

## Bayer

Price EUR89.54

## Bayer bids for Monsanto for USD62bn in an all-cash transaction

Fair Value UNDER REVIEW

NEUTRAL

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	137.8 / 88.5
Market Cap (EURm)	74,045
Ev (BG Estimates) (EURm)	91,221
Avg. 6m daily volume (000)	2 696
3y EPS CAGR	6.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-18.4%	-8.7%	-29.0%	-22.7%
Healthcare	-2.0%	2.7%	-11.3%	-9.6%
DJ Stoxx 600	-3.6%	3.6%	-11.5%	-7.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,325	45,860	47,452	49,008
% change		-1.0%	3.5%	3.3%
EBITDA	10,275	10,653	11,169	11,755
EBIT	8,851	9,274	9,752	10,291
% change		4.8%	5.1%	5.5%
Net income	5,687	5,827	6,399	6,852
% change		2.5%	9.8%	7.1%

	2015	2016e	2017e	2018e
Operating margin	19.1	20.2	20.6	21.0
Net margin	12.3	12.7	13.5	14.0
ROE	25.6	22.9	22.7	21.8
ROCE	11.6	12.4	13.1	13.9
Gearing	71.0	51.8	35.6	20.9

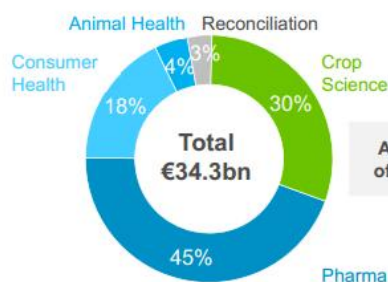
(EUR)	2015	2016e	2017e	2018e
EPS	6.88	7.05	7.74	8.29
% change	-	2.5%	9.8%	7.1%
P/E	13.0x	12.7x	11.6x	10.8x
FCF yield (%)	5.8%	8.1%	8.7%	9.3%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	2.8%	2.9%	3.0%	3.1%
EV/Sales	2.0x	2.0x	1.9x	1.7x
EV/EBITDA	9.2x	8.6x	7.9x	7.1x
EV/EBIT	10.7x	9.8x	9.0x	8.2x

Bayer has announced this morning that it is offering USD122 per share to acquire Monsanto in an all-cash offer that values the target at USD62bn. Bayer is expecting to generate USD1.5bn in synergies which will make the acquisition accretive by a mid-single digit percentage in year 1 and double-digit percentage in the subsequent years. The offer is not subject to a financing condition. Bayer intends to finance the acquisition by a rights issue representing about 25% of the total amount and 75% in debt. Due to strong cash-flow generation, Bayer anticipates a long-term A credit rating by agencies. 50% of Bayer's revenues would then be generated in Crop Science. We put our FV under review.

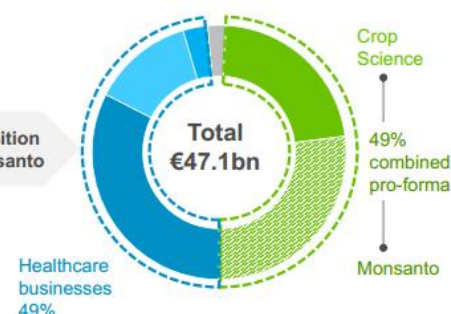
## ANALYSIS

- Bayer is today initiating an offer to acquire Monsanto in an all-cash transaction valuing the target at USD62bn (USD122 per share), which represents a premium of about 33-38% over stock prices before rumours arose and an EBITDA multiple of 15.8x, considering also that Monsanto has net debt of between USD5bn and USD6bn in its balance sheet.
- Bayer is convinced it can offer "significant value creation" with this transaction. This factors in USD1.5bn in synergies expected in year 3. The split is not yet provided but total operating expenses at Monsanto in FY 2015 were USD4.7bn, excluding COGS and about USD12.3bn including COGS. This is a meaningful level of synergies that could nevertheless include the already presented cost savings from Monsanto's restructuring initiative that aimed to achieve USD500m in cost cutting through the creation of commercial hubs, optimising IT and supply chain and prioritising overall efforts.
- If the offer is successful, as illustrated below, and very much as expected, Bayer will generate half of its revenues in Crop Sciences.

## 2015 Life Science Sales



## 2015 Pro Forma Life Science Sales incl. Monsanto



## VALUATION

- The offer is not subject to any financing condition as Bayer is confident in its ability to finance the transaction through a combination of debt (75% or about EUR41.5bn) and equity (25% or about EUR13.8bn) which is expected to be raised primarily via a rights offering. We would therefore anticipate the creation of a conditional new number of shares representing about 16% of the current number (157million).
- Two conference calls are scheduled today that should give more details on synergies and financing. Until then, we put our FV under review.

## NEXT CATALYSTS

- Today: Conference calls at 9am and 2pm

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**Analyst :**  
Eric Le Berrigaud  
33(0) 1 56 68 75 33  
eleberrigaud@bryangarnier.com

**Sector Team :**  
Mickaël Chane Du  
Hugo Solvet

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15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
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	resolution (ACPR)			CP 2113
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