Sanofi SA (SNY)

Updated November 2nd, 2018 by Nate Parsh

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	13.8%	**Volatility Percentile:**	22.4%
Fair Value Price:	$60	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	48.6%
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	5.8%	**Growth Percentile:**	20.2%
Dividend Yield:	4.0%	**5 Year Price Target**	$73	**Valuation Percentile:**	90.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	83.3%

Overview & Current Events

Sanofi is a global pharmaceutical leader incorporated in 1994. The company develops and markets a variety of therapeutic treatments and vaccines. Pharmaceuticals account for ~85% of sales, with the remaining sales coming from vaccines. Sanofi is truly a global leader, with a third of sales coming from the U.S., a little more than a quarter coming from Western Europe and the remainder of sales coming from emerging markets/rest of the world. Sanofi has more than 100,000 employees and operates in more than 170 countries. Sanofi generated €35 billion of revenue in 2017. Sanofi is incorporated in France, but U.S. investors have access to the company through an American Depositary Receipt, or ADR. Sanofi's ADRs are highly liquid and easily invested in through almost any broker.

Sanofi released 3rd quarter earnings results on October 31st. All figures are listed in constant exchange rates. The company earned $2.01 per ADR share. The company saw revenue improve 3.2% to $10.7 billion.

Total sales for the pharmaceutical division were up 6.3%, led by strength in specialty care (up 34.6%) and vaccines (up 8.2%). These sales totals were partially offset by weakness in diabetes and cardiovascular sales (down 6.3%) and generics (down 5.6%). Sanofi's *polio* vaccine had revenue growth of more than 20%. *Lantus*, used to improve blood sugar control in adults and children with diabetes, saw sales decline 18% due to biosmilar competition. Sanofi does have some promising drugs in its portfolio. *Dupixent*, which was just approved for treatment in the U.S. for patients with moderate-to-severe asthma, had revenue growth of almost 200%. Sanofi's rare disease franchise improved 9.3% overall. This small, but important segment, was led by 13.7% growth in the company's *Myozyme/Lumizyme* drug, which treats Pompe disease. Analysts expect that Sanofi will earn $3.26 per share in 2018, down from $3.28 previously.

Sanofi has also used acquisition to fund growth. The company paid $11.6 billion for Bioverativ, which closed in March of this year, and $4.8 billion for Ablynx, which closed in June of this year. These purchases have given Sanofi access to the markets for rare blood disorders, one of the higher growth markets in pharmaceuticals. The Bioverativ acquisition helped Sanofi's rare disease drugs division grow 14% in the quarter. These acquisitions also give the company a large presence in emerging markets as well as new diabetes and skin cancer drugs.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.37	$3.02	$2.76	$2.98	$2.60	$2.25	$2.00	$1.82	$1.78	$2.36	***$3.26***	***$3.97***
DPS	$1.63	$1.44	$1.47	$1.76	$1.69	$1.91	$1.91	$1.61	$1.66	$1.64	***$1.79***	***$2.18***
Shares	2631.1	2618.1	2622	2647.4	2646.5	2636.4	2638.7	2611.4	2584	2508	***2485***	***2450***

Sanofi saw earnings growth during the last recession, though there has been some variance in results in the past few years. This is the case with many ADRs and is often a result of currency fluctuations. We expect earnings and dividends per share to grow by 4% annually over the next 5 years.

The fluctuations in dividends received for the ADR is due largely to currency exchanges, as Sanofi has increased its dividend for 24 consecutive years in its local currency. Sanofi pays an annual dividend each June so investors will have to wait until next year to capture the income.

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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15	10.8	12.2	12	15.3	22.7	25.7	26.8	22.6	19.5	***13.8***	***18.3***
Avg. Yld.	4.6%	4.4%	4.4%	4.9%	4.2%	3.7%	3.7%	3.3%	4.1%	3.6%	***4.0%***	***3.0%***

Shares of Sanofi have increased $3, or 7.1%, since our August 8th update. Sanofi has an average price to earnings multiple of 18.3 over the past 10 years. Based off of update guidance for EPS for 2018, shares trade with a multiple of 13.8, up from 13 earlier. If the stock expanded to its historical average, investors would see an additional 5.8% in annual returns through 2023. The stock's 4.0% yield is more than double the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

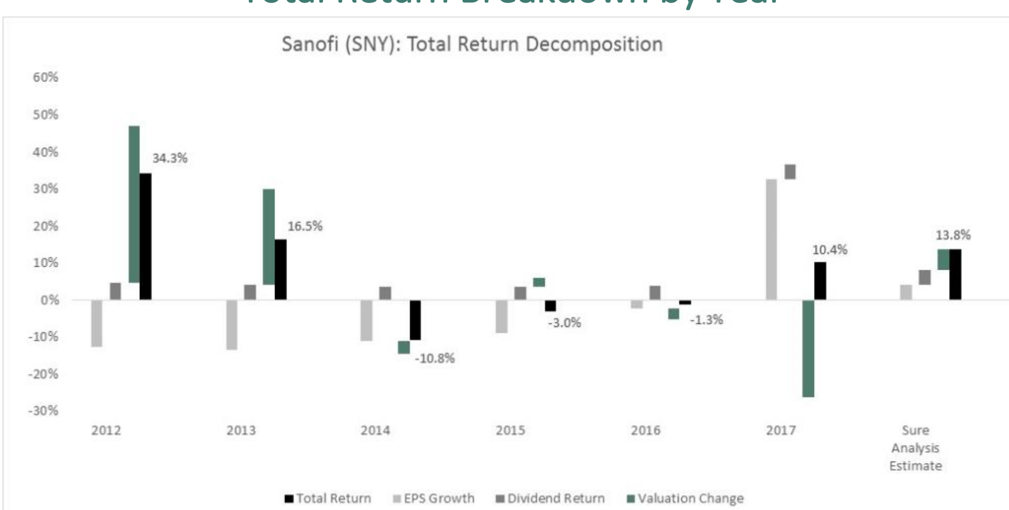
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	31.3%	27.8%	28.8%	25.9%	24.1%	21%	24.4%	23.7%	24%	23.3%	***23.7%***	***25.4%***
Debt/A	37.4%	39.5%	37.5%	44%	42.7%	40.6%	42.2%	43.1%	44.9%	41.6%	***41.6%***	***41.4%***
Int. Cov.	19.4	21.3	18.3	9.9	9.9	10.2	15.4	15.2	7.7	21.8	***20.4***	***14.9***
Payout	68.8%	47.7%	53.3%	59.1%	65%	84.9%	95.5%	88.5%	93.3%	69.5%	***54.9%***	***54.9%***
Std. Dev.	30.7%	28.4%	26.3%	23.7%	16.4%	16.4%	19.9%	20.7%	17.2%	17.6%	***18.4%***	***21.7%***

Like many of the pharmaceutical names in our coverage universe, Sanofi has seen its gross profit to asset ratio decline over the last decade. Unlike many pharma companies, however, that decline has slowed and stabilized in the last few years. The company's debt as a percentage of assets has only increased slightly, meaning that Sanofi can access debt markets in order to fund additional acquisitions. Sanofi's dividend payout ratio is safe and reasonable, meaning there's little risk the dividend doesn't continue growing in the future.

Final Thoughts & Recommendation

Taking 3rd quarter earnings into account, we now forecast that shares of Sanofi can offer a total annual return of 13.8% through 2023, down from 15.3% previously. This estimate is based off of earnings growth (4.0%), dividends (4.0%) and multiple expansion (5.8%). Even with the recent increase in share price, we continue to like Sanofi's offerings outside of diabetes and cardiovascular drugs. Several of these drugs have shown excellent growth rates, which are likely to continue for some time. We reiterate our 2023 price target of $73 as well as our buy rating on shares of Sanofi.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	42296	42880	45115	48882	46227	41557	42554	38685	38414	41021
Gross Profit	31527	31891	32658	33733	31960	27875	28949	26568	26569	27869
Gross Margin	74.5%	74.4%	72.4%	69.0%	69.1%	67.1%	68.0%	68.7%	69.2%	67.9%
SG&A Exp.	10521	10215	10802	11863	11482	10558	11204	10411	10499	11407
D&A Exp.	8784	6988	6799	7743	6309	6767	4362	4745	3653	4174
Operating Profit	9589	10383	11254	10637	10131	8444	8963	7916	8333	8156
Op. Margin	22.7%	24.2%	24.9%	21.8%	21.9%	20.3%	21.1%	20.5%	21.7%	19.9%
Net Profit	5652	7342	7247	7872	6284	4935	5838	4757	5212	9531
Net Margin	13.4%	17.1%	16.1%	16.1%	13.6%	11.9%	13.7%	12.3%	13.6%	23.2%
Free Cash Flow	10152	9385	10865	10509	8432	7501	8294	6822	6752	6142
Income Tax	1001	1902	1895	614	1424	964	1614	787	1468	1950

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	100.59	114.76	113.40	130.40	132.78	132.64	118.43	111.87	110.66	119.76
Cash & Equivalents	5905	6710	8598	5342	8439	11402	8927	10002	10860	12375
Acc. Receivable	7410	8601	8654	10417	9928	9433	8693	8075	7729	8657
Inventories	5017	6355	6676	7838	8436	8771	7980	7124	7286	8177
Goodwill & Int.	60679	62176	59065	80595	77055	72536	65349	56396	54091	63997
Total Liabilities	37612	45290	42527	57393	56752	53884	50008	48227	49632	49869
Accounts Payable	3900	3795	3724	4123	4219	4147	4440	4173	4543	5558
Long-Term Debt	8393	12623	10985	19998	19217	20147	18014	18098	19641	18717
Total Equity	62696	69100	70617	72787	75848	78577	68243	63465	60844	69689
D/E Ratio	0.13	0.18	0.16	0.27	0.25	0.26	0.26	0.29	0.32	0.27

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	5.5%	6.8%	6.4%	6.5%	4.8%	3.7%	4.7%	4.1%	4.7%	8.3%
Return on Equity	8.9%	11.1%	10.4%	11.0%	8.5%	6.4%	8.0%	7.2%	8.4%	14.6%
ROIC	7.8%	9.6%	8.8%	9.0%	6.7%	5.1%	6.3%	5.7%	6.4%	11.3%
Shares Out.	2631	2618.1	2622	2647.4	2646.5	2636.4	2638.7	2611.4	2584	2508
Revenue/Share	16.13	16.40	17.24	18.42	17.38	15.52	15.98	14.65	14.82	16.19
FCF/Share	3.87	3.59	4.15	3.96	3.17	2.80	3.12	2.58	2.61	2.42

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.