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

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

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

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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.
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.
Calculation of residual $e_t$, for $t = Oct 28, 2014$

- 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.
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.

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
  - \( 704 \text{ Million} \times 51.39 \times 15.84\% \approx 5.7 \text{ Billion} \)
- 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.
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.