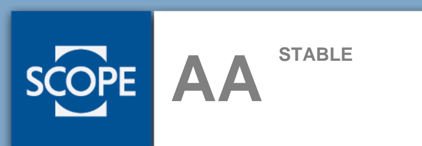
Sanofi S.A.
French Republic, Pharmaceuticals



Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	>10x	>10x	>10x	>10x
Scope-adjusted debt/EBITDA	0.7x	0.9x	0.8x	0.5x
Scope-adjusted funds from operations/debt	113%	80%	110%	154%
Scope-adjusted free operating cash flow/debt	105%	77%	80%	145%

Rating rationale

The issuer rating is supported by Sanofi's strong financial risk profile, with Scope-adjusted debt/EBITDA below 1.0x, and consistent financial flexibility. The rating also reflects a good business risk profile, based on a leading global position in immunology and rare diseases. The main constraints include a weaker profitability, growing dependence on Dupixent, Sanofi's top selling drug, and the need to replenish the pipeline with potential blockbusters.

Outlook and rating-change drivers

The **Stable Outlook** reflects our expectation that Sanofi can maintain debt/EBITDA below 1.0x over the next few years. This assumption is contingent upon the company's continued utilisation of its substantial cash reserves for smaller acquisitions, rather than larger ones.

The **upside scenarios** for the ratings and Outlook are (individually):

1. Greater clarity on Sanofi's use of its significant financial headroom and more visibility on the company's ability to move closer to a net cash position
2. An improved business risk profile via higher profitability and enhanced diversification (deemed remote)

The **downside scenarios** for the ratings and Outlook are (individually):

1. A deteriorating business risk profile via weakening profitability or diversification
2. Deteriorating credit metrics such as funds from operations/debt falling back below 60% or free operating cash flow/debt reaching below 40% on a sustained basis. Given the company's ample headroom to a lower rating, a negative rating action is remote.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
6 Dec 2024	Affirmation	AA/Stable
7 Dec 2023	No action	AA/Stable
11 April 2023	Affirmation	AA/Stable
20 April 2022	Outlook change	AA/Stable
19 May 2021	Outlook change	AA/Positive
09 Sept 2020	Affirmation	AA/Stable

Ratings & Outlook

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

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Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

Pharmaceutical Companies' Rating Methodology; April 2024

ESG considerations for rating pharmaceutical companies; March 2022

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Globally leading immunology and vaccines company • Comparatively diversified player • No meaningful patent expiry before the end of the decade • Strong free cash-generating capability and strong overall credit metrics • High efficiency in product innovation and development that results in constant development of products that foster human health and well-being (ESG driver)	• Comparatively low operating margin • Increasing dependence on Dupixent • Regulatory and litigation risks inherent to pharmaceutical industry (ESG driver) • Global macroeconomic challenges

Positive rating-change drivers	Negative rating-change drivers
• Credit metrics moving to a net cash position • Improved business risk profile via higher profitability and enhanced diversification	• Deteriorating business risk profile via weakening profitability or diversification • Inability to maintain Scope-adjusted funds from operations/debt above 60% and Scope-adjusted free operating cash flow/debt above 40%

Corporate profile

Sanofi was formed in 2004 through the merger of Sanofi Synthelabo and Aventis (including Germany's Hoechst). It is one of the largest pharmaceutical companies with a global footprint. The company is a diversified provider of healthcare products focusing on innovative medicines and vaccines. In the past few years, Sanofi's cooperation with US mid-sized biotech Regeneron produced very positive results, most notably with the development of immunology drug Dupixent, which became a blockbuster (more than USD 1bn in sales) in 2019. Sanofi's four segments are Specialty Care, Vaccines, General Medicines and Consumer Healthcare. In 2023, the segments Specialty Care, Vaccines and General Medicines were combined into a single segment, Biopharma. Sanofi also announced a strategic shift regarding its Consumer Healthcare segment, renamed Opella. By 2025, Sanofi plans to divest 52% of this business, which reflects the company's ongoing focus on prioritising core areas.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	31x	54x	152x	58x	78x	79x
Scope-adjusted debt/EBITDA	1.2x	0.7x	0.9x	0.8x	0.5x	0.5x
Scope-adjusted funds from operations/debt	69%	113%	80%	110%	154%	175%
Scope-adjusted free operating cash flow/debt	68%	105%	77%	80%	145%	137%
Scope-adjusted EBITDA in EUR m						
EBITDA	11,477	14,076	12,667	13,332	11,680	12,418
Recurring associate dividends received	2	1	17	20	20	20
Other items[1]	-56	-466	-226	0	0	0
Scope-adjusted EBITDA	**11,423**	**13,611**	**12,458**	**13,352**	**11,700**	**12,438**
Funds from operations in EUR m						
Scope-adjusted EBITDA	11,423	13,611	12,458	13,352	11,700	12,438
less: Scope-adjusted interest	-373	-250	-82	-231	-150	-158
less: cash tax paid per cash flow statement	-1,280	-2,452	-2,623	-2,029	-1,802	-2,100
Less: Other non-operating charges before FFO	-393	-298	-1,106	0	0	0
Funds from operations (FFO)	**9,377**	**10,611**	**8,647**	**11,092**	**9,747**	**10,180**
Free operating cash flow in EUR m						
Funds from operations	9,377	10,611	8,647	11,092	9,747	10,180
Change in working capital	279	-1,252	-835	-735	1,238	-448
Non-operating cash flow	1,068	1,369	2,659	-2	498	498
less: capital expenditure (net)	-1,325	-579	-1,967	-2,000	-2,000	-2,000
less: lease amortisation	-149	-291	-265	-265	-265	-265
Free operating cash flow (FOCF)	**9,250**	**9,858**	**8,239**	**8,090**	**9,218**	**7,965**
Net cash interest paid in EUR m						
Net cash interest per cash flow statement	331	207	12	161	80	88
add: interest expense pensions	42	43	70	70	70	70
Change in other items	0	0	0	0	0	0
Net cash interest paid	**373**	**250**	**82**	**231**	**150**	**158**
Scope-adjusted debt in EUR m						
Reported gross financial debt	22,414	21,212	18,422	16,602	14,180	11,445
less: cash and cash equivalents	-10,098	-12,736	-8,710	-7,575	-8,886	-6,680
add: non-accessible cash	500	500	500	500	500	500
add: pension adjustment	704	451	542	542	542	542
Other items	0	0	0	0	0	0
Scope-adjusted debt (SaD)	**13,520**	**9,427**	**10,754**	**10,069**	**6,336**	**5,807**

[1] Includes gains and losses on asset disposals and share-based compensation

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Environmental, social and governance (ESG) profile[2]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Industry related ESG risk

The pharmaceutical industry is subject to significant ESG-related risks, particularly in the areas of regulatory compliance and reputational management. For Sanofi, one of the main regulatory risks stems from potential large-scale litigation, especially in the United States, a market that contributes heavily to its revenues. These risks can arise from issues such as patent disputes, product liability claims, and violations of regulatory requirements set by authorities like the FDA. Legal challenges in such cases can result in substantial financial costs, which might impact the company's balance sheet and credit profile.

Reputational risks for Sanofi are tied to broader industry challenges, including public concerns over high drug pricing and transparency. Moreover, the company's ability to manage the expiration of existing drug patents while launching revenue-generating alternatives is critical. Failure to achieve a smooth transition can lead to revenue declines, affecting financial performance and market confidence.

Strong track record in product innovation

On the positive side, Sanofi's robust commitment to advancing global health and wellbeing through innovative treatments reinforces its strong market position and creditworthiness. The company's dedication to addressing unmet medical needs has established it as a trusted leader in the pharmaceutical sector, bolstering its financial stability.

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[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: AA-

We continue to assess Sanofi's business risk profile at AA-, which incorporates assessments of AA for industry risk and AA- for competitive positioning.

Innovative pharmaceuticals industry risk profile at AA

As per our pharmaceuticals rating methodology, Sanofi is classified under innovative pharmaceuticals, which carries an industry risk of AA. The Consumer Healthcare division (renamed Opella), which is not considered innovative pharma unlike the other divisions, contributed only 12% of revenues during 2023.

Global leader in multiple franchises

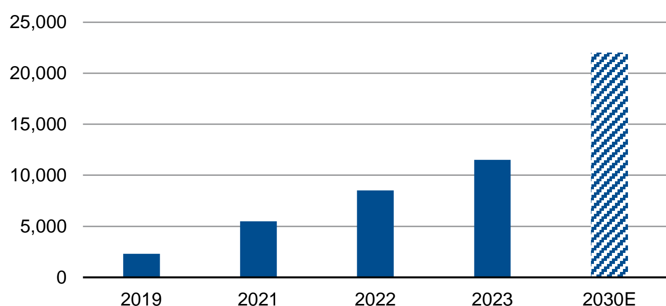
Sanofi is a prominent player in the global pharmaceutical industry, bolstered by strong revenue streams from its specialty care, rare diseases, vaccines, and general medicines segments.

Sanofi's competitive position continues to benefit from its strong focus on becoming a leading immunology company. The company has built sizeable positions in rare diseases and immunology. That said, the main progress over the last three years has been in inflammation, dermatology and immunology, the latter through Dupixent, co-developed with Regeneron. Dupixent gained blockbuster status in 2019 and generated EUR 10.7bn in sales in 2023, with a sales guidance of over EUR 13bn for 2024. The drug's growth potential is underpinned by its versatility, addressing multiple indications such as asthma, atopic dermatitis, eosinophilic esophagitis and chronic obstructive pulmonary disease (COPD). Sanofi continues to explore additional uses, ensuring Dupixent remains central to its immunology strategy.

Increasing exposure to immunology presents high growth potential

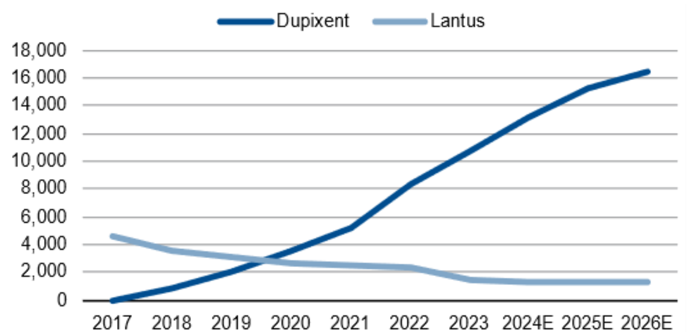
Following a period of portfolio restructuring, Sanofi has realigned its priorities under its "Play to Win" strategy, emphasising specialty care and vaccines. While diabetes and cardiovascular therapies remain part of the General Medicine portfolio, the company has streamlined these areas to create synergies with its existing strengths and to build focused franchises, such as in immunology, which offer significant growth potential. This approach emphasises high-margin, innovative solutions that address unmet medical needs, particularly in rare diseases, where both innovation and pricing power contribute to profitability. This strategic shift is evident in Sanofi's recent moves to divest its consumer healthcare segment and focus more on biopharma innovation, including areas like rare diseases and advanced immunology treatments. Sanofi projects that its immunology segment will generate over EUR 22bn in annual sales by 2030, driven by the success of key product Dupixent and the development of advanced immunology treatments. Sanofi continues to be a major global player in rare diseases. Flagship products are Myozyme and Fabrazyme, with nearly the same level of sales. Newly launched Xenpozyme, Enjaymo, Cablivi and Altuviiio will also reinforce its longstanding leadership and commitment in rare diseases.

Figure 1: Sanofi's immunology sales by year (EUR m)



Source: Sanofi, Scope estimates

Figure 2: Sales of top two blockbusters by year (EUR m)



Source: Sanofi, Scope estimates

Core assets targeted at 60% of General Medicine sales by 2025

In General Medicines, Sanofi is prioritising core assets that are differentiated and/or established and have significant opportunity for growth in key markets. Sanofi is streamlining this division and the results are already encouraging. These core assets are increasingly contributing to the division's performance (core assets accounted for 50.7% of total General Medicines sales in 2023, compared with 45.2% in 2022) and partly offsetting the lower sales by non-core assets. Core assets include Toujeo, Lovenox, Plavix, Thymoglobulin, Multaq, Praluent, Rezurock, Mozobil, Soliqua and T-Zield.

Global leader in flu vaccines and gaining momentum through paediatric vaccines

The vaccine business is contributing with EUR 7.5bn in 2023. The company has set a target to surpass EUR 10bn by 2030, driven by products innovations and high demand, especially in emerging markets. Future contributors to growth will be paediatric combinations, boosters, influenza vaccines, meningitis treatments and a monoclonal antibody addressing respiratory syncytial virus (Beyfortus). The significantly increased demand for vaccines will also benefit Sanofi as it is one of the four largest vaccine makers worldwide. The company leverages strategies such as premium pricing and heightened public awareness about vaccine importance in the wake of the COVID-19 pandemic to strengthen its market position. Important to mention is that Sanofi has progressed in mRNA technology with its established centre of excellence and the integration of Translate Bio, a mRNA company acquired in 2020. At least five vaccine candidates are expected in phase 3 by 2025 across diverse preventative and therapeutic areas.

Opella expected to be deconsolidated in 2025

Sanofi's consumer healthcare segment is one of the largest global leaders in over the counter (OTC) products and consumer health brands, with annual segment sales at EUR 5.2bn in 2023. The division, which was renamed Opella, has made significant progress in implementing its stand-alone model in preparation for the upcoming deconsolidation, which is scheduled to take place in Q2 2025 at the earliest leaving Sanofi with 48% ownership. We believe that the separation of Opella will have a neutral effect on Sanofi's business risk profile due to the segment's low EBITDA contribution to the overall.

Sanofi's business structure also supports its credit profile. Despite recent divestitures, it remains diversified with the exposure to six major and different treatment areas (including vaccines). Sales also 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 helped to stabilise operating profits and cash flows and prevent the effects from blockbuster patent expiry, which have been more pronounced for peers.

Significant dependance on Dupixent and other blockbusters

However, product concentration is high. Blockbuster Dupixent accounts for most of Sanofi's innovative pharma sales, at over 25% during 2023 and is expected to increase to over 35% in the long term. This concentration risk is dampened somewhat by the drug's ability to withstand competition thanks to its safety and efficacy. Further, the top-three drugs in terms of sales accounted for 42% of innovative pharma sales in 2023.

Ten blockbuster drugs taking into account vaccines

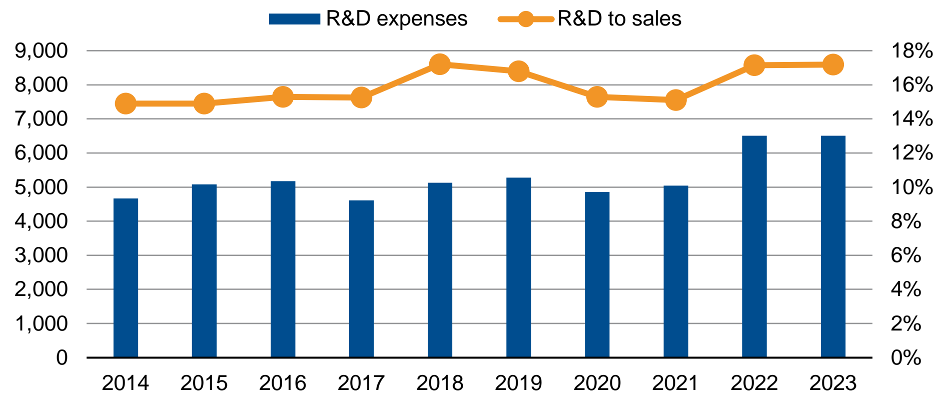
Sanofi's high number of blockbuster drugs (ten) is credit-positive and compares well against peers. Blockbusters are typically much more profitable than non-blockbuster products and they are more mature and have lower marketing expenses. Dupixent will likely remain the company's most profitable drug this decade.

R&D represented 17.2% of net sales in 2023

Sanofi's commitment to research and development (R&D) is reflected in its allocation of approximately 17% of innovative pharmaceutical sales to R&D efforts. This investment underpins a robust product portfolio and supports the advancement of its pipeline. Recognising the importance of external innovation, Sanofi has strategically utilised cash reserves for acquisitions and partnerships that align with its existing capabilities and

treatment areas. The company has prioritised business development and mergers and acquisitions to enhance its focus on strategic therapeutic segments. As of 2024, Sanofi is intensifying its R&D expenditure, consciously trading off near-term profitability to maximise the long-term potential of its pipeline. This approach also supports investments in new product launches and underscores Sanofi's strategy to sustain growth in its core areas of innovation.

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

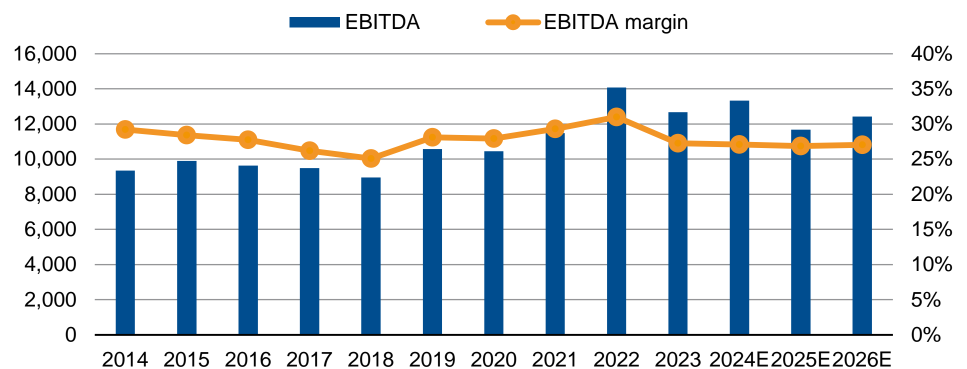


Source: Sanofi, Scope

Sanofi's overall profitability margin diluted by consumer healthcare

Sanofi's reported operating margins are lower than peers', which is surprising given its size and positioning. However, reported operating margins include generics and consumer healthcare, which generally have much lower margins than innovative pharmaceuticals. The large established product portfolio and emerging markets exposure further dilute reported margins.

Figure 4: Group EBITDA (EUR m) and margin (%) by year



Source: Sanofi, Scope estimates

Improving profitability and focus on margin expansion

With the decision to deconsolidate the consumer healthcare business and the ongoing cost saving programme, we may see a gradual margin improvement starting in 2026. Sanofi is no longer targeting a 32% business operating income margin (as per Sanofi's definition) for 2025, while maintaining the focus on long-term profitability. Sanofi is increasing its investments in R&D, focusing on pipeline assets with significant growth potential. This approach aims to enhance the company's ability to successfully bring new medicines to market. Key drivers of future profitability include the strong margins and built-in efficiency of Dupixent, as well as the anticipated rapid ramp-up of new launches like Beyfortus.

Dupixent dampened the effect of patent expiry

The impact of patent expiration is limited, as Aubagio, which will lose its blockbuster status this year, marks Sanofi's last meaningful loss of exclusivity in the current decade. The pipeline will need to be replenished, as additional growth sources are required in preparation for Dupixent's 2031 patent expiration.

Promising pipeline

The company's late-stage pipeline is now focused on the core R&D areas of immunology and rare diseases, neurology and vaccines. Bolt-on acquisitions with assets overlapping with Sanofi's existing portfolio have bolstered the pipeline. At last year's R&D Day, Sanofi presented a record number of medicines in the pipeline with potential blockbuster status, including three with the potential for over EUR 5bn in peak sales. Sanofi expects new launches to exceed EUR 10bn in sales by 2030, showcasing the company's ambition to maintain growth and offset future patent expirations.

Financial risk profile: AA+

Resilient financial performance

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

Low indebtedness and robust cash generation

Credit metrics remain in line with expectations. Robust cash generation is allowing Sanofi to finance bolt-on acquisitions without weakening leverage. The most recent acquisition was biologic drug developer Inhibrx, for USD 2.2bn in May 2024, with the objective of enhancing the rare disease portfolio..

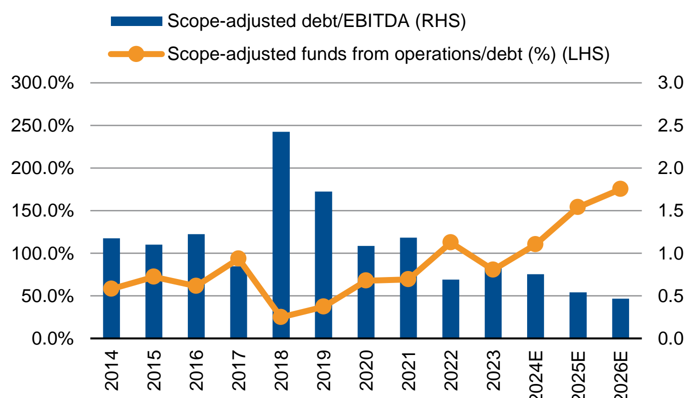
Leverage, as measured by Scope-adjusted debt/EBITDA, deteriorated slightly but remains below 1.0x. (YE 2023: 0.9x versus YE 2022: 0.7x). For 2024-2026, we expect leverage to be maintained below 1.0x in the absence of a significant acquisition and corresponding debt issuance. Accordingly, Scope-adjusted funds from operations/debt is expected to remain at above 70%. Debt protection, as measured by Scope-adjusted EBITDA interest coverage, continues to be solid at levels exceeding 10x. Given the limited intention to increase capex, Scope-adjusted free operating cash flow/debt is anticipated at above 60%.

Headroom for further acquisitions

Cash generation will continue to increase. This assumes: i) the likely increase in annual funds from operations (as a proxy for operating cash flows) due to sales growth (Dupixent, vaccines, pipeline) and efficiency gains; and ii) continued deleveraging. We believe management will keep discretionary spending (M&A, shareholder remuneration) under control unless an opportunistic acquisition arises.

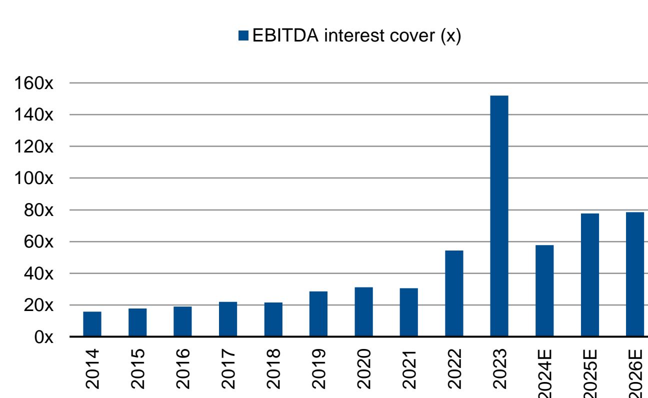
Our rating case assumes no large acquisitions but rather bolt-on acquisitions. The 52% divestiture of Opella is anticipated to close by Q2 2025 at the earliest. Until the transaction closes, Opella's full revenue and operating results will contribute to Sanofi's consolidated figures as discontinued operations in its income statement (and excluded from EPS computation). After the closure, Opella will be accounted for using the equity method. We anticipate that the partial divestment of Opella will have only a minimal impact on credit metrics. Sanofi is expected to allocate capital in accordance with its existing capital allocation priorities. The proceeds received will not be used to fund a significant acquisition, as organic growth remains a key focus. However, we assume that Sanofi will increase shareholder remuneration in the coming years given its ample cash, while maintaining a disciplined financial policy.

Figure 5: Leverage



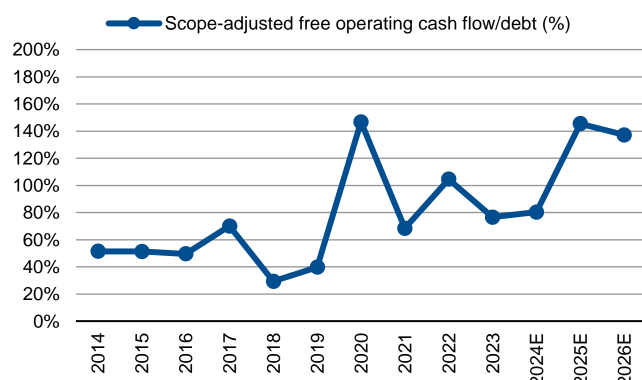
Source: Scope estimates

Figure 6: Interest cover



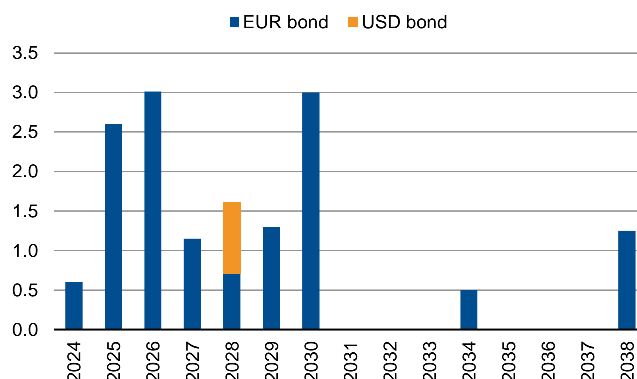
Source: Scope estimates

Figure 7: Cash flow cover



Source: Scope estimates

Figure 8: Debt maturity in EUR bn as of December 2023



Source: Sanofi, Scope

Adequate liquidity

The company's liquidity is adequate. The absence of significant short-term debt, coupled with positive free operating cash flow and a substantial cash buffer (unrestricted cash reserves of around EUR 8bn as at FY 2023 and EUR 8bn of undrawn committed credit facilities), mitigates refinancing risks. This leads to a robust overall liquidity ratio of well above 200%.

Balance in EUR m	2023	2024E	2025E
Unrestricted cash (t-1)	12,236	8,210	7,075
Open committed credit lines (t-1)	8,000	8,000	8,000
Free operating cash flow (t)	8,239	8,090	9,218
Short-term debt (t-1)	4,174	2,045	2,922
Coverage	**>200%**	**>200%**	**>200%**

Supplementary rating drivers: zero notches

Among the supplementary rating drivers, financial policy is the most important for Sanofi. Management remains dedicated to maintaining a strong investment-grade credit rating and adhering to a disciplined capital allocation strategy. Since 2019, reasonable dividend growth has been a consistent priority within the company's capital allocation framework.

Proceeds from the Opella divestiture are expected to align with Sanofi's established priorities, including shareholder returns.

Sanofi does not regularly acquire large companies. Notably, in 2018, the company engaged in several mid-sized transactions in the pharmaceutical context while simultaneously executing disposals. This balanced approach is expected to continue moving forward.

Long-term and short-term debt ratings

Senior unsecured debt rating: AA

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

Short-term debt rating: S-1+

The S-1+ short-term debt rating reflects Sanofi's sound credit quality supported by robust internal liquidity and strong access to external funding through capital markets and bank debt as signalled by the bond issuances and available credit facilities.

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