



Science For A Better Life

# Acquisition of Merck's Consumer Care Business & Pharma sGC Cooperation

Investor Conference Call

May 6, 2014 / Marijn Dekkers, CEO

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## Successfully Executing on Our Strategy

Announced transactions are consistent with Bayer's strategy of:

- Creating a **global leader in OTC (Consumer Care)** – one of Bayer's core platforms with a track record of performance
- Improving the growth and margin profile of Bayer's OTC business through a highly **complementary** business combination
- Maximizing the value of Bayer's innovative sGC\* pipeline through **leverage of sGC cooperation**
- Creating **value for shareholders**: core EPS accretion from year 1

## A Major Step Forward for Bayer's HealthCare Business



### Acquisition of Merck's Consumer Care Business

- Creation of a global leader in OTC
- Complementary portfolio offering scale in key categories and optimized geographic footprint
- Full trademark ownership for Claritin

### Strategic Pharma sGC Collaboration

- Complementing Bayer's sGC franchise, including Adempas, with Merck's cardiovascular capabilities
- Leverage joint development capability to fully explore broad potential of sGCs
- Building Bayer's US presence in specialty pharma while leveraging Merck's US strength

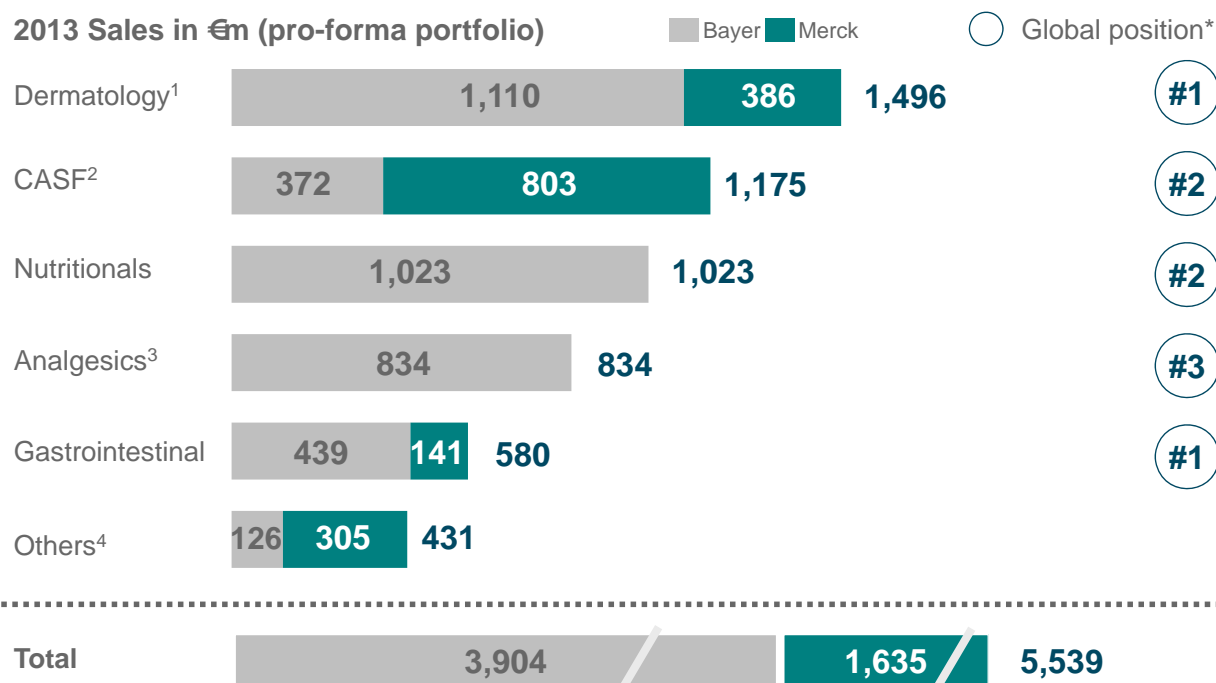
# Acquisition of Merck's Consumer Care Business – Transaction Highlights



<b>Acquisition price</b>	<b>\$14.2bn (cash)</b>
Sales <sup>1</sup> (2013)	~\$2.2bn
<b>2013 pro-forma EBITDA<sup>2</sup> Multiple</b>	<b>21</b>
Expected synergies	Revenue synergies of already ~\$400m by 2017 Cost synergies of ~\$200m p.a. by 2017 Significant tax benefits from year 1
Core EPS accretion	From year 1 (~2%)
One-time charges	Approx. \$500m (primarily in 2014/2015)
Expected closing	Second half 2014 <sup>3</sup>

Page 5 • Investor Conference Call • Marijn Dekkers • May 6, 2014 <sup>1</sup>including Rx-sales Claritin of ~\$0.2bn; <sup>2</sup>pre-special items; based on management financials for the OTC business and Bayer's estimates for the Rx-business; <sup>3</sup>subject to approval by the relevant authorities

# Combined Portfolio Significantly Strengthens Global Positions



Page 6 • Investor Conference Call • Marijn Dekkers • May 6, 2014 <sup>1</sup> including sun care; <sup>2</sup> Cold, Allergy, Sinus, Flu; <sup>3</sup> including Cardio; <sup>4</sup> Foot Health, Women's Health, Other  
\*After allowing for the Novartis/Glaxo deal; excluding Dihon acquisition in China; excluding Rx  
Note: Merck sales converted at average USD rate of 1.33 (FY 2013)

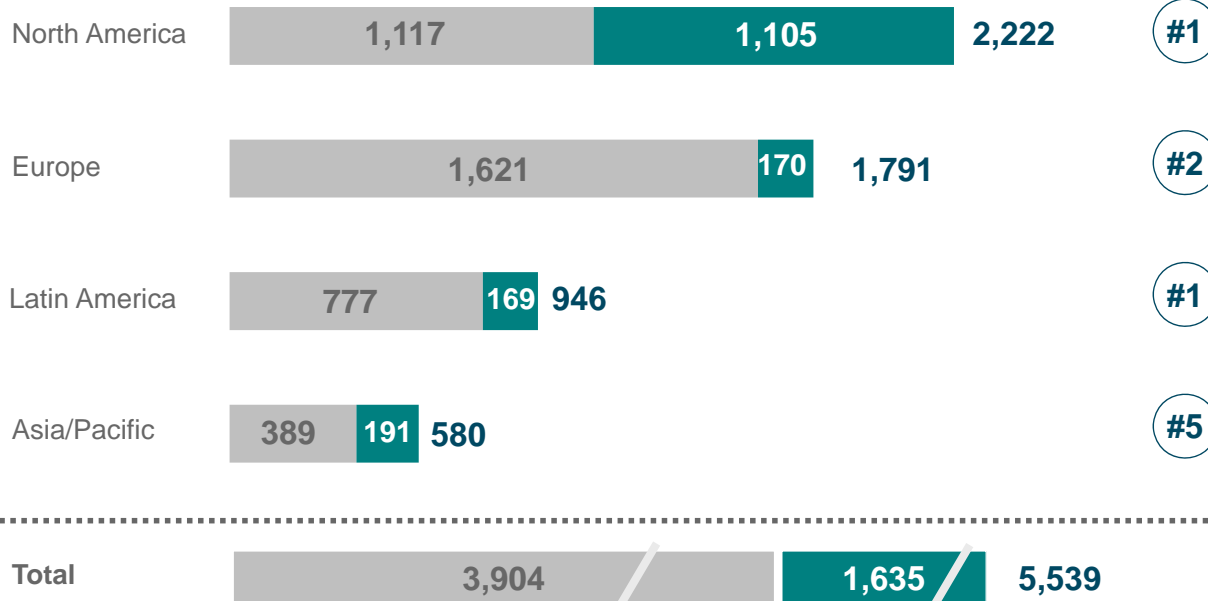
# Combined Portfolio Significantly Strengthens Geographic Footprint



2013 Sales in €m (pro-forma portfolio)

■ Bayer ■ Merck

○ Global position\*



\*After allowing for the Novartis/Glaxo deal; excluding Dihon acquisition in China; excluding Rx  
Note: Merck sales converted at average USD rate of 1.33 (FY 2013)

# Combined Top 10 Product Portfolio – Individual Annual Product Sales >€100 Million



2013 Sales in €m (pro-forma portfolio)

Product	Category	Company	Sales 2013
Claritin	CASF**	Merck	€76
Aspirin*	Analgesics	Bayer	€64
Aleve	Analgesics	Bayer	€21
Bepanthen	Dermatology	Bayer	€10
Canesten	Dermatology	Bayer	€57
Dr Scholl's	Foot Care	Merck	€32
Alka Seltzer	CASF/Gastro	Bayer	€14
Coppertone	Dermatology	Merck	€07
One A Day	Nutritionals	Bayer	€176
Supradyn	Nutritionals	Bayer	€158
<b>Top 10 Total</b>			<b>€2,915</b>

\*excluding Rx-sales  
\*\*Cold, Allergy, Sinus, Flu  
Note: Merck sales converted at average USD rate of 1.33 (FY 2013); based on pro-forma FY 2013 net sales

# Combined Consumer Care Portfolio Offers Significant Synergy Potential



## Revenue

### Revenue synergies of already ~\$400m by 2017

- Incremental US sales
- Realize brand penetration opportunities ex-US

## Cost

### Cost synergies of ~\$200m p.a. by 2017

- Savings in marketing costs
- Savings in COGS, administration

## Tax

### Tax benefits from year 1

- Asset purchase with significant future tax savings

➔ **Step-up of EBITDA margin pre-special items at Consumer Care by ~1pp and core EPS accretion of 2% already in the first year**

# Strategic Pharma sGC Collaboration



Collaboration between Merck and Bayer on sGC modulation to

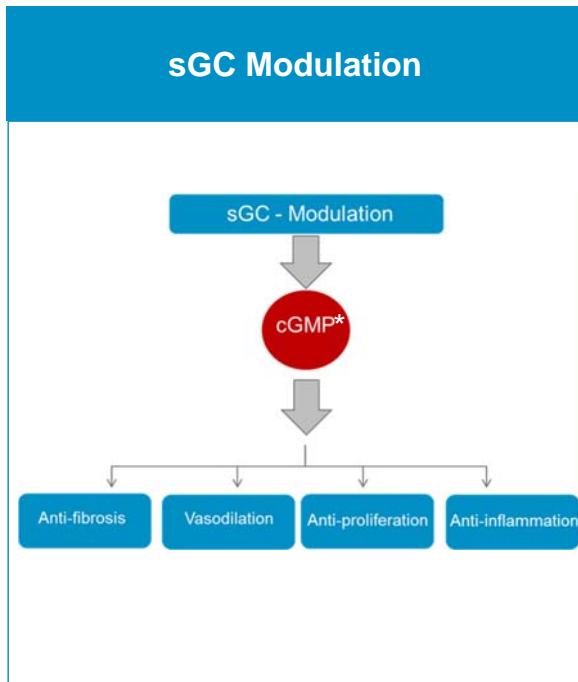
- Maximize **potential** of all pipeline assets
- Leverage **R&D expertise** in cardiovascular
- Improve **funding capabilities** – thereby maximizing commercial potential of pipeline assets
- Optimize combined **marketing & sales power**

➔ Merck to pay Bayer up to \$2.1bn, comprising \$1.0bn up-front and up to \$1.1bn in contingent milestone payments

➔ Joint development and commercialization strategy with global 50-50 cost and profit sharing



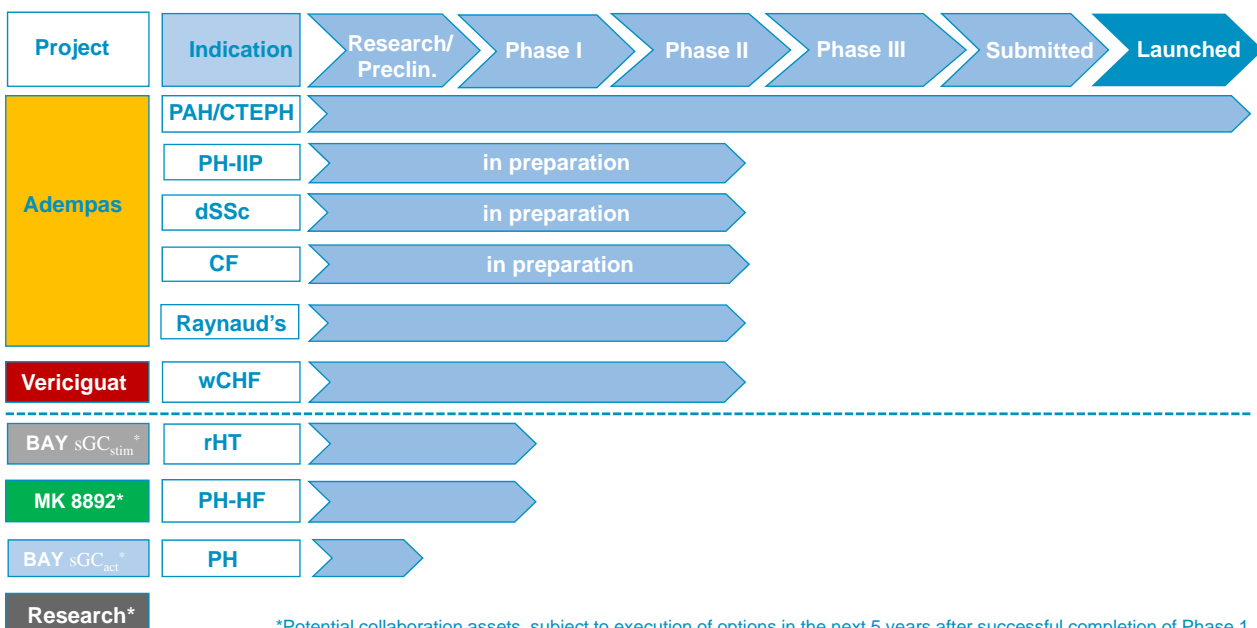
# sGC Modulation Has Significant Potential



### Unmet Medical Need in Cardiovascular Diseases

- Cardiovascular diseases to be the #2 therapeutic area by 2019\*\*
- Significant areas of unmet medical need including heart failure, forms of pulmonary hypertension, resistant hypertension, etc.
- Recently discovered mechanism of sGC modulation holds promise to address several areas of unmet need

# The New sGC Franchise is Strong in the Industry



\*Potential collaboration assets, subject to execution of options in the next 5 years after successful completion of Phase 1

PH: Pulmonary hypertension; PAH: Pulmonary arterial hypertension; CTEPH: Chronic thromboembolic PH; PH-IIP: PH assoc. with interstitial idiopathic pneumonia; dSSc: Diffuse systemic sclerosis; CF: Cystic fibrosis; wCHF: Worsening chronic heart failure; rHT: Resistant hypertension; HF: Heart failure



## Maximizing the Potential of sGC Modulation

### Adempas (Riociguat)

- Bayer has marketing rights in Americas; Merck in all other territories
- Co-promotion option for both parties in territories of other party
- Enables Bayer to build its commercial presence in US specialty pharma while maximizing value of Adempas

### Vericiguat (BAY 1021189)

- Merck has marketing rights in Americas; Bayer in all other territories
- Co-promotion option for both parties in territories of other party
- Maximizes value of Vericiguat by leveraging Merck's US strength

### Early/Future Pipeline Assets\*

- Option to include other sGC pipeline assets (of both parties) that successfully complete Phase 1 in the next 5 years
- Global 50/50 cost/profit split; joint development and commercialization strategy



## Transaction Fully Debt-Financed

- **Bridge financing** of the purchase price **secured** by bank consortium
- Bridge to be subsequently refinanced for the most part through **senior and hybrid corporate bonds**
- **No** issuance of **new equity** planned
- Committed to '**single A**' credit rating category



## Important Strategic Progress Achieved

### Portfolio Impact

- Creation of a global OTC leader with strong product brands
- Scaling-up US consumer care
- Leadership in key categories
- Entering OTC 'allergy' indication

### Value Creation

- Considerable contribution to OTC return profile
- Strong cash flow generation
- Enhancing opportunities in the cardiovascular therapeutic area
- Immediate core EPS accretion

Smooth integration expected due to experienced management team



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