

Basel, 27 October 1997

Preliminary results of Roche's planning activities for the integration of Boehringer Mannheim

Preliminary studies under way at Roche on the integration of Boehringer Mannheim and DePuy are progressing well. The studies and scenarios submitted in recent weeks by various working groups show substantial potential for synergies and give every indication that Roche's core businesses will be strengthened long term. The final assessment as well as decisions about the future structure of the Group, will depend greatly on the results of additional studies and the outcome of the official approval procedures.

The planning teams started work in September. The principles guiding their work are to build on existing strengths, to simplify organisational structures and to set priorities. Current planning activities are based on possible scenarios and working hypotheses and are therefore preliminary. Plans are also conditional on official approval of the transaction and on reviews of the remaining open questions by the relevant internal decision-making bodies of the various companies concerned.

At present Roche anticipates synergies in the order of 1 Billion Swiss francs per year as a result of increased sales, divestment of products and production facilities, streamlined production activities and cost and staff reductions.

Based on a total headcount of approximately 74,000 worldwide at Roche, Boehringer Mannheim and DePuy, the studies to date point to a likely reduction in the range of 4,000 to 5,000 jobs over a two to three year period.

Roche and Boehringer Mannheim will implement the staff reductions in a socially responsible manner gradually over a two to three year period. Reductions will be achieved primarily through natural attrition and redeployment. Moreover, within a sound business context, staff reductions will also rely on incentives for employees to leave voluntarily, to accept early retirement or preretirement arrangements. The intention is to minimise compulsory redundancy programs. Socially responsible proposals will be prepared in due course in collaboration with the employee representatives of the affected companies on the basis of available plans at that time.

Pharmaceuticals: Focus on growth and increased productivity

Integration of Boehringer Mannheim's and Roche's pharmaceutical activities is expected to further strengthen Roche's market position and to be accompanied by sustained productivity increases in the merged organisations. Priority is given to the successful global launch of innovative new products from both companies, which should result in strengthening Roche's leading position in the hospital market and increasing its market share in the general practitioners segment.

The pharmaceuticals division will continue to be headquartered in Basel. All sites in Germany and Switzerland will be retained.

With its five research centres in Basel, Welwyn, Nutley, Palo Alto and Kamakura, Roche has the critical mass required to develop marketable new products quickly and efficiently using state-of-the-art technologies. Based on the result of reviews to date a number of promising drug development projects currently ongoing in Mannheim and Monza should accordingly be integrated into existing Roche research centers. This will inevitably result in a significant downsizing of research at these two sites, but as many staff as possible are to be offered positions at existing Roche research facilities. The Penzberg site, located in Bavaria, will assume a major role for certain therapeutic areas in Roche's international network of research sites.

Worldwide development of pharmaceutical products is to be directed from Basel. Development work on key Boehringer Mannheim products such as NeoRecormon®, Bondronat® and Dilatrend®/Coreg® are to be handled worldwide by teams based in Mannheim.

The Mannheim site will be assigned a number of additional local and global responsibilities within the Roche Group. This major pharmaceutical production site will join Roche's network of strategic production sites and take on additional capacity. The Grenzach, Basel and Kaiseraugst sites will continue to be responsible for chemical and formulation manufacturing. The task of eliminating worldwide capacity surpluses in warehousing, packaging and distribution is under detailed review.

Strategic pharmaceutical marketing for all therapeutic areas worldwide will be directed from Basel. This will result in a corresponding reduction in strategic marketing positions in Mannheim. Efforts will be made to relocate as many of these positions as possible to Basel.

Integration of the two pharmaceuticals businesses would build Roche into one of the three leading pharmaceutical companies in Germany. To consolidate this market position and to strengthen it further with new product launches, plans currently call for integrating the two German companies' field force and marketing organisations, both of which are to be headquartered in Grenzach. As announced previously, the two companies intend to retain their current legal structures in Germany.

Significant overlaps exist between the diagnostics and pharmaceuticals divisions in the areas of administration and infrastructure services. These need to be identified and reduced wherever possible without affecting ongoing business activities.

Diagnostics: Centres of excellence in Germany, Switzerland and the United States

The proposed integration is expected to make Roche a leading diagnostics company and to significantly increase its potential for value creation. This will be achieved by establishing centres of excellence with global responsibility for research, development, production and marketing in a particular business segment. Pooling expertise in this way should further enhance competitiveness. In addition, strong local marketing organisations and an expanded range of products and services should further enhance sales once integration is complete. Thus the plans include activities to strengthen Boehringer Mannheim's extensive distribution network and complement it with Roche's diagnostic products. The existing diagnostic product lines of both companies are to be retained.

Kaiseraugst will remain the global strategic management centre of the diagnostics division.

It is the intention to create in Penzberg and Tutzing one of the world's leading locations for the development of pharmaceutical and diagnostic applications in biotechnology. This should further contribute to strengthening Germany and particularly Bavaria as an important base for the biotech industry. For Roche this will mean a further strengthening and focusing of its global biotechnology and gene technology based research, development and production.

According to the preliminary plans, Mannheim and Penzberg will assume important functions within the diagnostics division. Mannheim will become the centre of excellence for both, patient care and clinical chemistry, Penzberg the centre of excellence for both, immunochemistry and biochemicals. As a result staff numbers in both locations are expected to increase. In line with the current analysis it is planned to combine Roche's diagnostics units, currently based in Kaiseraugst and Grenzach, and relocate them to Mannheim and Penzberg.

Molecular diagnostics will, as announced previously, continue to be managed from the United States, where the centres of excellence for PCR, drugs of abuse testing and therapeutic drug monitoring will be based.

The Swiss location of Rotkreuz is to remain a key centre for the development and production of instruments.

DePuy to be a separate unit

As announced at an earlier date, DePuy, Inc. of Delaware is to continue to operate as a separate unit. A leading manufacturer of artificial joints and other orthopedic products, DePuy has considerable potential for growth.

Rapid implementation

Roche is convinced that the planned restructuring will significantly enhance competitiveness, creating and protecting long-term employment opportunities and securing the future role of the existing locations. It is Roche's goal to proceed rapidly with the integration once the acquisition is approved by the authorities.