# Bayer AG
# Investor & Analyst Conference Call

## Transcription

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**Speakers:**

Mr.Alexander Rosar (Head of Investor Relations)

Mr. Marijn Dekkers, CEO

Mr. Werner Baumann, CFO

Mr. Olivier Brandicourt, CEO at Bayer HealthCare

Alexander Rosar: Ladies and gentlemen, good afternoon and welcome, also on behalf of my colleagues, to our conference call on the occasion of the acquisition of Merck's Consumer Care business and our new Pharma sGC cooperation.

With me on the call are Marijn Dekkers, our CEO; Werner Baumann, our CFO; and Olivier Brandicourt, CEO at Bayer HealthCare. We really appreciate that you could join our call on such a short notice.

I hope you have had a chance to read our press release and see our presentation, which is available on our website and also during this call. In a minute Marijn will outline the key components of the agreement we have reached with Merck. We will then open the line for Q&A.

We will close the call at two o'clock and ask for your understanding that you limit the Q&A session to two questions per person.

Before handing over to Marijn, I'd also like to draw your attention to the safe harbour statement.
*(See "Disclaimer" chart at the end of this transcript).*
Thank you. Marijn.

Marijn Dekkers: Thank you, Alexander. Good afternoon/good morning, ladies and gentlemen. It's my pleasure today to announce a unique agreement with Merck. It's the planned acquisition of Merck's Consumer Care business and a strategic pharma collaboration in the field of soluble gaunylate cyclase modulation.

In recent months we continued to make very good progress with the execution of our consumer health strategy and with building on the growth momentum of our pharma business and you are well aware of our aspiration to become the global OTC leader and

our strategy of focussing on organic growth complemented by targeted bolt-on acquisitions. The announced agreement is a significant step towards these aspirations.

Our OTC business is one of the best performing divisions within our healthcare organisation with a strong track record. In Merck's Consumer Care products we have now found an ideal fit for our existing portfolio, making us a global leader in OTC. By combining two highly complementary businesses with virtually no overlap and a great product mix that closes gaps both in category and geography, we are improving the growth and margin profile of our OTC business.

In addition, we will maximise the value of our innovative sGC pipeline through a strategic cooperation with Merck in both the fields of development and commercialisation. We are convinced that these agreements will be creating value for our shareholders. From the first year of combined operations we expect the agreements to be accretive to core EPS.

So, let's now look back into the agreement in a little bit more detail. There are two parts of the proposed transaction; firstly, the formation of a leading EUR5.5 billion revenue consumer care business. Merck's leading and renowned brands such as Claritin, Coppertone or Dr Scholl's will ideally complement our consumer care portfolio as we move forward over to global leadership position in OTC.

With excellent geographic and market outreach, Merck's portfolio gives us scale in key categories such as dermatology and cold, allergy, sinus and flu. At the same time we will optimise our geographic footprint by gaining significant scale in

the US, a highly attractive and profitable consumer care market. In addition, integrating Merck's Claritin prescription business into our portfolio will give us full global trademark ownership of this leading brand.

The second part of the agreement is on the pharma sGC collaboration. This collaboration will strengthen our sGC franchise, including Adempas, by adding Merck's cardiovascular capabilities. Joint development efforts will make us better able to explore the broad sGC potential in the medical space. And, finally, we'll able to build our US presence in specialty pharma while leveraging Merck's commercial strength in this important market.

Now let me first give you an overview of the planned Consumer Care transaction. We have agreed an acquisition price of $14.2 billion in cash for the Consumer Care business with sales of roughly $2.2 billion and that includes prescription-only sales of Claritin. This price represents the 2013 pro forma EBITDA multiple of 21.

We expect to realise substantial revenue synergies from Merck's complementary product portfolio of already around $400 million by 2017 and then growing in later years. We have identified annual cost synergies of approximately $200 million per annum to be realised by 2017. And on top, we will have significant tax benefits associated with this deal.

We anticipate incurring one-time integration charges of around $500 million, primarily in 2014 and 2015 and expect to close the transaction in the second half of 2014, naturally subject to approval by the relevant authorities. The transaction will be accretive to core EPS by 2% in the first full year of

combined operation. Any potential impact from this transaction on our full-year 2014 targets or 2016 aspirations will be communicated upon closing up the transaction.

Let me now elaborate on the combined business portfolio of Merck and Bayer Consumer Care and when speaking of combined Consumer Care sales, I'm referring to 2013 pro forma sales figures. The global OTC positions reflect the recently-announced Novartis/Glaxo deal but not our own agreed acquisition of Dihon in China.

Looking at global positions on page 6, it becomes apparent why the acquired portfolio is so attractive for us and why its complementarity is really ideal. We will increase the size of our Consumer Care business by more than 40%, given us combined profile mass sales of around EUR5.5 billion and we will add significant scale in three of the most important product categories.

So, Bayer Consumer Care will be top-ranked in dermatology, generating nearly EUR1.5 billion in worldwide sales. And also top-ranked in gastrointestinals, with revenues increasing by around one-third to almost EUR600 million. In the segment cold, allergy, sinus and flu, that segment is of special interest to us and by adding around EUR800 million in sales, we will not only step up our global position considerably from a currently low-ranked player to a strong number two position, with sales of approximately EUR1.2 billion, but also enter a new subcategory for us and that is the allergy indication in which we have no presence so far but which we consider highly attractive in terms of its growth and profitability profile. We will continue to hold strong positions in the other two categories as well, being the global number two in

nutritionals and the global number three in analgesics.

Then slide 7, from a regional perspective, Merck's portfolio gives us the geographic balance we have been looking for. You can see the regional sales split of the combined business illustrates how powerful our new commercial presence will be. Merck's Consumer Care business generates roughly 70% of its sales in the US and with Merck's presence in this highly attractive key OTC market, approximately 40% of combined sales will be generated in North America going forward.

We will almost double our sales of EUR2.2 billion and be the clear leader in this geography. This addition of scale is of utmost importance for the future growth profile and earnings performance of our Consumer Care division. In Europe we will be a strong number two with combined sales of around EUR1.8 billion but, more importantly, we can now offer the new brands a strong platform for growth with an organisation that manages almost ten times the sales of the current Merck business in this region.

And we see a similar picture in the promising growth markets. We will advance to become the leader in Latin America with combined sales of nearly EUR950 million and in Asia Pacific we will have combined sales of around EUR580 million. In China we will scale up our Consumer Care business of currently EUR140 million by one-third and, as I mentioned, that is still exclusive of the Dihon acquisition which should then add another EUR120 million in annual sales volume in China.

The Merck acquisition undoubtedly represents an important milestone for our OTC strategy. Post-closing we will overtake J&J and become a strong

global number two, right behind the newly-formed Novartis/Glaxo business.

So, how will our top ten product portfolio change with this acquisition? You can see this on slide 8. As I already said, Merck's Consumer Care portfolio will add three strong brands to our portfolio. Claritin is ranked number one with an annual sales volume of currently around EUR580 million, that right before our top OTC brand, Aspirin, which generated sales of EUR464 million in 2013, excluding Rx cardio.

Dr Scholl's footcare brands will add approximately EUR230 million and the suncare brand, Coppertone, another EUR210 million to our top line. Following this acquisition, more than 50% of our Consumer Care sales will be generated by our top ten products, each of which will account for more than EUR100 million in annual sales.

So, what do we expect from the combined operations in terms of synergies over the next couple of years? You can see this on slide 9. We expect to realise substantial revenue synergies from Merck's complementary product portfolio and our strong commercial presence in key OTC markets outside of the US, adding already around $400 million to the top line by 2017 and then, as I mentioned, growing further in the years beyond.

We have identified annual cost synergies of approximately $200 million per annum to be realised by 2017. That's driven by the elimination of overlap in the operating cost base and most of this is marketing and selling as well as promotional expenses. And then, finally, this deal has significant tax benefits attached to it. Given that the acquisition will primarily be treated as an asset purchase for tax purposes, we expect to achieve substantial tax savings from year one.

In light of the operational synergies, the adjusted EBITDA margin of our Consumer Care business will increase by around 1 percentage point from the first year of combined operation and on the Group level, as I already mentioned, the deal will also be accretive to core EPS by 2% from the first full year.

Equally important in this transaction is the step we are taking for our sGC franchise which I will now elaborate on in more detail. If you go to slide 10, the agreed upon pharma collaboration with Merck is another logical strategic step towards maximising our innovation capabilities and the focus of this collaboration is on sGC modulation. That's a mechanism that was pioneered by a Bayer scientist. Both Merck and Bayer are leaders in this area and both companies are determined to fully explore the potential of this exciting mechanism.

The significant expertise that Merck has built as a top five global player in the cardiovascular area and its strong presence in the large US market, make Merck a partner of choice for our current and future sGC programmes. We are now joining forces in this field because it is R&D that drives value. Through this collaboration we will be able to leverage the significant expertise that both companies have in the cardiovascular therapeutic area and in the field of sGC modulation. We will optimise the funding of our future, potentially extensive clinical programmes for sGC modulators.

Equally important, our combined marketing power will help us commercialise the new products more effectively than one company could possibly do on its own. The key terms of the new collaboration are in brief - Bayer is eligible to receive payments of up to $2.1 billion , comprising an upfront payment of $1 billion and sales milestone payments of up to $1.1

billion related to future collective sales of certain collaboration compounds, including Adempas. The two companies will implement a joint development and commercialisation strategy for sGC modulators and, equally, share global costs and profits from the collaboration compounds.

So, what is exactly this sGC modulation that we are referring to? Page 11 sort of shows it in a nutshell. We're talking about the modulation of an enzyme called soluble guanylate cyclase or sGC and this enzyme facilitates the production of cyclic guanosine monophosphates or cGMP which acts as a second messenger in the cells of the blood vessels. Inreased levels of cGMP lead to a widening of the blood vessels and then, in turn, of course a lowering of local blood pressure.

In addition, it has recently been discovered that there may be beneficial effects even beyond vasodilation, for example, anti-inflammatory or antifibrotic effects and therefore it is believed that this mechanism holds significant promise and despite all the achievements there have been in the past, cardiovascular diseases remain one of the most important therapeutic areas with significant unmet medical need in various diseases, including certain forms of pulmonary hypertension or heart failure.

The novel modulators of the sGC pathway may have the potential to address this unmet medical need, capturing significant growth opportunities. However, considerable development efforts and extensive clinical programmes are and will be required to fully explore the benefits of these novel compounds.

If you look at slide 12, we believe that the sGC pipeline that we have now in our collaboration,

optionally extended by early compounds that might be brought forward into this joint programme, can be really considered unique in the industry and you can also see that we are addressing a wide range of diseases, even beyond cardiovascular.

So, on slide 13, as mentioned before, we plan to increase share, global costs and profits in the combined sGC franchise for two specific assets and for all future compounds that might be brought into the collaboration. First, the agreement covers our recently-launched pharma product, Adempas, for the treatment of pulmonary hypertension. A lifecycle programme has just been initiated and we are excited to be moving Adempas forward together with our partner, Merck, in order to jointly maximise the drug's potential. Bayer will lead the commercialisation of Adempas in the Americas, given our specialty sales force, while Merck will lead the commercialisation outside the Americas. This agreement will enable us to further improve our positioning in the US pharma market.

The collaboration also includes our promising sGC stimulator, Vericiguat, which is currently being developed in Phase II studies in worsening chronic heart failure. We expect to initiate a significant and comprehensive clinical Phase III programme next year. Then additional sGC modulators currently in earlier research stages may be included in the collaboration upon successful completion of Phase I studies within the next five years.

For Vericiguat as well as potential additional novel sGC modulators, we will lead the commercialisation outside the Americas while Merck leads the commercialisation in the Americas. Hence we will be maximising the assets value on the back of Merck's US strength. Both companies do have the option to co-promote Adempas in the follow-on sGC

modulators in each other's territory. Let me emphasise once again that we truly believe this collaboration increases our chances of bringing new medicines to patients, building on Bayer's heritage as an innovation company.

So, now on page 14 let me shed some light on how the deal will be financed. Given our strong financial discipline, we are able to finance the deal without difficulty. The transaction will be fully debt-financed. Bridge financing is already fully secured and will be subsequently refinanced for the most part through senior and hybrid corporate bonds of different tenures. We do not envision issuing new equity and remain committed to balance sheet efficiency and our target credit rating in the single A category.

On page 15, with this transaction we have achieved important strategic progress for our healthcare business. We have reshaped our consumer care revenue base and added strong innovative brands, enabling us to enter the OTC allergy indication and to gain leadership in three very important and promising product categories. We're creating a new EUR5.5 billion global leadership position for ourselves in consumer care with our North American business now doubled in size. We have shown in the past that we are able to market over the counter drugs very successfully, consistently outpacing the market and we intend to keep doing so in the future.

In terms of value creation, the Merck transaction will transform the return profile of the segment. We will enhance cash flow generation in a business that has predictable growth prospects and relatively low risk. We expect a cooperation with Merck, a renowned expert in cardiology, to provide major opportunities in the cardiovascular therapeutic area. It will help to fully explore our sGC pipeline, giving

us greater flexibility in critical R&D processes and empowering our commercial abilities, especially in the US.

The transaction creates value really at all levels, especially for our shareholders. We have a proven M&A track record of smoothly integrating acquired businesses into our operation and we will do this again this time. Combining these activities of Bayer and Merck puts us in and excellent position to participate in market trends through sustained profitable growth and thus build a solid base for the future of our healthcare business within the Bayer portfolio.

So, we're excited about this transaction. That for now concludes my remarks and we are happy to answer any of the questions that you may have. Thank you.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press the star followed by the one on your telephone. If you wish to cancel your request, please press the star followed by the two. Your questions will be answered in the order they are received. If you are using speaker equipment today, please lift the handset before making the selections. One moment for the first question, please. The first question comes from the line of Sachin Jain. Please state your name, company name followed also by your question.

Sachin Jain: Hi, Sachin Jain from Bank of America. Just two quick financial questions, please. Firstly, I wonder if you could give some more colour on the asset purchase and the tax benefit you expect to receive, whether that be the NPV of the tax benefit that's embedded in the calculation or the benefit to your Group tax rate. Second question is just to clarify

the underlying growth rate for the Merck OTC business.

Is it fair to think of that as a 3% to 5% underlying growth for the revenue synergies on top, suggesting high single-digit CAGR overall? And then the final question, just strategically for you, given OTC is now bigger, the pharma business is running at a high single-digit sales CAGR, I'm just wondering if you could reframe where you sit on MaterialScience within the Group. Thank you.

Marijn Dekkers: Okay. So, Werner will take the first two questions.

Werner Baumann: Yes, Sachin, we have not quantified the NPV of the tax benefit but maybe I can help you to get into it and then you can probably also model it on your own. Contrary to, let's say, an entity acquisition, we have in this case to 100% an asset acquisition under the regime of the 338H legislation in the US. So, we really acquire assets only which then come with a step-up all the way up to the purchase price and since the asset base at Merck is very, very low, you can safely assume that that step-up is going to be very, very significant.

The next point in terms of, let's say, the value of that tax yield is that the payment of the price, that value is secured and then it's going to be forming part of our asset calculation during the time we amortise the acquired assets, predominantly then, of course, trademarks and goodwill and most of that will be lying in the US. So, I hope that helps you in order to frame what that might be worth.

Secondly, the underlying growth rate of the Merck OTC business stand-alone, we have done our own calculations and I can confirm the range you've said, that in a standalone case we see that business growing slightly above 3% over the next year, call it

3.5% on average, and that underlying growth rate will be significantly higher, driven by, A, some select synergies we are going to have in the US and, B, the significant commercial platforms we can leverage, predominantly emerging markets ex-US. So, that is going to drive significant growth in some of these markets, very, very solid double-digit CAGRs for the next decade to come.

Marijn Dekkers: Sachin, on your question on BMS, I don't want to make this conference call a call about BMS but I really would like to make it a conference call on healthcare. You know, this transaction doesn't change our plans on BMS. We can, as we mentioned, finance this transaction 100% with debt, so we don't have to finance the transaction, don't have to make portfolio adjustments. The good news about BMS is that we had a very strong first quarter and good momentum into 2014 and we hope to have a significant improvement this year over last year in the business performance there. That's all I really want to say about it right now.

Sachin Jain: Thank you very much.

Marijn Dekkers: Thank you.

Operator: The next question comes from the line of Mrs. Walker. Please state your name, company name followed also by your question.

Amy Walker: Good morning, it's Amy Walker at Morgan Stanley. I have two questions, please. The first, given your guidance for 2% accretion in 2015, it looks like you're going to have some significant financing charges associated with the new debt. Can you give us an indication of what sort of percentage interest rate we should assume, please?

And the second question, I estimate a return on capital of around 5% to 6% for this deal in aggregate if I give you the full $2.1 billion of credit from the potential cash in from the joint venture on the sGC. That's obviously below what you publish as your Group WACC. Have I miscalculated or, if not, could you make some comments about how this squares with your previous remarks about capital discipline, please? Thank you.

Marijn Dekkers: Okay, Werner, new debt and the return on capital.

Werner Baumann: First of all, the bridge financing is typically, during the time you need the bridge, a little bit more expensive but then overall the blended interest rate is going to be somewhere in the area of 3%, maybe slightly higher than 3%, once we have fully syndicated the overall financing volume but we are not at that point yet. So, take it as an indicative order of magnitude in terms of interest. In terms of the return on capital, I suggest you simply take it as a follow-on. I can only tell you that based on the calculation of our DCF models, the discount rate we have used for the calculation of our base scenario and then, of course, the synergy case, the internal rate of return is quite positive.

Marijn Dekkers: Thank you, Amy.

Amy Walker: Thanks.

Operator: Thank you. The next question comes from Mr. Leuchten. Please state your name, company name followed by your question.

Michael Leuchten: Thank you. It's Michael Leuchten from Barclays. Just a question on the synergies, please. What we're seeing here is, I think, a number that seems low in terms of the cost synergies. If I've done my math right, it's about 4% of the combined cost base

and the $200 million and a fairly healthy number in terms of top line synergies which, given historical transactions in this field, is kind of the opposite of what we've seen. So, can you just explain why you think you need to be careful on what you take out in terms of operating expenses and why you have a higher degree of confidence in terms of the top line synergies, please.

Marijn Dekkers: Yes, Michael, the cost synergies of $200 million are about 10% of the revenue of the acquired business which I would say, if you just take a business of that size and improve the margins of it on a standalone business by 10% over a three-year period, that is, I would say, a relatively significant cost synergy. But you're right, I mean, the attractiveness of this deal is not in the cost synergies, it's in the revenue synergies.

Merck's business, 70% of the sales is in the United States and they have a really, really good position there but overall, globally, they're the number 12 in OTC. Why? Because outside of the United States the business was never as well developed as it was in the United States and with our global presence, and we are two and a half times larger than Merck in total sales, so with our global presence in Europe but also in many emerging markets - Russia, Brazil, China - we can take these products and more forcefully market them than Merck has been able to do so far.

It's not that Merck doesn't have a presence there but it's about, you know, the commitment to those markets and in that we see a lot of synergies. So, we say $400 million of revenue synergies by 2017, so in the first three years, but it doesn't stop there, you know, it goes on beyond that in successive years.

Michael Leuchten: Thank you.

Werner Baumann: Maybe coming back to the cost synergies, there's one additional data point which may be of relevance and importance for you. If you look at the, let's say, roughly 10% of target sales, the reason why it may look a little bit low to you is the fact that on the Scholl's business there is no real synergy value. We acquire a leading franchise with close to 50% market share and there is very little we can do to it because it is completely complementary. So, if you adjust for that and then look at the remaining base, the synergy on the cost side is actually fully in line with what you would see in comparable transactions.

Michael Leuchten: Thank you.

Operator: The next question comes from the line of Mr. Vosser. Please state your name, company name followed by your question.

Richard Vosser: Hi, it's Richard Vosser from JP Morgan. Just a few questions, please. Just on the phasing of the synergies, both the cost synergies and revenue synergies, could you give us a little bit more detail how you expect those to come through in 2015/2016? And then, secondly, can you make any…? What sort of savings would you be able to make in pharma from the other side of the deal in the sGC stimulators in terms of research and development and, I suppose, in terms of marketing? Thanks very much.

Marijn Dekkers: Okay. So, the phasing, Werner, first and then Olivier will talk about the R&D contribution on sGC.

Werner Baumann: Yes, Richard, I hope you understand that at this point in time where we are announcing the transaction, we are far from being done with integration planning but I can give you a few data

points here which should help you. Number one, in terms of one-time costs, we project roughly $500 million in one-time costs and we expect to incur this amount of one-time costs in 2014 and 2015.

In terms of shaping up of cost and revenue synergies, what we have given you is a proxy of what these synergies will be in the first full year of synergy realisation, so full realisation, and that is going to be 2017. So, there's $200 million pa and then growing from that base going forward by 2017 in costs and so $400 million in incremental revenue compared to the standalone case of the Merck OTC business will be achieved by 2017 and there will then, kind of from, let's say, the first start of us owning the business, ramp up sequentially but, again, way too early to now start talking about quarters and full-year values for 2015 and 2016. We will update you in due time, once we have completed our integration planning.

Marijn Dekkers: Okay. Olivier.

Olivier Brandicourt: So, when it comes to the sGC platform, we see a lot of potential in that collaboration with Merck who has been working on such a mechanism already for several years. So, definitely, by putting, you know, our expertise together, we think we're going to optimise the products which are already on the market or reaching the market in the next few years. So, just to answer your question, the deal calls for a 50/50 collaboration on everything, including development and, as you've probably seen on Adempas, we do have a pretty interesting lifecycle plan, going for two additional potential populations, into the pulmonary hypertension group.

So, we're going to share that piece as well as the full clinical development of Vericiguat, which is the second sGC, which is currently in Phase II, and for

which we are targeting a completely different indication, a broader one, which we call worsening CHF, which is, you know, borderline between specialty cardiovascular and general practice and there we see a lot of potential by collaborating with Merck.

Marijn Dekkers: Good. Thank you, Olivier. Next question, please.

Operator: The next question comes from the line of Mr. Wenner. Please state your name, company name followed also by your question.

Fabian Wenner: Good afternoon, it's Fabian Wenner from Kepler Chevreux. A couple of quick questions, please. You've already touched on this but with regards to MaterialScience, the bridge facility kind of indicates that you're maybe wanting to support your balance sheet. You already indicated that but what about animal health, which is still subscale and you've now acquired OTC. Do you still…?

Of course this is not part of this conference call but it seems now, with OTC having been acquired, animal health is kind of lower priority. Is that still the case or would you still say you are trying to make this a, let's say, top five business globally despite the announcement today? And, secondly, when you've spoken to rating agencies, I just wonder what the feedback was with regards to the deal today.

And the last question maybe to Werner. In the past you've told us you would not want to pay away more than 50% of the synergies for any deal. You've walked us through and you've basically said that the return on capital was very attractive but don't you feel that you have paid way more than 50% with this deal? Clearly the return on capital, and you've touched on this, doesn't really look too good.

Marijn Dekkers: Thank you. I'll answer the animal health question. We have a good animal health business. We would like to get bigger and stronger in it. That doesn't really change in the context of this deal but, of course, you know, things are happening also in the animal health space that we are closely observing and more I don't want to really say at this point. Rating agencies?

Werner Baumann: Yes, Fabian, thanks for the question. We have had preliminary discussions with rating agencies and, without going into too much detail, I can only tell you that those have been positively constructive and we have quite high confidence that with the financing, the way we are looking at it right now or the structure of the financing, we can defend our A target rating. Secondly, in terms of synergy-sharing, first of all you have to look at the overall transaction and the way it's composed. We have an unusually high tax shield and that is fully baked in and paid for in the 21 times 2013 multiple. If you look at the operational synergies, we absolutely stay on course with what we've always said and that is that we are not willing to share more than 50% of our operational synergies.

And, last but not least, and I briefly touched on that before, we discounted our projections, you know, between 7.5% and 8% and still we have a significant remaining discounted positive cash flow coming out of that transaction. So, we are quite happy with it and in terms of over- or underpaying, you know very, very exactly when you've underpaid because then is when you don't have the assets. By how much you have overpaid, that's actually a moot point. The way to look at this one here is that in a highly-contested quest for a crown jewel, we made it at a very, very adequate level if you look at the comparable multiples, specifically if you include

that significant tax shield. So, I think we can say by all accounts, Marijn, that we are very happy with what we've been able to achieve.

Marijn Dekkers: Yes.

Fabian Wenner: Thank you very much.

Operator: The next question comes from the line of Mrs. Holford. Please state your name, company name followed also by your question.

Kerry Holford: Thank you. A couple of questions, please. It's Kerry Holford at Credit Suisse. Firstly, just very quickly can I check, based on the commentary and the slides, so are you saying that the 2016 aspiration targets for the Consumer EBITDA margin is now more like 25%? With… adding in the Merck business, I think that was 24% before today.

And then, secondly, on the asset… one of the assets you're acquiring through this deal, Singulair, we saw over the course of the last few days an FDA vote against moving this asset to OTC status. I wonder if you can comment whether that played in a role in the process of purchasing these assets and the purchase price ultimately agreed. And then also once you acquire Singulair with everything else, do you plan to revisit that OTC switch proposal with the FDA? Is that something that you think still has legs or could you consider looking at allergy only versus the wider asthma indication? Many thanks.

Marijn Dekkers: Thank you. Okay, so the question on margins first, Werner.

Werner Baumann: Yes. I mean, what we've said on page 10 of the slide deck is that actually from year one the pre-specials, so our clean EBITDA margin, will benefit from that acquisition by about 1 percentage point,

based on existing and given guidance and there is nothing more we can say to that point at this point in time.

Marijn Dekkers: Okay. And then Olivier, Singulair.

Olivier Brandicourt Yes, this question is important because there is no switch… future switches included in this transaction. So, the Singulair switch is actually not part of it. The only thing which is part of the transaction are the territories in which recent switches with Nasonex or Clarinex have happened or are currently happening but no future switches are included in any way.

Marijn Dekkers: Next question.

Operator: The next question comes from Mrs. Hector. Please state your name, company name followed also by your question.

Luisa Hector: Hi, it's Luisa Hector from Credit Suisse. Maybe just to add a couple more question. On the amortisation, can you give us some guidance of how you think about that with the timing, given the lack of patents and what an annual amortisation charge would be? And also on the sGC collaboration with Merck, is there any particular timeframe associated with that payment or the collaboration in general.

Marijn Dekkers: Okay, Werner, amortisation.

Werner Baumann: Yes, again, it maybe is a little bit premature to talk about detailed amortisation values pa, but all-out magnitude, what you should assume is that for trademarks and the like we will have probably 20 years of amortisation periods. So, we'll give you more colour and detail once the purchase price allocation is done. Again, we've just concluded the

contract and I'm not in a position to talk about exact integration benefits, when they are going to occur by year and quarter, nor can we in this context talk about effects of purchase price allocation and then subsequent amortisation schedules on an annual basis.

Marijn Dekkers: All right. And then the timeframe of sGC collaboration.

Olivier Brandicourt: The sGC collaboration will start at closing and at which point we will receive the $1 billion payment and then there is a series of milestones, depending upon the revenue level of Adempas, with different levels starting at $500 million and then $750 million and then $1 billion. So, that's what has been agreed upon.

Luisa Hector: So, the $1 billion payment, are you required to keep working on the assets for a number of years or any particular constraints on it or targets on the R&D?

Olivier Brandicourt: No, it's when the… Again, the collaboration starts where we have, you know, clear development plans related to the asset and the entire partnership is in place for five years. So, in addition to Adempas and Vericiguat, as you know, each partner can put into the partnership Phase I assets and so that's the duration of the partnership.

Luisa Hector: Okay, thank you.

Werner Baumann: Maybe in addition to what Olivier has mentioned, the $1 billion upfront payment is not a contingent payment. It's not a contingent payment. The only contingent payments we have are the milestones-based, so sales and revenue milestone-based payments which can sum up to $1.1 billion in the future. But the first $1 billion is a, let's say, down payment because Merck will participate in an

already marketed product. That's the biggest part of it.

Luisa Hector: Okay, thank you.

Operator: The next question comes from the line of Mr. Wendorff. Please state your name, company name followed also by your question. Mr. Wendorff, your line is open. You may proceed with your question. Excuse me, Mr. Wendorff, can you hear us?

Werner Baumann: We ask him again later.

Operator: We will take the next question from the line of Mrs. Miemietz. Please state your name, company name followed also by your question.

Marietta Miemietz: Yes, good afternoon, it's Marietta Miemietz, Prime Avenue. Thank you for taking my questions. I have three, please. The first is coming back to your credit rating. I just wanted to clarify, have you actually had specific feedback from the credit agencies that an A rating is possible, even in the absence of any divestment whatsoever, i.e. if the incremental debt is just being repaid by the cash flows that the businesses are generating?

The second question is regarding the integration planning. I appreciate it's very early days but, equally, you have given a very specific accretion number for the first year post-closing. So, I was just wondering if you can just run by us the specific assumptions, however preliminary they may be, that you made in regard to the 2015 or first year post-closing accretion, specifically regarding the core tax rate, the financing charges and the synergies in that first year. I also wanted to clarify on the tax benefit. I would assume that that leaves the core tax rate unchanged, it's just a reported tax rate.

And then my final question is just on the profit-sharing on Adempas and Vericiguat. I do apologise but I'm not quite clear beyond the R&D expense-sharing for those assets how it's going to work. Is each party just going to keep their own gross margin less marketing cost or is there actually a profit-sharing formula on the end market sales of these assets, irrespective of who makes the sales and who ends up really booking the sale? Thank you very much.

Marijn Dekkers: Okay, we start with the first question on the credit rating, Werner.

Werner Baumann: Yes, on the credit rating, I can certainly repeat what I said earlier. We have had very constructive… positive and constructive discussions, first discussions with the rating agencies. Based on those discussions and also Marijn's comments on how we intend to finance the transaction, we have absolutely no indication at this point in time that we can't defend our A rating and that means that this transaction is going to be fully debt and inside of the debt also hybrid financed with no disposals of our existing businesses.

Secondly, when it comes to integration planning, it is still early days and it would take quite some time to go into, let's say, each of the details you have asked for in underlying assumptions. The clean EBITDA accretion for the business is actually driven by the incremental scale we are going to have specifically inside of the US. That's where we get the most imminent impact because outside of the US we will have some cost savings but the real value driver outside of the US is future growth and that also comes with incremental marketing and sales investments and that takes a little bit longer.

In terms of tax benefits, we will start to accrue tax benefits from year one as well because we acquire that higher asset base. Details will come once we are done with our integration planning in detail and higher specificity. And then, as far as one-time costs are concerned, which, of course, do have an impact on the reported tax rate, not on our clean and core EPS, that one is in the order of magnitude of $500 million to be incurred in 2014 and 2015.

Marijn Dekkers: Okay, then Olivier, the profit-sharing on Vericiguat.

Olivier Brandicourt I thought there was a question on the integration, or two.

Marijn Dekkers: Well, I think we've pretty much answered that.

Olivier Brandicourt Yes, all right. So, the profit-sharing on everything, right, it's basically 50% revenue, cost and profit. That's the very simple way of presenting it. So, for instance, Bayer will book 50% of global sales and that's how it's going to work.

Marijn Dekkers So, it's a completely 50/50 revenue and costs Structure.

Olivier Brandicourt It's a complete 50/50 cost and profit structure, yes.

Marijn Dekkers Okay, thank you. Next question, please.

Operator: The next question comes from the line of Mr. Evans. Please state your name, company name followed also by your question.

David Evans: Hi there, it's David Evans calling from UBS.
Just one financial question, please. I'm just wondering how many… how much in terms of pension provisions or legal provisions or any other balance sheet items will be transferring over to buyer as a result of the sale. Thanks.

Marijn Dekkers: Werner?

Werner Baumann: Yes, thanks, David, for that question. I can't answer that question at that level of specificity at this point in time. The only thing I can tell you is that this is not going to be significant.

David Evans: Thanks.

Marijn Dekkers Thank you.

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

Aleaxander Rosar: Yes, ladies and gentlemen, also on behalf of my colleagues I'd like to thank you for being with us on this call. I hope we answered all your questions. We are now saying goodbye. Auf Wiedersehen.