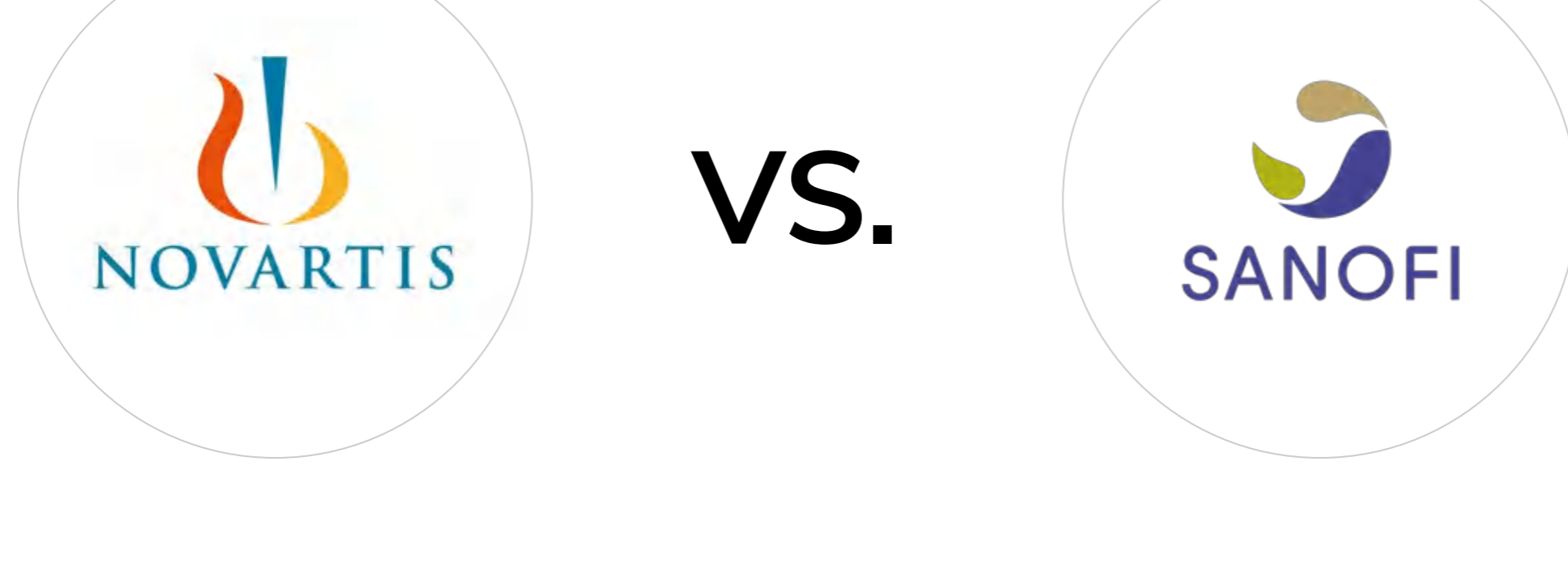


impak Battles



impak

About the author *impak*, the independent impact rating agency, regularly publishes content providing transparent data on the social and environmental impact of companies. By doing so, it aims to accelerate the transformation towards a stakeholder economy generating an overall more positive contribution to society.



In these trying times, pharmaceutical and biomedical companies' efforts to fight COVID-19 are making the headlines and, at a time when investors are reallocating their portfolios, we thought it would make sense to take a look at two giants from the Pharma sector: The Swiss Novartis and the French Sanofi. Because looking at past impact data is a fair predictor of future sustainability actions, here is a quick overview of the social and environmental impact of both companies, based on their 2018 *impak* statements and *impak* Score™.

COVID-19

While they are not part of this *impak* Score™ analysis, it is relevant to note the companies' responses to the coronavirus crisis. Sanofi donated 100M doses of hydroxychloroquine to 50 countries and is also working with Translate Bio, the Biomedical Advanced Research and Development Authority, and GSK on a vaccine. Sanofi France donated 100M euros to public hospitals and nursing homes. Similarly, Novartis donated 130M doses of hydroxychloroquine and US\$20M in grants to public health initiatives as well as being part of the COVID-19 Therapeutics Accelerator. AveXis, a Novartis company, has begun manufacturing the AAVCOVID vaccine currently in preclinical studies. Finally, Novartis launched a not-for-profit portfolio to help low-income and lower-middle-income countries access affordable medicines to treat COVID-19. For both companies, questions remain as to whether vaccines will be affordable or not. To be continued.

Key figures

2018 Data

NOVARTIS

SANOFI

impak Score™ 1000pts max	227	194
Positive impact 500pts max	23	12
Negative impact 300pts max	63	70
Governance 200pts max	141	112
Total % of activities positively linked to SDGs	33%	30%
Number of Z-rated negative impacts	1	3
Overall ABC classification <small>See Methodology commentary</small>	Z	Z
Turnover EUR bn	€45.4 bn	€34.4 bn
Total return from Jan 1st, 2018 to August 18th, 2020	17.58%	35.77%

Source: public data © *impak* Finance 2020



Key SDGs



Positive impacts

Novartis 23/500 **Winner**

Novartis dedicates 29% of its activities to one outcome, linked to SDG 3: developing medicines to treat cancers, diabetes, respiratory and cardiovascular diseases. The firm's other three positive impacts represent 4%, which means Novartis dedicates a total of 33% of its activities to positive impact generation.

Sanofi 12/500

Sanofi, on the other hand, has three positive impacts totaling 30% of its activities. Its highest percentage for a positive impact is 22%, for the outcome linked to SDG 3 "Partnership and healthcare product manufacturing and distribution in order to increase access to treatments for non communicable diseases".

Negative impact mitigation

Novartis 63/300

Novartis has 10 identified material negative impacts on people and the planet, including 9 As and 1 Z—a Z results in the company's positive impact score being penalized according to a set of rules evaluating the seriousness of the Z (see Methodological notes). This Z, linked to SDG 16, is the consequence of its many convictions and ongoing trials related to business ethics (bribery, data manipulation, etc.), like the US\$195M fine to Sandoz (one of Novartis' subsidiaries) for four antitrust issues. One of the 2018 ongoing trials resulted last June in Novartis agreeing to pay the US Securities and Exchange Commission (SEC) US\$ 642M for bribing foreign health workers to use Novartis-branded products.

Sanofi 70/300 **Winner**

Sanofi has 8 identified material negative impacts including 5 As and 3 Zs: 2 Zs, linked to SDG 16, are due to convictions regarding corruption and a defective drug issue in France and the Philippines (Depakine and Dengvaxia). The other Z is linked to SDG 3, particularly the access and affordability target, due to the company's opaque drug-pricing system in the US—strongly related to the 170% insulin price races from 2010 to 2018—and shortage of medicines across Europe.

Novartis' slightly lower negative impact score is explained by the fact that, although Sanofi has 3 Zs, it seems to mitigate its other negative impacts well and with a good level of transparency, whereas Novartis lags behind in that regard.

Governance

Novartis 141/200 **Winner** Sanofi 112/200

Here lies the most significant difference in sub-scores between the two companies. The discrepancy is mainly due to the fact that Novartis' mission includes environmental and social issues as well as a solution to these issues, which is a key factor in driving impact, whereas Sanofi is not as precise. Note that Novartis is in partnership with the Impact Management Project.

Novartis wins 🎉

As you can see, both companies are quite alone in many ways, and there is still a lot of work to be done on the mitigation of negative impacts. The relatively high percentage of activities linked to SDGs is a good thing, and both companies have the potential to become impact leaders if negative impacts are better managed. Yet, considering the number of Zs and the percentage dedicated to positive impacts so far, it seems like Novartis is the winner of this tight battle.

Specificity of the sector

One could wonder why a pharmaceutical company doesn't have 100% of their activities linked with SDG 3. Well, it turns out SDG 3 has a big focus on addressing health in developing countries—where the need is much higher—and therefore on affordability. Hence, either companies do not provide enough data to adequately link their activities to the SDG, or certain drugs or R&D do not qualify.

Methodological notes

Data are based on both companies' 2018 public financial and extra-financial statements, compiled using *impak*'s scoring methodology available on www.impactfinance.com, and aligned with the Impact Management Project (IMP) framework.

The methodology follows the IMP classification: A (Act to avoid Harm), B (Benefit stakeholders), C (Contribute to solutions), and Z (Does or may cause harm).

It should be said that both companies count a few other potential positive impacts that were not taken into account because of a lack of information or because they represent less than 0,01% of all their activities.

Note that according to our methodology, the level of penalty in case of a Z is based on 3 different factors: the type of Z (does cause harm or may cause harm), the repetition of the Z throughout time and, only in the case of a Z "does cause harm", whether or not corrective action has been taken.

Two positive impacts can overlap—for example, if the same product is certified Fair Trade AND Organic. The percentages of change for these impacts are therefore not cumulative.

Duration is the timeframe for which the stakeholder experiences the outcome, and Depth is what is defined as the degree of change for the beneficiaries. Both relate to the How Much dimension, one of the 5 dimensions defined by the IMP.

DISCLAIMER: Information contained in these articles is provided solely for informational purposes and therefore does not constitute advice on or an offer to buy or sell a security. *impak* Finance is not liable for the induced consequences when third parties use these opinions either to make investment decisions or to make any kind of business transaction. This information is subject to *impak* Finance's [terms of use and compliance policies](#).

