Novartis AG (NVS)

Updated April 27th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$87	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$199 billion
Fair Value Price:	$101	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date**	3/4/2022[1]
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.0%	**Dividend Payment Date:**	3/15/2022[2]
Dividend Yield:	3.9%	**5 Year Price Target**	$122	**Years Of Dividend Growth:**	25[3]
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	1.7%[4]

Overview & Current Events

Novartis researches, develops and markets products to improve patients' health. The company's Innovative Medicines division offers medicines in the areas of oncology, cardiovascular, dermatology, respiratory and several others. Novartis' Sandoz division markets generic drugs. Novartis employs 106,000 people and has annual sales of more than $52 billion. Novartis is incorporated in Switzerland, but U.S. investors have access to the company through an American Depositary Receipt, or ADR.

Novartis reported first quarter results on 4/27/2021. All figures in U.S. dollars. Revenue grew 1% to $12.4 billion, but missed estimates by $49 million. Adjusted earnings-per-share of $1.52 was a 2.6% decline from the prior year and $0.10 lower than expected. Excluding COVID-10 related purchases in Q1 2020, first quarter revenue is believed to have increased by 4%.

All figures in constant currency. Innovative Medicines was flat for the year as 4% gain in volume was offset by a 4% decline in realized prices. *Cosentyx*, which treats plaque psoriasis and is the company's top selling product, continues to perform well, producing 11% growth year-over-year due to gains across indications. *Entresto*, which is used to treat chronic heart failure, improved 34% as the product is now first-line therapy for heart failure patients following recommendations from the Heart Failure Association of the European Society of Cardiology in 2019. Sales for *Tafinlar + Mekinist*, which treats melanoma, were up 4% due to ongoing demand in adjuvant melanoma. Sales for *Promacta/Revolade*, which helps lower the risk of bleeding, again increased 13% as the product is now a first-line treatment in the U.S for severe aplastic anemia. *Kymriah*, used to treat patients with acute lymphoblastic leukemia that have relapsed, accelerated to 55% growth due to faster than anticipated conversion to paid prescriptions. *Kymriah* was approved in the U.S. in 2017 for treatment of patients up to 25 years old and is now approved in 28 countries. Sandoz sales fell 13%, mostly due to pricing pressure related to increased competition. Analysts expect Novartis to earn $6.29 in 2021, down from $6.40 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.78	$3.89	$3.70	$4.13	$2.92	$2.82	$3.28	$5.14	$5.28	$5.78	***$6.29***	***$7.65***
DPS	$2.36	$2.41	$2.43	$2.76	$2.67	$2.72	$2.72	$2.94	$2.57	$3.09	***$3.38***	***$4.11***
Shares[5]	2422	2472	2426	2399	2374	2374	2318	2300	2230	2254	***2254***	***2230***

Novartis increased earnings at a rate of 4.8% per year from 2011 through 2020; earnings actually grew during the last recession. Healthcare companies often perform well during recessions as people will seek out treatments for aliments regardless of the economic climate. Due to continued strength of the company's top selling products, we are reiterating our expect earnings-per-share annual growth rate of 4%.

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[1] Estimated ex-dividend date
[2] Estimated payment date
[3] In local currency
[4] In local currency
[5] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Novartis pays an annual dividend, with the most recent announcement stating the company is increasing its 2021 dividend 1.7% to $3.38 in USD. The company has increased its dividend 25 consecutive years in local currency. The dividend for U.S. investors was maintained in 2016 and 2017 after being cut slightly in 2015 due to currency exchange. Dividends are declared in Swiss Francs.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.2	14.8	19.8	21.4	33.3	27.3	24.5	15.2	28.4	24.6	***13.8***	***16.0***
Avg. Yld.	4.1%	4.2%	3.3%	3.1%	2.7%	3.5%	3.4%	3.6%	3.2%	3.5%	***3.9%***	***3.4%***

Novartis saw earnings-per-share decline at the same time the share price accelerated in the 2013-2015 period. We assign shares a fair value price-to-earnings multiple of 16 to help account for the wide variance in valuations over the last decade. This valuation is a premium to most peers, but we feel that the growth in the company's key products, as well as the expectation for new products to produce strong results, warrants the slight premium. Based off estimates for 2021, Novartis has a valuation of 13.8 times earnings. If shares were to reach our target by 2026, then valuation could add 3% to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

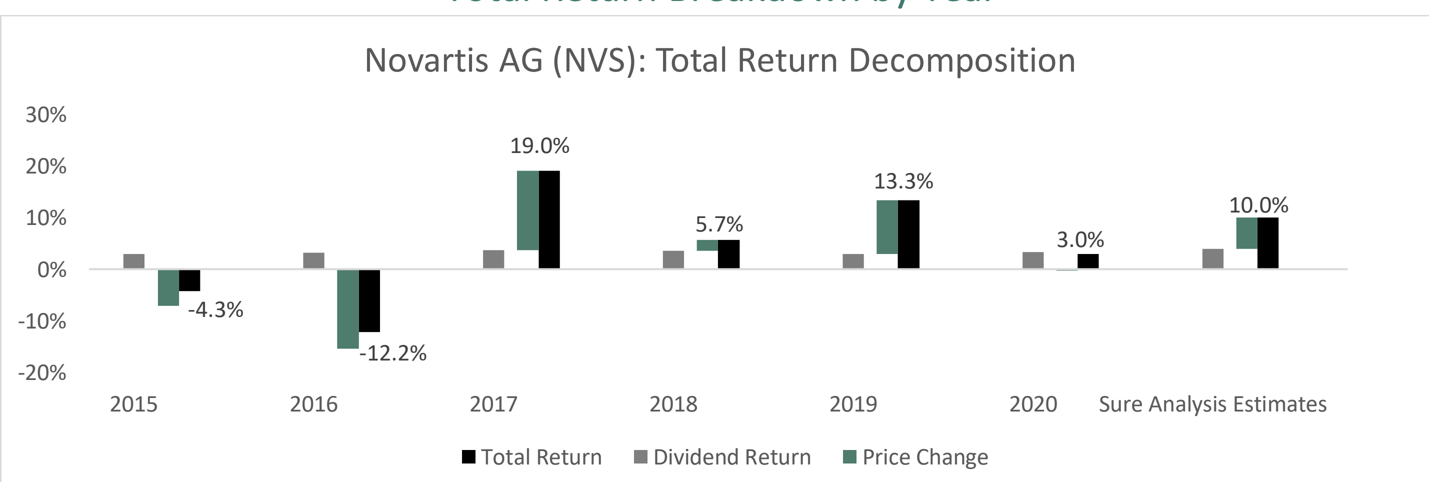
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	62%	62%	66%	67%	91%	97%	83%	57%	49%	53%	***54%***	***54%***

The chief competitive advantage for Novartis is its Innovative Medicines division, which has shown impressive growth over the last year. Four different products have reached the $1 billion annual sales mark. Another key advantage for the company is Novartis' willingness to spend on research and development. The company spent more than $9 billion on R&D over the last year. This level of R&D spending should pay off as Novartis expects to bring to market 14 different products over the next two years with the potential for at least a billion dollars in peak sales.

Final Thoughts & Recommendation

Novartis is now expected to return 10.0% annually through 2026, equal with our prior estimate of 10%. The year-over-year comparable numbers were weak, but this was primarily due to COVID-19 stocking in the prior year. Competition remains a headwind for the company's generic business, but Novartis enjoys high rates of growth for many of its products. We have lowered our 2026 price target $3 to $122, but maintain our buy rating on Novartis.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	59,375	51,971	52,716	53,634	50,387	49,436	43,404	46,099	48,677	49,898
Gross Profit	40,392	36,105	36,137	36,289	32,983	31,916	29,771	31,589	34,252	34,777
Gross Margin	68.0%	69.5%	68.6%	67.7%	65.5%	64.6%	68.6%	68.5%	70.4%	69.7%
SG&A Exp.	18,049	15,117	15,241	14,993	14,247	14,192	12,465	13,717	14,369	14,197
D&A Exp.	5,788	4,442	4,405	4,682	5,471	6,043	4,736	5,211	5,826	6,464
Operating Profit	10,780	11,507	10,983	11,089	8,977	8,268	8,702	8,403	9,086	10,152
Op. Margin	18.2%	22.1%	20.8%	20.7%	17.8%	16.7%	20.0%	18.2%	18.7%	20.3%
Net Profit	8,940	9,270	9,175	10,210	17,783	6,712	7,703	12,611	11,732	8,072
Net Margin	15.1%	17.8%	17.4%	19.0%	35.3%	13.6%	17.7%	27.4%	24.1%	16.2%
Free Cash Flow	11,922	11,422	9,796	10,493	8,392	8,596	10,327	11,726	12,225	11,153
Income Tax	1,483	1,706	1,498	1,545	1,106	1,119	1,603	1,295	1,793	1,807

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	117.50	124.19	126.25	125.39	131.56	130.12	133.08	145.56	118.37	132.06
Cash & Equivalents	3,709	5,552	6,687	13,023	4,674	7,007	8,860	13,271	11,173	11,267
Acc. Receivable	10,323	10,051	9,902	8,275	8,180	8,202	8,600	8,727	8,301	8,217
Inventories	5,930	6,744	7,267	6,093	6,226	6,255	6,867	6,956	6,092	7,242
Goodwill & Int.	61,912	61,421	58,867	53,143	65,391	62,320	61,747	74,013	55,311	66,808
Total Liabilities	51,556	54,928	51,782	54,543	54,434	55,233	58,852	66,871	62,819	75,393
Accounts Payable	4,989	5,593	6,148	5,419	5,668	4,873	5,169	5,556	5,424	5,403
Long-Term Debt	20,229	19,726	17,915	20,359	21,901	23,686	28,425	32,090	27,199	35,850
Total Equity	65,844	69,137	74,343	70,766	77,046	74,832	74,168	78,614	55,474	56,598
D/E Ratio	0.31	0.29	0.24	0.29	0.28	0.32	0.38	0.41	0.49	0.63

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.4%	7.7%	7.3%	8.1%	13.8%	5.1%	5.9%	9.1%	8.9%	6.4%
Return on Equity	13.9%	13.7%	12.8%	14.1%	24.1%	8.8%	10.3%	16.5%	17.5%	14.4%
ROIC	10.0%	10.6%	10.1%	11.1%	18.7%	6.8%	7.7%	11.8%	12.1%	9.2%
Shares Out.	2422	2472	2426	2399	2374	2374	2318	2300	2230	2254
Revenue/Share	24.61	21.26	21.27	21.71	20.67	20.60	18.31	19.67	20.99	21.73
FCF/Share	4.94	4.67	3.95	4.25	3.44	3.58	4.36	5.00	5.27	4.86

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.