

Bayer AG
Q1 2018 Investor Conference Call
3 May 2018

Opening Remarks

Oliver Maier

Head of Investor Relations

I would like to welcome all of you on behalf of my colleagues to our first quarter 2018 conference call. With me on the call are Werner Baumann, our CEO, Johannes Dietsch, our CFO, and Wolfgang Nickl, who recently joined the Management Board and who will succeed Johannes post the AGM. The different businesses are represented by the responsible Management Board members. For Pharma, as always, we have Dieter Weinand, for Consumer Health we have newly joined Heiko Schipper and for Crop Science/Animal Health we have Liam Condon.

Werner will start off today's call with presenting some of the highlights of the first quarter of 2018 for Bayer as a whole and for the divisions, before we go into the Q&A sessions. For the Q&A I would like to remind everyone to ask two, max three questions per round, so that we get through the questions. Obviously, as always, I would like to start the call today by mentioning the cautionary language that is in our safe harbour statement, as well as in all the materials that we have distributed today.

[See disclaimer](#)

With that – that's the easy part – I would like to hand over to Werner. The floor is yours.

Q1 2018 Performance

Werner Baumann

Chief Executive Officer

Alright. Oliver, thanks. Also, good afternoon ladies and gentleman from my end. I'd also like to take the opportunity, as Oliver already mentioned, to give a warm welcome to both Heiko, who is here for Consumer Health for the first time, and Wolfgang Nickl, who will succeed Hanno and for Hanno it is your last quarterly call.

Johannes Dietsch

That is correct.

Werner Baumann

Before you are going to retire. With that, actually, it is going to be a good call and it is a reasonable quarter I think operationally. So that gets me into our performance for the first quarter. I think if you look at the reported, it's really masked by the significant FX impact, both on top and bottom line. The underlying looks quite a bit better. We have seen operational growth on a group level of about 2% and also our earnings, which came in at about 2.9 billion, were just about 5% below prior year and that is approx. the FX impact we have seen at group level of 160 million for the quarter. That will continue to be a theme for the remainder of the year based on where currencies are at this point in time. Core earnings per share in the first quarter were almost level with prior year, despite the currency impact, at about €2.28 per share.

Before we move into further financial performance though, on a divisional basis let me touch on where we stand with the intended acquisition of Monsanto. First of all, quarter one was another quarter where we made significant progress with our merger preparations and also on the regulatory front, and by the way also on the financing of Monsanto. Let me start with the regulatory side of this project. We received the conditional approval for the planned acquisition of Monsanto by the European Commission on 21 March 2018. We have also received a number of additional clearances, most notably Russia, which took quite a while, Brazil and China and with that by now we have obtained two-thirds of the approvals needed, with another just about 10 to come. As recent as early this week, the EU also issued their assessment of BASF and the BASF portfolio to be okay from an antitrust perspective with the intended acquisitions that we are going to divest to BASF.

On a financing side on the equity side, we signed an agreement with Temasek to subscribe 31 million new shares, which equates to about 3 billion in fresh equity. It is, of course, totally clear that we are going to take that additional equity injection, which was issued at market into account when sizing the final rights issue that is still to come.

We continue to work with the remaining authorities in order to close the Monsanto transaction, as also guided in prior calls, by quarter two, so I can tell you and assure you that we remain fully on track. We are confident that we are going to close this transaction with the remaining weeks of the second quarter and constructions we entertained with the remaining regulatory agencies are very constructive. In terms of update on the deal metrics, we will give you some updates to the extent that we can at the time of closing, so you shouldn't expect any news on that front during the call today.

BASF is going to be the sole outlet for all antitrust divestitures by and large. We signed the first pre-emptive, if you want, deal with them on 13 October 2017 already, which had an overall volume of about €5.9 billion in proceeds. We will, on top of the scope of the divestitures at that point in time, divest our entire vegetable seeds business, our R&D platform for hybrid wheat, the remaining canola business, a number of research projects for non-selective herbicides, our digital farming business and some additional activities in the area of seeds treatment for an overall additional consideration of €1.7 billion, so that totals €7.6 billion for the entire divestiture. If you look at the sales volume that is going to BASF with all of these assets it equates to €2.2 billion, if you look at the 2017 top line these businesses had. The entire transaction also with BASF is of course is still subject to some regulatory approvals and of course the final acquisition and the clearance of the final acquisition of Monsanto by Bayer. Up until then we will of course continue to operate these businesses that will later on be divested to BASF.

With that, let me come to the divisional highlights of the quarter and I'd like to start with Pharma. Pharma operational growth totalled about 3% for the first quarter. We mentioned in prior calls that we have a baseline effect for the first half of the year due to the fact that at the time also in 2017 we still had a normal order pattern of CSL for recombinant factor VIII. If you adjust for the CSL effect, we would have grown by about 5% in our underlying.

As in prior quarters, the main growth drivers were yet again our key growth products and those continue with very, very solid and healthy growth dynamics. If you look at that section of our business growth, overall for our key growth products it was about 14% in the quarter. Xarelto with plus 13%, which also led to an upgrading of our full year guidance, and Eylea almost 20% with 19%. You see that the growth dynamics of those key products remain solidly intact. We also reiterate our target to achieve a combined sales of our key growth products of towards €7 billion in 2018.

Adjusted EBITDA in Pharma was down by about 6% in the first quarter, mainly driven by FX of about 70 million and there's a small remainder that is explained by higher COGS – higher R&D investments and slightly higher marketing and sales expenses. That also contributed. On the FDA warning letter and the impact that we indicated to be around 300 million for full year, that remains unchanged. For the first quarter the impact we've seen was, however, relatively limited, so the remainder of the majority of that impact is still to come in the remaining quarters of 2018.

There's also a few updates and news on the pipeline in the first quarter. First of all, the date of the ALTAIR study with Eylea demonstrated that injection appointments at an interval of about 12 weeks or more are feasible and possible and we've submitted this data to EMA for the corresponding label update. We also received the first approval for Eylea in China for the treatment of DME. We completed the rolling submission of the New Drug Application in the US for Larotrectinib. That's the Loxo compound we in-licensed for the treatment of TRK fusion cancers and expect approval in the later part of the year.

With that, let me come to Crop Science. Crop Science sales came in just about level with 2017, which was a very, very strong comparator quarter. Adjusted EBITDA was down 7% year over year, again to a large extent driven by negative FX of about 44 million and somewhat higher costs of goods. Adjusted for the currency impact, EBITDA was down by three percentage points. The adjusted EBITDA margin, however, was up by 70 basis points to 36.4% in the first quarter, which showed a very strong focus on cost management, despite the fact that overall sales did not grow.

Europe, Middle-East and Africa showed a declining top line, with about a 9% reduction to €1.3 billion in the quarter. The reduction in sales affected fungicides, herbicides and vegetable seeds. To a large extent it was actually driven by the still relatively cold weather in Europe and with that the late start of the planting season. We also had an impact in France in our fungicides business, where the regulatory environment and some political and regulatory uncertainty as far as the French market is concerned actually were detrimental to our top line development.

In Latin America we saw sales progress by 5% for the first quarter and it was very much driven by a very, very strong quarter in Brazil. That was partially offset by the decline in Argentina due to the very, very dry weather conditions. We're also happy to report that inventory levels in Brazil are back to totally normal. As a matter of fact, we are somewhat ahead of our inventory targets in Brazil by the end of the quarter.

Let me now come to Consumer Health. As already indicated in our full year guidance for 2018, we expect another challenging year for the Consumer Health business and you also see that clearly

reflected in the first quarter. The first quarter shows the impact of the behind the counter decision of the Chinese regulatory agencies for Kang Wang and Pi Kang Wang. These are the two most important products we have in China. And that led to a significant impact on top line development – around 170 basis points. Adjusted for it, we would have been pretty much steady state compared to prior year quarter one. That adjustment in China, of course, also has its impact on the regional performance with a 12% top line decline in the underlying in Asia-Pacific. Adjusting for that, China's underlying growth remains actually solidly positive with double digit growth.

We also have temporary supply interruptions at our Leverkusen site that impacted our Consumer Health business, which accounted for about 70 basis points of the Consumer Health growth. And that was very much visible if you go down to a product by product perspective in Canesten and that will also continue to be the case for the remainder of the year, most predominantly in the first half. Alka-Seltzer Plus had a very weak performance with minus almost 15%, despite a relatively strong cough and cold season. We are, let's say, a relatively small number three player in the category and we also lost some distribution to some delistings in the US. Bepanthen continues to perform very well, as does Aspirin and also Elevit, which all showed very, very strong positive sales momentum. North America on the other side remained in negative territory; with Latin America being on the other side positive in its growth momentum in quarter one.

All of these effects did have its impact on the bottom line, which receded by about 20% in the quarter. There's a number of things that need to be taken into consideration here. First of all, in quarter one 2017 we had a number of non-recurring income items from tail end divestments of about €34 million, which is a large chunk of that reduction year over year. Then we had another of about 11% year over year in the comparison that is related to negative FX impact. If you look at that the quarter from an underlying earnings performance is actually not that bad also in terms of profile. On a positive note, we saw favourable cost of goods development. That was very much driven by lower right-offs and on a true like for like basis the adjusted EBITDA margin was around 22% in the first quarter 2018.

With that, let me move to group guidance. That is also my last slide before we start the Q&A. To cut a long story short, the underlying guidance for all of our divisions will remain unchanged. The compounding effects of negative FX do, however, require a small adjustment, which is purely FX driven for our top line, where we now expect a low single digit decline to a sales number below 35 billion for the year. And it also has its bearing on our bottom line – on our adjusted EBITDA, where we expect a low single digit decline as well based on the currencies as of 31 March, so at the end of the quarter.

Taking account – into account these exchange rates we expect again a not insignificant effect on our top and bottom line for the remainder of the year, which is appropriately reflected in our guidance. On a core EPS level we confirm our existing guidance, actually even including the additional Temasek shares, so the 31 million that are increasing our share count going forward. We expect core EPS to be just about at prior year level.

Before concluding my remarks, I will say that we are quite happy with the first quarter and we are charged – now supercharged – for the remaining quarters of the year and we are looking forward to both a good underlying performance for the next quarters and of course the conclusion of the acquisition of Monsanto within this running quarter. And with that, I hand it back to Oliver.

Questions & Answers

Oliver Maier

Great. Thank you very much, Werner. Thanks for the update – much appreciated. I think, Sherry, we are ready to open up for the Q&A session.

Sachin Jain, Bank of America Merrill Lynch

Hi. It's Sachin Jain from Bank of America. Thanks for taking my questions – three if I could. Firstly, regarding Monsanto, I think there's some comments on the wires this morning, Werner, around any further new divestments being small. Can I infer that that is the remaining topic of discussion with the DoJ and any colour on what those new divestments may be? Secondly, on the rights issue, you have previously given us some colour as to how to think about the size of that, given various factors you've outlined before, but the market seems to have worked its way down post Temasek to a rights issue size of mid-single digit billions. Any comment on that and does the size of that change your view on an accelerated book build versus rights issue? The final question is for Heiko on the consumer business. I know you've only recently started, but any new perspectives on the business? I wonder if you could refresh us with your views on the previously discussed turnaround plan and your confidence in that. Thank you.

Werner Baumann

Alright. Thanks Sachin. Let me briefly touch on your first question before Hanno will answer the question on the rights issue and then Heiko will share his perspective on Consumer Health. What I said this morning on Bloomberg is that we should be pretty much done with the divestiture scope, but of course we cannot pre-empt the regulatory decisions that we are still awaiting to be final. While we don't expect any major things coming out of it, we will have to wait for their final ruling. I cannot tell you whether there is anything that would come via our – where we are in terms of the scope of the divestitures. We don't expect anything major at all to be very clear on that, but again, we will not pre-empt the final regulatory decisions. That is not up to us. It was actually in that context that I answered that question. So with that, Hanno –

Johannes Dietsch

Thank you very much, Sachin. In September 2016 when we announced the merger agreement we mentioned 19 billion US dollar in the equity portion we finance, which was at that time €17 billion. Out of that, we executed 4 billion in the mandatory convertible notes, another 3 billion now with Temasek, coming down to 10 billion. Since September 2016 we had a couple of events that will have an influence on the intended remaining financing. Number one is clearly the Covestro proceeds. And here we had realised extra proceeds, extra gains of roughly €4 billion with the various transactions we had since the beginning of last year. Those extra proceeds of €4 billion will be taken into account when we calculate the final size of the rights issue, but there are certainly more factors to be taken into account, like the FX movements, the divestitures and also the question about hybrid bonds.

With regard to divestitures, I would like to mention that they are basically neutral in our rating model, because we, of course, receive proceeds from the sale, but on the other hand we are also losing cash flows, which will affect our rating KPIs. Contrary to what we intended to do one and a

half years ago, we will not issue hybrid bonds anymore and we will not be able to take those equity credits and hybrid bonds into equation. That will all play out once we will finalise the position on the remaining equity financing, with the intention to further optimise and of course at the end to minimise the equity portion, but on the other hand also to achieve a solid investment grade rating.

With regard to our Capital II that are issuance of shares without subscription rights, we are now fully booked with the capital authorisation we had from our shareholders. Therefore, the remaining portion need to come with a subscription rights issue.

Werner Baumann

Okay. Thanks Hanno. Heiko –

Heiko Schipper

Sachin, thank you for the question and let me first say it's a pleasure to meet all of you through this call and I'm sure we'll have a chance to connect in person in the future. As you know, I am eight weeks on the job, so as you will appreciate too early to really come with full conclusions, but let me share some of the first observations that I have on the business.

Firstly, when we look at the market – the consumer health market – I believe it remains extremely attractive. Growth is good and margins are healthy. If we look at the trends that we see in the market, I actually see that some of these are comparable to what we see in the larger consumer goods market, where traditional entry barriers, like distribution, building up new brands or manufacturing, have really come down, and consequently we see that there are many new players entering into this attractive category. This is especially true in less regulated markets, like the United States. And the growth is going mostly to these new entrants of the market, often enabled by digital technology and asset light models. The existing large players are figuring out how to win in this new reality.

If I look specifically at our Consumer Health business, I see a strong portfolio of brands and a very good geographic presence. In fact, we help lead healthier lives around the world with more than two billion servings sold every year, so a really good spread around the world. I've already had a chance to meet a lot of outstanding people in the organisation.

Needless to say, in the short-term I'm focusing on a couple of immediate challenges that are on my desk. The main one is the United States. As you saw in the quarter, it continues to be challenging performance there and it's too early to really conclude, but some of the categories are doing better than others, and therefore in some we have a bigger job to do than others to get back to our full potential there.

As Werner mentioned, we also had a few more one-off challenges I would say, although the supply situation will continue to impact the remainder of the year, and then the regulatory status in China had a significant drag with an almost 170 basis point impact on Q1. It's essential that we get this business back on track. These are our two most important products in China and we have now the Rx version of the product in Q1 shipping back into the market. We are still working on getting a reformulated OTC product back in the market.

At the same time, we are undergoing a more in-depth strategy review, really to really address the momentum behind the business in this attractive category and I expect to be able really to share details of this plan in the capital markets day that we have planned in the back half of the year.

Sachin Jain

Thank you.

Richard Vosser, JP Morgan

Hi. It's Richard Vosser from JP Morgan. Three questions please. Firstly on crop, you talked about the impact from the flow or delayed planting in the northern hemisphere, particularly Europe, in Crop Science. Could you talk about your thoughts of whether that can be made up in the second quarter? We are obviously at the beginning of May, so we have we got a few months or one month of the second quarter. So thoughts there would be great.

Second question – just going to Pharma, looking at the Xarelto performance there was some reacceleration in Q1 and obviously we're going to have a COMPASS launch in the second half of '18, which suggests even though you've raised your guidance it might still be a little conservative. Perhaps you could talk about the current trends you're seeing, when you expect the European COMPASS approval and how you see the speed of rollout of that indication, given the 2.5 mg dose is already approved. And then finally, back to Consumer and just thinking about the specific problems with the Alka-Seltzer brand competition, how should we think about this brand going forward and what can you do to turn it around? Thanks very much.

Werner Baumann

Okay, Richard. So Liam is going to start and then followed by Dieter and Heiko.

Liam Condon

Thanks a lot, Richard. So, we've had a bigger impact in Western Europe. Eastern Europe was actually quite strong, and this impact has hit on the herbicide, fungicide and also on the vegetable seed business. We don't – we can't actually call right now whether we will lose a spray. It really depends on what happens now over the coming weeks. The only thing that I think is certain is that the spring cereal herbicide business is definitely lost, so that part that is relative to cereals and herbicide because we're too far into the season now. So a bit has gone.

Another part that is concerning is basically due to the drought in Argentina – possibly the most severe drought they've ever had and they've had quite a few droughts down there. This is having a huge impact on the overall market, but particularly on the herbicide market, which is by far the biggest market – the crop protection side – in Argentina. So there for sure there will be a significant impact that won't bounce back.

On the flipside, Brazil is doing better than we expected in Latin America, so overall we're seeing growth in Latin America driven by Brazil and that will overcompensate for whatever losses we have in Argentina. So we'll wait and see what happens now in Europe with the weather. It's a bit too early to make a call. We'll try our hardest to catch up.

Dieter Weinand

Richard, thank you for your question. You are correct, we have continued good momentum with Xarelto, growing again globally 13% – ex US we actually grow 15% over the first quarter. That is driven particularly by our emerging market performance with 27%, particularly China, where you

know we got a national drug reimbursement listing. Last year we took a significant price decrease to the levels of European pricing and that has been more than compensated with volume gains for 40% growth. Overall, Germany – we have also turned that around with 14% growth in the first quarter again. So we have good traction with Xarelto.

You're aware that we have in a significant number of markets the 2.5 milligram tablet available, but we filed for a type two variation in Europe to include the new indication. The timing of that depends on regulatory reviews. We certainly would expect if everything goes positive – approval and launch this year – of the indication of PAD and CAD and we do consider that a good opportunity for continually growing the momentum overall. Internationally, we have been able to expand our market, overall market share in main markets, such as Germany or Japan as market leaders. So good momentum with good prospects I would say.

Werner Baumann

Okay. Thank you, Dieter. Heiko –

Heiko Schipper

Thank you for the question. So coming to Alka-Seltzer, first of all it's important that when we look at Alka-Seltzer we can basically split this brand into two parts. One is playing more in cough and cold and one is playing more in digestive. So the comments that Werner made were really – and it's roughly 50/50 between those two. If we look at the cough and cold piece of it – and that's obviously where I would say the disappointing numbers came – this is mainly the US market, where we are I would say a relatively small number three. The number one and number two have respectively about 20% and 15% share and we are at 5%. I would say we didn't enjoy most of the good season and ahead this season there were some losses of distribution and that's really what impacted the numbers. Nevertheless, I would say we do see that cough and cold is a very important segment to play in and I already see some interesting launches being planned in the second half, but being number three I think it's fair to say that we still have quite some work to do there to really feel that we have a real strategy to win. Some good first steps, but more work to be done.

Werner Baumann

Thank you, Heiko.

Jo Walton, Credit Suisse

Thank you. Jo Walton from Credit Suisse. My questions relate to the Pharma division. I wonder if you could give us a little more help on what the opportunity is for Eylea in China. You've obviously got an excellent distribution there and you say this is one of the first products in this category. So what could we see from that please? And on the Pharma side again, looking at Kogenate, I'm just wanting to probe a little further as to whether the decline that we're seeing is all related to the Helixate unbundling or whether there is an underlying deterioration. Grifols reported today a significant reduction in their factor VIII demand as patients were moving off to HEMLIBRA and as they saw higher competition in tendering. I wondered whether you could talk about what you felt the underlying position in your factor VII franchise was. And just finally on the OTC side, just checking up on Coppertone, which obviously had a good sell-in in the first

quarter of last year and sales were broadly stable this year, has that brand turned the corner? Many thanks.

Werner Baumann

So Dieter first, followed by Heiko.

Dieter Weinand

So I'll just mention Eylea China briefly. We got the DME indication approved in February of this year and, as you may know, a substantial number of patients are suffering from diabetes in China – over 100 million patients – so it's a fairly large indication. But we also know that DME is largely undiagnosed, so under-diagnosed and treatment without national reimbursement, therefore, is private paying only and that will take a while. Of course, we'd like to see a national reimbursement drug listing, but that will still take a while, so it is primarily a private market until we get the larger indication of wet AMD that is more frequently diagnosed and ultimately hopefully also national reimbursement. So it's a significant [inaudible] opportunity, but there are the commercial constraints that we have to work our way through in China as always. But it's a good opportunity going forward.

With haemophilia portfolio, I would say the following. Yes, if you exclude the Helixate impact for a moment there we grew 11% in the first quarter – a fairly strong performance, but you always have to recognise there's some phasing in Kogenate/Kovaltry orders. Having said that, we are making good progress with Kovaltry, our longer-acting factor VIII product, in the US and in Europe, particularly performing well in Germany. We are also converting Helixate patients – all Helixate patients have been converted. We captured probably half or more than half of those patients, so we're making progress on that front. We're looking forward for the Damoctocog alfa to be launched, hopefully this year.

As I have said repeatedly, let's wait for the data on HEMLIBRA and now – as I said, from an efficacy perspective these products are probably indistinguishable, and then it was down to familiar factor VIII mechanism, with the familiar tolerability and safety profile, where one knows about the potential of PEGylated products to develop PEG antibody versus rare but black box warning fatal thrombotic events with a new product and now also a – more important – also importantly, a neutralising antibody to the drug HEMLIBRA recently. So I think, as I always said, factor VIII will continue to be a significant player in the haemophilia market and we'll well positioned with Kogenate, our long acting Kovaltry, which continues to do well, and our upcoming launch of our once weekly Damoctocog alfa. So I feel fairly confident about the portfolio.

Heiko Schipper

On Coppertone, let me first remind everyone that quarter one represents roughly 11% of consumption for that category, so it will be premature to make conclusions based on quarter one performance. I think we really have to go through the season to see how the brand is performing. Nevertheless, a lot of work has been going on to restage this brand and I believe that our team is well prepared for the season, but let's revisit this question as we progress through the year.

Jo Walton

Thank you.

Werner Baumann

Okay. Thank you, Heiko.

Christian Faitz

Good afternoon, gentlemen. Christian Faitz, KeplerCheuvreux. Three ag questions, if I may. First of all, you also mentioned in the call the substantial market decline in France in your fungicides business. Can you elucidate this a bit? And then related to the earlier question about the delayed season, how in your view is the channel inventory situation in western Europe at present – any visibility? And then third and final question, your Crop Science business overall underwent a nice margin increase, with adjusted EBITDA falling less than your top line. I would believe this is largely due to the measurements to cut costs. Can you confirm this and how sustainable are those cost cuts, assuming a steady state business for now ex Monsanto? Thanks.

Werner Baumann

Thanks, Christian.

Liam Condon

Thanks a lot, Christian. Let me give you a bit of flavour on France. I would basically divide this into three separate issues that are impacting our business in France. I think it's important to know that France was last year our biggest country in Europe, so really important for us. We had sales of over 230 million in the first quarter last year and we dropped about 30% in the first quarter of this year, so a very, very significant impact. Three issues – one is regulatory. We have the neonic ban, so a complete neonic ban in France effective since 1 September 2018 and this of course meant that the products were phased out during 2018, so no sales in '18. The sales were made then in '17. Plus, the same issue with Basta, our glufosinate-ammonium, where the licence was withdrawn. So we have basically two regulatory impacts. The sum of those impacts from a sales point of view in 2017 was over 80 million, so that already gives you an indication of the size of the impact simply from a regulatory point of view. These are one time impacts specific to these products and specific to France. Apart from that, we had the same situation as everybody else in Western Europe with weak weather.

As a second topic and as a third topic, there is an ongoing discussion in France about possibly changing the distribution system and making changes to potentially separate logistics and promotion, and with that it's unclear how the incentivisation in the channel would work in the future and with that there's a hesitancy to order in the channel right now. So a multitude of aspects, some very specific to us, i.e. the neonics and Basta, which weigh heavily on our performance. And the others – I'd say same issues as for everybody else. So that's just to give you a bit of flavour around what's happening with France – a very significant impact that drags our entire European result down, but largely one time effects in here on the regulatory side.

On the channel inventories in Western Europe, I'd say slightly elevated, but not over a concerning degree yet because we still have possibilities now with the remainder of the season to have a healthy development in the market. So there's no alarm bells ringing in Western Europe yet, but it depends now just what happens for the rest of the season.

And for the EBITDA, you're right to point out it's a very – relatively it's a strong margin and, of course, this is also due to the fact we simply have a very disciplined approach to cost management. I think this is just good hygiene in a company like ours that we pay a lot of attention to this and try to manage costs as best we can. Let's say how that will play out going forward we'll see, but of course the cost efficiency and the discipline around that is going to remain. Our bigger concern around EBITDA is the impact of currencies, because that's what weighs most on us going forward.

Christian Faltz

Many thanks, Liam.

Werner Baumann

Thank you, Liam

Peter Verdult, Citi

Thank you. Peter Verdult, Citi. Just two quick questions, firstly for Heiko. Thanks for the comments you made earlier on in the call. That was mainly addressing the external challenges the industry is facing in the US and some of the issues that are out of your control in China. I am wondering if you would be prepared to be a little more candid in the first eight weeks since you've taken over heading up the division what you found within the Bayer Consumer division – anything that's suboptimal or simply with your management oversight are there any easy wins you can effect during the remainder of 2018 that can improve growth and profitability?

And then second question to Dieter, on Larotrectinib have your revenue expectations or ramp changed now we've got CMS reimbursing next generation sequencing? It seems to us that that will allow the identification of patients harbouring these TRK fusion mutations to be more easily identified. So I just wanted to get a sense of change and optimism on the peak sales potential for Laro. Thank you.

Werner Baumann

So, let's start with Heiko. You were quite difficult to understand, Peter, so we will try to answer, but I'm not sure whether we fully got your questions?

Peter Verdult

Do you want me to repeat it?

Werner Baumann

Yeah, if you could. Maybe somewhat slower.

Peter Verdult

Okay. Not too slow. Heiko, thank you for your comments earlier on in the call. They were addressing the external challenges facing the industry. Would you be prepared to be a little more candid about what you found within Bayer's consumer division – things that are suboptimal or put

more simply actions you can take – easy wins – to implement and improve the growth and profitability? That's question number one.

And then second for Dieter on Larotrectinib, CMS is now reimbursing next generation sequencing. That seems to us that it will make it easier and quicker to identify the patients with TRK fusion mutations. So I just wanted to get an update on your expectations for Larotrectinib when you get approval in the second half of the year.

Werner Baumann

Okay. Thanks, Peter. That was very helpful. Heiko –

Heiko Schipper

Yeah, thank you for your question. It's not a matter of being candid. It's just a matter of being eight weeks on the job. I've just been travelling around to basically our key markets so far and just not having had really the real depth yet to really go into detail on concrete steps, so you just have to bear with me a little bit longer before I can really give you more colour. I think what is important if we look at the quarter, it's kind of both on growth. If you take the China effect and also to some extent the supply effect it's kind of flattish. On the margins, if you look at the large sale of tail brands that obviously will continue, but not maybe to the extent that we had in quarter one last year. It's also kind of flattish.

I think it's important that we start really to put some of these elements behind us. I think in H1 some of them will still be there. H2 is going to give us really some opportunities, particularly in China, to really come back with better numbers. And that's kind of the first things that I see. Other things are more detailed, but I think just bear with me a bit longer and I'll give you more colour as we progress.

Werner Baumann

That's a promise.

Peter Verdult

Thank you.

Werner Baumann

Dieter –

Dieter Weinand

Alright. Larotrectinib – clearly, the reimbursement will help speed up the testing, although the testing was actually quite common in the US already in all major cancer centres. It may enable now more broadly – spread testing across facilities beyond the major cancer centres. As I said before, we expect there to be 0.5% to 1% of all patients across the 17-19 tumor types that we now looked at to have that TRK fusion mutation, but as we also saw with other cancers once testing started, like [inaudible] and so on, actually the epidemiology changed with the recognition that

there's actually more patients than previously anticipated once routine testing started. Taking that into account, it makes it very difficult for us to put our finger on a particular number, because I think the epidemiology is still evolving with increased testing. Then you have pricing and reimbursements considerations, so I would not put yet a dollar number or euros – sorry, euro number on the revenue potential at this point time. Suffice to say, we believe that there's significant potential and significant unmet medical need and with the efficacy we have seen I believe that this product will once testing positive – there's very little reason why not to use a product such as Larotrectinib.

Peter Verdult

Thank you.

Weiner Baumann

Okay. Thank you, Dieter.

Emmanuel Papadakis, Barclays

Emmanuel Papadakis from Barclays. Thank you for taking the questions – a couple of quick ones. You were kind enough at your Q4 results to give us your best estimate for 2018 – core EPS – including Monsanto. You don't appear to have done that today. Should we assume that remains still the moderate core EPS decline that you envisaged at Q4 or has that changed? The second one was on the Leverkusen issue. You said there's no increase in the 300 million estimate in terms of impact, but most of that is still to come. Perhaps you could just explain to us why that is mostly still to come and hasn't been more front loaded, and if so why you have such confidence that it wouldn't necessarily potentially extend beyond that 300 million. And then perhaps if I could sneak in a third it would just be on – you could perhaps refresh our memories on the shape and pace of Pharma leverage you might anticipate beyond 2018, once you're beyond that manufacturing related pressure at the margin level. Thank you.

Werner Baumann

Okay. Thanks, Emmanuel. Maybe on the first one, Hanno, core EPS 2018 and Monsanto impact.

Johannes Dietsch

The guidance for core EPS 2018, including Monsanto, is unchanged. We see a margin core EPS illusion and that is because the additional profits coming in from Monsanto will not cover the financing cost in the second half of the year because of seasonal effects. For the full year – we're saying the first full year it is core EPS accretive, but not for the second half of 2018.

Werner Baumann

Okay. Thanks, Hanno. And just playing back, Emmanuel, to make sure that I understood your question, on the 300 million – what gives us the comfort that it is going to be the 300 million and what the phasing difference between quarter one and quarter two is about. Dieter –

Dieter Weinand

So, we've made actually very good progress with the Leverkusen facility. We had a very constructive dialogue with the FDA recently. We have met all of our commitments in terms of what we wanted to address and deliver and the timing thereof and that progress continues. So we are right on schedule with our corrective action plan relative to the warning letter that we received. That gives us confidence that we will continue to execute on plan and since we have fairly accurate projections of production and so on we feel very comfortable with the 300 million that we have projected and don't foresee any issue.

Now, why is there still phasing in the product supply? We have certainly some safety stock for some products as we depleted those. We will see an increased impact due to the enhanced procedures we have to put in place to address some of the warning letter observations. They will primarily hit us probably during the second and third quarter. As we near the last quarter and hopefully have resolved most of the issues that we needed to address that will decline again, and hence the phasing. Your last question was –

Werner Baumann

The last question was about once we put these manufacturing issues behind us in 2018 what is your perspective on margin development in Pharma going forward?

Dieter Weinand

I always say we balance our margin with the investment opportunities that we have, looking for sustainable success. I would not predict any other marginal guidance than the aspirations that we have previously outlined and we continue to deliver against them.

Werner Baumann

Emmanuel, maybe also as a more general comment that relates to all of our businesses, we have communicated in one of the prior calls that we will give you a very comprehensive update on our businesses, also mid-term aspiration targets as part of the capital markets day that we are going to hold in the later part of the year. Then we will also address the question you have asked specifically on Pharma. Please understand that we don't want to do that on the fly, so it's going to be I think comprehensive and then also quite informative for you.

Emmanuel Papadakis

Many thanks.

Marietta Miemietz, Primavenue

It's Marietta Miemietz, Primavenue. I have one question on Xarelto please and the pricing dynamics ahead of the COMPASS indication. So in Europe and some other territories you're obviously going to give price concessions to get access. Given the opportunity the payers may ask for a big concession, because it's going to take quite a bit of time to build that franchise. So, would you actually accept a price cut that could lead to temporary sequential sales declines in Xarelto in 2019, maybe even late 2018 or – and is that actually included in your guidance – or do you think

that here you can negotiate some sort of a piecemeal reduction in price as basically the scale of the opportunity becomes clearer?

And then I have a second question on the financial income, which looks very high, even after stripping out the special items. So I was just trying to understand the reason and how we should think about the financial result now for the full year. Is maybe an improved outlook on the financial results the reason you can actually maintain your core EPS guidance flat in euro terms, despite the incremental foreign exchange hit in dilution relative to your original guidance, or is there something else happening below the line that is offsetting these incremental pressures?

My final question, just trying to push my luck here, can you actually give us a very rough feel maybe for the average margin in a normal year of the roughly €2.2 billion in sales that you are looking to divest to BASF from your Crop Science business. That would be very, very helpful. Thank you very much.

Werner Baumann

Okay, Marietta. Thank you. So the first question goes to Dieter on Xarelto, followed by the financial income question for Hanno and then I'll address your margin question.

Dieter Weinand

So you asked me about Xarelto pricing, we have actually been very good at maintaining our pricing for Xarelto since launch with, I would say, relatively modest impact in the international markets. Most international markets are governed by very formulated pricing regulations, in Japan for example, where you get a every-two-year price difference that can be calculated based on discounts you get through wholesalers and so on. And we have, as you know, the 2.5 milligram tablet already registered and priced in 84 countries around the world, so the price has been established. Now, it may be that one of the other countries will look at volume expansion and come back to us and see what we need to do to renegotiate price in exchange for volume.

The overall impact on Xarelto – you asked me if I saw a dip in Xarelto temporary sales. You have to also consider that the much higher doses – the normal doses for SPAF and so on. We're making significant volume gains in China in order to get vol[?] 15% in Europe. So the growth of Xarelto would offset any minor price renegotiations for the 2.5 milligram I would anticipate, and so, therefore, we expect this to be a growth opportunity, not a negative impact opportunity due to re-pricing, because of the most of the markets are already in a price – with a priced dose and have a very regulated pricing system.

Werner Baumann

Thank you, Dieter.

Johannes Dietsch

You're right, the financial result has some significant swings. We had minus 300 million in Q1 last year and plus 130 million this year. This included 275 million from the accelerated book building, sale of Covestro shares in Q1. This 275 million is positive on reported financial income. However, it will be treated as a special item when we calculate our core EPS. Secondly, we had 80 million income from the at-equity result of Covestro, where we account now with 14.2% of Covestro at

equity. 80 million will disappear as a positive effect from the financial result once all the shares are being sold with Covestro. And we had also somehow a better interest result due to the lower net of the debt of 40 million and better hedging costs by 30 million. That explains a swing of 430 million and because of the Covestro sale income of 275 million we are able then also to adjust our guidance for reported financial result for the full year down from 1 billion to 0.7 billion. Does this answer your question?

Marietta Miemietz

Yes, I think it does. Thank you very much.

Johannes Dietsch

Okay. Thank you.

Werner Baumann

Okay, Marietta. Then let me come to your last question on the divestiture package and the margin on that business. So, if you go to the BASF press release as an acquirer of our business they're talking about €2.2 billion in top line for 2017 full year and 550 million EBITDA, including certain research programmes that they are going to take over. So that's the underlying margin of the business. If you flip to our side, what comes into play here as well is that we will actually be sitting on some of the infrastructure cost that was actually covered by the business before that we will have to deal with as part of integration going forward.

Marietta Miemietz

That's very clear. Thank you very much.

Neil Tyler, Redburn

Good afternoon. It's Neil Tyler at Redburn. A couple left please. Firstly on ag, the performance in Brazil specifically – you referred to that having recovered quite strongly. Can you help me understand whether you think that was driven more by farmer profits, more by crop rotation or by your own market share? That's the first one. And then secondly, two parts on cash flow really. Firstly, the working capital improvement that you've seen – principally is that a timing effect or is that largely a reflection of the events that you mentioned in the – the improvement you mentioned in the ag business? Secondly, from those proceeds – the 7.6 billion – can you give us any indication of what you expect the leakage to be on things like tax and fees? Thank you.

Werner Baumann

Okay. Thanks. Just on the first question, you are referring to the leakage on the divestiture – the tax leakage.

Neil Tyler

That's right.

Werner Baumann

Okay. Good. Very Good. So the first question goes to Liam and then number two and three are going to be covered by Hanno.

Liam Condon

Thanks a lot, Neil. So we had I'd say good growth in the first quarter now in Brazil – strong double digit growth and, of course, this is what we're booking here in market sales. We are looking very closely at how we perform in the market, because we've changed our incentivisation system because this was one of the issues we had in the past. At the farm gate our sell-out is also very, very strong. So we actually believe that this strong result, which is on the back of strong fungicide and insecticide sales, is on the back of stronger farmer profitability for sure, but also a gain in market share, so that is our current assumption.

And we're assuming also that there will be continued acreage increase for soy beans, which is of course by far the largest crop in Brazil, and probably also the China-US trade spat or lack of conclusions about how that's going to play out is resulting in increased demand for soy beans from China – to China. So this we believe is all playing into our favour and for us the most important was that we got back to a normal, healthy channel level at the end of the season, which we have confirmed through an external audit. We feel we are in very good shape now in Brazil and overall going forward are looking forward to further growth for the remainder of the year.

On the working capital side, this is basically primarily a result of lower accounts receivable and lower inventories, also heavily impacted by the situation in Brazil last year. So for the tax relevant question I think Hanno can better answer that one.

Johannes Dietsch

Yeah. Thank you. Okay. Regarding the working capital improvement in Q1, first of all, Q1 is a quarter where we increase our working capital and where the free cash flow is actually relatively low compared to the other quarters. In Q1 we had two special effects. Number one was one time milestone payments on payment on Adempas from [inaudible] in the amount of \$350 million. That is not P&L relevant, but it appears in the cash flow statement.

Neil Tyler

Sorry, is that 250 – 2-5-0?

Johannes Dietsch

3-5-0.

Neil Tyler

3-5-0.

Johannes Dietsch

Million dollars. 294 million from Merck. 294 million Adempas margin payments in euros and 350 in dollars. And we had an outflow for Loxo – also a one time payment in the magnitude of 180 million, which is in the opposite direction. Without those effects, we are pretty much on track for the level of the previous year.

Neil Tyler

Excellent. Thank you.

Johannes Dietsch

Thank you. And finally on the tax leakage around the divestiture, 7.6 billion should be assessed. We expect approximately a tax leakage of €1.2 billion.

Neil Tyler

That's very helpful. Thank you.

Luisa Hector, Exane

Thank you. It's Luisa Hector at Exane. Two questions, please. On Pharma, can you confirm that the manufacturing issues will not impinge on the FDA decision for Xarelto and COMPASS – the filing there? And then secondly, just going back to Crop and the situation in France, I just wanted to confirm that those items, bar the weather – but the other two items – were baked into your guidance at the start of the year or have they perhaps proven to be a little bit worse than expected? Thank you.

Werner Baumann

Okay, Luisa. So Dieter on Xarelto –

Dieter Weinand

Yeah, I can confirm that there is no impact of the Leverkusen warning letter on the registration procedure in the US.

Werner Baumann

Okay. Thank you. That was short and crisp.

Liam Condon

The neonics and Basta were baked into our original forecast and the weather and the change in distribution system was not.

Luisa Hector

Thank you.

Werner Baumann

Alright. But everything we know now is included in our, let's say, unchanged full year guidance.

Closing Remarks

Oliver Maier

If there are no last questions anymore I think we would like to thank everybody for participating in the call. I'm looking forward to talk to you soon. Thank you so much. Appreciate it. Bye, bye.

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