Research Update:

French Specialty Pharmaceutical Company Ipsen S.A. Assigned 'BBB-' Rating; Outlook Stable

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Rating Action Overview

- France-based Ipsen S.A. is a specialty pharmaceutical company focusing on niche segments of oncology, neuroscience, and rare diseases. It displays a good geographic mix and a portfolio of new products (launched or in late-stage clinical trial) bolstering revenue growth. This is offset by a relative product concentration with the group's best-selling drug, Somatuline, which is facing sales erosion amid loss of exclusivity, modest therapeutic diversity, and limited scale of operations.
- The group recently renewed its €1.5 billion revolving credit facility (RCF) due in five years with a possibility to extend twice by one year.
- We forecast the group will continue generating solid free operating cash flow (FOCF) of at least €800 million per year and uphold a conservative financial risk profile, aiming to keep its debt to EBITDA below 2.0x. The group has almost no debt and enjoys headroom under the rating for acquisitions.
- We assigned our 'BBB-' long-term issuer credit rating to Ipsen S.A.
- The stable outlook reflects our expectation that the company will continue expanding its top line, while preserving its adjusted EBITDA margins of above 30% thanks to its portfolio of already marketed drugs, which, apart from Somatuline, all have sound growth prospects. Under our base-case scenario, we expect Ipsen’s S&P Global Ratings-adjusted debt to EBITDA will remain below 2.0x, despite expected bolt-on acquisitions to beef-up the group's pipeline.

Rating Action Rationale

Ipsen has a strong research and development (R&D) focus and benefits from a small but competitive portfolio of products with clear clinical efficacy. Ipsen operates in three therapeutic areas: oncology (73%), neuroscience (21%), and rare diseases (6%). The group is relatively well diversified within the very large oncology franchise. Its products have a clear competitive edge in terms of clinical efficacy, and all have good growth potential, except for

Somatuline, the company's best-selling drug that is now facing generics competition and whose sales are expected to gradually decline from 2025.

Despite its modest size, Ipsen presents all the characteristics of a global specialty pharmaceutical group, with in-house R&D, industrial footprint, sales force, and a global presence. The group derives a significant proportion of its revenue from the key U.S. market, which is extremely attractive in terms of pricing. This translates into a healthy operating margin exceeding 30%. Operating in niche segments with unmet needs serves as a de-risking strategy since Ipsen avoids competition from big pharmaceutical groups with more powerful R&D engines that only target blockbusters. In contrast, Ipsen operates in segments with solid demand and lower competition, but with smaller potential patient bases.

Ipsen's innovation capabilities, efficient sales force, and global manufacturing footprint position its products strongly in their markets, with solid markets shares and leading positions in their segments, such as Cabometyx and Decapeptyl. In our view, this allows the company to capture market demand translating into additional market share and target 5.0%-10.0% growth prospects for all its medicines but Somatuline. Therefore, we expect to generate about 6.0% annual revenue growth over the next 24 months, mainly driven by the ramp-up of new products or new indications (for example, Iqirvo and Onivyde) but also high growth prospects in already marketed products such as Dysport, which displays 8.0%-10.0% growth prospects thanks to its aesthetics and therapeutics indications.

The group is following a de-risking strategy, with growth ambitions consistent with its size and capabilities. To fuel its growth, Ipsen is focusing on medium-size medicines, that is, those that generate €300 million-€800 million in sales. This contrasts with the so-called blockbuster strategy of pursuing products that generate billions of euros in sales, an approach characterized by the largest pharmaceutical companies. This places Ipsen as a privileged partner for certain biotech companies that are unlikely to collaborate with larger partners. The group is not conducting fundamental research, which implies the acquisition of molecules in development. Ipsen focuses on external innovation to ensure its growth story. Historically, the group conducted partnerships (for instance, Skyhawk Therapeutics, and Marengo), licensing agreements (such as Biomunex and Sutro Biopharma), and acquisitions (such as Albireo, Epizyme) that enabled Ipsen to expand sustainably and gradually diversify its portfolio. Ipsen may decide to solely carry the risk of the costly late-stage clinical trials or step in later in the development process. Contingent considerations booked in the group's balance sheet, milestone payments, and royalties' agreements strongly mitigate the risk of unsuccessful filings. On the other hand, this somewhat constrains profitability because benefits are shared with partners. Our forecasts assume acquisitions of molecules in development and new partnership in line with the strategy that Ipsen has consistently implemented for years.

Ipsen’s current pipeline is moderate but well-balanced between the different development stages and consistent with the group's financial ability to conduct the costly late-stage clinical trials. The group displays four key milestones projected for 2025 with high expected 2025-2027 compound annual growth rates, which will ensure portfolio diversification and increase the earnings base. Ipsen also has a clinical pipeline with several molecules in late-stage development that could extend indications for already-marketed drugs. We think the increased commitment in R&D (with an R&D expense-to-sales ratio above 20% as per 2024-2027 guidance) will support pipeline growth, optimize its footprint, and realize synergies from recent acquisitions and partnerships.

The clinical pipeline ramp-up will be key to alleviating Ipsen’s product concentration in Somatuline, which accounted for 33% of group sales in 2024. The top three products accounted for 71% of group sales in 2024 with Dysport (20% of sales) and Cabometyx (17%) in addition to Somatuline. Somatuline has been facing generic competition since 2021. Somatuline’s sales unexpectedly expanded over 2024 underpinned by generic-lanreotide shortages in Europe and in the U.S. However, we anticipate generics will land in the market this year and we expect sales to gradually decline by about 15% per year until the end of the decade, decreasing to about €650 million by 2027.

We think Somatuline’s sales erosion will be mitigated by the increasing sales of Ipsen’s high-growth products. Growth platforms include not only the ramp-up of patent-protected products, such as Onivyde, Iqirvo, or Cabometyx, but also the expansion of off-patent drugs that are market leaders, such as Decapeptyl and Dysport. In our view, these growth platforms will mitigate the impact of Somatuline's drop off and decrease portfolio concentration. Therefore, we expect the relative contribution of Somatuline and the top three products to decrease by 2027, bolstered by the ramp-up of new products. This enhanced diversity in earnings will be reflected in the therapeutic diversity, as the company develops its rare diseases segment and decreases its focus on oncology over the next years. On the other hand, Ipsen benefits from a sound geographical footprint across the globe, with Europe as its main market (39% of sales) and a growing presence in North America (34% of sales). We also expect Ipsen to gradually increase its exposure to the North America. This will be driven by new medicines and indications in the U.S., and we view this increasing exposure as positive given the size of the U.S. market and its attractive pricing. Also, Ipsen is not a major supplier to the federal Medicare system, which will shield it from the forthcoming Inflation Reduction Act. Furthermore, we do not expect any significant impact from the possible revisions to import tariffs by the new U.S. administration.

The take-up of the group's new products will depend on the upcoming pivotal trials and commercialization campaigns. Most of the products expected to drive the group's growth have already been launched this year, which eases the risk profile. Still, Ipsen will face competition, notably for Iqirvo (Gilead) and Bylvay. Also, in oncology, growth will depend on the group's ability to expand into first-line treatments, which usually have a higher number of patients and sometimes longer treatment. Ipsen is conducting six major late-stage clinical trials, of which Dysport could expand toward the treatment of chronic and episodic migraine. We also note the group has seven major mid-stage clinical trials, including its recently announced long-acting neurotoxin, and new indications on Iqirvo, which could bolster organic growth over the medium term. Last year was good in terms of regulatory achievements, while several new key milestones are expected for 2025.

The group's resilient cost management translates into EBITDA margins above 30%, which is in line with the pharmaceutical industry average. Ipsen displays a stable cost structure with sales and marketing as the main expense categories (about 28% of total costs in 2024). This is driven by the sales force Ipsen uses to promote the launch of new medicines to clients and ensure market share gains. Historically, the cost structure declined due to efficient control of selling, marketing, and medical expense, and the cost of goods sold. Additionally, it proved to be resilient, notably in stretched periods such as the pandemic, which enabled Ipsen to keep healthy EBITDA margins. Resiliency was supported tight cost effectiveness and management's cost structure flexibility since 46% of total costs are variable, leaving Ipsen with sound operating leverage. We expect Ipsen's cost structure to improve, supported by cost efficiency initiatives. Therefore, we forecast S&P Global Ratings-adjusted EBITDA margins to slightly improve to 30.5%-32.5% over the next 24 months, compared with 30.4% in 2024.

We view positively Ipsen's ability to generate strong FOCF and forecast it to be about €770 million-€870 million over the next 24 months. Free cash flow is supported by robust profitability, limited capital spending (capex), and tight working capital outflows. First, Ipsen fueled its growth by focusing on external innovation to bring additional earnings quality. The group aimed to rapidly integrate its recent acquisitions (such as Albireo and Epizyme) to deliver synergies and ensure cash flow for deleveraging. Additionally, Ipsen displays a hybrid production model by operating four manufacturing sites (one in the U.S. and three in Europe) to produce its most complex medicines. For the remainder, the group is partnering with 19 contract manufacturing organizations across the globe on a dual sourcing basis. This hybrid model enables Ipsen to operate with limited capital requirements and we expect capex to remain in the same magnitude and to be used for IT programs and to maintain its manufacturing sites. We expect that limited capital spending, and low levels of working capital will continue to support sizable and improving cash flow above €900 million by 2027, according to our base-case scenario. Ipsen's strong cash flow enables it to maintain low leverage and fund its growth opportunities. Our rating incorporates the group's financial policy commitment to maintain debt to EBITDA below 2.0x. We think the benefits from continued external innovation will generate sustained earnings growth. This, coupled with profitability improvement, will help generate material cash flow, which will enable Ipsen to maintain low leverage levels and fund its pipeline. Assuming acquisition spending of €400 million in 2025 and then of €300 million per year, we expect S&P Global Ratings-adjusted debt to EBITDA to remain close to 0x over the next 24 months, from 0.3x in 2024.

Outlook

The stable outlook reflects our view that Ipsen will continue to generate solid organic growth and improve profitability, achieving an S&P Global Ratings-adjusted EBITDA margin of 30.5%-32.5% by 2027. This would be supported by the ramp-up of its growth platforms and cost saving initiatives, as per the company's 2024-2027 guidance. We also expect the group to maintain a prudent financial policy, translating into an S&P Global Ratings-adjusted debt-to-EBITDA ratio of less than 2.0x.

Downside scenario

We could lower the rating on Ipsen if S&P Global Ratings-adjusted debt to EBITDA increases and remains above 2.0x. Given the current sizable leverage headroom, a negative rating action would likely be linked with a combination of the three following events:

- A faster-than-expected decline of Somatuline sales;
- A slower-than-expected take-up of the new products; and
- Large acquisitions.

Upside scenario

We could take a positive rating action if Ipsen's business risk profile strengthened. This would primarily hinge on Ipsen expanding a more extensive late-stage pipeline, likely through value-accretive external innovation, and successfully commercializing its internal pipeline. Additionally, we would expect Ipsen to improve quality of earnings by significantly increasing its scale and diversification via product offerings and sales mix.

Company Description

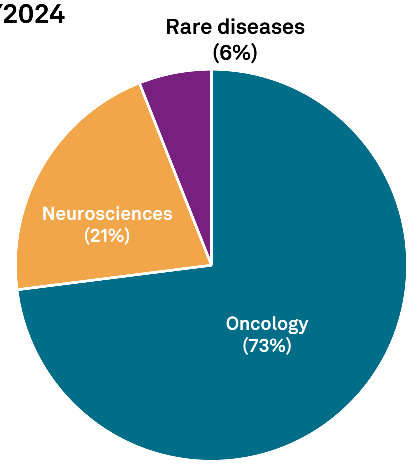
Founded in 1929 and headquartered in France, Ipsen is a global midsize biopharmaceutical group focused on innovation and specialty care. With total reported revenue of €3.6 billion and S&P Global Ratings-adjusted EBITDA of €1.1 billion in 2024, it focuses on the development, manufacturing, and commercialization of specialty pharmaceutical products in the following three therapeutic areas:

- Oncology, focusing on solid tumors (such as pancreatic and prostate) and hematologic (blood-based) tumors.
- Neuroscience, with revenue mainly from Dysport used for aesthetics and therapeutic (spasticity and cervical dystonia) indications.
- Rare diseases, with a focus on liver, bone, and endocrinologic disease.

Chart 3

Ipsen's sales breakdown in FY2024

% by therapeutic area

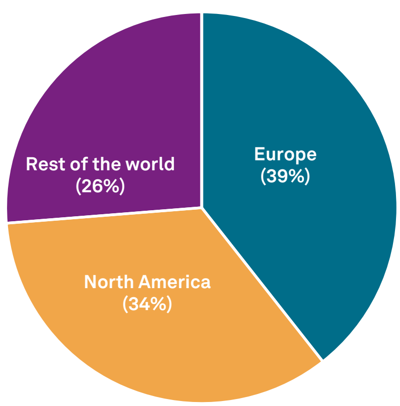


Source: S&P Global Ratings. FY2024--Financial year 2024, ending Dec. 31.

Chart 2

Ipsen's sales breakdown in FY2024

% by geography



Source: S&P Global Ratings. FY2024--Financial year 2024, ending Dec. 31.

Our Base-Case Scenario

Assumptions

- Revenue growth of about 6.0% per year over the next 24 months, supported by positive trends on marketed drugs and new launches and indications. We expect these positive trends to offset Somatuline's strong sales erosion in the next 24 months.
- Adjusted EBITDA margin of 30.5%-32.5% during the next 24 months, aided by the ramp-up of Ipsen's growth platforms, somewhat offsetting Somatuline's sales erosion. We also think profitability improvement will be bolstered by cost savings.
- R&D expense of 20.0%-21.0% of sales, in line with Ipsen's commitment to support its internal and early-to-mid-stage innovation pipeline but also to optimize the footprint and to capitalize on partnerships and licensing agreements.
- Limited amounts of milestone payments over the next 24 months.
- Annual capex for upcoming years in the €150 million-€200 million range.
- Annual net working capital outflows of about €50 million.
- Undetermined acquisition spending of about €300 million-€400 million over the next 24 months.
- Dividends payments and share buybacks of about €150 million-€160 million per year.

Key Metrics

- Adjusted debt to EBITDA of 0x from 2025 followed by a net cash position, barring significant acquisitions.
- Annual adjusted FOCF of €750 million-€850 million in both 2025 and 2026 and above €850million from 2027 onward.

Liquidity

We assess Ipsen's liquidity as adequate because we estimate that sources of cash will exceed uses by more than 1.2x over the next 24 months. This is supported by the lack of meaningful debt maturities and strong operating cash flow. In addition, we expect net liquidity sources would remain positive even if EBITDA declines to 30%.

Principal liquidity sources

We expect principal liquidity sources over the 12 months from Jan. 1, 2025, will include:

- Approximately €678 million in cash and cash equivalents.
- €1.5 billion in available undrawn RCF maturing well beyond the next 12 months.
- S&P Global Ratings forecasts cash funds from operations close to €1 billion.

Principal liquidity uses

We expect principal liquidity uses over the same period will include:

- Annual capex for upcoming years in the €150 million-€200 million range.
- Annual net working capital outflows of about €50 million annually.
- Dividend payments and share buybacks of about €150 million-€160 million per year.

Environmental, Social, And Governance

Governance factors are a neutral consideration in our credit rating analysis of Ipsen. Majority ownership lies with the third generation of the founding family, holding over 70% of the combined voting rights. We recognize the company’s track record of prudent financial policy and well-established governance in all key areas, such as business ethics, transparency, and appropriate sharing of scientific and clinical data.

We view social factors as a neutral consideration in our analysis. Ipsen is mostly focused on innovation and produces lifesaving drugs. The group is also committed to increase its R&D spending above 20% and is focused on improving disease treatments for niche segments. Ipsen is also looking to establish a tiered pricing framework for product launches and aims to reduce the time between approvals from the U.S. Food and Drug Administration and European Medicines Agency and other regulatory submissions, allowing for quicker solutions for patients. However, the group remains exposed to social risk because product quality remains a point of focus to ensure patient safety.

We view environmental factors as a neutral consideration in our credit rating analysis. Ipsen is striving to reduce emissions. Absolute scope 1 and 2 emissions have decreased by 36% compared to 2019 and scope 3 emissions by 29%. Additionally, 99.8% of the group's electricity consumption is made with renewable energy sources and it aims to become net zero by 2045. Ipsen is also focusing on enhancing the energy efficiency of its facilities, optimizing the energy mix of its fleet, and investing in advanced heat recovery technologies.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Fair
Country risk	Low
Industry risk	Low
Competitive position	Fair
Financial risk	Minimal
Cash flow/leverage	Minimal
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list
New Rating
Ipsen S.A.

Ratings list	
Issuer Credit Rating	BBB-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings’ Global Client Support line (44) 20-7176-7176.