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Has Sanofi Stock Jumped Too High?

Some Analysts Say Sales Forecasts Are Optimistic

They Question Expectations for Three of the French Company's Drugs

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PARIS — Few drug stocks have shot up as far and as fast as French pharmaceuticals company Sanofi-Synthelabo SA

Shares in Europe's seventh-biggest drug maker have surged more than 75% since June on bullish forecasts for three of its drugs and the prospects of several others in the pipeline. But, as Sanofi shares reached an all-time high in the afterglow of a shareholders meeting last week, some analysts say sales forecasts are too optimistic and its shares could be vulnerable.

"It's getting time to sell," said a Zurich-based money manager. "I'm looking at lightening up."

On Monday, the shares rose 2%, or €1.45, to €73.20, near their all-time closing high of €73.50.

The stock sells at around 44 times 2001 earnings, according to IBES/Thomson Financial Data. That's more than double the company's 21% earnings growth rate and a 57% premium to market leader GlaxoSmithKline, which sells at around 28 times forward earnings.

"It's got a whopping great multiple," says Commerzbank analyst Mark Clark, who rates Sanofi a hold. "It's growing, but take up will be slower than expected."

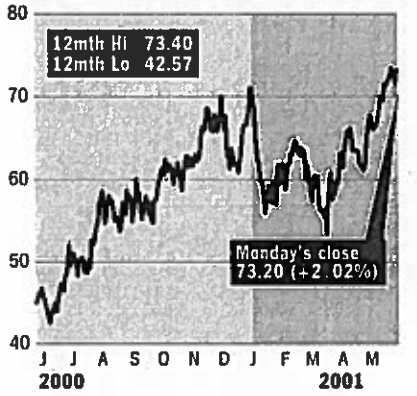
That growth has primarily come from Sanofi's three blockbuster drugs: Aprovel/Avapro for hypertension, Stilnox/Ambien for insomnia, and Plavix for the prevention of strokes and heart attacks. Together those drugs kicked in 38% of developed sales — which include revenue and profit from U.S. partners — in 2000.

Next up is Arixtra, formerly known as pentasaccharide, for the prevention of thrombosis. It's awaiting approval by the U.S. Food and Drug Administration.

But some say Sanofi is losing its luster. They question the size of the Plavix market and worry that new drugs may eat into Avapro sales. And others wonder if Arixtra will win FDA approval. All this could hit Sanofi's sales and share price.

Skyrocketing Hopes

Sanofi-Synthelabo closing price, in euros



Source: Thomson Financial Datastream

Plavix sales were €1.28 billion in 2000, for 17% of the company's developed sales, and observers such as Bank of America expect it to hit the €7 billion mark by 2005.

But Alistair Campbell, an analyst at Schroder Salomon Smith Barney who rates Sanofi at outperform-high risk, has a different view. "We think it's a €4 billion, not a €5 billion-to-€10 billion market," he says.

That's because Plavix's target market of 14 million U.S. patients includes those who already take the drug for early stage cardiovascular illnesses, like myocardial infarction and unstable angina, he says. Moreover, says Mr. Campbell, some doctors believe that the drug is too expensive.

"Many elderly patients with severe heart disease take multiple medications," Mr. Campbell says. "Who's going to pay?"

At around $3 (€3.49) a day, Plavix would increase the average patient's daily bill of $7 by around 40%, he says.

Sanofi could also lose the U.S. backing for Avapro/Aprovel, says the Zurich money manager. U.S. marketing partner Bristol-Myers Squibb could drop its deal for Avapro if it gains FDA approval for a competing drug, Vanlev. The company said in a May press release that it may resubmit Vanlev for FDA approval this year. Its entry could nibble into at Avapro's U.S. market — and margins.

Avapro contributed €665 million, or 9%, of developed sales in 2000, and Sanofi expects the drug to produce €800 million in 2001 and €1.5 billion by 2005. That would be about 12% of developed sales.

"A marketing partner might be more motivated to sell its own drug," Mr. Campbell said. "Why pay royalties when you can have higher margins?"

Finally, Sanofi is betting on approval of a possible fourth blockbuster drug called Arixtra, which is now under priority review — a rapid process for drugs that address an urgent need. But at least one analyst questions the likelihood of FDA approval.

"I'm less enthusiastic than many about Arixtra," says Commerzbank's Mr. Clark. "There's a relatively high instance of bleeding in the study showing that it's superior to Lovenox." Lovenox is Aventis's competing drug and the top seller in the U.S.

Results from a 2000 American Society of Hematology study on Phase 3 anti-thrombosis drugs showed an "elevated level of bleeding" with Arixtra. A UBS Warburg note on the study considers the amount "statistically significant."

Moreover, Mr. Clark adds, Arixtra has no antidote for bleeding, while Lovenox does.

That could impede FDA approval. In 2000, of 27 drugs under FDA priority review, only 41% were approved immediately, while 18% were deemed "unapprovable," meaning that the drug might never be produced commercially.