

28 July 2009

## Varian - Agilent

Offer Terms	
1 VARI US = US\$52.00 in cash	
Target: Varian	
Country	USA
Bloomberg	VARI US
Sector	Instruments
Share price (US\$)	50.61
Market cap (US\$m)	1,459
Free float (%)	~100
Acquirer: Agilent	
Country	USA
Bloomberg	A US
Sector	Electronic Measurement
Share price (US\$)	23.19
Market cap (US\$m)	7,963
Free float (%)	~100
Varian price chart	
Deal Status	
Offer announcement – 27 July 2009	
Next critical date	
Filing under HSR - ~August 2009	
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### Plan of Merger

- Merger likely to close in ~December 2009
- Biggest risks include timing due to regulatory approvals and the ability of Agilent to walk if material divestitures required

### Summary

On July 27, 2009, **Agilent Technologies Inc.** (“Agilent”) and **Varian, inc.** (“Varian”) announced that they have signed a definitive agreement for the acquisition of Varian.

- Terms of the merger: 1 VARI US = US\$52

### Conclusion

We believe that the current discount of 2.8% to the terms of the offer is an appropriate reflection of the risk/reward in the offer

- We believe that the acquisition of Varian is likely to close in ~December 2009 (subject to potential slippage due to antitrust reviews)
  - We regard this closing as achievable assuming Agilent files under HSR in the next few weeks and files with the EU no later than early November 2009
- We believe that the biggest risks to the transaction are timing and the potential for Agilent to walk if divestitures are required which “materially impair the benefits of the merger” to Agilent
- We estimate a standalone value of ~\$44 per share on the basis of comparable company EV/EBITDA

We regard the terms and conditions of the Merger Agreement as standard for an agreed transaction.

- We believe that it would be difficult for Agilent to invoke the material adverse change clause
  - The material adverse change clause excludes any changes related to industry changes, general economic conditions, natural disasters, etc
- However, the merger agreement gives room for Agilent to walk in the event that divestitures are required by antitrust authorities
  - If these divestitures “materially impair the benefits of the merger” to Agilent

On the basis of the product overlap between Varian and Agilent, we would not rule out a second request under HSR or a Phase II investigation from the EU Commission

- Agilent and Varian are the market leaders in certain bio-analytical products
  - We believe that potential competition issues could arise in Gas Chromatograph (GC), Gas Chromatography-Mass Spectrometry (GC-MS) and Inductively Coupled Plasma-Mass Spectrometry (ICP-MS)
- However, mitigating factors include the presence of several smaller players and rapidly changing technology in most parts of the market
- Also, the areas of overlap between Varian and Agilent appear to be primarily in slower growing segments of the market where the products are being replaced with better technology
- We believe that an EU Phase II investigation could be avoided by offering remedies in Phase I after having identified any competition issues during the US competition review.

## Terms of the Offer

On July 27, 2009, Agilent Technologies Inc. ("Agilent") and Varian, inc. ("Varian") announced that they have signed a definitive agreement for the acquisition of Varian.

- Terms of the merger: 1 VARI US = US\$52.00

## Financing

The offer is not subject to any financing conditions

## No Solicitation

Varian has agreed not to solicit any competing proposals

- Subject to standard fiduciary out

## Dividends

Varian does not pay dividends.

## Break Fee

The termination of the agreement is subject to a \$46m termination fee

## Conditions to the Merger

### Varian Shareholder Approval

The merger must be approved by a majority of outstanding Varian shares

## Regulatory Approvals

Regulatory approvals needed to complete the transaction include

- HSR Approval
  - Under the merger agreement, filing under HSR shall be made within 15 business days after the execution of the Merger Agreement
- EU Commission
- Other applicable antitrust filings

Agilent shall be under no obligation to make proposals, execute or carry out agreements, enter into consent decrees or submit to orders providing for

- (A) the sale, divestiture, license or other disposition or holding separate (through the establishment of a trust or otherwise) of any assets or categories of assets of Acquiror or any of its affiliates or the Company or any of the Company Subsidiaries (each, a "**Divestiture**"),
- (B) the imposition of any limitation or regulation on the ability of Acquiror or any of its affiliates to freely conduct their business or own such assets, or
- (C) the holding separate of the shares of Company Capital Stock or any limitation or regulation on the ability of Acquiror or any of its affiliates to exercise full rights of ownership of the shares of Company Capital Stock, other than any Divestiture that would not materially impair the benefits of the Merger to Acquiror (a "**Non-Material Divestiture**"), which Non-Material Divestiture Acquiror agrees to effect if and to the extent required to obtain clearance of the Merger before the Extended End Date under any of the HSR Act, the EC Merger Regulation or the Antitrust Laws of any country set forth on Schedule 8.3(d) of the Company Disclosure Letter (unless Acquiror has waived the closing condition in Section 8.3(d) with respect to such country's Antitrust Laws) (any of the foregoing referred to in clauses (A) (other than a Non-Material Divestiture), (B) or (C) above, an "**Antitrust Restraint**").
  - We understand that Schedule 8.3(d) is not public

## Other Conditions

- No injunctions or restraints
- Additional government approvals
- No litigation
- Accuracy of representations and warranties
- Performance of covenants
- No Material Adverse Change (MAC)
  - **“Material Adverse Change”** means any change, that is or is reasonably likely to be, individually or in the aggregate, materially adverse to the financial condition, assets (including intangible assets), liabilities, business, operations or results of operations of such entity and its Subsidiaries, taken as a whole, except to the extent that any such Effect is proximately caused by:
    - (a) changes in general economic conditions, changes in securities or other financial markets or changes affecting the industry generally in which such entity
    - (b) changes in the trading volume or trading prices of such entity's capital
    - (c) acts of war
    - (d) earthquakes, hurricanes, tsunamis, tornadoes, floods, mudslides, wild fires or other natural disasters, weather conditions and other force majeure events in the United States or any other country or region in the world;
    - (e) changes in Applicable Law or GAAP
    - (f) any failure to meet published analysts' estimates or expectations, or internal budgets, plans or forecasts
    - (g) the announcement or the execution of this Agreement
    - (h) any actions taken by such entity which Agilent has approved, consented to or requested
    - (i) any Legal Proceeding brought by any of the current or former stockholders of such entity (on their own behalf or on behalf of such entity) against such entity relating specifically to the Merger; or
    - (j) any strikes, lockouts, slowdowns or work stoppages against such entity

## Comment

We regard the terms and conditions of the Merger Agreement as standard for an agreed transaction.

- We believe that it would be difficult for Agilent to invoke the material adverse change clause
  - The material adverse change clause excludes any changes related to industry changes, general economic conditions, natural disasters, etc
- However, the merger agreement gives room for Agilent to walk in the event that divestitures are required by antitrust authorities
  - If these divestitures “materially impair the benefits of the merger” to Agilent

## Potential Competition Issues

We believe that the product overlap in Varian and Agilent is limited to products that fall into Varian's Scientific Instruments market.

- According to Varian's 10-K, Varian's Scientific Instruments segment competes primarily with Agilent, Bruker, JEOL, PerkinElmer, Shimadzu, Thermo Fisher Scientific, Waters and other smaller suppliers.
- Our principal competitors in the chemical analysis arena include: Life Technologies Corp., Perkin Elmer Corp., Shimadzu Corporation, Thermo Fisher Scientific Inc. and Varian, Inc.

We believe that the areas of antitrust concern could include

- Mass Spectrometry
  - Agilent is a market leader in Single-Stage LC/MS
    - Includes only the MS portion of complete systems
- Gas Chromatograph/Mass Spectrometry (GC-MS)
  - We understand that as at 2008, Varian and Agilent were the market leaders in GC/MS
    - GC/MS is a combination of gas chromatography and mass spectrometry
    - GC/MS is still experiencing moderate growth, even though much of the demand for the technology is from areas outside of pharmaceuticals and biotechnology.
  - We understand that Agilent's leadership position in GC allowed it to gain a significant market share in GC-MS
- Gas Chromatography (GC)
  - Agilent has long dominated the GC market

- In 1999, HP (now Agilent) was the market leader in gas chromatography with a ~36% market share
- The 2<sup>nd</sup> place spot was a virtual tie between Varian and Shimadzu, with both holding ~8%
- This is obviously out of date, but we understand that the market for gas chromatography is mature and there is little change in the competitive landscape
- High-Performance Liquid Chromatography (HPLC)
- Inductively Coupled Plasma-Mass Spectrometry (ICP-MS)
- Potentially consumables associated with products above
  - In the merger of Thermo Electron and Fisher Scientific, the overlap of consumable products (pipettes, etc) was examined by the EU Commission

On the basis of the product overlap between Varian and Agilent, we would not rule out a second request under HSR or a Phase II investigation from the EU Commission

- However, mitigating factors include several smaller players and rapidly changing technology in most parts of the market
- The areas of overlap between Varian and Agilent appear to be primarily in slower growing segments of the market where the products are being replaced with better technology
  - Although the earlier technologies such as GC and GC/MS are mature, newer technologies continue to emerge which build on the original technology but offer greater functionality
  - This lowers the barriers to entry, although market leaders are likely to maintain better access to customers

**Overlap in Product Lines (overlaps shown in bold font)**

	Varian		Agilent		
	Types	Combinations	Types	Combinations	Notes on Market Share
Mass Spectrometry (MS)	single-quadrupole, <b>triple quadrupole, ion trap</b> , FTMS, MA leak detection	LC/MS, LC-NMR/MS, GC/MS, ICP/MS	single quadrupole, <b>triple quadrupole, ion trap</b> , time-of-flight (TOF) and quadrupole time-of-flight	LC/MS/MS GC/MS/MS	LIFE and Agilent are market leaders, followed by Thermo Fisher. In GC/MS Agilent and Varian Market leaders (2008)
Chromatography	<b>Gas (GC), High-performance liquid (HPLC)</b> , gel permeation (GPC), flash chromatography		<b>Gas (GC), High-performance liquid (HPLC)</b> , rapid resolution liquid (RRLC), Ultra high performance (UHPLC)		1999 Market Share in GC: Agilent #1 Varian and Shimadzu #2
Optical Spectroscopy	atomic absorption (AA), inductively coupled plasma-optical emissions (ICP-OES), <b>inductively coupled plasma-mass (ICP-MS)</b> , fluorescence spectrophotometers, <b>ultraviolet-visible (UV-Vis)</b> , Fourier Transform infrared (FT-IR), near-infrared (NIR), Raman		<b>inductively coupled plasma-mass (ICP-MS), ultraviolet-visible (UV-Vis)</b>		2000 market share (ICP-MS) Agilent 26% PerkinElmer 28% Thermo Fisher 24% Waters 5% Others 17% In 2007, Varian (along with PerkinElmer) was the market leader in ICP and AA (important position in ICP-MS)

Source: Varian and Agilent 10-Ks, Internal analysis

**Potential Timing**

We believe that the timing of the acquisition of Varian is likely to be driven by competition approvals.

- Agilent said in the offer announcement that it expected to close the acquisition by calendar end after the receipt of shareholder approvals and regulatory approvals
- In our view, a 5-month timeline to completion is relatively long assuming straightforward competition approvals
  - Early termination of HSR is 15 calendar days in an all cash offer
  - EU Competition approval is 5 weeks, assuming no remedies
- On this basis, we believe that Agilent is not ruling out some scrutiny by antitrust officials

We are not aware of any precedent acquisitions in the bio-analytical industry which received a 2nd request or a Phase II review.

- However, the Thermo Electron and Fisher Scientific merger was completed subject to remedies
  - Completed 6 months after announced

- Announced May 2006
- FTC clearance in October 2006
  - The companies agreed to divest overlapping businesses in centrifugal vacuum evaporators
- EC approval in November 2006
- 1998 acquisition of PerSeptive Biosystems by PerkinElmer: \$360m
  - The DOJ cleared the acquisition after Perkin-Elmer agreed to divest PerSeptive DNA synthesis patent rights to NeXstar Pharmaceuticals
  - PerSeptive, headquartered in Framingham, Massachusetts, develops, manufactures and markets an integrated line of products and systems for the purification, analysis and synthesis of biomolecules
  - Perkin-Elmer, headquartered in Norwalk, Connecticut, makes life science systems and automated analytical instruments used in pharmaceuticals, environmental testing, food, agriculture, and chemical manufacturing
- 2008 acquisition of Applied Biosystems by Invitrogen (Life)
  - The acquisition took 5 months to complete
  - Early termination of HSR was received
  - However, filing with the EU took place ~2 months after received of FTC clearance

We estimate closing in ~December 2009.

- However significant slippage in the timeline is possible
- We would not rule out a second request under HSR, or the need to withdraw and re-file to specifically address any competition issues
  - Recently, we have seen an increasing number of acquirers withdrawing and re-filing under HSR to attempt to avoid a Second Request.
    - This can have the effect of reducing the overall review period
    - However, it does not guarantee approval under early termination
      - The US antitrust authorities may issue a 2<sup>nd</sup> request after multiple withdrawal and re-filing of the pre-merger filing
- Another source of delay could be the need to file under the EU Competition
  - The form CO requires more information than the HSR pre-merger filing notification
  - Often, we see companies waiting to file with the EU until after any proposed remedies are accepted by the US authorities (as this information will be necessary in the EU filing)
  - On this basis, we would not rule out Agilent waiting until ~late October/early November 2009 to file with the EU
  - An EU Phase 1 approval is 25 business days, or 35 business days if remedies are offered
  - However, we believe that an EU Phase II investigation could be avoided by offering remedies in Phase I after having identified any competition issues during the US competition review
  - Assuming Agilent follows this strategy, we believe that the EU Commission is unlikely to refer the acquisition to a Phase II review.

**Potential Transaction Timing**

Event	Date
Announcement of Offer	27 July 2009
Filing under HSR	~mid August 2009
Early termination or Second Request under HSR	~mid September 2009
Filing with EU Competition	~late Oct/early Nov 2009
Varian EGM*	~November 2009
HSR clearance (assuming 2 <sup>nd</sup> request or multiple filings)	~December 2009
EU Competition clearance	~December 2009
Merger Close	~December 2009
Settlement	~December 2009

Source: Internal estimates

\*The EGM may occur any time during the offer process.

**Rationale for the Merger**

Agilent said that its biggest area for growth is in its Bio-analytical measurement business

- The market drivers for sales in to the Life Sciences market are academic and government investment, growth in generics and CROs, and therapeutic conversion from New Chemical Entities to New Biological Entities

- In fiscal years 2008, 2007 and 2006, Varian’s sales into life science applications accounted for approximately 40% to 45% of its total sales
  - Varian also sells products into the Energy industry, government and academic applications
  - Varian is well established in the energy industry
- Varian has a presence in complementary markets to Agilent

**Cost Synergies**

Agilent said in the offer announcement that the transaction is expected to generate \$75m in annual cost synergies.

- “We have the opportunity to create significant value for Agilent shareholders by leveraging the combined entity’s infrastructure and global supply chain,” said Agilent’s CEO Dillon
- Agilent’s businesses are supported by shared services in finance, IT, legal, workplace services and human resources
- Both Agilent and Varian sell their products through a direct sales force

**ROIC**

Agilent said in the offer announcement that the acquisition will achieve Agilent’s 20% ROIC target within 4-5 years

**Varian**

Varian designs, develops, manufactures, markets, sells and services scientific instruments and vacuum products.

- Scientific Instruments
  - Products include analytical instruments (e.g. mass spectrometers, chromatography instruments, optical spectroscopy instruments)
  - Almost all of the Scientific Instruments products are or can be used in life science applications, such as by pharmaceutical companies in drug development, manufacturing (including process control) and quality control; and by research hospitals and universities in basic chemistry, biological, biochemistry and health care research
- Vacuum Technologies Products
  - Products include a wide range of high and ultra-high vacuum pumps (diffusion, turbomolecular and ion getter), intermediate vacuum pumps (rotary vane, sorption and dry scroll), vacuum instrumentation (vacuum control instruments, sensor gauges and meters) and vacuum components (valves, flanges and other mechanical hardware).
  - Vacuum Technologies’ customers are typically OEMs that manufacture equipment for these applications
  - The Vacuum Technologies products are or can be used in a broad range of life science applications, such as in mass spectrometers for analytical analysis and in linear accelerators for cancer therapy.

**Varian Segment Results**

Sales	2008	2007	% change
Scientific Instruments	839	762	10%
Vacuum Technology	174	159	9%
<b>Total</b>	<b>1013</b>	<b>921</b>	<b>10%</b>
Operating Earnings			
Scientific Instruments	81	79	2%
Vacuum Technology	34	32	8%
<b>Total</b>	<b>115</b>	<b>111</b>	<b>3%</b>
Operating Margin			
Scientific Instruments	10%		
Vacuum Technology	20%		

Source: SEC 10-K.

**Agilent**

Agilent has two primary business segments:

- Bio-Analytical Measurement: FY08 revenue \$2.2b
  - The acquisition of Varian fits into Agilent’s Bio-Analytical Measurement Business.

- Electronic Measurement: FY08 revenue \$3.3b

## Agilent Bio-Analytical Measurement

Agilent's bio-analytical measurement business provides application-focused solutions that include instruments, software, consumables and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products.

- Agilent's key product categories include: gas chromatography, liquid chromatography, mass spectrometry, inductively coupled plasma mass spectroscopy, microfluidics, microarrays, microscopy, laser interferometers, PCR (Polymerase Chain Reaction) instrumentation, laboratory automation and robotics, software and informatics, and related bioreagents, consumables and services

The markets for Agilent's bio-analytical products include

- *Life Sciences Markets*
  - The Pharma, Biotech, CRO (Contract Research Organizations) & CMO (Contract Manufacturing Organization) Market
  - The Academic and Government Market
- *Chemical Analysis Markets*
  - The Petroleum and Chemical Market
  - The Environmental Market
  - The Forensics and Homeland Security Market
  - The Bioagriculture and Food Safety Market
  - Material Science Markets

## Valuation

We valued Varian as an SOTP.

- We regard Varian's Scientific Instruments and Vacuum Technologies businesses as separate due to different customers, growth trends and operating margins
- On the basis of our SOTP, we arrive at a standalone value of \$44 per share for Varian

### SOTP

	Based on Comparables		
	% EBITDA	EBITDA Mult	EV/EBITDA
<b>US\$ m</b>			<b>2009</b>
Scientific Instruments	73%	10.37	909
Vacuum Technologies	27%	7.47	238
Net Debt			- 112
Market Cap			1,259
# of shares			29
<b>Value per share</b>			<b>43.7</b>

Source: Internal Estimates.

## Scientific Instruments

We valued Varian's Scientific Instruments business on the basis of comparable company EV/EBITDA.

- Comparables included Thermo Fisher, Perkin Elmer, Waters and Bruker
- We excluded Agilent
  - The majority of Agilent's sales and EBITDA come from its electronic measurement business
- The Scientific Instruments business accounted for 73% of Varian's FY2008 EBITDA

**Comparable Scientific Instrument Companies**

	Ticker	Sh Price	Market Cap	EV/Sales		EV/EBITDA		Growth	EBITDA Margin	
		US\$	US\$m	2009	2010	2009	2010	2009	2009	2010
Thermo Fisher	TMO US	44.32	18,540	1.95	1.86	10.39	9.71	5%	19%	19%
Perkin Elmer	PKI US	18.42	2,147	1.35	1.30	9.14	8.81	4%	15%	15%
Bruker	BRKR US	9.15	1,501	1.45	1.36	11.01	9.71	6%	13%	14%
Waters	WAT US	52.44	5,055	3.49	3.33	11.40	10.78	5%	31%	31%
Agilent	A US	22.66	7,780	1.94	1.88	16.89	11.12	3%	11%	17%
Average				2.06	1.96	10.49	9.75	5%	19%	20%
Varian	VARI US	50.61	1,459	1.62	1.56	11.50	10.47	4%	14%	15%
Premium/Discount				-21%	-21%	10%	7%	-16%	-27%	-25%

Source: Bloomberg, Internal Estimates.

**Vacuum Technologies**

We valued Varian's Vacuum Technologies business on the basis of comparable company EV/EBITDA.

There are few comparables with which to compare Varian's Vacuum business

- Varian's Vacuum products are used in life science, environmental, energy and applied research applications
- The only listed comparables named by Varian in its 10-K include INFICON, Oerlikon and Pfeiffer Vacuum
  - INFICON focuses on vacuum products for the semiconductor industry
  - Oerlikon is an industrial equipment manufacturer with a wide range of products for different applications
  - Pfeiffer Vacuum is the only comparable which appears to focus on the same markets as Varian, except its product line is much broader including different types of pumps
- On this basis, we believe that Pfeiffer is the best comparable

Pfeiffer currently trades at an EV/EBITDA of 7.5x

- The Scientific Instruments business accounted for 27% of Varian's FY2008 EBITDA

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