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French Revolution

By Walter Armstrong

"I have probably got six months to ask tough questions and push the boundaries before I fall in love with the company," Chris Viehbacher said last winter after taking over the top spot at Sanofi-Aventis. Whether or not Viehbacher has in fact fallen for the French firm only he can say, but it's clear from Sanofi's share price that Wall Street is a little smitten with Viehbacher. "Sanofi is one of the very few pharma stocks that is up for the year," says MillerTabak's Les Funtleyder. "As far as grading his job performance so far, the market is satisfied, and investors are happy." Shares have gained 9.8 percent in the past year, far outpacing the Dow Jones Health Index, which fell 9.6 percent. This is a reversal for a stock that had spent many months as the lamest among the big European pharmas.

Although still in the honeymoon phase, Viehbacher acts more like a suitor eager to prove himself. For all his careful talk about respecting Sanofi's culture, he's wasted no time in issuing a barrage of bold directives that are undoubtedly shaking the fourth-largest global drugmaker to its very foundations. Rarely has pharma witnessed such a high-stakes encounter between tradition and an agent of change.

A GSK Duel?

Viehbacher hit the ground at full sprint. Since taking over on December 1, he has done a flurry of deals, establishing Sanofi almost overnight as the number one generics maker in Latin America and earning the season's loudest buzz in oncology. He installed a new generation of leaders at the top. He spent a week in China, breaking ice, scoping opportunities, and proclaiming, "I am looking at this market as being at least as important as the United States."

Such statements have made Vieh-bacher one of the more quotable of pharma CEOs. The tall, lanky 49-year-old has dual Canadian-German citizenship, and his 20-plus years at GlaxoSmithKline, where he oversaw the French market before taking over North American business, turned him into what Nigel Keegan, an analyst at Royal Bank of Scotland, aptly described as "a transatlantic character."

But he wears his worldliness lightly. "I grew up in this little village east of Toronto. Most of my career decisions were made around getting as far from that little village as I could," Viehbacher says. "That's why I became a chartered accountant. Finance was just a means to an international career."

During the drama surrounding the megamergers at the beginning of the year, Viehbacher kept having to swat down persistent rumors about Sanofi-Aventis and Bristol-Myers Squibb. In a February interview with *Forbes,* he cast a cold eye on the trend. "If you get two ugly people, the odds of creating a beautiful child are small," he said. "Consolidation and taking out costs buys you time, but it does not get you to growth."

Evaluating Viehbacher's early moves at Sanofi, analysts have been quick to spot a GSK stamp: pursuing emerging markets, diversifying into generics and over-the-counter products, shifting from internal to external R&D, and refocusing a diffuse pipeline on hot diseases like oncology, neurology, and autoimmune disorders. "He's modeling the GSK playbook, turning a traditional science-based pharma into a consumer-focused healthcare company that can compete," says Stan Bernard of Bernard Associates.


Sanofi by Sales

But that may be too easy a reading of both Viehbacher and Sanofi. "What people don't realize is that Sanofi took steps very early on to grow out into the world," says Viehbacher. "We are the number one company in emerging markets. We are the first foreign company to go to China. We have manufacturing facilities throughout Africa."

Top-Selling Products

Sanofi's revenue derives in equal parts from the US, the EU, and the rest of the world (including Japan). Says Viehbacher: "We've got growth platforms like vaccines, OTCs, branded generics—an extremely strong global footprint in emerging markets that's ahead of everybody else. Everybody says they want to go there. But we're already there. We're in business while other companies are still trying to find their way from the airport to the hotel."

If Viehbacher sounds a bit defensive, it may be a sign of his growing affection for his new home. Plus, he has something to prove after losing the race to succeed Jean-Pierre Garnier at GSK in 2007. Yet based on his first six or seven months on the job, Viehbacher loses nothing by comparison to Andrew Witty. If anything, it's a tribute to GSK's commitment to leadership development that two of its veterans are each running a leading global pharma. But that only makes the competition that much more intense.

"Who wouldn't like to be able to say, 'Hey, you made a mistake when you didn't pick me?'" says Funtleyder.

This Little Red Thread

When the Sanofi board picked Viehbacher last September to replace then-CEO Gerard Le Fur, even the company's own press office was blindsided. "We have no information," the Paris-based rep told reporters.

The response from analysts, however, was a thundering "Bravo!" "The fact that you're bringing a non-French manager with no axe to grind from either the Sanofi or Aventis side shows there is a change of attitude," said Pictet Asset Management's Marc Booty. "A lot of areas were perceived to be untouchable within the group.... It's no longer going to be run as a national treasure, but as a lean and mean corporation."

SANOFI-AVENTIS

At a time when every drug giant is (or ought to be) urgently experimenting to discover the right business model, Sanofi has long been perceived as too rigid, too traditional, maybe even too French, to learn Pharma 2.0. The firm's pipeline is arguably the industry's slowest and costliest. And the dreadful year and a half that Le Fur—the favorite of former Sanofi chief Jean-François Dehecq—spent at the company's helm only confirmed the view, however exaggerated, that the French firm was fast becoming a relic.

Sanofi's stock had fallen by 20 percent prior to the news of Viehbacher's appointment. Worse was the slow-motion train wreck of Acomplia, the all-too-pioneering obesity drug that Le Fur championed to investors as the Coming Cash Cow that would cover the loss of tens of billions in annual sales as almost all of Sanofi's top-selling products went generic between 2008 and 2013 (see box). Sanofi's failure to win FDA approval for the drug even after it had been on the European market for two years (accruing ever-worsening warnings about its CNS side effects) was symptomatic of the firm's chronic failure to master the US market.

"North America is a point of weakness for Sanofi-Aventis," LBBW analyst Timo Kuerschner says. "The American market is not so easy to understand—it has some specialties—so I think someone [like Viehbacher] who comes from America will know better."

In addition, the French firm has shown little taste for transparency. Analysts have long complained about its failure to communicate with US investors. "Sanofi is very poor at making public even important information

like strategic thinking and pipeline news," says Funtleyder. "Their corporate culture has been shrouded in mystery."

The company's lodestar has been the Sanofi Pasteur division, with its storied history and market-leader position. But as the vaccine business heats up, rivals like GSK, Novartis, and even Pfizer (with Wyeth's arsenal) are nipping at its heels.

Chris Viehbacher, armed with laptop and coffee, during a temporary touch down at the midtown Manhattan offi ces of Sanofi - Aventis US. A Toulous Lautrec print adds some French flair.

Yet the view of Viehbacher as a complete outsider is off the mark. His French bona fides are in good order: He spent the '90s in Glaxo Wellcome's Paris office, speaks the language fluently, and served on the European Commission's G10 working group on the competitiveness of the pharmaceutical industry, for which he was awarded France's Légion d'Honneur in 2003. He makes a point of wearing the ribbon bar, a thin strip of bright red at the tip of his lapel (see photo).

"One of the things I was most proud of in my entire professional career was getting this little red thread, which is France's highest civilian honor," he says.

But at the end of the day, when he takes off the suit, Viehbacher remains a numbers man—not a scientist like his predecessor—and the Sanofi board no doubt appreciates the bottom-line difference.

"The pharma business is now more than ever about sales—and about solid assumptions and actual delivery—as opposed to interesting science that may or may not work," said The Arcas Group's Jan Heybroek.

Life By a Thousand Cuts

At GSK, Viehbacher won praise for unifying the clashing cultures and business of Glaxo Wellcome and SmithKline Beecham following their 2000 merger. If Sanofi-Aventis is a national treasure based in the City of Light, it's a remarkably far-flung one, the result of three decades of mergers and the consolidation of more than 200 individual companies (see chart).

The scuttlebutt on the Café Pharma Web site about the appointment of Vieh-bacher to head Sanofi was expressed most succinctly by this comment: "He will not be here for long. Paris wants to clean house, but not have a Frenchie do it. Once the company is restructured, he will be history and someone in Paris will again get the job."

"It's not my objective to just be known as a cost-cutter," Viehbacher says. "You can't save your way to growth."

Yet after taking over on December 1, Viehbacher's first order of business was to hand pink slips to 10 percent of Sanofi's 6,500-person global sales force. As the French union CTG picketed outside headquarters, Viehbacher next took aim at management—and Dehecq's dauphins. Heads rolled. Only two of the *ancien régime* remain: Marc Cluzel, who replaced Le Fur as head of R&D in 2007; and Hanspeter Spek, the longtime head of pharma operations.

Viehbacher set about restructuring top management with a series of newly defined positions intended to conform to the firm's newly defined priorities. He promoted Laurence Debroux as chief strategic officer (in charge of M&As) and Jean-Pierre Lehner as chief medical officer (in charge of drug safety). He hired a new chief financial officer: Jerome Contamine of the French water and sewage group Veolia Environnement. Elias Zerhouni, the former director of the National Institutes of Health under President George W. Bush, was brought on as scientific advisor. (Gregory Irace remains at the helm of Sanofi US, with the addition of Paul Chew as chief medical/science officer.)

Jean-François Dehecq, age 69, remains chairman of the board. Says Viehbacher, "He is not your average chairman of the board. This is the man who built this company, who knows every individual, every site, and has a passion for it." Yet the legacy of this titan of French industry, badly damaged in recent years, now depends entirely on Viehbacher and his next-generation team.

Be they big wigs or bag carriers—likely no one at Sanofi is feeling secure under the new regime. And as *Pharm Exec* went to press, the business media were rife with rumors that another "restructuring" was in the offing.

"It's clear that Viehbacher has a mandate from the board," says Stan Bernard. "It's his company for now."

Says Viehbacher: "My DNA, and I guess my cultural upbringing, kind of sit pretty well for this role."

In fact, his account of how he fell into a pharma career is instructive. "I moved to Germany with Price Waterhouse. Wellcome was one of my clients. It was 1988, and they were launching AZT for HIV—the first drug for this massive health crisis," he recalls. "The company actually got into all kinds of difficulties because they'd done something great but were instantly criticized—pricing issues, viral resistance."

He both tangled with and teamed with patient activists. "Going to every one of the world's AIDS congresses, I saw the hope." It was a point of pride, he says, that the Glaxo booth in the exhibition hall was one of the few not trashed by angry protesters.

No More Acomplias!

In an April interview in *The Wall Street Journal*, Viehbacher said he'd "like to take a major chunk"—about half—of the preclinical/early-stage R&D budget and spend it on external partnerships with small pharmas and biotechs boasting promising platforms and compounds.

"Working in pharma is not like selling bottled water," he says. "We have an obligation to come up with new medicines. That's what I've said to our R&D folks. I'm not going to chase around the bush here. We can't keep spending $6 billion a year on R&D and not come up with anything.

"The question I pose is: 'How are you going to make someone's life better with this drug, and why is it better than what they've already got?" If you can't answer that question, I don't really care about molecular structures, or whether this is genomically interesting, or that it's a nifty technology platform. In today's world, we all know you need medicines of value."

Sanofi suffers from an Acomplia hangover. Acomplia (rimonabant) was arguably the most embarrassing bomb of the past decade. Advance press for what was then the Sanofi-Synthelabo obesity drug had been extraordinary, and getting Aventis' big US sales force to market the drug was a key driver of Sanofi's earth-shaking $65 billion takeover of its largest German rival. "We needed more muscle to sell such a product," Le Fur, then head of R&D, told *The New York Times* in 2004. "We knew the first results of the trials back in January. Knowing that, it was more or less linked to the deal."

As the most promising in a new class of inverse agonists that block the cannabinoid receptor CB1, its anti-"munchies" effect—cutting down on the "craving" impulse—captured the popular imagination. Midstage tests showed promise in a wide range of disorders, including obesity, diabetes, high cholesterol, even smoking cessation.

The New York Times' Gina Kolata captured the prevailing hype nicely: "It will make a person uninterested in fattening foods, [as] they have heard from news reports and word of mouth. Weight will just melt away, and fat accumulating around the waist and abdomen will be the first to go. And by the way, those who take it will end up with higher levels of HDL, the good cholesterol. If they smoke, they will find it easier to quit. If they are heavy drinkers, they will no longer crave alcohol."

At a time when the Vioxx scandal had sent skepticism about the industry through the roof, Sanofi's breakthrough promised some redemption. Analysts estimated that the drug could easily pull in $4 billion a year two years after launch. Sanofi bankrolled Phase III trials that ultimately enrolled some 24,000 people worldwide before it had to pull the plug.

Not surprisingly, interrupting hunger-producing receptors produces a host of secondary CNS effects. People taking Acomplia reported twice as many psychiatric problems as those on placebo. In 2006, the EU approved the drug, but with warnings restricting its use. FDA dragged its feet, issuing one approvable letter after another, as negative safety reports piled up. While Acomplia's weight-loss benefits (barely) hit the agency's 5

percent mark, the CNS risks doomed its chances. Last October, regulators ordered Sanofi to yank the drug from the EU, too.

At its peak, Acomplia was approved in 38 countries worldwide, but its total sales barely broke the $200 million mark. Proponents of the drug argue that with careful monitoring Acomplia could have helped many chronically obese people. In retrospect, it's easy to fault Sanofi's insular leadership for its irrational exuberance. The firm's investment (of every sort) in this fascinating but flawed chemical blinded it to the writing on the wall: Cutting-edge science alone will no longer cut it.

The folly ended when Sanofi's two biggest shareholders, the oil conglomerate Total and the cosmetics hydra L'Oreal, began dumping stock in an ongoing plan to abandon their combined 25 percent position. Le Fur took the bullet.

Stress Tests for a Pipeline

Lest anyone doubt that Viehbacher has control over his own cravings for magical molecules, in May he took the axe to Sanofi's entire portfolio of experimental drugs. Ever timely, he called it "our version of 'the stress test'"—signaling that no Sanofi compound could ever again be perceived as too big to fail.

When the results were in, 14 of the company's 65 projects had flunked: six in Phase I and four each in Phases II and III. The late-stage drugs included a novel antidepressant, a Zetia-like anticholesterol agent, and a solid-tumor cancer vaccine—projects with evident scientific merit but too risky for today's value-added market. "The bar has really been raised in terms of the regulators and payers saying your medicine has to be better than we already have," says Viehbacher, a veteran of the US healthcare wars.

Analysts applauded. Said Raymond James' Eric Le Berrigaud: "This is one step forward in the restructuring of [Sanofi's] research and development operations."

Viehbacher took another step by creating yet another newly defined position—chief of industrial development and innovation—and giving it to one of his top R&D talents. The In Vivo blog had a typically penetrating take: "That means revitalizing an industry backwater: drug delivery and reformulation. Plenty of companies have life cycle–managed plenty of drugs, but it has never before now been the face of R&D.... Should the trend catch on, we might even see drug companies split R&D in two: Novel Products R&D (largely outsourced, we'd imagine, to optionalize the spending) and Innovative Industrial R&D (think combination products, drug delivery, and single-isomer formulations)."

"First on the to-do list is probably how to expand the Plavix brand [in advance of its patent expiration]," says Bernard.

Sanofi's cardiovascular franchise, which in addition to Plavix boasts blockbuster Lovenox (enoxaparin) and Aprovel (irbesartan) and got a much-needed boost last winter when an FDA advisory panel gave a thumbs-up to Multaq (dronedarone), for atrial fibrillation. One of the few true innovations among 2009 NDAs, Multaq's six-month priority review at FDA was set to run out at the end of June. But at press time, the agency had yet to deliver a verdict. The possibility that this blockbuster-to-be will bust has further fueled downsizing rumors at Sanofi.

Out Front in Oncology

"Sanofi missed the boat in biologics," Viehbacher told the *Financial Times* in February. In reaction, at the annual BIO bash in Atlanta in May, Sanofi execs announced that the firm was aiming to double the 27 percent of its business that currently comes from outside R&D. Sanofi's M&A team, one of very few in pharma headed by a woman, has a goal of reviewing 75 potential deals every quarter. Among those inked this spring were a raft in oncology, indicating that Sanofi will try to restore its franchise to world-class status. Taxotere (docetaxel) is the field's leading chemo treatment—and third only to Genentech's Avastin and Herceptin in cancer sales—but its exclusivity ends next year.

"Oncology is a very lucrative field requiring very specialized skill sets. Given Sanofi's past success in major tumor types, the company should have already gained traction in the smaller tumor types," says The Arcas Group's Heybroek. "But its pipeline is nowhere near as deep and diverse as, say, Novartis'."

Two of the new partnerships merit special mention. One is with Exelixis, a San Fran biotech that has hit the jackpot with its kinase-inhibitor platform. Sanofi follows BMS and GSK as the third Big Pharma to seal a big development deal—$140 million up front for two Phase Ib/II compounds, with the possibility of $1 billion in milestones.

To shore up its position in breast and ovarian cancer, Sanofi bought BiPar Sciences, another hot Bay City biotech whose specialty is PARP inhibitors. This new class of compounds cleaves to a DNA-repairing enzyme that is overexpressed in certain tumors, making for a convenient target. Only weeks after the Sanofi purchase (worth up to $500 million in milestones), BiPar's lead candidate went on to steal the show at the annual ASCO gathering in Orlando in May.

In Phase II metastatic triple-negative breast cancer—a condition for which hormone therapy is useless—the 9.5-months survival data got raves from such independent top docs as Powel Brown, director of the Lester and Sue Smith Breast Center at Baylor College of Medicine. Calling the study "a huge bombshell," Brown said, "These PARP inhibitors are the biggest story in breast cancer." (Brown was not involved in the study.)

If Sanofi's upcoming expanded Phase II trial confirms these data, the first PARP inhibitor could be fast-tracked for FDA approval within two years.

At ASCO, Viehbacher made a point of instructing reporters that "[BiPar's] 18 people brought this product to where it is now"—and assured that, accordingly, his partnering style would be hands-off. The BiPar success is a gratifying validation of his oft-repeated preference for the small, strategic acquisition.

The Real Deal

Yet as profitable as the PARP inhibitors promise to be, they don't solve the problem of Sanofi's looming patent cliff. For that matter, it will take another 20 years for China to make an impression on the firm's income statement.

Like other Big Pharmas, Sanofi needs sales fast. "We have 24 months to make the company ready for the loss of Plavix," an anonymous Sanofi exec told *The Wall Street Journal*'s Jeanne Wahlen. "Lower costs and stronger emphasis on generics" are key to future growth.

The company has already begun beefing up its copycat capabilities. Sanofi paid $2.5 billion last fall for Zentiva, the Czech generics maker, opening the door to markets in Russia, Turkey, and the rest of the eastern EU. Viehbacher followed up that deal with back-to-back buyouts of Medley, Brazil, and Kendrick, in Mexico, two of Latin America's leading generics producers. As savvy as these twofer diversification tactics may be—snapping up low-price copycat companies in high-growth emerging markets—they ultimately fall short of the target

Says Viehbacher: "Everything I am doing is trying to think about what does the company look like in 2013—the year after the patent cliff. I've got these growth platforms like vaccines, like OTCs, like branded generics, an extremely strong global footprint in emerging markets.

"And I've been very honest that we don't have enough new products—therefore I do need to do some transactions. But what I don't want to do is just sort of 'get bigger.' To me it's not a question of size. It's how do you make your company stronger? And there is no magic bullet. "

For several months, Sanofi was reported to be hot for Solvay's pharma unit, which boasts 10 late-stage compounds in cardio, CNV, and vaccines—a fine fit with Sanofi's portfolio. But according to the *Financial Times*, the $6 billion bid was too low.

Sanofi may opt to raise its stake in generics rather than biologics, with Actavis and Ratiopharm. Crucell, the last major indie vaccine maker, also makes the list. Still, rumors of a megamerger hound him.

Some analysts argue that as Pfizer-Wyeth, Merck-Schering, and Roche-Genentech move from deal to real, the bigger-is-better law of the pharma jungle will once again assert itself, forcing Viehbacher's hand.

"For better or worse, the industry is still consolidating," says Funtleyder. "It's inevitable that Sanofi will be a part of this."

The most oft-named target is BMS, with which Sanofi shares coparenting duties for Plavix and Avapro—and their life cycle management. In addition, BMS CEO James Cornelius has been selling off non-pharma divisions while pursuing his "string of pearls" small-acquisitions strategy, which is likely to appeal to Viehbacher. Less appealing is BMS's own huge patent cliff, which could blow a 50 percent hole in sales by 2012.

Other rumored takeover targets include Amgen, the number one biotech with its bevy of anemia and autoimmune products; and Biogen Idec, the bicoastal biotech specializing in multiple sclerosis.

According to the French business paper *Les Echoes*, the refusal to roll the dice on a major merger comes not from Viehbacher but from his two biggest investors. An Amgen acquisition, for example, would run about $50 billion, possibly entailing loans and debt at a time when Total and L'Oreal are politely washing their hands of the French national treasure. As a result, they'd put the kibosh on any move that might risk Sanofi's credit rating.

On a June visit to Zentiva's headquarters in Prague, Viehbacher let drop that a major restructuring was in store at Sanofi, while leaving the details a mystery. "We have a number of things to address in terms of how we get our people to work together, how we can provide more latitude for creativity, how we can develop them scientifically, and how we can encourage external collaboration—because there is a world of science out there."

And, of course, there will be more deals. "I just can't tell you when, because I do not know when the fish is going to bite," Viehbacher said.

In his brief tenure, he has already clocked many thousands of miles in air travel and spent billions in biotech dollars, and found time to pay "only the odd visit to my wife and three children." Where does Viehbacher's drive come from? Is it the money? His early childhood? The dynamism Viehbacher has introduced is undeniable. "He's the real deal," says Heybroek. "He's confident enough to allow communication and contention to emerge and not to need to hide behind an entourage. He can inspire people to follow him."

But according to Viehbacher, it works both ways. "It goes beyond earnings per share—it goes beyond managing organizations," he says. "I love working with great people, and if you've got a great objective, a noble cause, a team you trust—to me there's nothing better in life."

SANOFI BY SALES

2008 Total Sales: $40.34 billion

RX DRUGS
Sales: $33.57B, +2.9%
Market share: 4.8%
Rank: 4

VACCINES
Sales: $4.18B, +9.6%
Market share: 21.8%
Rank: 1

OVER-THE-COUNTER
Sales: $2.07B, +5.3%
Market share: 2.1%
Rank: 6

ANIMAL HEALTH
Sales: $3.867B, +7.9%
(non-consolidated)
Market share: 14%
Rank: 3

GENERICS
Sales: $511M, +8.7%
Market share: <1%
Rank: 23

SOURCE: SANOFI-AVENTIS, 2008

TOP-SELLING PRODUCTS

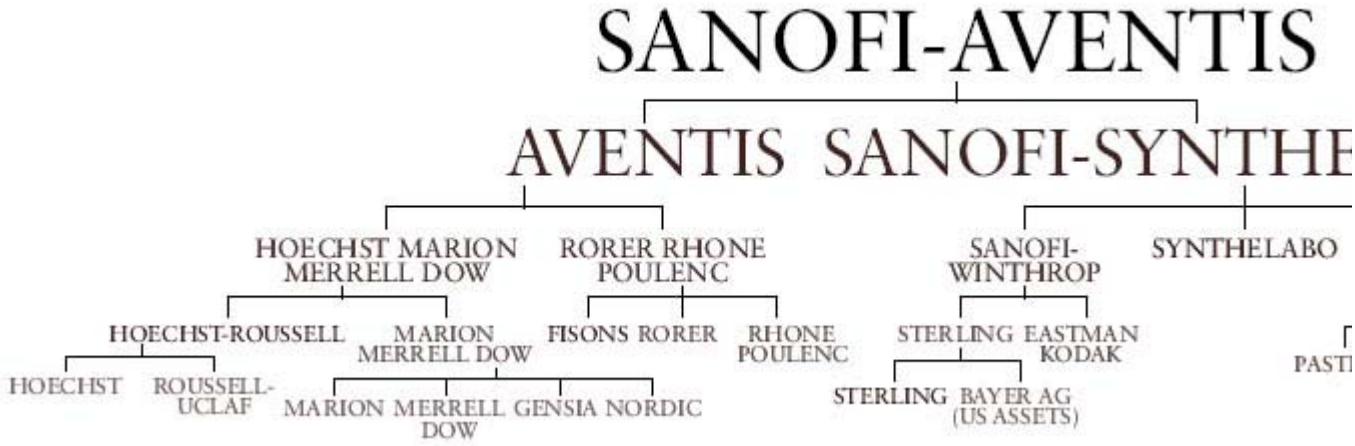
LOVENOX (thrombosis): $4.00B, +10.6%
PLAVIX (blood thinner): $3.82B, +10.5%
LANTUS (diabetes): $3.58B, +27.7%
TAXOTERE (cancer): $2.97B, +13.2%
ELOXATINE (cancer): $1.97B, –5.7%
APROVEL (blood pressure): $1.75B, +14.2%

TOP-SELLING VACCINES

POLIO/PERTUSSIS/HIB: $1.12B, +21.9%
FLU VACCINE: $1.07B, +1.5%
MENINGITIS/ PNEUMONIA: $691M, +7.0%
ADULT BOOSTER: $584M

SOURCE: SANOFI-AVENTIS, 2008

Sanofi by Sales
Top-Selling Products



SANOFI-AVENTIS
Chris Viehbacher, armed with laptop and coffee, during a temporary touch down at the midtown Manhattan offi ces of Sanofi -Aventis US. A Toulous Lautrec print adds some French flair.