

16 December 2020 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has set the unsolicited corporate issuer rating of Sanofi S.A. to **A+ / stable**

Creditreform Rating (CRA) has confirmed the ratings of the unsolicited, corporate issuer rating of Sanofi S.A., as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Sanofi S.A. at **A+** with **stable** outlook. In this report we also refer to the 2018 report, which contains further essential information concerning Sanofi S.A.

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Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Global presence
- Low sensitivity to economic cycles
- A global leader in all of its strategic business areas
- Diversified product portfolio with a focus on widespread diseases and over-the-counter drugs, as well as on rare diseases, where the Company has relatively strong pricing power
- Good access to financial markets
- Generally stable, significant cash flows from operating activities
- High entry barriers
- Life cycle of patent drugs with decrease of margins after the expiration of patent protection
- Significant investments in R&D necessary to maintain the leading market position
- High level of regulation in all the relevant markets
- Currency risks
- Relatively high disbursements and share-buybacks create additional pressure on the cash flows
- Concentration on the US market
- Increase in sales revenue and EAT in the first three quarters of 2020 compared with the corresponding prior-year period

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Sanofi S.A. we have not identified any ESG factor with significant influence.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Rating result

Sanofi S.A. (hereafter referred to as “Sanofi”, “the Group” or “the Company”) is one of the world-wide major multinational pharmaceutical companies, established originally in 1973 and headquartered in Paris, France. The Company is represented in 100 countries, provides therapeutic solutions in approximately 170 countries, and has 73 manufacturing sites in 32 countries. The main activities of Sanofi are the research and development, manufacturing, and marketing of pharmaceutical products in the therapeutic areas cardiovascular, diabetes, central nervous system, oncology, internal medicine, thrombosis and vaccines. The Company focuses mainly on prescription medications, but also develops prescription drugs.

Sanofi is one of the largest global pharmaceutical companies in terms of sales, competing primarily with other global companies such as Pfizer, Roche, Novartis, Novo Nordisk, Merck and Eli Lilly. Sanofi is a global leader in the vaccine business together with Pfizer, Merck and GlaxoSmithKline, and is also one of the companies driving the development of a vaccine against COVID-19.

This rating attests Sanofi a highly satisfactory level of creditworthiness, representing a low default risk. Our rating assessment is based on Sanofi’s leading position on the global pharmaceutical market, its low exposure to overall economic fluctuations, and its diversified product portfolio. Sanofi’s portfolio includes solutions for such widespread diseases as diabetes and cardiovascular disease, as well for a range of rare diseases, although some of the established drugs have recorded declines in sales and profitability. Additionally, the Company’s forward-looking strategy and innovative capacity, as well as its solid financial base, have a positive impact on our rating assessment.

Uncertainties arise in particular from risks related to the COVID- 19-pandemic for the full year 2020, which cannot be accurately assessed and which may negatively impact Sanofi’s economic development in 2020 and 2021, as well as its financial ratios. Nevertheless, the company’s favorable fundamentals, high diversification, and leading market position are compelling and support the rating.

Outlook

The one-year outlook of the rating is stable. We expect further revenue growth as a result of new products, which should have a balancing effect on the decline of revenues from some of the flagship products such as Lantus, so that the Company will be able to repay its increased debt on schedule. We expect the Company to continue to develop positively based on its broad product structures and intensive research and development activities.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: AA-

In our best-case scenario for one year, we assume a rating of AA-. This would be the case if the market launch of new products proves sufficient to compensate decreased revenues from other products, and would be a solid basis to repay the debt.

Worst-case scenario: A

In our worst-case scenario for one year we assume a rating of A. This might be the case if the profitability of the Group does not improve despite new market launches, or if the costs of those market launches, together with possible high disbursements, is too high, resulting in deterioration of cash flow margins and of the net debt / EBITDA ratio.

Business development and outlook

During the 2019 financial year, the Company managed to generate net sales of 36,126 million EUR, an increase of 4.8% compared to 2018 (34,463 million EUR). EAT decreased from EUR 4,410 million in 2018 to EUR 2,837 million in 2019. The annual result, however, was impacted by a number of extraordinary effects: For example, special write-downs of EUR 2,236 million were taken on company acquisitions made in previous years, and there were goodwill write-downs of EUR 3,604 million, and restructuring costs of EUR 1,062 million. On the other hand, extraordinary effects which increased earnings also had to be taken into account (taxation, court cases won). Thus, the EBT adjusted by CRA amounted to EUR 5,212 million (2018: EUR 4,891 million). The largest market in terms of sales remains the USA, followed by Europe and Asia.

The following tables show the business situation of Sanofi in the 2019 fiscal year using selected key figures:

Table 1: Financials of Sanofi S.A. | Source: Sanofi S.A. annual report 2019, standardized by CRA

Sanofi S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IAS, Group)	CRA standardized figures ¹	
	2018	2019
Sales (million EUR)	34,463.00	36,126.00
EBITDA (million EUR)	6,833.00	7,406.00
EBIT (million EUR)	4,663.00	5,260.00
EAT (million EUR)	4,410.00	2,837,00
EAT after transfer (million EUR)	4,306.00	2,806.00
Total assets (million EUR)	84,845.50	84,397.50
Equity ratio (%)	42,30	39,18
Capital lock-up period (days)	53,39	53,68
Short-term capital lock-up (%)	33,06	39,54
Net total debt / EBITDA adj. (factor)	5,41	5,13
Ratio of interest expenses to total debt (%)	0,89	0,86
Return on Investment (%)	5,52	3,72

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Table 2: The development of business of Sanofi S.A. | Source: Annual Report 2019, standardized by CRA

Sanofi S.A.				
In million EUR	2018	2019	Δ	Δ %
Sales	34,463.00	36,126.00	1,663.00	4.83
EBITDA	6,833.00	7,406.00	573.00	8.39
EBIT	4,663.00	5,260.00	597.00	12.80
EBT	4,891.00	5,212.00	321.00	6.56
EAT	4,410.00	2,837.00	-1,573.00	-35.67

In the first three quarters of 2020, net sales increased by 0.5% year-on-year, and EAT rose by 300% from EUR 2.8 billion to EUR 11.2 billion; However, in 2020 there was a one-off gain from the Regeneron investment of EUR 7.4 billion. Adjusted for this amount, the EAT is EUR 3.8 billion, which is EUR 1 billion higher than the corresponding result of the previous year.

At the end of June, syndicated credit lines were EUR 8 billion. The Group's consolidated balance sheet remains strong, which will facilitate the continued organic and acquisitive growth of the Group.

Sanofi expects to increase its operating profit margin to 30% by 2022. By 2025, a margin of over 32% is targeted. In addition, cost savings of 2 billion EUR are to be generated by 2022. The resulting liquidity will be used to invest in key growth drivers and support the implementation of priority projects.

According to the latest news, the French-British Corona vaccine project of the Sanofi and GlaxoSmithKline groups has suffered a setback. Clinical tests of the jointly developed vaccine showed an insufficient immune response in elderly people, the companies announced. Now the pharmaceutical companies have to revise their vaccine. Another trial is expected to start next February. Sanofi and GlaxoSmithKline hope to offer a more effective vaccine by the end of 2021.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Sanofi S.A. and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB. The issues have been issued under the EMTN with their latest prospectus from 10.03.2020.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 10 March 2020. This EMTN programme amounts to 25 bn EUR. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of ownership clause and a cross default mechanism.

We have provided the debt securities issued by Sanofi S.A. with a rating of A+. The rating is based on the corporate rating of Sanofi S.A.. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Other types of debt instruments or issues denominated in other currencies have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 3: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Sanofi S.A. (Issuer)	16.12.2020	A+ / stable
Long-term Local Currency (LC) Senior Unsecured Issues	16.12.2020	A+ / stable
Other	--	n.r.

Table 4: Overview of 2020 Euro Medium Note Programme | Source: Base Prospectus dated 10.03.2020

Overview of 2020 EMTN Programme			
Volume	EUR 25,000,000,000	Maturity	Depending on respective bond
Issuer	Sanofi S.A.	Coupon	Depending on respective bond
Arranger	BNP PARIBAS	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes that will be issued by Sanofi S.A. and that have similar conditions to the current EMTN programme, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

Appendix

Rating history

The rating history is available under:

<https://www.creditreform-rating.de/en/ratings/published-ratings.html>

Table 5: Corporate issuer rating of Sanofi S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial Rating	30.11.2018	11.12.2018	Withdrawal of the rating	A+ / stable

Table 6: LT LC senior unsecured issues by Sanofi S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	30.11.2018	11.12.2018	Withdrawal of the rating	A+ / stable

Regulatory requirements

The rating² was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

The rating was conducted based on the following information.

List of documents
Accounting and controlling
<ul style="list-style-type: none"> ▪ Annual Report 2019 (Form 20-F) ▪ Quarterly figures January to September 2020 ▪ Corporate Social Responsibility Report 2019 ▪ Press release of the Q3-figures 2020
Finance
<ul style="list-style-type: none"> ▪ Presentation Q3-figures 2020 ▪ Base Prospectus of the debt issuance programme of EUR 25 billion form 10. March 2020
Additional documents
<ul style="list-style-type: none"> ▪ Integrated Report 2019 ▪ Websites of Sanofi S.A.

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

² In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Holger Becker	Lead analyst	H.Becker@creditreform-rating.de
Christian Konieczny	Analyst	C.Konieczny@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Natallia Berthold	PAC	N.Berthold@creditreform-rating.de

On 16 December 2020, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 16 December 2020. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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