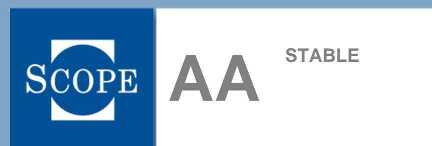
Sanofi S.A.
France, Pharmaceuticals



Corporate profile

Sanofi S.A. is one of the largest pharmaceutical companies with a global footprint. The group is a diversified provider of healthcare products focusing on innovative medicines. Its other activities comprise generics, vaccines as well as general medicines,). In the past few years, Sanofi's cooperation with Regeneron produced very positive results, most notably shown by the development of immunology drug Dupixent, which became a blockbuster (more than USD 1bn in sales) in 2019.

Sanofi was formed in 2004 through the merger of Sanofi Synthelabo and Aventis (including Germany's Hoechst). In 2011, Sanofi acquired US-based rare-disease specialist Genzyme Corp. for about USD 18bn, marking the start of building one of the leading rare disease platforms globally.

Key metrics

			Scope estimates	
Scope credit ratios	2020	2021	2022E	2023E
EBITDA/interest cover	31x	31x	34x	36x
Scope-adjusted debt (SaD)/EBITDA	1.1x	1.2x	1.1x	0.9x
Scope-adjusted funds from operations/SaD	71%	73%	77%	91%
Free operating cash flow/SaD	45%	67%	55%	68%
Liquidity	>100%	>100%	>100%	>100%

Rating rationale

Scope Ratings has affirmed its AA issuer rating on Sanofi S.A. and has revised the Outlook to Stable from Positive. Scope has also affirmed the AA senior unsecured debt rating and the S-1+ short-term rating.

The rating action reflects delayed deleveraging towards a net cash position in the short-term. Sanofi can still use its financial headroom for bolt-on-acquisitions that would delay the deleveraging and comply with the company's focus on growth. The issuer rating still mainly reflects our view of Sanofi's strong operating performance during 2021 based on the improving exposure to growth drivers (Dupixent and flu vaccines) as well as the enhanced late-stage pipeline.

As regards Sanofi's **business risk profile** (assessed at AA-), we believe the group's competitive position is supported by the stronger focus on speciality care, a growing market in which Sanofi is already global leader. Immunology drug Dupixent, Sanofi's main driver of growth, is having a stellar performance: sales reached EUR 5.3bn in 2021 and are guided to peak at more than EUR 13bn. After portfolio restructuring over the last few years and in light of management's 'play to win' strategy, the group has become slightly less diversified with a stronger focus on the high-margin therapeutic areas of immunology, oncology and neurology, with continuing R&D investments. Some diversification is still provided by the critically sized exposures to consumer healthcare, general medicines and vaccines.

The shift towards speciality care products and improving efficiencies is increasing gross margin while lowering operating expenses.

Ratings & Outlook

Corporate rating	AA/Stable
Short-term debt rating	S-1+
Senior unsecured debt rating	AA

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Related Methodologies

Corporate Rating Methodology, July 2021

Rating Methodology: European Pharmaceuticals January 2022

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Sanofi's **financial risk profile** (assessed at AA+) is slightly stronger than its business risk profile. Credit metrics have strengthened significantly in the past years thanks to operational progress and sizeable divestiture proceeds. As a result, discretionary cash flow generation (after M&A and shareholder remuneration) has paved the way for considerable deleveraging, supported by a disciplined financial policy. Net cash position seems to be delayed due to continuing organic and potential inorganic investments needed to accelerate growth.

Outlook and rating-change drivers

The reversion of Sanofi's rating Outlook to Stable from Positive reflects the delayed deleveraging towards a net cash position in the short term (compared to our expectations in 2021) and the uncertainties about the usage of Sanofi's financial headroom over the next few years. Sanofi can still use such headroom for bolt-on acquisitions, which would delay the ability to deleverage to a net cash position.

A positive rating action could be warranted if the usage of Sanofi's significant financial headroom became clearer and we had more visibility that the company can move closer to a net cash position by YE 2024. Alternatively, an improved business risk profile via higher profitability and improved diversification could result in a positive rating action.

Given the company's ample headroom to a lower rating, a negative rating action is deemed remote. A negative rating action could result from deteriorating credit metrics such as the FFO/SaD falling back below 60% or FOCF/SaD falling below 40% on a sustained basis.

Rating drivers

Positive rating drivers	Negative rating drivers
• Globally leading pharma company • Comparatively diversified player • Credit-supportive underlying industry • Strong free cash-generating capability and overall strong credit metrics	• Comparatively low operating margin • Blockbuster Lantus under pressure • Regulatory and litigation risks inherent to pharmaceutical industry (ESG driver)

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Improved business risk profile via higher profitability and improved diversification • Credit metrics moving towards net cash position by YE 2024	• Inability to maintain funds from operations/SaD of at least 60% and free operating cash flow/SaD of at least 40%

Financial overview

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
EBITDA/interest cover	31x	31x	34x	36x
Scope-adjusted debt (SaD)/EBITDA	1.1x	1.2x	1.1x	0.9x
Scope-adjusted funds from operations/SaD	71%	73%	77%	91%
Free operating cash flow/SaD	45%	66%	55%	68%
Scope-adjusted EBITDA in EUR m	**2020**	**2021**	**2022E**	**2023E**
EBITDA	10,443	11,486	12,000	12,600
Scope-adjusted EBITDA	**10,443**	**11,486**	**12,000**	**12,600**
Scope-adjusted interest in EUR m	**2020**	**2021**	**2022E**	**2023E**
Net cash interest as per cash flow statement	278	331	299	299
add: interest component, pensions	59	44	50	50
Net cash interest paid	**337**	**375**	**349**	**349**
Scope-adjusted funds from operations in EUR m	**2020**	**2021**	**2022E**	**2023E**
EBITDA	10,443	11,486	12,000	12,600
less: (net) cash interest as per cash flow statement	-278	-331	-299	-299
less: cash tax paid as per cash flow statement	-2,051	-1,280	-1,680	-1,780
less: pension interest	-59	-44	-50	-50
Scope-adjusted funds from operations	**8,055**	**9,833**	**9,971**	**10,471**
Scope-adjusted Free Operating cash flow in EUR m	**2020**	**2021**	**2022E**	**2023E**
Operating cash flow	7,449	10,537	9,808	10,005
less: capital expenditure (net)	-2,114	-1,325	-2,350	-2,000
less: operating lease payments	-234	-149	-314	-238
Scope-adjusted free operating cash flow	**5,101**	**9,063**	**7,144**	**7,767**
Scope-adjusted debt in EUR m	**2020**	**2021**	**2022E**	**2023E**
Reported gross financial debt	23,675	22,414	20,462	16,833
less: cash and cash equivalents	-13,915	-10,098	-8,504	-6,280
add: cash not accessible	500	500	500	500
add: pension adjustment	1,053	704	554	404
Scope-adjusted debt	**11,313**	**13,519**	**13,011**	**11,456**

Business risk profile: AA-

We continue to assess Sanofi's business risk profile at AA-. This includes the AA industry risk and a AA- competitive positioning assessment.

Innovative pharmaceuticals industry risk at AA

As per our pharmaceuticals rating methodology, Sanofi is classified under innovative pharmaceuticals, which carries an industry risk of AA.

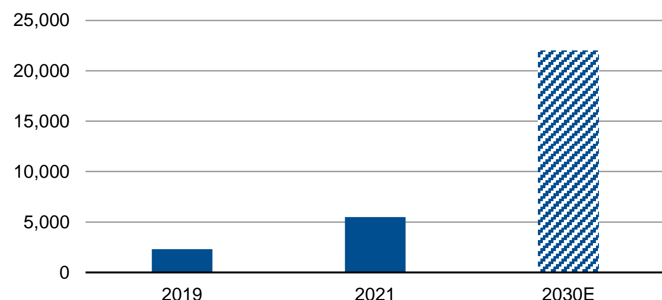
Worldwide leadership in multiple franchises strengthening market share

On top of a strong market position maintained in anti-diabetics (mainly through blockbuster Lantus), the group has built sizeable positions in rare diseases and vaccines. That said, the main progress seen over the last two years was in inflammation, dermatology and immunology, the latter through Dupixent, developed with Regeneron and approved in 2017. Dupixent gained blockbuster status in 2019 and generated EUR 5.3bn sales in 2021.

Increasing exposure to speciality care presenting high growth potential

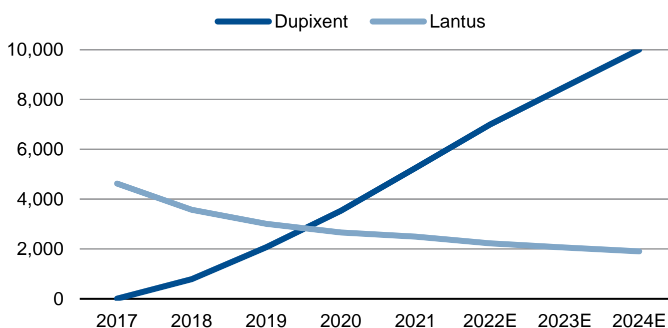
Sanofi has initiated a new focus on immunology, moving away from the flagship segment of diabetes. Sanofi's immunology exposure, so far represented by Dupixent, has opened up significant market share potential. The overall immunology segment is expected to reach more than EUR 20bn in sales by 2030. Sanofi is maximizing the value of Dupixent in multiple indications, with the ambition for the product to deliver growth at more than EUR 13bn on a rollout. This will position Sanofi as immunology leader worldwide while improving its market share in speciality care. Diabetes sales have declined over the last few years in the wake of generic competition and price pressure (mainly in the US, reflecting health care payors' drive for cost efficiency in this large treatment area), yet flagship product Lantus remains Sanofi's second-largest pharma product, generating EUR 2.5bn in revenues in 2021.

Figure 1: Sanofi immunology sales (EUR m)



Source: Sanofi, Scope estimates

Figure 2: Dupixent vs Lantus development (EUR m)



Source: Sanofi, Scope estimates

Global vaccine player despite not being a key Covid-19 vaccine supplier

Sanofi continues to be a major global player in rare diseases. Flagship products are Myozyme (Pompe disease), which became a blockbuster in 2020, and Fabrazyme (Fabry disease), with nearly the same level of sales. The rare diseases segment generates sales of about EUR 3bn a year following the takeover of US-based Genzyme in 2011.

In vaccines, the group has maintained a number four position globally, based on annual sales of about EUR 6.3bn in 2021. This division is growing strongly thanks to new innovative products and high demand in emerging markets. Contributors to growth are expected to be pediatric combinations, boosters, influenza vaccines, meningitis, and the launch of nirsevimab, a monoclonal antibody addressing Respiratory Syncytial Virus. As one of the big four major vaccine manufacturers worldwide, Sanofi also stands to benefit from significantly increased demand for vaccines. This is unrelated to the new Covid-19 vaccine by Sanofi and its partner GSK, which could be launched in H1 2022. Important to mention that Sanofi has progressed in the field of mRNA technology with the recently

established Center and the integration of Translate Bio. Of the 10 new vaccine candidates planned to enter the clinic by 2025, six will use mRNA technologies to target diseases with high unmet needs and disease burden such as chlamydia and acne.

Outside of classic pharmaceuticals, Sanofi is also a leading global player in global consumer healthcare, especially after its acquisition of Boehringer Ingelheim's activities in 2016. Annual segment sales are around EUR 4.5bn. Despite divestment within the entity of non-core brands, Sanofi keeps some growing ambition for the consumer healthcare business but on a standalone basis.

Sanofi's credit quality is supported by its business structure. Despite recent divestitures, it remains more diversified than most of its global pharma peers, consolidating top-five positions in the world's four large markets of diabetes, rare diseases, vaccines and consumer healthcare. In innovative pharmaceuticals, the exposure to six major different treatment areas (including vaccines) is similarly positive from a credit perspective. Furthermore, sales continue to be well diversified by geography, with strong exposures to the still high-margin US market, Europe, and emerging markets (the latter being important for growth). We believe overall diversification has contributed much to the stability of operating profits and cash flows, avoiding the negative effects from blockbuster patent expiry that are more pronounced for other peers.

Dupixent feeding growth into both top and bottom line

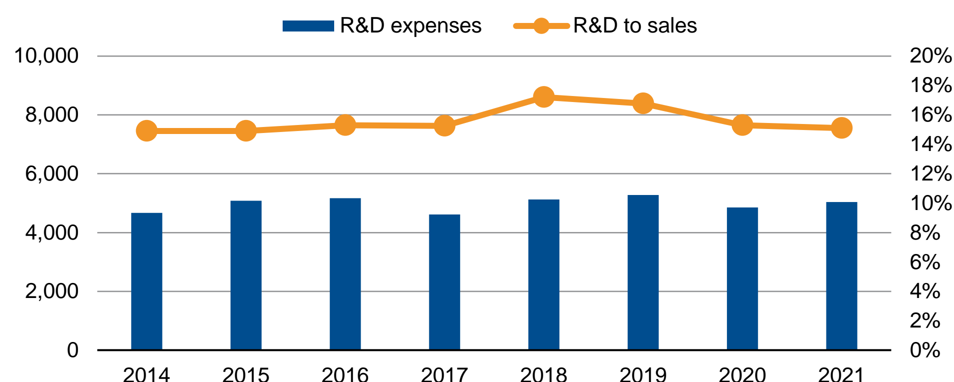
Product concentration rates were moderating from 2017 due to Lantus' reducing weight. This changed in 2019 when Dupixent rapidly overtook Lantus as key growth product. The top-three drugs in 2021 accounted for 29% of total pharma sales (versus 27% in 2020), which is positive for the rating.

Seven blockbuster drugs

We believe Sanofi's number of blockbuster drugs, seven in total, is credit-positive, comparing well with pharma peers. These major products are typically much more profitable than smaller ones due to the former's maturity and lower marketing expenses. In addition, Dupixent will likely remain the group's most profitable this decade. Lantus, despite declining sales, will also still contribute over USD 1bn sales for some years. Other blockbusters include Plavix and Lovenox (cardiovascular), Aubagio (multiple sclerosis) and Toujeo (diabetes). Fabrazyme is close to achieving blockbuster status, with sales of more than EUR 900m generated already in early 2022.

Sanofi allocates sufficient resources to R&D, with a ratio of R&D to innovative pharma sales of around 15%. The group's sustained effort has contributed to a strong products portfolio.

Figure 3: Continuously high pharma R&D (EUR m)



Source: Sanofi

Good late-stage pipeline

The group's late-stage pipeline – consisting of 10 molecules as at YE 2021 – is now focused on the newly defined core R&D areas of rare diseases, oncology, vaccines, rare blood disorders, neurology (mainly multiple sclerosis) and immuno-inflammation. The pipeline has benefitted from the acquisitions of Bioverativ and Ablynx, while Sanofi's collaboration with US-based, mid-sized biotech company Regeneron has strengthened its immunology franchise, yielding products Kevzara (rheumatoid arthritis), Dupixent and Praluent (cardiovascular), which are already marketed. The latest developments (Kadmon, Kymab and TranslateBio) and the introduction of mRNA vaccine technology has also improved the pipeline.

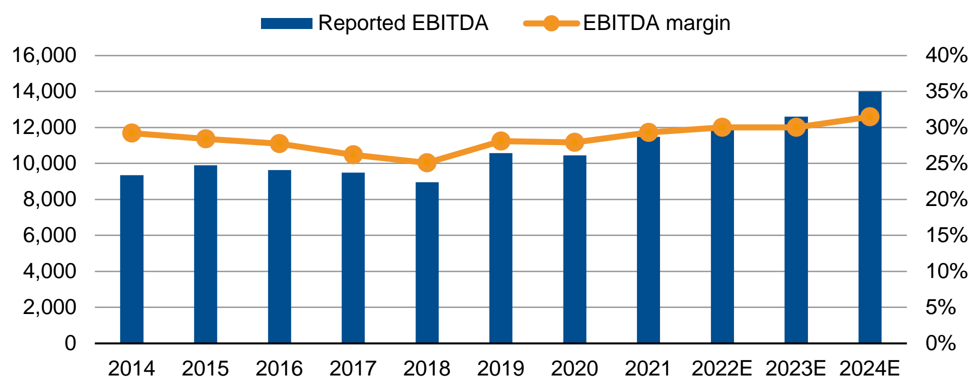
Dupixent mitigating the threat of any potential patent expiry

We believe Sanofi has a significantly improved ability to offset the effect on sales of major patent expiry with new products. The impact of Lantus' patent expiry is set to decrease further in a group context. With no further sizeable patent expiries expected for the next few years such as Aubagio, the road is paved for significant top-line expansion through Dupixent sales and newly approved drugs.

Formerly low operating margins have started to increase

Sanofi has lower reported operating margin than peers, which is surprising given its size and positioning. However, reported operating margin include generics and consumer healthcare, which generally have much lower margin than innovative pharmaceuticals. The large established products portfolio and emerging markets exposure, with sales of more than EUR 15bn, further dilute reported margin.

Figure 4: Group EBITDA (EUR m) – historical trend



Source: Sanofi, Scope estimates

EBITDA and operating cash flows have been comparatively stable over a period of time, with EBITDA in a range of EUR 9bn-12bn. The group EBITDA margin started to improve significantly due to cost cuts and growth strategies initiated in 2019. Sanofi aims to increase the business operating income margin through efficiency initiatives and expects to generate EUR 2.5bn of savings by end of 2022. As of 2021, while the group's EBITDA margin is going towards 30%, we estimate the group's underlying innovative pharma EBITDA margin at around 34%, excluding generics and consumer healthcare and adjusting for headcount-related restructuring charges. We expect group EBITDA margin to gradually improve in the next years. We also highlight that the Russia-Ukraine conflict is impacting the global supply chain for pharmaceutical companies including Sanofi.

Financial risk profile: AA+

Sanofi's issuer rating remains strongly supported by its financial risk profile, assessed at AA+ based on our view that the group will continue to deliver high and stable credit metrics in the foreseeable future.

Credit metrics have been stable and strong – the unusually sharp deterioration in 2018 was due to about EUR 13bn in acquisitions coupled with Lantus' patent expiry. Credit

metrics strengthened significantly in 2020 thanks to operational progress and sizeable divestiture proceeds.

Robust cash generation

Robust cash generation, in addition to proceeds from Regeneron shares divestment, have allowed Sanofi to finance bolt-on acquisitions without weakening leverage, like it did for Transate Bio, Kadmon, Kymab and Kiadis in 2021. In 2021, Sanofi managed a slower increase in opex relative to sales. Sanofi remains on track to achieve its EUR 2.5bn savings target by the end of 2022. Most of this year's savings are again earmarked to be reallocated to fund growth drivers and key R&D programmes. Sanofi is expected to use its financial headroom for bolt-on-acquisitions that would delay the deleveraging to a net cash position.

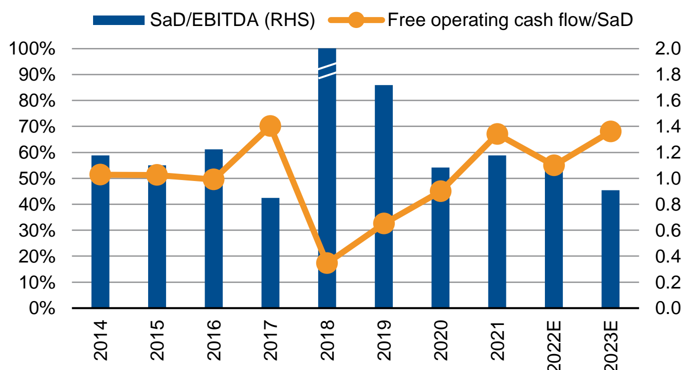
Sanofi's cash generation will continue to increase. This assumption is based on two main drivers: i) annual funds from operations (as a proxy for operating cash flows) are likely to rise based on a combination of growth (Dupixent, vaccines, pipeline) and efficiency gains; and ii) the continuation of management's sound financial policy to support deleveraging. We believe that management is firmly committed to keeping discretionary spending (M&A, shareholder remuneration) under control unless an opportunistic acquisition is on the table.

Funds from operations/SaD is expected to continue to be above 70% and free operating cash flow/SaD at above 50%. The base case assumes no large acquisitions but bolt-on acquisitions of around EUR 2bn annually.

Adequate liquidity

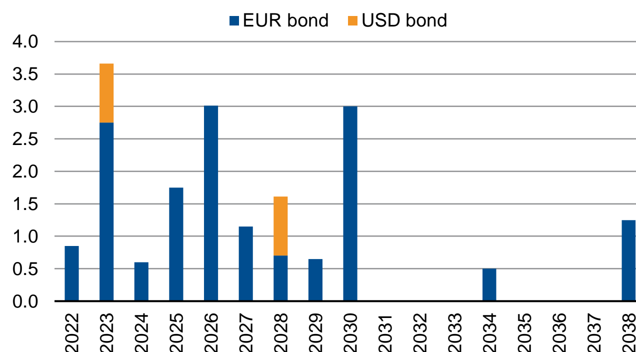
The group's liquidity is adequate. The limited short-term balance sheet debt is covered by an ample cash balance of around EUR 7bn a year, robust annual free operating cash flow and undrawn committed lines of EUR 8bn.

Figure 5: Scope credit ratios



Source: Scope estimates

Figure 6: Debt maturity in EUR bn as of March 2022



Source: Sanofi, Scope

Supplementary rating drivers

Supplementary key ratings drivers play no role in Sanofi's ratings. While we view financial policy is definitely conservative based on past actions, we did not apply a specific explicit uplift given the company's history of fully distributing profits. Sanofi does not regularly acquire large companies. It was quite active in 2018 with mid-sized deals in a pharma context, but implemented disposals at the same time.

Long-term and short-term debt ratings

The rating on senior unsecured debt has been affirmed at the same level as the AA issuer rating.

The affirmed short-term debt rating of S-1+ reflects Sanofi's sound credit quality supported by adequate internal liquidity, reflecting strong access to external funding

through capital markets and bank debt as signalled by the bond issuances and available facilities.

ESG considerations

The rating assessment accounts for the high regulatory and reputational risks inherent to the pharmaceuticals sector, which are credit-negative.

The main regulatory risk relates to the potential for large litigation cases, especially in the US. Reputational risk is linked to the perception of unethical pricing and sustainability issues regarding balancing patent expiry and new products.

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