Sanofi SA (SNY)

Updated July 31st, 2020 by Nathan Parsh

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$132 billion
Fair Value Price:	$57	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	5/7/2021[1]
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	5/29/2021[2]
Dividend Yield:	3.4%	**5 Year Price Target**	$69	**Years Of Dividend Growth:**	26[3]
Dividend Risk Score:	C	**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 $40 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 7/29/2020, Sanofi reported second quarter earnings results. Unless otherwise noted, all figures are listed in U.S. dollars and constant exchange rates. Revenue improved 0.5% to $9.7 billion, $32 million below estimates. The company's EPS of $0.75 per ADR share was $0.11 higher than expected and a $0.02, or 2.7%, improvement from the previous year.

The Pharmaceutical division had a sales decline of 2%. Specialty Care, however, continues to produce very strong results. *Dupixent*, which treats patients with moderate-to-severe asthma, grew nearly 70%. *Dupixent* continued its market share penetration in Q2 as total prescriptions were up 92% and new to brand prescriptions rose 11%. *Dupixent* is now approved for use in adults in 44 countries and in adolescents in 18 countries. Sanofi estimates that the product can be launched in 50 additional countries. Oncology sales were higher by 18.7% due to strength in *Jevtana*, which treats prostate cancer that has spread to other parts of the body. Sales for Rare Diseases were lower by 0.5% as *Myozyme/Lumizyme*, which treats Pompe disease, was down 2.6%. Cardiovascular and Established Products had a sales decrease of 16% due in part to the impact from the COVID-19 pandemic as elective procedures were postponed. Vaccine sales were down 7% despite an 18% increase in *Polio/Pertussis/Hib* vaccines. Consumer Healthcare fell 8% due to customer stock up in the first quarter in preparation for lockdowns related to COVID-19. By region, U.S. sales were flat, Europe was down 10.8% and Rest of the World declined 1.4%. Sanofi now expects EPS to rise 6% to7% from 2019 results, up from 5% previously.

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	***$3.55***	***$4.32***
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***

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

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

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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	***14.6***	***16.0***
Avg. Yld.	4.4%	4.9%	4.2%	3.7%	3.7%	3.3%	4.1%	3.6%	4.0%	3.5%	***3.4%***	***3.1%***

Shares of Sanofi have increased $2, or 4%, since our 4/24/2020 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 14.6 today. If the stock expanded to our target valuation, investors would see an additional 1.8% in annual returns through 2025. The stock's 3.4% yield is well-above the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

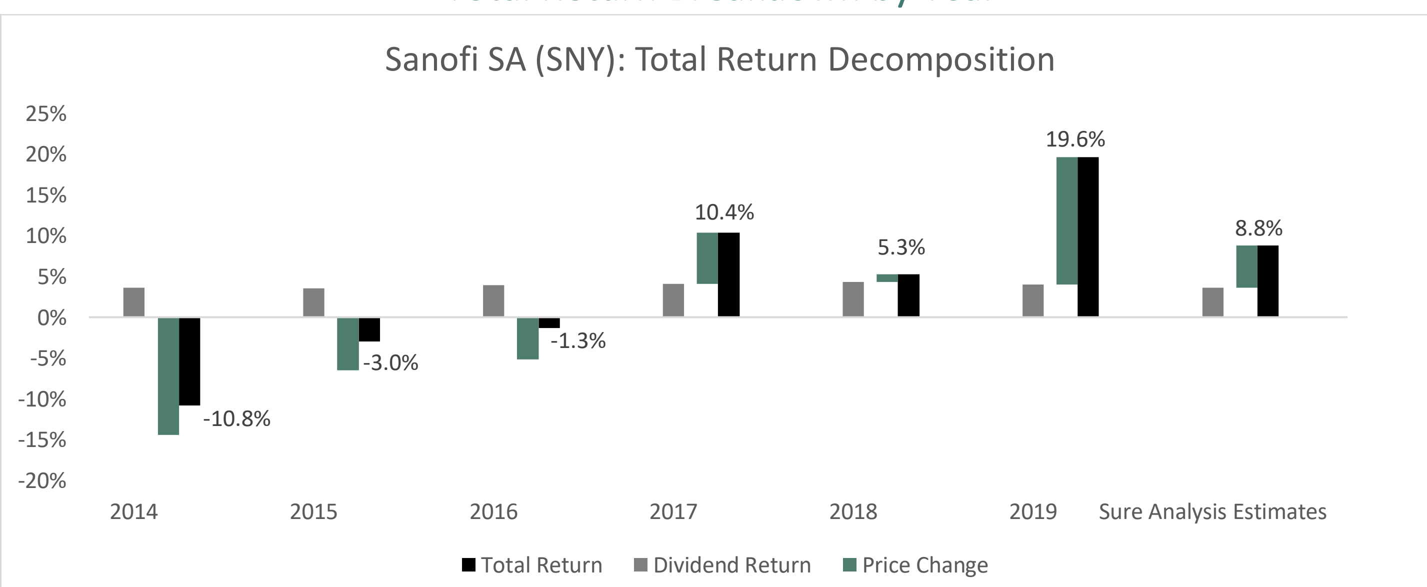
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	53%	59%	65%	85%	96%	89%	93%	70%	58%	52%	***50%***	***50%***

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

Sanofi is now projected to return 8.8% through 2025, down from 9.6% previously. Results for the second quarter were negatively impacted by the channel stocking seen in the first quarter. This reversal wasn't unexpected. Sanofi continues to see excellent growth rates in its key products, such as *Dupixent*. We maintain our 2025 price target of $69, but believe investors should wait for a slight decline before adding shares of Sanofi.

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.