Novartis AG (NVS)

Updated October 29th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$220 B
Fair Value Price:	$120	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date**	03/07/25[1]
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Dividend Payment Date:**	04/18/25[2]
Dividend Yield:	3.4%	**5 Year Price Target**	$146	**Years Of Dividend Growth:**	28[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 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 October 29th, 2024, Novartis reported third quarter results for the period ending September 30th, 2024. All figures are in U.S. dollars. For the quarter, revenue increased 8.9% to $12.8 billion, which was $157 million more than expected. Adjusted earnings-per-share of $2.06 compared to $1.74 in the prior year and was $0.13 ahead of estimates.

In constant currency, revenue grew 9%. Volume increased 12%, but this was offset by a 2% headwind from generic competition. Pricing was unchanged. Revenue for *Kesimpta*, which is used to treat patients with relapsing multiple sclerosis, grew 28% due to strong demand across all regions. *Cosentyx*, which treats plaque psoriasis, was also up 28% as demand remains high in the U.S., Europe, and emerging growth markets. Revenue for *Entresto*, which is used to treat chronic heart failure and is the company's top grossing product, was higher by 26% as the product continues to see increased patient share across all markets. *Tafinlar + Mekinist*, which treats melanoma, grew 12% due to strength in the U.S and emerging markets. The company announced that it needed additional time to evaluate a bone marrow cancer drug it acquired when purchasing German drugmaker MorphoSys following a phase III study. Novartis has repurchased a total of 52.7 million shares at an average price of $108 through the first three quarters of the year.

We expect Novartis to earn $7.49 in 2024, up from $7.38 and $7.00 previously. This would be an 10% increase from the prior year. The company now expects low double-digit sales growth, up from high single to low double-digit growth and mid-single-digit growth previously.

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	***$7.49***	***$9.11***
DPS	$2.76	$2.67	$2.72	$2.72	$2.94	$2.57	$3.09	$3.20	$3.33	$3.50	***$3.74***	***$4.55***
Shares[4]	2399	2374	2374	2318	2300	2230	2254	2254	2160	2100	***2033***	***2000***

Novartis increased earnings at a rate of 5.7% per year over the last decade. The company has proven itself 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%.

[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.

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Novartis pays an annual dividend, with the company raising its 2024 dividend 6.9% to $3.74 in USD. The company has increased its dividend 28 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	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	***14.8***	***16.0***
Avg. Yld.	3.1%	2.7%	3.5%	3.4%	3.6%	3.2%	3.5%	3.7%	3.7%	3.5%	***3.4%***	***3.1%***

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 $4, or 3.7%, since our July 21st, 2024 update. Novartis trades at 14.8 times earnings estimates for the year. If shares were to reach our target by 2029, then valuation could add 1.5% to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

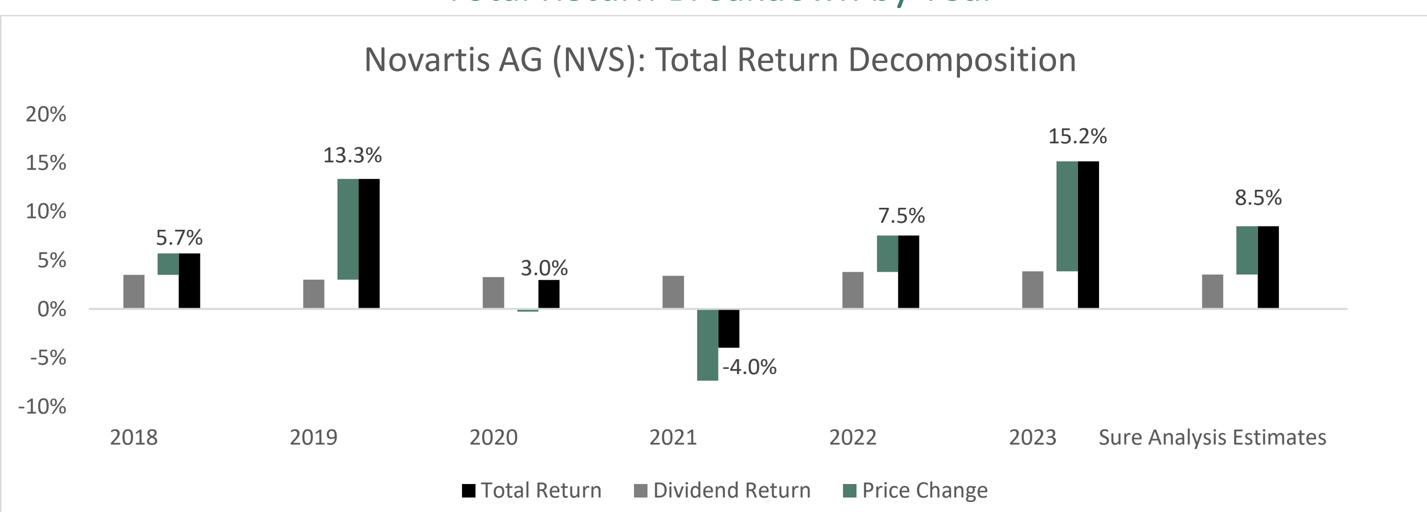
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	67%	91%	97%	83%	57%	49%	53%	51%	54%	51%	***50%***	***50%***

The chief competitive advantage for Novartis is its Innovative Medicines division, which has shown impressive growth over the last year. Seven different products have reached the $1.5 billion annual sales mark. Another key advantage for the company is Novartis' willingness to spend on research and development. The company spends more than $11 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 8.5% annually through 2029, down from our prior estimate of 9.0%. This projection stems from a 4% earnings growth rate, a starting yield of 3.4%, and a small contribution from multiple expansion. Novartis' most important products once again showed very high rates of growth. We have raised our five-year price target $2 to $146 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.

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