Sanofi SA (SNY)

Updated February 10th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	7.7%	**Market Cap:**	$129 billion
Fair Value Price:	$52	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	5/7/2020[1]
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	5/29/2020[2]
Dividend Yield:	3.5%	**5 Year Price Target**	$64	**Years Of Dividend Growth:**	26[3]
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	2.6%

Overview & Current Events

Sanofi, a global pharmaceutical leader, incorporated in 1994. The company develops and markets a variety of therapeutic treatments and vaccines. Pharmaceuticals account for ~72% of sales, vaccines makeup ~15% of sales and consumer healthcare contributing the remainder of sales. 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 produces more than $41 billion annual revenues. Sanofi is incorporated in France, but U.S. investors have access to the company through an American Depositary Receipt, or ADR.

On 2/6/2020, Sanofi reported earnings results for the fourth quarter and full year. Unless otherwise noted, all figures are listed in U.S. dollars and constant exchange rates. Revenue improved 3.4% to $10.6 billion, though this was $150 million lower than expected. The company earned $0.74 per ADR share during the quarter, coming in $0.05 ahead of estimates and increasing 17.5% from the prior year. For the year, revenue increased 2.8% to $40.1 billion while earnings-per-share were up 4.4% to $3.33.

The Pharmaceutical division had sales growth of 2.4% in the quarter. The specialty care segment improved 19.7%, but was offset by an 8.7% decline in primary care and a 1.9% drop in China and emerging markets. Immunology continues to be a source of strength for the company, posting 128.6% growth year-over-year. *Dupixent*, which was approved in the third quarter of 2018 for treatment in the U.S. for patients with moderate-to-severe asthma, had sales growth of more than 135%. *Dupixent* continues to increase its market share in adult patients. This product also began treating patients between the ages of 12 to 17 in March of 2019. *Dupixent* is now approved for use in 34 countries, 10 of which have approved the product for multiple indications. Sanofi plans to launch *Dupixent* in nearly 90 countries across multiple indications during 2020. Sales for the Oncology line were higher by 11.4%. *Jevtana*, which treats prostate cancer that has spread to other parts of the body, was up 9.6% due to growth in the U.S. and Europe. Rare diseases had sales growth of 1.6%, led by a 4.4% sales improvement for *Myozyme/Lumizyme*, which treats Pompe disease. Diabetes sales dropped 9.2%. *Lantus*, which is used to improve blood sugar control in adults and children with diabetes, declined 17.2% year-over-year due to lower U.S. sales. Consumer Healthcare was down 5.2% in the quarter as an 1.9% increase in Allergy Cough & Cold was offset by a 13.3% drop in Digestive and 2.4% decline in Pain. Vaccines has revenue growth of 22% for the quarter. *Influenza* vaccines were up 69%, more than offsetting a double-digit drop in *Polio* vaccines. Analysts expect earnings-per-share of $3.28 for 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.76	$2.98	$2.60	$2.25	$2.00	$1.82	$1.78	$2.36	$3.19	$3.33	***$3.28***	***$3.99***
DPS	$1.47	$1.76	$1.69	$1.91	$1.91	$1.61	$1.66	$1.64	$1.86	$1.74	***$1.78***	***$2.17***
Shares[4]	2622	2647	2647	2636	2639	2611	2584	2508	2500	2500	***2500***	***2450***

[1] Estimated date
[2] Estimated dividend payment date
[3] In local currency
[4] In millions of shares

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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 the company's pharmaceutical segment to continue to show growth in the coming years, leading to a 4% annual increase in earnings and dividends per share through 2025. The fluctuations in dividends received for the ADR is, again, due largely to currency exchanges, as Sanofi has increased its dividend for 26 consecutive years in its local currency. Sanofi pays an annual dividend usually in May or June.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.2	12.0	15.3	22.7	25.7	26.8	22.6	19.5	13.8	15.1	***15.5***	***16.0***
Avg. Yld.	4.4%	4.9%	4.2%	3.7%	3.7%	3.3%	4.1%	3.6%	4.0%	3.5%	***3.5%***	***3.4%***

Shares of Sanofi have increased $5, or 10.8%, since our 11/1/2019 update. We maintain our 2025 target price-to-earnings ratio of 16, which is in line with peers. Based off of guidance for earnings-per-share for 2020, shares trade with a price-to-earnings multiple of 15.5 today. If the stock expanded to its historical average, investors would see an additional 0.6% in annual returns through 2025. The stock's 3.5% yield is well-above the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

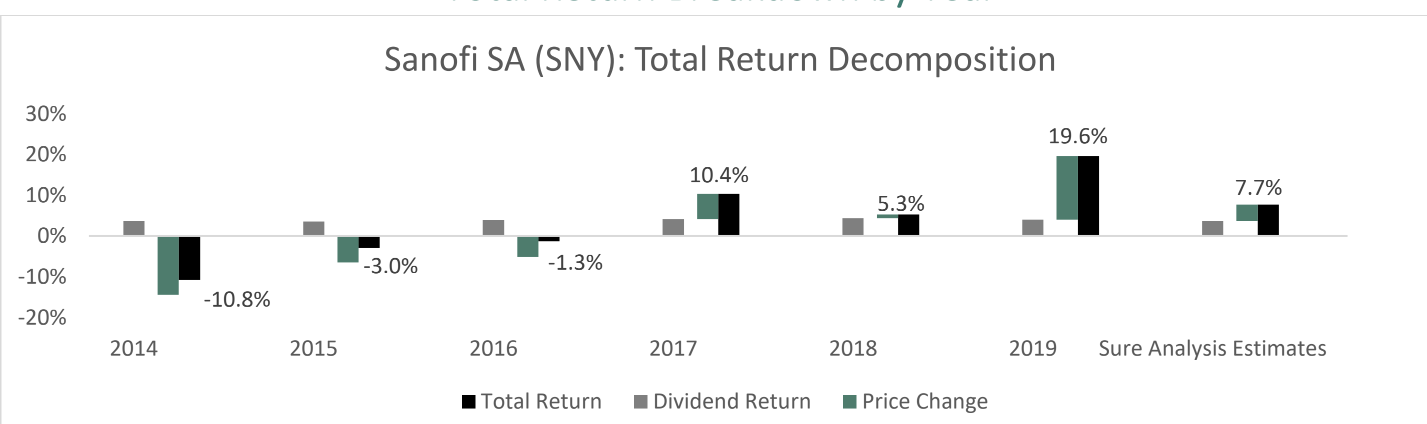
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	53%	59%	65%	85%	96%	89%	93%	70%	58%	52%	***54%***	***54%***

Sanofi's specialty care division, especially in the areas of rare disease and immunology, have demonstrated high rates of growth. These areas are likely to be continued sources of strength for the company. Several of these products, such as *Dupixent*, are just starting to gain traction. Sanofi has also showed a willingness to use acquisitions to fund its growth. Given Sanofi's products are used to treat diseases, and thus, shouldn't be dependent upon strong economic conditions, we see Sanofi as a defensive play for when the next recession strikes.

Final Thoughts & Recommendation

After fourth quarter and full year results, Sanofi is expected to return 7.7% annually through 2025, down from 9.8% previously. The company had a solid fourth quarter and year, but the increase in share price has removed some of our projected return. We find the company's business solid and potential for growth appealing, but we encourage investors to wait for a pullback before purchasing. We have downgraded shares to hold from buy, but have raised our 2025 price target $1 to $64 due to estimates for 2020.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	45,115	48,882	46,227	41,557	42,554	38,685	38,400	41,021	42,128	42,128
Gross Profit	32,658	33,733	31,960	27,875	28,949	26,568	26,557	27,869	28,625	28,721
Gross Margin	72.4%	69.0%	69.1%	67.1%	68.0%	68.7%	69.2%	67.9%	67.9%	68.2%
SG&A Exp.	10,802	11,863	11,482	10,558	11,204	10,411	10,490	11,407	11,642	11,064
D&A Exp.	6,799	7,743	6,309	6,767	4,362	4,745	3,653	4,174	5,053	
Operating Profit	11,254	10,658	9,884	8,861	8,560	7,974	8,180	7,976	7,524	8,356
Op. Margin	24.9%	21.8%	21.4%	21.3%	20.1%	20.6%	21.3%	19.4%	17.9%	19.8%
Net Profit	7,247	7,872	6,284	4,935	5,838	4,757	5,212	9,531	5,085	3,141
Net Margin	16.1%	16.1%	13.6%	11.9%	13.7%	12.3%	13.6%	23.2%	12.1%	7.5%
Free Cash Flow	10,865	10,509	8,432	7,501	8,294	6,822	6,752	6,142	4,215	
Income Tax	1,895	614	1,424	964	1,614	787	1,466	1,950	568	156

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	113.4	130.4	132.8	132.6	118.4	111.9	110.7	119.7	127.4	126.3
Cash & Equivalents	8,598	5,342	8,439	11,402	8,927	10,002	10,860	12,375	7,922	10,560
Acc. Receivable	8,654	10,417	9,928	9,433	8,693	8,075	7,729	8,657	8,305	
Inventories	6,676	7,838	8,436	8,771	7,980	7,124	7,290	8,180	8,553	21,489
Goodwill & Int.	59,065	80,595	77,055	72,536	65,349	56,396	54,091	63,997	75,639	68,432
Total Liabilities	42,527	57,393	56,752	53,884	50,008	48,227	49,641	49,876	59,909	60,072
Accounts Payable	3,724	4,123	4,219	4,147	4,440	4,173	4,543	5,558	5,766	17,109
Long-Term Debt	10,985	19,998	19,217	20,147	18,014	18,098	19,641	18,717	28,186	27,651
Total Equity	70,617	72,787	75,848	78,577	68,243	63,465	60,842	69,667	67,348	66,016
D/E Ratio	0.16	0.27	0.25	0.26	0.26	0.29	0.32	0.27	0.42	0.42

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.4%	6.5%	4.8%	3.7%	4.7%	4.1%	4.7%	8.3%	4.1%	2.5%
Return on Equity	10.4%	11.0%	8.5%	6.4%	8.0%	7.2%	8.4%	14.6%	7.4%	4.7%
ROIC	8.8%	9.0%	6.7%	5.1%	6.3%	5.7%	6.4%	11.3%	5.5%	3.3%
Shares Out.	2622	2647	2647	2636	2639	2611	2584	2508	2500	2500
Revenue/Share	17.24	18.42	17.38	15.52	15.98	14.65	14.81	16.19	16.78	16.85
FCF/Share	4.15	3.96	3.17	2.80	3.12	2.58	2.61	2.42	1.68	

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