



Novartis AG



# Q4 and FY 2018 Results

Media Presentation  
January 30, 2019

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# Agenda

## 1. Company overview

Vas Narasimhan – CEO Novartis

## 2. Financial review

Harry Kirsch – CFO Novartis

## 3. Q&A

Novartis Executive Committee members



# Company overview

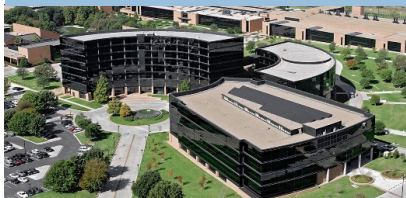


# We aim to become a leading medicines company

Powered by advanced therapy platforms and data science

We are focusing  
the company

Spin Alcon



Transform Sandoz

Driving growth through  
cutting-edge platforms...

Leading pipeline



Building advanced therapy platforms

Passionate about  
productivity and margins...

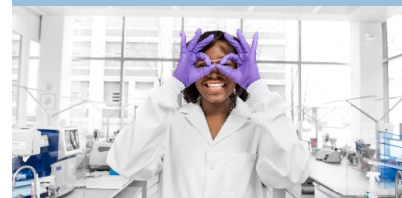
Embrace operational excellence



Go big on data and digital

While building a new culture  
and lasting impact

Unleash the power of our people



Build trust with society

# We delivered strong growth with operating leverage in Q4 and FY 2018

	Q4 (% cc)		Full year (% cc)	
	Sales	Core OpInc	Sales	Core OpInc
<b>Group<sup>1</sup></b>	+6% ▲	+11% ▲	+5% ▲	+8% ▲
Innovative Medicines	+9%	+13%	+8%	+11%
Sandoz	-2%	-5%	-3%	-3%
Alcon	+4%	0%	+5%	+10%

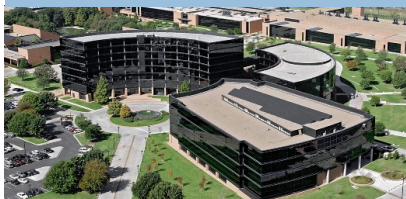
1. Core results, constant currencies and free cash flow are non-IFRS measures. Further details regarding non-IFRS measures can be found starting on page 53 of the Condensed Financial Report

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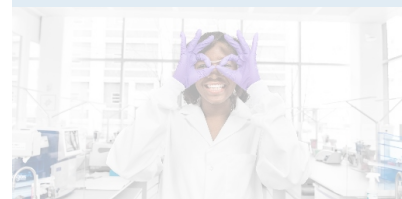
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# We took major steps to focus the company in 2018, while building leading advanced therapy platforms

## Exits<sup>1</sup> to focus the company



## Deals<sup>1</sup> to build new platforms



All trademarks are the property of their respective owners. 1. Announced or closed in 2018. 2. The planned 100% spin-off of Alcon remains subject to certain conditions precedent, such as no material adverse events, receipt of necessary authorizations as well as tax rulings and opinions and shareholder approval at the AGM in February 2019; completion expected in H1 2019. 3. The announced sale of Sandoz US dermatology and oral solids portfolio to Aurobindo is subject to the completion of customary closing conditions expected in 2019. 4. Sale of our anti-bacterial portfolio to Boston Pharmaceuticals is one example of portfolio prioritization. Others include out-licensing of BJG398 to QED Therapeutics, FGF401 to EverNov, LXS196 to IDEAYA.

# Our Sandoz transformation will help enable us to compete in a more challenging environment

## Reshaping the portfolio...

Leading in biosimilars: 8 marketed products, more to come

2006 – 2016



2017



2018



Collaborations with:



## ...while driving efficiency

Geographic focus



Lean cost structure

- SKU rationalization
- Manufacturing footprint optimization
- Regional consolidation

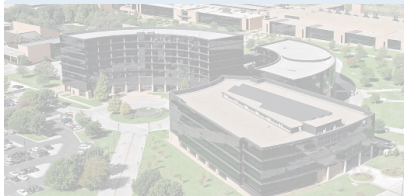
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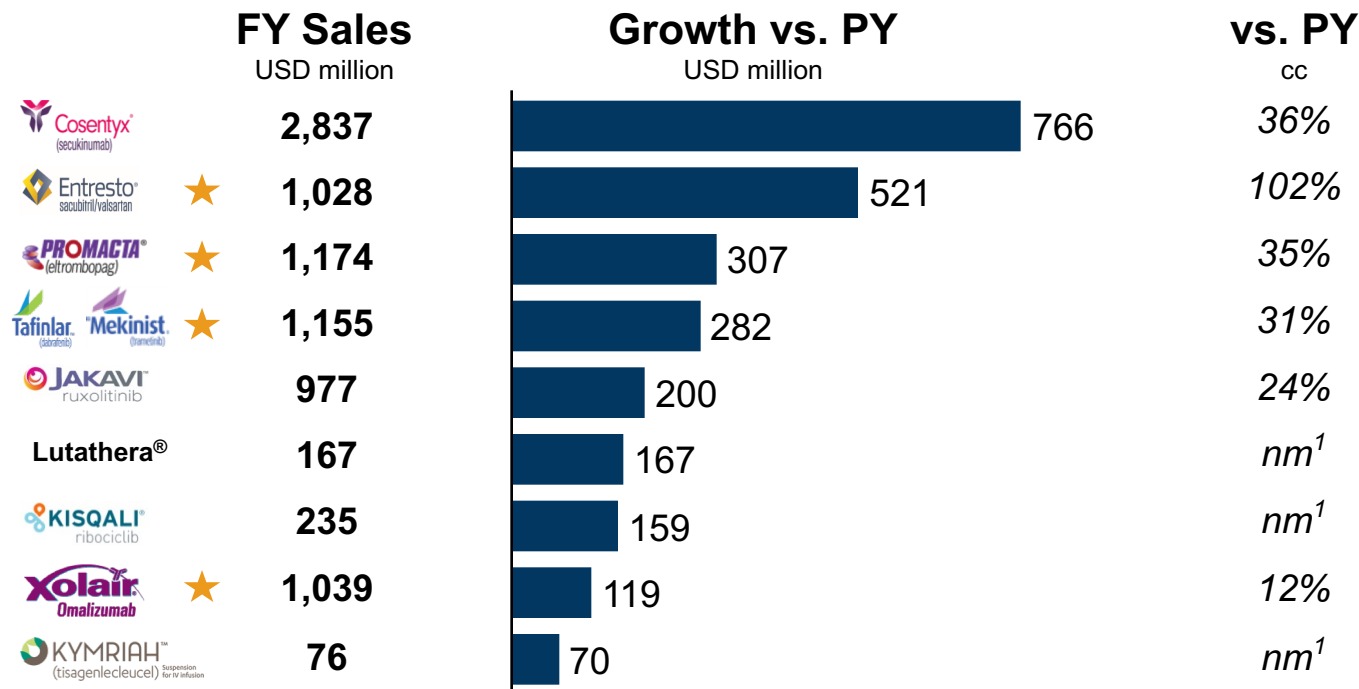


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# Our in-line growth brands provide a solid foundation for continued growth

★ 4 additional blockbusters in 2018

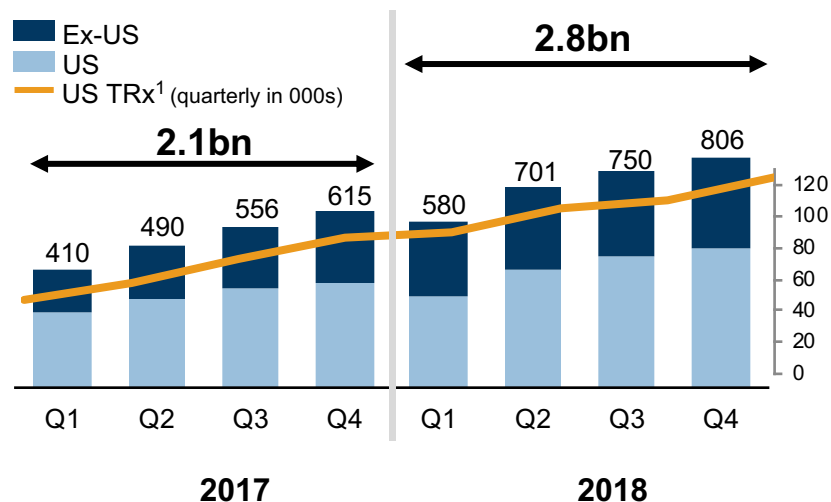


<sup>1</sup> Not meaningful

# Cosentyx<sup>®</sup>: Strong growth driven by demand, well positioned across indications

## Quarterly sales evolution

USD million



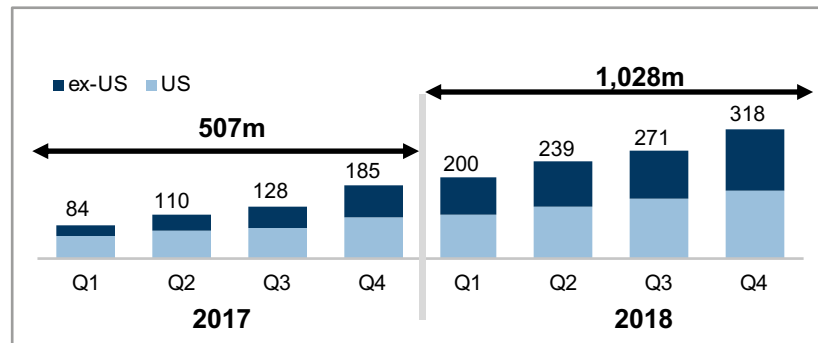
1. IMS NPA TRx, Cosentyx<sup>®</sup> restated in Aug 2017 to include free product, Q4 estimated with WE 12/21/2018 data

- Q4 sales USD 806m (+33% cc) with consistent growth US (+34% cc) and ex-US (+32% cc)
  - Continued demand growth, US YoY TRx +29% Dermatology, +49% in Rheumatology<sup>1</sup>
  - Gaining share in a growing and competitive psoriasis market
- 2019: expected to maintain strong access in US
- Continue to advance science in psoriatic disease
  - ARROW (readout expected end of 2019) expected to confirm importance of IL-17A vs. IL-23
  - Cosentyx<sup>®</sup> has demonstrated efficacy in the multiple manifestations of psoriatic disease
- PREVENT (nrAxSpA) read-out and submission expected end 2019

# Entresto<sup>®</sup> achieves blockbuster status – reinforcing strong therapy position in heart failure<sup>1</sup>

## Strong sales growth driven by execution & new data

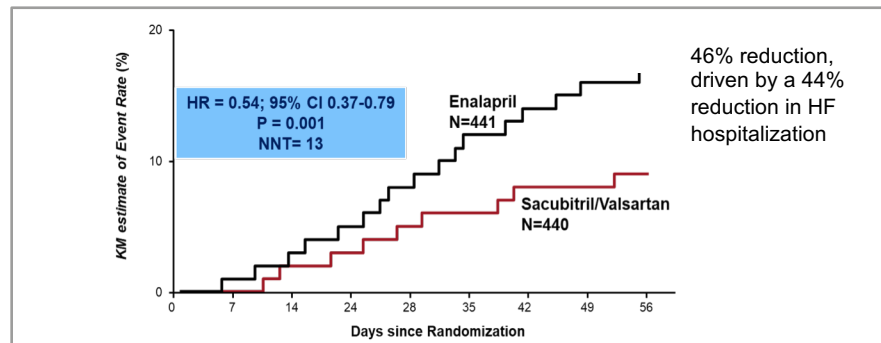
Global sales, USD million



- USD 318m (+76% cc) Q4 sales
- Blockbuster in 2018 and doubling sales vs. 2017

## PIONEER data<sup>2</sup> supports early Entresto<sup>®</sup> use

Composite of Death, HF re-hospitalization, LVAD, Listing for Transplant



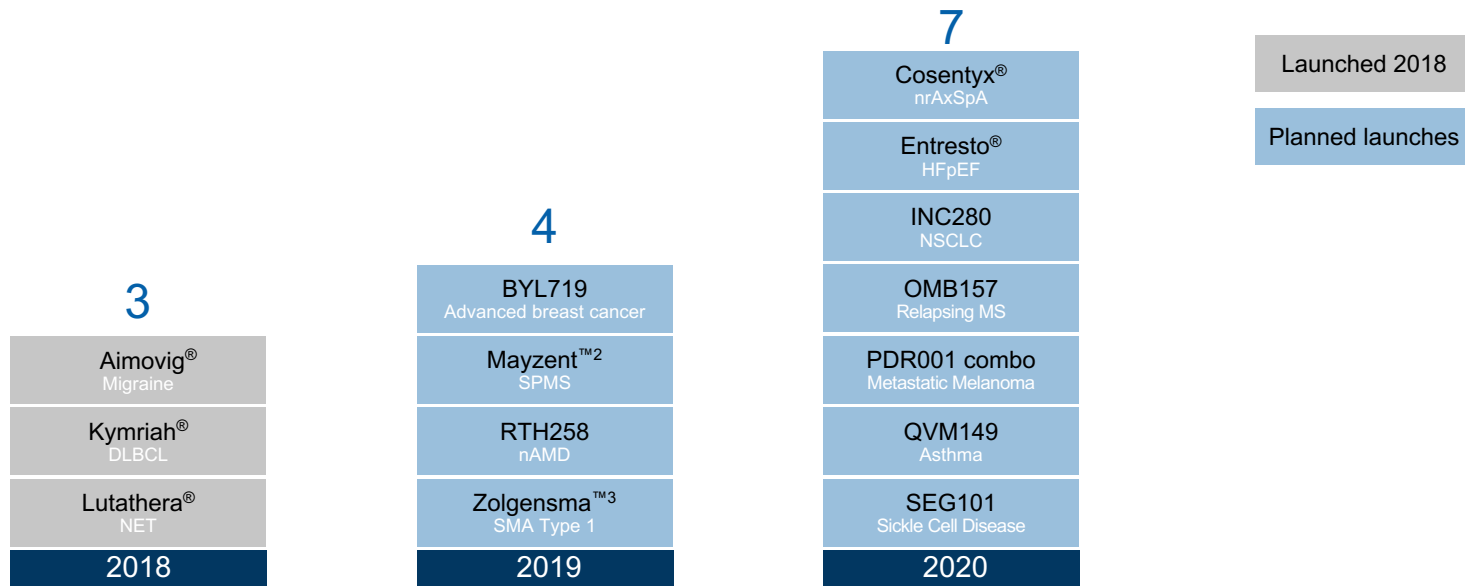
- Early indicators of accelerated hospital initiation (PIONEER & TRANSITION)
- Significantly reduces NT-proBNP in stabilized ADHF patients (PIONEER)

Expected newsflow 2019 FIR: PARALLEL-HF (Japan registration trial HFREF) Q2 2019; PARAGON-HF in HFpEF Q3 2019

ADHF – Acute Decompensated Heart Failure FIR – First Interpretable Results LVAD – Left Ventricular Assist Device  
Journal of Medicine, Nov 2018; DOI: 10.1056/NEJMoa1812851

1. Entresto<sup>®</sup> is approved in HFREF and ongoing HFpEF trial expected to read out 2019. 2. Published in New England

# With 10+ potential blockbuster<sup>1</sup> launches planned in the next 2 years









1. Individual assets with expected peak sales >USD 1bn across all indications 2. The brand name Mayzent<sup>™</sup> has been provisionally approved by the FDA and EMA for the investigational product siponimod (BAF312), but the product itself has not been approved for sale in any country 3. The brand name Zolgensma<sup>™</sup> has been provisionally approved by the FDA for the investigational product AVXS-101 (onasemnogene abeparovvec-xxxx), but the product itself has not received marketing authorization or BLA approval from any regulatory authorities

# 2019 expected catalysts to continue the momentum

Catalysts		Selected examples		
Key approvals	15	<b>Zolgensma™<sup>1</sup></b> SMA Type 1 (US/EU/JP)  <b>Mayzent™<sup>2</sup></b> SPMS (US/EU/JP)	<b>Brolucizumab (RTH258)</b> Neovascular AMD (US)  <b>Alpelisib (BYL719)</b> Breast Cancer (US)	
Major submissions	20	<b>Ofatumumab (OMB157)</b> Relapsing MS (US/EU)  <b>Crizanlizumab (SEG101)</b> Sickle Cell Disease (US/EU)	<b>Brolucizumab (RTH258)</b> Neovascular AMD (US/EU/JP)  <b>INC280</b> NSCLC (US/JP)	<b>PDR001 combo</b> Metastatic Melanoma (US/EU)
Major late-stage readouts	6	<b>Zolgensma™<sup>1</sup></b> SMA Type 2  <b>Fevipirant (QAW039)</b> Asthma	<b>Entresto®</b> HFpEF  <b>Cosentyx®</b> nrAxSpA	<b>Ofatumumab (OMB157)</b> Relapsing MS  <b>PDR001 combo</b> Metastatic Melanoma

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# Advanced therapy platforms with the potential to expand the game-board

(Illustrative)		Small molecules	Large molecules	Cell therapy	Gene therapy	Radioligand therapy		
	Oncology	Targeted protein degradation	Novel bio-materials <sup>1</sup>	Bispecific antibodies <sup>2</sup>	CAR-T	CBMG <sup>5</sup>	AAA	Endocyte
	Cardio-Metabolic		Intellia & Caribou <sup>3</sup>	Cell for Cure <sup>4</sup>				
	IHD							
	Neuroscience	Transcription factors						
	Ophthalmology		Novel bio-materials				AveXis	NIBR Portfolio
	Respiratory		Inhaled biologics					Luxtuma®

1. Partnership with the Wyss Institute for Biologically Inspired Engineering at Harvard University and the Dana-Farber Cancer Institute 2. Collaboration with Xencor 3. Collaborations with Intellia Therapeutics and Caribou Biosciences  
 4. Proposed acquisition; transaction subject to the completion of customary closing conditions 5. Collaboration with Cellular Biomedicine Group in China



# Gene therapy platform with rapidly expanding pipeline, deep manufacturing expertise in AAV



## 7 programs in clinic over next year

Selected assets	Indication	Stage	Next milestone
AVXS-101 (AAV9)	SMA	Filed	Regulatory approval(s) 1H19
CGF166 (Ad5)	Hearing loss	Phase 1	
CPK850 (AAV8)	Retinitis pigmentosa	Phase 1	
AVXS-201 RTT (AAV9)	Rett Syndrome	Preclinical	IND 1Q19
AVXS-301 SOD1 (AAV9)	Inherited ALS-SOD1	Preclinical	IND 2Q19
AVXS-401	Undisclosed	Preclinical	IND 2H19
AVXS-501	Undisclosed	Preclinical	IND 4Q19 / 1Q20

## Manufacturing expansion ongoing for AAV-based gene therapies



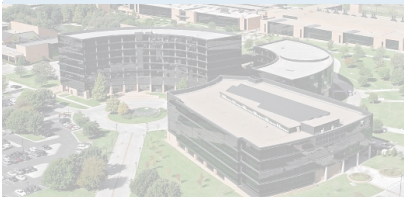
- Flexible, disposable manufacturing platform
- Operational facility in Chicago; ongoing build-out in North Carolina
- Capabilities across AAV vectors; deep CMC expertise

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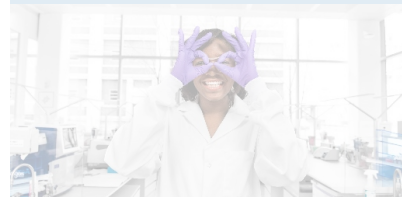
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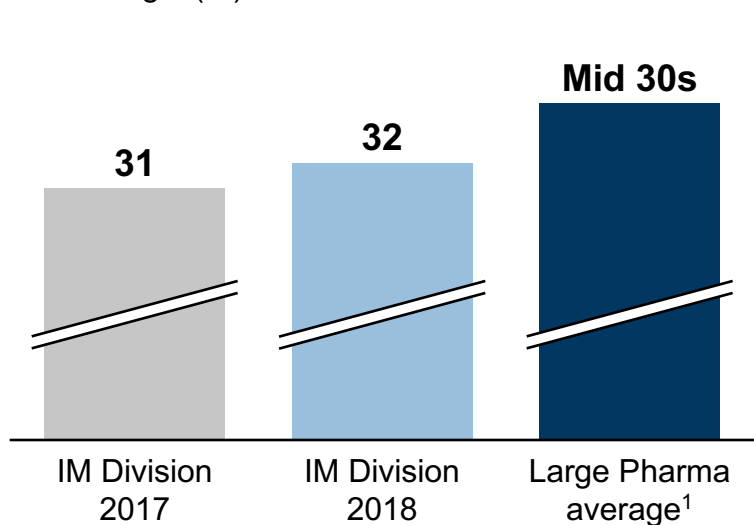


Build trust with society

# We are committed to driving consistent margin expansion

## Innovative Medicines

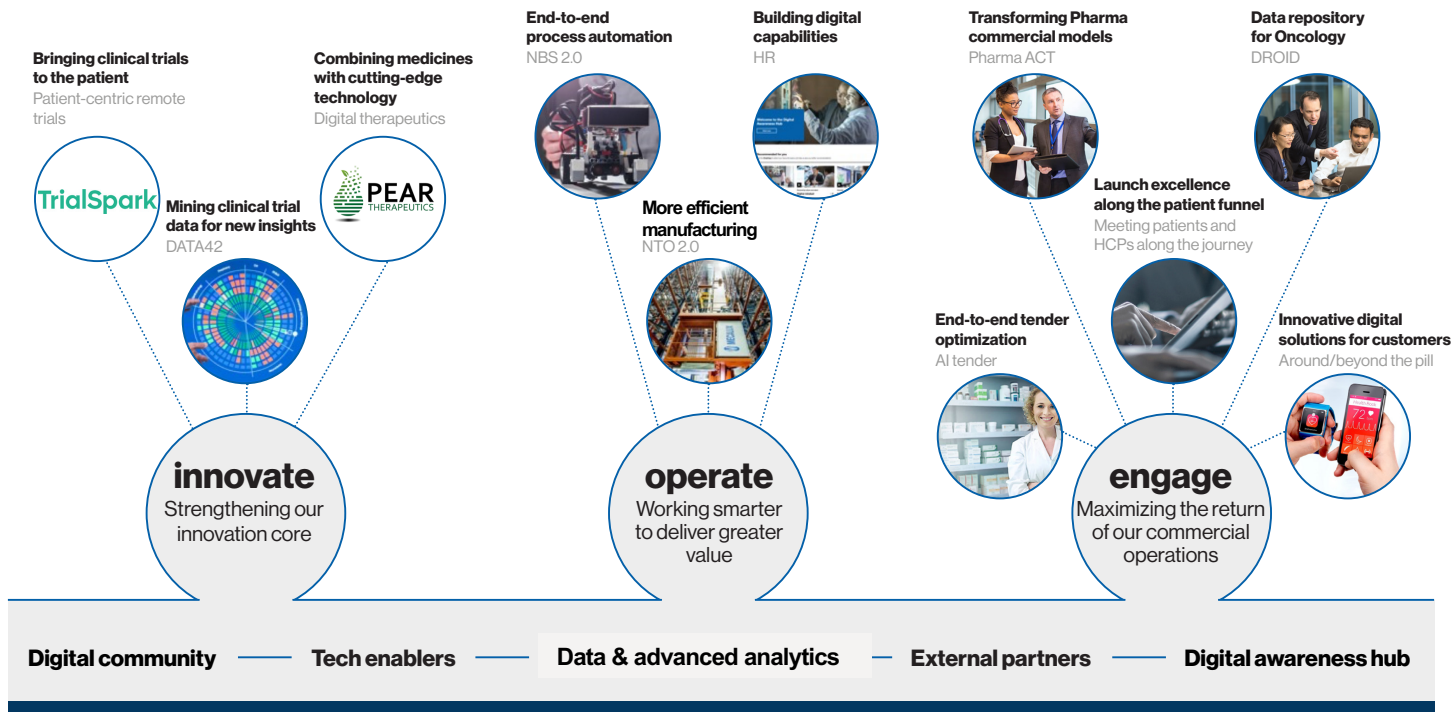
Core margin (%)



- + Acceleration of key growth drivers
- + Resource allocation and productivity programs in commercial units
- + Cross-divisional synergies: Novartis Technical Operations, Novartis Business Services, Procurement
- Generics (mainly Afinitor<sup>®</sup>, Exjade<sup>®</sup>, Gilenya<sup>®</sup>)
- Launch investments for potential future blockbusters

1. Source: Novartis analysis of average 2016 core margin of Large Pharma peer companies

# Advancing an enterprise-wide digital transformation



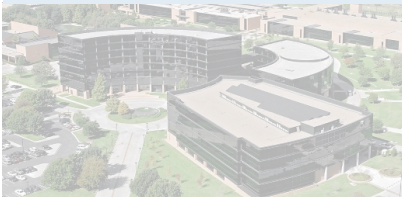
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# Culture transformation is key to our success

Initiated 5-year journey in 2018

Inspired  
Curious  
Unbossed

- Reshaped to a more diverse Executive Committee (over 50% new members)
- Rolled out new culture vision to create an empowered organization
- 100% of top leaders going through leadership “academy”; 100% of managers to receive digital upward feedback on an ongoing basis
- Digitally enabled tools



# Focused effort to build lasting trust with society



## Ethical Standards

Established Ethics, Risk & Compliance function, led by Executive Committee member

Embedding principles-based decision-making in the organization



## Pricing and Access

Integrating Access Principles into overall business strategy

Improved ranking in Access to Medicines Index to #2



## Global Health Challenges

Renewed commitment to malaria with USD 100m investment

Established Global Partnership for Zero Leprosy



## Corporate Citizenship

Approved new environmental sustainability targets, incl. carbon neutrality by 2025

Helped lead Pat-INFORMED initiative, making patents available online



## Stakeholder Engagement

Continued to improve transparency and evolve reporting

Increased reporting on Financial, Environmental and Social (FES) impact on society



# Financial review

# 2018 financial results in line with guidance

## Group full year guidance (January 2018)

In cc

FY 2018

vs. PY

In cc

“**Sales** are expected to grow low to mid single digit”



5%



“**Core operating income** expected to grow mid to high single digit”



8%



# Summary of Q4 and FY 2018 financial results

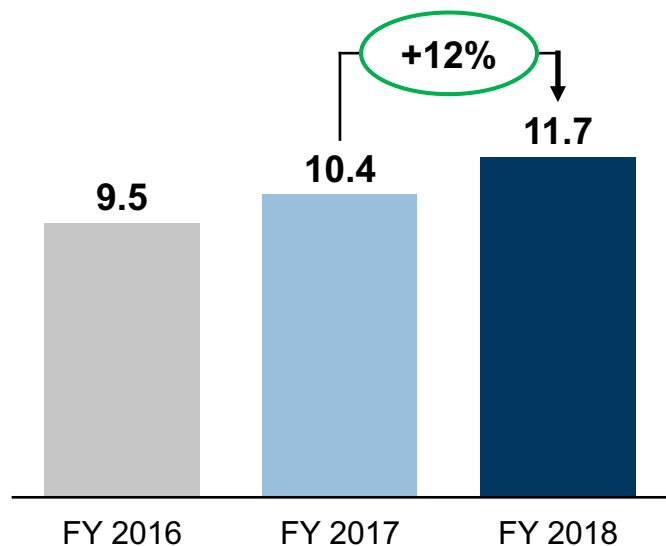
Group <sup>1</sup> USD million	Q4 2018	Change vs. PY		FY 2018	Change vs. PY	
		% USD	% cc		% USD	% cc
Net Sales	13,269	3	6	51,900	6	5
Core Operating income	3,387	5	11	13,823	8	8
Operating income	1,299	-37	-29	8,169	-5	-5
Net Income	1,194	-40	-32	12,614	64	64
Core EPS (USD)	1.25	3	9	5.15	6	6
EPS (USD)	0.52	-39	-32	5.44	66	66
Free Cash Flow	2,939	20		11,717	12	

1. Core results, constant currencies and free cash flow are non-IFRS measures. Further details regarding non-IFRS measures can be found starting on page 53 of the Condensed Financial Report

# FY 2018 free cash flow at USD 11.7bn

## Group free cash flow

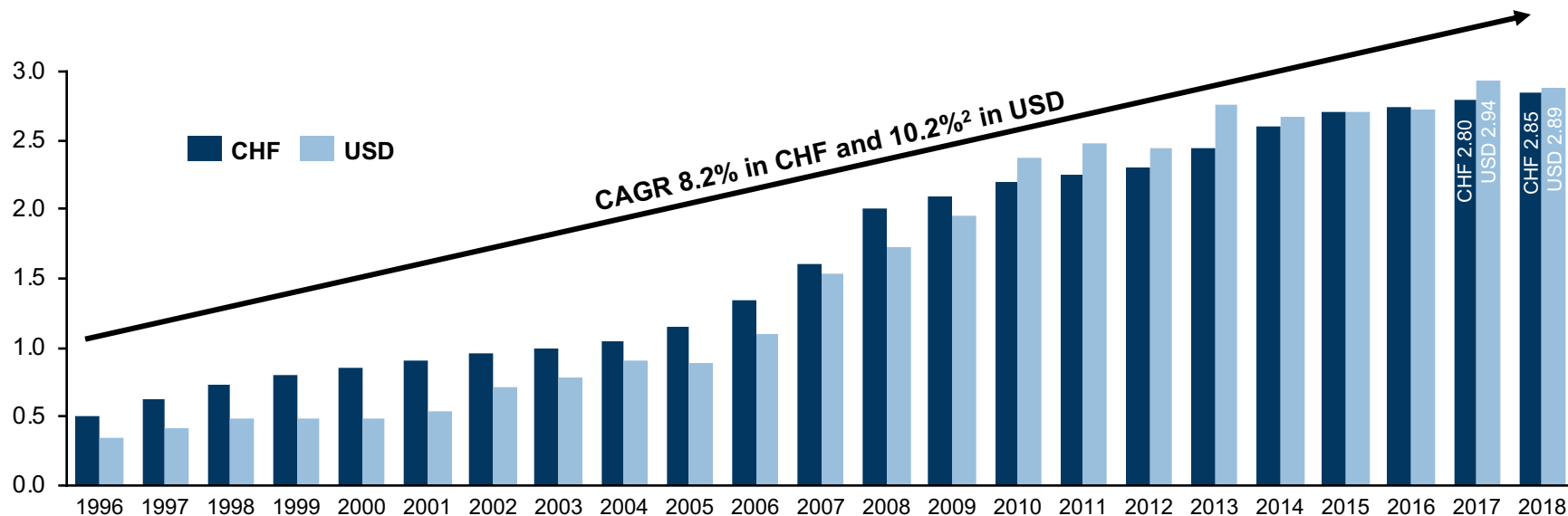
USD billion



## 2018 Key drivers vs. PY:

- + Cash flows from operating activities, mainly:
  - + Higher core operating income
  - + GSK milestone receipt (divested Vaccines business)
- Higher net intangible investments

# Novartis proposes 22nd consecutive dividend increase to the AGM: 2.85 CHF / share<sup>1</sup>



1. Proposal to shareholders at the 2019 Annual General Meeting, taking place on February 28, 2019 2. Converted at historic exchange rates at the dividend payment dates as per Bloomberg; assumes an exchange rate of USD / CHF of 0.9862 as of December 31, 2018 for 2018



# 2019 Novartis full year guidance

Barring unforeseen events (in cc); Growth vs PY in cc

## Current Group structure

No change to current Group Structure

### Net Sales

Expected to grow low to mid single digit

- IM Division to grow mid single digit
- Sandoz to decline low single digit
- Alcon to grow low to mid single digit

### Core Operating Income

Expected to grow mid single digit

- Alcon Core OpInc margin expected to expand

## New focused medicines company

Excl. Alcon<sup>1</sup> & Sandoz proposed US portfolio sale to Aurobindo<sup>2</sup> from both 2018 and 2019

Expected to grow mid single digit

- IM Division to grow mid single digit
- Sandoz to be broadly in line with prior year

Expected to grow mid to high single digit

**Key Assumption:** All guidance includes forecast assumption that **no Gilenya<sup>®</sup> generics enter in 2019**. However, generic competitors may still launch at risk

1. The planned 100% spinoff of Alcon remains subject to certain conditions precedent, such as no material adverse events, receipt of necessary authorizations as well as tax rulings and opinions and shareholder approval at the AGM in February 2019; completion expected in H1 2019 2. The announced sale of Sandoz US dermatology and oral solids portfolio to Aurobindo, expected to close during 2019, is subject to the completion of customary closing conditions. Estimated 2018 FY Sales and Core OpInc of the Sandoz US Oral solids and Dermatology businesses were approximately USD 1.2bn and 0.3bn, respectively.



# Closing

# We will continue to drive our priorities in 2019



## Breakthrough Innovation

- Deliver pipeline targets, incl. Zolgensma™, Mayzent™, RTH258 and BYL719 approvals
- Maintain high proportion of first-in-class / transformative assets
- Extend leadership in cell, gene and radioligand therapies



## Operational Excellence

- Execute Alcon spin and progress Sandoz transformation
- Drive productivity through NTO and NBS transformations
- Deliver performance of in-market growth drivers
- Prepare for 10+ potential blockbuster launches, incl. 4 in 2019



## Data & Digital Leadership

- Scale top 5 digital initiatives across the company
- Upskill digital capabilities in all units and functions
- Build Novartis position within digital ecosystem



## Building Trust & Reputation

- Continue to embed principles-based decision-making (P3)
- Implement Novartis Access Principles, with every new innovative medicine launch having an access plan
- Progress efforts in global health



## Culture Transformation

- Continue 5-year journey to transform culture, with a focus on strengthening leadership capabilities
- Further increase diversity and inclusion

**Deliver financials**  
Sales growth and margin expansion



# Q&A