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Sanofi expands footprint in biologics with Genzyme

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After a prolonged nail-biting wait for almost a year, Sanofi-Aventis formally announced on February 16, 2011 that it has acquired biotech major Genzyme for $20 billion. Although there were speculations that Sanofi was trying to stall the deal to make negotiations with the offer price, Genzyme seems to have made a good deal.

“The deal is valued at approximately 4.5 times Genzyme’s sales for the trailing 12 months ending September 2010. Some of the other deals that took place in recent times have been in the same range,” says Mr Prashant Sharma, lead analyst — company and market intelligence, Datamonitor India.

As part of the deal, in addition to the cash payment, each Genzyme shareholder will receive one Contingent Value Right (CVR) for each share they own, entitling the holder to receive additional cash payments if specified milestones related to Lemtrada (alemtuzumab MS) are achieved over time or a milestone related to production volumes in 2011 for cerezyme and fabrazyme is achieved.

Rewarding deal

“This agreement with Genzyme is both consistent with our long-term strategy and creates significant long-term value for our shareholders. It will create a meaningful new growth platform for Sanofi-Aventis while expanding our footprint in biotechnology. We expect it to be accretive from year one, and the CVR structure, which served as an important value bridge between our two companies, rewards both Genzyme and Sanofi-Aventis shareholders, particularly if Lemtrada outperforms the market’s current expectations,” says Mr Christopher A Viehbacher, CEO, Sanofi-Aventis.

Commenting on the deal, Mr Henri A Termeer, president and CEO of Genzyme Corporation, says “We share an exciting vision of the future, one in which Genzyme and Sanofi-Aventis grow and innovate by developing breakthrough treatments that change the lives of people with serious diseases. We look forward to building a sustainable future together."

Mr Henri A Termeer will resign as President and CEO of Genzyme following the close of the transaction, but will advise on the integration in his role as co-chairman of the Integration Steering Committee with Mr Christopher A Viehbacher.

"Sanofi-Aventis' $20 billion acquisition of Genzyme will help accelerate the French Pharma giant's move into segmentswhere market exclusivity is not solely controlled by intellectual property. It would certainly position Sanofi-Aventis at the forefront of the niche Orphan Drugs market, an important and high margin pharmaceutical segment," says Mr Paul Raj, analyst — company and market intelligence, Datamonitor India.

Finding the niche

Being a leading Orphan Drug manufacturing company, Genzyme was an ideal and smart choice by Sanofi. The OrphanDrug law grants them exclusivity and gives them the privilege and added advantage of being the only manufacturer in the industry, minus competitors.

Genzyme is strongly positioned in a number of niche markets which are very lucrative despite low patient numbers. Furthermore, a number of key brands in its portfolio have been enjoying Orphan Drug status that provides market exclusivity (seven years in the US and 10 years in the European Union). In addition to the expertise in rare diseases, Genzyme has built strong renal-endocrinology, hematology-oncology and biosurgery businesses that are complementary to existing Sanofi-Aventis' businesses and include highly differentiated, market-leading products that provide significant benefit to patients.

Sanofi-aventis will work with Genzyme through the integration process to develop plans to enhance the opportunities for these businesses going forward. Consistent with Sanofi-Aventis' approach in other transactions, Genzyme will retain its corporate brand.

Sanofi-Aventis' global footprint, significant resources and proven track record of successfully expanding franchises willcreate new long-term growth opportunities for the combined company, particularly in emerging markets. Genzyme will become an important new platform in Sanofi-Aventis' sustainable growth strategy and expand the company's presence in biotechnology. Sanofi-Aventis intends to make Genzyme its global center for excellence in rare diseases and the acquisition will reinforce Sanofi-Aventis' commitment to the greater Boston area, where it already has a sizable presence.

Sanofi has been looking at all possible means to fight the off-patent boom that has been plaguing its development. Datamonitor forecasts Sanofi-Aventis' prescription pharmaceutical revenues to decline to $36.9 billion by 2015, equal to a compound annual growth rate (CAGR) of -1.0 percent. As compared to Sanofi's negative growth, Datamonitor has predicted a CAGR of 9.8 percent from $4.1 billion in 2009 to $7.2 billion in 2015, which will definitely give Sanofi an edge over the others. ''Genzyme's growth is primarily driven by Genzyme's niche market focus, which is in marked contrast to the traditional Big Pharma operating model,'' says Mr Raj of Datamonitor, India.

The acquisition of Genzyme will see development by Sanofi in the field of biologics, something that Genzyme is strong at. "Genzyme's therapeutic proteins portfolio and monoclonal antibody (MAb) offering would represent a significant opportunity for Sanofi-Aventis to diversify into biologics" concludes Mr Prashant.

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