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DEALWATCH: Sanofi Seen Extending Genzyme Bid As Deadline Looms

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Of DOW JONES NEWSWIRES

PARIS (Dow Jones)--French pharmaceuticals company Sanofi-Aventis (SNY) looks poised to extend its $18.5 billion bid for Genzyme (GENZ, as the offer's Friday deadline approaches with no signs of an end to the impasse.

But an extension without any changes in terms would draw out the already protracted process and offer few clues to puzzled shareholders.

The project is part of Sanofi Chief Executive Chris Viehbacher's strategy of seeking fresh sources for future revenue to help offset the expiration of patents protecting a number of its key products.

The U.S. biotech's portfolio of treatments for rare diseases makes it an attractive target for the drugs giant, which already has financing lined up for the deal.

As the expiry of Sanofi's $69-per-share bid for Genzyme has approached, both sides have dug in their heels, at least publicly. Sanofi continues to ask for access to Genzyme's books, which it says is a prerequisite to raising its offer, while Genzyme insists the French suitor's offer is too low to even start talks.

With the parties disagreeing on how to value Genzyme's efforts to turn around its Allstom, Mass. manufacturing plant and the potential for its drug Campath or alemtuzumab, which it seeks to sell as a multiple sclerosis treatment, an extension of Sanofi's offer is increasingly likely.

"We all expect Sanofi to extend the tender offer with no [price] bump," said Lional Melka, co-manager at Diva Synergy Fund, Bernheim, Dreyfus & Co, an event-driven hedge fund with a small position in Genzyme.

Given the standoff, it looks unlikely that Sanofi will see a large number of Genzyme holders tender their shares as the offer now stands--and which currently is set to expire at midnight Eastern Standard Time--if Genzyme's share price, consistently hovering over $70 per share, is any indication.

And it would take support of Genzyme shareholders for the deal to put pressure on Genzyme's board, which includes representatives of billionaire activist investor Carl Icahn and Ralph Whitworth, head of Relational Investors, to open negotiations.

"We have little doubt that it will be unsuccessful given that Genzyme's board has firmly rejected the offer and indicated that it will not even enter negotiations until a significantly higher offer price is contemplated," Deutsche Bank said in a recent research note.

Fabrice Seiman, portfolio manager of the Paris-based hedge-fund Lutetia Capital, a Genzyme shareholder, says he doesn't plan to tender shares at $69 because, although a merger of the two companies makes sense, "at this price the offer is insufficient; Sanofi needs to come back with a higher offer." Seiman estimates that Genzyme is worth between $75 and $80 per share.

The absence of an obvious alternative bidder has kept some pressure off of Sanofi to raise its bid, however.

So far, the idea of a contingent value right, or CVR--a method to provide compensation based on a product's future performance which recently emerged as one of the most obvious ways to clear the path to a deal--hasn't produced signs of progress.

"The CVR approach is probably the best way to break the ice on this," said Melka, although he doesn't think this will happen until January.

"So far the hardball approach hasn't yielded results, so I think they will probably now opt for the friendly approach, which will involve using CVR to open talks," he added.

Sanofi insists it has no reason to raise its offer price.

Still, it is unlikely the French company would simply walk away. The company in late November hired a third bank, Morgan Stanley, to work alongside its other advisors JP Morgan Chase & Co. (JPM) and Evercore Partners Inc. (EVR), and the much of Viehbacher's reputation is linked to a successful conclusion of a deal.

Last month, Sanofi Chief Financial Officer Jerome Contamine had to shrug when a shareholder expressed concern the uncertainty of the deal was weighing on Sanofi shares. The outcome could be known in the coming "weeks or months," was his reply.

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(Jessica Hodgson and Marietta Cauchi contributed to this article.)