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Fallstudien zum Internationalen Management

3. Auflage

Grundlagen – Praxiserfahrungen –
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Lehrbuch



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The Acquisition of Aventis by Sanofi: Attack as Defense – Play 2: The Closing and Integration of Sanofi-Aventis

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1. Act One: Aventis Accepts the Improved Offer from Sanofi

At 25th April 2004, Aventis accepts the improved 55 billion Euro takeover offer from Sanofi. Sanofi is now offering a premium of 16 % in comparison to the first bid. The new offer comprises five Sanofi shares for every six in Aventis, plus 120 Euro in cash. As alternatives there are also a purely share offer and a purely cash offer. The purely share-based offer comprises 1.1739 Sanofi shares per Aventis share. With the purely cash offer, the Aventis shareholders would receive 68.93 Euro per Aventis share. The cash element is limited to 29 % of the total offer and will probably have to be financed predominantly through credit. Thus, Aventis clears the way for the creation of the third largest manufacturer of prescription drugs in the world. So a tough, hard takeover battle that has lasted around three months comes to an end. A press release from Aventis puts it as follows: "After examining this new offer, the Management Board and the Supervisory Board have decided to recommend to our shareholders that they accept this offer". Igor Landau, Chairman of the Board of Aventis, said of the resolution: *"We are delighted at the very good outcome, the agreement recognizes the value of Aventis from a financial viewpoint and in terms of the quality and experience of our staff. With a joint and equal involvement in the management of Sanofi-Aventis, this agreement provides the necessary prerequisites for the success and development of the new company."*

At their meeting, the Supervisory Board established the following: *"(1) The conditions of the improved offer represent a clearly increased premium for the Aventis shareholders, which now corresponds to those of comparable transactions on the basis of different valuation methods; (2) In contrast to the original offer from Sanofi-Synthélabo, the improved terms appropriately reflect the anticipated growth potential of Aventis in the coming years and the anticipated contribution by Aventis to the results and growth of the combined companies; (3) The governance regulations and the planned integration processes as defined in the suggested agreement should enable a successful and fair joint leadership of both companies; (4) The status of the investigations and negotiations with the monopolies authorities in Europe and the USA indicates that the concessions made by Sanofi-Synthélabo in order to acquire approval will not significantly affect the growth profile of the combined companies; (5) Sanofi-Synthélabo has assured Aventis that the facts provided in the USA registration documentation according to Form F-4 of the Plavix legal dispute are correct and complete in all essential respects; (6) The closing of the transaction can be expected in a reasonable period"*.

The decision was taken on a majority basis of the votes of 13 members, with two opposing votes from staff representatives and an abstention by the representative of the Kuwait Petroleum Corporation, Seham Razzouqi. She withheld her vote in the Supervisory Board as the two most important shareholders in Sanofi, Total und L'Oréal, are not yet prepared to state whether they are prepared to extend the contract in respect of the holding period of their shareholdings, which is due to expire in December 2004. KPC is afraid that the cessation of their involvements could strain the share price of the future Sanofi-Aventis.

At the same time, Aventis will withdraw all legal claims filed against Sanofi-Synthélabo and the stock market regulatory authority Autorité des marchés financiers in connection

with the offer from Sanofi-Synthélabo. This withdrawal includes the resolution in respect of issuing share subscription rights against the Plavix risk and the restriction of voting rights at the Aventis Annual General Meeting of shareholders.

The Sanofi shareholders are expected to agree to the new offer at an Extraordinary General Meeting on 24th May. The planned company "Sanofi-Aventis" will come into being when at least 50 % of the Sanofi shareholders have decided in favour of the bid. Both of Sanofi's main shareholders, the cosmetics group L'Oreal and the mineral corporation Total Fina Elf have already indicated that they support the new bid. The shareholders in Aventis must also decide in favour of the takeover by Sanofi. The merged Sanofi-Aventis group can expect a turnover of around 25 billion Euro, and is likely to employ more than 100,000 people worldwide. It would be number 3 in the pharmaceuticals industry, after the American Pfizer group and the British GlaxoSmithKline. Together the companies have around a dozen new active agents in their combined research pipeline, which could possibly come onto the market between 2005 and 2007. However, only a few of these new drugs will count as blockbusters with annual sales above the billion threshold. According to analysts, the drug ranges of the two groups fit well together, with only a few overlaps.

If the agreement of the shareholders at the General Meetings of both companies and the antitrust authorities takes place as expected, this will mean the end of the five-year history of Aventis, which came into being through the German-French merger of Hoechst AG and Rhône-Poulenc S.A. Despite substantial efforts, in comparison with other major pharmaceuticals groups Aventis never succeeded in achieving an adequate level of profitability. It was only due to the resulting modest stock market value of Aventis that it was in any way possible for the smaller, but much more profitable, rival Sanofi to put in a takeover bid offering the prospect of success. In the past three years the trend in Sanofi's share price has come out 20.5 % ahead of the French index of leading companies, the CAC40, whilst Aventis has only beaten this by 11.25 %.

The French government, which heavily intervened in the takeover battle, appears highly delighted about the imminent union of the two leading French prescription drugs manufacturers. At least, it has won a victory of internal politics in this "battle". The newspaper NZZ appositely entitles its article on the case: *"A pharmaceuticals giant by the grace of Raffarin"*. French Prime Minister Raffarin also declares *"the merger between Sanofi and Aventis will enable decision centres and jobs to remain in France and Europe, and matches our strategic interests."* His new Trade and Finance Minister, Nicolas Sarkozy, had exerted a great deal of pressure on Sanofi over recent days so as to move the Paris company to be willing to compromise towards Aventis. Due to the sharp criticism of the French government's interventions, it is again stressed that they are open to foreign investment in French companies. Prime Minister Jean-Pierre Raffarin's comment on this to the Financial Times was: *"This does not mean France will be nationalistic, individualistic and egoistical, but that it will be open to projects with our European and other partners."* Raffarin again stated his backing for an interventionist policy which would protect national interests, but would not as a result be protectionist.

Before the weekend of the closing, it was said that Novartis had apparently been in agreement with Aventis and that the merger was due to be announced on Monday (26th April) in Zurich – despite the French government's intervention. The offer was said to have been around 54 billion Euro. Yet the two pictures do not have to be contradictory.

Clearly, Sanofi had used Sunday for its decisive move so as to present Novartis with a fait accompli on Sunday evening. Before Novartis was essentially able to submit a counter bid, Aventis had already accepted. Faced with the new situation, Novartis withdraws from the takeover and does not want to put forward a counter-bid to Sanofi's takeover bid after the intervention of the French government. The CEO of Novartis, Daniel Vasella, told the Financial Times: "*I think it is, in the short term, a big win for Sarkozy but, in the longer term, it is a big setback for the country in terms of foreign investment.*" For Novartis, the merger implies that the third largest pharmaceuticals company in the world has come into being right next door. Although the Sanofi-Aventis merger put a damper on Novartis' expansion strategy, Novartis got an insight into confidential documents of one of its main competitor.

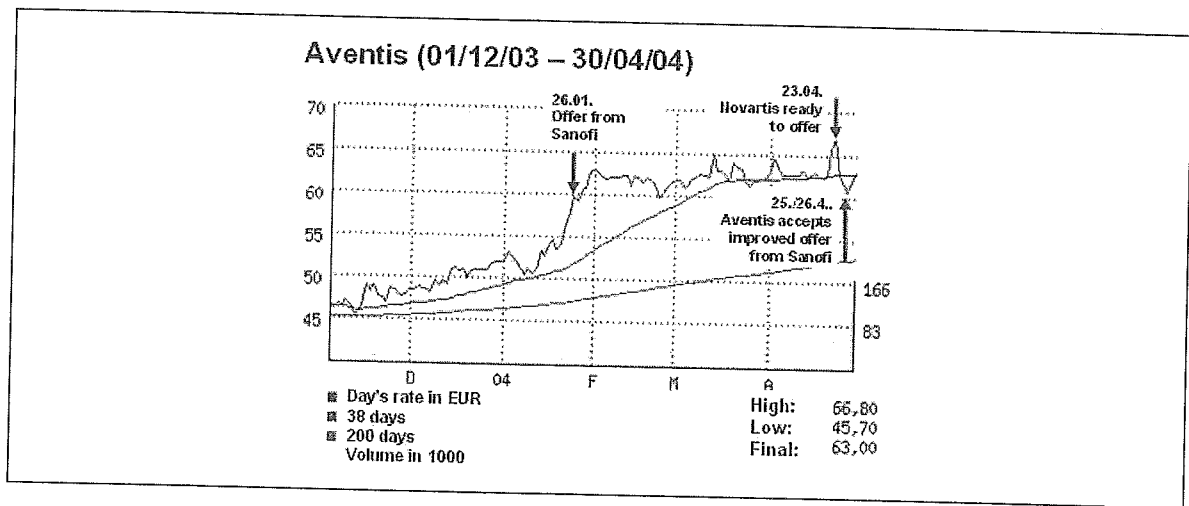
What are the consequences for the Aventis management of being defeated in the takeover battle? "A successful future cannot be bought" – so ran one of the slogans in the Aventis defense campaign. However, there are usually agreements which trigger various items of termination pay (pension plans, share option programs, fringe benefits, redundancy payments etc.) after a change of control. It is alleged that a total of 89.79 million Euro is available for the seven-man Aventis management team in the form of termination pay (48 million Euro) and profits from share option programs. The Chairman of the Aventis Supervisory Board, Jürgen Dormann, is allegedly to receive an annual pension of 1.44 million Euro and the Chairman of the Management Board, Igor Landau, will leave the company with a basic settlement of 10.5 million Euro. The basic settlement was to be accompanied by share options and additional benefits whose value could not yet be precisely put in figures.

Considering the agreements for the integration of the two companies, which have been reached with a strong basis in compromise, the Sanofi boss Jean-Francois Dehecq will find that the "free hand" he promised himself from a hostile takeover bid without long drawn out negotiations is somewhat limited. With the management of Sanofi-Aventis being shared on an equal basis, Sanofi is obviously prepared to include substantially more managers from Aventis in the leadership of the future joint company than was planned up to now.

- *The Board of Directors* will be made up of 17 members: Jean-François Dehecq (Chairman, CEO, Président Directeur Général), eight members to be appointed by the Supervisory Board of Aventis (including the Deputy Chairman representing the German side), and eight members to be selected by the Board of Directors of Sanofi-Synthélabo. The Board of Directors will appoint four committees (Strategy, Personnel, Audit, and Scientific Committees), which will be filled equally by Aventis and Sanofi-Synthélabo Directors, with two of the committees each being led by a Chairman appointed by Aventis or Sanofi-Synthélabo.
- *An Integration Committee*, consisting of an equal number of members from Aventis and Sanofi-Synthélabo, together with Jean-François Dehecq as Chairman, will oversee the integration of the two companies and select the management of the combined company.
- *Announcements about synergies*: Due to the hostile character of the takeover, Sanofi has been unable up to now to undertake any detailed analysis of the potential synergies. As a result, no precise statements of synergy effects or a possible reduction in jobs have been made. However Dehecq stands by the statement he made when the of-

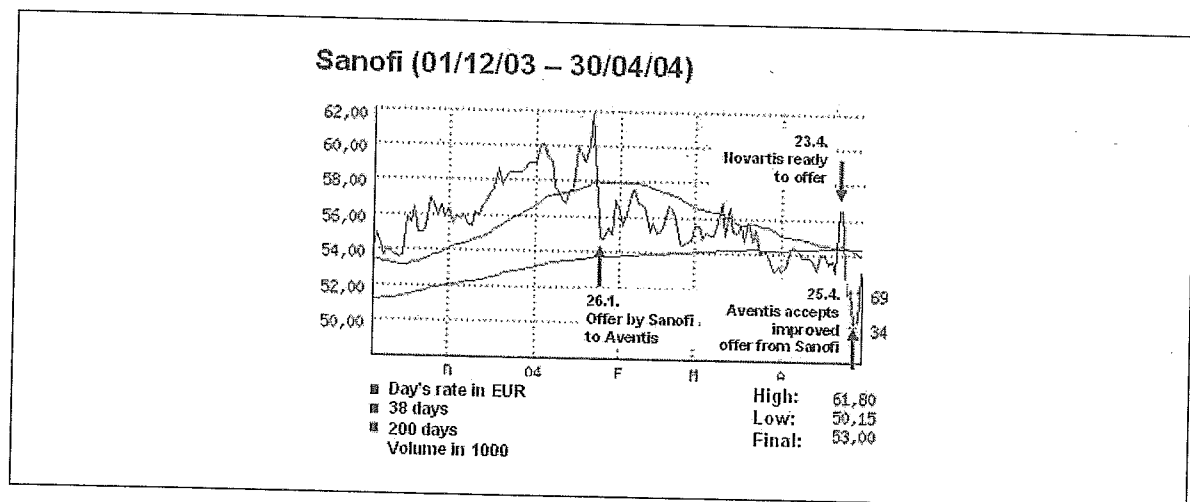
fer was submitted on 26th January 2004, that the merger will save costs of 1.6 billion Euro (before tax) per year from 2006. Dehecq stated: "If we go over that figure it will demotivate the company. The plan is to sell more drugs, not to fire people." In this way Dehecq attempted to allay fears of significant job losses in Aventis's German research and production departments.

The Paris stock exchange reacted to the news of the merger of the two companies with clearly decreasing share values for both Sanofi and Aventis. Trading in the shares of Aventis and Sanofi-Synthélabo, which had initially been suspended, was restarted at 14.30 MEST.



Source: Spiegel Online.

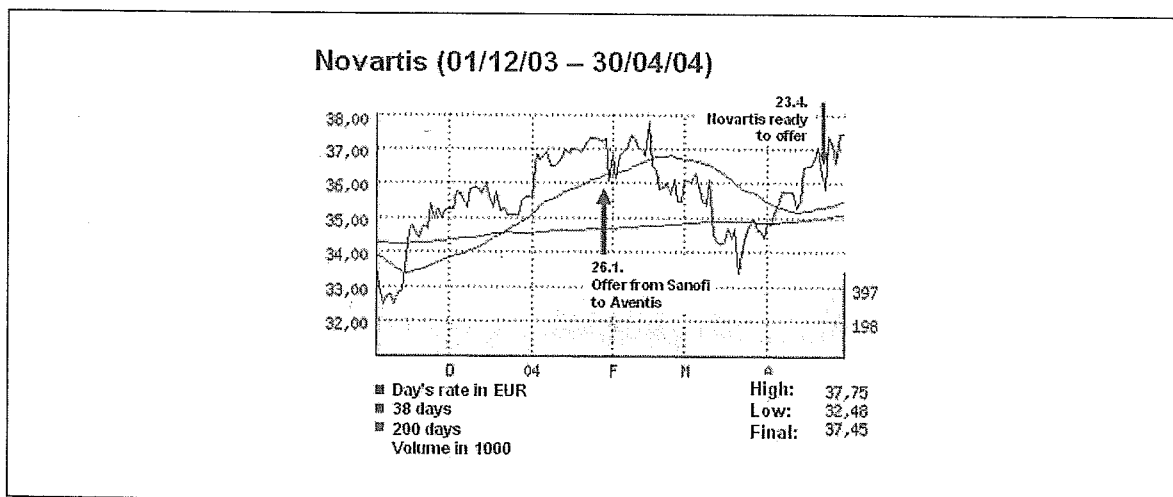
Figure 1: Aventis share price movements



Source: Spiegel Online.

Figure 2: Sanofi-Synthélabo share price movements

Aventis started with a 5.3 % reduction and was quoted at 62.60 Euro, whilst shares in Sanofi were 7 % down – despite the uncertainty that has now been removed from the shares – and closed at 52.02 Euro. In contrast shares in the Swiss Novartis rose on the Zurich stock exchange by 3.5 % to 58.05 CHF. From the viewpoint of the capital market, the improved offer meets their expectations as analysts consider a settlement offer of around 70 Euro per share to be appropriate for the owners of Aventis. With a price-earnings ratio of 16.5, the value of the new share seems to be neutral.



Source: Spiegel Online.

Figure 3: Novartis share price movements

All in all, criticism is leveled at the fact that a fair number of compromises have been made that could make it harder to integrate the two groups, such as for example the joint approach to integration, which is more like a merger than an acquisition. Dehecq tries to counter this concern by saying: *"He who pays the premium, controls the company. ... There is equality, plus me as the chairman of Sanofi ... [and the new managers] will have to be happy with our plans and it is me who chooses who they are."*

Some investor representatives also found fault with the fact that too high a premium had been paid. The 14 % increase in the offer resulted in principle from the increase in the cash offer, so that the shares of the Sanofi shareholders would not be diluted. But Dehecq believed that this was the price to be paid for getting involved in what was probably the last opportunity for Sanofi to expand in Continental Europe: *"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 unions raised the question of whether Sanofi was overstretching itself with a cash element of almost 30 %. Staff representatives were afraid that in return Sanofi might have to rationalize Aventis more drastically than had previously been planned. However, the French unions had considered a takeover by Novartis as even less favorable. Michael Klippel, Chairman of the Works Council of Aventis Pharma Deutschland, demanded that the staff representatives must be able to participate in the discussions on the structure of

the new group. They feared the loss of jobs in Germany. Klippel continued that he was *"horried that it was happening so quickly"*. The joint works council of Aventis demanded an agreement on security of employment for the approximately 8,000 staff in Germany.

One day after the announcement of the merger (26th April 2004), the EU Commission approves the planned merger with conditions. Sanofi has already removed the major issues in terms of competition legislation in its bid, which is now the focus of the EU conditions and which includes the sale or allocation of the licenses of around a dozen products. It is pure chance that the approval is granted the day after the offer, as the EU deadline for the approval procedure expired today. Asked about the French government's interventions, a speaker for the EU Commission explains that they could only have taken into consideration the explicit measures and not "words and declarations".

2. Act Two: Preparation for Integration

At a staff meeting, the Personnel Director of Aventis Germany, Heinz-Werner Meier, announces that agreement has been reached between the Board of the company and the works councils that there will be no operational dismissals before the end of 2007. Any HR changes needed after the takeover would be dealt with using the existing tools such as the regulations on partial retirement or reductions in working hours. The training of young people would continue on the basis of the tariff agreement for the chemical industry. In addition, the employment pact included a declaration of intent in respect of taking over the around 600 apprentices. Aventis employs around 9,000 staff in Frankfurt und Bad Soden. There had also been complete agreement that the research and production units at the Frankfurt site in the Höchst industrial park would be maintained. Surprisingly, the jobs in marketing, administration and sales are also guaranteed in a medium-term.

The general agreement on job maintenance does not exclude other kind of downsizing. The takeover from Sanofi-Synthélabo should not have been the trigger for this agreement since it was already negotiated in the previous year. Nevertheless, the preamble of the general agreement by Aventis Germany and the workers' council does include "memorandum of understanding" on which Aventis and Sanofi-Synthélabo agreed upon at 25th of April. In case of a takeover, warranties for the maintenance of the location in Frankfurt should supplement the general agreement – according to the preamble. Nevertheless, the general agreement offers still possibilities for downsizing and reduction of HR expenditure. For example, point 3.1 of the agreement states, right after the warranty to keep all employees for the next three and a half the years, that "HR outlets by fluctuation do not have not to be replaced". Under point 4, it is regulated that employees whose "jobs are omitted without a possibility of a job transfer" are offered to dissolve their labor contract and to agree upon a compensation. Moreover, if a operational layoff should be conducted and the job owner is at the age of 55 or above, the general agreement also permits the possibility of a dismissal under the condition that it is the goal of the employee to retire prematurely. However, the general agreement will not apply any more if the new company under Dehecq's lead decides to sell parts of the company. Then each

individual employee of the respective enterprise may appoint itself only to a certain worker protection which can be applied for one year to the individual work contract. A general job assurance valid for all employees would have to be agreed upon with the new owner of the sold enterprise.

At the 4th May 2004, Sanofi-Synthélabo announces that the sale of low-margin Aventis drugs with sales of around 1.5 billion Euro is to be stopped. "Project Aurora will not take place. We are standing by all our drugs", says the Chairman of Sanofi's Board of Directors, Jean-Francois Dehecq, in an interview with the daily newspaper Die Welt. According to Dehecq, there are still high levels of old financial burdens to be overcome especially at Aventis going back to merger between German Hoechst and its French rival Rhône-Poulenc just less than five years ago. "There will certainly have to be some restructuring. But this will all take place in close consultation with the unions", announced Dehecq. However, worldwide overlaps of sites will be reduced to only one head office per country since there are 80 countries in which both companies are represented by subsidiaries. The future of Aventis's involvements in chemicals is also still open. Dehecq stresses that those businesses do not form part of the core business. The Strasburg-based group still has involvements in the Rhodia chemicals group and Wacker Chemicals in Munich dating back to the time of the merger. In order to compensate financial obligations and the offered cash element in the takeover, the investment bank Merrill Lynch grants Sanofi-Synthélabo a credit of 5.3 billion Euro. In addition, Sanofi-Synthélabo applies for an increase in capital for the purposes of financing the takeover of Aventis at its forthcoming Annual General Meeting. Finally, in December, Sanofi-Aventis also refinances a short-term credit of 5 billion Euro to optimize its financing costs by using commercial paper programs from BNP Paribas and Société Générale.

Conforming to the conditions of the takeover acceptance, Sanofi-Synthélabo agrees to the new Supervisory Board of Sanofi-Aventis being supplemented by 8 members from Aventis. These are to be Jean-Marc Bruel, Jürgen Dormann, Jean-Rene Fourtou, Serge Kampf, Igor Landau, Hubert Markl, Klaus Pohle and Hermann Scholl. The Board members on the Sanofi side are Jean-Francois Dehecq (also CEO), Rene Barbier de la Serre, Robert Castaigne, Thierry Desmarest, Lord Douro, Christian Mulliez, Lindsay Owen-Jones, Gerard Van Kemmel and Bruno Weymuller. It is likely that the German trade unions and works councils will have to be satisfied with four places as observers on the Supervisory Board of the pharmaceuticals group Sanofi-Aventis, without being entitled to vote. According to Sanofi boss Jean-François Dehecq there is no obligation under French law to grant staff representatives the right to vote in the supervisory body. However according to the statement, the pharmaceuticals boss did not rule out participation in voting by the staff representatives. The Sanofi boss was quoted as saying: *"We have greatly accommodated the wishes of Aventis by making eight places available for candidates from Strasburg, and I would totally have accepted it if these had included union or works council members as is the case in the board in Strasburg"*.

At the Extraordinary General Meeting of Aventis shareholders (11th June 2004), Igor Landau once again justifies the decision by the Supervisory Board and Management Board to accept the offer by presenting the following arguments, underlining the advantages of the improved offer: (1) the higher premium represents an appropriate valuation of Aventis, (2) the higher cash elements, (3) the balanced Corporate Governance that has been obtained, (4) the positive attitude of the main Sanofi shareholders, (5) the approval

by the EU which is already in hand and (6) the agreement already reached with Sanofi on the sale of Arixtra/Fraxiparin to GSK. These advantages are said to outweigh the (potential) disadvantages of the original offer: (1) the undervaluation of Aventis, (2) the Plavix risk of Sanofi shares, (3) the risks entailed in implementation and integration, (4) the surplus of shares and (5) the monopoly risks.

3. Act Three: Implementing the Integration

At 21st June 2004, Sanofi-Aventis files the final design for the integration infrastructure. The design for the infrastructure (i.e., integration team, milestones, and implementation guidelines) is drawn up and a planned structure for the future management committee is proposed. The integration guidelines are as follows:

- Integration projects will be supervised by 'senior leaders' of both companies.
- Decentralized integration teams will be formed for each function (R&D, industrial, operations, finance, HR, etc.).
- Integration Officers (IOs) from both firms at every organisational level are to ensure highly efficient coordination.
- The project structure and timelines will be adapted to the needs of each function.
- Regular reporting on project progress in every function to the group IOs and an exchange of experiences between functions are to be ensured.
- Company communication: Internal initiatives such as "Fil Bleu", "Chat with the President" or "Communications kit"; externally directed activities in respect of the corporate website, company name and logo, "doctors' brochure".

At the end of 2004 the integration project organizational structure is to be dissolved again and the remaining tasks are to be handed over to the functional/operational units. From 1st January 2005, the new joint sales organisation should be operationally implementable worldwide.



Figure 4: New logo of Sanofi-Aventis

From a communication perspective, Sanofi-Aventis debuted its new corporate logo in an international advertising campaign that thanked employees and shareholders for helping create the world's third-largest pharmaceutical company. The logo depicts three human

figures connected by a heart outline. Below is the company's name and the tagline: "Because health matters." The company sees deep meaning that might elude a customer picking up allergy pills. *"It places all humanity, each and every individual, at the very heart of our vocation and commitments,"* Sanofi-Aventis said in a statement announcing the ad campaign and logo. Further, the company said, it *"brings to mind the overriding goal that each and every member of the group shares: improving health."* What's more, *"the logo block shows our willingness to move forward together with a shared vision of the profession that unites us."*

In order to comply with competition requirements, Sanofi-Aventis sells its anti-cancer drug "Camppto" to the American giant Pfizer for 620 billion USD at 26th June. As an affirmative result, the Federal Trade Commission approved the takeover of Aventis SA by Sanofi-Synthélabo SA under certain conditions. The FTC stated that Sanofi had agreed to sell certain drugs, research results, and license rights to competitors. In addition, Sanofi-Aventis sells the anti-clotting drug "Arixtra" to GlaxoSmithKline SA. Aventis's contractual rights to an agent for treating sleep disturbances ("Esoterra" from Aventis) are to be acquired within 90 days by Separacor Inc or another purchaser. *"In a merger of this size and complexity, there are likely to be significant overlaps that must be addressed to ensure that consumers are protected from potentially anticompetitive effect"*, said Susan Creighton, Director of the FTC's Bureau of Competition.

At the 20th August 2004, the Aventis shares have now been officially bought out and converted into Sanofi share certificates. The takeover and retraction offer by Sanofi for the acquisition of more than 95 % of the shares of Aventis has been further extended and now applies until 6th September. Legally the acquisition makes Aventis a subsidiary company of Sanofi. Sanofi is changing its name to Sanofi-Aventis. The integration teams too can now start their work. The new Management Board and Supervisory Board are also going to take up their task in the next three days. In order to accelerating the merger process, Sanofi-Aventis examines an squeeze-out of Aventis' subsidiary Hoechst AG. Since the creation of Aventis through the merger with Rhone-Poulenc in 1999, Hoechst AG, which is listed in Frankfurt and New York, has been operating only as an intermediate holding company for the pharmaceuticals business in Germany, Japan and China, as well as for involvements in numerous firms including the 49 % package in the Munich-based Wacker Chemicals. Therefore, the investment bank Merrill Lynch and the commercial law firm Linklaters Oppenhoff & Rädler have been entrusted with putting together a takeover offer and a possible squeeze-out settlement. The total purchase price for the 1.91 % of the missing shares in Hoechst that are not yet held by Sanofi-Aventis comes to around 550 million Euro.

After the share integration, the French supervisory authority for the financial markets, the AMF, discloses at 25th August 2004 that there will be three main shareholders in the merged pharmaceuticals group Sanofi-Aventis, which will together hold more than 43 % of the votes and control almost 30 % of the share capital. In terms of the proportion of the votes held, the petroleum group Total will hold 21.49 %, the cosmetics group L'Oréal 17.23 % and the Kuwait Petroleum Corporation (KPC) 5.12 %. However, KPC announces that it wants to sell its remaining share package to Sanofi-Aventis. KPC already reduced its shareholding by 2.8 % on 7th September. The two banks Morgan Stanley and UBS undertook the sale of 38 million shares at a price of 56.75 Euro, which would have brought in around 2.16 billion Euro for the state-run firm KPC. The two investment banks have also been tasked with selling the remaining 3.4 % share. With the sale of the second tranche of

shares, KPC is bringing to an end an almost 20-year involvement, which began in the 1980s with its entry into the Frankfurt Hoechst group. At that time KPC had a 25 % involvement in what was once the largest pharmaceuticals and chemicals group in the world. Although KPC retracts its plans to exit from Sanofi-Aventis several months later, it sells its remaining 47 million shares in Sanofi-Aventis in an accelerated book-built offering to institutional investors with the help of the investment banks Morgan Stanley and UBS at the end of January 2005. In contrast, the other two major shareholders, L'Oreal and Total, confirm that they intend to keep their shares and they are not up for sale.

Standard & Poor's Ratings Services (S&P) values the creditworthiness of Sanofi-Aventis SA, Paris, the result of the merger between Aventis and Sanofi-Synthélabo as "A+/A-1". The rating agency discloses that the outlook is "stable". This rating reflects the leading position Sanofi-Aventis occupies in the prescription drugs market, the fact that it has sufficient funds at its disposal for research and development and marketing, as well as the significant product diversity, writes analyst Omar Saeed. The company additionally enjoys a sustainable development pipeline, strong operating profitability and the capacity to generate free cash flow. In accordance with S&P, Sanofi-Aventis also receives an "A2" rating from Moodys.

According to the announcement on merging and reducing national corporate headquarters, Jean-Francois Dehecq announces that the group management wants to put forward a new branch structure by September – "country by country and for all levels of the hierarchy". Dehecq gave his assurance that the question of what was to happen to the staff was being addressed "with very great caution". "The social partners are being consulted first, which is the way it should be". But the new structure would have to be in place by the start of 2005. For instance, Sanofi-Aventis concentrates its marketing and sales activities for Germany in Berlin. Sanofi's Head Office, with around 320 staff, was based in Berlin. Aventis's administration is established in Bad Soden with around 800 staff employed. In contrast, production and research are not changed so that the majority of the around 10,000 staff in Germany remain at their location in Frankfurt-Höchst's industrial park. At the beginning of December, further 240 jobs are moved from Bad Soden to Berlin without downsizing. For the US operations, Sanofi-Aventis announces that it will keep its US headquarters in Bridgewater, New Jersey, which it has inherited from Aventis. As a result the group is to move its 600 former Sanofi-Synthélabo staff from New York to Bridgewater. In general, Sanofi-Aventis finishes its determination of the head offices in the companies in other countries, the product portfolio segmentation, the most senior hierarchical structures, and the sales force involvement in October 2004. By 1st November, the requirements for top line growth and synergies from cost savings are defined. During November the precise resource allocation, the overall synergies, the organisational structure, the business processes, and the commercial regulations are also going to be worked out in detail.

In line with the integration plan, Sanofi-Aventis announces the nomination of 100 Directors (General Managers) in more than 70 countries at the 6th September 2004. Accordingly the new Regional Directors, General Directors and trade representatives (Responsables des Zones Géographiques, Directeurs Régionaux, Directeurs Généraux, Responsables des Opérations Commerciales und Responsables Franchises du Marketing Global) are to put in place a new team structure in their current area of responsibility by the end of the month. The Group stressed the importance of the role of the General Managers for the development of the Sanofi-Aventis Group. Sanofi-Aventis do not disclose to what extent previous senior managers will be laid off. Two weeks after the General Managers were named, the

Sanofi-Aventis Group announces the appointment of managers in the following departments:

- Scientific and Medical Affairs, led by Gérard Le Fur,
- Finance, led by Jean-Claude Leroy,
- Industrial Affairs, led by Gilles Lhernould,
- Communications, led by Nicole Cranois,
- Legal, led by Dirk Oldenburg,
- Audit and Internal Control Assessment, led by Marie-Hélène Laimay.

However, within the human integration process, Sanofi-Aventis has to face a severe staff setback as the chief strategist of the new group, a former 26-year-serving Aventis Manager Thomas Hofstätter, surprisingly leaves the company. In an email to his colleagues, Hofstätter described the reason as the anticipated culture change in the new pharmaceuticals group. Sanofi-Aventis would become "a different company, with a different style, culture and philosophy" according to his letter. Four days later, Olivier Jacquesson, who has worked for Aventis since 1976, is named as the successor to Thomas Hofstätter for the corporate development area.

Within the further restructuring, Sanofi-Aventis takes into action further measures to accelerate the published goal of achieving savings in operating costs of 1.6 billion Euro in 2006.

- Generics division: Sanofi-Aventis is preparing for a major restructuring of its generics operations, linked with the intention of combining all activities of this kind under the brand name "Winthrop". Sanofi-Aventis is currently selling only around 250 million Euro worth of generic drugs, but these volumes are to be increased in the medium term.
- Downsizing: Contrary to statements of staff size maintenance, Sanofi-Aventis plans to release more than 3,000 employees through early retirement schedules at 18th November 2004. The opportunity to retire applies to around 3,224 staff aged over 55. In reaction to this announcement, the French Sanofi-Aventis staff in Romainville strikes one day later. At the beginning of January as a result the first 300 jobs are cut on a voluntary basis through early retirement. Another 500 jobs follow at the end of May.
- Headquarters: The Aventis Head Office is to be moved to Paris in 2005. The offices that are currently still in existence in Schiltigheim near Strasbourg (220 staff) are to be closed over the next year.
- R&D: Sanofi-Aventis plans to demerge a section of its research arm into fighting infectious diseases. The subsidiary is sold by 75 % to the venture capital firms Atlas Venture and Sofinnova Partners from France, Abingworth and 3i from UK and the Danish Novo for 40 million Euro.

At 13th December 2004, the shareholders in Aventis have officially approved the takeover of Aventis and at 23rd December 2004, the shareholders in the French pharmaceuticals group Sanofi-Synthelabo have officially approved the takeover of Aventis. This was the last legal step necessary for the merger. In reaction to the big merger of Sanofi-Aventis, the excluded third player Novartis purchases the generics firm Hexal and the majority of Eon Labs for 5.65 billion Euro. In that way, the Swiss pharmaceuticals group is hoping for annual cost savings of 200 billion dollars as a result of the takeovers. Novartis expects to achieve synergies especially in production, materials procurement, processing and manufacturing costs, marketing and sales, as well as in development and administration. The takeover of Hexal, worth billions, gives rise to renewed speculation about takeovers and

increases the pressure for consolidation in the sector.

4. Act Four: Conclusion of the Integration of Sanofi-Aventis

At 1st March 2005, Sanofi-Aventis presents the 2004 financial figures which reflect the success of the new group Sanofi-Aventis in its integration at all levels: 12.5 % growth in the adjusted pro forma operating profit, 17.9 % growth in profits (from pro forma 4,451 million Euro in 2003 to 5,246 million Euro) and an 18.2 % rise in the adjusted pro forma EPS (to 3.89 Euro). However these figures have been adjusted to account for adaptation and restructuring costs. Before adjustment there would have been a handsome loss of 3.61 billion Euro. Net sales have risen to 25,418 million Euro, representing an increase of 4.6 % (or 10 % on a comparison basis), and the pre-tax synergies come to an impressive 220 million Euro compared to the planned 160 million Euro. Dehecq states that the integration is moving ahead faster than planned:

(a) Organisation structure:

- Integration of the management teams and streamlining of the group and management structures has been carried out.
- In 70 countries the various administrative functions have been combined into one head office respectively. This is also still to take place with the concentration of five group head offices into one in Paris.
- Integration of R&D and sales already concluded.
- The integration of the production activities has not yet been completed: 4,000 jobs cut, and thousands more to follow.

(b) Strategic product focus:

- Strategic focus on eleven drugs which are well known worldwide, including eight blockbusters, which will be supplemented by the two new drugs Lantus (against diabetes) and Copaxone (multiple sclerosis).
- The marketing strategy is to be that no product is too small ("adapted Base Business Strategy") and no market is too small (i.e. growth is aimed for in every country). The 3 main pillars of Sanofi-Aventis are pharmaceuticals, generics, and vaccines.
- 128 products (including 20 vaccines) are in the pipeline (15-16 % of turnover going into R&D costs): insulin preparations, sleeping pills and anti-cancer agents are to generate further income running into billions which could make Sanofi-Aventis into the global number one or two.
- The Plavix problem remains unresolved (expiring patent). However, the lawsuits affect Plavix only in the United States, where the drug is jointly marketed with Bristol-Myers Squibb so that only a small part of Sanofi-Aventis business is affected.

(c) Financial figures:

- Synergy effects announced: 960 million Euro by the end of 2005 or 1.6 billion by the end of 2006, from which 1 billion are achieved through cost savings and 0.6 billion through new profits.
- By the end of 2004, 220 million Euro had already been achieved instead of the expected 160 million, mainly through merging head offices.

- Net debt increased to 14.2 billion Euro due to the takeover being two thirds externally financed. This credit is to be cleared within five years.
- At the end of March 2005, Standard & Poor's increased the credit rating of Sanofi-Aventis from "A+/A-1" to "AA-/A-1+" due to the improved operational trend and the sustained rapid integration of Aventis. Sanofi-Aventis signed up for new lines of credit totaling 10 billion Euro and thus can substantially reduce its costs of credit.
- The positive movement in the share price since the deal was closed (25th April 2004) equally reinforces the fact that the merger makes sense from the perspective of the capital market: starting from 60,50 Euro at beginning of January 2004, the stock plunged to 50,15 Euro during the takeover phase (in the end of April 2004), recovered to 60,60 Euro after the merger (in February 2005), and rose to 79,28 Euro after the integration (in January 2006).

In the review of the post-integration year 2005, the management of Sanofi Aventis draw a very positive resume over the first integration year: profit adjusted by extraordinary charges increased by 26.1 % up to € 6.34 billion and consolidated profit by 13.7 % up to € 2.26 billion. The adjustments concern above all the high expenditure for amortization, value adjustments, restructuring of the integration, and tax aspects. The restructuring costs amount to € 1.58 billion including € 947 millions in the year 2005. The synergies could be realized more rapidly and amount to € 1.39 billion. The research expenditure stagnates at € 4.0 billion, which is explained by the termination of co-operation projects and effects of the restructuring of Aventis before the integration. The revenues increases by 8.4 % to € 27.3 billion to which all regions contribute. US sales climb more rapidly (+11.5 % up to € 9.57 billion) than European sales (+8.2 % up to € 12.12 billion).

One year after its merger, the pharmaceuticals group Sanofi-Aventis is once again on the lookout for acquisition opportunities and wants to become number two in the pharmaceuticals sector. "We are constantly looking to see what is available on the market", said the German Management Board member Hanspeter Spek. He sees opportunities for further purchases above all in Japan, but there are also possibilities in the USA and Europe too. Since the integration of Aventis has not thrown up any surprises, Sanofi-Aventis shows still appetite for further M&A activities. Three years later, the play seems to start again:

The year 2007 appears to start with a bombshell for the M&A sector: On Monday 29th January, rumors emerge of a possible merger between Sanofi-Aventis and Bristol-Myers Squibb, which could form the largest global pharmaceutical company with sales of 36 billion Euro and a market capitalization of 134 billion Euro...

5. Question Set

1. Post Merger Management (PMM): What crucial steps must be planned and carried out in the following integration? Construct a plan for PMM, sketching out the process phases, project organisation etc.
2. Success factors of integration: What are the key success factors for integration, and what will be the major challenges of post-integration management for Sanofi-Aventis in 2005?

3. Change Management: Which principles of change management would you follow in designing the integration process?
4. Communication Strategy: What communications strategy would you follow so as to cope with the variety of stakeholders and the partially heated attitudes of those involved in this merger?
5. Future Challenges: What are the next major challenges for Sanofi-Aventis in the medium term (within 2 years) and in the long term (in the next 10 years)? Consider challenges within the company, with respect to competition, specific to the industry and with regard to society.
6. Future Position of Sanofi-Aventis: What will be the next strategic steps taken by Sanofi-Aventis? How can Sanofi-Aventis position itself against Pfizer and GlaxoSmithKline in the global and American markets?