July 9, 2014

COMPANY UPDATE

Sanofi

Underperform

Credit Research

Initiating at U as expected issuance could provide better entry point

SAN.FP remains below its leverage target, Lantus expiration looms

We are initiating on the Sanofi (SAN.FP) 4.0% 2021s (G of 54 bp, Z of 52 bp, 2.66%, $108.2) at Underperform. While SAN.FP operates a large and diverse pharmaceuticals business, we view valuation as rich considering our expectation for supply and other fundamental headwinds. We expect SAN.FP to refinance, rather than retire, its 2014 and 2015 maturities, as it is below its €10 billion net leverage target (SAN.FP had €6.7 billion of net debt as of the end of 1Q2014). Fundamentally, we also expect the US/EU patent expirations for SAN.FP's best-selling drug Lantus to present a headwind. While Lantus is a complex biotech with relatively high barriers to entry, it is likely to face competition over the next 12-18 months from biosimilars and branded competitors. The success of SAN.FP's Toujeo (under review by regulators) will be key to SAN.FP's ability to defend its diabetes franchise. Finally, we note that SAN.FP has been reported to consider (1) sizable asset divestitures which could reduce business diversification and (2) large scale M&A. Both actions could be viewed by us as credit negatives, depending on the use of any proceeds/funding.

We maintain a Cautious coverage view on IG Healthcare

Underperform rating on SAN.FP is consistent with our Cautious coverage view on IG Healthcare. As we have noted previously, given the significant debt capacity and downside risk to ratings that we believe exists in the IG Healthcare universe, we are very selective with our Outperform ratings and generally tend to favor our names that are either catalyst-driven, in the process of deleveraging, or already rated triple-B over our single-A and double-A rated pharmaceutical credits. Examples of favored credits include McKesson (MCK), Celgene (CELG), Gilead (GILD), Zoetis (ZTS) and Thermo Fisher (TMO) – all of which we rate Outperform.

Key risks to our view

Upside: Stronger-than-expected pipeline execution, debt reduction.

HEALTHCARE - IG
COVERAGE VIEW: CAUTIOUS

	EU Pharma	
	AZN	SANFP*
Benchmark Bond	1.95% 2019	4.0% 2021
G-spread (bp)	34	54
Z-spread (bp)	27	52
OAS (bp)	35	59
Yield	2.09%	2.66%
Price	$99.3	$108.2
Ratings	A2/AA-/AA-	A1/AA/AA-
Outlooks	Stable/Neg O/Neg O	Stable/Stable/Stable
Market cap (7/7/2014)	$94,074	$100,529
Total revenues	$25,742	$32,951
EBITDA	$7,795	$10,526
Operating Cash Flow	$6,734	$6,954
Free Cash Flow	$2,531	$1,906
Total Debt	$10,340	$14,590
Cash and cash equivalents	$4,379	$8,442
Gross Debt/EBITDA (x)	1.3	1.4

*SANFP only discloses full financial results in the second and fourth quarters of its fiscal year

	EU Pharma	
	ROSW*	GSK
Benchmark Bond	6.0% 2019	2.8% 2023
G-spread (bp)	53	74
Z-spread (bp)	50	66
OAS (bp)	59	75
Yield	2.15%	3.14%
Price	$116.9	$97.4
Ratings	A1/AA/AA	A1/A+/A+
Outlooks	Stable/Stable/Stable	Neg W/Stable/Stable
Market cap (7/7/2014)	CHF 229,514	$129,345
Total revenues	CHF 46,780	£25,647
EBITDA	CHF 20,070	£7,956
Operating Cash Flow	CHF 15,772	£6,902
Free Cash Flow	CHF 6,959	£2,028
Total Debt	CHF 18,643	£17,239
Cash and cash equivalents	CHF 11,935	£3,579
Gross Debt/EBITDA (x)	0.9	2.2

*ROSW only discloses full financial results in the second and fourth quarters of its fiscal year

Source: Goldman Sachs Global Investment Research, Bloomberg.
*ROSW and SANFP only disclose full financial results in the 2Q and 4Q.

						bid, in bp						
Tkr	GS	Size ($MM)	Cpn	Maturity	Agency rating	T (bp)	Z (bp)	G (bp)	OAS (bp)	Yld %	Price $	5-yr CDS
SANFP	U	$2,000	4.00%	29-Mar-21	A1/AA/AA-	10	52	54	59	2.66	$108.2	31

Amanda Lynam, CPA
(212) 902-9238 amanda.lynam@gs.com Goldman, Sachs & Co.

Daniel Albornoz
(212) 902-9355 daniel.albornoz@gs.com Goldman, Sachs & Co.

Initiating on SAN.FP at Underperform

We are initiating on the Sanofi (SAN.FP) 4.0% 2021s at Underperform, as **we view valuation (G of 54 bp, Z of 52 bp, 2.66%, $108.2) as rich given our expectation for supply as well as the scheduled patent expiration for SAN.FP's best-selling drug Lantus.** While Lantus is a complex biotech with relatively high barriers to entry, we nonetheless expect it to face competition over the next 12-18 months from biosimilars and branded competitors.

Moreover, our Underperform rating is consistent with our Cautious coverage view on IG Healthcare. As we have noted previously, given the significant debt capacity and downside risk to ratings that we believe exists in the IG Healthcare universe, we are very selective with our Outperform ratings and generally tend to favor names that are either catalyst-driven, in the process of deleveraging, or already rated triple-B over our pharmaceutical credits.

Relative to the SAN.FP 2021s, we recommend investors consider other investment opportunities in IG Healthcare in more defensive/attractive areas, which also offer more attractive relative value. Examples include Zoetis (ZTS) in animal health (Zoetis), McKesson (MCK) in drug distribution, Thermo Fisher Scientific (TMO) in tools and both Celgene (CELG) and Gilead (GILD) in biotech. For all of these companies mentioned, our rating on their benchmark 10-year maturity is Outperform. Additional details appear in Exhibit 1 on page 3.

We note that new issuance, if it materializes, may provide an opportunity to consider becoming more constructive on SAN.FP. We expect SAN.FP to refinance, rather than retire, its 2014 and 2015 maturities considering that the company is below is targeted €10 billion level for net leverage (€6.7 billion of net debt as of the end of 1Q2014).

Exhibit 1: We prefer our triple-B and catalyst-driven names over our pharma credits

Tkr	GS	Size ($MM)	Cpn	Maturity	Agency rating	T (bp)	Z (bp)	G (bp)	OAS (bp)	Yld %	Price $	5-yr CDS
IG HEALTHCARE						Spd (bid), in bp						bid,
US Pharma/Biotech												
AMGN	IL	$1,400	3.625%	22-May-24	Baa1/A/BBB	105	102	108	108	3.61	$100.2	35
ABT	U	$597	4.125%	27-May-20	A1/A+/A+	55	28	33	37	2.24	$110.3	21
ABBV	NR	$3,071	2.90%	6-Nov-22	Baa1/A/--	86	99	106	108	3.42	$96.2	n/a
BMY	U	$500	3.25%	1-Nov-23	A2/A+/A-	67	67	74	77	3.23	$100.1	17
JNJ	IL	$550	3.375%	5-Dec-23	Aaa/AAA/AAA	32	31	38	40	2.88	$104.1	13
LLY	NR	$600	1.95%	15-Mar-19	A2/AA-/A	22	24	33	34	1.92	$100.1	23
MRK	U	$1,750	2.8%	18-May-23	A2/AA/A+	64	69	77	79	3.20	$96.9	23
PFE	U	$1,000	3.4%	15-May-24	A1/AA/A+	75	70	75	78	3.31	$100.7	19
GILD	OP	$1,750	3.7%	1-Apr-24	Baa1/A-/--	88	88	93	93	3.44	$102.1	n/a
CELG	OP	$1,000	3.625%	15-May-24	Baa2/BBB+/--	105	100	105	109	3.61	$100.1	n/a
European Pharma												
NOVNVX	NR	$2,150	3.4%	6-May-24	Aa3/AA-/AA	73	68	74	77	3.29	$100.9	n/a
ROSW	OP	$4,500	6.00%	1-Mar-19	A1/AA/AA	73	50	53	59	2.13	$117.5	n/a
AZN	U	$1,000	1.95%	18-Sep-19	A2/AA-/AA-	40	27	34	35	2.09	$99.3	n/a
GSK	NR	$1,250	2.80%	18-Mar-23	A1/A+/A+	58	66	74	75	3.14	$97.4	n/a
SANFP	U	$2,000	4.00%	29-Mar-21	A1/AA/AA-	10	52	54	59	2.66	$108.2	31
Drug Distributors												
ABC	U	$500	3.40%	15-May-24	Baa2/A-/A-	97	91	97	100	3.52	$99.0	37
MCK	OP	$1,100	3.796%	15-Mar-24	Baa2/BBB+/BBB+	104	104	109	110	3.60	$101.6	23
CAH	IL	$550	3.20%	15-Mar-23	Baa2/A-/BBB+	71	79	86	89	3.27	$99.5	27
Pharmacy Benefit Managers												
ESRX	IL	$1,000	3.50%	15-Jun-24	Baa3/BBB+/BBB	112	105	111	113	3.67	$98.6	n/a
Medical Devices												
BSX	OP	$450	4.125%	1-Oct-23	Baa3/BBB-/BBB-	112	119	123	125	3.68	$103.4	58
MDT	NR	$850	3.625%	15-Mar-24	A2/AA-/--	81	81	86	86	3.37	$102.1	22
Laboratories												
DGX	U	$300	4.25%	1-Apr-24	Baa2/BBB+/BBB	150	151	155	157	4.06	$101.5	108
Life Sciences Tools & Diagnostics												
TMO	OP	$1,000	4.150%	1-Feb-24	Baa3/BBB/BBB	105	108	112	114	3.61	$104.2	n/a
Animal Health												
ZTS	OP	$1,350	3.250%	1-Feb-23	Baa2/BBB-/--	84	94	100	102	3.40	$98.9	n/a
Generics												
TEVA	U	$1,300	2.95%	18-Dec-22	A3/A-/BBB+	99	110	117	119	3.55	$95.7	n/a
ACT	NR	$1,700	3.85%	15-Jun-24	Baa3/BBB-/BBB-	128	123	128	131	3.84	$100.1	n/a
MYL	IL	$500	4.200%	29-Nov-23	Baa3/BBB-/--	126	131	135	137	3.81	$102.9	n/a

Source: Bloomberg, Goldman Sachs Global Investment Research as of 7/8/2014.

SAN.FP favors bolt-on M&A, but large deal not out of question

SAN.FP has a preference for M&A in the range of €1 to €2 billion

SAN.FP believes it has the necessary critical mass in its business and is not interested in large-scale, or transformational, acquisitions. We believe bolt-on acquisitions (€1 billion to €2 billion size range, per management commentary) that strengthen the company's position in areas where it is already a leader (or a near-leader) are most likely.

We would not rule out a large acquisition entirely, however, as management did note on its 1Q2014 earnings call that it was "willing to be bold" when presented with an opportunity to create "extraordinary value" for shareholders. In fact, readers that SAN.FP was identified by Bloomberg as potentially being interested in acquiring Merck's (MRK, GS: Underperform) OTC business in March 2014. MRK ultimately sold the consumer health business to Bayer (BAYN.GY, GS: Not Covered) for $14.2 billion.

Exhibit 2: SAN.FP's recent acquisition history and ownership stakes in other companies

Date	Company acquired	$ value	Comments
2009	Zentiva	$2.6 billion	Already owned 25% stake in the company. Acquisition of the Czech based generic drug manufacturer gave SAN.FP leading generic business in Brazil.
2009	Chattem	$1.9 billion	Acquisition of the consumer health care company gave SAN.FP an OTC presence in the U.S. Helped SAN.FP expand its scope beyond prescription drugs ahead of 2012 patent cliff.
2011	Merial	$4 billion	Purchased remaining half of the animal health company from partner Merck (MRK) in cash. Merial is currently the fourth largest animal health company based on sales.
2011	Genzyme	$20 billion	Provided SAN.FP with scale in the area of rare diseases. The deal was fully financed with cash - SAN.FP used two bridge facilities to fund the deal ($10 billion and $5 billion) and issued $7 billion of debt in March 2011 and an additional $1 billion in Sepatember 2011.
Date	**Ownership interest**	**% stake**	**Comments**
2014	Regeneron	22.5%	Increased stake to 22.5% (from 20.5%) in July 2014. Regeneron is a biopharmaceutical ($31 billion market cap) specializing in cancer, eye, and inflammation treatments. SAN.FP has said it does not plan to acquire Regeneron but the terms of the current agreement allow SAN.FP to increase its stake to 30%.
2014	Alnylam	12%	Acquired a 12% stake for roughly $700 million; Alnylam specializes in RNA interference technology which inhibits genes from creating proteins that can cause certain rare but life-threatening diseases.

Source: Goldman Sachs Global Investment Research, Wall Street Journal, Bloomberg, Reuters

Potential for asset divestitures may reduce business diversification

Both Reuters (April 2014) and the Wall Street Journal (June 2014) have recently reported that SAN.FP may be considering a sale of its mature drugs portfolio. According to the articles, SANFP had reached out to potential buyers for the business in the early part of 2014 as it sought to focus instead on higher-growth products. According to press reports, a potential sale could generate proceeds in the range of $7 to $8 billion, although SAN.FP entering into a potential joint venture with the products was also still a possibility.

The mature dug portfolio includes therapies for high blood pressures as well as cardio-metabolic diseases. Together, these two product categories generate about $3.7 billion of annual sales, according to press reports. We would likely view a divestiture of the mature drugs portfolio as a credit negative, owing to (1) the resulting decrease in sales and earnings diversification and (2) and our view that any sale proceeds would likely not be used for debt reduction (SAN.FP's leverage is below its target).

L'Oreal stake could also be a use of SAN.FP's financial resources

Separately, L'Oreal owns a 9% stake in SAN.FP. SAN.FP's CEO has previously indicated the company would be willing to buy back this stake from L'Oreal, noting at that time that it would be "clearly accretive." According to a Wall Street Journal article from February 2014, the stake could be worth about €8.5 billion.

Financial position is solid, but net debt levels likely to increase

SAN.FP targets a net debt level of €10 billion

SAN.FP targets a net debt level of €10 billion, which implies €3.3 billion of net debt capacity relative to the roughly €6.7 billion of net debt reported as of the end of 1Q2014. To the extent SAN.FP does increase its net leverage, we believe the company's rating at Moody's could be pressured, as Moody's had previously noted that SAN.FP's current rating (A1/Stable) incorporates limited financial flexibility (i.e., room to increase leverage).

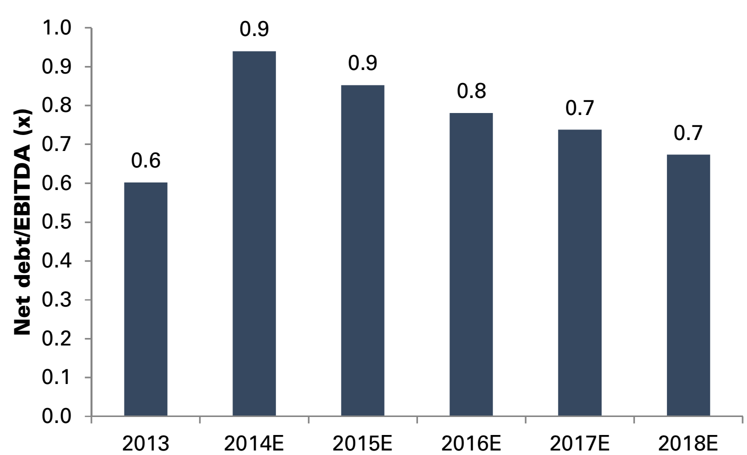
As a result, we expect SAN.FP to issue in 2014 to refinance its upcoming €1.2 billion October and $1.0 billion September 2014 maturities. We believe that issuance, if it materializes, could provide an opportunity to consider becoming more constructive on SAN.FP. We also note that a new on-the-run 10-year security (if issued) is likely to have better liquidity than our off-the-run 2021 benchmark bond.

Exhibit 3: We expect SAN.FP to refinance its upcoming maturities

Currency	2014	2015	2016	2017	2018+
USD	$1,000	$500	$1,500	$0	$4,000
EUR	€ 1,200	€ 0	€ 1,500	€ 750	€ 2,812
CHF	CHF 0	CHF 400	CHF 0	CHF 0	CHF 0
Total	**€ 1,935**	**€ 697**	**€ 2,602**	**€ 750**	**€ 5,751**

Source: Bloomberg

Exhibit 4: Net leverage should still decline over time, however, owing to growth in EBITDA
Assuming SAN.FP reaches its net debt target of €10 billion this year, leverage is expected to trend down over time as EBITDA grows



2014-2018 uses €10 billion net debt divided by Bloomberg consensus EBITDA. 2013 numbers are based on actual net debt levels and EBITDA.

Source: Bloomberg, 1Q2014 earnings call

SAN.FP benefits from robust cash flow generation and solid liquidity, as shown below. Our colleagues in GS equity research estimate that the company will generate nearly €34 billion in operating cash flow and over €7 billion in free cash over the next five years (2013-2018).

We note that SAN.FP releases a balance sheet and cash flow statement twice a year – in 2Q and 4Q.

Exhibit 5: SAN.FP key credit metrics (€ in millions)

	FY2011	FY2012	FY2013
Cash flow from operations	€ 9,319	€ 8,171	€ 6,954
CapEx	€ (1,782)	€ (1,612)	€ (1,398)
Dividends paid	€ (1,389)	€ (3,497)	€ (3,650)
Free cash flow	€ 6,148	€ 3,062	€ 1,906
	12/31/2011	**12/31/2012**	**12/31/2013**
Debt	€ 15,439	€ 14,531	€ 14,590
LTM EBITDA	€ 13,009	€ 12,332	€ 10,526
Debt/EBITDA (x)	1.2	1.2	1.4
Free cash flow/debt (%)	39.8%	21.1%	13.1%

Source: Company data

Exhibit 6: Sources of liquidity as of December 31, 2013

Liquidity	€ millions
Credit facilities (exp Dec 2014)	€ 3,000
Used	€ -
Available	**€ 3,000**
Credit facilities (exp Dec 2019)	€ 7,000
Used	€ -
Available	**€ 7,000**
Cash & equivalents	€ 8,257
Short-term invesments	€ 185
Long-term invesments	€ 4,826
Total liquidity	**€ 16,268**

Source: Company data

Exhibit 7: SAN.FP capital structure
Non-EUR denominations converted as of 7/7/2014

Capitalization - 12/31/2013	
Description	**Principal Value**
ST borrowings & current portion of LT debt	€ 4,176
1.2% Notes due 2014	$1,000
3.125% Notes due 2014	€ 1,200
3.625% Notes due 2015	$500
3.375% Notes due 2015	CHF 400
2.625% Notes due 2016	$1,500
4.5% Notes due 2016	€ 1,500
1.0% Notes due 2017	€ 750
1.25% Notes due 2018	$1,500
4.125% Notes due 2019	€ 800
5.0% Notes due 2020	$500
1.875% Notes due 2020	€ 1,000
4.0% Notes due 2021	$2,000
2.5% Notes due 2023	€ 1,000
Junior subordinated perpetual notes	€ 12
Total Debt	**€ 15,911**
Total Equity	**€ 41,523**
Total Capitalization	**€ 57,434**
Market Cap (7/7/2014)	**€ 101,347**

Source: Bloomberg

We expect capital allocation strategy to favor shareholders

We expect that SAN.FP will continue to return its excess cash to shareholders via 1) a growing dividend and 2) potential share repurchases. SAN.FP has grown its dividend at a roughly 5% CAGR over the last five years, and 2013's €2.80 proposed dividend represented a roughly 55% dividend payout ratio.

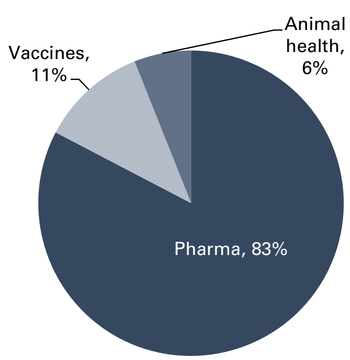
SAN.FP completed €1.6 billion of share buybacks in FY2013, which is roughly in line with its historical average amount of share repurchases. As of April 25, 2014, SAN.FP had completed €583 million of share repurchases.

Overview of SAN.FP's business – solid scale and diversification

Business segment overview

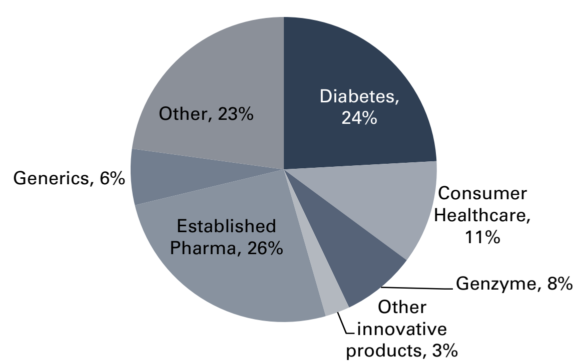
SAN.FP was created in 2004 when Aventis merged with Sanofi-Synthelabo. The company enjoys notable scale and diversification in the European pharmaceuticals business, with its sales spread across three main segments: pharmaceuticals (including a solid presence in both diabetes and cardiovascular treatments), vaccines, and animal health. Within each of these distinct segments, sales are well-diversified in terms of both products and geographies, with no geography representing more than 40% of SAN.FP's overall sales and no product representing over 20% of SAN.FP's overall sales. While SAN.FP's largest product by revenues, Lantus, contributed 17% of FY2013 sales, its second largest product (Plavix, which recently lost patent protection) contributed only 6% of sales, and its top-five products representing only about a third of total sales.

Exhibit 8: Segments as percentage of total FY2013 sales
SAN.FP has a large concentration of its sales in pharmaceutical products



Source: Company data

Exhibit 9: Therapeutic categories as a percentage of total pharmaceutical sales (FY2013)
Though the pharmaceutical segment remains well-diversified



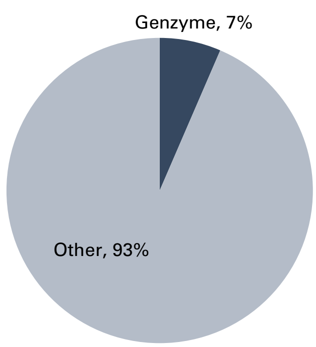
Source: Company data, Bloomberg

SAN.FP maintains a presence in biotech and rare diseases

The company strengthened its existing presence in biopharmaceuticals with the $20 billion acquisition of Genzyme in 2011. Genzyme expanded SAN.FP's expertise and product range in rare diseases across multiple categories including renal diseases, orthopedics, immune diseases, and cancer. With Genzyme, SAN.FP also gained entrance into the market for multiple sclerosis (MS).

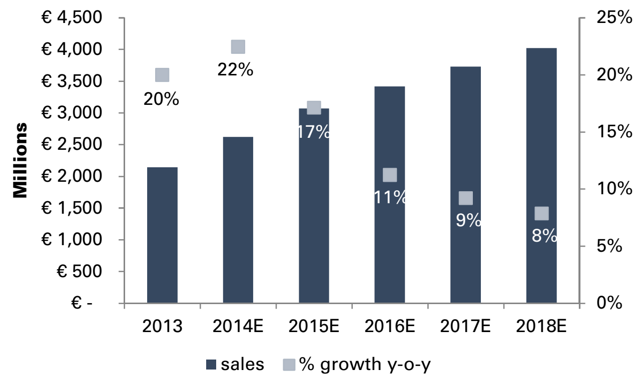
SAN.FP has two treatments for MS, both of which directly compete with Teva Pharmaceuticals' (TEVA, GS: Underperform) blockbuster drug Copaxone: injectable Lemtrada and oral regimen Aubagio. Aubagio is approved in the US, EU, Canada, Australia, New Zealand, Argentina, Chile, Colombia, Mexico, South Korea, and Brazil. Lemtrada is approved in the EU, Australia, Mexico, Canada, and Brazil. SAN.FP filed a resubmission for US approval of Lemtrada in 2Q2014. Both of these MS therapies should benefit from TEVA's expected loss of patent protection on Copaxone, a scenario which is reflected in Genzyme's strong forward growth prospects.

Exhibit 10: Legacy Genzyme business as percentage of overall FY2013 sales
Genzyme represents a relatively small portion of SAN.FP's FY2013 sales



Source: Company data

Exhibit 11: Genzyme growth prospects
Although Genzyme growth should decelerate, it is still outpacing SAN.FP's core business



Source: Goldman Sachs Global Investment Research, company data

Animal Health provides business diversification and large M&A seems unlikely in this segment

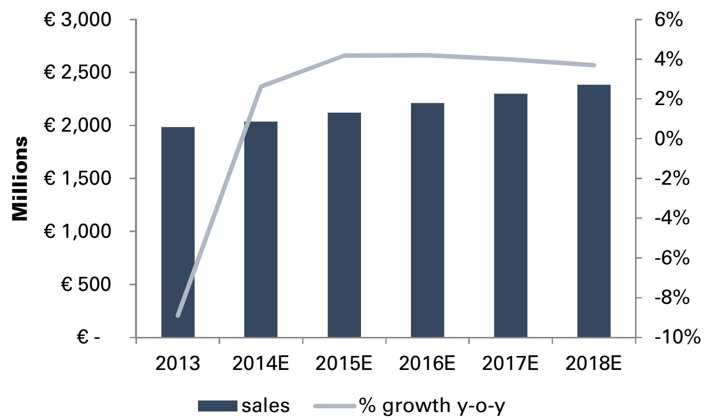
With roughly €2 billion in annual sales, SAN.FP's animal health unit, Merial, is the fourth largest animal health company by revenue after Zoetis (ZTS, GS: Outperform), Merck's (MRK, GS: Underperform) animal health unit, and Eli Lilly's (LLY, GS: Not Rated) animal health unit following the company's planned combination with Novartis's (NOVN.VX, GS: Not Rated) animal health business. Importantly, **we do not think SAN.FP will pursue M&A in the animal health space due to anti-trust concerns**. As a reminder, in July 2009, SAN.FP and MRK attempted to combine their animal health businesses, though the merger attempt was eventually abandoned in March 2011. The companies cited the complexity of the regulatory review process and anticipated divestitures (which may have been required to alleviate anti-trust concerns).

We believe that any potential deal that SAN.FP pursues in the animal health industry would be modest in size. SAN.FP's commentary on its 1Q2014 earnings call was consistent with this view. During the call, the company said that if it "could acquire something to make [animal health] bigger, [it] would do so," but that "there are quite a number of constraints on this from an antitrust point of view."

Apart from the M&A constraints in the animal health sector, we also have a favorable view of the long-term prospects of the industry as a whole, and we note that our colleagues in GS equity research forecast Merial sales growing at a roughly 4% CAGR between 2013 and

2018, which outpaces the 2% CAGR estimated (by GS equity research) for the human pharmaceuticals business.

Exhibit 12: Estimated sales for SAN.FP's animal health segment
Animal health should be an important contributor to overall sales going forward



Source: Goldman Sachs Global Investment Research

Patent expirations continue with Lantus in 2014/2015

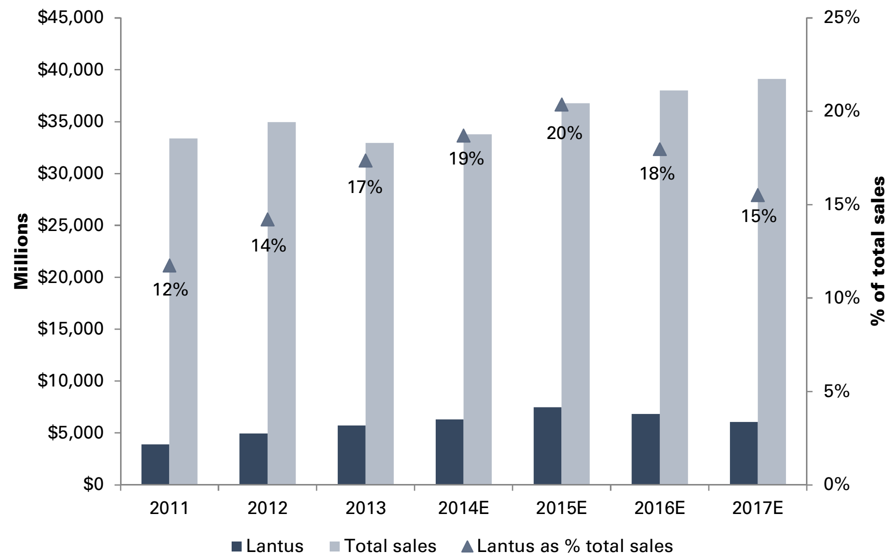
In recent years, SAN.FP has lost a number of key patents on products which together represented over €7 billion in 2012 sales and €5.5 billion in 2013. The loss of exclusivity on drugs such as Aprovel and Plavix resulted in year-over-year sales declines of nearly 6% in FY2013.

SAN.FP's next large patent expiration will come from Lantus, a diabetes drug that currently contributes roughly 17% of SAN.FP's overall revenues (FY2013). Lantus is set to expire in the EU in 2H2014 and in the US in 1H2015. We expect SAN.FP's Lantus will face competition from Boehringer Ingelheim and Eli Lilly, each of which is currently developing biosimilar versions of the drug that are expected to reach the market in 2015 according to Bloomberg. Lantus may also experience some branded competition from Eli Lilly's once-daily treatment for Type 1 and Type 2 diabetes, basal insulin peglispro, which is currently in Phase III trials.

Despite the potential for biosimilar and branded competition going forward, we think the negative impact to Lantus sales will be somewhat muted. Our equity research colleagues assume, for example, that biosimilar competitors will not be fully substitutable, and they therefore forecast year-over-year sales declines for Lantus of only 9% and 11% in 2016 and 2017, respectively (between €600 and €800 million of lost sales annually between 2016-2018).

In terms of branded competition, although LLY's peglispro showed impressive efficacy in multiple phase 3 studies, the drug triggered certain safety signals in the liver which could hamper the asset from a regulatory standpoint as our equity colleagues pointed out in their May 12, 2014 note: Novel basal insulin top-lined, weighing the pros and cons. As a result, we believe Lantus will still continue to be a significant contributor to SAN.FP's overall sales and profit generation even after it loses patent exclusivity in Europe and the US over the next year.

Exhibit 13: Lantus is scheduled to expire in the EU in 2H2014 and in the US in 1H2015

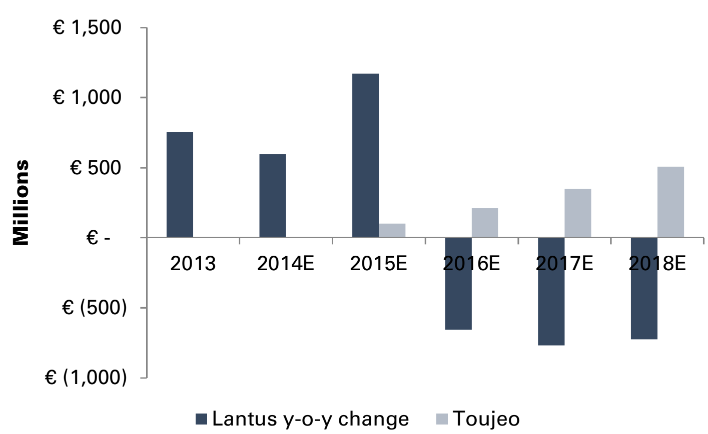


Source: Company data, Goldman Sachs Global Investment Research estimates

U300 could help defend the diabetes franchise, if approved

In addition to the inherent defensiveness of Lantus, we note that SAN.FP is developing a successor to Lantus called Toujeo (U300) which would help the company maintain its leadership in diabetes, if approved. Toujeo has generated positive results in various phase III studies that have suggested that the drug may in fact be an improvement over Lantus. In three of the drug’s recent trials, for example, Toujeo reduced low blood-sugar episodes in patients by almost one-third compared to those taking Lantus. The European Medicines Agency is currently reviewing Toujeo, and the FDA accepted Toujeo’s NDA for review in the US on July 8, 2014. Our equity colleagues’ expect Toujeo to start contributing modestly to sales in 2015 and ultimately ramp up to about $500 million in annual sales by 2018 (assuming approval).

Exhibit 14: Sales gains from Toujeo (U300) could help neutralize the negative impact from loss of exclusivity on Lantus, according to our equity colleagues



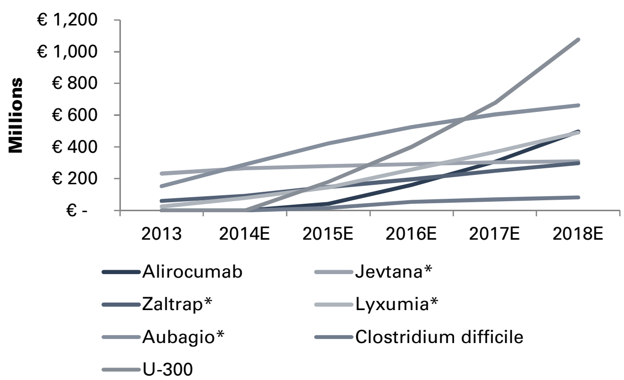
Source: Goldman Sachs Global Investment Research

Seven growth platforms could mitigate an average pipeline

We view SAN.FP's pipeline as moderately attractive but inferior to some of the triple-B biotech names we cover including Celgene (CELG, GS: Outperform) and Gilead (GILD, GS: Outperform). SAN.FP has recently experienced some setbacks to its pipeline, in cancer as well as other therapeutic areas. In a May 2014 note, Moody's said that SAN.FP's pipeline has "shown…mixed performance" and "has had setbacks on some molecules, such as iniparib in oncology and otamixaban in anticoagulents." In a ranking, Moody's gave SAN.FP's pipeline an average rating, behind some peers such as Novartis (NOVN.VX, GS: Not Rated) but ahead of others such as AstraZeneca (AZN, Underperform).

Despite recent setbacks, SAN.FP does have a few noteworthy pipeline assets including Alirocumab for cancer, Toujeo (U300) for diabetes, and Clostridium difficile for bacterial infections. The company also has some attractive recently-launched assets such as Zaltrap and Jevtana for cancer, Lyxumia for diabetes, a vaccine for Dengue fever, and Aubagio for multiple sclerosis. Sales from these key products are projected by our colleagues in Goldman Sachs equity research to more than offset the expected losses stemming from Lantus's upcoming (2H2014 and 1H2015) patent expirations.

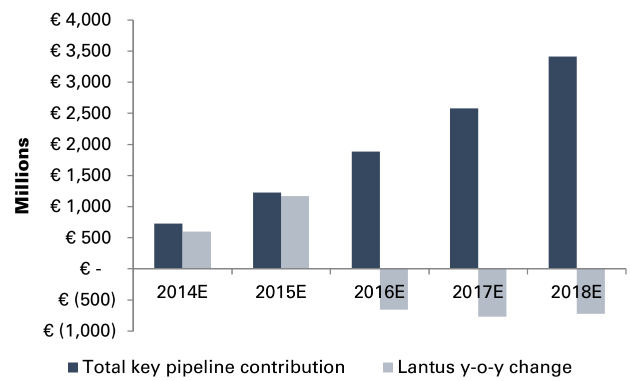
Exhibit 15: Sales from pipeline assets expected to accelerate in 2015



*Recently launched products

Source: Bloomberg

Exhibit 16: Pipeline contribution expected to outweigh Lantus losses

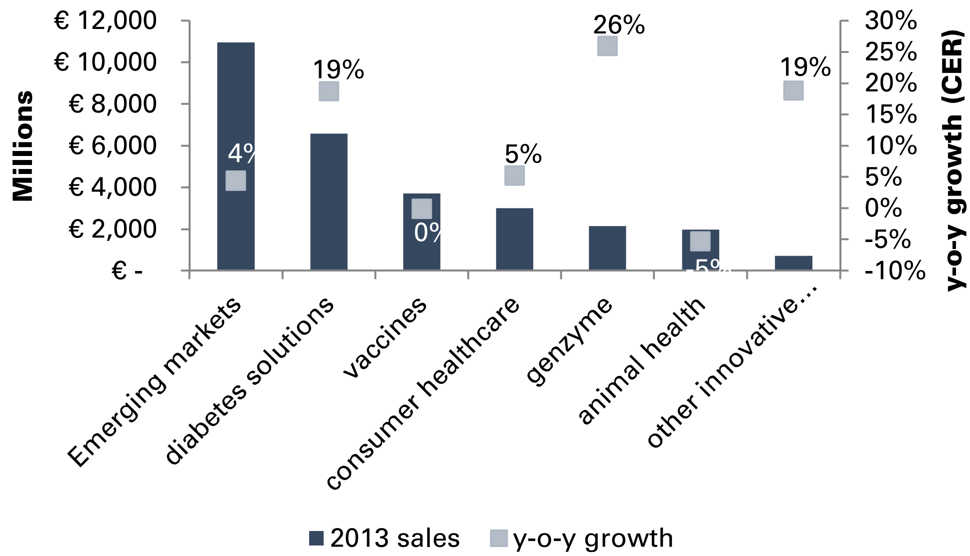


Source: Goldman Sachs Global Investment Research, Bloomberg

SAN.FP is selectively targeting growth

From a broader perspective, SAN.FP's strategic growth initiatives are organized around seven growth platforms: emerging markets, diabetes solutions, vaccines, consumer healthcare, Genzyme, animal health, and other innovative products. Importantly, SAN.FP's growth platforms comprised 73% of FY2013 sales compared to only 54% of sales in FY2010. SAN.FP's growth prospects should improve as the company recovers from patent expirations and remains focused on its growth platforms.

Exhibit 17: Growth platform performance (FY2013)
SAN.FP's growth platforms currently represent 73% of the company's sales, helping to shift the drug maker away from products whose patents have recently expired



Source: Company data

Cost reductions are also a focus

SAN.FP implemented a €2 billion cost-cutting program in 2012 that it expects to complete this year. Since 2012, the company has completed roughly 85% of the program. According to the company, the savings have thus far largely been reinvested in the business in accordance with the seven growth platforms. SANFP expects to reinvest this year's remaining $300 million in savings in drug launch associated costs as well as late-stage pipeline programs.

Appendix

Exhibit 18: SAN.FP balance sheet

€ millions	FY2011	FY2012	FY2013
Property, plant and equipment	10,750	10,578	10,182
Goodwill	38,582	38,073	37,134
Other intangible assets	23,639	20,192	15,395
Investments in associates and joint ventures	807	487	448
Non-current financial assets	2,399	3,799	4,826
Deferred tax assets	3,637	4,379	4,154
Non-current assets	**79,814**	**77,508**	**72,139**
Inventories	6,051	6,379	6,352
Accounts receivable	8,042	7,507	6,831
Other current assets	2,401	2,355	2,287
Current financial assets	173	178	185
Cash and cash equivalents	4,124	6,381	8,257
Current assets	**20,791**	**22,800**	**23,912**
Assets held for sale or exchange	67	101	14
Total Assets	**100,672**	**100,409**	**96,065**
Equity attributable to equity holders of Sanofi	56,193	57,332	56,885
Equity attributable to non-controlling interests	170	134	129
Total equity	**56,363**	**57,466**	**57,014**
Long-term debt	12,499	10,719	10,414
Non-current liabilities related to business combinations and to non-controlling interests	1,336	1,350	884
Provisions and other non-current liabilities	10,360	11,043	8,735
Deferred tax liabilities	6,530	5,932	5,060
Non-current liabilities	**30,725**	**29,044**	**25,093**
Accounts payable	3,183	3,190	3,003
Other current liabilities	7,221	6,758	6,754
Current liabilities related to business combinations and to non-controlling interests	220	100	24
Short-term debt and current portion of long-term debt	2,940	3,812	4,176
Current liabilities	**13,564**	**13,860**	**13,957**
Liabilities related to assets held for sale or exchange	20	39	1
Total Liabilities and Equity	**100,672**	**100,409**	**96,065**

Source: Company data

Exhibit 19: SAN.FP statement of cash flows

€ millions	FY2011	FY2012	FY2013
Net income attributable to equity holders of Sanofi	**5,646**	**4,889**	**3,717**
Non-controlling interests, excluding BMS	15	20	17
Share of undistributed earnings of associates and joint ventures	27	37	2
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	5,553	4,907	5,569
Gains and losses on disposals of non-current assets, net of tax	(34)	(86)	(275)
Net change in deferred taxes	(1,880)	(941)	(1,010)
Net change in provisions	102	(607)	(1,335)
Cost of employee benefits (stock options and other share-based payments)	143	155	200
Impact of the workdown of acquired inventories remeasured at fair value	476	23	8
Unrealized (gains)/losses recognized in income	(214)	106	(74)
Operating cash flow before changes in working capital	**9,834**	**8,503**	**6,819**
(Increase)/decrease in inventories	(232)	(445)	(117)
(Increase)/decrease in accounts receivable	(257)	368	175
(Increase)/decrease in accounts payable	(87)	67	(124)
Net change in other current assets, current financial assets and other current liabilities	61	(322)	201
Net cash provided by/(used in) operating activities	**9,319**	**8,171**	**6,954**
Acquisitions of property, plant and equipment and intangible assets	(1,782)	(1,612)	(1,398)
Acquisitions of investments in consolidated undertakings, net of cash acquired	(13,590)	(282)	(235)
Acquisitions of available-for-sale financial assets	(26)	(46)	(18)
Proceeds from disposals of property, plant and equipment, intangible assets and other non-current assets, net of tax	359	358	409
Net change in loans and other financial assets	338	(5)	(31)
Net cash provided by/(used in) investing activities	**(14,701)**	**(1,587)**	**(1,273)**
Issuance of Sanofi shares	70	645	1,004
Dividends paid:			
to shareholders of Sanofi	(1,372)	(3,487)	(3,638)
to non-controlling interests, excluding BMS	(17)	(10)	(12)
Transactions with non-controlling interests, other than dividends	0	(62)	(40)
Addition long-term debt contracted	8,359	1,178	3,119
Repayments of long-term debt	(2,931)	(1,345)	(2,822)
Net change in short-term debt	(145)	(448)	302
Acquisition of treasury shares	(1,074)	(823)	(1,641)
Disposals of treasury shares, net of tax	3	1	2
Net cash provided by/(used in) financing activities	**2,893**	**(4,351)**	**(3,726)**
Impact of exchange rates on cash and cash equivalents	**1**	**24**	**(79)**
Impact of Merial cash and cash equivalents	**147**	**0**	**0**
Net change in cash and cash equivalents	**(2,341)**	**2,257**	**1,876**
Cash and cash equivalents, beginning of period	**6,465**	**4,124**	**6,381**
Cash and cash equivalents, end of period	**4,124**	**6,381**	**8,257**

Source: Company data

Exhibit 20: SAN.FP income statement

€ millions	FY2011	FY2012	FY2013	1Q2014	LTM
Net sales	**33,389**	**34,947**	**32,951**	**7,842**	**32,734**
Other revenues	1,669	1,010	355	83	340
Cost of sales	(10,865)	(11,098)	(10,990)	(2,516)	(10,967)
Gross profit	**24,193**	**24,859**	**22,316**	**5,409**	**22,107**
Research and development expenses	(4,788)	(4,905)	(4,770)	(1,139)	(4,754)
Selling and general expenses	(8,508)	(8,929)	(8,602)	(2,078)	(8,551)
Other operating income	319	562	691	10	630
Other operating expenses	(273)	(414)	(242)	(35)	(236)
Amortization of intangible assets	(3,314)	(3,291)	(2,914)	(677)	(2,816)
Impairment of intangible assets	(142)	(117)	(1,387)	(3)	(1,380)
Fair value remeasurement of contingent consideration liabilities	15	(192)	314	(8)	347
Restructuring costs	(1,314)	(1,141)	(300)	(51)	(297)
Other gains and losses, and litigation	(327)	0	0	0	0
Operating income	**5,861**	**6,432**	**5,106**	**1,428**	**5,050**
Financial expense	(744)	(751)	(612)	(147)	(602)
Financial income	140	93	109	106	198
Income before tax and associates and joint ventures	**5,257**	**5,774**	**4,603**	**1,387**	**4,646**
Income tax expense	(440)	(1,109)	(763)	(274)	(726)
Share of profit/(loss) of associates and joint ventures	1,070	393	35	5	29
Net income	**5,887**	**5,058**	**3,875**	**1,118**	**3,949**
Net income attributable to non-controlling interests	241	169	158	34	152
Net income attributable to equity holders of Sanofi	**5,646**	**4,889**	**3,717**	**1,084**	**3,797**

Source: Company data

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