3rd October 2016

Healthcare

Sanofi

Price EUR67.64

Dupixent: very good data, how fast can the take-off be?

Fair Value EUR83 (+23%) **NEUTRAL**

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	93.3 / 67.3
Market Cap (EURm)	87,191
Ev (BG Estimates) (EURm)	94,586
Avg. 6m daily volume (000)	2 540
3y EPS CAGR	2.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.1%	-9.7%	-4.5%	-13.9%
Healthcare	-0.8%	-4.3%	4.1%	-9.3%
DJ Stoxx 600	-0.2%	4.0%	1.6%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	35,970	36,779	38,358
% change		*-1.7%*	*2.2%*	*4.3%*
EBITDA	11,237	10,722	10,472	10,731
EBIT	9,948	9,595	9,620	9,942
% change		*-3.5%*	*0.3%*	*3.3%*
Net income	7,371	6,995	7,080	7,796
% change		*-5.1%*	*1.2%*	*10.1%*

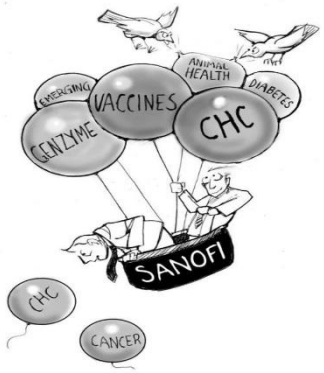
	2015	2016e	2017e	2018e
Operating margin	27.2	26.7	26.2	25.9
Net margin	20.2	19.4	19.3	20.3
ROE	12.9	12.0	11.9	12.6
ROCE	11.9	11.2	11.0	11.2
Gearing	12.7	12.7	9.8	6.1

(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.47	5.54	6.10
% change	-	*-3.0%*	*1.2%*	*10.1%*
P/E	12.0x	12.4x	12.2x	11.1x
FCF yield (%)	5.1%	6.8%	6.2%	7.2%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	4.3%	4.4%	4.7%	5.2%
EV/Sales	2.6x	2.6x	2.5x	2.4x
EV/EBITDA	8.4x	8.8x	8.9x	8.5x
EV/EBIT	9.5x	9.9x	9.7x	9.2x

Data from the two pivotal phase III studies SOLO 1 & 2 were presented at the largest European dermatology meeting in Vienna this week end, showing very good results from both an efficacy and a safety perspective. They confirm the high potential of Dupixent (dupilumab) at least in Atopic Dermatitis (AD) in adults for the time being.

ANALYSIS

- As very much expected since IL-4 and IL-13 were established as key messengers in AD (atopic dermatitis), their blockade by dupilumab translated into a sound efficacy. This was illustrated by a clear benefit on all efficacy endpoints, starting with IGA of 0 or 1 at week 16 which was 36-37% (vs 9-10% with placebo) or with EASI 75 which also compares very favourably (44-52% vs 12-15%). Interestingly, the curves usually separate very quickly i.e. as early as week two. Because AD has sound consequences on the patient's quality of life, QoL scores were also used and also showed a clear improvement, or instance on sleep, anxiety and depression. Safety-wise, dupilumab looks safe and well tolerated although a simple warning might be posted to signal potential mild ophthalmologic side effects.
- As such, there is no doubt that dupilumab, which will be marketed as Dupixent, is going to be a key and successful product to treat this high unmet medical need represented by severe AD, so far in adults. The doctor who presented the data during the call showed pictures and explained how invalidating AD can be for patients when more than 80% of the body is covered and pain and severe itching make life awful: for him, dupilumab is a transforming drug for patents, "it is life-changing".
- Then the question is very much that of the target and the take-off of such a medicine rather than anything else because in the end it is going to be a meaningful drug in our opinion. It was said that Sanofi and Regeneron would first start targeting dermatologists that already prescribe biologics for other conditions and severely ill patients that have failed all existing therapeutic options or are intolerant to some of them. Based on the 1.6 million Americans that have moderate to severe AD, it remains to be seen how large this subset of population really is. As a reminder, in severe psoriasis, after years and with a variety of options, biologics only represent about a quarter of prescription shares. So, although data is compelling and although the existence of an immediately available cohort of patients is likely, it might take some time before it becomes a sizeable market.
- The filing has already taken place in the US and the PFUDA date is scheduled for 29th March 2017 for moderate to severe AD whereas another set of data is expected before a filing in Europe can take place. Further studies in adolescents and infants will also start as of Q1 2017. Obviously, a significant part of the AD market is in children but this one will not be addressable before the very end of the decade. As far as future indications are concerned, asthma is scheduled to be second with the key QUEST phase III due to report at the very end of 2017.



VALUATION

- We have already included all indications for dupilumab in our sales model, including nasal polyps where a phase III trial is due to start in early 2017. AD should contribute to around 45% (or EUR2bn) of dupilumab's EUR4.4bn peak sales. We are making no change to our 80% PoS related to this indication. Dupilumab (all indications accounts) for ~EUR3.5/share.
- Sanofi and Regeneron will co-promote Dupixent in the US and will therefore share the cost for its launch, as well as profits ultimately. Outside the US, Regeneron representatives said that their decision had not been made yet.

NEXT CATALYSTS

- 28th October 2016: Q3 results

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