Financial Analysis and Evaluation

SANOFI (SAN.PA)

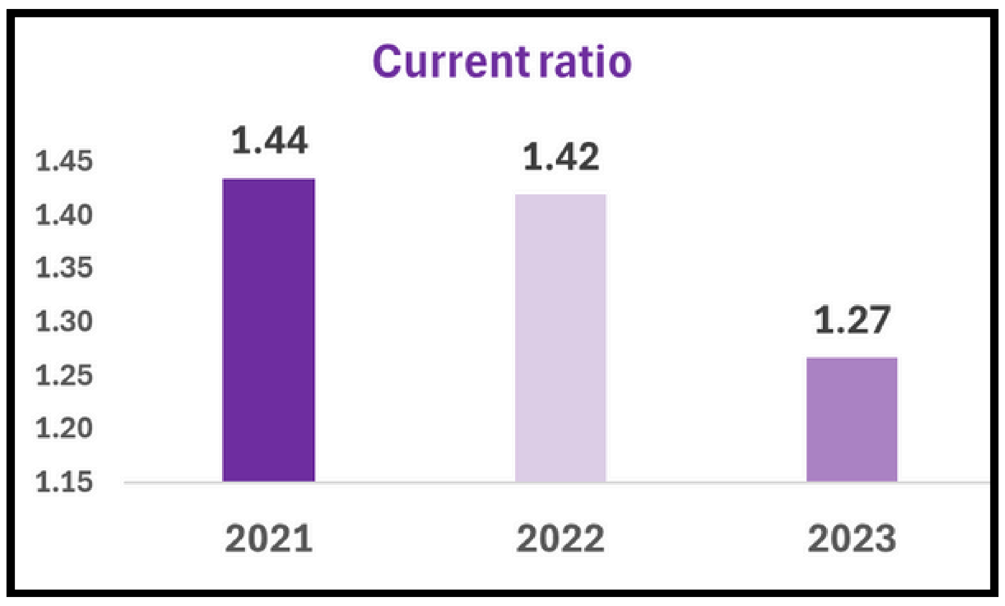
Summary

This financial analysis of Sanofi in 2023 highlights a mixed performance across key areas. Liquidity ratios indicate reduced financial flexibility, while profitability shows strong cost control but declining operating and net margins due to rising expenses and specific challenges. Despite these pressures, strategic debt management has strengthened solvency and financial stability, supporting long-term growth. A discounted cash flow (DCF) valuation estimates Sanofi's equity value at €117 billion, enterprise value at €125 billion, and an implied share price of €93.68, compared to the current market price of €98.85. This underscores Sanofi's ability to create sustainable value, adapt to market dynamics, and reaffirm its position as a global pharmaceutical leader.

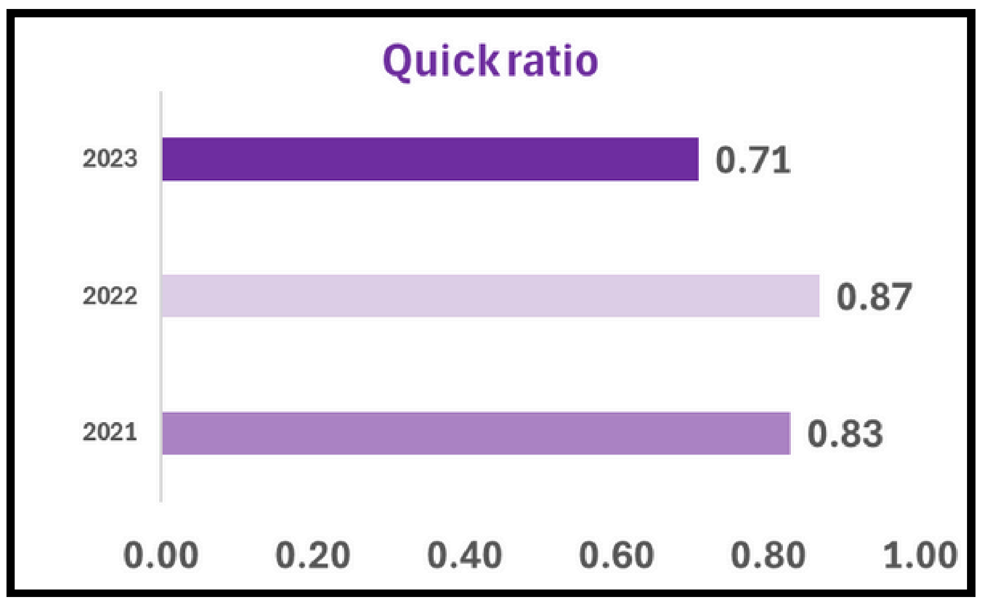
Recommendation

Hold

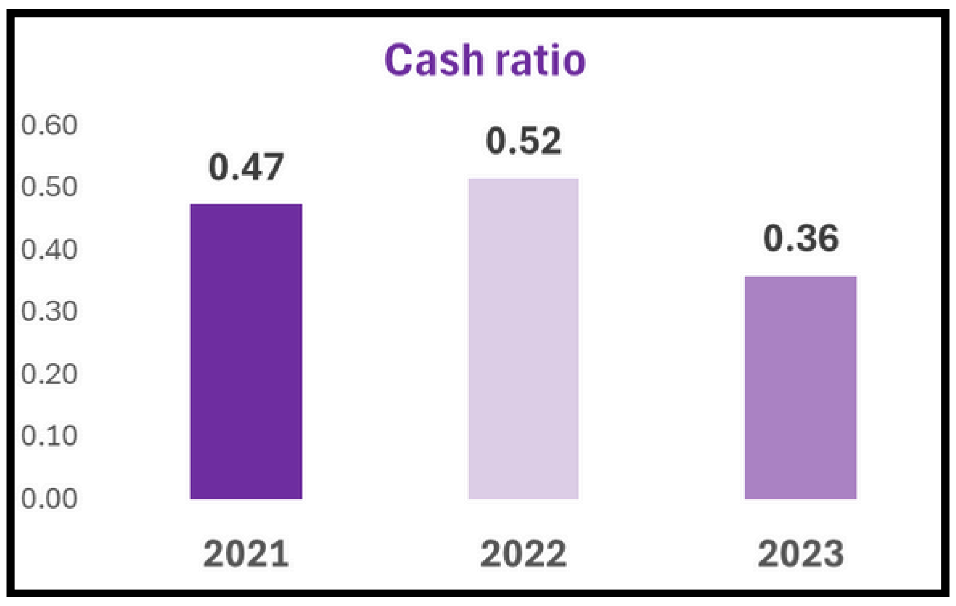
Liquidity



Sanofi's declining current ratio indicates fewer current assets to cover liabilities, but it remains above 1, showing sufficient short-term financial stability.

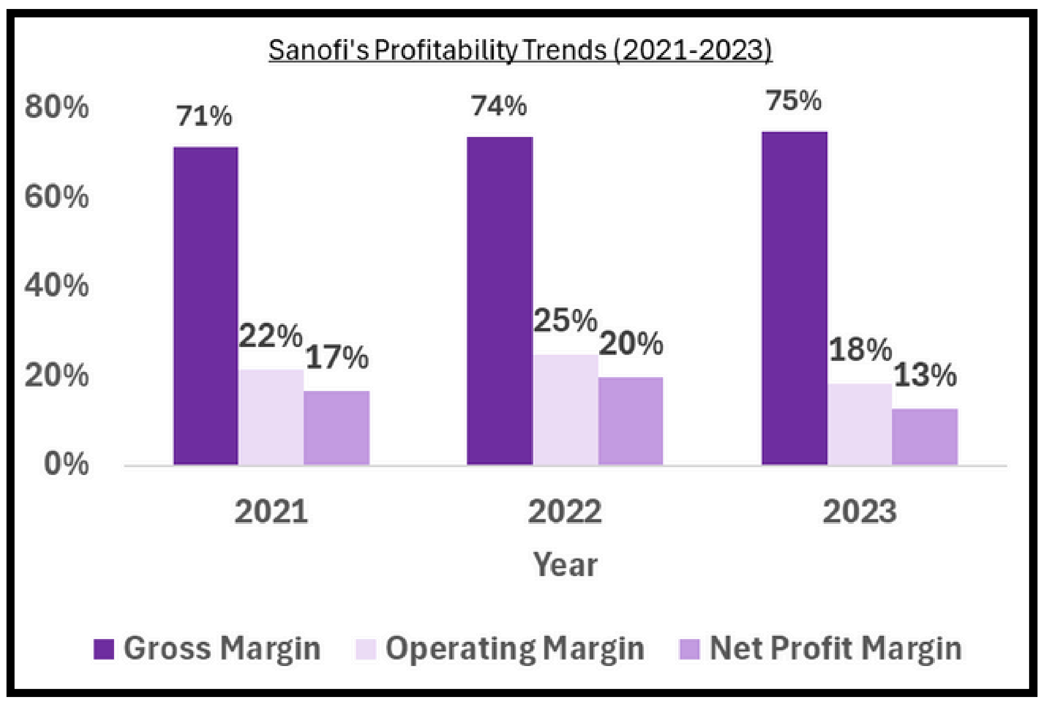


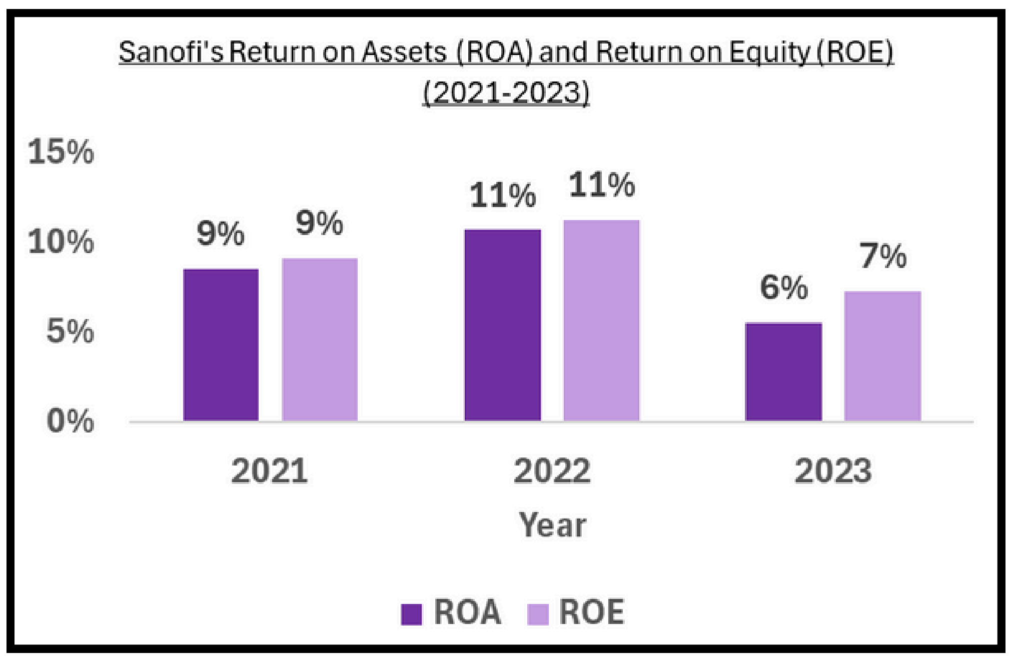
The quick ratio, which assesses Sanofi's ability to cover short-term liabilities with liquid assets, declined to 0.71 in 2023, indicating potential risk if current liabilities suddenly increased.



The cash ratio dropped sharply to 0.36 in 2023, indicating that Sanofi has only 36% of its current liabilities in cash, reflecting reduced liquidity or more aggressive cash management.

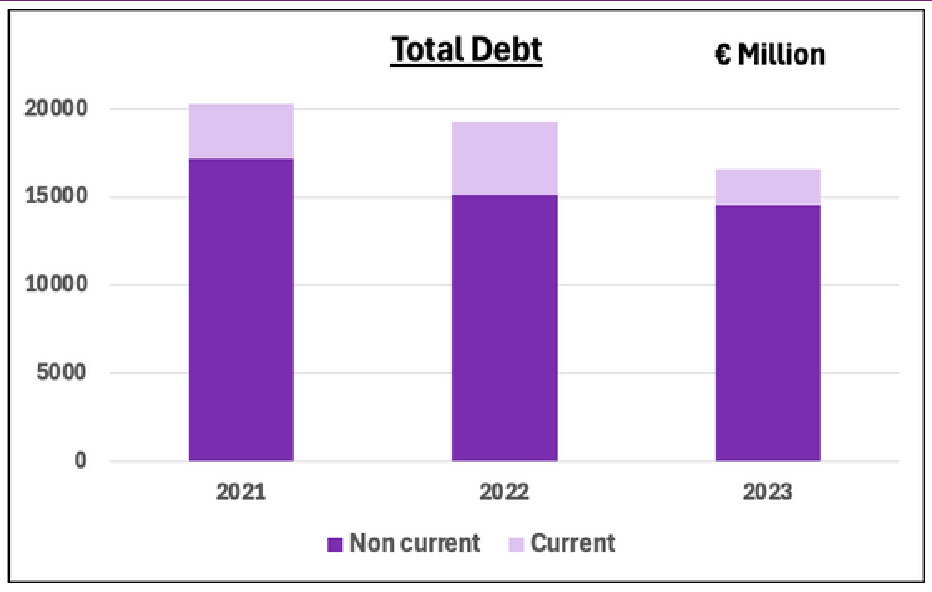
Profitability and Operating Return





- Sanofi's gross margin showed a consistent improvement, rising from 71% in 2021 to 75% in 2023. This reflects Sanofi's enhanced efficiency in managing direct costs.
- Sanofi experienced a significant decline in operating margin, from 25% in 2022 to 18% in 2023. This may indicate higher operating expenses or reduced operational effectiveness within the company.
- Sanofi's net profit margin also dropped, from 20% in 2022 to 13% in 2023. This decline suggests a potential rise in non-operating costs, such as financial or tax-related expenses.
- Sanofi's ROA increased to 11% and ROE rose to 11% in 2022. This reflects improved operational efficiency and better utilization of the company's assets and equity.
- In 2023, Sanofi's ROA dropped sharply to 6%, while ROE declined to 7%.This significant decline suggests possible challenges, such as higher financial costs or structural inefficiencies, impacting the company's overall returns.

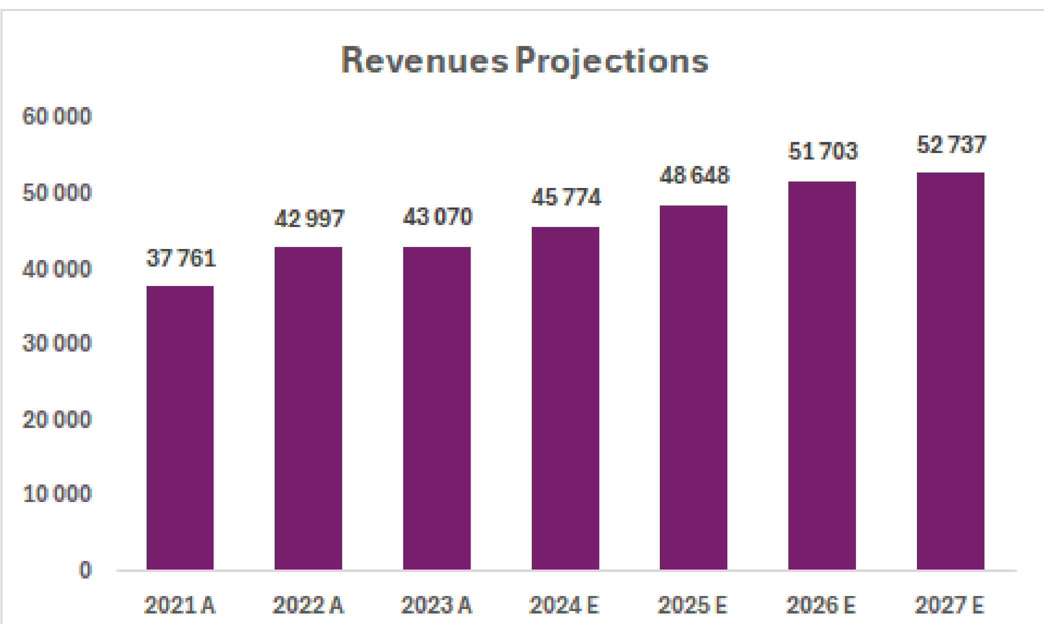
Financial Leverage



	2021	2022	2023
Ratio Debt / EBITDA	1.89	1.38	1.32
Ratio Debt / Equity	0.29	0.26	0.22

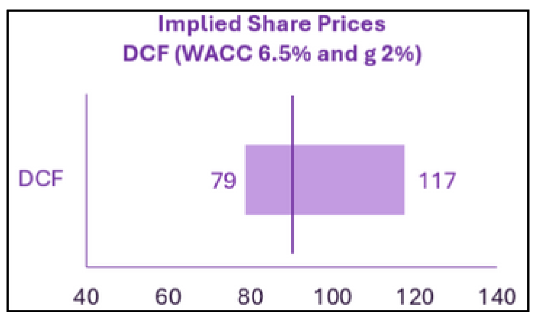
- Sanofi's total debt decreased from €20 billion in 2021 to €16.5 billion in 2023, primarily due to a reduction in short-term liabilities aimed at improving financial stability. The company also adjusted its financing structure, with bond issues constituting over 97% of total debt until 2022.
- By 2023, a diversification into bank loans emerged, likely to mitigate less favorable bond market conditions and optimize funding costs. The Debt/EBITDA ratio dropped from 1.89 to 1.32, and the Debt/Equity ratio declined from 0.29 to 0.22, underscoring improved solvency and reduced reliance on debt.
- Despite these advances, the shift toward bank loans led to an increase in debt costs, driven by rising interest rates. While this trend reflects current market conditions, potential future rate decreases may provide opportunities for cost reduction. Overall, Sanofi's proactive debt management enhances its financial soundness while maintaining flexibility for long-term investments.
- In conclusion, Sanofi showcases prudent and strategic financial leverage management, balancing debt reduction, diversification of funding sources, and adaptation to market conditions. These efforts, while strengthening its solvency, highlight its ability to maintain financial stability while preserving the flexibility needed to support its long-term growth ambitions.

Growth Forcasts and DCF Valuation



Key Assumption: WACC 6.5% and Terminal Growth Rate 2%

Implied Share Price: € 93.68



Valuation Ratio

EV/Revenue	2.9x
EV/EBITDA	10x
P/E Ratio	21x

Sensitivity Table of Enterprise Value

Terminal Growth Rate

WACC / EV	1.0%	1.5%	2.0%	2.5%	3.0%
5.5%	132	147	166	192	228
6.0%	117	128	141	158	181
6.5%	106	115	125	138	155
7.0%	97	107	112	122	135
7.5%	89	95	102	110	120