

Sanofi (SNY): A class action lawsuit

Context

- ❑ In ROKA, the class period included the IPO.
 - All publicly-held shares were affected because *someone* held the stock over the corrective disclosure.
- ❑ Sanofi is an ongoing concern.
 - The class period starts well after the IPO.
 - What were the damages?
 - This is a more typical situation.

The initial complaint

Case 1:14-cv-09624-PKC Document 1 Filed 12/04/14 Page 1 of 22

JUDGE CASTEL

14 CV

9624

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

JOEL MOFSENSON, Individually and On
Behalf of All Others Similarly Situated,

Plaintiff,

v.

SANOFI, CHRISTOPHER A. VIEHBACHER
and JÉRÔME CONTAMINE,

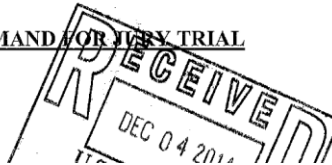
Defendants.

: Case No.

: CLASS ACTION

: COMPLAINT FOR VIOLATION OF
: THE FEDERAL SECURITIES LAWS

: DEMAND FOR JURY TRIAL



Copyright 2015, Joel Hasbrouck, All rights reserved

3

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons other than defendants who purchased or otherwise acquired Sanofi securities between February 7, 2013 and December 3, 2014, both dates inclusive (the "Class Period"), seeking to recover damages caused by defendants' violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, against the Company and certain of its top officials.

4. Throughout the Class Period, defendants made materially false and misleading statements regarding the Company's business, operational and compliance policies. Specifically, defendants made false and/or misleading statements and/or failed to disclose that: (1) Sanofi was making improper payments to healthcare professionals in connection with the sale of pharmaceutical products in violation of federal law; (2) Sanofi lacked adequate internal controls over financial reporting; and (3) as a result of the foregoing, Sanofi's public statements were materially false and misleading at all relevant times.

4

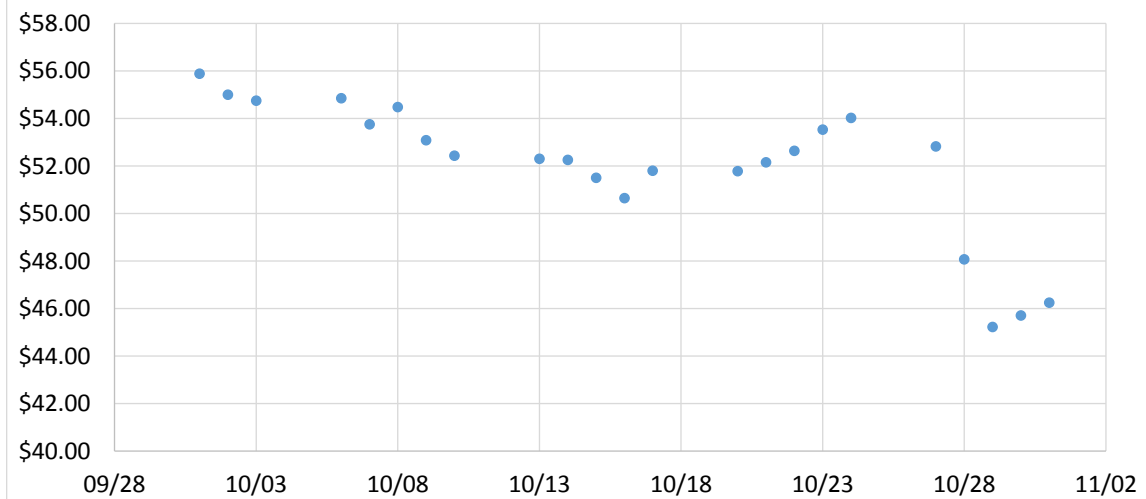
Chronology

- ❑ February 7, 2013. Class period starts. This date approximately corresponds to the filing of the 6-K form (financial results for 2012).
- ❑ October 6, 2014. Press release: company is investigating improper payments.
- ❑ October 29, 2014. Board fires CEO.
- ❑ December 3, 2014. Whistleblower lawsuit filed. Class period ends.

Copyright 2015, Joel Hasbrouck, All rights reserved

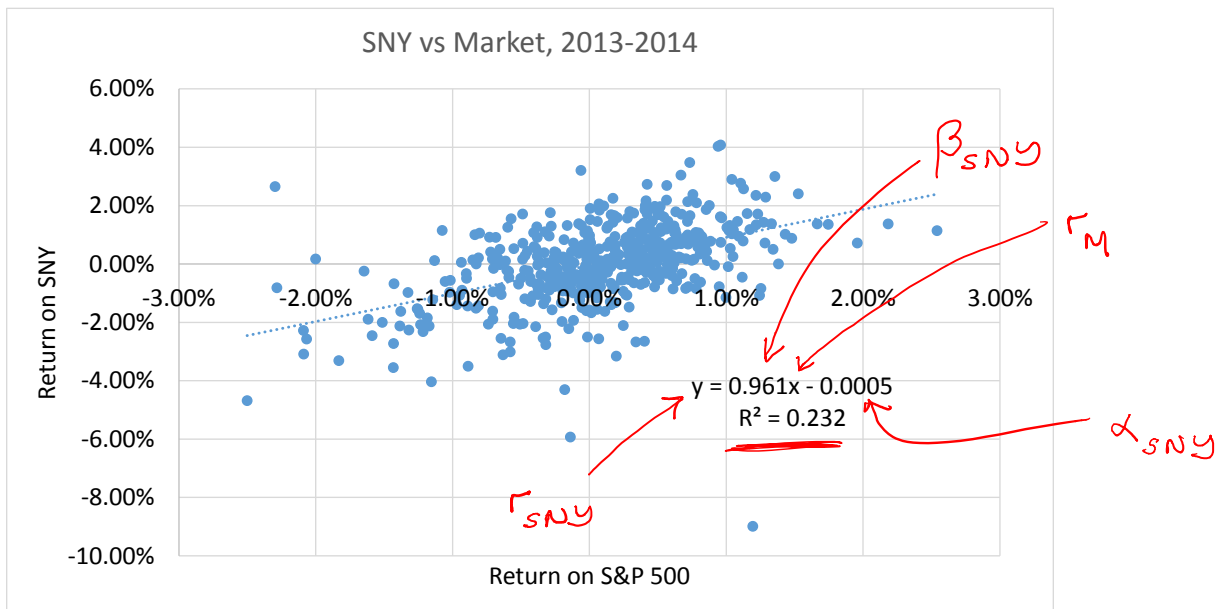
5

Price of Sanofi SNY Stock, October 2014



Copyright 2015, Joel Hasbrouck, All rights reserved

6



Copyright 2015, Joel Hasbrouck, All rights reserved

7

Calculation of residual e_t , for $t = \text{Oct 28, 2014}$

t				$r_{M,t}$		$r_{SNY,t}$				$y = 0.961x - 0.0005$ $R^2 = 0.232$	
	A	B	C	D	E	F	G	H	I		
1	DATE	PRC	VOL	sprtn	RET	spindx	Pred	et			
459	10/24/2014	\$54.02	1483434	0.71%	0.92%	1964.58	0.006278	0.29%			
460	10/27/2014	\$52.82	2411517	-0.15%	-2.22%	1961.63	-0.00194	-2.03%			
461	10/28/2014	\$48.07	8867279	1.19%	-8.99%	1985.05	0.010973	-10.09%			
462	10/29/2014	\$45.22	16821975	-0.14%	-5.93%	1982.3	-0.00183	-5.75%		=E461-G461	
463	10/30/2014	\$45.70	5422074	0.62%	1.06%	1994.65	0.005487	0.51%			
464	10/31/2014	\$46.24	5001568	1.17%	1.18%	2018.05	0.010774	0.10%		=-0.0005+0.961*D461	

- Calculation of corrective disclosure
 - Using raw returns: $-8.99\% - 5.93\% = -14.92\%$
 - Using market-adjusted returns: $-10.09\% - 5.75\% = -15.84\%$
- The standard errors of the estimated alpha and beta can be used to construct a confidence interval around the -15.84% .
 - Statistical confidence intervals are important for establishing materiality.

Copyright 2015, Joel Hasbrouck, All rights reserved

8

Damages for the class period Feb 7, 2013 to Oct 27, 2014

- Was there an economic loss?
 - Amy bought on Feb 1, 2013 and sold on March 1, 2013
 - Brian bought on March 1, 2013 and sold on April 1, 2013
 - Cathy bought on April 1, 2013 and sold on Nov 1, 2014.

Copyright 2015, Joel Hasbrouck, All rights reserved

9

Who bought on or after Feb 7, 2013 and sold after Oct 29, 2014?

- Total trading volume is 704 Million shares
- The VWAP over the class period is \$51.39.
- If *all* of this trade represented buyers who continued to hold the stock after the class period, the damages could be estimated as
 - $704 \text{ Million} \times \$51.39 \times 15.84\% \approx \5.7 Billion
- But many of the shares bought during the class period would also have been sold during the class period.
 - Actual damages would be much lower.

Copyright 2015, Joel Hasbrouck, All rights reserved

10

Are these lawsuits socially useful?

- ❑ The costs of settlements are borne by shareholders (either directly or via insurance)
 - These settlements just transfer money from one set of shareholders to another (and attorneys/experts).
 - The suits provide a private incentive for attorneys/experts to monitor corporate behavior.
- ❑ Deterrence: the prospect of defending against a suit incents management ...
 - To avoid bad behavior
 - To implement reforms after being caught.