27 October 2024

SIPA Briefing Note

Did Sanofi sell Opella at the right price?

A no headache solution to the Doliprane valuation

Did Sanofi Sell Opella at the right price?

The sale of 50% of Opella to CD&R by Sanofi in October 2024 was the largest buyout in Europe this year and also the opportunity for last minute intrigue and political drama of which only the French have the secret.

After several increases of the bid price, including an 11th hour attempt by PAI to outbid CD&R by a meagre 200ME, who can say if the final price was fair?

With USD5.6bn of revenues[1], an implied enterprise value of USD17.39bn[2] and core EBITDA of USD1.24bn, the transaction EBITDA multiple is 14x according to Reuters[3] and the EV-to-Sales ratio of the deal stands at 3.1x.

Is this cheap, fair or expensive?

While almost everyone will have an opinion, the standard approach to try and answer this question factually would be to look at recent comparable transactions. Good luck with that… There is no recent deal that can be directly compared to this one. Looking for transactions that took place in the same sector the past 12 month in Pitchbook or Preqin yields less than 10 data points: this is not enough to compute even a simple average that is robust, let alone control for deal characteristics.

An alternative approach is to use privateMetrics®, a scientific, quantitative approach to building private market comparables based on a solid asset pricing model and the law of large numbers.

Let's look at the systematic characteristics of the Opella deal in detail.

Table 1 shows the PECCS® profile of the company, as per the Private Company Classification Standard created by EDHEC. Opella is active in the manufacturing sector (PECCS code: AC06), more specifically in the "Manufacture of basic pharmaceutical products and pharmaceutical preparations" segment (PECCS Code: AC6001), with a production revenue model (PECCS Code: RM02) and B2C customer model (PECCS Code: CM02).

TABLE 1: PECCS PEER GROUP AND COMPARABLES FOR SANOFI'S OPELLA - MEAN (MEDIAN) VALUES, PAST 12 MONTHS FROM SEPTEMBER 2024, EUROPE.

PECCS Pillar	Code	Description	EV/EBITDA*	EV/Sales	Obs.
Activity class	AC06	Manufacturing	17.0 (12.6)	2.1 (1.7)	81k
Activity subclass	AC06001	Manufacture of basic pharmaceutical products and pharmaceutical preparations	15.2 (11.3)	3.0 (2.2)	6.7k
Revenue model	RM02	Production	17.8 (14.1)	2.7 (1.8)	401k
Customer model	CM02	B2C	18.1 (14.2)	2.1 (1.5)	160k
		Cross-segment average	**15.0 (10.8)**	**2.2 (2.2)**	**5.3k**

Source: privateMetrics, Sep 2024 * unadjusted

---

[1] *Yahoo!finance*
[2] Wall Street Journal
[3] Reuters

Table 1 also shows the median EV/EBITDA and EV/Sales comparables available in privateMetrics for each segment in Europe over the past 12 months. privateMetrics is based on company valuations estimated monthly with an asset pricing model (like any other appraisal) but is calibrated to reflect the latest available market information (observable transactions, interest rates, etc.) and then used to shadow price a universe of tens of thousands of private companies. As a result, the number of available observations is very high and the resulting comparables are very robust.

We get a cross-segment average (media) EBITDA multiple of 15x (10.8x) with 5.3k observations across 15 European countries.

At the PECCS peer group level, we see that with a deal multiple of 14x, Opella traded close to the mean EBITDA multiple but above the mean EV-to-Sales for pharmaceutical manufacturing B2C companies whose revenues are majority derived from the production of goods (as opposed to, for example, reselling or subscription-based businesses) in Europe. The deal's EV-to-Sales ratio is close to the mean value for the pharmaceutical manufacturing subclass (3.0x) when considered in isolation.

Adding risk factor peer groups

Next, we can obtain more precise and robust comparables by integrating the business risk characteristics (or risk factors) that are used to calibrate the privateMetrics asset pricing model.

For example, we can further slice and dice the privateMetrics data for European pharmaceutical production companies by controlling for company-level leverage, revenue growth and profits. For instance, in the same segment, a more profitable company should be more valuable, all else equal.

Moreover, we can just look beyond the mean and median values and produce a distribution of valuation comparables, to get a sense of the dispersion and relative position of a given transaction.

For each risk factor (leverage, profits, revenue growth) the reported values for Opella are used to find a risk factor peer group within the PECCS peer group defined above. For example, Opella's debt to revenue ratio is high, hence we can consider a subset of companies in the same market segments that also have high leverage.

Figure 1 and Table 2 shows that within the PECCS peer group there is still significant comparable variability when companies are segmented by risk factor both within each risk peer group and across these.

FIGURE 1: OPELLA – VALUATION FOOTBALL FIELD BY RISK FACTOR PEER GROUPS
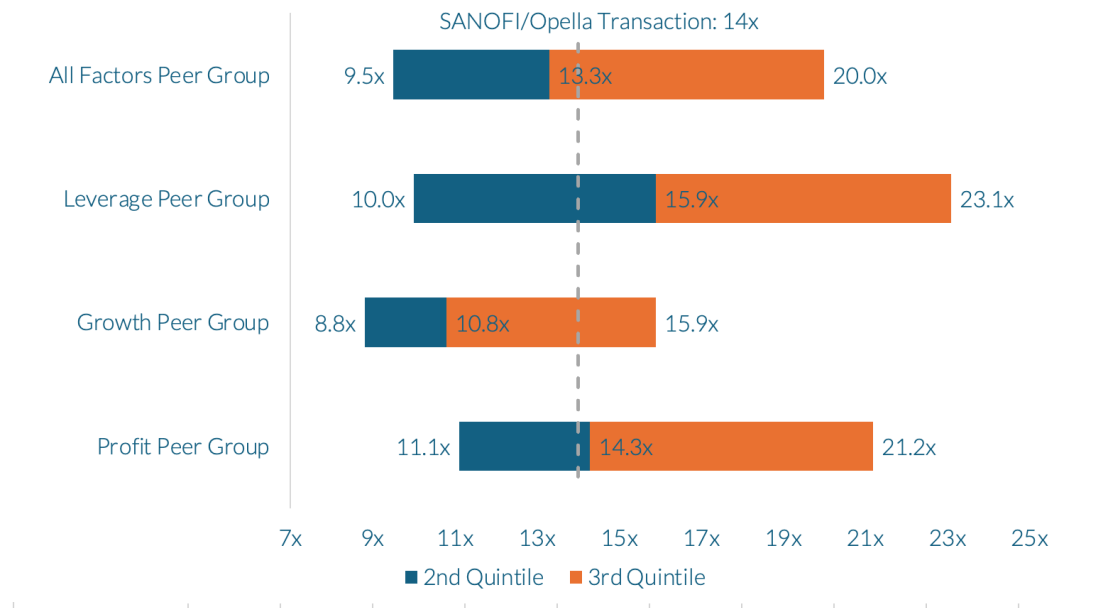
Using privateMetrics to build comparables that integrate segments and the risk profile of Opella yields a mean (median) EBITDA multiple of 15.7x (13.3x) and a mean (median) EV-to-Sales ratio of 3.7x (2.7x).

Opella was sold at a price that is very close to the average market price for a company in this specific PECCS peer group with a similar risk factor profile.

This is reassuring for investors who did not overpay and for Sanofi who made a fair sale. It also suggests that all the drama around this transaction which has worried investors looking at making private equity deals in France is unlikely to have distorted the final price.

To find out more about the privateMetrics asset pricing model, click here.

To discover how to implement a privateMetrics solution in your business, contact us here.

TABLE 2: OPELLA COMPARABLES WITHIN THE RELEVANT PECCS SEGMENTS (AS IN TABLE 1)

		Q1	Median	Q3	Mean	Obs.	Companies
Profit Peer Group (1)	EV/EBITDA	11.1	14.3	21.2	16.4	776	77
Growth Peer Group (2)		8.8	10.8	15.9	12.7	776	77
Leverage Peer Group (3)		10.0	15.9	23.1	18.0	777	67
All Factors Peer Group		**9.5**	**13.3**	**20.0**	**15.7**	**776**	**75**

		Q1	Median	Q3	Mean	Obs.	Companies
Profit Peer Group (1)	EV/SALES	1.6	1.8	2.5	2.6	1,066	100
Growth Peer Group (2)		1.7	1.9	2.5	2.2	1,066	101
Leverage Peer Group (3)		3.0	4.0	6.9	5.9	1,067	89
All Factors Peer Group		**2.1**	**2.7**	**4.2**	**3.7**	**1,066**	**99**

(1) Opella's reported profitability (EBITDA margin) is 22%, which is the 2nd quintile in the relevant PECCS peer groups

(2) Reported revenue growth is 6%, which corresponds to the third quintile of revenue growth in Opella's PECCS peer group

(3) Leverage (debt as a share of revenues) is 116% (USD6.5bn total debt[4]) which is the top quintile in the Opella PECCS peer group

---

[4] Yahoo!finance

Contact Information

London Office

10 Fleet Place,
London EC4M 7RB
United Kingdom
+44 (0)207 332 5600

Singapore Office

One George Street
#15-02
Singapore 049145
+65 66538575

email: sales@scientificinfra.com

web: www.scientificinfra.com

Disclaimer

The information contained on this proposal (the "information") has been prepared by EDHEC Infra & Private Assets solely for informational purposes, is not a recommendation to participate in any particular investment strategy and should not be considered as an investment advice or an offer to sell or buy certain securities.

All information provided by EDHEC Infra & Private Assets is impersonal and not tailored to the needs of any person, entity or group of persons. The information shall not be used for any unlawful or unauthorised purposes. The information is provided on an "as is" basis.

Although EDHEC Infra & Private Assets shall obtain information from sources which EDHEC Infra & Private Assets considers to be reliable, neither EDHEC Infra & Private Assets nor its information providers involved in, or related to, compiling, computing or creating the information (collectively, the " EDHEC Infra & Private Assets Parties") guarantees the accuracy and/or the completeness of any of this information.

None of the EDHEC Infra & Private Assets Parties makes any representation or warranty, express or implied, as to the results to be obtained by any person or entity from any use of this information, and the user of this information assumes the entire risk of any use made of this information. None of the EDHEC Infra & Private Assets Parties makes any express or implied warranties, and the EDHEC Infra & Private Assets Parties hereby expressly disclaim all implied warranties (including, without limitation, any implied warranties of accuracy, completeness, timeliness, sequence, currentness, merchantability, quality or fitness for a particular purpose) with respect to any of this information.

Without limiting any of the foregoing, in no event shall any of the EDHEC Infra & Private Assets Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits), even if notified of the possibility of such damages.

All EDHEC Infra & Private Assets Indices and data are the exclusive property of EDHEC Infra & Private Assets. Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results. In many cases, hypothetical, back-tested results were achieved by means of the retroactive application of a simulation model and, as such, the corresponding results have inherent limitations.

The Index returns shown do not represent the results of actual trading of investable assets/securities. EDHEC Infra & Private Assets maintains the Index and calculates the Index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. Back-tested performance may not reflect the impact that any material market or economic factors might have had on the advisor's management of actual client assets.

The information may be used to create works such as charts and reports. Limited extracts of information and/or data derived from the information may be distributed or redistributed provided this is done infrequently in a non-systematic manner. The information may be used within the framework of investment activities provided that it is not done in connection with the marketing or promotion of any financial instrument or investment product that makes any explicit reference to the trademarks licensed to EDHEC Infra & Private Assets (EDHEC Infra & Private Assets, Scientific Infra & Private Assets and any other trademarks licensed to EDHEC Group) and that is based on, or seeks to match, the performance of the whole, or any part, of a EDHEC Infra & Private Assets index. Such use requires that the Subscriber first enters into a separate license agreement with EDHEC Infra & Private Assets. The Information may not be used to verify or correct other data or information from other sources.