Novartis AG (NVS)

Updated February 4th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	11.2%	**Market Cap:**	$182 B
Fair Value Price:	$104	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date**	03/09/23
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.9%	**Dividend Payment Date:**	03/30/23
Dividend Yield:	4.0%	**5 Year Price Target**	$127	**Years Of Dividend Growth:**	27[1]
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Buy

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 about $52 billion. Novartis is incorporated in Switzerland, but U.S. investors have access to the company through an American Depositary Receipt, or ADR.

On February 1st, 2023, Novartis reported fourth quarter and full year results for the period ending December 31st, 2022. All figures in U.S. dollars. For the quarter, revenue decreased 4.1% to $12.7 billion and was $448 million less than expected. Adjusted earnings-per-share of $1.52 compared favorably to $1.40 in the prior year and was $0.09 above estimates. For the year, revenue declined 2.1% to $50.5 billion while adjusted earnings-per-share fell slightly to $6.12.

Currency exchange negatively impacted results by 7% during the quarter. All figures in constant currency. Innovative Medicines grew 4% for the quarter. Volume improved 11%, but was largely offset by lower realized prices amid generic competition. *Cosentyx*, which treats plaque psoriasis and is the company's top selling product, was lower by 9%, though sales improved 5% in regions outside of the U.S. *Entresto*, which is used to treat chronic heart failure, grew 44% as the product continues to see increased patient share across all markets. *Tafinlar + Mekinist*, which treats melanoma, was higher by 8% due to continued high demand in adjuvant and non-small cell lung cancer. Sales for *Promacta/Revolade*, which helps lower the risk of bleeding, increased 11%, with most regions again showing growth. Sandoz was lower by 4%. Novartis intends to spinoff Sandoz into a standalone company by the second half of the year. Novartis has $4.9 billion, or 2.4% of its current market capitalization, remaining on its share buyback authorization.

We expect Novartis to earn $6.51 in 2023, which would be a 6.4% increase from the prior year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.70	$4.13	$2.92	$2.82	$3.28	$5.14	$5.28	$5.78	$6.29	$6.12	***$6.51***	***$7.92***
DPS	$2.43	$2.76	$2.67	$2.72	$2.72	$2.94	$2.57	$3.09	$3.20	$3.33	***$3.47***	***$4.22***
Shares[2]	2426	2399	2374	2374	2318	2300	2230	2254	2254	2160	***2160***	***2100***

Novartis increased earnings at a rate of 5.8% per year over the last decade. 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 company raisings its 2023 dividend 4.2% to $3.47 in USD. The company has increased its dividend 27 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.

[1] In local currency

[2] Share count in millions

Novartis AG (NVS)

Updated February 4th, 2023 by Nathan Parsh

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.8	21.4	33.3	27.3	24.5	15.2	28.4	24.6	13.9	14.8	***13.2***	***16.0***
Avg. Yld.	3.3%	3.1%	2.7%	3.5%	3.4%	3.6%	3.2%	3.5%	3.7%	3.7%	***4.0%***	***3.3%***

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 $8, or 10.3%, since our October 25th, 2022 update. Based off estimates for 2023, Novartis has a multiple of 13.2 times earnings. If shares were to reach our target by 2028, then valuation could add 3.9% to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

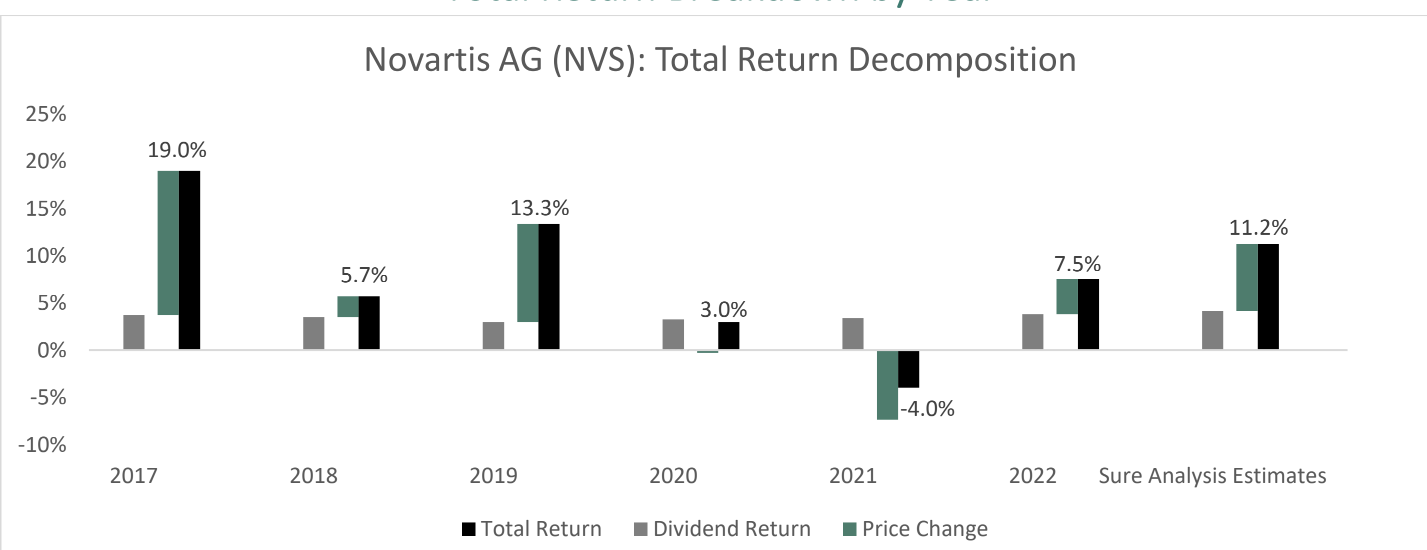
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66%	67%	91%	97%	83%	57%	49%	53%	51%	54%	***53%***	***53%***

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 11.2% annually through 2028, down from our prior estimate of 12.0%. This projection stems from a 4% earnings growth rate, a starting yield of 4.0%, and a low single-digit contribution from multiple expansion. Novartis' most important products continue to see very good growth rates, but the strong U.S. dollar has negatively impacted results. We have raised our five-year price target $8 of $127 due to earnings estimates for the year and continue to rate shares of Novartis as a buy due to projected returns.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

Novartis AG (NVS)

Updated February 4th, 2023 by Nathan Parsh

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	52,716	53,634	50,387	49,436	43,404	46,099	48,677	49,898	52,877	51,828
Gross Profit	36,137	36,289	32,983	31,916	29,771	31,589	34,252	34,777	37,010	36,342
Gross Margin	68.6%	67.7%	65.5%	64.6%	68.6%	68.5%	70.4%	69.7%	70.0%	70.1%
SG&A Exp.	15,241	14,993	14,247	14,192	12,465	13,717	14,369	14,197	14,886	14,253
D&A Exp.	4,405	4,682	5,471	6,043	4,736	5,211	5,826	6,464	6,113	7,181
Operating Profit	10,983	11,089	8,977	8,268	8,702	8,403	9,086	10,152	11,689	9,197
Op. Margin	20.8%	20.7%	17.8%	16.7%	20.0%	18.2%	18.7%	20.3%	22.1%	17.7%
Net Profit	9,175	10,210	17,783	6,712	7,703	12,611	11,732	8,072	24,021	6,955
Net Margin	17.4%	19.0%	35.3%	13.6%	17.7%	27.4%	24.1%	16.2%	45.4%	13.4%
Free Cash Flow	9,796	10,493	8,392	8,596	10,327	11,726	12,225	11,153	12,100	11,565
Income Tax	1,498	1,545	1,106	1,119	1,603	1,295	1,793	1,807	2,119	1,416

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	126.25	125.39	131.56	130.12	133.08	145.56	118.37	132.06	131.8	117.5
Cash & Equivalents	6,687	13,023	4,674	7,007	8,860	13,271	11,173	11,267	12,407	7,517
Acc. Receivable	9,902	8,275	8,180	8,202	8,600	8,727	8,301	8,217	8,005	8,066
Inventories	7,267	6,093	6,226	6,255	6,867	6,956	6,092	7,242	6,666	7,175
Goodwill & Int.	58,867	53,143	65,391	62,320	61,747	74,013	55,311	66,808	63,777	60,945
Total Liabilities	51,782	54,543	54,434	55,233	58,852	66,871	62,819	75,393	63,973	58,030
Accounts Payable	6,148	5,419	5,668	4,873	5,169	5,556	5,424	5,403	5,553	5,146
Long-Term Debt	17,915	20,359	21,901	23,686	28,425	32,090	27,199	35,850	29,129	26,120
Total Equity	74,343	70,766	77,046	74,832	74,168	78,614	55,474	56,598	67,655	59,345
LTD/E Ratio	0.24	0.29	0.28	0.32	0.38	0.41	0.49	0.63	0.43	0.44

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.3%	8.1%	13.8%	5.1%	5.9%	9.1%	8.9%	6.4%	18.5%	5.6%
Return on Equity	12.8%	14.1%	24.1%	8.8%	10.3%	16.5%	17.5%	14.4%	38.7%	10.9%
ROIC	10.1%	11.1%	18.7%	6.8%	7.7%	11.8%	12.1%	9.2%	25.4%	7.6%
Shares Out.	2426	2399	2374	2374	2318	2300	2230	2254	2254	2160
Revenue/Share	21.27	21.71	20.67	20.60	18.31	19.67	20.99	21.73	23.40	23.59
FCF/Share	3.95	4.25	3.44	3.58	4.36	5.00	5.27	4.86	5.35	5.26

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