

## 16 | Bayer AG

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|                         |                  |      |
|-------------------------|------------------|------|
| <b>HEADCOUNT</b>        | 38,000 in pharma |      |
| <b>YEAR ESTABLISHED</b> | 1971             |      |
| <b>PHARMA REVENUES*</b> | \$8,518          | +68% |
| <b>TOTAL REVENUES</b>   | \$36,375         | +18% |
| <b>NET INCOME</b>       | \$2,114          | +6%  |
| <b>R&amp;D BUDGET**</b> | \$1,579          | +86% |

### DRUGS APPROVED/LAUNCHED

| <i>Drug</i> | <i>Indication</i>                      |
|-------------|--|
| nexavar     | advanced renal cell carcinoma          |
| yaz         | acne                                   |
| zetia       | cholesterol-lowering agent             |
| mirena      | long-acting intrauterine contraceptive |

### DRUGS PENDING APPROVAL

| <i>Drug</i>          | <i>Indication</i>                  |
|----------------------|------------------------------------|
| campath              | first-line treatment of B-cell CLL |
| nexavar              | hepatocellular carcinoma           |
| avelox               | pelvic inflammatory disease        |
| fosrenol             | chronic kidney disease             |
| e2 / lng             | menopausal management              |
| menostar transdermal | vasomotor symptoms                 |

### DRUGS IN PHASE IIB AND BEYOND

| <i>Drug</i>  | <i>Indication</i>  |
|--------------|--|
| alfi meprase | acute peripheral arterial occlusion, catheter occlusion          |
| rivaroxaban  | venous thromboembolism, stroke prevention in atrial fibrillation |

|                     |  |
|---------------------|--|
| nexavar             | malignant melanoma and NSCLC                                 |
| bonefos             | prevention of bone metastases in patients with breast cancer |
| campath             | CLL second line  |
| zevalin             | indolent / aggressive NHL first line                         |
| betaferon high dose | multiple sclerosis   |
| mirena              | menorrhagia  |
| visanne             | endometriosis  |

### TOP SELLING DRUGS

| <i>Drug</i>  | <i>Indication</i>  | <i>\$</i> | <i>(+/- %)</i> |
|--------------|--------------------|-----------|----------------|
| Kogenate     | hemophilia         | \$989     | 20%            |
| Adalat       | hypertension       | \$825     | 1%             |
| Betaferon*** | multiple sclerosis | \$672     | n/a            |
| Cipro        | antibiotic         | \$644     | -1%            |
| Yasmin***    | female health      | \$567     | n/a            |
| Avalox       | antibiotic         | \$497     | 10%            |

Account for 72% of total pharma sales, up from 70% in 2005.

\* Pharma unit, not including diagnostic imaging revenues of \$876 million  
\*\* R&D only for Bayer Healthcare Pharmaceuticals unit  
\*\*\* Acquired mid-year in Schering AG acquisition, NOT full-year sales

**I**N MARCH 2006, BAYER MADE a \$20 billion bid to acquire Schering AG. The deal closed in June 2006, creating Bayer Schering Pharma AG as the company moved into 2007. Thanks to the partial-year addition of Schering, Bayer posted nearly \$8.5 billion in pharma revenues for 2006. Bayer management contends that the new entity will shave off \$850 million in costs annually by 2009 (along with 6,000 workers), and recently touted its pipeline as having nine projects filed with the FDA and 19 more in Phase III. Eleven more projects are planned to reach Phase III by the end of 2009. The company also cancelled 20 projects in the pipeline "due to either strategic reasons or low prospects for success."

Hemophilia treatment Kogenate remained Bayer's top performer in 2006, followed by antihypertensive Adalat. With a full year of Schering products in the fold, they should both be supplanted by Betaferon and Yasmin, which posted sales of \$1.2 billion and \$1.0 billion, respectively. The company also plans to build up its oncology franchise on the strength of renal cancer drug Nexavar, co-developed with Onyx. Bayer and Onyx are testing it against NSCLC (Phase III) and breast cancer (IIb).

One product that didn't fare so well was Trasyolol. The company halted trials of the drug, an injection approved in coronary artery bypass surgery, in January 2007. Bayer was hoping to expand the product's label, but the FDA stepped in after two

studies showed that the drug might cause severe kidney damage, and "may increase the chance for death, congestive heart failure, and strokes." Some controversy ensued when it surfaced that Bayer failed to disclose a retrospective study of the drug. The company even hired an outside investigator to review its actions regarding the study, after suspending senior personnel.

### Go, Nationals!

At the time the Schering acquisition was proposed, Bayer chief executive officer Werner Wenning commented, "We are convinced that merging the two companies will create a healthcare heavyweight of international standing with a strong market position based on an innovative product portfolio and a well-stocked pipeline. We believe this merger to be an appropriate, compelling and value-creating step, which will also benefit our stockholders, employees, customers and patients. It is also the best way of reasserting the importance of Germany as a pharmaceutical industry base."

I'm skeptical of the "national champion" concept in the drug industry. Two of our better performers — Novartis and Roche — don't spend time touting their Swiss-ness. Still, the Schering acquisition looks like it can help rouse Bayer's pharmaceutical business from its post-Baychol doldrums. Unless the Trasyolol controversy turns ugly, in which case all bets are off. ■