



WESTERN INVESTMENT CLUB

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Investment History

Legacy Position

Genzyme Corporation (Public, NASDAQ:GENZ)



- Makes up 3% of WIC Portfolio
- Rationale for original investment and valuation no longer holds
- Position held for over 3 years – upside/downside uncertain

Original Investment Criteria May Never Be Satisfied

Takeover Bid

Outstanding Tender Offer for Genzyme Corp.



July 29, 2010

- Sanofi-Aventis submits friendly bid at \$69 per share all cash

August 30, 2010

- Genzyme rejects friendly bid, citing material undervaluation

October 4, 2010

- Sanofi-Aventis launches tender offer for outstanding shares at \$69 per share in cash

October 7, 2010

- Genzyme Corporation's Board of Directions rejects hostile offer

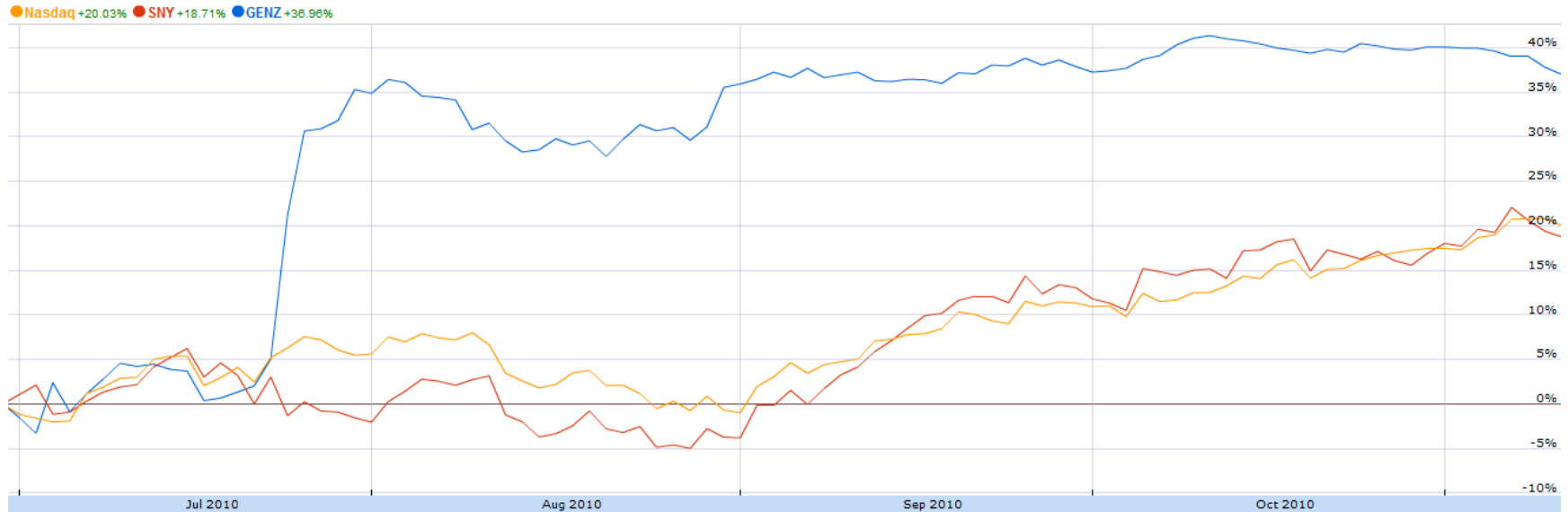
October 20, 2010

- Tender offer receives Regulatory Approval

Opportunity to Realize Intrinsic Value

Triggered Sell

Tender Offer Presents Opportunity to Surface Value



- Acquisition presents a clear catalyst to realize Genzyme's intrinsic value
- Since hostile tender offer by Sanofi-Aventis, Genzyme has underperformed market
- Shares continue to trade above \$69 bid – market anticipating higher bid will materialize that adequately values Genzyme's going concern prospects

Current Offer Undervalues Genzyme – Anticipate Increase

Genzyme Corporation

Company Profile

- One of world's leading biotech companies
- Company products provide standard of care for serious medical problems
- Rare cancers, inherited disorders, kidney diseases
- This provides a huge benefit to a relatively small group of patients resulting in disproportionately high insurance coverage
- Services patients in approximately 100 countries



“These products provide enormous benefits to a small number of patients, so insurance coverage is usually strong despite sky-high prices ... Gaucher disease drug Cerezyme is prescribed to roughly **5,600 patients** worldwide, sales of the drug surpassed **\$1.2 billion** in 2008”

Specializes in Niche High Margin Market

Genzyme Corporation

Key Products



Cerezyme

- Treats Gaucher Disease
- Rare enzyme deficiency
- Top selling drug
- Marketed since 1994
- Projected to be 17% of revenues



Fabrazyme

- Treats Fabry Disease
- Marketed since 2001
- Projected to be 5% of revenues
- Production capacity at 30% because of manufacturing problems



Myozyme

- Treats Pompe Disease
- Sales have seen a CAGR of 53% since introduction in 2006
- Analysts expect growth to taper off over next 6 years
- Projected to be 16% of revenues



Campath

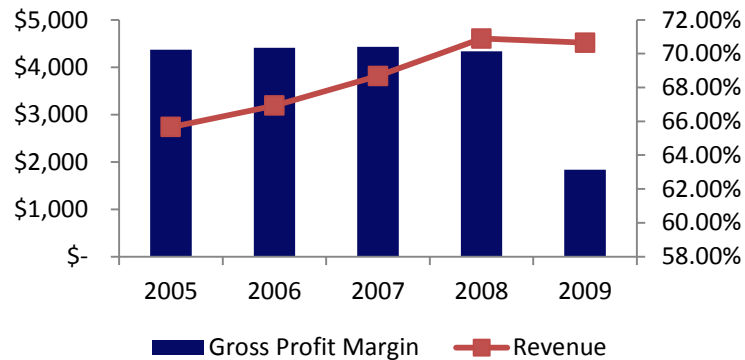
- Treatment for multiple sclerosis
- Third Stage FDA approval
- Next “blockbuster” drug
- Expected peak sales of \$600-800 million
- Expected to hit market in 2012

Diversified Revenue Base and High Growth Potential

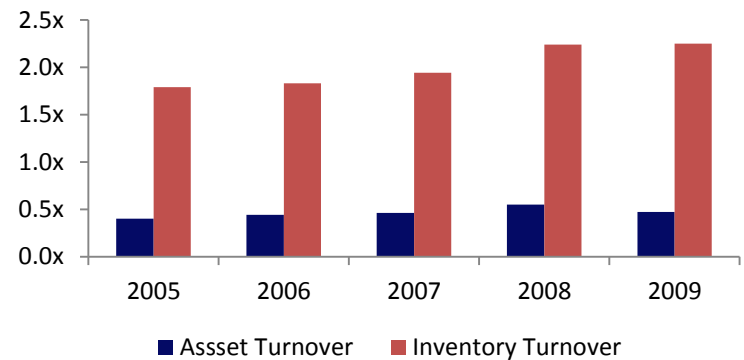
Genzyme Corporation

Financial Performance

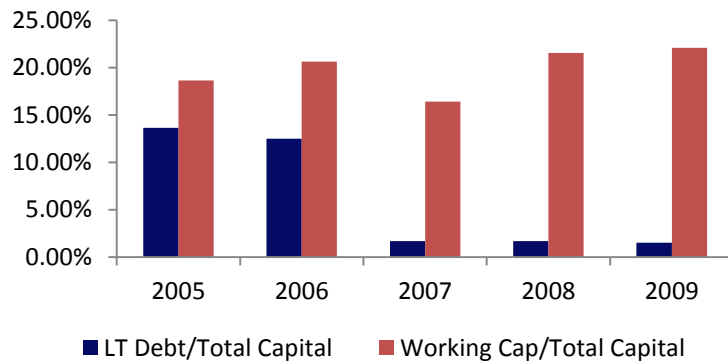
Profitability



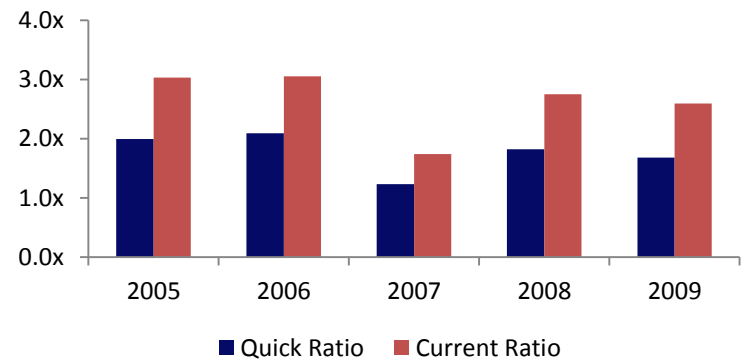
Asset Utilization



Leverage



Liquidity



Strong Historical Financial Performance

Genzyme Corporation

Direct Competition

Shire plc

- Sales: \$3 008 million
- Market Cap: 13.36B
- Specialize in Human Genetic Therapeutics
- Supply Constrained until 2012



Key Products



- Gaucher's Disease (17% Global Market Share)



- Fabry's Disease (60% Global Market Share)

Limited Direct Competition Increasing Likelihood of Raising Offer

Genzyme Corporation

Indirect Competition

Abbott Laboratories



discovery, development, manufacture, and sale of health care products worldwide

- Sales: \$30 765 million
- Market Cap: 77.28B
- Molecular Diagnostics

Amgen Inc.



delivers human therapeutics based on advances in cellular and molecular biology

- Sales: \$14 642 million
- Market Cap: 52.29B
- Recombinant DNA products
- Few directly competing products

Pfizer



prescription medicines for humans and animals worldwide

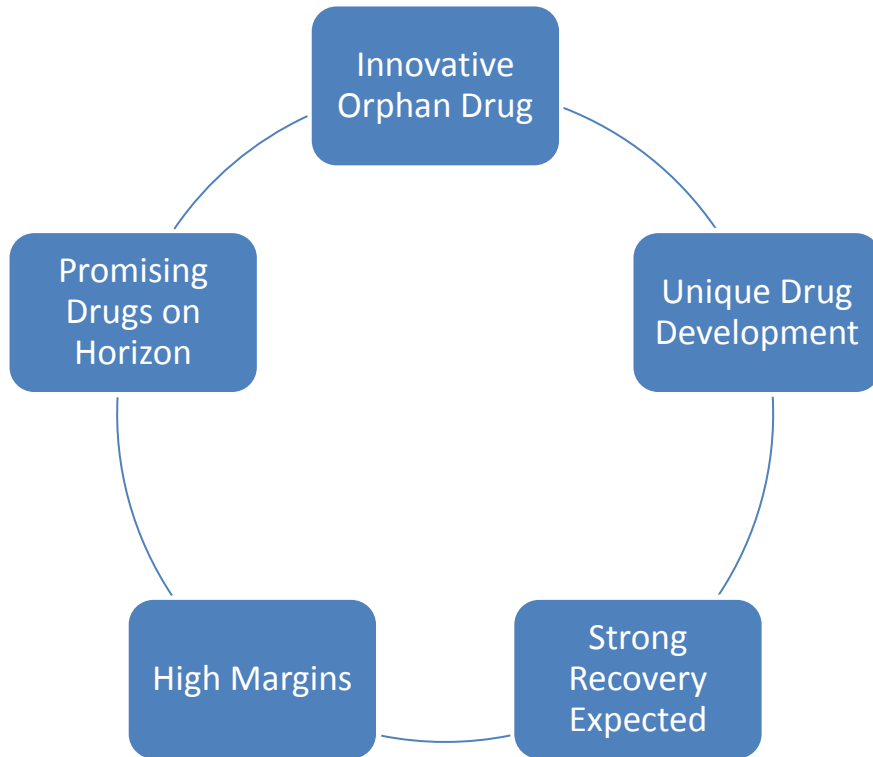
- Sales: \$50 009 million
- Market Cap: 136.57B
- Anticipated approval for Gaucher's on horizon

UPLYSO

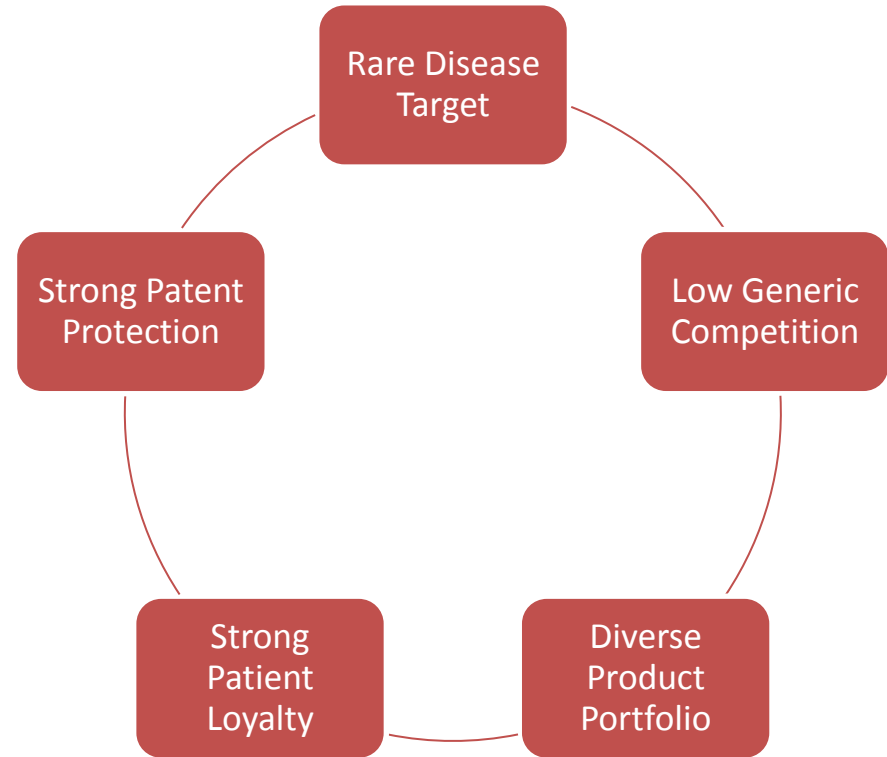
Generic Competitors Lack Access to Genzyme's Niche Markets

Genzyme Corporation

Investment Thesis



Economic Moat



Crown Jewel in Biotechnology Makes Sanofi-Aventis a Motivated Bidder

Sanofi-Aventis

Company Profile



sanofi aventis

Because health matters

- Global pharmaceutical company that researches, develops and manufactures prescription pharmaceuticals and vaccines.
- The company develops cardiovascular, thrombosis, metabolic disorder, central nervous system, internal medicine and oncology drugs, and vaccines.

Share Performance

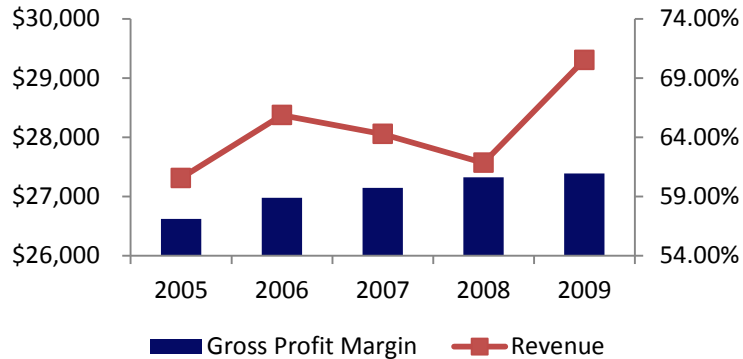
Closing Price (EUR)	€ 51.03	Trailing EPS	€ 4.71
Closing Price prior year (mm)	€ 49.03	Forward EPS	€ 6.87
Market Cap (mm)	€ 66,895.85	P/E	10.84
Market Cap prior year (mm)	€ 64,531.35	Forward P/E	7.43

Sanofi-Aventis Lacks Access to Orphan Treatments

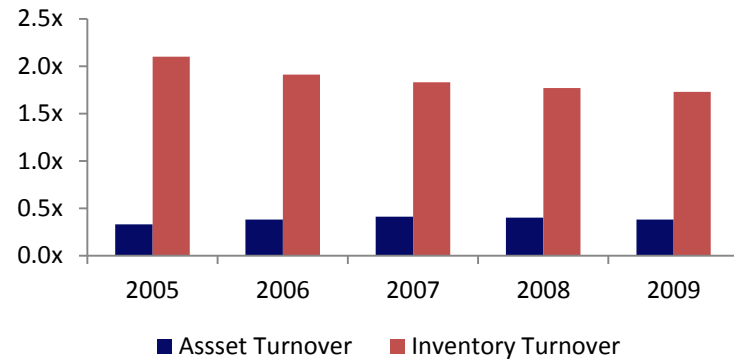
Sanofi-Aventis

Financial Performance

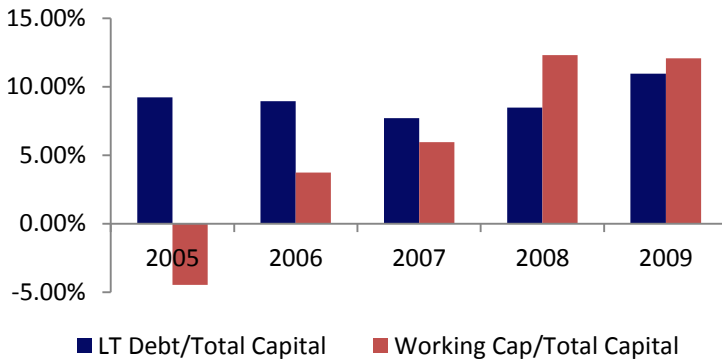
Profitability



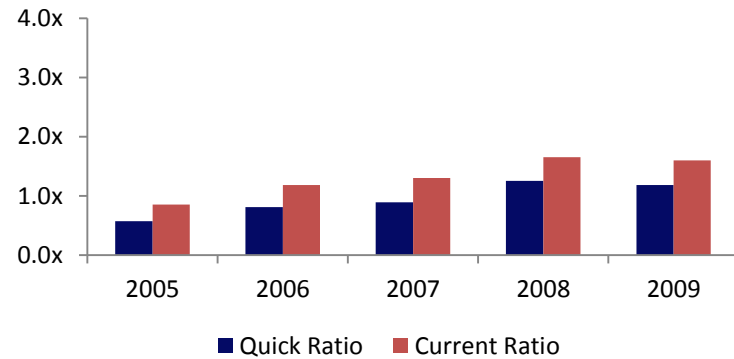
Asset Utilization



Leverage



Liquidity

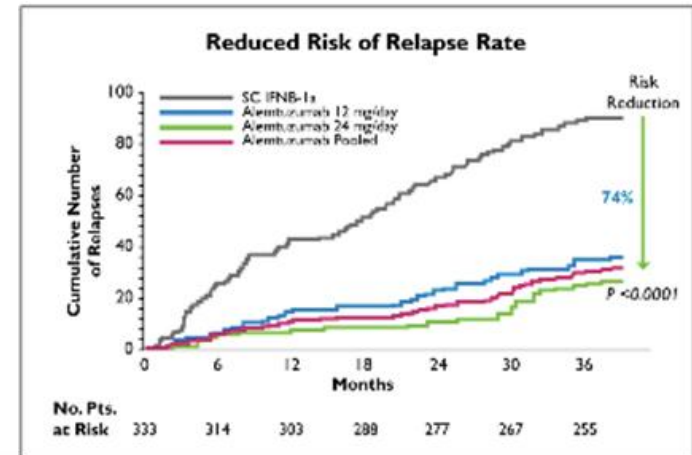


Strategic Rationale

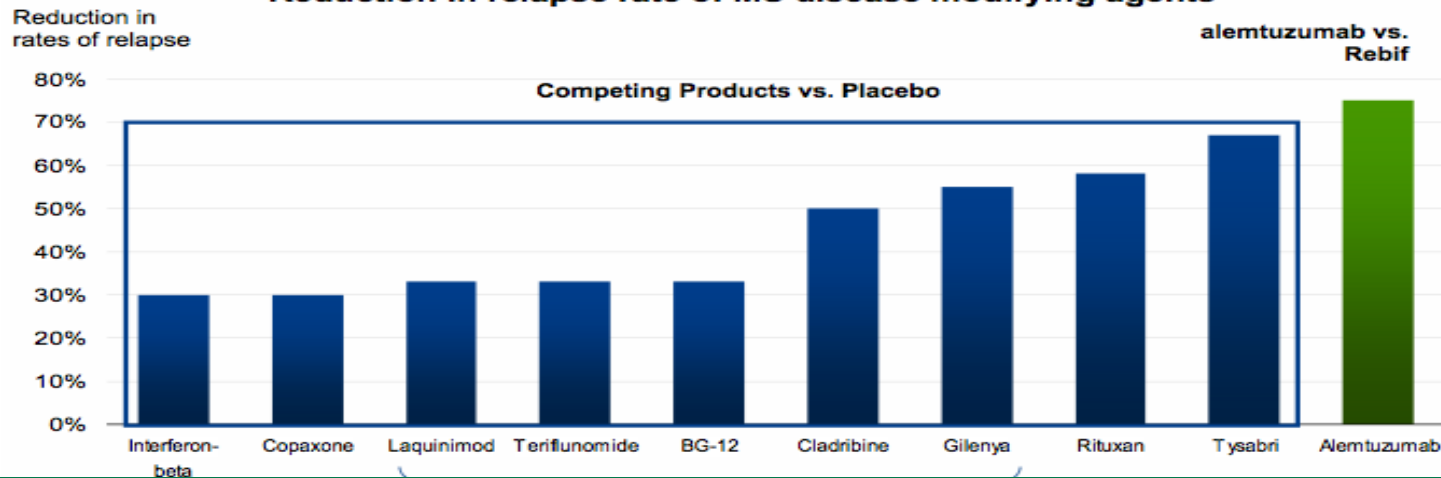
Key Growth Driver for Sanofi-Aventis

Campath (Alemtuzumab)

- Worldwide rights licensed from Bayer in 2009
- Current approved to treat chronic lymphocytic leukemia
- In Phase III trials for Multiple Sclerosis (MS)
- MS market expected to be \$16.7 billion by 2015
- Outstanding results reported from phase II
- Potential to be new standard of care*



Reduction in relapse rate of MS disease modifying agents



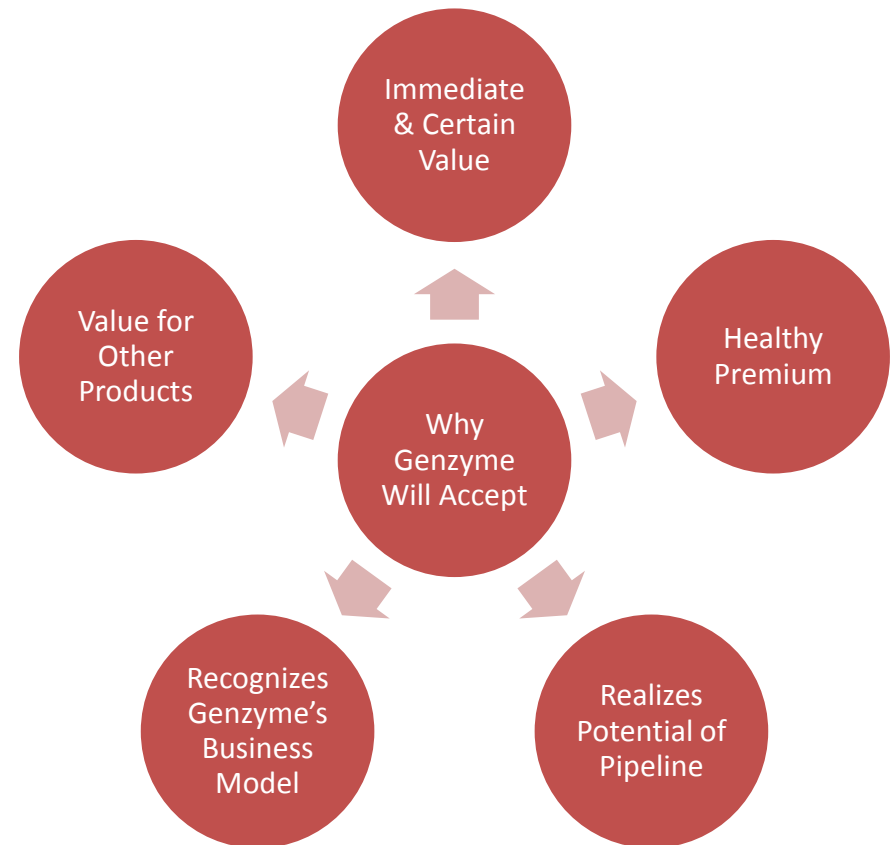
High Potential for Next Phase of Earnings Growth

Acquisition Rationale

What Sanofi-Aventis Has to Gain



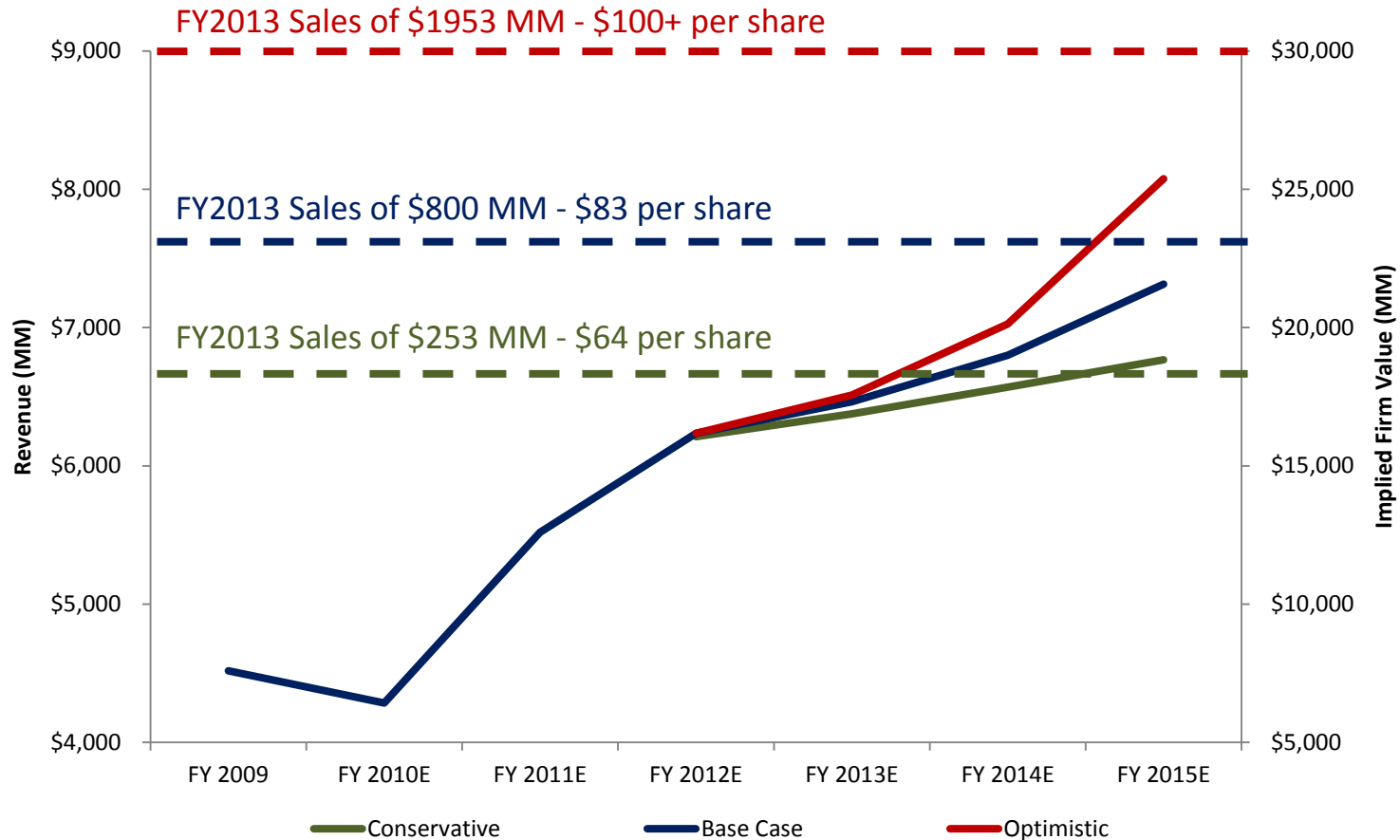
Why Sanofi-Aventis Believes Genzyme Should Accept



Strong Fit Increases Probability of Successful Deal

Strategic Rationale

Campath Projections Drive Valuation Gap

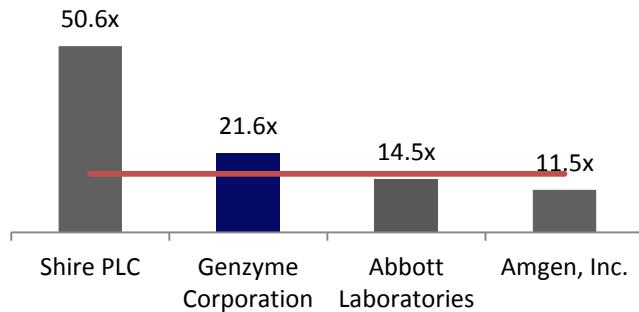


Campath Projections are Driving Value Gap

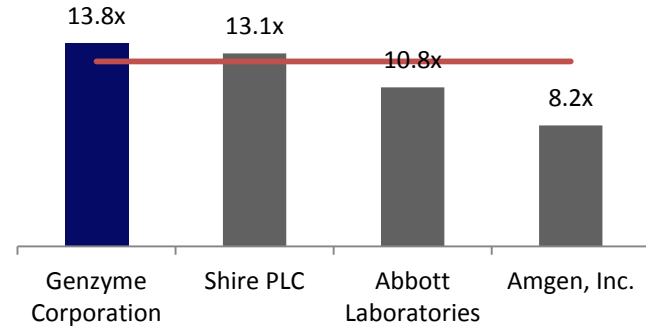
Valuation

Comparable Multiples

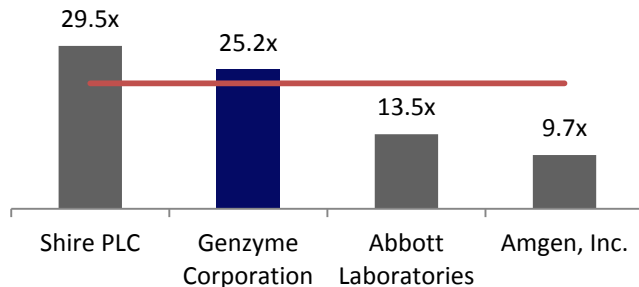
P / Earnings



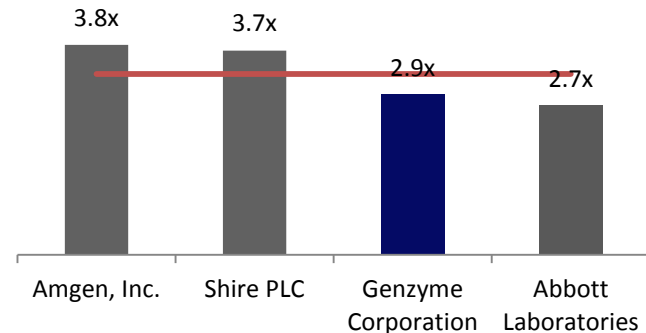
EV / EBITDA



P / Free Cash Flow



P / Sales



Trading Multiples Shows Genzyme Typically Undervalued by Market

Valuation

Precedent Transaction

Announcement Date	Target	Acquirer	Transaction Value (\$MM)	Value / Prior Year Revenue
1/3/2010	OSI Pharma	Astellas Pharma	3,193	7.5x
12/21/2009	Chattem	Sanofi	1,800	4.1x
2/9/2009	Sepracor	Dainippon Sumiton	2,135	1.7x
2/3/2009	Genentech	Roche Holding	45,293	7.6x
10/4/2008	Millenium Pharma	Takeda	8,800	16.7x
10/12/2007	MGI Pharma	Eisai	3,414	10.0x
04/23/07	MedImmune	AstraZeneca	15,449	12.1x
09/21/06	Serono	Merck KGaA	13,447	5.2x
3/4/2006	Chiron	Novartis	10,134	5.3x

Calculation	
2009 Revenues (\$MM)	\$ 4,500
Value / Revenue Multiple	4.9x
Transaction Value	\$ 22,050
Shares O/S	274.1
Value / Share	\$ 80.45
Current Share Price	\$ 70.11
Premium (Discount)	14.7%

Median	7.5x
Mean	7.8x

Valuation

DCF

DCF Sensitivity Analysis

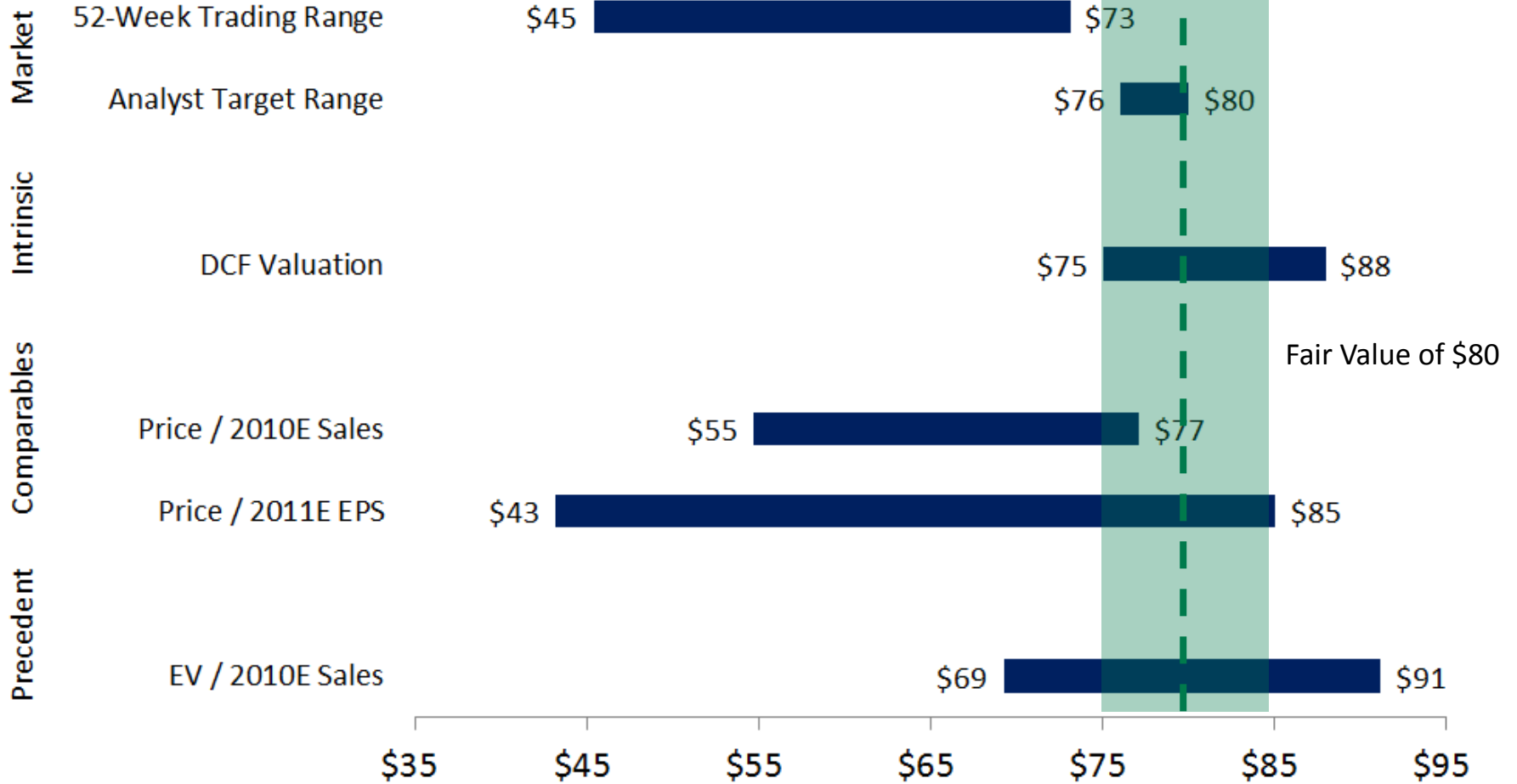
WACC

		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
Terminal Growth	1.25%	\$ 89.84	\$ 83.51	\$ 77.96	\$ 73.05	\$ 68.68	\$ 64.77	\$ 61.24
	1.50%	\$ 92.54	\$ 85.82	\$ 79.96	\$ 74.79	\$ 70.21	\$ 66.12	\$ 62.44
	1.75%	\$ 95.44	\$ 88.30	\$ 82.09	\$ 76.64	\$ 71.82	\$ 67.54	\$ 63.70
	2.00%	\$ 98.56	\$ 90.94	\$ 84.36	\$ 78.60	\$ 73.54	\$ 69.04	\$ 65.02
	2.25%	\$ 101.93	\$ 93.79	\$ 86.78	\$ 80.69	\$ 75.35	\$ 70.63	\$ 66.42
	2.50%	\$ 105.58	\$ 96.85	\$ 89.38	\$ 82.92	\$ 77.28	\$ 72.31	\$ 67.89
	2.75%	\$ 109.55	\$ 100.16	\$ 92.18	\$ 85.31	\$ 79.33	\$ 74.09	\$ 69.45

High Sensitivity to WACC – Growth Drives Value Creation

Valuation

Genzyme - Football Field



Football Field Supports \$80 Fair Value Share Price

Price Target

November 10, 2010

Market Close \$70.11

Set Price Target @ \$75

Set Price Target @ \$80

Don't Sell

Takeover Bid

November 17, 2010



November 15, 2010

- News released that Genzyme entered talks with Takeda Pharmaceutical at \$82 per share

November 16, 2010

- News released that Johnson & Johnson and Pfizer were asked to value Genzyme

November 17, 2010

- Paulson & Co. Purchases 1.9 M shares of Genzyme

November 17, 2010

- Irish profits increase by €26.2 MM on decreasing cost of sales

December 10, 2010

- Sanofi-Aventis hostile bid expires

Genzyme Valuation Extremely Sensitive to News



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