

Merck KGaA (USA) to acquire Sigma-Aldrich (USA) for \$17 billion with good part of financing coming from the \$14,2 Bn sale of its Consumer Care business to Bayer.

Date: September 22, 2014:

Merck KGaA said it has **entered** into a **definitive agreement** to **acquire Sigma-Aldrich** for **\$17 billion**.

Merck agreed to buy **Sigma-Aldrich** for **\$17 billion** to expand in **chemicals used in research labs** and **pharmaceutical manufacturing** and **reduce** its **dependence** on **drug development** (in 2013, **58%** of **Merck's revenue** came from **pharmaceuticals**, while **chemicals** accounted for **39%**).

Merck is to **pay \$140 per share** in cash, a **37% premium** to the **closing price** on **19 September** and a **36% premium** to the **one-month average closing price**.

The **deal is expected to close** in **mid-2015**, subject to **regulatory approvals** and other **customary closing conditions**.

According to **Morgan Stanley**, the **deal boosts Merck's pro-forma 2013 sales** by **~19%** and **EBITDA** pre by **~24%**.

Highlight transaction multiples is **close to life science peers**, at **19.4x EV/EBITDA 2014e** excluding **synergies** and **13.9x** including **synergies**.

The **purchase will accelerate Merck's shift away** from **developing pharmaceuticals** at a time when its **Serono biotechnology** business has **struggled to create new products**.

The company acquired **Millipore Corp.**, a U.S. **maker of lab equipment and chemicals**, in 2010 for about **\$6 billion**, and bought **AZ Electronic Materials SA**, a **chemical supplier to the electronics** industry, this year for about **\$2.5 billion**.

Karl-Ludwig Kley, Chairman of Merck's Executive Board said: "For our life science business [...] it's a **quantum leap**."

In one of the world's key industries two companies that **fit perfectly together** have found each other to present a **much broader product offering** to our global customers in research, pharma and biopharma manufacturing, and diagnostic and testing labs.

As such, the **combination** of **Merck** and **Sigma-Aldrich** will **secure stable growth** and **profitability** in an industry that is driven by trends such as the globalization of research and manufacturing.

The combination gives us the **possibility to invest even more** in **innovation** going forward. We are delighted to make this compelling proposition to **Sigma-Aldrich's** shareholders, who **will obtain full and certain cash value** for their shares."

Bridge financing has **been secured** for the **all-cash transaction**, and **Merck** expects the **final financing structure** will combine **cash** on **Merck's balance sheet**, **bank loans**, and **bonds**.

In May 2014, **Merck** has **agreed to sell** its **consumer care business** to **Bayer** for **\$14,2 Bn** (the cash will finance the Sigma-Aldrich acquisition).

Bayer has **agreed to acquire** the **consumer care business** of **Merck** for a purchase price of **USD 14.2bn** (21x EBITDA multiple)

In link with this purchase, **Bayer** announced few days ago the **separation** of its **MaterialScience business** (evaluated to **€9 Bn**) to **finance** the **Merck's Consumer Care business acquisition**.

Bayer to float **Bayer MaterialScience** on the stock exchange as an independent company

Sources: *Solvay Strategy Team from Chemweek, Morgan Stanley, Bloomberg.*