# Novartis AG (NVS)

*Updated January 31st, 2024 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $105 | **5 Year CAGR Estimate:** | 9.1% | **Market Cap:** | $240 B |
| **Fair Value Price:** | $117 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date** | 03/08/24[1] |
| **% Fair Value:** | 90% | **5 Year Valuation Multiple Estimate:** | 2.2% | **Dividend Payment Date:** | 03/29/24[2] |
| **Dividend Yield:** | 3.3% | **5 Year Price Target** | $142 | **Years Of Dividend Growth:** | 27[3] |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | B | **Rating:** | Hold |

## Overview & Current Events

Novartis researches, develops, and markets products to improve patients' health. The company offers medicines in the areas of oncology, cardiovascular, dermatology, respiratory, and several others. Novartis employs 110,000 people and has annual sales of about $48 billion. Novartis is incorporated in Switzerland, but U.S. investors have access to the company through an American Depositary Receipt, or ADR.

On October 4th, 2023, Novartis spun off its generic drug business Sandoz into a standalone company under the ticker symbol (SDZNY).

On January 31st, 2024, Novartis announced fourth quarter and full year results for the period ending December 31st, 2023. All figures in U.S. dollars. For the quarter, revenue increased 7.9% to $11.4 billion, which was $350 million less than expected. Adjusted earnings-per-share of $1.53 compared to $1.52 in the prior year, but was $0.13 below estimates. For 2023, revenue fell 1.4% to $49.8 billion while adjusted earnings-per-share of $6.81 compared to $6.12 in the prior year.

Currency exchange negatively impacted results during the period. In constant currency, quarterly sales grew 10% year-over-year. Volume increased 13%, but was offset by a 3% headwind from generic competition. *Kesimpta*, which is used to treat patients with relapsing multiple sclerosis, grew 77% due to strong demand across all regions. *Cosentyx*, which treats plaque psoriasis and is the company's second best-selling product, was higher by 21%. Demand outside of the U.S. was strong as sales improved 26% for these regions. U.S. revenue was higher by 17%. Revenue for *Entresto*, which is used to treat chronic heart failure and is the top grossing product, grew 26% as the product continues to see increased patient share across all markets. *Tafinlar + Mekinist*, which treats melanoma, was up 7% as gains in the U.S. and emerging markets were partially offset by lower sales in Europe. Sales for *Promacta/Revolade*, which helps lower the risk of bleeding, improved 4% from the prior year. Novartis repurchased a total of 87.5 million shares at an average price of $96 in 2023.

We expect Novartis to earn $7.31 in 2024, which would be an 7.3% increase from the prior year. The company expects mid-single-digit sales growth and high single-digit operating income growth for 2024.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $4.13 | $2.92 | $2.82 | $3.28 | $5.14 | $5.28 | $5.78 | $6.29 | $6.12 | $6.81 | ***$7.31*** | ***$8.89*** |
| **DPS** | $2.76 | $2.67 | $2.72 | $2.72 | $2.94 | $2.57 | $3.09 | $3.20 | $3.33 | $3.50 | ***$3.50*** | ***$4.26*** |
| **Shares[4]** | 2399 | 2374 | 2374 | 2318 | 2300 | 2230 | 2254 | 2254 | 2160 | 2100 | ***2100*** | ***2000*** |

Novartis increased earnings at a rate of 5.7% 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

[1] Estimated ex-dividend date
[2] Estimated dividend 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.*

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 $3.50 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. During the release of fourth quarter earnings results, it was also announced that the board of directors had proposed a 3.1% increase in the annualized dividend, which will be voted on at the annual meeting on March 5th, 2024. We have not yet included this proposed raise in our estimates, but do anticipate that it will be approved by shareholders.

## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 21.4 | 33.3 | 27.3 | 24.5 | 15.2 | 28.4 | 24.6 | 13.9 | 14.8 | 14.8 | ***14.4*** | ***16.0*** |
| **Avg. Yld.** | 3.1% | 2.7% | 3.5% | 3.4% | 3.6% | 3.2% | 3.5% | 3.7% | 3.7% | 3.5% | ***3.3%*** | ***3.0%*** |

Novartis saw earnings-per-share decline at the same time the share price accelerated in the 2013 to 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 $10, or 10.5%, since our October 24th, 2023 update. Based off estimates for 2024, Novartis has a multiple of 14.4 times earnings. If shares were to reach our target by 2029, then valuation could add 2.2% to annual returns over this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

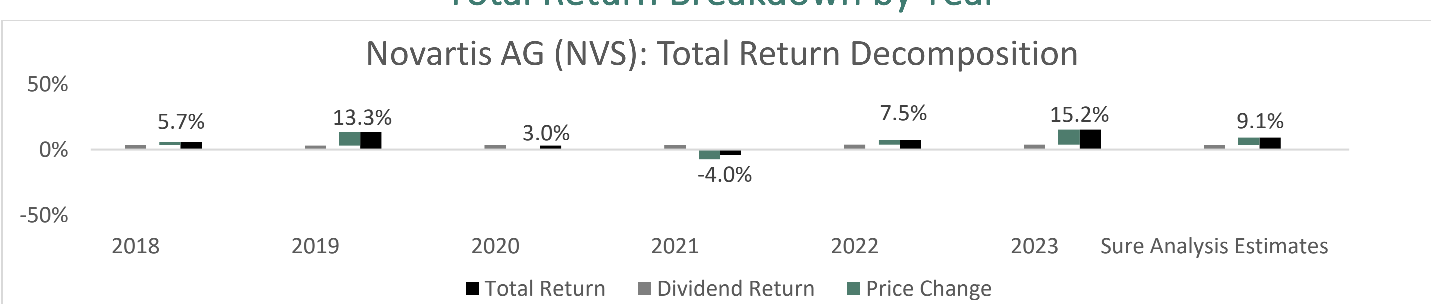
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 67% | 91% | 97% | 83% | 57% | 49% | 53% | 51% | 54% | 51% | ***48%*** | ***48%*** |

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 at least 25 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 9.1% annually through 2029, matching our prior estimate. This projection stems from a 4% earnings growth rate, a starting yield of 3.3%, and a low single-digit contribution from multiple expansion. Novartis' most important products once again saw very impressive growth rates. We have raised our five-year price target $15 to $142 due to earnings estimates for the year, but continue to rate shares of Novartis as a hold due to projected returns.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 53,634 | 50,387 | 49,436 | 43,404 | 46,099 | 48,677 | 49,898 | 43,974 | 43,461 | 46,660 |
| Gross Profit | 36,289 | 32,983 | 31,916 | 29,771 | 31,589 | 34,252 | 34,777 | 32,239 | 31,879 | 34,188 |
| Gross Margin | 67.7% | 65.5% | 64.6% | 68.6% | 68.5% | 70.4% | 69.7% | 73.3% | 73.4% | 73.3% |
| SG&A Exp. | 14,993 | 14,247 | 14,192 | 12,465 | 13,717 | 14,369 | 14,197 | 12,827 | 12,193 | 12,517 |
| D&A Exp. | 4,682 | 5,471 | 6,043 | 4,736 | 5,211 | 5,826 | 6,464 | 5,597 | 6,705 | 8,277 |
| Operating Profit | 11,089 | 8,977 | 8,268 | 8,702 | 8,403 | 9,086 | 10,152 | 10,056 | 7,946 | 9,769 |
| Op. Margin | 20.7% | 17.8% | 16.7% | 20.0% | 18.2% | 18.7% | 20.3% | 22.9% | 18.3% | 20.9% |
| Net Profit | 10,210 | 17,783 | 6,712 | 7,703 | 12,611 | 11,732 | 8,072 | 24,021 | 6,955 | 14,850 |
| Net Margin | 19.0% | 35.3% | 13.6% | 17.7% | 27.4% | 24.1% | 16.2% | 54.6% | 16.0% | 31.8% |
| Free Cash Flow | 10,493 | 8,392 | 8,596 | 10,327 | 11,624 | 11,368 | 11,065 | 12,515 | 11,997 | 11,705 |
| Income Tax | 1,545 | 1,106 | 1,119 | 1,603 | 1,295 | 1,793 | 1,807 | 1,625 | 1,128 | 551 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets ($B) | 125.39 | 131.56 | 130.12 | 133.08 | 145.56 | 118.37 | 127.78 | 131.80 | 117.45 | 99.95 |
| Cash & Equivalents | 13,023 | 4,674 | 7,007 | 8,860 | 13,271 | 11,112 | 9,658 | 12,407 | 7,517 | 13,393 |
| Acc. Receivable | 8,275 | 8,180 | 8,202 | 8,600 | 8,727 | 8,301 | 8,217 | 8,005 | 8,066 | 7,107 |
| Inventories | 6,093 | 6,226 | 6,255 | 6,867 | 6,956 | 5,982 | 7,131 | 6,666 | 7,175 | 5,913 |
| Goodwill & Int. | 53,143 | 65,391 | 62,320 | 61,747 | 74,013 | 55,311 | 66,808 | 63,777 | 60,945 | 50,220 |
| Total Liabilities | 54,543 | 54,434 | 55,233 | 58,852 | 66,871 | 62,819 | 71,112 | 63,973 | 58,030 | 53,195 |
| Accounts Payable | 5,419 | 5,668 | 4,873 | 5,169 | 5,556 | 5,424 | 5,403 | 5,553 | 5,146 | 4,926 |
| Long-Term Debt | 20,359 | 21,901 | 23,686 | 28,425 | 32,090 | 27,199 | 35,850 | 29,129 | 26,120 | 24,520 |
| Total Equity | 70,766 | 77,046 | 74,832 | 74,168 | 78,614 | 55,474 | 56,598 | 67,655 | 59,342 | 46,667 |
| LTD/E Ratio | 0.29 | 0.28 | 0.32 | 0.38 | 0.41 | 0.49 | 0.63 | 0.43 | 0.44 | 0.53 |

## Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 8.1% | 13.8% | 5.1% | 5.9% | 9.1% | 8.9% | 6.6% | 18.5% | 5.6% | 13.7% |
| Return on Equity | 14.1% | 24.1% | 8.8% | 10.3% | 16.5% | 17.5% | 14.4% | 38.7% | 11.0% | 28.0% |
| ROIC | 11.1% | 18.7% | 6.8% | 7.7% | 11.8% | 12.1% | 9.2% | 25.4% | 7.6% | 18.9% |
| Shares Out. | 2399 | 2374 | 2374 | 2318 | 2300 | 2230 | 2254 | 2254 | 2160 | 2100 |
| Revenue/Share | 21.71 | 20.67 | 20.60 | 18.31 | 19.67 | 20.99 | 21.73 | 19.46 | 19.78 | 22.30 |
| FCF/Share | 4.25 | 3.44 | 3.58 | 4.36 | 4.96 | 4.90 | 4.82 | 5.54 | 5.46 | 5.60 |

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