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BAYN.DE - Q4 2016 Bayer AG Earnings Call

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OVERVIEW:
Co. reported 4Q16 Group sales of EUR11.8b and core EPS of EUR1.19. Expects 2017 Group sales to exceed EUR49b.

CORPORATE PARTICIPANTS

Juergen Beunink *Bayer AG - Head of IR*

Werner Baumann *Bayer AG - Chairman & CEO*

Liam Condon *Bayer AG - Head, Crop Science*

Dieter Weinand *Bayer AG - Head, Pharmaceuticals*

Johannes Dietsch *Bayer AG - CFO*

Erica Mann *Bayer AG - Head, Consumer Health*

CONFERENCE CALL PARTICIPANTS

Sachin Jain *Bank of America Merrill Lynch - Analyst*

Pete Verdult *Citigroup - Analyst*

Jeff Holford *Jefferies - Analyst*

Florent Cespedes *Societe Generale - Analyst*

Tim Race *Deutsche Bank - Analyst*

Michael Leuchten *UBS - Analyst*

Christian Faitz *Kepler Cheuvreux - Analyst*

Jeremy Redenius *Bernstein - Analyst*

Jo Walton *Credit Suisse - Analyst*

Richard Vosser *JP Morgan Cazenove - Analyst*

Tony Jones *Redburn Partners - Analyst*

Luisa Hector *Exane BNP Paribas - Analyst*

Vincent Meunier *Morgan Stanley - Analyst*

Damien Conover *Morningstar - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's investor and analyst conference call on the full-year and fourth-quarter 2016 results.

(Operator Instructions)

I would now like to turn the conference over to Mr. Juergen Beunink, head of Investor Relations of Bayer AG. Please go ahead, sir.

Juergen Beunink ***- Bayer AG - Head of IR***

Thank you, Emma. Ladies and gentlemen, good afternoon and welcome also on behalf of my colleagues to our quarter-four conference call. Today we'd like to review our 2016 figures with you and to discuss our 2017 outlook.

With me on the call are Werner Baumann, our CEO, and Johannes Dietsch, our CFO. Pharma is represented by Dieter Weinand, Consumer Health by Erica Mann and Crop Science as well as Animal Health by Liam Condon. Werner will start off with an overview of the highlights in 2016, give a brief summary of the developments in the fourth quarter and then elaborate on the outlook for 2017.

We assume you've all received and reviewed our annual report, the briefing document and the presentation slides. So Werner will focus his presentation on the main points.

Before handing over to Werner, I'd like to draw your attention to the Safe Harbor statement.
(See “Disclaimer” chart at the end of this transcript).
Thank you, Werner.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thank you, Juergen. Also on behalf of my colleagues good afternoon ladies and gentlemen. It's my pleasure to welcome you to our conference call.

2016 was another record year for Bayer. It performed well in our markets, delivered growth and again higher margins.

Pharma achieved substantial sales and earnings increases, Consumer Health grew with competition and Crop Science was successful in a difficult market environment. Strategically the year was characterized by the agreed acquisition of Monsanto. With this move we plan to further strengthen Bayer as a Life Science Company and create substantial value for all our stakeholders.

In 2016 we also achieved major innovation milestones. As we have gained greater visibility on the profile for a number of assets we released an aggregate peak sales potential for selected Pharma pipeline assets of at least EUR6 billion.

For our five key growth products at Pharma we raised the estimate of the combined annual peak sales potential from previously at least EUR7.5 billion to now more than EUR10 billion. Our midterm aspirations as presented in September emphasized the attractive growth and margin potential for all our Life Science businesses as our financial outlook for 2017 projects further growth and higher earnings.

Against this background we are proposing a dividend of EUR2.70 per share for fiscal 2016, which represents an 8% increase over the prior year. The resulting payout ratio of 37% of core EPS lies within our targeted 30% to 40% dividend payout range.

Let me now briefly review some of our key figures outlining the performance in Q4. Group sales increased organically by 5% over the prior year to EUR11.8 billion, driven by all business segments except Crop Science. Reported EBIT declined by 14% to EUR789 million, mainly due to higher special charges versus the prior-year quarter.

Adjusted EBITDA of EUR2.2 billion was 14% above the previous year, predominantly driven by the business expansion at Pharma and Covestro. Currencies added around EUR85 million in the quarter. Core earnings per share in Q4 advanced by 10% to EUR1.19.

Moving to the next slide, let's take a look at some key fourth-quarter figures for the individual businesses. Now when referring to sales growth please note that this is portfolio and currency adjusted data.

Pharma sales grew 7% with our key growth products driving this performance. Following the strong business development EBITDA before special items increased by 12% to EUR1.2 billion. Consumer Health sales advanced by 4% versus the prior year with growth in all regions.

EBITDA before special items declined by 3% to EUR372 million following higher cost of goods as well as higher marketing cost mainly supporting the newly acquired brands. In an ongoing weak market environment, especially Latin America, Crop Science sales receded by 2% to EUR2.4 billion. While Crop Protection had to register a slight decline, seeds grew a remarkable 10% mostly driven by strong development in soybean.

EBITDA before special items at Crop Science increased slightly by 1% to EUR351 million helped by positive currency effect of about EUR80 million but diminished by lower selling prices and higher investment in R&D. In Animal Health sales advanced 3% compared to the prior-year period thanks to Seresto which performed again strongly. EBITDA before special items diminished by 7% mainly due to higher marketing cost.

Covestro added EUR3 billion to group sales and EUR370 million of adjusted EBITDA to the group performance. The operating cash flow from continuing operations improved noticeably by 39% to approximately EUR2.7 billion as a result of a sharp decrease in additional cash tied up in working capital. Capital expenditures came in at around EUR970 million.

As we changed our value management system from CFRI to ROCE we no longer report gross cash flow. Net financial debt at the end of the quarter stood at EUR11.8 billion, a decrease of EUR4 billion from the end of Q3 as a result of strong cash inflows from operating activities and the proceeds from issuance of the mandatory convertible notes in November.

Let me now very briefly review some of our key figures for the full-year 2016 and compare them against our original guidance. Sales grew organically by 3% to EUR46.8 billion. Nominal sales were held back by a negative currency impact of around EUR0.9 billion.

We overdelivered on our earnings promise with adjusted EBITDA arising 10%. And we exceeded our mid-single-digit percentage increased guidance on core EPS by achieving more than 7% growth in 2016, or 8% growth if adjusted for the mandatory convertible notes issued in November. This success was particularly driven by the strong performance of Pharma and the strong earnings contribution from Covestro.

In delivering core EPS Covestro's contribution accounts for EUR0.71 per share. In 2016 we incurred EUR1.1 billion of special charges on EBIT level. These mainly comprised around EUR560 million for impairment losses on intangible assets including EUR391 million for Essure, charges of roughly EUR240 million in connection with efficiency improvement programs and EUR100 million in costs for the integration of acquired businesses. Further special charges of EUR94 million were related to provisions for defense costs while EUR86 million were connected to the agreed acquisition of Monsanto.

Let me elaborate on the operational highlights in some more detail beginning with Pharma. Driven by the continued success of our key growth products, Pharma sales advanced a remarkable 9%, significantly above market growth of about 6% in 2016. Collectively, our key growth products generated EUR5.4 billion in sales, up 29% versus prior year.

Xarelto ended 2016 with EUR2.9 billion in sales mostly driven by volume increases in Europe and Japan. According to IMS, Xarelto has become a top 10 pharma brand globally and is now the biggest cardiovascular brand worldwide.

As announced at the beginning of this month, our Phase III COMPASS study in patients with coronary or peripheral artery disease shows overwhelming efficacy and met its primary endpoint ahead of time. The study was stopped early following a planned interim analysis conducted by the independent Data Monitoring Committee. The complete data analysis from this study is expected to be presented at an upcoming medical meeting in 2017 and just as much as you, we can't wait for it, so we are very excited.

With Eylea we generated sales of EUR1.6 billion in 2016, an increase of 33% over the prior year. In particular Europe, Canada and Japan showed a successful business development.

Xofigo ended the year with EUR331 million in sales, up 29% mainly driven by very solid business expansion in the US and Europe. Stivarga finished the year with EUR275 million in sales. Intensified competition in the US held back global top-line development with a global minus 12% significantly below prior-year level. We aim for growth again in 2017 driven by the new indication of second-line liver cancer which we filed in the major jurisdictions at the end of 2016.

Adempas sales attributable to Bayer amounted to EUR254 million in 2016. So in light of the very positive business development, adjusted EBITDA Pharma showed a substantial 14% improvement over the prior-year period to over EUR5.2 billion despite negative currency effects of around EUR65 million and the disproportionately high investment in research and development.

In line with expected growth profile of our main competitors, Consumer Health increased sales by 4% in the year driven by strong growth in Latin America and Asia Pacific, whereas North American business came in on prior-year level. In the region Europe, Middle East and Africa we achieved a slight increase in sales. Further progress was achieved in continuously developing our top brands.

On an annual basis Aspirin sales including Pharma were up 5%, achieving EUR1 billion in annual sales for the first time. Following a line extension Aleve showed growth of 2%, Bepanthen generated improvement of 9% mainly driven by sales development in France, Germany and Russia.

Our Claritin business, however, declined by 3% in 2016. The successful launch of the product line extension Clarispray in the US could not compensate the sales decline in Asia-Pacific mainly driven by intensified competition and price controls in Japan. Despite positive top-line development and cost synergies adjusted EBITDA of Consumer Health showed a 3% decline over the prior-year period to EUR1.4 billion.

Higher cost of goods sold and negative currency effect of roughly EUR65 million weighed on earnings development. These were partly compensated by the positive development of sales and cost synergies.

In 2016 sales of our Crop Science business came in on prior-year level despite the persistently weak market environment. As we recorded a solid 4% growth in both our Fungicides and SeedGrowth of business, Herbicides and Insecticides had to face top-line regressions. Especially Insecticides down 13% suffered from low pest pressure and the weak market environment in Brazil.

Our seeds business, on the other hand, delivered 8% growth over the prior year with gratifying increases in especially soybeans and vegetables. From a regional perspective Crop Science developed well in Europe, Asia-Pacific and North America but had to face a decline of 7% in Latin America due to unfavorable weather conditions and high inventories of Crop Protection products in Brazil.

Adjusted EBITDA of Crop Science came in on prior-year level at around EUR2.4 billion. The positive currency impact of about EUR140 million, mostly resulting from hedging losses booked in 2015 and higher selling prices, were offset by lower volumes, higher R&D expenses and higher write-downs on inventories and receivables.

In 2016 sales of our Animal Health business advanced by 5% to EUR1.5 billion. This successful development followed increased demand, in particular in North America and Asia-Pacific. Seresto, our flea and tick collar for dogs, continued its successful growth path thanks to higher demand in the US and Europe.

Sales of our Advantage product family remains on prior-year level. Adjusted EBITDA of Animal Health came in on prior-year level at around EUR350 million. The positive impact from our sales expansion was absorbed by our marketing and selling expenses as well as higher cost of goods sold and a negative currency effect of around EUR10 million.

In summary, and despite some operational as well as strategic challenges we had a successful 2016 for our Life Science businesses.

On the next slide I'd like to give you an overview on our outlook on 2017. Our guidance for 2017 is based on December 31, 2016 exchange rates including a euro/US dollar rate of $1.05. That stated, we plan to grow our Life Science sales organically by a mid-single-digit percentage to approximately EUR37 billion and to improve EBITDA before special items by a mid- to high single-digit percentage.

In our group guidance including Covestro we have assumed an increase in Covestro sales and an adjusted EBITDA for Covestro on or above prior-year level. Consequently, we expect to report group sales to exceed EUR49 billion in 2017. This corresponds to a currency and portfolio adjusted growth in the low to mid-single-digit percentage range.

Group EBITDA before special items is expected to improve in the mid-single-digit percentage range. Full-year core earnings per share is anticipated to also improve by a mid-single-digit percentage. It includes our 64% stake in Covestro and a higher number of shares as a result of the issuance of the mandatory convertible notes.

We expect special items in the EBITDA of around EUR0.5 billion. We are guiding for a financial result of minus EUR1.4 billion for fiscal 2017 which includes bridge financing costs in the context of the Monsanto transaction. The effective tax rate is expected to come in at about 23%.

So now let's look at the outlook for our divisions. We expect sales to exceed EUR17 billion at Pharmaceuticals. This corresponds to a mid-single-digit percentage increase on a currency and portfolio adjusted basis.

For Xarelto and Eylea we expect a currency adjusted growth rate in the mid-teens percentages each. We plan to raise combined sales for our key growth products, so Xarelto, Eylea, Xofigo, Stivarga and Adempas, to more than EUR6 billion. We expect a high single-digit percentage increase in EBITDA before special items together with a margin improvement.

In the Consumer Health division we expect sales to come in at more than EUR6 billion. This corresponds to a low to mid-single-digit percentage increase on a currency and portfolio adjusted basis in line with expected market growth. EBITDA before special items is anticipated to improve by a low to mid-single-digit percentage.

At Crop Science we expect sales to come in at more than EUR10 billion. This corresponds to a low single-digit percentage increase on a currency and portfolio adjusted basis. We plan to keep EBITDA before special items on prior-year level.

At Animal Health we expect sales to advance in the low to mid-single-digit percentage range and EBITDA before special items to increase by a high single-digit percentage. During 2017 we will continue to invest in organic growth. We plan to increase research and development expenditures to EUR4.8 billion with the largest proportion invested in our Pharma division followed by Crop Science.

In addition to R&D we are continuing to build new production capacity for our products. Fixed asset investments are planned at about EUR2.5 billion and investments in intangible assets with around EUR400 million.

Before opening the line for Q&A, let me finalize with an update on the next steps for the agreed Monsanto acquisition. We are making good progress in obtaining antitrust approvals for the transaction. We have already applied for clearance from some two-thirds of around 30 authorities.

Bayer and Monsanto are working closely with the authorities. We are currently responding to a second request from the US Department of Justice.

In mergers of this magnitude it is not unusual for the authorities to conduct a second, more in-depth discovery procedure. We had been expecting this to happen.

We have also submitted an application to CFIUS, the Committee on Foreign Investments in the United States, for approval of the acquisition. In Europe we are currently preparing our submission. As the European commission has requested further documents in advance, we now intend to file the submission in the second quarter of 2017.

As our businesses are highly complementary in terms of both products and geographical focus we remain confident that we will be granted all the necessary clearances. We are aware that certain overlaps exist in the combined product portfolio, so we will be collaborating with the authorities in this regard in order to find appropriate solutions.

This process is still at an early stage. Nonetheless, we are making all appropriate preparations to facilitate successful completion of the acquisition and the integration of the two companies.

We made good progress with the financing of the Monsanto transaction in quarter four through the successful placement of EUR4 billion mandatory convertible notes. Further takeout financing is planned to be based on senior and hybrid debt as well as new equity via a rights issue with subscription rights. However, should we identify options to further optimize financing structures, instruments and also the timing of financing steps in the context of this transaction we will consider these.

Overall, we remain confident of closing the transaction before the end of 2017. So, ladies and gentlemen, this concludes my remarks and we are now happy to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Mr. Jain. Please state your name, company name followed by your question.

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

Hi, it's Sachin Jain from Bank of America. Three questions, please.

Firstly, on your nice comments, Werner, on optimizing the financing options. Could you give a little bit more color what you mean? Do you still expect the equity component to be EUR19 billion as you previously highlighted or do you now think that's going to be smaller?

Secondly on Consumer Health, for full-year 2017 clearly flagging no margin leverage and continued investment in the brand that you acquired. Could you give a little bit of color as to how much longer you think it's going to take to turn those brands, where you are with the original synergy target and then just touch on the weakness in both Dr. Scholl's and Coppertone in the US?

And then final question on the Xarelto COMPASS headline release, headline release comments on safety being in line with the existing profile. Could you clarify what that means, particularly on the bleed profile given that with Xarelto we've seen excess bleed risk in ACS but a similar bleed profile to encounter in the AS setting, so which of the two is it comparable to? Thank you very much.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks Sachin for the questions. So the first question on financing timing and equity check it's going to be answered by Johannes Dietsch followed by Erica who is going to take your question on Consumer Health, our portfolio of Scholl's and Coppertone and then, last but not least, Dieter Weinand on COMPASSS.

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

Good afternoon, Sachin. Thank you for the question.

We have a plan to finance the Monsanto acquisition with $19 billion in equities. This plan is unchanged. We are now concentrating within the equity piece on the rights issue, and with the rights issue as anticipated before this will create the major cornerstone of the remaining equity piece to be done.

We also remain in line with what we said before that we want to do the equity first before we enter the bond market and with regard to timing it's also clear that if we go for a larger or very large rights issue we need to have certainty on the deal to close in order to do that issue.

So we concentrate on the rights issue and equity but we want to keep our options available if we can optimize the structure and the timing. This also goes with the bond piece here. We want to keep our options base to ensure in various currencies, maybe in euro or sterling or other currency, than it would be (technical difficulty) into US dollars.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thank you. Erica?

Erica Mann - ***Bayer AG - Head, Consumer Health***

Yes, thank you. When you look at 2017 this is very much a consolidation year for us. We continue to invest behind brands like Coppertone and Dr. Scholl's which you've asked more specifically about.

You know that it does take about three to five years to really build these brands. We are already starting to see some early signs on Coppertone and some of the new products that we've introduced for this season. And on Dr. Scholl's the high competitor activity that took the category into grooming is now being reset and re-staged into mobility and health, and that should start showing some improvements probably in the back end of this year.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay. Thank you Erica. So Dieter on COMPASS.

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

Thank you for the question. Obviously, we're extremely excited about the fact that not only were we able to demonstrate superiority on the primary endpoint of MACE, we were able to do so significantly earlier than previously anticipated.

And as you can imagine that being the largest of our lifecycle management indications that we were looking at, approximately the size of the SPAF indication or [our current largest] indication significantly derisks our lifecycle management program that we have in place. And as you know, we are also making our data or publishing our data for GEMINI and EINSTEIN CHOICE at March ACC, so we are making some good progress on our lifecycle management.

Owing to the magnitude of the effect that we have seen the primary endpoint made and the confirmation of the existing safety profile, it is now we will offer rivaroxaban to the study participants in an open-label extension because otherwise it would probably not be ethical for us to continue the study. So I think those facts speak for themselves, and there is no other competitor currently active in that same space.

So I couldn't be more excited about this. But I hope you are understanding that at this point we just got the top-line data in and I cannot elaborate on any more details at this point, but we will -- we will make the data available at an upcoming medical meeting as soon as we can.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thank you, Dieter.

Operator

Mr. Verdult.

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

Yes, good afternoon, it's Pete Verdult here from Citi. Three questions: Dieter on Xarelto, Liam on Crop and Johannes on financing flexibility.

Dieter, if you think about the ongoing geographic expansion increasing penetration of the NOACs in the current indications it seems that equity itself easily support your EUR5 billion-plus peak sales target for Xarelto. So I realize you are not going to talk about the COMPASS data until we see it at ESC, but could you just remind us or at least help us quantify what you believe the incremental revenue opportunity is if you are successful in expanding the Xarelto label with the current trials ongoing?

Secondly for Liam, I'm hoping you could whip out your crystal ball once again and give us an update on your thoughts about the ag cycle and confidence that we might see a turn at the end of this year?

And lastly Johannes on financing flexibility, is it right to think that a key gating factor to the timing of your Covestro disposal will be gaining regulatory approval for Monsanto in the US and Europe? Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thank you, Peter. Dieter is going to start with your question on regional expansion and the perspective on the EUR5 billion-plus.

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

So Peter, I couldn't agree more with you. We always anticipated that the more data we accumulate not only from our lifecycle management program but also from the very vast real life evidence programs that we have ongoing on our recently published that that geographic expansion will continue and that we will see a continued erosion of warfarin or VKA occurring.

It was also our aim to differentiate Xarelto from other compounds via a significantly larger lifecycle management program, demonstrating utility of Xarelto in different indications and areas of use to the benefit of patients. We have included -- we always had included, obviously, risk-adjusted these lifecycle management programs in our aspirational peak sales guidance. And you can imagine that at this point where we just have gotten the top-line data we are not prepared to regard, give us some time to analyze the full data set and see what it means.

But we are highly confident that this represents COMPASS and the other indications that we are pursuing represent significant opportunity in and by themselves. But more importantly or equally importantly it will continue to differentiate Xarelto as the clear market leader and put us in a competitive position with more indications and uses than any other NOAC.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thanks, Dieter. So Liam on the ag cycle?

Liam Condon - ***Bayer AG - Head, Crop Science***

So Pete, thanks for the question. I will give you our perspective looking into our crystal ball at least.

I think it's important to highlight always with the ag cycle that this is really a supply-driven cycle and demand is increasing relatively constantly due to population increase, dietary changes, climate change, various megatrends. And where the cyclicality comes in is whenever there are supply peaks or troughs. And what we

basically had in the last few years is an oversupply due to bumper harvests, and right now going forward there are, I would say, early indicators that the trough has been reached and that there is hope for a slow return to growth.

Those early indicators, the ones that we look at just to give you perspective on that, are the key stock-to-use ratios. So stock-to-use ratios of corn, soy and wheat, for the first time in a few years these have stopped increasing and they have now stabilized with the exception of wheat. But corn and soy have a clearly stabilized.

A second key indicator for us is also, of course, the future commodity prices. And looking up where we are today and future commodity prices going forward on the CBOT, and they are trending upwards for corn and staying above $10 a bushel for soy which is a price where farmers can have a good profitability. So also here they are at least stable if not trending upward.

And a third early indicator for us is the area of SeedGrowth. This is a portfolio that we have for protecting seeds against insects and against disease. And this is an area where farmers will only make the investment in protecting their seed if they are pretty confident that they are going to get a return on that investment.

So it says a lot about the farmer sentiment if farmers are willing to invest in SeedGrowth. We saw solid growth in all year last year in SeedGrowth, and that first comes the SeedGrowth, it's planted, it takes a while to grow and then later on comes Crop Protection, but clearly in the fourth quarter there was a strong pickup here, as well. So for us that's a few early indicators.

Ultimately what things depend on now is the quality of the harvest in the southern hemisphere, which is ongoing which will influence planting decisions in the northern hemisphere and ultimately result then in the overall outlook for the year going forward. For us there is enough early indicators to indicate that the bottom has been reached and that there is a perspective for a slow return to growth from later this year.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks, Liam. So Peter, I'm going to take the last question of yours. What we put out there as part of our year-end communication is a clarifying statement in terms of our take-out financing, but absent any, let's say, actual news that we share with you.

What is important I think for everybody on the call to understand is that we stand by our earlier communication that we will only continue to further move with our take-out financing with substantially more visibility and/or opportunities that might present themselves that would actually solidify our financing.

You should actually not be concerned about the earlier questions that Sachin had on the $19 billion. That is a number we have said we are certainly not thinking about increasing it, but we are looking at further optimization opportunities as we move forward. That can mean a lot of things depending on also on how the other deals are moving forward.

There is a bit of news today that supposedly Dow and DuPont clearance in Europe is imminent. Let's see how that goes, because that would certainly be a strong signal also for our combination.

But again, yes, that's basically right now that market talk that was released today. And we remain very, very confident with the way we are approaching the merger.

So on Covestro, Pete, I missed, I'm sorry.

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

Peter, you also mentioned about timing of Covestro whether this is connected to the Monsanto financing and that has nothing to do with the Monsanto financing. Monsanto financing has been put in place last year with the credit line and since by itself, and the timing of the Covestro of the remaining stake [proposal] is independent from the Monsanto acquisition.

Operator

Mr. Holford.

Jeff Holford - ***Jefferies - Analyst***

Hi, it's Jeff Holford here from Jefferies. So I think just to clarify the last point on the financing flexibility that you have, just clarify that this is only really being aimed at potentially reducing the debt component, you have no intention of doing anything that would change the size of the rights issue.

Just a final add on COMPASS, I wonder if you just might give us some sort of numerical or market figure that you are thinking about for the potential of Xarelto in this indication? Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Good. On the first question maybe just to clarify what I said earlier, Jeff, we have communicated the debt equity ratios with a number on the equity portion that amounted to $19 billion. What I said earlier is that you can certainly be sure there's not going to be more other than that.

We are maintaining or retaining some flexibility in optimizing our financing structure. What is going to be, when it's going to be or how we are going to do that we will communicated in due time. So there's absolutely nothing we could share with you absent any further news on how we progress at this point in time.

Second question on COMPASS is Dieter.

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

Thank you for the question. What I can tell you is that the latest estimates for the SPAF diagnosed patients is roughly 25 million patients worldwide. And when we look at the peripheral in the coronary artery disease patient population, of course, studied in COMPASS being the patients that is at high risk for MACE events that is approximately 30 million diagnosed patients.

The total PAD and the CAD population is larger, 50 million. But only the high-risk patient population is 30 million that compares to SPAF 25 million. So a significant opportunity.

Jeff Holford - ***Jefferies - Analyst***

Thank you.

Operator

Mr. Cespedes.

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

Good afternoon, gentlemen. It's Florent Cespedes from Societe Generale. Three semi-related questions.

First on emerging markets, could you give us some color on the performance of the emerging market in Q4 and notably in China, the growth in China? Because we've got to see some pressure on your tail portfolio and the pricing notably. So if we could have some color on that front it would be great.

Second question on hemophilia market, could you elaborate a bit on your strategy on this market with your portfolio of products given the fact that some competitors have reported at least headline results? And maybe a last very short one on Xarelto and COMPASS, is it a fair assumption to believe that the results, the detailed results may be presented at the ESC Congress at the end of the summer? Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay Florent. So thanks for the questions. Dieter is going to take them.

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

Okay. So I will start with the emerging markets for Pharma. In the latest quarter we grew currency adjusted 6.1% and for the year we grew 11.3%, so continued good growth.

You asked about China specifically. We continue to grow well above the market in China with 10.1% for the year and 7.7% in the fourth quarter. So continued good growth in the emerging markets.

With our hemophilia portfolio, so let me start with that, we have launched recently Kovaltry, our longer-acting product to compete with these newer or more recently launched longer-acting products such as Eloctate. We are off to a good start, the launch meets our expectations and we look forward to continued contribution from Kovaltry to our Kogenate franchise.

As we mentioned before, we are also obviously looking at Damoctocog alfa, our once-weekly product recombinant Factor VIII. We are still planning a filing mid-2017, and I think that will really be a product that will be positioned very well to compete in that market as we believe Factor VIII replacement therapy will continue to be a mainstay in the treatment of hemophilia.

You are alluding to other products such as ACE910 potentially. And I would say that initial euphoria turned with the data that came in to optimism, that optimism with more data coming in turned to realism and we have continued to say let's wait for the data to come in and then we see what really fits.

So we believe with our near and midterm pipeline with Kovaltry and Damoctocog alfa we are well-positioned to compete. And as you know, we also have earlier in our development additional projects to compete with the newer technologies. So I think we are well-positioned.

And with regard to COMPASS data publication, I cannot predict that, we just got the data. Please allow and understand that we need to analyze the data fully, but we will try to get it out there soon as we can.

Operator

Mr. Race.

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

Hello, it's Tim Race here from Deutsche Bank. So two questions.

First on the (technical difficulty), you've obviously had discussions according to press reports with the current President. I just wondered you made assurances to him in terms of investment R&D, jobs in the US, etc. I'd be interested in a little bit more clarification on what's been indicated, and also if there's anything that changes your synergy assumptions in the transaction.

And then the second question on the Consumer Health business, you mentioned that this is a consolidation year. Just basically what confidence can you give that this is actually a year where beyond 2017 that you will be able to outgrow the market in the future and if not, why not given your scale? Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

All right, thanks Tim. So you are not the first to ask how the meeting with at the time President-elect Trump went. So here it is the answer.

It was a really, really good meeting. And it was very much about -- it was educational in nature because President Trump was interested in understanding what the combination would do in terms of driving innovation and, of course, high-quality employment in the US and what would it do for American farmers but also beyond your farmers in other jurisdictions. But clearly his main interest was what is it going to do for the US.

So Hugh Grant and I had an opportunity to explain the logic and the hugely attractive value proposition we see in our ability to drive with, let's say, highly complementary competencies faster, better solutions that will provide farmers with the option actually to get to, let's say, better yields, better harvest, and with that

better farm economies on one side. And on the other side we essentially confirmed what we had said from the get-go when we first announced that we had come to an agreement on September 14. And these are the points that were mentioned.

Number one, the global seeds and biotechnology headquarters of the combined organization is going to sit in St. Louis. And that is what we said all along, not to please anybody because it makes good business sense where we have the expertise and the best expertise in the combined operation. So that was number one.

Secondly, the combined Company's North American crop headquarters is going to sit in St. Louis. Third, as you would expect from a growing and prospering business over the next six years the combined pro forma R&D spend will be around $16 billion with roughly half of that amount being spent in the US.

Then what we said is that the combined entity Bayer will have more employees in the US compared to where we are today after the completion of the integration. And last but not least, without quantifying it we said that subsequent to the finishing of the integration work, the combined crop business will create thousands of high-quality jobs in the US, predominantly then, of course, in the R&D area as we move forward with growing our business with the significant strength we are going to have as, let's say, as an innovation engine.

And that was totally in line with what we said all along. There was actually no attempt by President Trump to get anything out of us because I told you earlier that it was very much an educational and actually a very, very constructive and good discussion. So, Erica, on Consumer Health?

Erica Mann - ***Bayer AG - Head, Consumer Health***

So to that question, Tim, we maintain our midterm aspirations for 2018 with the following measures. We continue to invest behind the growth opportunities that exist and also making progress in the turnaround effort behind Dr. Scholl's. And particularly we've seen some really good results on Coppertone.

We have also implemented a number of organizational changes that allow us to concentrate our investments better than before on individual brands, growth brands and in specific countries. On top of that we have revamped our innovation process.

And I just would like to remind you that our brands on average tend to 120 years old. And what we do is create perpetual value. We have a long history of building successful brands.

I will give you an example of Roche where we've taken Aleve and more than doubled sales. And on Bepanthen we have more than increased sales by fourfold.

So it is a journey. We have started that journey and I am confident that over this time period we will get to where we need to be.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thank you, Erica.

Operator

Mr. Leuchten.

Michael Leuchten - ***UBS - Analyst***

Thank you. It's Michael Leuchten from UBS. Three questions please.

One just going back to Liam, if you could help us contextualize your EBITDA guidance for the year? Given the early positive signs on the ag cycle that you see if you could contrast and compare those two.

A second question on the regulatory filing please. In December you said you would file in Europe in Q1, you are now saying Q2. Just wondering what that slip represents?

And then thirdly, on your unfunded pension liabilities the marked reduction at the end of the year versus Q3, what does that mean for you in terms of your debt capacity if anything? Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks, Michael. Questions one and two will be answered by Liam and then Johannes Dietsch is going to shed some light on our pension liability position at the end of the year.

Liam Condon - ***Bayer AG - Head, Crop Science***

Thanks, Michael. So maybe just a bit of perspective around the EBITDA.

If you look back over the last six years throughout, let's say, the last cycle the ups and the downs, we basically managed to deliver between 23% and 26% EBITDA so that we've never gone below 23% in the last six years. And I think if you think of the cyclical business, there's not many businesses that can achieve that kind of an EBITDA in a down cycle.

So just to give it a bit of perspective, there is some technical elements that I would just highlight relative to 2017 and then just make a more general statement going forward. So 2017 our guidance is to hold margins and, again, we believe this is at a relatively high level. Of course, can go higher as the cycle picks up.

We are forecasting a slow return to growth. So if, let's say, our forecast is wrong and there is a faster return to growth we would also assume that our margins would, of course, pick up faster. So this is just based on the visibility we have today.

Technically there is a portfolio element in here. And we divested our consumer business in 2016, and we have a transitional service agreement with the company SBM that we sold the products to and we give them basically the products at cost.

So we have a EUR60 million sales impact that we book but a zero EBITDA. So that's margin dilutive in 2017 for us. We have an increase in R&D costs because of our commitment to innovation, and we had a positive impact in 2016 from some nonrecurring effects.

This was particularly related to index sales in Brazil which is this is about EUR40 million which is basically local currency hedging. So there are some elements that we need to cycle against to hold margin, and we believe that it would be a solid performance to hold margin given the overall situation.

But, of course, if the market picks up faster than we expect you can expect a better margin, as well. That's just to try and give you a better perspective on it overall.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks, Liam.

Liam Condon - ***Bayer AG - Head, Crop Science***

Regulatory filing so regulatory filing EU we are well advanced in our discussions with European Commission. We've been discussing with the European Commission since last year very, very extensive, very very constructive discussions.

We got an additional -- we had been planning to file in March. We got an additional request for more data which is not unusual given the complexity and size of this deal. And it will take us a few more weeks to put that together, so that will push back the filing somewhat.

But it doesn't change the end date because, as you know, the filing process in Europe involves a very extensive preparation so that the authorities can then thereafter come to a conclusion more speedily. So it takes an extensive amount of preparation. That doesn't mean that the end goal is pushed out.

This is somewhat different than in the US, the DOJ where you file early and the discussion continues as you go along. So we don't see this influencing our closing date. We still are confident that we can achieve all approvals by year-end.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks, Liam. Johannes on pensions.

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

Yes, pension you are right, we saw a dramatic decrease in our net pension liabilities. Actually the gross pension obligation, DDO, came down by EUR2.7 billion in the fourth quarter. The net pension liability even by EUR3.4 billion because of good asset returns and some pension contribution.

However, we need to compare this level now to the end of 2015. And compared to the end of 2015 we still have increase in our net pension obligations. And then our discussions with the rating agencies, we used actually the pension obligations from the end of 2015, so no additional debt capacity at this point.

Operator

Mr. Faitz.

Christian Faitz - ***Kepler Cheuvreux - Analyst***

Yes, Christian Faitz, Kepler Cheuvreux. Thanks for taking a couple of questions, mostly on agchems.

First of all, is it possible for you to give any indication on where we are in the CFIUS process for the Monsanto deal? Second, looking at the available data so far, it seems that in 2016 you lost some market share in Insecticides against one of your bigger competitors. Can you confirm this? And if so, elucidate why.

On the positive side, you seem to have gained some market share in Fungicides. Again, can you elucidate why you gained market share?

And final question on Covestro, you made it quite clear also in the past that the Covestro disposal decision is independent of the Monsanto deal financing, yet can you update us on your current thinking regarding the timing of the Covestro disposal? Thanks.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks Christian. I will take your questions one and four, and then Liam is going to address your questions on Insecticides and Fungicides. As we mentioned earlier we have filed for CFIUS review and approval.

We have said all along that given the fact that we are combining two Western companies, actually both with a long US history as having been around for 150 years in the US with no obvious issues in our product portfolio that would pose a threat to national security in the US, our assumption is that the CFIUS approval will be granted. But there is no more perspective other than from a process perspective us confirming that we have filed and we are waiting for the results of the review.

Secondly on Covestro, I can confirm what we said all along, one, the disposal of our remaining position is completely independent of the Monsanto transaction. And secondly, as we said earlier already I would bring you back to what we mentioned at the time of the initial IPO that we are going to dispose of the remaining stake in the midterm. And that's where we still are and nothing more to be said here.

Liam Condon - ***Bayer AG - Head, Crop Science***

Okay, I will take thanks Christian for the question on Insecticides and Fungicides. So give you a bit of flavor around what's happening with Insecticides, the background for our decline here is twofold. One is related to the US, one is related to Brazil.

In the US we lost registration for Belt, one of our insecticides. Had to take it off the market, so that's basically the reason why we have a decline in Insecticides, a significant decline in Insecticide sales in the US.

The second area is related to Brazil where, as you know, there has been a very strong penetration of Intacta from Monsanto combined with low pest pressure. And that has led to a situation that there are quite high or very high Insecticide stocks, channel stocks in the market right now. So we've taken a very conscious decision not to further overheat that situation and rather focus on sellout and consumption as opposed to sell in.

So that's why you will see you are not seeing us selling into the market with insecticide in Brazil. We think this is the more prudent thing to do given the overall market situation.

On the Fungicide side we've had, as you say, good growth, particularly driven by Brazil. And also here this is related to our portfolio, particularly for treatment of soybean rust which is, I think, well acknowledged in the market as a leading portfolio and with that has given us good growth in a relatively weak market environment.

Christian Faitz - ***Kepler Cheuvreux - Analyst***

Very helpful. Thank you very much, gentlemen.

Operator

Mr. Redenius.

Jeremy Redenius - ***Bernstein - Analyst***

Hi, it's Jeremy Redenius from Bernstein. Thanks for taking my questions. I've got three.

First on your US filing for the Monsanto deal, can you talk about how the regulators are looking to define the market in this case? I'm wondering if there's any indication if they are planning to include seeds and chemicals in the same market definition or will they be looking at simply seed overlaps by crop and chemical overlaps in the businesses.

Secondly, the Kogenate and Kovaltry sales were flat in the quarter. Should we expect this to be the trend moving forward or could we expect growth from here or would you more likely expect declines?

Thirdly, just if you could talk about potential risks the business might be facing from the border tax that's being contemplated in the US. I'm trying to work out by business where you might be most exposed there and some order of magnitude of that exposure. Thanks very much.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks Jeremy. The first question on the US filing and our market positions are being looked at. It is going to be answered by Liam followed by Dieter on Kogenate Kovaltry and also Helixate, which is part of the mix here for 2017 and last but not least Johannes who is going to shed some light on our perspective on the US border tax.

Liam Condon - ***Bayer AG - Head, Crop Science***

So thanks, Jeremy. Please allow me to be very general in this part because, of course, we don't want to preempt any discussion whatsoever with the DoJ.

We are in the second phase of our negotiation process now with the DoJ. Overall I think there's a fair recognition that the seeds and the crop protection go-to-market models are very different in the US.

Seeds is often through can be direct to the farmer and often through seed-specific companies. Crop protection is usually through distributors. So this is a very unique market set up.

When the product is sold, how they are sold is very different per market. So I think there is a recognition of that within the DOJ and a good understanding of how these markets function. So we won't go into any further detail.

We won't preempt how the DOJ is going to define these markets. We are pretty confident that the DOJ has a very good understanding about how uniquely different these markets are.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thanks, Liam. Dieter?

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

Yes, so I would say with Kogenate Kovaltry, the growth of the Kogenate family with Kovaltry is expected to be compensated by declining order from CSL in expectation of the expiration of our supply agreement for Helixate with CSL by the end of 2017. So that is the explanation relative to our outlook going forward level with this year.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thanks, Dieter. And Johannes on the cross-border tax?

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

Yes, so far as you understand there is a tax reform proposal which aims particularly supporting business with strong substance in the US. Under this proposal the tax rate will be lowered, so maybe 20% which is, of course, beneficial for everyone doing business in the US. And the proposal will also promote exports in the way of only imports being subject to tax while exports are maybe exempted from the tax.

In addition, we see also proposals that interest rate expenses might not be tax-deductible anymore in the US. So overall it will promote business in the US with strong substance in the US and there will be positive and not so positive effects on Bayer's tax positions overall. In a nutshell based on what you can see from today, we are moderately optimistic that the tax reform will especially lower the official tax rate down to 20% will be ultimately beneficial for Bayer.

Jeremy Redenius - ***Bernstein - Analyst***

Thank you for that. More specifically on the potential border tax, is there much of, let's say, for example, shipment of products in Crop Science active ingredients from outside of the US into the US for reformulation? Is that something you would get caught up in?

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

Well, we have our production sites in the US. We have also a number of products which are exclusively produced in the US like our Kogenate from the Berkeley factory. And it's too early to say if you want to shift investments now.

And also we define our supply chain. Overall we still believe that it's a good thing to have international trade and international separation of labor not a benefit to all parties involved. Therefore, it's too early to say whether we would change our position we have right now with a strong substance in the US and also production in the US.

Jeremy Redenius - ***Bernstein - Analyst***

Okay, thank you very much.

Operator

Jo Walton.

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

Jo Walton at Credit Suisse. A few pharmaceutical questions, please.

In 2016 you increased your R&D as a percentage of sales by about 1 percentage point. Do you feel that you have now reached the right level of R&D as a percent of sales? Or will 2017 also see a disproportionate increase in R&D investment and at what level do you think that that should stabilize?

Secondly, if we are looking at expanding materially the indication for Xarelto, do you think that will have any price implications, particularly in the European market where when you come along and say that you think it can treat twice as many people as far as I am aware the regulators tend to say, well, in that case we will have half the price.

I wonder, finally, if you could tell us about the penetration of Eylea and how much of that is now penetrated into the DME market so that we can get some sense of the longer-term sustainable growth for that franchise. Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thank you, Jo. So Dieter is going to take your three questions now.

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

Okay, so I will start with R&D. Our R&D investment is really based on the pipeline requirements that we have. And we strictly prioritize, as we've mentioned before, and those assets have the greatest potential value to address unmet medical need and provide value to society in addressing the burden of the disease.

And we have substantially, as you noted, increased our R&D investment and we have seen the result of that. In some of the pipeline, not all the pipeline, but some of the pipeline we have highlighted with those six products that we have highlighted recently for which we have greater insights and, therefore, confidence.

We will, again, this year increase our investment in R&D based on the pipeline that we have and the progress that we are making. I'm less bound by ratio per se, but I think we are going to be at the 17% ratio which I think is a reasonable ratio to be at. But I'm not, I would say our spend on R&D is really guided by the need to support our pipeline for sustainable success.

The pricing implication of Xarelto, I cannot comment on specific pricing implications of Xarelto in particular in the European markets, but there is, as you know, their pricing is fairly regulated in most countries and as such relatively stable as a matter of fact. And I don't anticipate any negative surprises there other than what one would normally see in regulated markets like in Japan, and it is not dependent on the substantial expansion potential that COMPASS holds.

Penetration of Eylea. So Eylea is now a market share overall of roughly 33% to 72%, 72% be the highest in Japan. And looking at the split a little bit in Japan you have roughly 54% of wet AMD and 18% in DME and then RVO and CNV are smaller.

So there is significant opportunity to continue to grow in Japan also with DME. While in Germany the split is slightly different, you have still 53% in wet AMD and DME is about 35% already.

So it really depends on what you look. But I think there is significant growth potential remaining in expanding our share in wet AMD while enhancing the diagnosis and treatment of DME. So we believe we will see continued momentum with Eylea and substantial growth opportunity.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thank you, Dieter.

Operator

Mr. Vosser.

Richard Vosser - *JP Morgan Cazenove - Analyst*

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

Firstly, just going back to the COMPASS data, perhaps you could comment on the data and the benefits and risks seen in relation to the proxy from the ATLAS Phase II trial where this dose was tested on top of Aspirin. Secondly, on that one, how quickly can you share the data with regulators and bring it to the market? And, thirdly, on the COMMANDER trial, could you talk about when the interim analysis have been on that trial and have you passed the last interim there so that we should expect only the final data in 2018 or could that be earlier, as well?

Second question or second group of questions just on the bridge financing cost you've highlighted that they are in the net financial costs for the year, the guidance. Just if you could give us a flavor of that, is that around $200 million for the year or is that too high?

Final question just on Crop Science, just an early view of how the Northern Hemisphere season is shaping up? I know we are early but just some of your thoughts there would be great. Thank you very much.

Werner Baumann - *Bayer AG - Chairman & CEO*

Okay, thanks, Richard. So the first three questions are going to be answered by Dieter followed by Johannes on bridge financing and total amount that is baked into our 2017 financials and guidance and then last but not least Liam on the early perspective on the season in the Northern Hemisphere.

Dieter Weinand - *Bayer AG - Head, Pharmaceuticals*

All right. Unfortunately I cannot really elaborate on any further data on the COMPASS trial. We really have to wait until we make the data available, unfortunately.

And please understand that I'm as excited as you are. And I would love to get the data out there but we really have to wait until the full data is in.

The filing date we are aiming to get this, obviously, filed as soon as possible and hope to file sometime in the second half of this year the COMPASS trial for the new indication. And the timing of the interim analysis of COMMANDER would be speculation. I really cannot speculate on that, as well.

So please understand that I cannot do that. Thank you so much.

Werner Baumann - *Bayer AG - Chairman & CEO*

Okay, thanks, Dieter. Johannes on financing?

Johannes Dietsch - *Bayer AG - CFO*

Yes, bridge financing costs we had seen some cost in the magnitude of EUR50 million in Q4 2016 and we earmarked EUR230 million for the year 2017 to be put into the financial result. However, Richard, that will be classified as special items and will not impact the core EPS.

Werner Baumann - *Bayer AG - Chairman & CEO*

Okay, thanks Johannes. And now the crystal ball.

Liam Condon - *Bayer AG - Head, Crop Science*

Yes, so thanks Richard. Same crystal ball, I mean it is just simply too early to call the Northern Hemisphere. And clearly what's going to happen is in the Northern Hemisphere is everybody will be looking at what the outlook is now in the Southern Hemisphere, and then they will take their planting, make their planting choices going forward.

Overall I think it's still fair to say the grower economics remain tight in North America and also in Western Europe we believe the pace of growth will lag behind the overall global development. We'd rather see growth coming more from Latin America because the farm economics are more favorable and there will be a larger planting acreage anticipated for corn and soybean.

I remember last year it was impacted by drought in Brazil, as well. So we think Latin America would rather be a driver going forward this year and with continued high soybean demand from China and Asia Pacific as a mentioned earlier and Eastern Europe will also we would consider growing further. So we don't see the Northern Hemisphere as a major growth driver this year and rather an upturn there rather coming in more from 2018.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thanks, Liam.

Operator

Mr. Jones.

Tony Jones - ***Redburn Partners - Analyst***

Good afternoon, Tony Jones Redburn London. I've got three questions.

Firstly on raw materials, looking back the gross margin at Bayer has improved a lot, up about 500 basis points since 2013 to 2014. I appreciate a lot of that has come from pharma growth and mix, but in some of the chemical assets maybe cheaper costs have flattered the gross margin. Are you able to split out even roughly what proportion of that margin expansion has come from growth and mix, things like Xarelto versus price costs?

Secondly, maybe a second question actually for Johannes on CapEx, you've given guidance for this year. It looks like Covestro makes up around EUR0.5 billion of that EUR2.5 billion. Just thinking about beyond that period, do we just simply exclude that so we can say down CapEx?

And then finally, a question for Dieter on pharma and the margin improvement. Is this purely predicated upon volume leverage or is it something else, something related to the costs? Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks, Tony. So questions one and two will be answered by Johannes and then your last question is going to be taken by Dieter.

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

Well, actually, when we look at the raw material costs and energy so we have to look to Covestro which is still fully consolidated and Covestro substantially benefited last year from lower raw material cost, although they had had also given some price concessions and overall pricing were down for the year and Covestro they had a significant expansion of margin here. And that explains mostly the effect on raw materials because Covestro is so dominant in this aspect.

Once we will deconsolidate Covestro, once we are not having the majority in the shareholders' meeting of Covestro anymore, we will take out all the numbers from Covestro from our financial statement. And with that then out of the CapEx number for the overall group will decrease by roughly the EUR0.5 billion you mentioned. That's rightly correct.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay. So Dieter?

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

Yes, so the margin expansion is influenced by a couple of things. Obviously, we have benefited from continued volume performance, greater momentum that we have achieved. But we also as we have previously discussed embarked on a program to substantially focus our efforts and resources on those things that have the greatest opportunity associated with that.

With that we have kept our commercial expenses, our marketing and sales expenses flat and taken some of the gains that we have made and reinvested in R&D. And some of that has been reflected in the margin expansion that you are seeing. So we continue to be very prudent as to how we allocate our resources in the effort that we had already announced that we would try to focus and streamline our expense base.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thanks, Dieter. Tony, if you allow, just let me add a couple of sentences to the question of what the 500 basis points margin expansion since 2013 has been driven by.

If you look at it in the grand scheme of things and just with this back of the envelope without a lot of details I would assume that 2013, 2014 kind of as a baseline for the materials business, 200 basis points of the improvement of the Company overall directionally, 170 to 200 I would guess, come from materials. Because we essentially we have a flattish top line and significant earnings and expansion driven by what Johannes said earlier which is raw materials and energies that have significantly helped the case. And the rest is actually coming out of the portfolio.

Part of it is also mix because pharma has been growing so dynamically which has been and continues to be our highest margin business on top of the pharma margin expansion in it by itself. Portfolio if anything very, very minor, if we look at the overall Company EBITDA margin there is actually minimal and the only ones we've really looked at for the last few years was Diabetes Care and then the Environmental Science the consumer business which taken together are about 3% of top line of the company. So not a major impact.

Tony Jones - ***Redburn Partners - Analyst***

Great, very clear. Thank you very much.

Operator

Ms. Hector.

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

Thank you, it is Luisa Hector from Exane. Could you remind us to what extent you have hedged the currency risk in connection with Monsanto?

And also on Monsanto, could you just add any color, I noticed in the annual report dated June 14, 2018 at which point the deal could be terminated if you have not received regulatory approvals. So can you put any color around that? Does that mean you've had actual rejections? Is it certain approvals in certain regions?

And then finally on the Covestro stake, could you comment on the potential US tax advantages or disadvantages in terms of timing on the disposal of that stake? And I believe end of August is a key date. Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks Luisa. So questions one and three are going to be answered by Johannes Dietsch and I will thereafter talk about June 14, 2018.

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

Yes, thank you, Luisa. First of all, currency risk we have to pay the purchase price in US dollars and the debt piece will be financed in US dollars. Even if we go with Eurobonds you'll swap it into USD, therefore we don't have a currency risk on the debt piece.

On the equity piece it's different because we are raising equity with the Bayer AG share here in Europe. And this will be done in euro terms. And here we are exposed, negatively exposed if we have an increase in the dollar rate against the euro portion.

And here we are looking at $19 billion which translated into EUR17 billion at the time of announcement last September. And we anticipated, of course, the currency risk and had some hedges in place already with more than 50% of the exposure with a level of $1.11 or better.

Should I take Covestro first?

Werner Baumann - ***Bayer AG - Chairman & CEO***

Yes, yes.

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

Okay, then let me do Covestro, the sale of Covestro sale is being done here in Germany and this sale will be tax-free mostly. It's 95% tax-free year. And we have no restrictions from the tax point of view at all.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, so now let me take your question on June 14, 2018. The merger agreement stipulates that should this transaction not be consummated for antitrust reasons we have to pay Monsanto $2 billion. That statement holds true today, tomorrow and all the way up and until June 2018.

Our perspective is that this is quite some time out. We believe that we are going to be good for a final closing of the deal by the end of 2017. Should we hit this outer date the question is what is going to happen then?

There are different scenarios you could come up with. Number one is the deal falls apart against the payment of the $2 billion because it would then actually be for antitrust reasons. We don't see any other reason that would materialize by then.

Or alternatively if both parties continue to be highly interested it could also reach into a renegotiation and an extension or an extension, whatever it might be. This is a hypothetical case to the best of our assessment. But that's actually how you would have to look at the different options that would be out there.

Operator

Mr. Meunier.

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

Hello, thank you for taking my questions. Vincent Meunier from Morgan Stanley. So the first question is on the consumer unit.

Thank you for the confirmation of you 2018 aspirational EBITDA target of 25%, but I would like to better understand the drivers for that margin improvement expected in the near term. You are talking about the Merck synergies, also increased investments to support Coppertone and Scholl's and new product introductions in the US, particularly on the latter. Can you please give more details on your targets for 2017 and 2018 and the impact on margins, of course?

The second question is on anetumab in the pipeline. Can you update on the publication timing for the ovarian cancer and the mesothelioma indication, and also can you confirm that you still target a launch in 2019? Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks Vincent. Before we go into the Consumer Health questions on margin, margin profile, what's going to contribute up and onto 2018 and the new product development we want to come back to the question of the tax position and whether it's going to be an effect that we are going to have in terms of tax reverses not tax-free.

So as Johannes mentioned earlier, in Germany because we are holding Covestro as a shareholding in Germany it's tax-free, by and large tax-free very, very low tax quota. And then depending on the jurisdiction we are we would have to look at the tax effects that we have with parts of the deconsolidation.

But no further color including the US at this point in time. That would actually then come with the communication of I guess at the time of deconsolidation what that would be. So let me now come to the Consumer Health followed by anetumab on ovarian and mesothelioma.

Erica Mann - ***Bayer AG - Head, Consumer Health***

As I mentioned before the focus is really on the growth opportunities that exist in the marketplace. And in particular if you talk about the innovation this year we don't get into the exact details of the [MPDs] that we roll out but I can tell you that we are planning on 19 new products to go out in this year and we have over 80 products in our pipeline for further development.

So that's a real key focus. As you know, consumers depend highly on these brands being fresh and relevant and that is a key focus for us. In addition, as I've mentioned before we continue to focus on Scholl's and Coppertone and ensuring that all the issues in these specific categories are addressed.

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

Can I have a follow-up question on this? You talked about financing flexibility during the presentation and we know that right now in the consumer industry there is consolidation. So is it fair to assume that if necessary and if opportunities can be presented to you, you can do something and further increase the size of the business units?

Werner Baumann - ***Bayer AG - Chairman & CEO***

Vincent, this is a very good question. And I want to come back to what we said during our September Meet Management that first, second and third priority right now is to make the acquisitions that we made in 2014. So the Merck OTC business and Dihon productive, Erica and her team are well underway doing this.

It will be very, very distracting to put another acquisition of I'd say significance on top of it because it automatically leads to distraction rather than the focus we need in order to drive the performance of the brands we have and hold in our hands. It is also not really necessary to look at something at Consumer because we do have actually by all accounts critical mass. Our business is one of the three core leading businesses in the industry, so you have three out there, Sanofi, Boehringer, GSK and Novartis and us that have essentially the same market share.

So in terms of relative size and punching weight, all of us are at equal footing and if we take a path on one or the other that might come up nothing is there right now but might come up in the next, let's say, immediate future nothing is going to happen to our competitiveness. So then let's come to anetumab.

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

All right, so you know that I've been very excited about anetumab. And the much more rapid completion of the enrollment in the mesothelioma trial gives me confidence that the obvious physicians must be seeing something to speed up the enrollment so much faster.

Now you know we have initiated a multi-indication, a basket trial and six different tumor types that include certain non-small cell lung cancer, triple negative breast cancer, gastric cancer, thymic cancer, pancreatic cancer and cholangiocarcinoma. These trials, as you know you have to wait for some, first you have to see a signal. The initiation for these trials is now underway.

And based on the signals we may see some of that signal in the time frame of 2018 that would allow us then to make some decisions on where to expand rapidly moving into a Phase II trial setting with registrational intent. So I would say we have to wait until we see these signals. That will probably be in the 2018 time frame before we can make further decisions on those.

You asked about the confirmation of the 2019 trial and I'm assuming that is the mesothelioma trial, the filing. My sense is that you are asking because we have completed enrollment so much faster than previously anticipated. This is an events-driven trial and we have to wait for the events to come in now and that will dictate our filing timeline.

So for now our timeline is unchanged for the first launch in 2019. Should that change we would update that. But we have to wait for the event.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Very good. Thanks, Dieter.

Operator

Mr. Conover.

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

Great, thanks, this is Damien Conover with Morningstar. I just had a follow-up question on the COMPASS study and the addressable patient population.

Had talked about 30 million potential patients there. I just wanted to see within that group how many of them are using Aspirin versus Plavix? Because I believe Plavix has outperformed Aspirin in the PAD setting, but I wasn't sure if you had any market share expectations there. I was really trying to get at generic Plavix pricing versus Xarelto, where you are going to be positioned there when you have a different drug that wasn't used as a comparator in the COMPASS study.

And then just one second question, just on the pricing power of drugs in the United States. That's been an important topic. And while your drugs are sold disproportionately outside the US the overall pricing for the quarter looked to be roughly flat, suggesting that pricing was holding up relatively strongly in the US. I was wondering if you could confirm that. Thank you.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Okay, thanks Damien. So Dieter.

Dieter Weinand - ***Bayer AG - Head, Pharmaceuticals***

So let me try to address that first question in a different way. There is no long-term use data of antiplatelet agent other than Aspirin. And although the dual antiplatelet therapy compared with Aspirin alone further reduces the risk of major cardiovascular risk by 15% to 20%, if you look at the CURE and PEGASUS studies in patients with a recent ACS that is the difference.

The benefit of the long-term dual antiplatelet therapy beyond 12 to 18 months in patients such as those with stable coronary or cerebral peripheral artery disease or in those with high risk of an atherothrombotic vascular event has not been demonstrated. So it's very important, the patients we have looked, at the dual antiplatelet therapy has not been demonstrated and that is why there is a significantly remaining high unmet medical need. So if the guidelines ACC and ESC only actually go for only indicate Aspirin in that setting.

I don't have a breakdown of patients on Aspirin versus Plavix and I think it would be you would be well served waiting for the full data set to come out to then look at what it really means. Pricing in the US, for us as you mentioned yourself we are relatively underrepresented in the US. 20% something of our revenue coming there.

We have found that our pricing has been relatively stable. We manage it well. So there is nothing unusual that we would have to highlight at this point.

Werner Baumann - ***Bayer AG - Chairman & CEO***

Thanks, Dieter.

Operator

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

Juergen Beunink - ***Bayer AG - Head of IR***

Thanks, Emma. Also on behalf of my colleagues I'd like to thank you for being with us on the call and thank you for your questions. We hope to see many of you at our upcoming management conference in London, and now we'd like to say goodbye.

Operator

Ladies and gentlemen, this concludes the full-year and fourth-quarter 2016 results investor and analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.