

## Novartis

# FY23 1% miss. FY24 guide conservative. Mid term guide extended & above cons

Maintain Rating: BUY | PO: 109.00 CHF | Price: 92.59 CHF

## FY23E EPS 1% miss on margins. Guide c3-4% below cons

Key takes from Novartis FY23 results and guide: 1) FY23E EPS \$6.47 +25% YoY was 1% below cons on inline sales but opinc 1% below (mostly SG&A in margins); 2) Key products mostly beat in 4Q (Kesimpta 9%, Cosentyx 2%, Entresto 2%, Kisqali 1%); 3) Pluvicto \$273m missed cons \$373m (\$980m for FY vs guide \$1bn) due to holiday season and lack of 4/5<sup>th</sup> doses in sicker patients) but multi-bn peak in current indication maintained. PSMAfore filing 2H24 - we assume mid-year and launch 25E; 4) 24E guide for opinc high-SD % growth is below cons low dd. Cons is also low end of net interest \$0.6-0.7bn and tax 16-16.5%. Overall looks conservative to us assuming generic Promacta as a planning assumption (we note patents to 2026 in place) as well as Sandostatin LAR, Tasigna (assumed in our model). 5) Mid-term guide extended to 5% sales 23-28% (margins 40%+ in 27E) above cons 2.6% and 39.4%. Overall slightly soggy quarter (Pluvicto) and conservative guide implying mid-SD cons EPS cuts but we expect to beat/raise guide through year. Maintain Buy for solid mid-term growth above cons.

## FY24 guide for high-sd opinc growth looks conservative

Novartis guided to high single digit core operating income (opinc) growth (and 3% Fx headwind), with consensus currently at low-dd, but off a 1% lower opinc base in FY23. We 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 Kisqali, Pluvicto (both c20% ahead) & Kesimpta (11% ahead). Sales guide for mid-single digit cc group sales (and 1% Fx headwind) is broadly in line cons. Guide assumes no US Entresto generic entrants, but generic Sandostatin LAR, Tasigna and Promacta (latter a planning assumption, we note patents extends to FY26). Guidance also broadly in line with extended mid-term guide (5% sales CAGR 23-28E and 27E core op margins >40%), with sales range extended by one year. Cons at the optimistic end of net financials guide (\$0.6-0.7bn vs cons \$0.6bn) and tax rate guide (16-16.5% vs cons 16%).

## Maintain Buy. Positive earnings momentum to continue

Maintain Buy: 1) Strong near-to-mid-term EPS momentum driven by Kisqali, 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) Kisqali \$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](#).

31 January 2024

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### Stock Data

Price (Common / ADR)	92.59 CHF / 107.75 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-94.52 CHF
Market Value (mn)	191,504 CHF
Shares Outstanding (mn)	2,068.3 / 2,068.3
Average Daily Value (mn)	309.84 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

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.**

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Timestamp: 31 January 2024 02:14AM EST

# Variance

## Exhibit 1: Novartis 4Q23 Variance analysis

### Variance analysis

	Previous 4Q22A	BofAe 4Q23	% Chg	Cons. 4Q23	Reported 4Q23A	% Chg	Diff v BofAe USDm	% Chg	Diff v Cons. USDm	% Chg	Previous 2022A	BofAe 2023E	% Chg	Cons. 2023E	Reported 2023A	% Chg	Diff v BofAe USDm	% Chg	Diff v Cons. USDm	% Chg
Cosentyx	1,080	1,268	17	1,282	1,303	21	35	3	21	2	4,788	4,945	3	4,951	4,980	4	35	1	29	1
Entresto	1,291	1,697	31	1,601	1,635	27	-62	-4	34	2	4,644	6,097	31	6,001	6,035	30	-62	-1	34	1
Gilenya (FTY720)	346	199	-42	221	154	-55	-45	-23	-67	-30	2,013	970	-52	997	925	-54	-45	-5	-72	-7
Lucentis	398	329	-17	318	301	-24	-28	-8	-17	-5	1,874	1,503	-20	1,503	1,475	-21	-28	-2	-28	-2
Tasigna (AMN107)	475	434	-9	445	446	-6	12	3	1	0	1,923	1,836	-5	1,847	1,848	-4	12	1	1	0
Promacta	540	592	10		563	4	-29	-5			2,088	2,298	10	2,284	2,269	9	-29	-1	-15	-1
Mekinist/Tafinlar	465	514	10		486	5	-28	-5			1,770	1,950	10	1,939	1,922	9	-28	-1	-17	-1
Jakavi	388	441	14		444	14	3	1			1,561	1,717	10	1,698	1,720	10	3	0	22	1
Sandostatin	305	333	9		316	4	-17	-5			1,238	1,331	8	1,313	1,314	6	-17	-1	1	0
Xolair	323	372	15		378	17	6	2			1,365	1,460	7	1,441	1,463	7	3	0	22	2
Zolgensma intravenous	309	311	1	310	286	-7	-25	-8	-24	-8	1,370	1,239	-10	1,238	1,214	-11	-25	-2	-24	-2
Galvus	209	185	-11		153	-27	-32	-17			859	724	-16	714	692	-19	-32	-4	-22	-3
Glivec	175	143	-18	141	128	-27	-15	-11	-13	-9	745	576	-23	574	561	-25	-15	-3	-13	-2
Afinitor	106	73	-31	80	97	-8	24	33	17	21	512	384	-25	391	408	-20	24	6	17	4
Exforge	159	169	6		156	-2	-13	-8			743	726	-2		713	-4	-13	-2	nm	nm
Kisqali (LEE011)	357	606	70	603	610	71	4	1	7	1	1,231	2,076	69	2,068	2,080	69	4	0	12	1
Diovan	142	139	-2		147	4	8	6			652	605	-7		613	-6	8	1	nm	nm
Votrient	103	90	-13		77	-25	-13	-14			474	403	-15	403	390	-18	-13	-3	-13	-3
Kymriah	139	127	-9		120	-14	-7	-5			536	515	-4	516	508	-5	-7	-1	-8	-2
Lutathera	128	164	28	162	147	15	-17	-10	-15	-9	471	622	32	620	605	28	-17	-3	-15	-2
Kesimpta	369	632	71	589	641	74	9	1	52	9	1,092	2,162	98	2,119	2,171	99	9	0	52	2
Piqray	112	130	16	134	131	17	1	1	-3	-2	373	504	35	507	505	35	1	0	-2	0
Mayzent/BAF312	99	110	11	108	106	7	-4	-4	-2	-2	357	396	11	394	392	10	-4	-1	-2	-1
Scemblix	43	110	155	119	125	191	15	14	6	5	149	398	167	407	413	177	15	4	6	1
Leqvio	42	108	157	107	123	193	15	14	16	15	112	340	204	338	355	217	15	4	17	5
Pluvicto	179	373	108	315	273	53	-100	-27	-42	-13	271	1,080	299	1,022	980	262	-100	-9	-42	-4
Others	2,294	2,176	-5		2,077	-9	-99	-5			8,995	8,985	-0		8,889	-1	-96	-1	nm	nm
<b>Total sales (Core)</b>	<b>10,576</b>	<b>11,825</b>	<b>12</b>	<b>11,526</b>	<b>11,423</b>	<b>8</b>	<b>-402</b>	<b>-3</b>	<b>-103</b>	<b>-1</b>	<b>42,206</b>	<b>45,842</b>	<b>9</b>	<b>45,470</b>	<b>45,440</b>	<b>8</b>	<b>-402</b>	<b>-1</b>	<b>-30</b>	<b>0</b>
Other revenues (CORE)	304	304	0		353	16	49	16			1,169	1,171	0		1,220	4	49	4		
COGS (CORE)	-1,972	-2,343	19		-2,197	11	146	-6			-7,784	-8,847	14		-8,701	12	146	-2		
% Sales	18.6	19.8			19.2						18.4	19.3			19.1					
S,G & A (CORE)	-3,140	-3,332	6		-3,444	10	-112	3			-12,143	-12,377	2		-12,489	3	-112	1		
% Sales	29.7	28.2			30.1						28.8	27.0			27.5					
R&D (CORE)	-2,094	-2,249	7		-2,231	7	18	-1			-8,267	-8,618	4		-8,600	4	18	0		
% Sales	19.8	19.0			19.5						19.6	18.8			18.9					
Other operating inc/ (exp) Core	-29	-100	245		-83	186	17	-17			-387	-515	33		-498	29	17	-3		
<b>Operating profit core</b>	<b>3,645</b>	<b>4,104</b>	<b>13</b>	<b>4,014</b>	<b>3,821</b>	<b>5</b>	<b>-283</b>	<b>-7</b>	<b>-193</b>	<b>-5</b>	<b>14,794</b>	<b>16,655</b>	<b>13</b>	<b>16,581</b>	<b>16,372</b>	<b>11</b>	<b>-283</b>	<b>-2</b>	<b>-209</b>	<b>-1</b>
Margin %	34.5	34.7	24	34.8	33.5						35.1	36.3	128	36.5	36.0					
Core Income from associated	-3	7	-333	0	-6	100	-13	-186	-6	nm	-11	0	-100		-13	18	-13	nm	nm	nm
Financial net income	-157	-116	-26	-163	-80	-49	36	-31	83	-51	-660	-499	-24	-503	-425	-36	74	-15	78	-16
<b>Pretax income CORE</b>	<b>3,485</b>	<b>3,995</b>	<b>15</b>		<b>3,735</b>	<b>7</b>	<b>-260</b>	<b>-7</b>			<b>14,123</b>	<b>16,156</b>	<b>14</b>		<b>15,934</b>	<b>13</b>	<b>-222</b>	<b>-1</b>		
Core tax rate (%)	15.0	14.6			16.3						15.4	15.5			15.6%					
<b>Net income Core</b>	<b>2,963</b>	<b>3,411</b>	<b>15</b>		<b>3,126</b>	<b>6</b>	<b>-285</b>	<b>-8</b>			<b>11,946</b>	<b>13,652</b>	<b>14</b>		<b>13,446</b>	<b>13</b>	<b>-206</b>	<b>-2</b>	<b>13,446</b>	<b>nm</b>
Margin %	28.0	28.8			27.4						28.3	29.8			29.6					
<b>Core EPS (ex. Discon ops)</b>	<b>1.39</b>	<b>1.66</b>	<b>20</b>	<b>1.60</b>	<b>1.53</b>	<b>10</b>	<b>-0.13</b>	<b>-8</b>	<b>-0.07</b>	<b>-4</b>	<b>5.48</b>	<b>6.58</b>	<b>20</b>	<b>6.54</b>	<b>6.47</b>	<b>18</b>	<b>-0</b>	<b>-2</b>	<b>-0</b>	<b>-1</b>

Source: BofA Global Research Estimates, company reports, company consensus

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## 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.

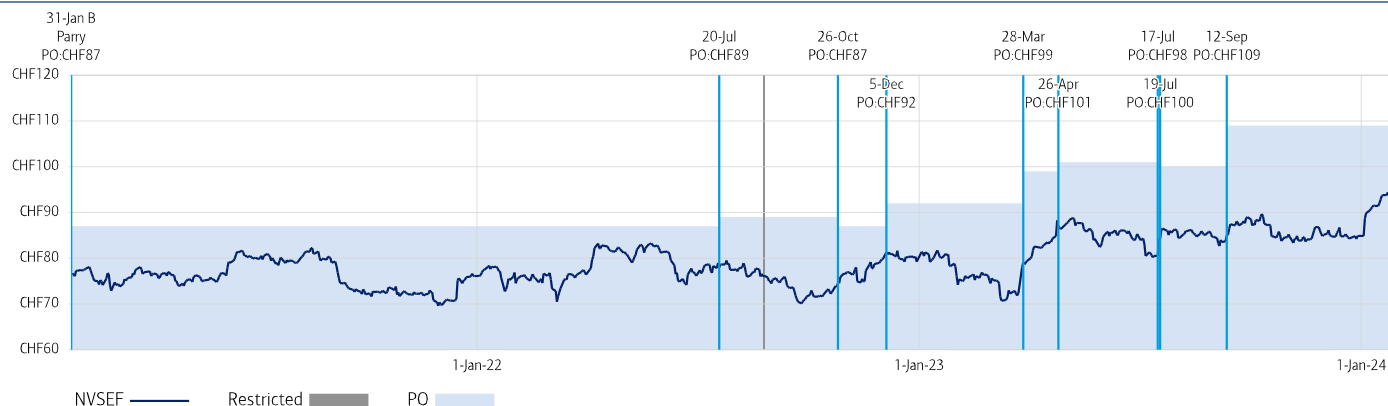
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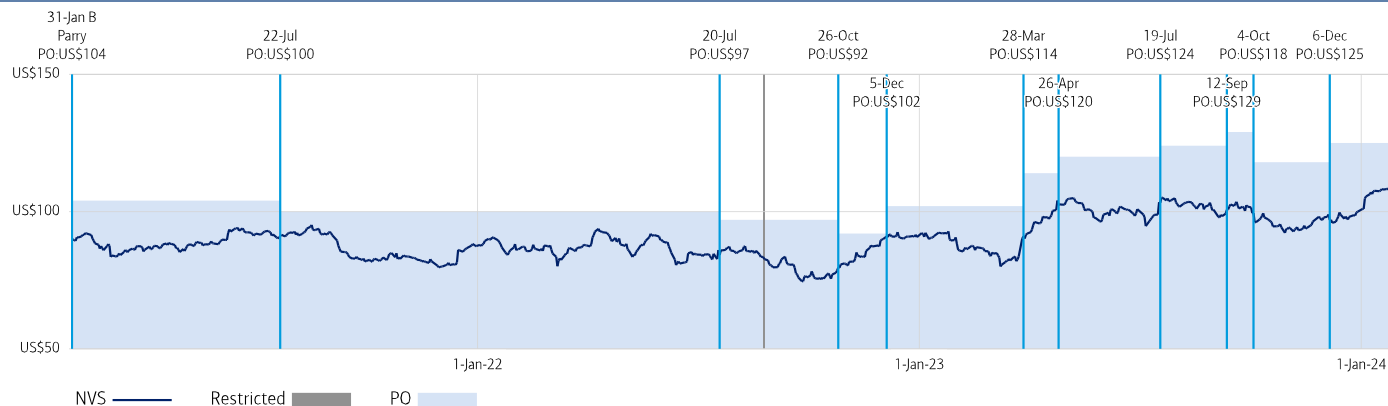
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Novartis (NVS) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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<sup>R2</sup>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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