SANOFI

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Q1 Results 2016: Transcript of video interview with Jérôme Contamine, Chief Financial Officer

EuroBusiness Media (EBM): Sanofi, a global and diversified healthcare leader, reports its results for the first quarter of 2016. Jérôme Contamine, welcome. You are the CFO of Sanofi. What are the highlights of these results and what changes have you made to report the performance of the Global Business Units for the first time?

Jérôme Contamine: We are pleased with our solid performance in the first quarter and the progress we have made on our 2020 roadmap. Aggregate Group sales increased by 0.7% and reached close to 8.5 billion euros. Excluding Venezuela, Aggregate Group sales grew 3.0%. Sales were driven in the first quarter by Sanofi Genzyme, Sanofi Pasteur and Merial as well as our growth in Emerging Markets.

Our Business EPS was up 5.3% at constant exchange rates and reached 1.34 euros.

As you know, we have restructured the Group into five Global Business Units with the aim of simplifying the internal reporting structure of Sanofi, deepening specialization and allowing us a clear focus on our growth drivers. In the context of this new GBU structure, which is in effect from January 1st, I would like to draw your attention to the strong growth of the Sanofi Genzyme Global Business Unit where sales increased 20.5%, reaching 1.2 billion euros in the quarter, mainly driven by the MS franchise. And the Sanofi Pasteur GBU continues to deliver as well with sales of 625 million euros in the period, up 8.2%, despite expected lower sales of Pentacel® due to supply constraints in the U.S.

A particular highlight in the quarter is the significant progress we have made with two major late-stage pipeline assets, dupilumab and sarilumab, highlighting the strong potential of our emerging immunology franchise.

EBM: Sanofi Genzyme reported yet another strong quarter. What were the key drivers of your Specialty Care business in the first three months and how sustainable is this performance?

Jérôme Contamine: As I mentioned, Sanofi Genzyme was again a strong driver in the quarter. Both, the MS franchise and the rare disease franchise contributed to the 18.4 percent increase in sales of our Specialty Care business.

In Multiple Scleroris, our two brands performed very well, with first-quarter sales of Aubagio® up 64 percent to 279 million euros and it remains the fastest growing oral MS drug. On Lemtrada®, we are progressively overcoming barriers to Lemtrada® use with sales more than doubling in Q1 2016 to 88 million euros. As you know, both brands are still in their launch phase and continue to drive the expansion of our competitive position in the fast growing global MS market.

EBM: You just launched Dengvaxia, the world’s first dengue vaccine, in the Philippines and you received a big boost when the Strategic Advisory Group of Experts on Immunization

(SAGE) recommended Dengvaxia® to the WHO on April 15. How can you use this support for the planned vaccination campaigns in Asia and Latin America?

Jérôme Contamine: We are very pleased to announce that the first public dengue immunization program has started in the Philippines, as you said, in April. First-quarter sales of world's first dengue vaccine, Dengvaxia®, which is now approved in four countries, including Mexico and Brazil, contributed sales of 19 million euros.

We are encouraged by the recent recommendation issued by the SAGE to the World Health Organization to use Dengvaxia®. The SAGE advises that countries with high dengue transmission consider introduction of the dengue vaccine as part of an integrated disease prevention strategy including vector control to effectively lower their dengue disease burden. This important recommendation recognizes the strong public health benefit of our dengue vaccine and should help us secure further endemic country approvals during 2016.

EBM: In Diabetes, how is your insulin glargine franchise with Toujeo and Lantus holding up in an increasingly competitive market?

Jérôme Contamine: The key message here is that our global diabetes franchise continues to perform in line with our revised guidance from last October of global sales to be down -4% to -8% annually over the period of 2015 to 2018.

In the first quarter, worldwide sales of diabetes were 1.7 billion euros, down 4.5 percent, which is actually better than the 12.6 percent decline we saw in the previous quarter. As expected, sales in the U.S. continued to be negatively impacted by a lower average net price. Indeed, this resulted in a sales decrease of 11.1%, which compares to the 25.1 percent decline we reported in the last quarter of 2015. However, from a volume perspective I would also like to point out that our combined glargine franchise of Lantus® and Toujeo® maintained a relatively stable share of the basal insulin market in the U.S.

In Europe, diabetes grew 4 percent to 255 million euros, despite biosimilar competition. In Emerging Markets sales increased by 12 percent excluding Venezuela, with strong contribution coming from our leading position in the fast growing diabetes market in China.

EBM: Where do things stand on the business swap with Boehringer Ingelheim that is due to close in the fourth quarter of 2016, and how will this transaction further your goal of becoming the leader in consumer health care?

Jérôme Contamine: I can confirm that our exclusive discussions with Boehringer Ingelheim on the potential CHC/Animal Health asset swap are on track and that the deal is expected to be signed around mid-year and to be closed by year-end.

Boehringer Ingelheim's assets in consumer healthcare are highly complementary with Sanofi CHC business, both in terms of products and geographies. Boehringer Ingelheim CHC would improve our position in Germany and Japan where our CHC presence is limited, and expand Sanofi presence in its priority Categories. We would also gain access to several iconic brands. Our CHC business in the US, Europe, Latin America and Eurasia would also expand significantly, giving it multiple leadership positions in key countries and/or on key product categories.

EBM: Could you please explain to us the situation of Sanofi's business in Venezuela and how this has impacted the first quarter. What was your performance in emerging markets in Q1 2016?

Jérôme Contamine: As we all know, the macro-economic environment in Venezuela is challenging and impacted our Business EPS by 9 cents in the quarter.

First, from an FX standpoint; given there has been no indication of improvement in the economic situation in Venezuela, we have decided therefore to change the FX rate used for the Venezuelan Bolivar in our accounts. Sanofi now uses the floating exchange rate of 273 Venezuelan Bolivar per U.S. dollar. This new exchange rate replaces the official rate of 6.3 Venezuelan Bolivar per U.S. Dollar which was used in the first quarter of last year.

Secondly, we also decided to impair our remaining exposure which resulted in a 102 million euro FX loss that was recorded in the Other operating income line. So, we have no remaining Balance Sheet exposure to Venezuela.

Excluding that country, our Emerging market growth reached 13.1 percent which we believe to be well ahead of our peers. Despite economic slowdown and volatility in some countries, sales in our strongest region, Asia, grew 15.6 percent. Sales in Asia were particularly boosted by a 17.6 percent growth in China where Sanofi outpaces market growth. In China, we continue to benefit from a well-suited portfolio of quality brands in chronic diseases and vaccines. We are also capturing market share for our key brands in the fast growing county market, outside the key cities.

EBM: And lastly, what can you tell us about your operating costs and your outlook for earnings per share?

Jérôme Contamine: Aggregate OpEx was 3.7 billion euros in the first quarter, up 3.0% at constant exchange rates. When you take a closer look at OpEx, first quarter aggregate R&D expenses of 1.3 billion euros were up 6.5 percent at CER, reflecting our new collaborations in immuno-oncology and diabetes, the dupilumab Phase III program and the Praluent® ODYSSEY cardiovascular outcome study, and also post-marketing studies with newly launched products. This resulted in a higher R&D to Group sales ratio of 15.0 percent in the first three months of 2016 as compared to the same period last year.

On the other hand, aggregate SG&A expenses were 2.4 billion euros in the quarter, reflecting an increase of 1.3 percent at constant exchange rates. This modest increase was due to tight G&A cost controls in the period and the reallocation of resources behind our key product launches. In the first quarter of 2016, the ratio of SG&A to sales increased 0.3 percentage points to 28.3 percent compared with the previous year.

For the remainder of 2016, we should continue to see savings on SG&A resulting from prioritization and the gradual impact from the implementation of our new organization which are partially offset by expenses for our product launch. Overall, we continue to expect Opex in 2016 to grow at a similar rate versus 2015 at constant exchange rates.

As for your question on the outlook for 2016, we reaffirm our financial guidance of business EPS to be broadly stable versus 2015 at constant average exchange rates, barring major unforeseen events.

EBM: Jérôme Contamine, CFO of Sanofi, thank you very much

Jérôme Contamine: Thank you.