The Acquisition of Aventis by Sanofi

Phase 1: Sanofi’s Attack on Aventis

Case study
Reference no 306-238-1

This case was written by Professor Dr Günter Müller-Stewens and Alexander Alscher, University of St Gallen. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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The Acquisition of Aventis by Sanofi
Attack as Defense

Summary

The year 2004 started with a bombshell for the M&A sector: On 24th January rumors emerged of an imminent takeover bid by Sanofi-Synthélabo to the shareholders in Aventis. On 25th April the first hostile takeover in the history of the pharmaceuticals sector was completed. The CEO of Sanofi and future CEO of Sanofi-Aventis, Jean-Francois Dehecq, commented: "I had a very strong feeling that if we didn't do this deal now then one of our international competitors would have bought either Aventis or Sanofi."

The aim of this case study is to describe an entire M&A process – against the background of a pharmaceuticals industry undergoing highly dynamic competition and consolidation. The case is outlined in the form of the chronological activity of the actual takeover battle, from the first rumors through to integration, in four phases: (1) From the attack by Sanofi-Synthélabo, which the management of Aventis was initially considered as hostile (2) via the battle for Aventis, (3) to the ultimately amicable unification of the two companies and (4) the integration of Sanofi-Aventis.

The objective of this text is to illustrate the dynamics of a hostile takeover attempt using Sanofi-Aventis as an example. In order to illustrate the time sequence of a transaction of this kind and the complex structure of the parties involved, the texts are arranged chronologically like a play, taking the form of a sequence of acts. The major players are also listed at the beginning. So as to be able to show the history of the company's origins appropriately, the texts reflect the opinion and public knowledge at the respective points in time. Our information sources included in particular press articles (FAZ, Financial Times, Handelsblatt, Handelszeitung, Manager Magazin, NZZ, Wall Street Journal Europe, Economist etc.) and the websites of the companies involved. The case is intended to form the basis of a discussion; it does not aim to illustrate effective or ineffective management. We wish to thank various representatives of the companies involved as well as advisers on this transaction for their commentaries and for allowing us to have information on the transaction.

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The Players

The Companies
Sanofi-Synthélabo
   Jean-François Dehecq  Chairman and CEO (Président Directeur Général)
   Hanspeter Spek     Chief Operating Officer
   Gérard Le Par     Research Director
Aventis
   Jürgen Dormann    Chairman of the Supervisory Board
   Jean-René Fourtou Deputy Chairman of the Supervisory Board
   Igor Landau     Chairman of the Management Board
   Patrick Langlois  Finance Director
   Heinz-Werner Meier Personnel Director, Aventis Germany
Novartis
   Daniel Vasella    CEO and Chairman of the Board of Directors
   Raymond Breu      Chief Financial Officer
Sanofi-Aventis
   Jean-François Dehecq Chairman and CEO (Président Directeur Général)

Employer and Employee Representation
   Ernest-Antoine Sellière  Head of the French employers’ group (MEDEF)
   Michael Klippel     Head of the Works Council at Aventis Pharma Germany

Politics
French Politics
   Jacques Chirac    President
   Jean-Pierre Raffarin  Prime Minister
   Francis Mer      Minister of the Economy, Finance & Industry (.. - 03/2004)
   Nicolas Sarkozy  Minister of the Economy, Finance & Industry (04/2004 -..)
   Patrick Devedjian Minister of Industry
   Philippe Douste-Blazy Minister of Health
German Politics
   Gerhard Schröder  Federal Chancellor
   Wolfgang Clement Minister of Economics and Labour
   Roland Koch      Prime Minister of Hessen
Swiss Politics
   Joseph Deiss   President of the Swiss Federation

The Authorities
   AMF (Autorité des marchés financiers) French financial market regulatory authority
   EU Commission   EU competition authority
   FDA (Food and Drug Administration) US American drug approval body
   FTC (Federal Trade Commission)   US American stock market supervisory body

Shareholders and Shareholder Representation
   Total     Major shareholder in Sanofi (19.5%)
   L’Oréal    Major shareholder in Sanofi (approx. 20%)
   KPC Kuwait Petroleum Major shareholder in Aventis (13.5%)
   Union Investment  Investment company holding 1.4% of the shares in Aventis
   Tweedy Brown    Investment company holding shares in Aventis
   ADAM     Organisation for the protection of shareholders’ rights

Advisers
   Merrill Lynch, BNP Paribas M&A advisers to Sanofi
   Brunswick Group, Publicis Media advisers to Sanofi
   JP Morgan; CSFB; CCF-HSBC M&A advisers to Total
   Goldman Sachs, Rothschild, Morgan Stanley M&A advisers to Aventis
   Financial Dynamics Media advisers to Aventis
   UBS     M&A advisers to KPC Kuwait Petroleum
   Lazard, McKinsey, Maitland Advisers to Novartis

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1. PHASE 1: SANOFI’S ATTACK ON AVENTIS

1.1. The starting positions of two companies in the global pharmaceuticals sector

The competitive situation in the pharmaceuticals sector

In the year 2004, sales of pharmaceutical products worldwide came to 550 billion US$ (+7% compared with the previous year); North America represented by far the most important market with a share of 45%, whilst Europe and Japan followed in second and third place with around 40% between them.

Over the last 20 years or so, the pharmaceuticals industry has been displaying increasing consolidation, driven by enormous competitive pressure and an increasing competitive dynamic. Whilst in 1985 the ten largest companies were responsible for around 20% of sales worldwide, by 2002 their share had increased to 48%.

In principle this sector faces a threefold challenge:
Firstly companies have to grow, simply to be able to finance the ever-higher levels of investment needed for a new drug. Yet in recent years the rationale of economies of scale has lost a great deal of its attractiveness in the eyes of shareholders, as the majority of acquisitions over recent years led to larger companies but not necessarily more profitable companies. An example of this is the fusion in 2002 of Glaxo Wellcome and SmithKlineBeecham to form GlaxoSmithKline, whose shares have fallen in value by some 50% since the merger. The problem here, as so often happens, was that both companies were acting from a position of weakness (poorly stocked new product pipelines, patents expiring etc.). Size alone cannot be an end in itself. It will not solve the problems listed if there is no compelling industrial logic to ensure the union has meaning for all those involved. Jürgen Dormann, Chairman of the Supervisory Board at Aventis, once said on this subject: “A merger whose goal is merely size or synergy is difficult to arrange and implement in its integration.” This means that takeovers of pharmaceuticals companies always imply unsuspected risks – and in the event of a hostile takeover these are usually especially great, as after all the bidder is buying a “pig in a poke”. Secondly it is also a fact that ever fewer of the newly introduced products are also actually innovative products. This leads to greater pressure on the companies to innovate. As a result of this high level of innovation pressure, alliance and cooperations in the pharmaceuticals industry are regarded as especially important. In a study of the sector carried out in 2003 by the strategy consultants McKinsey, 85% of the managers questioned expected further increases in alliances. The companies in the sector are significantly dependent on the successful development and introduction of new active agents and drugs. The enormously high risk in the area of Research and Development (R&D) – particularly through the high costs and uncertainties entailed in the approval of the respective products – is one of the distinctive characteristics of the sector. The average R&D costs for a single product come to around 802 million US$, whereby success is extremely uncertain and hard to calculate. These enormously high costs can essentially be ascribed to (1) the high costs of discovering and developing drugs (including testing processes), (2) the high loss due to the time value of the

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2 Mallik, Zbar and Zemmel, 2004, p. 16.
money invested (long development phase of usually more than 10 years) and (3) the high error and elimination rate.\textsuperscript{4} Therefore companies frequently aim to develop blockbuster drugs (drugs with an annual turnover of more than 1 billion US$). But blockbusters of this type are interesting not only for their high sales but also because developing and marketing them presents fewer risks in relative terms, in other words they save costs and time. In 2004 there were 82 of these blockbuster drugs in existence worldwide, representing an increase of more than 25% compared with 2003. The most sold product last year, with sales of 10.8 billion US$, was Lipitor from Pfizer (cf. Appendix 1, 2). However, before a drug can be marketed, it has to undergo a clinical testing phase over many years (around 10-15 years). Pharmaceuticals companies spend many billions every year just for R&D (for instance, Pfizer 7.68 billion US$ or GlaxoSmithKline 2.86 billion GBP in 2004). On average in 2004 pharmaceuticals companies invested 15.9% of their turnover in R&D\textsuperscript{5} (cf. Appendix 3). This percentage rate has been relatively constant since 1992 at around 16%. Prior to 1992, it was substantially lower: around 9.2% in 1972 and around 10.9% in 1982. The risk is usually much higher for smaller companies in comparison to these large companies. Viewed as a whole, the pressure on companies to generate growth through new innovative products is growing so as to meet the increasing expectations of the capital market in terms of return. This is why biotechnology companies in this environment have successively increased in significance since the mid-1980s and are nowadays in competition with the leading pharmaceuticals companies for the development of new and innovative drugs.

A particular feature of the pharmaceuticals sector is to be seen in the \textit{patent protection} of drugs, which as a rule lasts for 20 years. Patents are generally viewed as the deciding drivers behind the innovation efforts within the sector, as the high R&D costs are only worth it from a company’s viewpoint if the products can also be protected by patent legislation for a long period of time. So the question of patent protection plays an important part at strategic company level too. It is not unusual for attempts to be made to compensate for a lack of innovative strength by a patent protection strategy, at least in the short and medium term. In this context, increasing significance becomes attached to the \textit{generics manufacturers}. The market volume of the worldwide generics market was around 27 billion US$ in 2001, and this is set to increase by around 13.3% a year up to 2007\textsuperscript{7} – much stronger growth than is forecast for the total pharmaceuticals market. Questions of patent protection are also inevitably intertwined with regulatory and legal considerations. Health care companies are therefore often involved in legal disputes (e.g. often due to breaches of patent rights).

A third challenge for pharmaceuticals companies lies in their sales forces. Their clout and scope have to be improved so as to earn the revenues needed to cover the high upfront investments. Yet here too there is a problem as ever fewer of the pharmaceuticals representatives ever get to set eyes on the doctor at all.

The pharmaceuticals industry is characterized by a \textit{complex sales and customer structure specific to the sector}. This sector-specificity can be illustrated using the example of prescription-only drugs in Germany. In concrete terms this means that the person who is responsible for the choice of drug (usually the doctor) and the consumer (the patient) are not the same. And then again the payment mostly comes not directly from the customer, but paid out by the health insurers. Therefore the familiar mechanisms of supply and demand partially cease to operate. Furthermore the sector is marked by international differences in legislation,

\textsuperscript{4} Danzon, Nicholson and Pereira, 2003, p. 2.
\textsuperscript{5} IMS Health Reports 2004, global pharmaceutical sales grew 7 percent to $550 billion, 2005.
\textsuperscript{6} Pharmaceutical Research and Manufacturers of America (2005, p. 35).
in sales guidelines (in Germany by pharmacies or in the USA by chains of drugstores) or in who bears the costs (the health insurers or the consumer directly).

In this field of tension of economic, social and political aspects, pharmaceuticals companies have to act extremely dynamically. At company level an increasing fragmentation of the value chain is indicated for the future. We can also expect to see more pronounced amalgamation of pharmaceuticals and biotechnology companies, leading to the creation of more biopharmaceuticals companies. Whilst today biotechnology companies are more and more taking on the research and development of active agents, the pharmaceuticals companies are increasingly concentrating on the marketing of the product. 12 of the leading 25 drugs were originally developed by a different company to the one marketing them today.\textsuperscript{8} This increases the pressure of cross-industry transactions, especially M&A activities between biotechnology and pharmaceuticals companies. But the suppliers of generics are also increasingly coming under the spotlight as takeover candidates. This is not at all surprising, as it is generally assumed that increasing cost pressure in the health system will lead to generic drugs gaining in significance and market share.

So if we want to get an idea of the possible outcome of a takeover battle, we must take into account the situation outlined and the prospects for the pharmaceuticals sector. These prospects are not exactly rosy, and give rise to high pressure for consolidation on the sector:

- Rising R&D costs: Currently the costs are reckoned to be around 1.4 billion USD per drug. (One reason for this is the growing number of safety conditions imposed by the regulators);
- Increasing pressure for innovation: (The proportion of sales taken up by genuinely new products is constantly decreasing. Why should we pay such high prices for only small variations in products, when in addition we can partly obtain them from the generics manufacturers already?);
- Ever longer development times for new drugs;
- Threatened arguments about the selling prices of products in poorer countries;
- Pending legal actions about the duration of the patent protection for some blockbusters;
- Growing political pressure in many of the large consumer markets (above all in the USA), due to the constantly increasing expenditure in the health service;
- Declining sales efficiency because of overcapacities (ever fewer pharmaceuticals representatives still get to set eyes on the doctor).

The present case study provides an example illustrating the strategic interactions of two companies in the pharmaceuticals sector, which have to survive in the increasing competitive pressure. When we look at the merger of Sanofi-Synthélabo and Aventis, the strategic maneuvers and attempts at positioning by the two companies become clear.

\textsuperscript{8} Mallik, Zbar and Zemmel, 2004, p. 16.
The history of Sanofi-Synthélabo:

1973 The oil group Elf Aquitaine takes over the French pharmaceuticals group Labaz and founds the subsidiary company Sanofi. Jean-François Dehecq heads the operational business and during the following decades buys up hundreds of small firms.

1985 Development of the Sanofi Elf bio-industry division.

1988 Dehecq becomes Président Directeur Général of Sanofi and founds the cosmetics division.

1993 Sanofi buys the luxury goods producer Yves Saint-Laurent.

1994 Sanofi enters the US market and buys the US pharmaceuticals firm Sterling Winthrop. Dehecq sells the bio-industry division to finance the takeover.

1999 Sanofi merges with the French competitor Synthélabo. Concentration on the pharmaceuticals business; sale of the cosmetics, diagnostics and animal feeds divisions.

2003 With 33,000 staff Sanofi-Synthélabo makes a profit of 2.1 billion Euro on sales of 8.1 billion Euro.

(Cf. Financial figures and shareholder structure of both firms in Appendix 4, 5)

The development of Hoechst into Aventis:

1974 Hoechst acquires the majority in its French shareholding Roussel-Uclaf, thus becoming the largest pharmaceuticals manufacturer in the world.

1987 Takeover of the US chemicals group Celanese.

1994 Jürgen Dormann becomes Chairman of the Board. He concentrates the business on the pharmaceuticals, agriculture and biotechnology sectors.

1995 Takeover of the US drugs manufacturer Marion Merrel Dow. Sale of the areas that do not form part of the core business, such as plant construction, cosmetics, printing.

1999 Hoechst merges with the French chemicals and pharmaceuticals group Rhône-Poulenc to form Aventis. Both firms part with their chemicals divisions.

2002 Sale of the agrochemicals business to Bayer. Dormann takes over the role of Chairman of the Aventis Supervisory Board, and Igor Landau becomes Chairman of the Board.

2003 With 75,000 staff Aventis turns over 16.8 billion Euro with a profit of 2.4 billion Euro.

(cf. most important Aventis drugs Appendix 6)

1.2. Act One: Sanofi submits a hostile takeover bid for Aventis

25th January 2004:
Rumors of an imminent takeover bid from Sanofi to Aventis

The year 2004 appears to start with a bombshell for the M&A sector: On Sunday 25th January rumors emerge of an imminent takeover bid from Sanofi-Synthélabo to the shareholders in Aventis. The share prices of the companies involved in the rumors already display the typical reactions: The bidder’s share price fell in the expectation of future financial strain; the Aventis share price rose noticeably. One part of the rumors also has it that – if it should come to an offer – then “white knights” would emerge from the sector, which could lead to a contest between bidders.
26th January 2004:
Sanofi submits an offer of 47.8 billion Euro to the Aventis shareholders

The Chairman and CEO of Sanofi-Synthélabo, Jean-Francois Dehecq, submits a share exchange offer (81%) and a cash offer (19%) worth 60.43 Euro per share to the Aventis shareholders, which in view of the present-day total of 791 million shares values the company at 47.8 billion Euro in total. The Aventis management are informed of this by means of a statutory company statement.

Both groups themselves originated from large mergers in 1999 (cf. Appendix 7): Thus Aventis is the result of the 26 billion USD Franco-German merger between Rhone-Poulenc (F) and Hoechst (G). Sanofi-Synthélabo was formed from the earlier pharmaceuticals division of L’Oréal (Synthélabo) and from Sanofi, which belonged to the oil group Elf, which in the meantime had been merged into Total. The present-day Sanofi however has emanated from more than 300 acquisitions in all. Both companies have their head office in France (Paris and Strasbourg). Aventis still has a large operating site in Frankfurt, the former group headquarters of Hoechst.

The Aventis shareholding is widely distributed (cf. Appendix 5). No one has a blocking minority. Neither of the two states involved has a shareholding in the company. According to a census of shareholders carried out at the start of 2003, the largest proportion of the Aventis shares are held in France (21.5%) and in the USA (21.5%), followed by Great Britain and Ireland (13.5%) and Germany (8.9%). 61.2% of the shares were owned by institutional investors, and the remainder were held by small or private shareholders, staff and others. The largest single shareholder is the Kuwait Petroleum Group with a 13.5% shareholding. On 31st December 2002 the authorised capital of Aventis was 3,054 billion Euro.

With his offer, Dehecq is making use of the favorable position of Sanofi in comparison to Aventis. Although Sanofi does not enjoy even half the sales volume of Aventis, its sales mainstays (Plavix, with annual sales of 1.33 billion Euro in 2003, and Ambien/Myslee) are clearly more profitable than those of Aventis (Lantus, Lovenox, Clexane). This gives Sanofi the market capitalization to be able to submit such a bid at all. Dehecq emphasizes the strategic logic of the merger he aspires to by pointing out the synergies to be had from combined marketing and sales. He wants to save costs of 1.6 billion Euro (before tax) a year from 2006.

Dehecq was also able to win the support of both of his main shareholders, Total (24.4%) and L’Oréal (19.5%) (of which in fact Nestlé held 26.3%). This cannot have been so simple in the case of L’Oréal, as L’Oréal held just under 20%, which gave it the option of consolidating a share of Sanofi’s profits for itself. Dehecq attempted to win the agreement of the French trade unions by announcing that the necessary job losses would primarily take place in Asia and Latin America. (Cf. the share price movements of both firms on 26.01.04 in Appendix 8.)

26th January 2004:
Aventis turns down Sanofi’s offer

The reaction from the Aventis Chairman Igor Landau comes promptly. With the following words he turns the offer down on behalf of the Management Board:
"On January 26, 2004, Sanofi has submitted an unsolicited offer to the Paris Bourse authority to take control of Aventis without any consultation between the two companies. We firmly believe that this offer is not in the best interests of Aventis shareholders or employees. It undervalues the company, it carries significant risk, and it will cause job losses for limited strategic benefit.

The tender period will not close until the end of May at the earliest and Aventis shareholders should hold on to their shares as there is greater value ahead. Earnings forecasts for Aventis have been upgraded following our results announcement, and we are progressing well on a number of other fronts in our commitment to maximize value."

The reasons for the rejection were stated as follows: "(1) Offer clearly undervalues Aventis; (2) Offer is mainly in Sanofi shares, which carry major downside risks; (3) The proposed combination presents limited strategic benefits for Aventis; (4) The risks of major job cuts for employees, particularly in France and Germany"

The management considers the takeover to be hostile. The management is backed up by both the Supervisory Board, with its Chairmen Jürgen Dormann and Jean-René Fourtou, and also the main shareholder, KPC Kuwait Petroleum Corporation, which holds a 13.5% share. The bid is considered to be inappropriately low (3.6% premium on the latest closing rate; 15.2% above the average rate over the last month), as Aventis itself believes that the shares are undervalued by 30% (as the share price already takes account of the threat to some patents). It was also argued that there were more convincing scenarios than the industrial and social logic identified by Sanofi.

As always in such situations, both sides mandate anybody who is anybody in the world of M&A consultancy to help them fight the takeover battle – in part only to prevent certain experts from advising the opposition. So Sanofi works together with Merrill Lynch and BNP Paribas, while the main shareholders Total and L'Oréal cultivate relations with J. P. Morgan, CSFB and CCF-HSBC. Aventis on the other hand seeks the counsel of Goldman Sachs, Rothschild and Morgan Stanley. It will be their job to work out reaction options. One option is to bring a “white knight” into the game, who will then acquire the company in a “friendly” takeover or at least contribute to driving the price of Aventis up in a bidding contest. Novartis, Roche, GlaxoSmithKline and Pfizer were brought into the conversation here. At Sanofi it was also originally considered whether to mandate Lazard (Paris) as an adviser, but this idea was then rejected as Lazard (New York) was seen to be too closely involved with a possible bidder Pfizer. If Pfizer were actually to bid, then Lazard would also get a chance. The main shareholder KPC, which could have a considerable influence on the outcome of the takeover battle, was to be advised by UBS.

The other equally important task for the Aventis advisers will be primarily to come up with arguments to convince the shareholders not to accept the offer. Here in particular they will refer to the true value of products still in the development phase of the pipeline, but also the disadvantages and risks that the bidder is bringing with him, such as the risk of the loss of patent protection for Plavix.

But a further task lies in examining the possibility of simply turning the tables with a counter-offer. Sanofi, along with both of its main shareholders Total and L’Oréal, is indeed still protected by a moratorium until the end of the year, but this puts Sanofi under time pressure as well.
The attitude of French politics will also not be insignificant for the outcome of the takeover battle. It is known that in France they are searching for a “French solution”, which could mean a rocky road for a “white knight”. The good relationship between the Sanofi boss Jean-Francois Dehecq and President Chirac and Finance Minister Francis is also well known. And even the German Chancellor Schröder could intervene, as a large number of jobs at the old Hoechst might also be affected.

3rd February 2004:
Sanofi-Synthélabo mandates Brunswick Group

Sanofi-Synthélabo entrusts the communication consultants Brunswick with the strategic direction and coordination of its media activities in Germany and Switzerland. The mandate for the development of the international media strategy and its implementation in the USA, the United Kingdom and Switzerland will be expanded below. Although up to now Sanofi-Synthélabo has consciously worked together with only one media agency, Publicis, a further adviser was brought in for this plan. The background to this was the failure of the provocative negative emotional advertising campaign by Publicis in Germany, France and the United Kingdom (with the image of the sick boy Jan) in respect of the position of Aventis. This campaign was strongly criticized by investors, the financial press and above all the general public, and led to a loss of trust that should not be underestimated. The following day interviews are run in the leading German newspapers (Handelsblatt, FAZ, Frankfurter Rundschau) with CEO Jean-Francois Dehecq, Research Director Gérard LeFur and Sales Director Hanspeter Spek. The aim is to proclaim the advantages of a merger: guaranteeing jobs and research sites. As a further development of Brunswick’s mandate, the Brunswick team in London has established contacts with English language media such as the Financial Times and the Wall Street Journal Europe, and the team in New York has made contact with Business Week, Dow Jones, Financial Times, Star Ledger, The Deal, The New York Times and The Wall Street Journal. In doing this, Brunswick has agreed single interviews for Sanofi-Synthélabo and ensured that the company’s messages would be heard and understood.

12th February 2004:
The French market regulatory authority AMF approves the takeover bid

The French market regulatory authority AMF – which examines bis to ensure they comply with the takeover regulations – decides to allow Sanofi’s offer for Aventis. Only now can the official offer be made public. After this, Aventis will have five days to provide a well-founded refusal.

13th February 2004:
Appeal against the AMF decision

Within the due time, Aventis applies to the Appeal Court in Paris to have the AMF decision declared invalid. A legal justification also has to be provided within 15 days.

It is to be supposed that Aventis is doing this to win time – time that is needed for instance to gain greater clarity about the imminent legal conflict about the patents for Sanofi’s most important drug, Plavix. In principle the Plavix patent will still run until 2011. But a Canadian and Indian generics group, represented by US American lawyers, has apparently found sound arguments why this anti-clotting agent should not be protected by valid patents. Shortly
afterwards Aventis instructs Jeffrey I. D. Lewis of Patterson, Belknap, Webb & Tyler LLP from New York to prepare a third party expert report outlining the risks in the Plavix case.

16th February 2004:
Presentation of Sanofi’s financial statements

The aim here is once again to eulogize the strength of the bidder and the prospects for the offer. Other senior managers are on display alongside the CEO Dehecq. Thus the COO, Hanspeter Spek, declares that the offer is fair for the shareholders as they stand to benefit from a richly stocked new product pipeline. And the combined financial power of the two companies will offer a real chance of effectively moving forward with a large number of the developments in the pipeline. This financial requirement for R&D is also said to be the reason for the U-turn in thinking, as only a year before the CEO had expressed great skepticism about large mergers in the pharmaceuticals industry. Without a merger many of the developments in the pipeline would simply not be financeable. The Research Director, Gérard Le Fur, quoted 56 developments, of which above all two had the potential to become “blockbusters”.

Reference was also made to the fact that there was obviously political interest in a European pharmaceuticals group playing a leading role in R&D. The reason why a “non-negotiated” bid – in other words a “hostile” bid from the viewpoint of the management of Aventis – had been put forward to Aventis was to do with the different company strategies of the two groups. Sorting this out would have taken up too much time.

Sanofi once again also presents itself today as a strongly growing company. In 2003 consolidated sales rose by 8.1% to 8.05 billion Euro, and net profits increased by 17.7% to 2.07 billion Euro.

17th February 2004:
Launch of the official Sanofi offer to the Aventis shareholders

From today the shareholders are able to offer their shares to Sanofi, in other words to accept the existing takeover bid consisting of an exchange of shares with a cash element. From today’s perspective, the conclusion of the offer looks likely to be towards the end of June. But can the offer really be concluded so easily considering the pending legal verdict on what is perhaps Sanofi’s most important drug, the blood anti-clotting agent Plavix, whose patent is being contested in the USA?

17th February 2004:
Aventis Supervisory Board unanimously declines the hostile takeover bid

Without a single dissenting vote the Aventis Supervisory Board today declined the offer from Sanofi and thus once again reinforced their position.

5th March 2004:
Aventis publishes a position statement on turning the takeover bid down

Aventis criticizes the Sanofi offer in a published position statement. This states that Sanofi submitted the offer before the publication of forecasts for a strong acceleration of growth between 2004 and 2007 (due to the introduction of new products and market penetration by existing products). In addition they wanted to dispose of slow growing and stagnating
products as well as participation in the non-pharmaceuticals sector, in order to further increase the value of the company.
1.3. **Appendices to Phase 1**

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<tr>
<td>Efflexor</td>
<td>Wyeth</td>
<td>Antidepressant</td>
<td>3.7</td>
<td>0.7</td>
<td>20.1</td>
</tr>
</tbody>
</table>

**Appendix 1: Top 10 blockbuster drugs in 2004** *(Source: IMS Health, 2005)*

**Appendix 2: Sales of blockbuster drugs** *(Source: Reuters, The blockbuster drug outlook to 2007, 2003, pp. 77, 103)*

*The size of the circles corresponds to the sales of blockbuster drugs achieved by the respective company.*
Appendix 3: R&D expenditure in relation to sales (Source: Annual reports)
(The size of the circles corresponds to the extent of R&D expenditure in 2004.)

Appendix 4: Comparison between Aventis and Sanofi-Synthélabo (Source: faz.net)
Appendix 5: Shareholder structure at Sanofi-Synthélabo and Aventis (Source: faz.net)

Appendix 6: Drugs from Aventis (Source: faz.net)
Appendix 7: The largest pharmaceutical mergers in recent years (Source: faz.net)

Appendix 8: Course of share prices on 26th January 2004 (Source: Bloomberg)
1.4. Questions on Phase 1

1.) Reasons and motives for the offer to Aventis: How can the fact be explained that this takeover bid came about? What were the motives that moved Sanofi-Synthélabo to mount a hostile takeover of a major competitor that was twice its size in terms of sales? What risks did Sanofi-Synthélabo consciously enter into in this way?

2.) The options of Sanofi: What strategic alternatives did Sanofi-Synthélabo have alongside the hostile takeover attempt?

3.) Preventive measures of the “victim” of hostile takeover bids: How can the companies that are going to be taken over protect themselves when rumors of a hostile takeover emerge?

4.) Preventive measures of the “attacker” in the face of the rising share price of the target company before the offer is submitted: To what extent can companies protect themselves against the circulation of rumors when they want to make a hostile takeover of a company and do not want to risk a rise in the share price of the target company?

5.) Defensive measures of the “victim” after the hostile takeover bid has been submitted: How can a company defend itself after the announcement of a takeover bid that is classed as hostile by the management? Give details of financial, legal, political and social measures.

6.) Now let us address the actual case: it is Monday morning, 26th January 2004, and the Sanofi offer is physically lying on the desk at Aventis:
(a) AG Aventis: Assume you are sitting at the Aventis group headquarters and structuring the defense. How will you argue or proceed?
(b) AG Sanofi: You anticipate the defense from Aventis shortly. How will you argue and what will you attempt to do so as to undermine the defense of Aventis?