Novartis AG (NVS)

Updated February 3rd, 2025, by Nathan Parsh

Key Metrics

Current Price:	$105	**5 Year CAGR Estimate:**	12.4%	**Market Cap:**	$207 B
Fair Value Price:	$137	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date**	03/07/25[1]
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.5%	**Dividend Payment Date:**	04/18/25[2]
Dividend Yield:	3.6%	**5 Year Price Target**	$167	**Years Of Dividend Growth:**	28[3]
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 offers medicines in the areas of oncology, cardiovascular, dermatology, respiratory, and several others. Novartis employs 76,000 people and has annual sales of about $53 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, 2025, Novartis announced fourth quarter and full year results for the period ending December 31st, 2024. All figures are in U.S. dollars. For the quarter, revenue grew 15.1% to $13.2 billion, which was $330 million above estimates. Adjusted earnings-per-share of $1.98 compared to $1.53 in the prior year and topped expectations by $0.20. For the year, revenue grew 1% to $50.3 billion while adjusted earnings-per-share of $7.81 compared to $6.81 in 2023.

In constant currency, revenue grew 16% for the quarter. Volume increased 15% and pricing was up slightly, but this was offset by a headwind from generic competition. For the year, sales improved 12% as volume gains were partially offset by generic competition. Pricing was flat. Revenue for *Kesimpta*, which is used to treat patients with relapsing multiple sclerosis, improved 49% to $950 million during the quarter due to higher demand. *Cosentyx*, which treats plaque psoriasis, grew 24% to $1.6 billion 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 34% to $2.2 billion as the product continues to grow in all markets, especially in the U.S. and Europe. *Tafinlar + Mekinist*, which treats melanoma, was up 10% to $527 million as demand remained high in the U.S., Japan, and emerging growth markets. *Kisqali*, which is used to treat certain types of breast cancer, grew 52% to $902 million due to growth across all regions. Novartis repurchased a total of 77.5 million shares at an average price of $107 during 2024.

We expect Novartis to earn $8.59 in 2025, which would be a 10% increase from the prior year. The company expects sales growth in a range of mid-single-digits to high single-digits.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.92	$2.82	$3.28	$5.14	$5.28	$5.78	$6.29	$6.12	$6.81	$7.81	***$8.59***	***$10.45***
DPS	$2.67	$2.72	$2.72	$2.94	$2.57	$3.09	$3.20	$3.33	$3.50	$3.74	***$3.74***	***$4.55***
Shares[4]	2374	2374	2318	2300	2230	2254	2254	2160	2100	2000	***2000***	***1975***

Novartis increased earnings at a rate of 11.6% per year over the last decade and 8.2% over the last five years. 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

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

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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 raised 6.9% to $3.74 in USD in 2024. 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	33.3	27.3	24.5	15.2	28.4	24.6	13.9	14.8	14.8	12.5	***12.2***	***16.0***
Avg. Yld.	2.7%	3.5%	3.4%	3.6%	3.2%	3.5%	3.7%	3.7%	3.5%	3.8%	***3.6%***	***2.7%***

Shares of Novartis have decreased $6, or 5.4%, since our October 29th, 2024 update. Shares have an average P/E of nearly 21 over the last decade, but this figure falls to 16.1 when looking at the last five years. We believe this is a good target earnings multiple for the stock. 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. Novartis trades at 12.2 times earnings estimates for the year. If shares were to reach our target by 2030, then valuation could add 5.5% to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

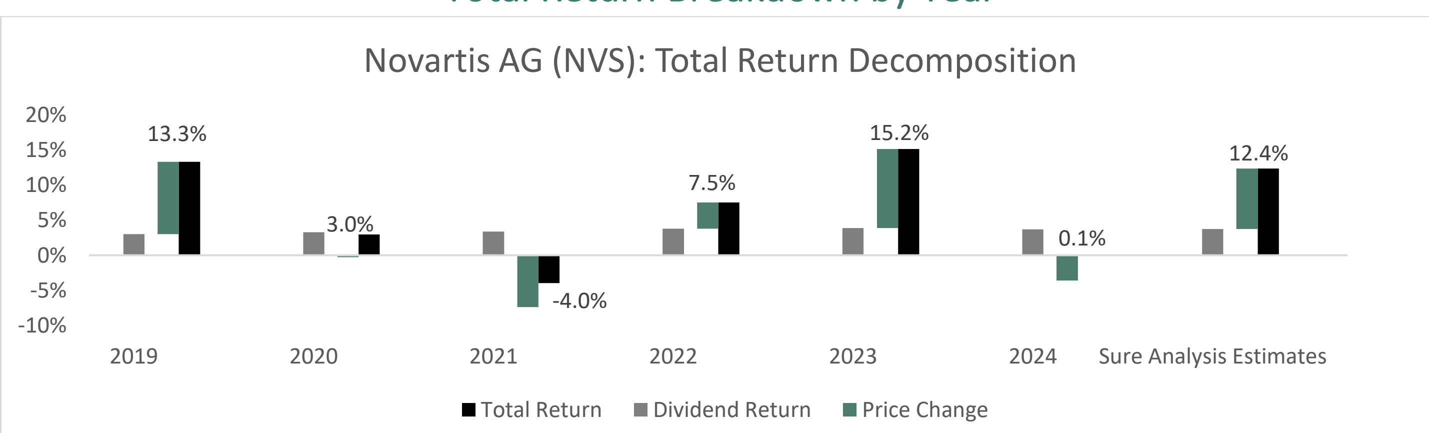
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	91%	97%	83%	57%	49%	53%	51%	54%	51%	48%	***44%***	***44%***

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 $10 billion annually on R&D. This level of R&D spending should pay off as Novartis expects to bring to market about 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 12.4% annually through 2030, up from our prior estimate of 8.5%. This projection stems from a 4% earnings growth rate, a starting yield of 3.6%, and a mid-single-digit contribution from multiple expansion. Novartis' most important products continue to show strong growth rates. We have raised our five-year price target $21 to $167 due to earnings estimates for the year and now rate shares of Novartis as a buy due to projected returns.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	50,387	49,436	43,404	46,099	48,677	49,898	43,974	43,461	46,660	51,722
Gross Profit	32,983	31,916	29,771	31,589	34,252	34,777	32,239	31,879	34,188	38,895
Gross Margin	65.5%	64.6%	68.6%	68.5%	70.4%	69.7%	73.3%	73.4%	73.3%	75.2%
SG&A Exp.	14,247	14,192	12,465	13,717	14,369	14,197	12,827	12,193	12,517	12,566
D&A Exp.	5,471	6,043	4,736	5,211	5,826	6,464	5,597	6,705	8,277	6,069
Operating Profit	8,977	8,268	8,702	8,403	9,086	10,152	10,056	7,946	9,769	14,544
Op. Margin	17.8%	16.7%	20.0%	18.2%	18.7%	20.3%	22.9%	18.3%	20.9%	28.1%
Net Profit	17,783	6,712	7,703	12,611	11,732	8,072	24,021	6,955	14,850	11,941
Net Margin	35.3%	13.6%	17.7%	27.4%	24.1%	16.2%	54.6%	16.0%	31.8%	23.1%
Free Cash Flow	8,392	8,596	10,327	11,624	11,368	11,065	12,515	11,997	11,705	13,805
Income Tax	1,106	1,119	1,603	1,295	1,793	1,807	1,625	1,128	551	1,701

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets ($B)	131.6	130.1	133.1	145.6	118.4	127.8	131.8	117.5	99.9	102.2
Cash & Equivalents	4,674	7,007	8,860	13,271	11,112	9,658	12,407	7,517	13,393	11,459
Acc. Receivable	8,180	8,202	8,600	8,727	8,301	8,217	8,005	8,066	7,107	7,423
Inventories	6,226	6,255	6,867	6,956	5,982	7,131	6,666	7,175	5,913	5,723
Goodwill & Int.	65,391	62,320	61,747	74,013	55,311	66,808	63,777	60,945	50,220	51,671
Total Liabilities	54,434	55,233	58,852	66,871	62,819	71,112	63,973	58,030	53,195	58,120
Accounts Payable	5,668	4,873	5,169	5,556	5,424	5,403	5,553	5,146	4,926	4,572
Long-Term Debt	21,901	23,686	28,425	32,090	27,199	35,850	29,129	26,120	24,520	29,455
Total Equity	77,046	74,832	74,168	78,614	55,474	56,598	67,655	59,342	46,667	44,046
LTD/E Ratio	0.28	0.32	0.38	0.41	0.49	0.63	0.43	0.44	0.53	0.67

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	13.8%	5.1%	5.9%	9.1%	8.9%	6.6%	18.5%	5.6%	13.7%	11.8%
Return on Equity	24.0%	8.8%	10.3%	16.5%	17.5%	14.4%	38.6%	10.9%	28.0%	26.3%
ROIC	18.7%	6.8%	7.7%	11.8%	12.1%	9.2%	25.4%	7.6%	18.9%	16.5%
Shares Out.	2374	2374	2318	2300	2230	2254	2254	2160	2100	2000
Revenue/Share	20.67	20.60	18.31	19.67	20.99	21.73	19.46	19.78	22.30	25.42
FCF/Share	3.44	3.58	4.36	4.96	4.90	4.82	5.54	5.46	5.60	6.78

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