1st April 2016

Healthcare

Sanofi

Price EUR70.86

Dupilumab succeeds in phase III trials for atopic dermatitis

Fair Value EUR87 vs. EUR88 (+23%) **NEUTRAL**

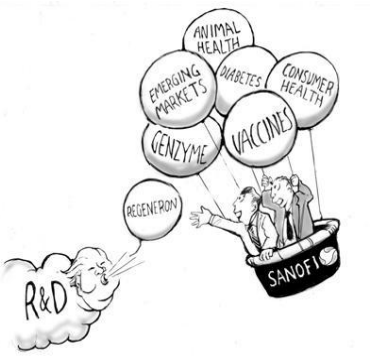
Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	92,522
Ev (BG Estimates) (EURm)	100,170
Avg. 6m daily volume (000)	3 261
3y EPS CAGR	3.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.2%	-9.8%	-16.5%	-9.8%
Healthcare	-2.8%	-12.8%	-8.4%	-12.8%
DJ Stoxx 600	1.1%	-7.7%	-2.9%	-7.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	37,057	36,552	37,460	39,326
% change		*-1.4%*	*2.5%*	*5.0%*
EBITDA	11,237	10,662	10,664	11,381
EBIT	9,948	9,531	9,808	10,586
% change		*-4.2%*	*2.9%*	*7.9%*
Net income	7,371	6,946	7,220	7,886
% change		*-5.8%*	*3.9%*	*9.2%*

	2015	2016e	2017e	2018e
Operating margin	26.8	26.1	26.2	26.9
Net margin	19.9	19.0	19.3	20.1
ROE	12.9	11.9	12.1	12.7
ROCE	11.9	11.1	11.1	15.7
Gearing	12.7	13.1	10.1	6.4

(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.43	5.65	6.17
% change	-	*-3.7%*	*3.9%*	*9.2%*
P/E	12.6x	13.0x	12.5x	11.5x
FCF yield (%)	4.8%	6.2%	6.0%	6.8%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	4.1%	4.2%	4.4%	4.9%
EV/Sales	2.7x	2.7x	2.6x	2.5x
EV/EBITDA	8.9x	9.4x	9.3x	8.5x
EV/EBIT	10.0x	10.5x	10.1x	9.1x



Sanofi and Regeneron have reported good news concerning dupilumab this morning as the drug has achieved primary and secondary endpoints in two pivotal phase III trials in patients with atopic dermatitis. Filing in the US is expected in Q3 2016 and based on the BTD granted, it is fair to expect the FDA to agree on a priority review if sponsors ask for one. If so, dupilumab could be launched in the US very early in 2017. We have increased our PoS in the indication from 50% to 80%. However, the impact is offset by BG's new metrics for valuation and currencies such that our FV has actually been reduced to EUR87. We are maintaining our NEUTRAL rating on the stock.

ANALYSIS

- SOLO 1 and SOLO 2 have reported positive top-line results this morning with primary and secondary endpoints all reached in a very meaningful manner. Primary endpoint was the proportion of patients achieving skin clear or near-clear of AD lesions, irrespective of the schedule of administration (i.e. 300 mg injected either weekly or fortnightly with almost the same results), about 36-38% of patients had IGA of 0-1 compared to 10% or less with placebo. Improvement in EASI from baseline and patients reaching EASI-75 score, which were the two key secondary endpoints were also achieved successfully and highly meaningfully with results of 67-72% vs 31-38% and 44-52.5% vs 12-15% respectively.
- On the safety side, dupilumab appeared well tolerated overall with incidences of severe adverse events or discontinuation rates very similar across the groups. Serious and severe infections were higher in the placebo groups. Higher adverse events reported in the dupilumab group were injection site reactions and conjunctivitis, which should not be too worrying for regulators.
- So, in the end, the headline results reported in the press release look highly supportive of a successful filing for dupilumab in AD and although the proportion of patients likely to be effectively treated is difficult to assess, assuming an 8-10% penetration rate in a market where 3% of AD sufferers require a systemic therapy would lead to EUR2bn in peak sales for the drug in AD only. As a consequence of the positive phase III trial results, we are increasing our PoS from 50% to 80%. As a reminder, we also have the drug in two other indications in our model i.e. nasal polyposis and severe asthma, both with a 50% PoS, making dupilumab a EUR3bn drug in overall sales by the middle of the next decade. Considering the split in profits with Regeneron, this represents about EUR4 per share for Sanofi.

VALUATION

- After mixed results for lebrikizumab in severe asthma reported by Roche a few weeks ago, it is reassuring to see dupilumab booking success although admittedly in a different indication. This asset is key for Sanofi and suggestions are that it could become the group's number 1 drug by the start of the next decade. The every other week schedule looks as good as the weekly one and side effects look mild and manageable. This is positive across all indications for the drug.
- That said, without changing peak sales so far, the increase in PoS for AD only does not have a huge impact on Sanofi's FV.
- As we take the opportunity of this small update to adjust for BG changes to valuation metrics (i.e. risk-free rate of 1.6% vs 2% and ERP of 7% vs 6.4%) and because the USD has weakened again in the last few days, the overall change in FV is negative by EUR1. The share price should react positively today anyway but the sector remains challenging and we are maintaining our NEUTRAL recommendation.

NEXT CATALYSTS

- April 29th: Q1 results

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