Covestro stake, the movement into the pension fund, is that now complete, or could you do more and are there any tax implications of that movement? On your guidance, it does look as though you changed your currency assumptions updating them to the end of Q1. So can you give any color on the impact of that, or perhaps the FX effect on core EPS that you are tracking to based on that currency update?

And then perhaps pipeline. We haven't touched on the eye area and you've recently inlicensed from Regeneron another asset there. Could you talk about the positioning of the various compounds you now have, so you have Eylea and the PDGFR combo and now this second option in the pipeline. So how do you see those fitting together? And can I just confirm, you now have the global rights on the latest compound whereas the other two are just ex-US? Thank you.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thanks, Luisa. We start with Covestro's stake.

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

Yes, we had a transaction of 10 million shares, which represents roughly 5%. Of course, we could have done more, but for the time being, we started with this amount. It is related to the possibility of the pension fund to diversify their asset base and they cannot take unlimited amount of one asset. However, Covestro stock is a very liquid asset and it's a listed stock; therefore we can use this very nicely to reduce our pension liabilities in this respect. So this was the first stake. I think with Bayer pension trust we are through for the time being, and now, as I said before, we are evaluating our options going forward. With regard to this transfer, the sale of shares or the transfer of shares is in Germany largely tax-free. It's 95% tax (inaudible) on the capital gain, which is also very limited in that case.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Then guidance remains the same. Is there a currency effect here?

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

Yes, in general, of course, you saw that we had in the first quarter already negative impacts on clean EBITDA of EUR60 million and we normally give the guidance as a 1% change in our currency basket. When all other currencies are weakening by 1% against the euro would translate into EUR90 million loss in our clean EBITDA.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. And then, Dieter, the eye programs, can you give an update on what's going on in the new compounds for eye medication?

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

So you are correct. We recently signed a couple of agreements with our partner, Regeneron; one is Eylea in the combination with a PDGFR-beta compound in a single injection. And the other one is Eylea with an Ang-2. We believe that the market, there is continued significant unmet medical need and that addressing multiple pathways could offer potential additional benefit to those patients suffering from retinal eye diseases. And delivering these compounds in a single injection as opposed to the Novartis and Ophthotech Provista, which will be delivered in two different injections 30 minutes apart would provide them not only medical benefit, but also convenience to the physician and the patients. So we believe that the market is evolving towards these combination products that address multiple pathways and it therefore hold promise for incremental clinical benefit in a single injection.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thanks, Dieter. Thanks, Luisa. The last question was?

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

No, we don't have the US rights. That was the second part. Sorry I didn't address that. We do not have the US rights.

Operator

Mr. Meunier.

Vincent Meunier - ***Morgan Stanley - Analyst***

Thank you for taking my questions. The first line is a follow-up on Covestro. Can you explain us what could be the limitations again on possible new tranche and the tax implications for that again? Sorry for this question again. And also what should we expect in terms of use of the proceeds and more precisely is the repayment of the debt still the priority in a low interest rate world and in the context of the pipeline decisions announced today?

I have also a question on Consumer Health. The top-line synergies, you said last quarter that it could take longer to generate these top-line synergies. Is there any improvement or any change versus last quarter and how to proactively accelerate the sales and the top-line synergies other than just waiting for acceleration of GDP growth in the countries where you are exposed?

And the last question is, on the guidance for this year, is it fair to assume that there will be a sequential increase of the costs following the 10% EPS [dip] this quarter?

Marijn Dekkers - ***Bayer AG - Chairman***

Sorry, Vincent. Could you repeat that third question because it didn't come through?

Vincent Meunier - ***Morgan Stanley - Analyst***

Yes. It was a question on the guidance for 2016. Is it fair to assume a sequential increase of the costs in the remaining of the year?

Marijn Dekkers - ***Bayer AG - Chairman***

(multiple speakers) a sequential increase. Okay, sorry. Sequential increase. Okay. So thank you, Vincent. So we start with one of our favorite topics, the tax implications of Covestro.

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

Yes, with Covestro, we took a question about limitations and proceeds, how to use it. You are absolutely right, we are in a low interest environment and we have also long-term goals outstanding. We have sufficiently financed our debt position. However, proceeds clearly are being used currently in different priority to reduce our net debt or to reduce our leverage. With Covestro, as I mentioned before, from the German perspective on capital gains, there are no limitations and I can only reiterate that we have the intention without any restriction in the midterm to get rid of our remaining stake in Covestro.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Then we go to Consumer Health. Erica, top-line synergies. What are you doing to accelerate the top line with the Merck-acquired products?

Erica Mann - ***Bayer AG - Head of Consumer Health Division***

Oh, the key there for us is to continue to have new innovations and to expand our marketing programs. We have good examples of how we've done that. We've relaunched Coppertone in Brazil. We've also introduced new lines under Dr. Scholl's in the United States, and we have leveraged our significant larger scale that we have in the US now to better obtain better positions in terms of shelf space for our products. All of these efforts will continue, so we won't just sit and wait for the economic conditions to turn, but we are actively looking at expanding our brands (inaudible).

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. And then on guidance, Johannes.

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

Yes. If I understand your questions correctly, about the sequential increase of cost quarter by quarter, I don't see that the cost base should significantly increase over the next couple of quarters. Quite to the contrary, we had in Q1 compared to last year Q1 a really high increase in R&D costs, which will be lower over the whole year if you look at our yearly guidance of EUR4.5 billion in R&D. Therefore, we will also see a pretty flattish development of our sales and marketing costs due to the programs installed, especially at pharmaceuticals. Therefore I don't see an increase over the next quarters.

Vincent Meunier - ***Morgan Stanley - Analyst***

Many thanks.

Operator

Mr. Wendorff.

Daniel Wendorff - ***Commerzbank - Analyst***

Daniel Wendorff, Commerzbank. Thanks for taking my questions. Three if I may. One relating to the Crop Science business. Also taking into account what you just said on the Seeds outperformance, the product mix affect, the positive one you saw in Q1, which also drove the adjusted EBITDA margin up. Is it fair to assume that this will slightly diminish as of Q2 with the different product mix, meaning Seeds being less important as it relates really to Seeds in Q1.

And second question regarding the reconciliation and adjusted EBITDA contribution that was even positive in the first quarter. I think you guided for minus EUR200 million for the full year. So should we expect therefore a big change in Q2? And maybe asking the question differently, what resulted in the positive contribution in Q1?

And last question on the Consumer Health business, and you mentioned that Latin America was strong and Russia was weak. Could you give us a bit more color on how you see things evolving now in Q2 and maybe also going into the later half of this year? Thank you.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thank you, Daniel. So how important is the product mix going forward in Crop Science?

Liam Condon - ***Bayer AG - Head of Crop Science Division***

Yes. Thanks a lot. I will give you a little bit of color on the margin in Q1, the different elements that make it up, so pricing was a core part and this was split out in Crop Protection with 1% pricing increase and Seeds with a 4% price increase. And that Seeds part is not something that we would expect to be recurring, so this is specifically related also to canola, which we sell once. It's also related to our vegetable seeds business and which will continue to perform strongly throughout the year, but the canola impact from Q1 is not a recurring element.

Then we had some positive COGS mix effects related to the portfolio that we sold, which will not necessarily be a recurring impact. And then we have our standard, let's say, operational cross discipline, which will be a recurring element. So going forward, we would not see the level of margin that we saw in Q1 and there will be certain elements that will continue, but the product mix will have a -- as we move forward in the year will have a rather somewhat more negative impact than we've seen in Q1.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. On the recon.

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

Yes, (inaudible) question on recon here. We have the true-up of our stock option programs and whenever we see a decline in share price, we can reduce our provision, and whenever we see an increase in share price, we have to increase the provision.

Last year in Q1, we had a strong increase in share price and we added EUR65 million to our provision for long-term incentives. This year, we saw in Q1 a decline in share price and we reversed EUR60 million. That is a swing of EUR125 million in recon compared to previous year. Now if the share price is going up, of course, we will increase our provisioning again and the sensitivity is here that EUR1 in share price will add to EUR3 million in true-up in provisioning. That all depends on the share price for the remainder of the year. Currently, we do not change our guidance for the EUR200 million for the full year.

Marijn Dekkers - ***Bayer AG - Chairman***

All right. And then, Erica, Consumer Health, geography mix going forward for the year.

Erica Mann - ***Bayer AG - Head of Consumer Health Division***

Yes, we continue to focus on driving share in most of the categories and countries in which we compete. It's important to note that the second quarter, we see a lot more seasonality as the allergy markets and the sun markets kick in, so Coppertone and Claritin, but we also have planned in the back end of this year additional launches, around [30], which will require additional investments to support those launches effectively.

Daniel Wendorff - ***Commerzbank - Analyst***

Thank you.

Operator

Damien Conover.

Damien Conover - ***Morningstar - Analyst***

This is Damien Conover with Morningstar. Just a question on the fibroid drug. Wanted to ask about how you are seeing that drug match up against AbbVie's fibroid drug, which showed very strong Phase 2 data last year. Just want to see how you are positioning your fibroid drug and your Phase 3 development to potentially compete with that drug. I know there's a very different mechanism of action, but just seeing how you guys are thinking about looking at that overall market.

And then another question on the US pricing environment. I appreciate you have less exposure within the pharmaceutical business to the US market, but just want to gauge from you guys how you are seeing the pricing environment there.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay, Dieter, do the fibroids first.

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes. So we only have top-line data, so it's a bit early to run any particular comparison. There are no head-to-head trials at this point in time. But the top-line data we have is encouraging and we believe it will have a -- if confirmed in additional clinical trials -- a very competitive profile for vilaprisan for uterine fibroids.

The second question that you asked us is on the US pricing environment. You are correct, as you stated, that our exposure in the US is relatively small. It was roughly 23% of Pharma sales. You know other companies are in the mid-30% range in exposure to the US. If you further look at our product mix and the coverage for our product, 50% is really commercial coverage, which is primarily -- includes managed care, hospital and cash; 30% are Part D; 10% to 15% roughly Medicaid and 10% other. So our exposure is rather limited in the US and would not be a significant impact, or of as significant impact as it might be for other companies with greater exposure.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. Thanks, Dieter. Thank you for the question, Damien.

Daniel Wendorff - ***Commerzbank - Analyst***

Great. Thank you.

Operator

Mr. Papadakis.

Emmanuel Papadakis - ***MainFirst Bank - Analyst***

Emanuel Papadakis, MainFirst Bank in London. Thanks for taking the question. A couple around the hemophilia franchise, if I may. First, I was wondering if you could just refresh our memories where we are on damoctocog, the PEGylated product in terms of completion on the manufacturing side and filing.

Secondly, if you could give us an update on your thoughts around the potential risk from disruptive entrants in that space over coming years. And then perhaps thirdly, as a tandem to that, your thoughts about a potential for an AAV-based gene therapy platform, which I know you, amongst other companies, are working on to merge as long-term standard of care. And then --.

Marijn Dekkers - ***Bayer AG - Chairman***

Sorry, Emmanuel, can you repeat the third question?

Emmanuel Papadakis - ***MainFirst Bank - Analyst***

Yes. The third question was around the opportunity for gene therapy.

Marijn Dekkers - ***Bayer AG - Chairman***

Gene therapy, yes, okay.

Emmanuel Papadakis - ***MainFirst Bank - Analyst***

And then the final one I'd sneak in quickly if I could is on product guidances. You provided several of those around Q1. The ones I'd be particularly interested to hear an update for would be Eylea, Xofigo and Xarelto where I think you'd said Eylea would grow at least 20% this year, Xofigo towards 50% and Xarelto around 20%. If you could update us on where we are regarding those, that would be very helpful.

Marijn Dekkers - ***Bayer AG - Chairman***

Okay. So start with hemophilia first. Manufacturing (inaudible).

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes, so we have not changed the timing of our damoctocog alpha filing, which is still planned for the mid-2017 timeframe. So we have not changed anything there; we are still on track for that. In gene therapy for hemophilia, as you know, we are in that space as well. I just saw the BioMarin update, or early data that they released, so that will probably be competing with what we are also looking at, but we are moving forward strongly with that particular aspect as well. And you asked me to re-guide Eylea, Xofigo and Xarelto, which I probably wouldn't do. So we are still pleased with the current growth.

Emmanuel Papadakis - ***MainFirst Bank - Analyst***

Okay. And maybe if I could just sneak in a follow-up on the hemophilia in terms of the potential risk to existing recombinant factor VIII-based products in their current versions, all long-acting, from disruptive entrants in the midterm. Could you provide us any thoughts on that?

Dieter Weinand - ***Bayer AG - Head of Pharmaceuticals Division***

Yes, I think that this is a fairly slow moving market in terms of switching to newer therapies. We are convinced that recombinant factor VIII products will continue to be a major part of the armamentarium of physicians in treating hemophilia patients. So we anticipate that ultimately there will be some disruptive technology, but we also believe that damoctocog alpha with a once-weekly dosing schedule and a proven and very well known treatment modality will play a significant role still within that market. But, like I said, we are also competing for the disruptive technology with our gene therapy program.

Emmanuel Papadakis - ***MainFirst Bank - Analyst***

Very helpful. Many thanks.

Operator

There are no further questions at this time. Please continue with any other points you wish to raise.

Marijn Dekkers - ***Bayer AG - Chairman***

All right. Thank you very much. Thank you all of you on the phone. As you know, this is my last analyst conference call and I would like to thank you for all your support that you have given Bayer and also me in the last six and half years. I have fantastic memories of our meet management meetings. I hope you do as well and you can look forward to those meetings as well as that continuing, but now at a different time of the year. I would only wish that you give Werner Baumann and the whole management team here the wonderful continued support that you've also given me. So thank you very much and I look forward to seeing some of you at some point also of course in the future. Thank you.

Operator

Ladies and gentlemen, this concludes the first-quarter 2016 results investor and analyst conference call of Bayer AG. Thanks for participating. You may now disconnect.