Sanofi S.A.
French Republic, Pharmaceuticals

SCOPE AA STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	>10x	>10x	>10x	>10x
Scope-adjusted debt/EBITDA	1.2x	0.7x	0.8x	0.6x
Scope-adjusted funds from operations/debt	73%	121%	107%	152%
Scope-adjusted free operating cash flow/debt	67%	102%	77%	115%

Rating rationale

The issuer rating mainly reflects our view of Sanofi's strong operational and financial performance in a challenging macroeconomic environment. As regards the business risk profile (assessed at AA-), the group's competitive position continues to benefit from the strong focus on speciality care, specifically immunology and rare diseases, a growing market in which Sanofi is already global leader. 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, especially immunology, with continuing R&D investments. The critical exposure to consumer healthcare, general medicines and vaccines continues to provide some diversification. Sanofi's profitability has improved as a result of the portfolio restructuring. The shift towards speciality care products and improving efficiencies is increasing the profitability margin. Sanofi's financial risk profile (assessed at AA+) is slightly stronger than its business risk profile. Credit metrics strengthened significantly in 2022 thanks to operational progress and 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.

Outlook and rating-change drivers

The Outlook is Stable and reflects our expectation that Sanofi can maintain leverage in terms of Scope-adjusted debt/EBITDA at around 1.0x.

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

Given the company's ample headroom to a lower rating, a negative rating action is remote. A negative rating action could result from deteriorating credit metrics such as Scope-adjusted funds from operations/debt falling back below 60% or Scope-adjusted free operating cash flow/debt reaching below 40% on a sustained basis.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
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 Methodology(ies) and Related Research

General Corporate Rating Methodology; July 2022

Pharmaceuticals Rating Methodology; January 2023

ESG considerations for rating pharmaceutical companies; March 2022

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Globally leading pharma 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
• Improved business risk profile via higher profitability and improved diversification • Close to a net cash position by YE 2024	• 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 group 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 early 2023, the segments Specialty Care, Vaccines and General Medicines will be combined under the segment called Biopharma leaving the Consumer Healthcare segment as a standalone entity.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	31x	31x	55x	51x	67x	79x
Scope-adjusted debt/EBITDA	1.1x	1.2x	0.7x	0.8x	0.6x	0.3x
Scope-adjusted funds from operations/debt	71%	73%	121%	107%	152%	>200%
Scope-adjusted free operating cash flow/debt	45%	67%	102%	77%	115%	192%
Scope-adjusted EBITDA in EUR m	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBITDA	10,443	11,482	14,076	14,300	15,700	16,600
Other items	0	0	0	0	0	0
Scope-adjusted EBITDA	**10,443**	**11,482**	**14,076**	**14,300**	**15,700**	**16,600**
Funds from operations in EUR m	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA	10,443	11,482	14,076	14,300	15,700	16,600
less: (net) cash interest paid	-278	-331	-207	-230	-185	-160
less: cash tax paid per cash flow statement	-2,051	-1,280	-2,452	-1,994	-2,283	-2,468
add: dividends from associates	0	2	1	0	0	0
Less: pension interest	-59	-44	-47	-50	-50	-50
Funds from operations (FFO)	**8,055**	**9,829**	**11,371**	**12,026**	**13,182**	**13,922**
Free operating cash flow in EUR m	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Funds from operations	8,055	9,829	11,371	12,026	13,182	13,922
Change in working capital	-641	279	-1,252	-1,079	-750	-700
Non-operating cash flow	35	414	407	0	0	0
less: capital expenditure (net)	-2,114	-1,325	-579	-2,000	-2,300	-2,300
less: lease amortisation	-234	-149	-291	-258	-218	-220
Free operating cash flow (FOCF)	**5,101**	**9,048**	**9,656**	**8,690**	**9,914**	**10,702**
Net cash interest paid in EUR m	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Net cash interest per cash flow statement	278	331	207	230	185	160
add: interest expense pensions	59	44	47	50	50	50
Change in other items	0	0	0	0	0	0
Net cash interest paid	**337**	**375**	**254**	**280**	**235**	**210**
Scope-adjusted debt in EUR m	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Reported gross financial debt	23,675	22,414	21,212	17,261	16,761	14,261
less: cash and cash equivalents	-13,915	-10,098	-12,736	-6,982	-9,064	-9,636
add: non-accessible cash	500	500	500	500	500	500
add: pension adjustment	1,053	704	451	451	451	451
Other items	0	0	0	0	0	0
Scope-adjusted debt (SaD)	**11,313**	**13,520**	**9,427**	**11,230**	**8,648**	**5,576**

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Environmental, social and governance (ESG) profile[1]

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

Sanofi's long record of providing products that contribute to human health and well-being is credit-positive.

However, the high regulatory and reputational risks inherent to the pharmaceuticals sector 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 the balancing of patent expiry with new products.

[1] 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, which is not considered innovative pharma unlike the other divisions, contributed only 12% of revenues during 2022.

Global leader in multiple franchises

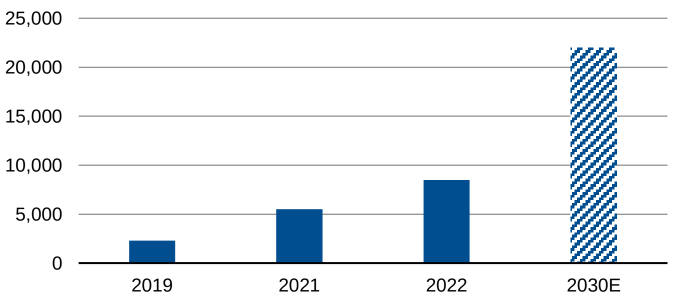
On top of a strong market position maintained in anti-diabetics (mainly through blockbuster Lantus), the group has built sizeable positions in rare diseases and vaccines. That said, the main progress seen over the last three years was in inflammation, dermatology and immunology, the latter through Dupixent, developed with Regeneron and approved in 2017. Dupixent gained blockbuster status in 2019 and generated EUR 8.3bn in sales in 2022, with a sales guidance of EUR 10bn for 2023.

Increasing exposure to speciality care presenting high growth potential

The 'play to win' strategy introduced in 2019 created a new focus on immunology, moving away from the previous flagship segment of diabetes. Sanofi's immunology exposure, mainly represented by Dupixent, has opened significant market share potential. Sales in the overall immunology segment are expected to reach more than EUR 20bn by 2030. Sanofi is looking to maximise Dupixent's value in multiple indications, aiming for more than EUR 13bn a year in sales. The ageing multiple sclerosis drug Aubagio still achieved EUR 2bn in sales in 2022 but this will decline in the next years. Meanwhile, within multiple sclerosis, Sanofi is marketing monoclonal antibody Lemtrada and continues to advance the development of brain penetrant BTK inhibitor Tolebrutinib. These initiatives will position Sanofi as global immunology leader while improving its market share in specialty care. Sanofi's diabetes sales have declined over the last few years in the wake of competition from generic manufacturers 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 product, generating EUR 2.3bn in revenues in 2022.

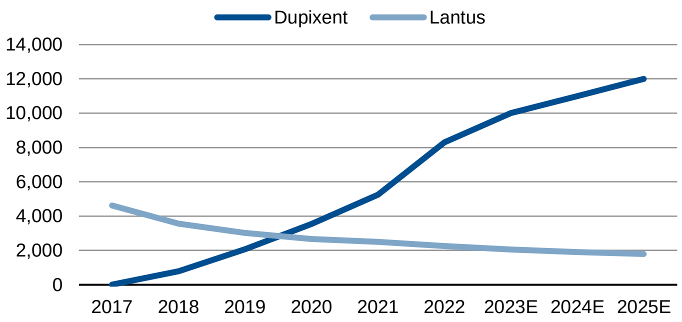
Sanofi continues to be a major global player in rare diseases. Flagship products are Myozyme and Fabrazyme, with nearly the same level of sales. Newly launched Xenpozyme, Enjaymo and Cablivi will also reinforce its longstanding leadership and commitment in rare disease.

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 made up 47% of General Medicine sales during 2022; 60% targeted by 2025

In General Medicine, 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 and partly offsetting the lower sales by non-core assets. Core assets include Toujeo, Soliqua, Praluent, Multaq, Lovenox and Plavix.

Global leader in flu vaccines and gaining momentum through paediatric vaccines

In vaccines, the group is global leader with sales of about EUR 7.2bn in 2022. The objective is to surpass EUR 10bn by 2030. This division continues to grow strongly thanks to the addition of innovative products and high demand in emerging markets. Future contributors to growth will be paediatric combinations, boosters, influenza vaccines, meningitis treatments and a monoclonal antibody addressing respiratory syncytial virus (nirsevimab) that is yet to be launched. The significantly increased demand for vaccines will also benefit Sanofi as it is one of the four largest vaccine makers worldwide.

Important to mention is that Sanofi has progressed in mRNA technology with a recently established centre of excellence and the integration of Translate Bio, a mRNA company acquired in 2020. Of the 10 potential vaccines entering clinical stage by 2025, six will use mRNA technologies, targeting diseases with high unmet needs and disease burden such as chlamydia and acne.

Sanofi is also a global leader in consumer healthcare, a position especially strengthened by its acquisition of Boehringer Ingelheim's activities in 2016. Annual segment sales totalled EUR 5.1bn in 2022. The segment delivered strong performance across digestive wellness, allergies and cough and colds. Sanofi has divested non-core brands to focus on strategic consumer healthcare assets that contribute to growth.

Sanofi's business structure also supports the credit. Despite recent divestitures, it remains more diversified than most of its global peers, consolidating top-five positions in the four major global markets of diabetes, rare diseases, vaccines and consumer healthcare. In innovative pharmaceuticals, the exposure to six major and different treatment areas (including vaccines) is similarly credit-positive. 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.

Dupixent adding to top and bottom line growth

However, product concentration is high. Blockbuster Dupixent accounts for most of Sanofi's innovative pharma sales, at 22% during 2022 and is expected to increase to 25% 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 (Dupixent, Lantus and Aubagio) accounted for 33% of innovative pharma sales in 2022 (versus 29% in 2021 and 27% in 2020).

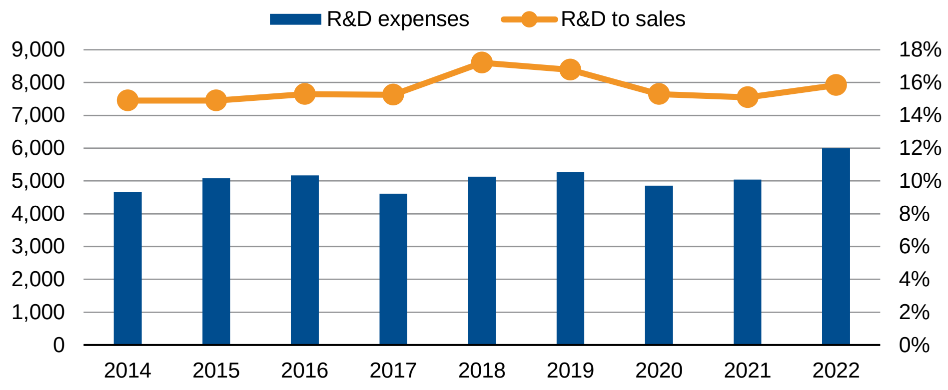
Seven blockbuster drugs

Sanofi's high number of blockbuster drugs (seven) 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 group's most profitable drug this decade. Lantus, despite declining sales, will also still contribute over USD 1bn sales for some years.

R&D represents 15.6% of net sales in 2022

Sanofi allocates sufficient resources to R&D, with a ratio of R&D to innovative pharma sales of around 15%. This has contributed to a strong products portfolio. To accelerate the R&D pipeline, Sanofi has also deployed cash towards transactions that secure access to external innovation. The company remains committed to investing in business development and M&A to bolster its strategic treatment areas.

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



Source: Sanofi, Scope

Promising pipeline

The group's late-stage pipeline – consisting of 10 molecules as at YE 2022 – is now focused on the core R&D areas of rare diseases, oncology, vaccines, rare blood disorders, neurology (mainly multiple sclerosis) and immune-inflammation. Acquisitions in the last few years have bolstered the pipeline, which included immunology specialists Amunix (February 2022) and Provention Bio (March 2023). The collaboration with US mid-sized biotech Regeneron also continues to strengthen the immunology franchise, having yielded Dupixent, Kevzara (rheumatoid arthritis) and Praluent (cardiovascular), which are already marketed. The introduction of mRNA vaccine technology will also positively contribute.

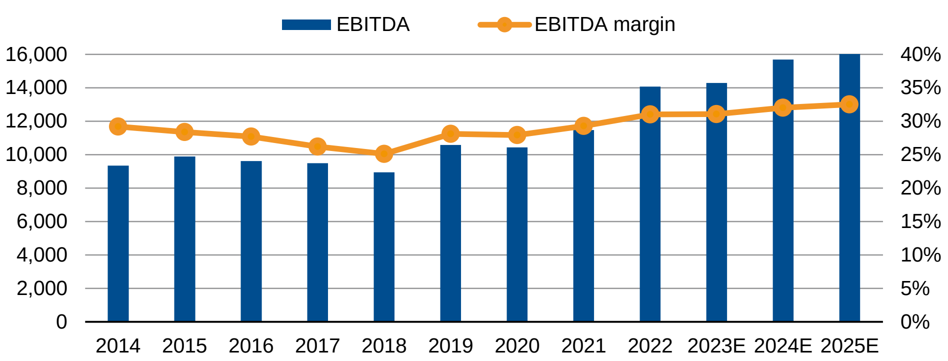
Dupixent dampening effect of patent expiry

Sanofi's ability to offset major patent expiry with new products has improved significantly. Further, Lantus' patent expiry will become less pronounced in a group context. No further sizeable patent expiries are expected until the end of the decade, paving the way for significant top-line expansion through Dupixent and newly approved drugs. The loss of exclusivity of Aubagio will be manageable via incremental sales in the next years.

Low operating margins but starting to increase

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

The group's EBITDA margin has improved significantly through cost cuts and higher contributions from Dupixent and vaccines since 2019 (Figure 4). Cost savings targets were met, totalling EUR 2.7bn since 2019. As of 2022, while the group's EBITDA margin reached 31%, we estimate the group's innovative pharma EBITDA margin at around 35%, excluding generics and consumer healthcare and adjusting for headcount-related restructuring charges. We expect group EBITDA margin to gradually improve in the next years. This view is supported by Sanofi's objective to achieve a business operating income margin of more than 32% by 2025, through new launches, increasing Dupixent profitability and further portfolio streamlining; in 2022, this margin was 30%. The impact of current macroeconomic challenges will be offset by Dupixent's in-built efficiency and margins. From 2023, Sanofi will combine vaccines and pharma manufacturing operations under its Biopharma division to trigger efficiencies, eliminate duplications and increase flexibility. Consumer Healthcare's strategy to operate as though it were a stand-alone entity has also driven a significant improvement in performance over recent years.

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 group will continue to deliver high and stable credit metrics in the foreseeable future.

Low indebtedness and robust cash generation

Credit metrics have been stable and strong, supported further in 2022 thanks to operational progress and sizeable divestiture proceeds. Robust cash generation, in addition to proceeds from the Regeneron shares divestment in 2021, have allowed Sanofi to finance bolt-on acquisitions without weakening leverage. The most recent acquisition was of Provention Bio for USD 2.9bn in March 2023. As mentioned before, Sanofi may still deploy cash towards transactions that secure access to external innovation.

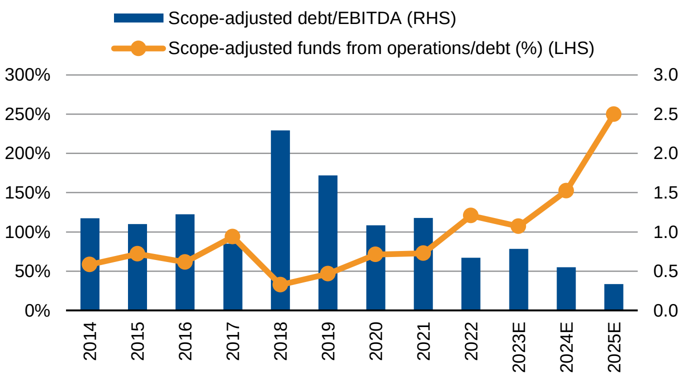
In December 2022, Sanofi bid around USD 25bn to acquire biotech company Horizon Therapeutics, but declined to submit a higher offer against Amgen's USD 27bn. We deem that this bid was opportunistic and that future acquisitions of this magnitude are unlikely. However, it also signals Sanofi's willingness for opportunistic growth opportunities over building up a net cash position. In any case, Sanofi can absorb such deals given its available cash cushion, synergies and the EBITDA that the target would contribute.

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.

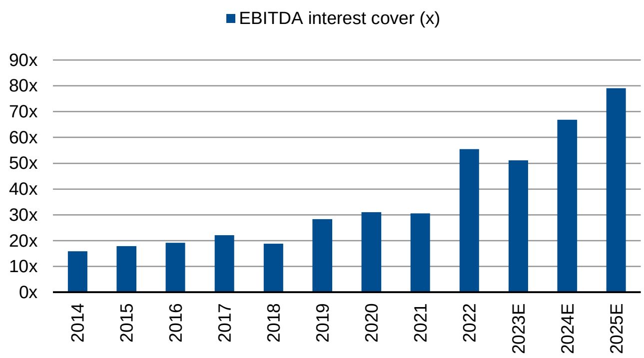
We expect leverage to remain within the ranges required for the rating, namely a Scope adjusted debt/EBITDA of around 1.0x and Scope-adjusted funds from operations/debt of above 70%. Scope-adjusted free operating cash flow/debt is far above of 60%. Our base case assumes no large acquisitions but bolt-on acquisitions of around EUR 5bn in 2023 and EUR 2bn yearly afterwards.

Figure 5: Leverage



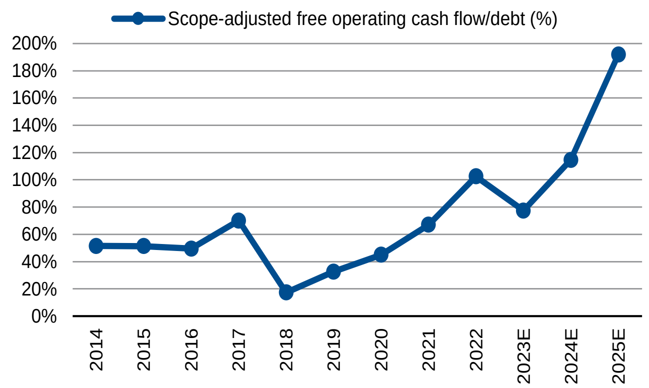
Source: Scope estimates

Figure 6: Interest cover



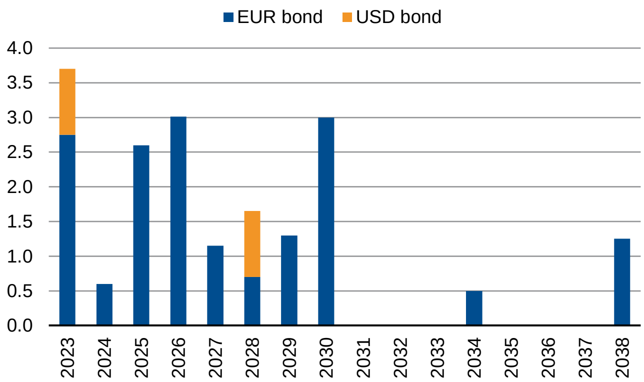
Source: Scope estimates

Figure 7: Cash flow cover



Source: Scope estimates

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



Source: Sanofi, Scope

Adequate liquidity

The group's liquidity is adequate. The limited short-term debt is covered by an ample cash balance, at EUR 12.2bn at YE 2022, robust annual free operating cash flow and undrawn committed credit lines of EUR 8bn.

Balance in EUR m	2022	2023E	2024E
Unrestricted cash (t-1)	9,598	12,236	6,482
Open committed credit lines (t-1)	8,000	8,000	8,000
Free operating cash flow (t)	9,656	8,690	9,914
Short-term debt (t-1)	3,452	4,451	1,000
Coverage	**>200%**	**>200%**	**>200%**

Supplementary rating drivers: zero notches

Among the supplementary rating drivers, financial policy is the most important for Sanofi. Management is committed to a strong investment-grade rating and a disciplined capital allocation policy.

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. We expect Sanofi to maintain this approach.

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 affirmed short-term debt rating of S-1+ reflects Sanofi's sound credit quality supported by adequate 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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