Novartis AG (NVS)

Updated April 30th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$196 B
Fair Value Price:	$99	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date**	03/03/23[1]
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.4%	**Dividend Payment Date:**	03/15/23[2]
Dividend Yield:	3.8%	**5 Year Price Target**	$121	**Years Of Dividend Growth:**	26[3]
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

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 110,000 people and has annual sales of more than $53 billion. Novartis is incorporated in Switzerland, but U.S. investors have access to the company through an American Depositary Receipt, or ADR.

On April 26th, 2022, Novartis reported first quarter results for the period ending March 31st, 2022. figures in U.S. dollars. Revenue grew 1% to $12.53 billion, but missed estimates by $80 million. Adjusted earnings-per-share of $1.46 compared to $1.52 in the prior year and was $0.05 below expectations.

All figures in constant currency. Volume grew 11% for the quarter, but this was offset by a 3% headwind for both net selling prices and generic competition. Innovative Medicines grew 4% during the quarter due to strength in product volumes. *Cosentyx*, which treats plaque psoriasis and is the company's top selling product, grew 12% due higher demand in the U.S. and Europe. *Entresto*, which is used to treat chronic heart failure, increased 42%, with higher patient share in almost regions. *Tafinlar + Mekinist*, which treats melanoma, was up 7% due to continued elevated demand in adjuvant and metastatic melanoma. Sales for *Promacta/Revolade*, which helps lower the risk of bleeding, grew 9%, with most regions again showing growth. Sandoz sales improved 2%. Novartis announced in late 2021 that it was conducting a "strategic review" of its Sandoz segment, with a decision regarding the segment likely before the end of the year.

We expect Novartis to earn $6.20 in 2022, down from $6.39 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.89	$3.70	$4.13	$2.92	$2.82	$3.28	$5.14	$5.28	$5.78	$6.29	***$6.20***	***$7.54***
DPS	$2.41	$2.43	$2.76	$2.67	$2.72	$2.72	$2.94	$2.57	$3.09	$3.20	***$3.33***	***$4.05***
Shares[4]	2472	2426	2399	2374	2374	2318	2300	2230	2254	2254	***2254***	***2230***

Novartis increased earnings at a rate of 5.5% per year over the last decade, with growth accelerating to more than 14% since 2017. The company is also recession-resistant as it saw growth 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%.

Novartis pays an annual dividend, with the most recent announcement stating the company increased its 2022 dividend 4.1% to $3.33 in USD. The company has increased its dividend 26 consecutive years in local currency. The dividend for

[1] Estimated ex-dividend date
[2] Estimated payment date
[3] In local currency
[4] 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.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.8	19.8	21.4	33.3	27.3	24.5	15.2	28.4	24.6	13.9	***14.2***	***16.0***
Avg. Yld.	4.2%	3.3%	3.1%	2.7%	3.5%	3.4%	3.6%	3.2%	3.5%	3.7%	***3.8%***	***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. Shares of Novartis have increased $2, or 2.3%, since our February 3rd, 2022 update. Based off estimates for 2022, Novartis has a multiple of 14.2 times earnings. If shares were to reach our target by 2027, then valuation could add 2.4% to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

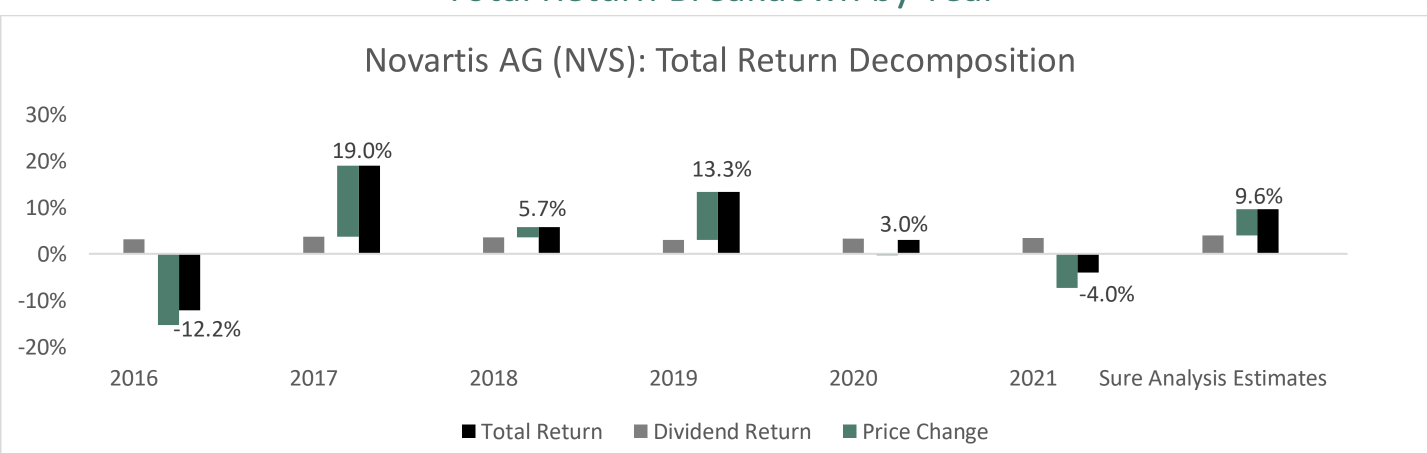
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	62%	66%	67%	91%	97%	83%	57%	49%	53%	51%	***54%***	***54%***

The chief competitive advantage for Novartis is its Innovative Medicines division, which has shown impressive growth over the last year. Six different products have reached the $2 billion annual sales mark. Another key advantage for the company is Novartis' willingness to spend on research and development. The company spends close to $10 billion annually on R&D. This level of R&D spending should pay off as Novartis expects to bring to market 20+ different products over the next few years with the potential for at least a billion dollars in peak sales.

Final Thoughts & Recommendation

Novartis is now expected to return 9.6% annually through 2027, down from our prior estimate of 10.6%. This projection stems from a 4% earnings growth rate, a starting yield of 3.8%, and a small contribution from multiple expansion. Novartis continues to see solid to strong growth rates for most of its key products. We have lowered our five-year price target $2 to $121 due to earnings estimates for the year and now view shares of Novartis as a hold. On a slight pullback, we would be buyers of the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	51,971	52,716	53,634	50,387	49,436	43,404	46,099	48,677	49,898	52,877
Gross Profit	36,105	36,137	36,289	32,983	31,916	29,771	31,589	34,252	34,777	37,010
Gross Margin	69.5%	68.6%	67.7%	65.5%	64.6%	68.6%	68.5%	70.4%	69.7%	70.0%
SG&A Exp.	15,117	15,241	14,993	14,247	14,192	12,465	13,717	14,369	14,197	14,886
D&A Exp.	4,442	4,405	4,682	5,471	6,043	4,736	5,211	5,826	6,464	6,113
Operating Profit	11,507	10,983	11,089	8,977	8,268	8,702	8,403	9,086	10,152	11,689
Op. Margin	22.1%	20.8%	20.7%	17.8%	16.7%	20.0%	18.2%	18.7%	20.3%	22.1%
Net Profit	9,270	9,175	10,210	17,783	6,712	7,703	12,611	11,732	8,072	24,021
Net Margin	17.8%	17.4%	19.0%	35.3%	13.6%	17.7%	27.4%	24.1%	16.2%	45.4%
Free Cash Flow	11,422	9,796	10,493	8,392	8,596	10,327	11,726	12,225	11,153	12,100
Income Tax	1,706	1,498	1,545	1,106	1,119	1,603	1,295	1,793	1,807	2,119

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	124.19	126.25	125.39	131.56	130.12	133.08	145.56	118.37	132.06	131.8
Cash & Equivalents	5,552	6,687	13,023	4,674	7,007	8,860	13,271	11,173	11,267	12,407
Acc. Receivable	10,051	9,902	8,275	8,180	8,202	8,600	8,727	8,301	8,217	8,005
Inventories	6,744	7,267	6,093	6,226	6,255	6,867	6,956	6,092	7,242	6,666
Goodwill & Int.	61,421	58,867	53,143	65,391	62,320	61,747	74,013	55,311	66,808	63,777
Total Liabilities	54,928	51,782	54,543	54,434	55,233	58,852	66,871	62,819	75,393	63,973
Accounts Payable	5,593	6,148	5,419	5,668	4,873	5,169	5,556	5,424	5,403	5,553
Long-Term Debt	19,726	17,915	20,359	21,901	23,686	28,425	32,090	27,199	35,850	29,129
Total Equity	69,137	74,343	70,766	77,046	74,832	74,168	78,614	55,474	56,598	67,655
LTD/E Ratio	0.29	0.24	0.29	0.28	0.32	0.38	0.41	0.49	0.63	0.43

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.7%	7.3%	8.1%	13.8%	5.1%	5.9%	9.1%	8.9%	6.4%	18.5%
Return on Equity	13.7%	12.8%	14.1%	24.1%	8.8%	10.3%	16.5%	17.5%	14.4%	38.7%
ROIC	10.6%	10.1%	11.1%	18.7%	6.8%	7.7%	11.8%	12.1%	9.2%	25.4%
Shares Out.	2472	2426	2399	2374	2374	2318	2300	2230	2254	2254
Revenue/Share	21.26	21.27	21.71	20.67	20.60	18.31	19.67	20.99	21.73	23.40
FCF/Share	4.67	3.95	4.25	3.44	3.58	4.36	5.00	5.27	4.86	5.35

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