

# Sanofi

France/Pharmaceuticals

1 April 2016

UBS Research

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## Phase III dupilumab efficacy data in atopic dermatitis looks highly promising

- Phase III efficacy data from SOLO-1 and -2 looks strong and backs up Ph II data
- Strong dupi efficacy data had been expected; no herpes data reported
- Dupilumab ahead of competitors in atopic dermatitis
- Valuation: PT is €78.5, based on 14.3x 2016E Core EPS

### Phase III efficacy data from SOLO-1 and -2 looks strong and backs up Ph II data

Sanofi has reported top-line Phase III data for SOLO-1 and SOLO-2 – the large-scale atopic dermatitis (AD) trials for dupilumab. In SOLO-1, 37-38% pts achieved clearing or near clearing of skin lesions (ranked 0-1 on the Investigator's Global Assessment/ IGA scale), depending on dosing (weekly or every 2 wks) while 36% pts reached this in SOLO-2, vs. 9-10% pts on placebo. This compares favourably with Ph II data reported in the Lancet in January 2016, where 30-33% pts on the same dose and frequency of dosing had this IGA response. Patients on the drug also performed strongly in terms of EASI (Eczema Area and Severity Index), where the EASI improvement vs. baseline was 72% pts in SOLO-1 and 67-69% pts in SOLO-2, vs. 31-38% for pts on placebo. This is comparable to 68-74% in the Ph II data in the Lancet.

### Strong dupi efficacy data had been expected; no herpes data reported

In our AD note from 29 February (see here), we flagged that these SOLO Ph III data were imminent and that the market was likely expecting strong Ph III efficacy data, given highly promising Ph II data. While safety in Ph IIb and other indications (asthma, nasal polyposis) was largely clean, herpes has been a focus, given that a small increase in infection incidence seen in Ph IIb (8% vs. 2%). Herpes incidence was not discussed in today's Ph III press release, however it will likely be a focus when more detailed data are presented at a future conference. Overall, Ph III serious adverse events were lower in dupi (1-3%) vs. PBO (5-6%) & more pts completed dupi (88-94%) vs PBO (81-82%).

### Dupilumab ahead of competitors in atopic dermatitis

The Ph III SOLO data was for adults, though we expect p2b result in paediatric patients in 2Q'16, and KOLs expect fast uptake in both populations after initial approval in 2017. We are also awaiting p2 proof of concept data for 2 anti IL13 mAbs (AZN's tralokinumab & Roche's lebrikizumab) in AD by mid-2016. Should the anti IL-13 mAbs be equally viable in AD as dupilumab's anti-IL4/anti-13 mechanism, we'd still expect Sanofi to retain at least 50% share in view of Sanofi's 2-3 year lead over AZN & Roche.

### Valuation: PT is €78.5, based on 14.3x 2016E Core EPS

Our price target is based on the current 2016 weighted average sector multiple of 14.7x (excl. Novo).

12-month rating	<b>Neutral</b>
12-month price target	<b>€78.50</b>
Price	<b>€70.86</b>

### Trading data and key metrics

52-wk range	€100.65-67.27
Market cap.	€94.0bn/US\$107bn
Shares o/s	1,327m (ORD)
Free float	89%
Avg. daily volume ('000)	3,455
Avg. daily value (m)	€251.3
Common s/h equity (12/15E)	€58.0bn
P/BV (12/15E)	1.6x
Net debt / EBITDA (12/15E)	0.5x
RIC	SASY.PA
BBG	SAN FP

Sources: UBS, Bloomberg

### EPS (UBS, diluted) (€)

	UBS	Cons.
12/15E	5.58	5.64
12/16E	5.50	5.57
12/17E	5.44	5.71

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at [www.ubs.com/glossary](http://www.ubs.com/glossary)

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Analyst certification and required disclosures begin on page 3**

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# Sanofi

## Company Profile: Sanofi

Sanofi is a diversified European pharmaceutical company with capabilities in branded and generic pharmaceuticals, vaccines, animal health and consumer health. In 2014, pharma (including consumer) contributed 82% of Sanofi group sales, vaccines 12%, and animal health 6%. Key franchises in pharma are diabetes (including flagship product Lantus) and Genzyme (focused on rare diseases, multiple sclerosis). Sanofi's collaboration with Regeneron (Sanofi holds a 22.1% stake) has yielded important late-stage candidates (alircumab to lower cholesterol and dupilumab for atopic dermatitis).

## Statement of Risk

Risks for the pharmaceutical industry include low R&D productivity, generic competition, and legislative pressure on pricing and litigation risk. Company-specific risks include lack of visibility on US pricing dynamics for basal insulin, and potential pipeline setbacks. Our €78.5 PT is based on 14.3x 2016E Core EPS, based on the current 2016 weighted average sector multiple of 14.7x (excl. Novo).

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Highlights (€m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	35,957	33,306	34,109	37,417	37,054	36,157	37,516	39,824
EBIT (UBS)	11,196	9,401	9,429	9,904	9,554	8,993	9,424	10,673
Net earnings (UBS)	8,101	6,687	6,847	7,371	7,095	6,753	6,932	7,568
EPS (UBS, diluted) (€)	6.09	5.00	5.14	5.58	5.50	5.44	5.66	6.25
DPS (€)	2.77	2.80	2.85	2.93	3.00	3.10	3.20	3.40
Net (debt) / cash	(8,150)	(6,333)	(7,473)	(7,406)	(7,261)	(5,531)	(4,564)	(3,041)
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	31.1	28.2	27.6	26.5	25.8	24.9	25.1	26.8
ROIC (EBIT) %	17.0	14.7	15.2	16.7	16.7	16.2	17.7	20.8
EV/EBITDA (core) x	5.8	8.1	8.3	7.1	7.3	7.6	6.8	6.4
P/E (UBS, diluted) x	10.1	15.4	15.1	12.7	12.9	13.0	12.5	11.3
Equity FCF (UBS) yield %	8.3	5.8	6.2	8.9	3.3	6.4	6.7	7.3
Net dividend yield %	4.5	3.6	3.7	4.1	4.2	4.4	4.5	4.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of €70.86 on 31 Mar 2016 21:39 BST

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## Appendix

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	47%	33%
Neutral	Hold/Neutral	42%	34%
Sell	Sell	11%	23%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2014.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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#### Global Equity 12-Month Rating Definitions

**Buy:** FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

#### Key Definitions

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

#### Exceptions and Special Cases

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified the Companies Mentioned or Company Disclosure table in the relevant research piece.

#### Company Disclosures

Sanofi	SAN FP	Neutral	€70.86	31 Mar 2016
Novartis	NOVN VX	Neutral	CHF69.70	31 Mar 2016
AstraZeneca	AZN LN	Buy	3,903p	31 Mar 2016
GlaxoSmithKline	GSK LN	Neutral	1,412p	31 Mar 2016
Roche	ROG VX	Buy	CHF236.70	31 Mar 2016
Novo Nordisk	NOVOB DC	Sell	DKr355.20	31 Mar 2016
Bayer	BAYN GR	Neutral	€103.28	31 Mar 2016
Company Name	Reuters	12-mo rating	Price	Price date

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

#### Disclosures (1 April 2016)

AstraZeneca 1, 2, 3, 4, GlaxoSmithKline 1, 2, Novartis 1, 2, 5, 6, 7, 8, 9, 10, 11, Novo Nordisk 1, 12; Roche 2, 6, 7, 8, 9, 10, Sanofi 1, 2, 1. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

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# Sanofi

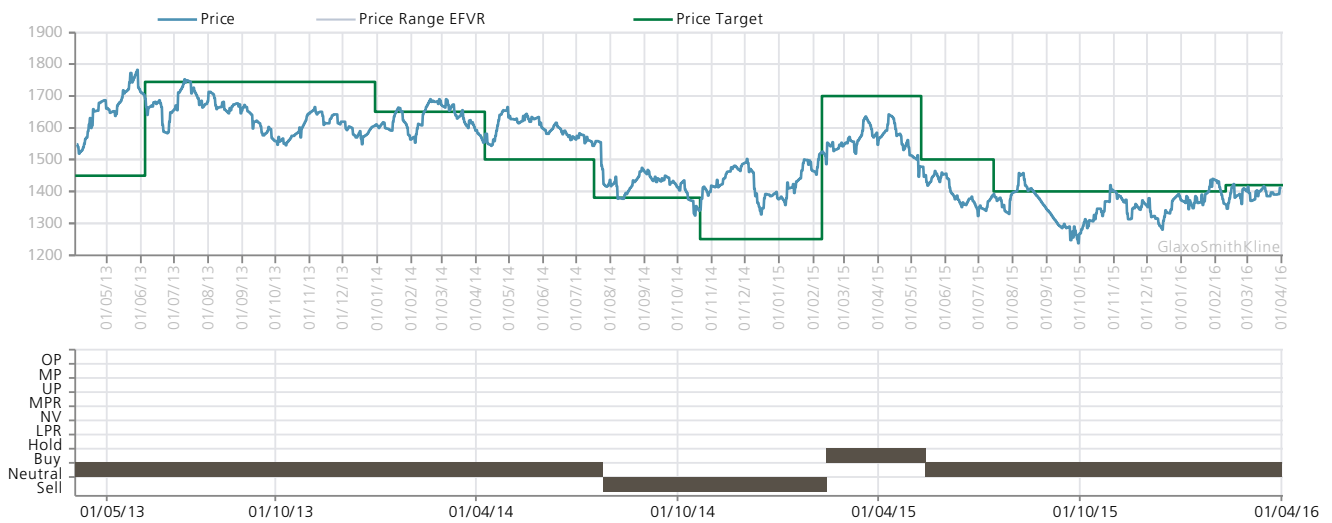
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## Global rating history -- AstraZeneca, AZN LN



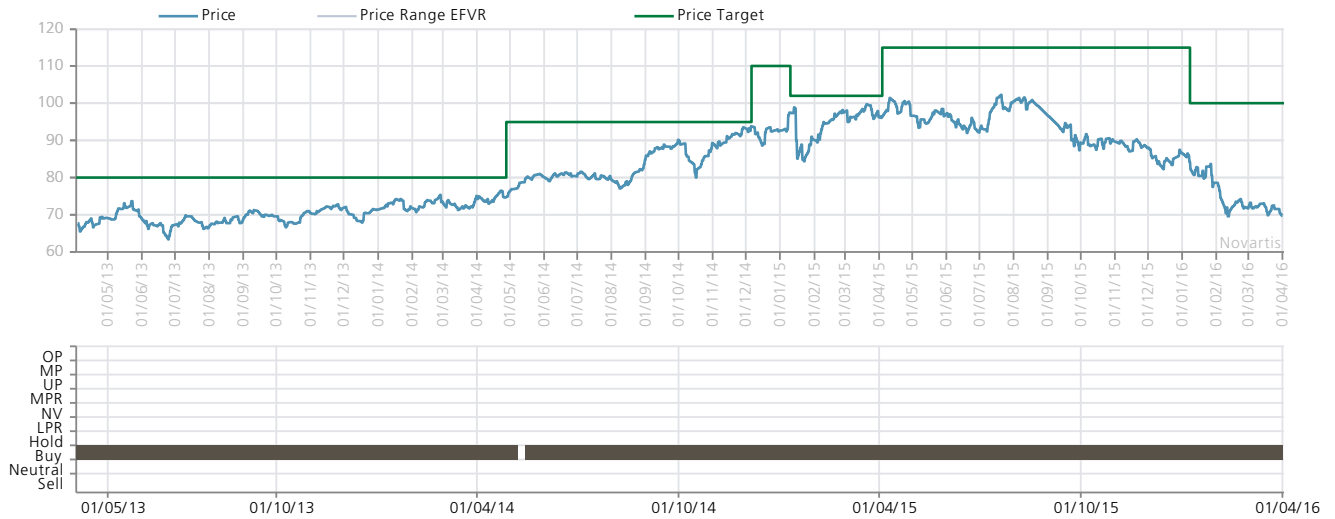
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## Global rating history -- GlaxoSmithKline, GSK LN



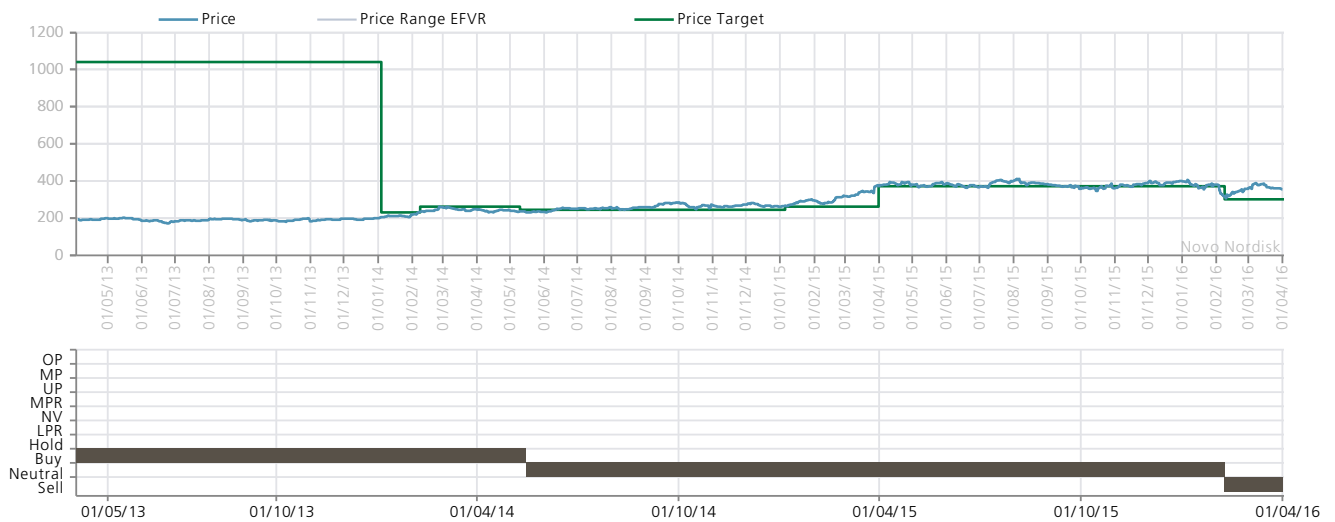
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## Global rating history -- Novartis, NOVN VX



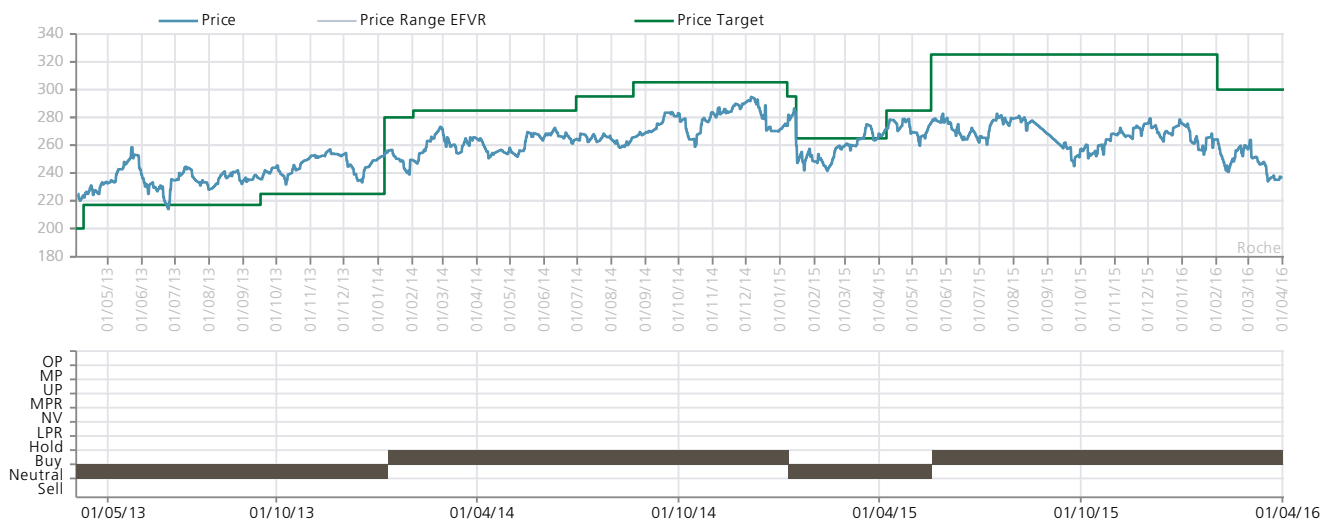
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## Global rating history -- Novo Nordisk, NOVOB DC



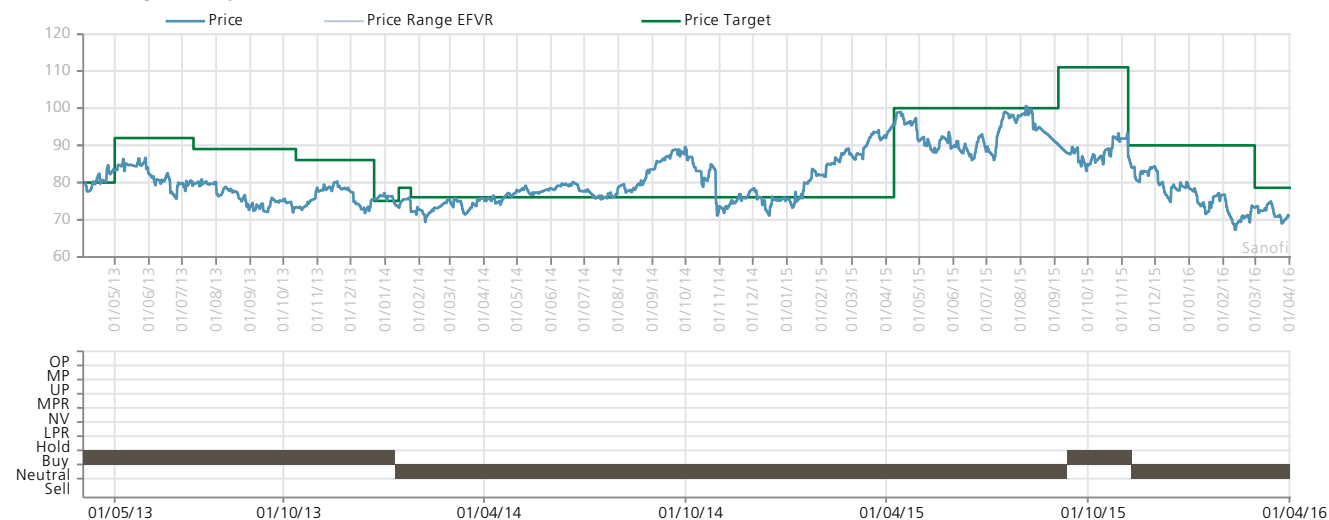
Source: UBS CIO as of 1 April 2016

## Global rating history -- Roche, ROG VX



Source: UBS CIO as of 1 April 2016

## Global rating history -- Sanofi, SAN FP



Source: UBS CIO as of 1 April 2016

### Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depository receipt	ARPU	Average Revenue Per User
AUM	Assets under management = total value of own and third-party assets managed	Avg.	average
bn	Billion	bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares	CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)	Capex	Capital expenditures
CF	Cash flow	CFO	1) Cash flow from operations, 2) Chief financial officer
COGS	Cost of goods sold	COM	Common shares
Cons.	Consensus	Core Tier 1 Ratio	Tier 1 capital minus tier 1 hybrid securities
Cost/Inc Ratio (%)	Costs as a percentage of income	CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)	CY	Calendar year
DCF	Discounted cash flow	DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share	DPS	Dividend per share
E	expected i.e. 2011E	EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues	EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin (%)	EBITDA divided by revenues	EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense	EFVR	Estimated fair value range
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)	EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets	EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations	FY	Fiscal year / financial year
GDP	Gross domestic product	Gross Margin (%)	Gross profit divided by revenues
H	half year	h/h	Half-year over half-year; half on half
hist av.	Historical average	Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings	Interest exp	Interest expense
ISIN	International securities identification number	K	One thousand
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income	LLR/Gross Loans (%)	Loan loss reserves divided by gross loans

# Sanofi

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.	Market cap	Number of all shares of a company (at the end of the quarter) times closing price
m/m	Month-over-month; month on month	mn or m	Million
M and A	Merger and Acquisition	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.	n.a.	Not available or not applicable
NAV	Net asset value	Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net DPS	Net dividends per share	NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets
Net Margin (%)	Net income dividend by revenues	NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.
n.m. or NM	Not meaningful	NPL	Non-performing loans
OP	Outperform: The stocks is expected to outperform the sector benchmark	Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)	P/BV	Price to book value
P/E or PE	Price to earnings / Price Earnings Ratio	P/E Relative	P/E relative to the market
P/EmV	Price to embedded value	PEG Ratio	P/E ratio divided by earnings growth
PPI	Producer price index	Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues	q/q or QQQ	Quarter-over-quarter; quarter on quarter
R and D	Research and development	ROA (%)	Return on assets
ROAE (%)	Return on average equity	ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity	ROIC (%) or ROI	Return on invested capital
Shares o/s	Shares outstanding	Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
sotp or SOTP	Sum of the parts	Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
tgt	Target	Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion	UP	Underperform: The stock is expected to underperform the sector benchmark
Valor	Swiss company identifier	WACC	Weighted average cost of capital
CIO	UBS WM Chief Investment Office	x	multiple / multiplier
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		

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Version 02/2016.

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