

Basel, 26 May 1997

Extraordinary Media Conference on the acquisition of the Boehringer Mannheim Group

Speeches English

(originally held in [German](#))

[Fritz Gerber](#) -Chairman of the Board of Directors

Dr. Franz B. Humer - Chief Operating Officer and Head of the Pharmaceuticals Division

J.-L. Bélingard - Head of the Diagnostics Division

Dr. Henri B. Meier - Chief Financial Officer and Member of the Board of Directors

Dr. G. Möller - President and Chief Executive Officer [Boehringer Mannheim](#) Group

Speech by Fritz Gerber Chairman of the Board of Directors

Ladies and gentlemen,

Welcome to this special Roche media conference, called to inform you of our takeover of the Boehringer Mannheim Group and acquisition of a majority interest in DePuy. I would like to thank you for your interest in our company and in this important transaction. First of all, however, allow me to make a few preliminary comments about organizational aspects of this media conference:

In the designated meeting rooms you will find work spaces with fax and telephone facilities.

After the general part of the media conference, participants are invited to a small reception, which will be held in the foyer adjoining the conference room.

After the media conference, representatives of the audiovisual media will have an opportunity to take photos and make other recordings in the entry hall of Building 21, which is reached via the foyer.

Furthermore, I would like to draw your attention to the fact that the conference can be accessed by telephone, and that your questions are thus public. Therefore, in the interests of our external audience, could you please use the microphones in the armrests of your seats and speak only when the light has come on.

Let me move on to the structure of today's media conference, which will consist of five main parts. I will start by presenting a brief overview of general aspects of the acquisition. Thereafter, Franz Humer, Head of the Pharmaceuticals Division and Chief Operating Officer, and Jean-Luc Bélingard, Head of the Diagnostics Division, will both speak in more detail about the current situation and future prospects in their respective areas. They will be followed by Gerald Möller, the Chief Executive Officer of the Boehringer Mannheim Group, who will briefly comment on the acquisition from his perspective, before handing over to Henri B. Meier, Chief Financial Officer of Roche, who will speak about the financial aspects. Thereafter, we will gladly answer any questions you might have.

Let me begin with the overview:

Ladies and gentlemen,

I take pleasure in announcing to you today the largest transaction ever effected by Roche since it was founded over 100 years ago. On 24 May 1997 we entered into an agreement with the owners of Corange to purchase all shares in this holding company. As a result, Roche will become the sole owner of the Boehringer Mannheim diagnostics and pharmaceutical businesses and majority shareholder in DePuy, a leading manufacturer of orthopedic products based in the United States. The purchase price is in the region of 11 billion US dollars. Henri B. Meier will give you more detailed information about the financial aspects of the acquisition later.

For a number of reasons, the acquisition of Corange is a further big step towards attaining our strategic objective of being world leaders in the areas in which we are active:

By combining the Roche diagnostics business and the diagnostics division of Boehringer Mannheim, whose 1996 sales were around 2.75 billion Swiss francs, we will create the world leader in the diagnostics market. Diagnostics will become the second-biggest Roche division after Pharmaceuticals and, by sales, the world's no. 1 in the in-vitro diagnostics business. Roche sales in this business area will rise from 750 million Swiss francs to more than 3.5 billion Swiss francs.

In the market segments clinical laboratory systems, molecular diagnostics (PCR) and diabetes monitoring, all of which have growth potential, the new division *Roche Boehringer Mannheim Diagnostics* is set to become a market leader and to create new business opportunities thanks to a broad range of innovative products and leading edge technologies.

With the acquisition of Boehringer Mannheim's pharmaceutical business, which in 1996 posted sales of some 1.5 billion Swiss francs, Roche will significantly strengthen its market position, particularly in Europe and Latin America, and raise its global pharmaceutical market share from 2.7 to 3 %. Boehringer Mannheim's cardiovascular and oncology products ideally complement our existing product portfolios in these therapeutic areas.

In recent years we have consistently reorientated the Roche Group and adjusted continuously to a rapidly changing environment, acting from a position of strength.

Through internal growth and targeted acquisitions we have consolidated our position as a leading global company offering innovative and cost-efficient products and services. We need to think only of the biotechnology company Genentech, the rights to PCR technology, the Syntex pharmaceutical group, the fragrances and flavours manufacturer Tastemaker and the acquisition of several OTC product lines.

Against the backdrop of a strategy that promotes innovation and focuses on building our strengths, the creation of Roche Boehringer Mannheim Diagnostics was the next logical step. We have thus reached our strategic goal of becoming a market leader in diagnostic systems and products, in terms of both sales and income.

The acquisition of a strong partner will boost the products, technologies and geographical presence of our Pharmaceuticals and Diagnostics Divisions. For example, Boehringer Mannheim in Penzberg has one of the world's most modern biotechnology production sites.

Although the acquisition still has to be approved by the relevant authorities, we are expecting the deal to move forward on schedule. Experience gained over the past few years shows that several months may pass until the authorities have given the necessary approvals.

At this point I would like to stress that bringing in Boehringer Mannheim's pharmaceutical business will not keep us from closely pursuing the ambitious objectives set at the beginning of this year, in particular the launch of our important new products Xenical, Posicor and Tasmar on the GP market.

It is still too early to say to what extent our acquisition of the Boehringer Mannheim Group will affect existing jobs in individual countries. However, I want the employees of Boehringer Mannheim and DePuy throughout the world to know that Roche, one of the most successful healthcare companies, offers them new, long-term perspectives. From our side, we expect additional, sustained and positive input for a continued successful development of the Roche Group. The Mannheim site, whose long-term future is assured by the acquisition, will also retain its particular importance within the new Roche Boehringer Mannheim Diagnostics Division.

Any restructuring necessary as a result of the acquisition, both at Roche and within the Boehringer Mannheim Group, will, as in the past, be carried out swiftly, fairly and with due regard for the welfare of the affected employees. If we are to remain successful in an increasingly competitive global environment, our personnel must be among the best. We should not forget that only a lasting willingness and ability to adapt to constantly changing market and customer requirements can, in the long term, secure viable jobs and create new ones.

This acquisition is an enormous entrepreneurial challenge, not only for management but for all employees at all levels. However, we are confident that we will accomplish this task successfully, not least because of the support we are being given by management at Boehringer Mannheim.

I firmly believe that, in future, closer cooperation between the Pharmaceuticals and Diagnostics Divisions will help to further improve the Roche Group's position in the healthcare market. We see long-term potential in the areas of disease management and patient care, both of which are rapidly gaining importance in the context of continuing efforts to reduce healthcare costs. By joining forces in the diagnostics area we have created an excellent basis which will allow us to emerge stronger from the current healthcare reforms. In addition, the pharmaceuticals business of Boehringer Mannheim will significantly complement and strengthen our position in important markets and sectors of Roche's traditional businesses. DePuy, in turn, opens the door to a new segment of the healthcare market with growth potential.

I will now hand you over to Franz Humer, our Chief Operating Officer and Head of the Pharmaceuticals Division, who will be followed by Jean-Luc Bélingard, Head of our Diagnostics Division, both of whom will give you more detailed information.

Speech by Dr. Franz B. Humer Chief Operating Officer and Head of the Pharmaceuticals Division

Ladies and gentlemen,

The acquisition of the pharmaceuticals business of the Boehringer Mannheim Group will allow Roche to gain market share, growing from some 2.7% to 3.3% of the world pharmaceuticals business.

In Europe, our position in many of the major markets will be reinforced. In Germany, Roche will be the third-largest pharmaceutical company, with sales of more than 1 billion DM and a market share of over 4%. Roche's current leading position in the Italian market will be fortified further by expanding operations by approximately 35%. In Spain we will gain around 30%, in France about 10% and in England 20%. We will also strengthen our presence in several smaller European markets and in Latin America.

These facts in themselves clearly demonstrate the strength of Boehringer Mannheim's marketing and sales organization. Together we will be able to improve our position further. In addition, Boehringer Mannheim has excellent research facilities, a series of extremely interesting, recently launched products and a pipeline which reinforces and complements our own. I can say that we very much look forward to working together.

As you know, our pharmaceutical activities target specific therapeutic areas, and we aim for a leading position in each of these areas. The acquisition of the Boehringer Mannheim group will strengthen our product and development portfolios in such key therapeutic areas as cardiovascular diseases, metabolic disorders and oncology, and in osteoporosis research and treatment.

In the case of Boehringer Mannheim's top-selling product, Recormon (erythropoietin), for the treatment of anemia, we can achieve even more dynamic growth thanks to our own activities and experience with Neupogen, a blood growth factor targeting white blood cells.

For many years, Boehringer Mannheim's Bezalip/Cedur, a lipid lowerer, and Euglucon, an antidiabetic, have been extremely successful in a therapeutic environment that also includes major diseases associated with obesity. This is significant in view of the imminent launch of Xenical, the new Roche product for the treatment of obesity.

In the case of the preparations Ismo and Dilatrend/Coreg there are market synergies to our own activities related to the market launch of Posicor, a new calcium antagonist for the treatment of coronary heart disease and hypertension. In the indication acute myocardial infarction the launch of Rapilysin, a recombinant antithrombotic, also strengthens our portfolio. Boehringer Mannheim's experience and knowledge in these therapeutic areas will stand us in good stead during our product launches.

As regards the therapeutic area bone metabolism, we have been active for some time with Rocaltrol and have a number of interesting projects in clinical development. In this area, Boehringer Mannheim's long experience in the research and development of biphosphonates and the marketing of Ostac will ably support our activities, as does their most recent development, ibandronat, for the treatment of osteoporosis. Again, there are interesting synergies with our traditional oncology business, the treatment of bone metastases of malignant tumours.

In light of the fact that, as already mentioned, new product launches are of the utmost importance to us, we will strive to complete the mergers of the pharmaceutical businesses in the various countries concerned quickly and comprehensively as soon as we have obtained permission from the relevant cartel offices. Our main objective must still be the successful launch of Posicor, Xenical and Tasmar. In almost all countries the experience of Boehringer Mannheim will assist us in our activities, especially, as already mentioned, in the cardiovascular and metabolism fields. We will make full use of the synergies which will enable us to undertake virtually from within our own ranks the planned expansion of our sales organization.

The ideal fit of both companies' diagnostics businesses and the interesting synergies in the pharmaceuticals area mean that cooperation between pharmaceuticals and diagnostics can be exploited and developed even better in the future. Interesting options present themselves here in the areas of outpatient treatment and disease management. In recent years we at Roche have successfully given new impetus to the marketing of AIDS and hepatitis products via the resulting synergies. This acquisition will now enable us to implement similar concepts in the areas of metabolic and cardiovascular diseases. We are convinced that both organizations will combine rapidly and harmoniously to produce an even stronger, more competitive and dynamic company.

However, we see more ahead than just a strengthening of our position for existing and new products. The same goes for research. Boehringer Mannheim possesses centers in Penzberg and Tutzing engaged in biotechnology research, development and production. These first rate, state-of-the-art centers are not only on the cutting edge in Europe, they can hold their own against any similar institution in the United States. Together with our own research groups in gene- and biotechnology we will be able to continue to build on our leading position in science and research.

As you have already heard, in addition to the business sectors covered by Boehringer Mannheim pharmaceuticals and diagnostics the Corange Group also holds a majority share in the American company, DePuy. This firm plays a leading role in the development, production and distribution of orthopedic implants and instruments, especially in the important US market but also in Asia and Latin America. Roche is acquiring a company with a strong market position in an attractive area with growth potential in a healthcare sector which is new for our Group. The high-quality DePuy product range, which shows healthy growth, covers the areas of joint replacement, fracture stabilization and sports medicine. Of course this is as yet - unknown territory for Roche. But because our analysis shows DePuy to be an outstandingly managed and profitable company it is our intention that it continue to operate independently.

I am confident, Ladies and Gentlemen, that we will soon be reporting a significant positive influence on earnings in both operating divisions thanks to the impetus to our diagnostics and drug products business provided by this acquisition.

Thank you for your attention.

Speech by J.-L. Bélingard Head of the Diagnostics Division

Ladies and gentlemen,

By acquiring the Boehringer Mannheim Group, we will become world champions in diagnostics. This will be the case once we have combined the two companies' diagnostics operations and our innovative products begin to derive maximum benefit from their combined resources. The newly founded Roche Boehringer Mannheim Diagnostics will make us about twice as large as the world's number three.

The global diagnostics market is put at about 19 billion US dollars. The joint Roche Boehringer Mannheim Diagnostics operation will have a market share of between 11 and 15 percent, depending on what exchange rate you take for the dollar versus the D-mark. In some segments of the diagnostics market, we will have an even stronger position. One such area is the clinical chemistry analytics performed in large medical laboratories. In this field, both companies supply laboratory equipment and reagents which are based on pioneering technology and have good levels of market acceptance. Boehringer Mannheim has a separate division - *Patient Care* - specializing in outpatient tests for rapid diagnosis in doctors' practices or even at the patient's home. It has become the world's leading supplier of such tests. In molecular diagnostics, Roche has set new industry standards with its PCR technology. The acquisition of Boehringer Mannheim should enable this technology to penetrate the market at an even faster pace. Roche and Boehringer Mannheim will take a joint lead in the immochemistry and urinalysis segments.

Following the amalgamation, the Roche Boehringer Mannheim Diagnostics business will be a world leader not only in terms of sales but also with regard to the breadth of its product portfolio, the variety of innovative technologies it employs, and its geographical presence. This transaction is another milestone in a general trend observable in the diagnostics industry: away from small niche producers and towards large global operations with diversified product portfolios.

Something that means a lot to me at the moment is to be able to say, loud and clear, that we're proud to be joining forces with a such a top-class diagnostics firm as Boehringer Mannheim. It's a company with first-rate employees and a wealth of experience in the diagnostics business. Moreover, we will rigorously pursue the primary goal of the merger - namely, to expand and develop our joint activities. This will open up great opportunities for the employees of Roche and Boehringer Mannheim. Since we want to establish Roche Boehringer Mannheim Diagnostics as the most competitive organization in the diagnostics market, the new structure will have to be carefully evaluated. We want to optimize operational processes and keep the entire organization lean and flexible.

To sum up, our plan is to rapidly combine the two companies' business activities in the diagnostics field so that we can exploit the synergies and step up growth still further.

Our objective is to enter the 21st century as the world's market leader in the diagnostics field.

Speech by Dr. Henri B. Meier Chief Financial Officer and Member of the Board of Directors

Ladies and gentlemen,

In the recent past, the Corange Group has increased its profit from year to year. In 1996 it reported net income of 520 million US dollars. This includes extraordinary earnings from the sale of a 15.8 percent stake in DePuy Inc. by way of an initial public offering. Factoring out this extraordinary item, net income came to 366 million dollars or - at the current exchange rate of 1.40 Swiss francs per US dollar - 512 million Swiss francs.

In the current year, net income is expected once again to rise faster than the industry average. Liquidity levels in the Corange Group were relatively high at end-1996, amounting to a net 685 million dollars. With capital and reserves equivalent to 44 percent of total assets at year-end, it has a solid equity base.

In 1996, the return on equity (taking account of the DePuy IPO) came to 23 percent, the operating margin was 13 percent and sales per employee came to 200,000 US dollars. The Clinical Chemistry, Patient Care and Orthopaedics sectors all show above-average profitability by comparison with the industry as a whole.

15.8 percent of the shares of DePuy Inc. are traded on the New York Stock Exchange. At their current price of around 21 to 23 dollars, the price/earnings ratio for 1997 should be about 18. In 1996, DePuy reported net income of 107 million dollars and its equity capital corresponded to a high 74 percent of total assets. DePuy's operating margin was an impressive 27 percent.

How will the acquisition affect our earnings prospects? This takeover strengthens Roche's position in a number of areas where we are striving for market leadership. Therefore, you can assume that the transaction will soon start to boost the Roche Group's earnings.

In the short term, however, acquisitions generate additional costs until such time as the positive effects start to emerge. Accordingly, we expect some dilution of our result in the first year. This will be due not only to the cost of amalgamating the two businesses but to the fact that the transaction will be financed by liquid funds, some of which are yielding high returns.

As you may recall, we have frequently pointed out that we do not want to act as a bank. Our aim has always been to use our cash holdings to strengthen our operations. Over the last few years we have spent over 10 billion dollars on acquisitions in order to expand our market position in core areas and steadily enhance the Group's long-term worth.

How we actually finance the transaction will depend mainly on the timing of the acquisition and the conditions prevailing on the financial markets at that time. We will probably take out a bridging loan. With nominal interest rates as low as they are at present, such a loan would be an attractive proposition.

At the beginning of May we floated another convertible issue (a LYON, or Liquid Yield Option Note), thus tapping the capital market for more than one billion dollars. By doing so, we obtained low-cost funding for - among other things - the acquisition of Tastemaker.

We are confident that conducive market conditions at the time of closing plus a suitable combination of financing techniques will allow us to formulate an attractive long-term financing plan.

Speech by Dr. G. Möller President and Chief Executive Officer [Boehringer Mannheim](#) Group

Ladies and gentlemen,

In the course of its 138-year history, Boehringer Mannheim has experienced many changes, most of which it initiated itself. The most far-reaching business decision was doubtless that taken as early as the 1950's to make a full financial commitment to the industrial application of the then new science of biochemistry. Originally conceived for the Therapeutics division, this decision initially had a surprising consequence for Boehringer Mannheim. We became the world leader in the laboratory diagnostics market, which we helped create. As the second-biggest company in this sector, we are still proud of this pioneering role, which was later rounded out by an outstanding strategic alliance with the systems manufacturer Hitachi. Our current main focus is to aggressively market our new immunology system, Elecsys, against a competitor whose leadership in this market segment has hitherto gone largely unchallenged.

In the 1970's our guiding idea was to bring the clinical laboratory to the patient - to diabetics, for example, who must constantly monitor their changing blood sugar levels in connection with their insulin therapy. This was another far-sighted investment, and it gave us expertise that is probably unique: diagnostics products in tablet form that every patient could use and interpret. Our products and patient education programmes showed diabetics how they could lead almost normal lives. Patient Care was born - long before the disease management programmes so often talked of today.

It was only about ten years ago that we pushed ahead with the development of recombinant human proteins for therapeutic use, exploiting the advanced biotechnology developed at our Penzberg and Tutzing facilities in Bavaria and the medical and pharmaceutical know-how concentrated at our Mannheim and Monza centers. Recormon (erythropoietin), launched 7 years ago, was the first such product. Within the last eight months we have launched a second recombinant product, Reteplase (t-PA), which was originated and developed entirely by Boehringer Mannheim.

In addition, in our traditional field of small molecule pharmaceuticals, we also have a number of exciting new products to contribute. Torasemide, a diuretic, Coreg/Dilatrend, for hypertension and heart failure, and ibandronat, to be launched within the next few years for the treatment of osteoporosis, symbolise our proficiency in these therapeutic areas.

Through its biochemicals business Boehringer Mannheim has close contacts with life science research around the world. Our laboratory reagents are recognized reference standards that are also sold to our competitors in the diagnostics field, including Roche.

In view of all these strengths, you might ask, where is the advantage of combining with Roche? I will make no secret of the fact that we explored other corporate development options, such as going public or entering into alliances or partnerships with other European, American or Japanese companies.

The challenges facing a family-owned company are not unique, although many company-specific factors may be involved. For decades the owners of Boehringer Mannheim played an active part in shaping the company, and in the last 40 years this role has been prominently filled by Curt Engelhorn. New technological opportunities were always received with interest, and creative ideas drove the company's global expansion.

All this cost a lot of money. However, the challenges in our industry have grown tremendously over recent years. In today's global market and competitive environment, evolutionary growth over a period of many years is more expensive than ever before, because it has to take place at a much faster pace than it did in the past. On our own we were unable to maintain our position as market leader in diagnostics and at the same time globalize and broaden our pharmaceuticals business. The immense success of our recent work would have made it wrong and unfair on our staff to give up pharmaceuticals in favour of diagnostics. We now have products with a potential many other companies would envy.

When Curt Engelhorn informed us of his initial discussions with Roche and asked us to look into the advantages of such an association, we did so with interest and positive expectations.

It was easy to see that together we would be the leader in the global diagnostics market. Likewise, it was plain that the problem of access to PCR, one of Boehringer Mannheim Diagnostics' few weaknesses, would finally be eliminated.

Fears that we would be subordinate to Roche in pharmaceuticals quickly subsided after closer analysis of both companies' therapeutic areas and of their strength/ weakness profiles.

Roche is strong in biotechnology, but this strength is centred on the USA. Like us, Roche is innovation driven. The integration of diagnosis and therapy, an area in which we already have considerable experience, is one of Roche's declared corporate aims. In our strong new global alliance, we shall be able to transform our patient focus into commercial results much more effectively. Our biochemical business will also enable us to commercially exploit many of Roche's research discoveries. The successful DePuy orthopedic products group gives Roche a base in a market where biology is exerting an increasingly strong influence.

In our view, however, the real key to positive, forward-looking commitment lies in the compatibility of Roche and Boehringer Mannheim at the level of their corporate cultures. Motivated staff are a company's greatest resource and the prerequisite for its success.

We hope that this will be the case with the combining of our two companies and that we will be able to channel all the energy thus created into the market very quickly.

As I mentioned at the beginning of my speech, we have experienced many changes, most of our own making. This merger is not only a major change for Boehringer Mannheim as an independent company, it is irreversible. It is our desire and intention to play an active role in shaping our common future.

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