

CHIRON CORP  
Form DEFA14A  
March 20, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

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Check the appropriate box:

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**CHIRON CORPORATION**

(Name of Registrant as Specified In Its Charter)

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**Novartis Merger:**

**Presentation to Stockholders**

**March 2006**

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**Agenda**

1. **Chiron's Perspective on the Transaction**
2. **Questions & Answers**
3. **Session with Chiron Directors\***

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\* Directors throughout this presentation refers to the Non-Novartis Directors. See Annex A for biographical material on the Directors.

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**Fair Price and Better Than Status Quo**

Novartis has had the right to acquire Chiron since 1994

Appropriate time

11 month process to allow time to address business challenges

No significant near-term milestones to drive value

Fair price: Determined by Directors following careful consideration of opportunities and risks

BioPharma - tifacogin significant opportunity but high risk; molecular oncology promising but very early

Vaccines - substantial opportunity but ongoing challenges and intensified competition

Blood Testing - strong commercial capabilities but key patents expiring and no proven development or manufacturing capabilities

Royalties - significant to earnings but expected to decline as key patents expire

Better than status quo: significant downside risk in absence of Novartis deal

Valuation of management's long range plan shows significant risk of lower value

Continued operational challenges and execution risks

Potentially protracted uncertainty may impact operations (including ability to hire and retain key personnel) and share price

**Novartis Has the Right to Acquire Chiron**

Under the 1994 Agreements, Novartis has the right to acquire Chiron in accordance with a specified process

Directors leveraged Chiron's rights under Governance Agreement to achieve optimal outcome for Chiron stockholders

**Governance Agreement enabled Directors to optimize outcome**



**Appropriate time**

Better than status quo

Fair price

### **11-Month Process Allowed Chiron to Address Business Challenges**

The Directors conducted discussions with Novartis at a deliberate pace  
11 months elapsed from first discussions to definitive merger agreement

During this period, Chiron achieved several significant milestones:

Re-entry to U.S. flu market

Completion of Phase 3 trial in EU for flu cell culture

Initiation of Phase 1 / Phase 2 trial in U.S. for flu cell culture

Positive data on MF59 adjuvant with potential pandemic strain

Steady progress on patient enrollment in tifacogin trial

Initiation of Phase 3 trial for TIP

Initiation of Phase 1 trials for CHIR-258 and CHIR-12.12

Geographic expansion and ex-U.S. Procleix Ultrio Assay penetration

These achievements were expected and well communicated to investors and marketplace

**Directors managed process to increase value**

**No Compelling Reason to Further Extend Discussions**

No significant value-enhancing milestones in the near term beyond those considered

While Chiron successfully addressed many critical challenges, significant issues still lie ahead, including:

Flu vaccine manufacturing challenges, including regulatory agencies interactions relating to Fluvirin and Begrivac, and increased competition

Heavy dependence of BioPharma business on tifacogin

Risks intrinsic to drug development and regulatory approval (e.g. Pulminiq approvable letter)

Slower growth and regulatory delay in Blood Testing business (Procleix Ultrio and Procleix Tigris)

Ongoing litigation relating to Fluvirin

Managerial and operational challenges of running complex, global business

Risk of Novartis invoking arbitration process, with unpredictable results

**Discussions with Novartis concluded at appropriate time for Chiron**

Appropriate time

**Better than status quo**

Fair price

**Better Than Status Quo: Significant Downside Risk If No Novartis Deal**

Valuation of long range plan shows significant risk of lower value

Prepared by management and thoroughly reviewed by Directors

No milestones have been achieved since the date of the transaction that are not captured in the long range plan and reflected in the valuation

Continued operational challenges and execution risks

Earnings misses

MMR recall and withdrawal

Potentially protracted uncertainty may impact operations (including ability to hire and retain key personnel) and share price

Novartis veto power over certain strategic transactions, publicly stated intention not to sell its 44% stake, and right to initiate new buy-out proposal at any time

Appropriate time

Better than status quo

**Fair price**

**Determined by Directors with significant industry and financial expertise following careful consideration of opportunities and risks**

**BioPharma Business is Challenging for Chiron**

Scale of business: high levels of R&D spend relative to current sales

And current R&D spend is only a fraction of what will be required to advance promising early stage programs

Need to make significant investments in manufacturing and commercial capabilities pre-launch

Mixed record of internal product development most existing products have been obtained via acquisition or licensing, including Betaseron, Proleukin, TOBI, and Cubicin

Certain current products are under competitive pressure or subject to near-term patent expiration Proleukin, Betaseron

The molecular oncology program, while showing initial promise, is very early in development

Tifacogin is potentially a substantial opportunity but entails significant risk

**Future growth and profitability of BioPharma is heavily dependent on tifacogin, which remains a high-risk program**

**BioPharma Business Is Heavily Dependent on Tifacogin**

**Tifacogin Revenue Share**

[CHART]

*Source: Chiron Management Projections*



**Business Considerations BioPharma**

|                                   | Opportunities  | Risks   |
|-----------------------------------|--|---|
| <b>Tifacogin</b>                  | Large market opportunity and profitability potential   | <p>Clinical trial results subject to substantial uncertainty</p> <p>Commercialization not expected until 2008 or beyond and will require a partner to realize full potential (share profitability)</p> <p>Scale and timing to commercial manufacturing and potential capacity constraints</p> |
| <b>Molecular Oncology Program</b> | <p>Traction in small molecule research efforts and XOMA collaboration</p> <p>Innovative development approach (molecular oncology / translational medicine)</p> | <p>Very early stages of development</p> <p>Ability to resource development programs adequately, will need to partner</p> <p>Long timeline to commercialization</p> <p>Highly competitive field</p>  |
| <b>TIP</b>                        | <p>Expansion of TOBI franchise</p> <p>Potential improvement in patient compliance</p>  | <p>Limited incremental growth potential above TOBI</p> <p>Scale up to commercial manufacturing</p>  |
| <b>Existing Products</b>          | <p>Established market presence</p> <p>Divestiture of legacy product lines could provide cash for additional investment</p>                                     | <p>Proleukin - rapidly losing market share</p> <p>Betaseron - significant competition and patent expiration in 2007/2008</p>  |

**vaccines Represents Substantial Opportunity But Has Risks**

Traditional egg-based influenza vaccines, including Fluvirin vaccine and Begrivac vaccine, have fueled Chiron's vaccines growth

While remediation efforts to date have been successful, financial and reputational costs to Chiron are substantial

GMP compliance will require continuous improvement to meet ever higher regulatory standards over time

Chiron's competitive position in influenza market has declined with new market entrants, including GSK and CSL

Flu cell culture conversion, which is a significant opportunity for Vaccines segment, faces developmental, regulatory, and manufacturing hurdles

Pandemic flu is an important strategic opportunity, although incremental commercial value is uncertain and technical challenges must be overcome

Meningitis B program is promising and proprietary, but development, manufacturing, and commercial risks remain; MenACWY will be second to market

**Vaccines business remains an attractive opportunity but key products and programs face intensifying competition and on-going challenges**

**Competition in the Flu Vaccines Market Is Growing**

**Projected U.S. Market Share of Main Vaccine Companies**

[CHART]

*Source: Chiron Internal Marketing Projections*

## **Pandemic Influenza Vaccine Strategy Presents Challenges**

### **PRIOR TO A PANDEMIC**

Until there is an actual pandemic, opportunity may be limited to government stockpiling (manufacturing between seasonal campaigns) and government funding of R&D

Commercial potential for stockpiling is unclear

So far, limited demand government tenders have been small

Larger demand would require additional capacity

Narrow window between seasonal campaigns heightens capacity constraints

Each country has different specifications

Government pressure on pricing

Competition is intensifying

GSK, MedImmune and Sanofi-Pasteur have initiated or plan to initiate development

## **Pandemic Influenza Vaccine Strategy Presents Challenges**

### **DURING A PANDEMIC**

An actual pandemic may lead to year-round production of pandemic strain in lieu of seasonal campaigns for a brief period

Proprietary adjuvant MF59 may reduce antigen requirements and increase supplies

Government pressure on pricing may lead to lower margins

But in order to produce a commercial pandemic vaccine, technical obstacles must first be addressed

Pandemic vaccine may require higher number of doses than seasonal vaccine

Adjuvants may be required to improve immunogenicity

Manufacturing yields expected to be relatively low

Unclear that these technical obstacles will be resolved before pandemic arrives

and the regulatory pathway is still not clear

No currently approved pandemic vaccines

FDA and EMEA may have different requirements

FDA has not approved any adjuvant other than alum

Flu cell culture production, which is not reliant on egg supply, may afford an advantage

Significant capital investment is required (U.S.: \$350-\$400MM, EU: \$80-\$100MM)

**Business Considerations Vaccines**

|                         | Opportunities  | Risks   |
|-------------------------|--|---|
| <b>Flu</b>              | Regained Liverpool license and delivered product for 2005-2006 season                  | Continued Liverpool manufacturing issues  |
|                         | Strong terms and relationships with distributors                                       | Begrivac must be re-launched<br>Competitors entering market increasing supply                               |
| <b>Flu Cell Culture</b> | Production not reliant on egg supply   | Regulatory approvals<br>Capacity limitations  |
|                         | Pricing opportunity  | Competition from increasing egg-based supply  |
| <b>Pandemic</b>         | Egg-based capacity may be utilized between annual campaigns for government stockpiling | Government stockpiling: differing strains, specifications, timing, frequency, pricing, capacity limitations |
|                         | MF59 may reduce antigen requirements   | MF59: capacity constraints, unclear regulatory approval path, especially FDA                                |
|                         | Increased sales in pandemic years  | Technical and regulatory hurdles to get an approved pandemic vaccine, pressure on pricing                   |
| <b>Meningitis</b>       | Novel technology for MenB vaccine - major unmet medical need                           | MenB very early<br>MenACWY competition (Sanofi-Aventis already on market)                                   |
|                         | MenACWY infant data promising  | Manufacturing facility for MenB and MenACWY requires new FDA approval                                       |

**Blood Testing Business is Strong But Has Limited Growth Potential**

Strong commercial capabilities and solid intellectual property

Growth is slowing

Key patents are facing expiration

Chiron has no proven internal development or manufacturing capabilities for next generation platform

**Business Considerations Blood Testing**

|                        | Opportunities  | Risks  |
|------------------------|--|--|
| <b>General</b>         | Strong commercial capabilities in well defined market segment  | Slower growth (limited donations, limited assays)  |
|                        | Geographic expansion   | Uncertain adoption in developing countries<br><br>Upcoming expiration of key patents   |
| <b>Assays</b>          | Procleix West Nile Virus (WNV) Assay   | WNV is U.S. only: no growth beyond move to commercial pricing  |
|                        | Procleix Ultrio Assay U.S.   | Ultrio regulatory delays   |
|                        | vCJD Assay   | vCJD Assay in early stage  |
| <b>Procleix Tigris</b> | Fully-automated NAT platform   | Regulatory delay<br><br>Issues of reliability  |
|                        | Potential next-generation instrument combining NAT and immunoassay tests may afford protection post-patent expirations<br><br>Enzyme conversion to universal blood group 0 ( ECO ) | Early stage; ability to internally develop or manufacture next gen. product unproven<br><br>ECO is unproven technology with uncertain regulatory pathway |



**Directors Managed Process to Achieve Fair Price**

Conducted by Directors with significant industry and financial expertise \*

Independent, top-tier financial and legal advisors

Transaction timeline managed by Directors to achieve an optimal outcome

Threat of invoking additional procedural rights provided for in Governance Agreement, such as arbitration and delay, resulted in fair price for stockholders

Unanimous approval by Directors

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\* See Annex A

**\$45 Offer Represents Fair Value for Chiron Stockholders**

In assessing the transaction, Directors carefully considered the business risks and opportunities described above

The Directors required and relied on certain analyses, and also obtained fairness opinions from two independent financial advisors, Credit Suisse and Morgan Stanley

Industry-accepted methodologies and sensitivities to projected business performance

Historical trading ranges

Prior to initial offer, research analysts forward price targets of \$32 -\$42 per share

Selected companies analysis

Discounted cash flow analysis, consolidated and sum of the parts

Various sensitivity analyses and additional data

\$45 value is supported by and attractive relative to ranges implied by analysis and Chiron's intrinsic value and reflects a significant portion of synergy value available to Novartis

Value represents outcome of extensive negotiation and careful timing by Directors

**\$45 offer deemed by Directors to be fair and most attractive alternative available to Chiron**

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Better than status quo

Management's long range plan would not produce higher value

Continued operational challenges and execution risks

Significant downside risk in absence of Novartis deal

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Potentially protracted uncertainty may impact operations (including ability to hire and retain key personnel) and share price

**Annex A: Independent Directors Biographies**

***Vaughn D. Bryson***

Director since 1997; former President and CEO of Eli Lilly

***Lewis W. Coleman***

Director since 1991; former Chairman and CEO of Bank of America Securities

***J. Richard Fredericks***

Director since 2003; Chairman of Dionis Capital, a New York based-hedge fund focusing on the financial services industry

***Howard H. Pien***

Chairman and CEO Chiron; former President of Pharmaceuticals International at GSK

***Denise O Leary***

Director since 2002; former General Partner of Menlo Ventures, a private venture capital firm

***Edward Penhoet, Ph.D.***

Director since 1981; Co-Founder, Former President and CEO of Chiron

***Peter J. Strijkert, M.D.***

Director since 1987; Chairman of Crucell N.V., a biotechnology company focused on developing products that prevent and treat infectious diseases

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