

## Sanofi

Price EUR72.46

## The end of Sanofi Pasteur MSD is not a big financial deal

Fair Value EUR88 (+21%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EUR)	94,611
Ev (BG Estimates) (EUR)	100,554
Avg. 6m daily volume (000)	3 248
3y EPS CAGR	6.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	-7.9%	-18.3%	-7.8%
Healthcare	6.3%	-9.2%	-9.4%	-10.7%
DJ Stoxx 600	7.4%	-7.7%	-6.0%	-7.7%

YEnd Dec. (EURm)	2016	2017e	2018e	2019e
Sales	36,837	37,702	39,453	41,604
% change		2.3%	4.6%	5.5%
EBITDA	10,863	10,833	11,467	11,467
EBIT	9,740	9,987	10,685	11,520
% change		2.5%	7.0%	7.8%
Net income	7,105	7,357	7,964	8,685
% change		3.5%	8.2%	9.1%

	2016	2017e	2018e	2019e
Operating margin	26.4	26.5	27.1	27.7
Net margin	19.3	19.5	20.2	20.9
ROE	12.2	12.3	12.7	13.1
ROCE	11.3	11.3	15.9	16.8
Gearing	13.0	9.7	5.9	1.9

(EUR)	2016	2017e	2018e	2019e
EPS	5.56	5.76	6.23	6.79
% change	-	3.5%	8.2%	9.1%
P/E	13.0x	12.6x	11.6x	10.7x
FCF yield (%)	6.1%	6.0%	6.8%	7.6%
Dividends (EUR)	3.00	3.15	3.50	3.80
Div yield (%)	4.1%	4.3%	4.8%	5.2%
EV/Sales	2.8x	2.7x	2.5x	2.3x
EV/EBITDA	9.4x	9.3x	8.6x	8.4x
EV/EBIT	10.5x	10.1x	9.2x	8.3x

Sanofi and Merck have decided to end their JV SP MSD that has been operating in vaccines for the two parent companies in Europe. The two companies will recover freedom to operate which makes sense, but this will be far from transformational from a financial perspective at first glance.

## ANALYSIS

- Sanofi and Merck announced yesterday their intention to end their joint-venture Sanofi Pasteur MSD to pursue "their own distinct growth strategies" with their operations in Europe.
- For some time now, Sanofi has been disappointed and unhappy with how operations were developing with the joint-venture and despite management changes about two years ago, things have improved, but not to such extent that independence is not the preferred route going forward.
- A balanced view about the history of this JV is to say that, on one hand, Merck has brought some very interesting products and strains to the joint company, including Gardasil and more recently Zostavax. But this positive was apparently more than offset by the complexity in leading such a company with shared management. Although the reasons behind the end of the JV are different from Merck's (which failed to merge with Intervet at the time), we can say that it is never easy to manage joint-ventures over time (as illustrated also between AstraZeneca and BMS in diabetes).
- That said, how big is the deal of ending the JV and operating in a different way from a financial perspective? If the underlying purpose makes sense from a strategic point of view, the impact will be very limited financially speaking, although it will optically increase the size of Sanofi Pasteur within Sanofi from a revenue perspective as consolidation-wise, SP will move from a shared profit from associates to a full consolidation of a reduced entity.
- It now remains to be seen which part of the JV will go with each of the parent companies. In the end, one could have to make a cash payment to the other to balance the deal and/or to make royalties on future sales. Although detailed revenue split is not fully disclosed, we assume that Gardasil, Zostavax and Rotateg (USD327m, 35% of the JV total sales), which should return to Merck, are among the most profitable ones, although they are not growth engines.

USDm	2013	2014	2015
Gardasil	291	248	184
Influenza vaccines	162	159	128
Zostavax	68	103	87
Other viral vaccines	104	87	77
Rotateg	55	65	56
Hepatitis vaccines	31	38	62
Other vaccines	453	430	329
<b>Total SP MSD</b>	<b>1,164</b>	<b>1,130</b>	<b>923</b>

## VALUATION

- In 2015, total SP-MSD sales were USD923m or EUR824m whereas the share of Sanofi's profits from associates were EUR23m, thus reflecting a 5.6% operating margin which is not very relevant, however, because there are a lot of inter-company billings. That said, all included, we assume that profitability of Sanofi Pasteur is low.
- Whatever the details of the transaction, beyond simplification of procedures and of management conduct and clarification of strategy, we expect little impact from a financial perspective.

## NEXT CATALYSTS

- March 2016: Headline results for dupilumab's phase III trials SOLO 1&2 in AD



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