

Novartis

FY23 preview. FY24 guide likely in-line with cons but beat and raise through year

Reiterate Rating: BUY | PO: 109.00 CHF | Price: 93.80 CHF

FY23E results Jan 31; sales \$45.8bn, EPS \$6.58

We forecast FY23E sales of \$45.8bn +9% YoY (+11% CER) core opinc \$16.7bn +13% (+20% CER), slightly above guidance for sales 9-10% and opinc mid-to-high teens (both CER) and in line with consensus. EPS 6.58 +20% (+27% CER, also in line with cons). We expect continued strong performance of key growth drivers: 1) Kiskali \$2bn +70%; 2) Pluvicto \$1.1bn +300%; 3) Kesimpta \$2.2bn +98%; Entresto \$6.1bn +31%. We expect a 4Q23 recovery in Cosentyx \$1,268m +17% YoY given 4Q22 US sales fell 18% (vs TRx +6%) on Medicaid rebate adjustments catch up for 9M22 which won't recur in 4Q23. We raise EPS 1-2% on a combination of Fx and underlying sales and margins.

FY24 guide likely in line with cons then beat through year

Following four consecutive quarterly beat/raises and FY23 guide rising from mid-SD opinc growth to mid-to-high teens, we expect this to continue through 24E. We expect Novartis to guide to mid-to-high single digit FY24E CER sales and high-SD to low-DD core opinc (in line with cons 6%/10%) but see scope for this to rise through the year to teens core opinc growth (we forecast +10% sales +16% opinc CER, c4-5% above cons mainly due to above-cons ests for Kiskali, Pluvicto (both c20% ahead) & Kesimpta (11% ahead). We expect guidance to assume no generic Entresto (Novartis points to mid-25E) but launches of generic Sandostatin LAR (Teva approved in Dec-23), Tasigna (Jan -24) with Promacta an unknown (we model salt patent expiry 2026 but settlements may have allowed earlier). We model 100bp tax rate increase to account for Pillar II.

Reiterate Buy; positive earnings momentum to continue

Reiterate Buy: 1) Strong near-to-mid-term EPS momentum driven by Kiskali, Kesimpta, Pluvicto, Scemblix and Iptacopan, driving c12-15% EPS growth 24E/25E, c5% above cons and our 28E core opinc est 19% above cons: 2) Novartis's 27-32E mid-SD sales target through major LOEs implies confidence in mid-stage pipe and 30E core opinc c20% above cons. 3) Our above-cons ests are mainly driven by our estimates of higher peak for several key drivers: a) Kiskali \$11.9bn peak (\$13bn un-risk-adj) vs cons \$6.5bn; b) Pluvicto \$4.9bn vs cons \$3.6bn; c) Kesimpta \$5.6bn vs cons \$5.0bn; d) Iptacopan \$4.1bn vs cons \$2.5bn; e) Scemblix \$3.2bn vs cons \$1.9bn; 4) 13x 25E PE undervalues 25-28E EPS CAGR 8%. See our [Novartis deep dive report](#).

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted)	6.28	5.48	6.58	7.58	8.52
EPS Change (YoY)	8.7%	-12.8%	20.1%	15.3%	12.4%
Dividend / Share	3.39	3.35	3.67	4.03	4.15
ADR EPS (Adjusted - US\$)	6.28	5.48	6.58	7.58	8.52
ADR Dividend / Share (US\$)	3.39	3.35	3.67	4.03	4.15
Valuation (Dec)					
P/E	16.4x	18.5x	16.9x	14.2x	12.7x
Dividend Yield	3.14%	3.10%	3.40%	3.74%	3.85%
EV / EBITDA*	11.6x	14.6x	12.6x	11.3x	10.3x
Free Cash Flow Yield*	5.66%	5.15%	6.51%	7.58%	8.43%

* For full definitions of *IQmethod*SM measures, see page 7.

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Refer to important disclosures on page 8 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E EPS	6.53	6.58
2024E EPS	7.47	7.58
2025E EPS	8.35	8.52
2023E DPS	3.66	3.67

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Stock Data

Price (Common / ADR)	93.80 CHF / 108.23 USD
Price Objective	109.00 CHF / 125.00 USD
Date Established	4-Oct-2023 / 6-Dec-2023
Investment Opinion	A-1-7 / A-1-7
52-Week Range	69.89 CHF/93.85 CHF
Market Value (mn)	194,007 CHF
Shares Outstanding (mn)	2,068.3 / 2,068.3
Average Daily Value (mn)	318.45 USD
Free Float	100.0%
BofA Ticker / Exchange	NVSEF / VIR
BofA Ticker / Exchange	NVS / NYS
Bloomberg / Reuters	NOVN SW / NOVNS
ROE (2023E)	26.4%
Net Dbt to Eqty (Dec-2022A)	12.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

CER: Constant Exchange Rate

LOE: Loss of Exclusivity

iQprofileSM Novartis

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	51,626	42,206	45,842	49,435	52,682
EBITDA Adjusted	19,713	15,638	18,045	20,174	22,045
Depreciation & Amortization	(5,710)	(4,442)	(4,975)	(4,981)	(5,052)
EBIT Adjusted	14,003	11,196	13,070	15,193	16,993
Net Interest & Other Income	(891)	(758)	(599)	(538)	(528)
Tax Expense / Benefit	(2,119)	(1,128)	(1,793)	(2,335)	(2,633)
Net Income (Adjusted)	14,094	11,946	13,652	15,314	16,825
Average Fully Diluted Shares Outstanding	2,260	2,197	2,088	2,031	1,986

Key Cash Flow Statement Data	2021A	2022A	2023E	2024E	2025E
Net Income (Reported)	24,018	6,049	9,563	11,368	12,879
Depreciation & Amortization	5,710	4,442	4,975	4,981	5,052
Change in Working Capital	241	(1,003)	0	520	470
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(14,898)	3,842	1,294	984	984
Cash Flow from Operations	15,071	13,330	15,832	17,852	19,385
Capital Expenditure	(1,378)	(1,198)	(1,238)	(1,335)	(1,422)
(Acquisition) / Disposal of Investments	(567)	(879)	0	0	0
Other CFI	6,153	3,545	23.4	(1,786)	(1,904)
Cash Flow from Investing	4,208	1,468	(1,214)	(3,121)	(3,326)
Share Issue / (Repurchase)	(3,004)	(10,552)	(8,300)	(6,100)	(6,100)
Cost of Dividends Paid	(7,368)	(7,506)	(7,615)	(8,146)	(8,201)
Increase (decrease) debt	(6,847)	(3,022)	(4,093)	0	0
Other CFF	955	518	4,093	0	0
Cash Flow from Financing	(16,264)	(20,562)	(15,915)	(14,246)	(14,301)
Total Cash Flow (CFO + CFI + CFF)	3,015	(5,764)	(1,297)	485	1,758
FX and other changes to cash	13,751	(3,635)	(230)	0	0
Change in Cash	16,766	(9,399)	(1,527)	485	1,758
Change in Net Debt	(23,613)	6,377	(2,566)	(485)	(1,758)
Net Debt	868	7,245	4,679	4,194	2,436

Key Balance Sheet Data	2021A	2022A	2023E	2024E	2025E
Property, Plant & Equipment	11,545	10,764	9,458	9,660	9,887
Goodwill	29,595	29,301	20,029	20,029	20,029
Other Intangibles	34,182	31,644	26,823	23,768	20,811
Other Non-Current Assets	10,755	8,834	7,811	7,821	7,840
Trade Receivables	8,005	8,066	5,685	6,131	6,533
Cash & Equivalents	28,329	18,930	17,403	17,888	19,646
Other Current Assets	9,384	9,914	6,283	6,775	7,221
Total Assets	131,795	117,453	93,492	92,072	91,967
Long-Term Debt	22,902	20,244	20,098	20,098	20,098
Other Non-Current Liabilities	10,863	9,130	8,310	8,310	8,310
Short-Term Debt	6,295	5,931	1,984	1,984	1,984
Other Current Liabilities	23,913	22,725	18,597	20,055	21,372
Total Liabilities	63,973	58,030	48,989	50,447	51,764
Total Equity	67,822	59,423	44,503	41,625	40,203
Total Equity & Liabilities	131,795	117,453	93,492	92,072	91,967

Business Performance*	2021A	2022A	2023E	2024E	2025E
Return On Capital Employed	11.6%	9.50%	13.1%	17.3%	19.9%
Return On Equity	22.7%	18.8%	26.4%	35.7%	41.3%
Operating Margin	22.6%	18.8%	26.1%	28.8%	30.4%
Free Cash Flow (MM)	13,693	12,132	14,595	16,517	17,963

Quality of Earnings*	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.07x	1.12x	1.16x	1.17x	1.15x
Asset Replacement Ratio	0.93x	7.63x	0.89x	0.96x	0.97x
Tax Rate	7.74%	15.7%	15.8%	17.0%	17.0%
Net Debt/Equity	1.28%	12.2%	10.5%	10.1%	6.06%
Interest Cover	15.5x	10.5x	16.4x	21.3x	23.8x

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Pharmaceuticals

Company Description

Novartis is a Swiss-based pharmaceuticals company. Key products include Cosentyx (psoriasis, PSA and AS), Entresto (heart failure), Kisqali (breast cancer), Pluvicto (prostate cancer), Kesimpta (multiple sclerosis) and Scemblix (chronic myeloid leukemia)

Investment Rationale

Our Buy rating on Novartis is based on: 1) Strong near-term execution from key drivers, 2) Positive risk reward around near-term pipeline catalysts, 3) Improving mid-late stage pipeline

Stock Data

Shares / ADR	1.00
Price to Book Value	5.0x

Quarterly Earnings Estimates

	2022	2023
Q1	1.29A	1.53A
Q2	1.40A	1.68A
Q3	1.40A	1.84E
Q4	1.39A	1.68E

Key Changes

(US\$)	Previous	Current
2023E EPS	6.53	6.58
2024E EPS	7.47	7.58
2025E EPS	8.35	8.52
2023E DPS	3.66	3.67

Results variance

Exhibit 1: Novartis 4Q23 Preview

BofA 4Q23 and FY23 estimates

	Previous	BofAe		Previous	BofAe	
	4Q22A	4Q23	% Chg	2022A	2023E	% Chg
Cosentyx	1,080	1,268	17	4,788	4,945	3
Entresto	1,291	1,697	31	4,644	6,097	31
Gilenya (FTY720)	346	199	-42	2,013	970	-52
Lucentis	398	329	-17	1,874	1,503	-20
Tasigna (AMN107)	475	434	-9	1,923	1,836	-5
Promacta	540	592	10	2,088	2,298	10
Mekinist/Tafinlar	465	514	10	1,770	1,950	10
Jakavi	388	441	14	1,561	1,717	10
Sandostatin	305	333	9	1,238	1,331	8
Xolair	323	372	15	1,365	1,460	7
Zolgensma intravenous	309	311	1	1,370	1,239	-10
Galvus	209	185	-11	859	724	-16
Glivec	175	143	-18	745	576	-23
Afinitor	106	73	-31	512	384	-25
Exforge	159	169	6	743	726	-2
Kisqali (LEE011)	357	606	70	1,231	2,076	69
Diovan	142	139	-2	652	605	-7
Ultibro family	112	104	-7	479	436	-9
Votrient	103	90	-13	474	403	-15
Kymriah	139	127	-9	536	515	-4
Lutathera	128	164	28	471	622	32
Kesimpta	369	632	71	1,092	2,162	98
Piqray	112	130	16	373	504	35
Mayzent/BAF312	99	110	11	357	396	11
Beovu	49	52	6	203	203	0
Scemblix	43	110	155	149	398	167
Leqvio	42	108	157	112	340	204
Pluvicto	179	373	108	271	1,080	299
Others	2,133	2,611	22	8,845	10,164	15
Total sales (Core)	10,576	11,825	12	42,206	45,842	9
Other revenues (CORE)	304	304	0	1,169	1,171	0
COGS (CORE)	-1,972	-2,343	19	-7,784	-8,847	14
% Sales	18.6	19.8		18.4	19.3	
S,G & A (CORE)	-3,140	-3,332	6	-12,143	-12,377	2
% Sales	29.7	28.2		28.8	27.0	
R&D (CORE)	-2,094	-2,249	7	-8,267	-8,618	4
% Sales	19.8	19.0		19.6	18.8	
Other operating income/ (expense) Core	-29	-100	245	-387	-515	33
Operating profit core	3,645	4,104	13	14,794	16,655	13
Margin %	34.5	34.7	24	35.1	36.3	128
Core Income from associated companies	-3	7	-333	-11	0	-100
Financial net income	-157	-116	-26	-660	-499	-24
Pretax income CORE	3,485	3,995	15	14,123	16,156	14
Core tax rate (%)	15.0	14.6		15.4	15.5	
Net income Core	2,963	3,411	15	11,946	13,652	14
Margin %	28.0	28.8		28.3	29.8	
Core EPS (ex. discontinued operations)	1.39	1.66	20	5.48	6.58	20

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Models

Exhibit 2: Novartis pharma sales model

Sales forecasts

Year to December (\$m)	2022 A	1Q- 23A	2Q- 23A	3Q- 23A	4Q- 23E	2023 E	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E	2031 E	Change YoY %				CAGR 25- 28E
															2022 A	2023 E	2024 E	2025 E	
Entresto (HF-REF/HF-PEF)	4,644	1,399	1,516	1,485	1,697	6,097	7,491	6,656	4,826	3,770	3,016	2,424	1,958	1,583	31	31	23	-23.2	
Cosentyx (Psoriasis, PSA, AS)	4,788	1,076	1,272	1,329	1,268	4,945	5,289	5,605	5,885	6,062	6,243	5,504	4,749	4,151	1	3	7	3.7	
Promacta (ITP/Hep C)	2,088	547	583	576	592	2,298	2,452	2,289	960	789	681	588	529	476	4	10	7	-33.3	
Tasigna (AMN107) (CML)	1,923	462	476	464	434	1,836	965	772	617	494	395	316	253	202	-7	-5	-47	-20.0	
Mekinist/Tafinlar (Met Melanoma)	1,770	458	496	482	514	1,950	2,085	2,174	2,248	2,325	2,394	2,197	2,032	1,373	5	10	7	3.3	
Lucentis (Ophthalmology)	1,874	416	395	363	329	1,503	1,228	983	786	668	601	553	509	468	-13	-20	-18	-15.1	
Kisqali (LEE011) HR+,HER2- mBC	1,231	415	493	562	606	2,076	3,012	3,707	4,151	4,431	4,617	4,755	4,898	4,665	31	69	45	7.6	
Jakavi (Myelofibrosis)	1,561	414	435	427	441	1,717	1,825	1,879	1,936	1,742	1,307	980	735	551	-2	10	6	-11.4	
Kesimpta (MS)	1,092	384	489	657	632	2,162	3,130	3,968	4,562	4,993	5,260	5,468	5,632	4,948	194	98	45	9.8	
Xolair (Asthma)	1,365	354	365	369	372	1,460	1,491	1,267	1,014	811	690	621	558	503	-4	7	2	-18.4	
Sandostatin (Acromegaly)	1,238	329	331	338	333	1,331	1,165	1,022	898	816	750	703	659	618	-12	8	-12	-9.8	
Zolgensma intravenous (SMA)	1,370	309	311	308	311	1,239	1,292	1,327	1,363	1,400	1,438	1,477	1,517	1,558	1	-10	4	2.7	
Gilenya (FTY720) (MS)	2,013	232	269	270	199	970	621	515	442	385	337	296	261	231	-28	-52	-36	-13.2	
Pluvicto (mCRPC post-taxane)	271	211	240	256	373	1,080	2,050	2,342	2,108	2,003	1,943	1,884	1,828	1,773	nm	299	90	-6.0	
Exforge (Hypertension)	743	186	184	187	169	726	704	668	634	614	595	577	559	542	-18	-2	-3	-3.8	
Galvus (Diabetes)	859	183	175	181	185	724	592	444	377	340	306	275	248	223	-21	-16	-18	-11.7	
Diovan (Hypertension)	652	158	155	153	139	605	586	567	549	532	515	499	483	468	-16	-7	-3	-3.2	
Lutathera GEP-NET	471	149	150	159	164	622	715	772	811	730	365	274	233	209	-1	32	15	-22.1	
Glivec (CML, GIST)	745	147	142	144	143	576	527	500	475	452	429	408	387	368	-27	-23	-9	-5.0	
Leqvio (HeFH)	112	64	78	90	108	340	646	1,034	1,344	1,680	1,932	2,125	2,295	2,409	833	204	90	23.2	
Piqray (PIK3CAm ER+ Her2- mBC)	373	116	130	128	130	504	584	631	662	696	716	738	738	701	13	35	16	4.3	
Scemblix (asciminib) (1L CML)	0	0	0	0	0	0	0	270	720	1,170	1,620	1,890	2,070	2,573	nm	nm	nm	81.7	
Mayzent/BAF312 (SPMS)	357	89	94	103	110	396	428	449	463	477	491	506	506	405	27	11	8	3.0	
Xiidra Dry eye	487	89	96	0	0	0	0	0	0	0	0	0	0	0	4	-100	nm	nm	
Afinitor (Renal cancer/p1CT/Her2-ve mBC)	512	110	116	85	73	384	340	308	283	259	242	226	211	197	-45	-25	-12	-7.8	
Kymriah DLBCL/ALL	536	135	129	124	127	515	499	484	470	456	442	429	416	403	-9	-4	-3	-3.0	
Votrient (Renal cancer)	474	105	106	102	90	403	282	231	192	161	135	115	98	86	-18	-15	-30	-16.3	
Adakveo (Sickle cell)	194	52	53	45	52	202	208	214	220	227	234	241	248	256	18	4	3	3.0	
Aimovig (Migraine)	218	61	67	69	72	269	297	312	321	331	340	351	361	372	1	23	10	3.0	
Ultibro family (COPD)	479	114	114	104	104	436	384	345	328	318	309	299	290	282	-18	-9	-12	-3.7	
Beovu (Wet AMD)	203	51	53	47	52	203	209	215	222	228	235	242	250	257	9	0	3	3.0	
Zolgensma intrathecal (SMA)	0	0	0	0	0	0	0	0	170	404	589	601	613	625	nm	nm	nm	nm	
lanalumas (Sjogrens/ITP/Lupus)	0	0	0	0	0	0	0	0	75	250	600	1,000	1,250	1,500	nm	nm	nm	nm	
Cosentyx GCA (GCA)	0	0	0	0	0	0	0	0	65	195	325	244	207	176	nm	nm	nm	nm	
Kisqali (NATALEE, high risk) (adj. BC)	0	0	0	0	0	0	135	585	900	1,125	1,305	1,395	1,458	1,350	nm	nm	nm	30.7	
Kisqali (NATALEE, intermediate risk) (adj. BC)	0	0	0	0	0	0	425	1,020	1,870	2,975	4,675	5,270	5,568	5,100	nm	nm	nm	66.1	
Ligelizumab (Food allergy)	0	0	0	0	0	0	0	0	0	100	250	400	450	500	nm	nm	nm	nm	
Pelacarsen TQJ230 (CV)	0	0	0	0	0	0	0	0	100	200	375	500	625	750	nm	nm	nm	nm	
Fabhalta (PNH) (PNH)	0	0	0	0	10	10	120	240	360	450	525	625	700	756	nm	nm	1,100	29.8	
Sabatolimab (HR-MDS)	0	0	0	0	0	0	0	100	200	300	375	438	475	500	nm	nm	nm	55.4	
Pluvicto (mCRPC, pre-taxane)	0	0	0	0	0	0	0	320	640	1,120	1,520	1,920	2,120	2,482	nm	nm	nm	68.1	
Pluvicto (mHSPC combo ADT/ARDT)	0	0	0	0	0	0	0	0	70	228	385	490	525	632	nm	nm	nm	nm	
Remibrutinib (MS) (MS)	0	0	0	0	0	0	0	0	0	150	300	500	650	750	nm	nm	nm	nm	
Remibrutinib (CSU) (CSU)	0	0	0	0	0	0	0	240	480	720	960	1,200	1,440	1,600	nm	nm	nm	58.7	
Iptacopan (C3G) (C3G)	0	0	0	0	0	0	0	375	675	1,125	1,500	1,688	1,763	1,805	nm	nm	nm	58.7	
Iptacopan (IgAN) (IgAN)	0	0	0	0	0	0	0	300	600	900	1,125	1,294	1,448	1,547	nm	nm	nm	55.4	
Atrasentan (IgAN)	0	0	0	0	0	0	0	100	200	360	480	540	580	600	nm	nm	nm	68.7	
	12,20					14,36	15,15	14,10	12,17	10,96	10,07								
Other	7	3,382	3,440	3,660	3,694	1	1	7	1	7	6	9,353	8,760	8,264	12	18	6	-10.2	
Pharma sales	42,20	10,79	11,43	11,78	11,82	45,84	49,43	52,68	53,61	57,15	60,92	61,99	62,18	60,20	1	9	8	5.0	

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Exhibit 3: Novartis Profit & Loss

P/L forecasts

Year to December (\$m)	2022 A	1Q- 23A	2Q- 23A	3Q- 23A	4Q- 23E	2023 E	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E	2031 E	Change YoY %			CAGR 25- 28E
															2022 A	2023 E	2024 E	
Total sales (Core)	42,206	10,798	11,437	11,782	11,825	45,842	49,435	52,682	53,617	57,155	60,927	61,992	62,183	60,206	-18	9	8	5.0
Other revenues (CORE)	1,169	249	308	310	304	1,171	1,151	1,126	1,101	1,074	1,049	1,024	999	959	-7	0	-2	-2.3
COGS (CORE)	-7,784	-2,047	-2,154	-2,303	-2,343	-8,847	-9,541	8	10,34	10,86	11,57	11,77	11,81	11,43	-34	14	8	4.4
% of sales	18.4	19.0	18.8	19.5	19.8	19.3	19.3	19.3	19.3	19.0	19.0	19.0	19.0	19.0				
Gross profit (CORE)	35,591	9,000	9,591	9,789	9,785	38,165	41,045	43,641	44,370	47,370	50,400	51,237	51,367	49,726	-13	7	8	4.9
Margin %	84.3	83.3	83.9	83.1	82.8	83.3	83.0	82.8	82.8	82.9	82.7	82.7	82.6	82.6				
S,G & A (CORE)	12,143	-2,864	-3,088	-3,093	-3,332	12,377	12,754	13,171	13,619	14,117	14,622	15,126	15,670	15,774	-18	2	3	3.5
% of sales	28.8	26.5	27.0	26.3	28.2	27.0	25.8	25.0	25.4	24.7	24.0	24.4	25.2	26.2				
R&D (CORE)	-8,267	-2,053	-2,129	-2,187	-2,249	-8,618	-8,997	-9,377	-9,705	10,00	10,35	10,78	11,19	11,43	-9	4	4	3.4
% of sales	19.6	19.0	18.6	18.6	19.0	18.8	18.2	17.8	18.1	17.5	17.0	17.4	18.0	19.0				
Other operating income/ (expense) Core	-387	-177	-134	-104	-100	-515	-515	-515	-515	-515	-515	-515	-515	-515	-41	33	0	0.0
Operating profit core	14,794	3,906	4,240	4,405	4,104	16,655	18,778	20,578	20,533	22,735	24,900	24,817	23,989	21,999	-11	13	13	6.6
Margin %	35.1	36.2	37.1	37.4	34.7	36.3	38.0	39.1	38.3	39.8	40.9	40.0	38.6	36.5				
Operating profit (GAAP)	7,946	2,618	2,807	1,762	4,768	5	0	0	4	7	7	2	1	0	-32	50	19	8.3
Core Income from associated companies	-11	-2	-2	-3	7	0	0	0	0	0	0	0	0	0	nm	-100	nm	nm
Financial net income	-660	-82	-87	-176	-116	-499	-438	-428	-337	-274	-195	-113	-16	71	-23	-24	-12	-23.0
Pretax income CORE	14,123	3,822	4,151	4,226	3,995	16,156	18,341	20,150	20,195	22,465	24,710	24,697	23,974	22,069	-16	14	14	7.0
Core Tax	-2,177	-589	-649	-682	-584	-2,504	-3,026	-3,325	-3,332	-3,706	-4,077	-4,075	-3,956	-3,641	-17	15	21	7.0
Core tax rate (%)	15.4	15.4	15.6	16.1	14.6	15.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5				
Minority interests (GAAP)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	nm	nm	nm	nm
Profit from Continuing Operations (GAAP)	6,049	2,150	2,271	1,513	3,666	9,563	8	9	6	9	6	6	2	1	-75	58	19	9.0
Profit from Continuing Operations (GAAP)	14.3	19.9	19.9	12.8	31.0	20.9	23.0	24.4	24.1	25.9	27.4	26.9	25.8	24.1				
Profit from discontinued operations	906.0	144.0	46.0	250.0	0.0	440.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Core net income to shareholders	11,946	3,233	3,502	3,784	3,451	13,652	15,314	16,825	16,863	18,755	20,633	20,627	20,018	18,428	-15	14	12	7.0
Core Continuing net income to shareholders	11,946	3,233	3,502	3,585	3,411	13,652	15,314	16,825	16,863	18,755	20,633	20,627	20,018	18,428	-15	14	12	7.0
Basic Shares, Average (m)	2,181	2,110	2,083	2,062	2,049	2,076	2,019	1,974	1,949	1,944	1,940	1,936	1,934	1,931	-3	-5	-3	-0.6
Per share data (USD)																		
Core EPS (ex. discontinued operations)	5.48	1.53	1.68	1.74	1.66	6.58	7.58	8.52	8.65	9.65	10.64	10.65	10.35	9.54	-13	20	15	7.7
Cont EPS (Basic)	2.77	1.02	1.09	0.73	1.79	4.61	5.63	6.52	6.63	7.62	8.60	8.61	8.31	7.50	-74	66	22	9.7
DPS (Basic)-USD	3.35	0.00	0.00	0.00	0.00	3.67	4.03	4.15	4.28	4.41	4.54	4.68	4.82	4.96	-1	9	10	3.0
Per share data (CHF)																		
Core EPS co focus (CHF)	5.23	1.42	1.51	1.54	1.48	5.91	6.38	7.17	7.28	8.12	8.95	8.96	8.71	8.03	-9	13	8	7.7
Cont EPS (Basic) (CHF)	2.65	0.94	0.98	0.65	1.59	4.14	4.74	5.49	5.58	6.41	7.24	7.25	7.00	6.31	-73	56	14	9.7
DPS (Basic)- CHF	3.20					3.30	3.39	3.50	3.60	3.71	3.82	3.94	4.05	4.18	3	3	3	3.0

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Novartis (NVSEF / NVS)

Our CHF109/USD125 PO is based on a 15x 25E PE, a c6% discount to our target sector multiple of c16x with 7% 25-28E EPS CAGR in line with sector, but due to lack of growth post 2028 caused by patent expiries and insufficient visibility on mid-to-late stage pipeline to address this.

Our target sector multiple of c16x 25E PE is based on: 1) A 40% premium to the market average multiple which implies c15x 25E PE, a premium which is in line with the long-term historical trend for periods of growth for the sector during times of broader market uncertainty, 2) Regression analysis of historical sector forward PEs and three-year-forward EPS CAGR implies a target PE of c16x 25E PE based on sector growth of c7%, 3) Our DCF valuations imply c17x 25E PE.

Upside risks to our price objective are favourable currency moves, faster product launches, positive earnings momentum positive pipeline surprises, value-accretive M&A.

Downside risks are new competition to growth franchises, negative currency movements, early generic competition, pipeline failure, risk of litigation, failure to execute on product launches, regulatory changes, pricing pressure, significant changes in the US political environment, or value-destructive M&A.

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I, Graham Parry, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Pharma & Biotech Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AstraZeneca	AZN	AZN US	Sachin Jain, CFA
	AstraZeneca	AZNCF	AZN LN	Sachin Jain, CFA
	Genmab	GNMSF	GMAB DC	Sachin Jain, CFA
	Genmab	GMAB	GMAB US	Sachin Jain, CFA
	Grifols S.A.	GIFLF	GRF SM	Graham Parry
	Grifols S.A. - B	GRFS	GRFS US	Graham Parry
	Grifols S.A. - B	GIFO	GRF/P SM	Graham Parry
	Lonza AG	LZAGF	LONN SW	Charlie Haywood
	Lonza AG	LZAGY	LZAGY US	Charlie Haywood
	Merck KGaA	MKGAF	MRK GY	Sachin Jain, CFA
	Merck KGaA	MKKGY	MKKGY US	Sachin Jain, CFA
	Novartis	NVSEF	NOVN SW	Graham Parry
	Novartis	NVS	NVS US	Graham Parry
	Novo Nordisk	NONOF	NOVOB DC	Sachin Jain, CFA
	Novo Nordisk	NVO	NVO US	Sachin Jain, CFA
	Sandoz Group AG	SDZXF	SDZ SW	Graham Parry
	Sandoz Group AG	SDZNY	SDZNY US	Graham Parry
	Sanofi	SNYNF	SAN FP	Graham Parry
	Sanofi	SNY	SNY US	Graham Parry
	Sartorius AG	SUVPF	SRT3 GY	Charlie Haywood
NEUTRAL				
	Bayer	BAYZF	BAYN GY	Sachin Jain, CFA
	Bayer	BAYRY	BAYRY US	Sachin Jain, CFA
	H. Lundbeck A/S	HLUKF	HLUNB DC	Sachin Jain, CFA
	Idorsia	IDRSF	IDIA SW	Sachin Jain, CFA
	Ipser	IPSEF	IPN FP	Sachin Jain, CFA
	Roche Holdings	RHHBF	ROG SW	Sachin Jain, CFA

EMEA - Pharma & Biotech Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Roche Holdings	RHHBY	RHHBY US	Sachin Jain, CFA

UNDERPERFORM

	GSK Plc	GSK	GSK US	Graham Parry
	GSK Plc	GLAXF	GSK LN	Graham Parry
	Orion	ORINF	ORNBV FH	Graham Parry
	UCB	UCBJF	UCB BB	Graham Parry
	UCB	UCBJY	UCBJY US	Graham Parry

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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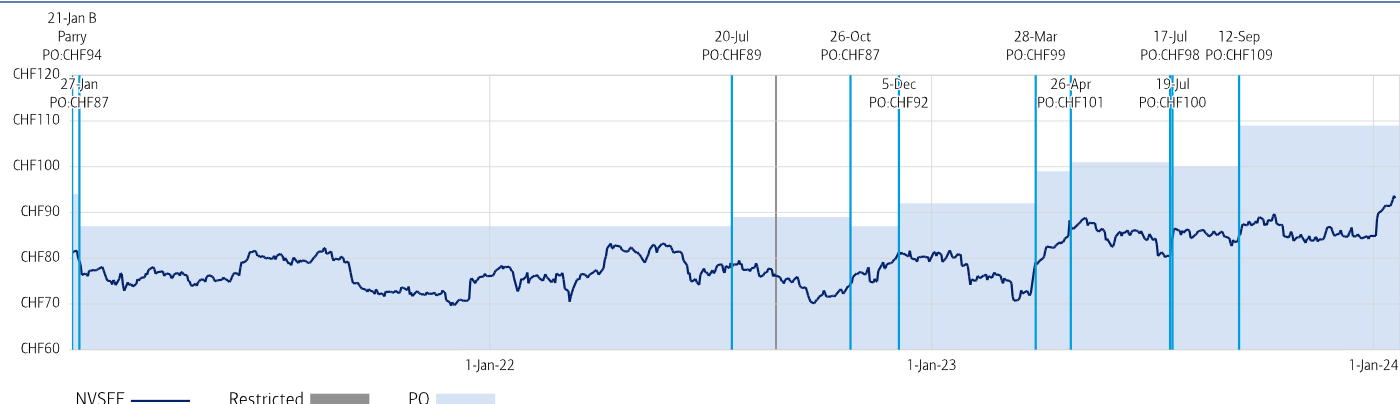
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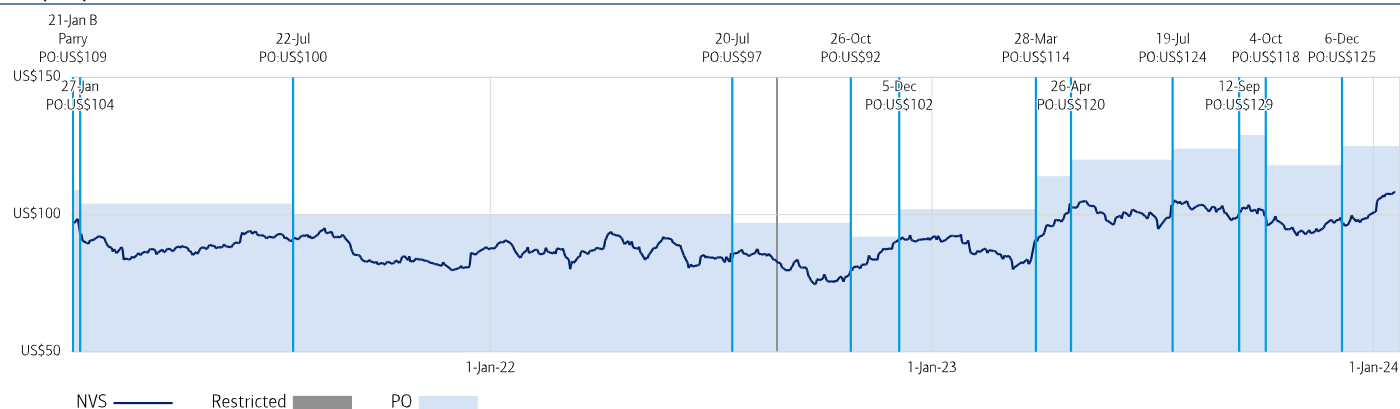
Novartis (NVSEF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Novartis (NVS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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