



Transforming  
for Growth

# Transforming for Growth

## Case for Change Narrative

Last updated April 4, 2022

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# About this document

The purpose of this document is to outline the overall storyline and messages of Transforming for Growth. It is designed to be used in conjunction with the **Transforming for Growth FAQ**.

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# Draft overarching storyline

## New possibilities in a new era of medicine

Humanity has entered the early stages of a new and exciting era in health and biomedical innovation, with unprecedented insight into disease with actionable targets, new types of medicines leading to transformative impacts for patients, and expedited paths to developing new medicines.

When you reflect on the history of the biopharmaceutical industry, for the first 70-80 years it primarily only made chemicals to modulate functions in the body. It then brought forward proteins and biologicals, with virtually no other forms of medicine reaching the market for around the next four decades. The pace of innovation has accelerated dramatically.

In just the past five years, multiple new types of treatments—a new generation of medicines—have been approved and are already reaching patients, including xRNA therapies and vaccines, cell therapies, gene therapies, and radioligand therapies. We now have the tools to edit DNA and RNA. This extraordinary pace of scientific progress is unprecedented, and new technology platforms promise to open a nearly uncharted frontier in the world of medicine.

As evidenced during the COVID-19 pandemic, business is key to translating science into widespread human progress. It's up to the biopharmaceutical industry to parse emerging technologies, figure out which new medicines work best for certain patients and diseases, spur industry and company growth for the long-term, and ultimately help realize a healthier future for mankind.

## Seizing the right moment for Novartis to Transform for Growth

Over the past four years, as it increasingly became evident that innovation's cutting edge was advancing in this way, Novartis continued its journey of change—evolving from a health conglomerate to a focused, innovative medicines company. Toward that ambition, we have executed more than USD 100 billion in M&A transactions to refocus and grow our core business. We spun Alcon, acquired new products and technologies to strengthen our position on innovative medicines, and announced a strategic review of Sandoz to determine how best to enable Sandoz to be the leading generics company in the world. Given our strong conviction on the growth potential of Novartis and the strength of our pipeline, we also exited our Roche stake with an attractive financial return and initiated a share buyback program creating immediate value for investors.

Today, Novartis is a fully focused medicines company that plays a vital role in bringing transformative medicines to patients. In the past five years, we've brought more new medicines through FDA approval than any other company in the world. The profit growth of our Innovative Medicines business ranks in the top quartile when compared to our peers. However, we must make improvements in our launch performance and pipeline execution—two key factors to delivering shareholder returns that reach a leading position.

As the world of medicine has changed, so too has our industry, and patients, HCPs, and healthcare systems have also seen their environments change. Patients are expecting the explosion in scientific innovation to translate into improved access and better outcomes, many HCP tasks are more resource intensive and less enjoyable as they navigate an increase in bureaucracy and payer suppression, and cost pressures continue to mount for health care systems at large. Go-to-market models, marketing approaches, and customer engagement strategies have rapidly shifted in turn, and if we are going to lead the industry and become the most valued and trusted medicines company, we need to be able to deploy technologies across our organization faster to reach and serve our customers in better ways.

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We have the opportunity to realize the potential of our pipeline, consistently deliver above-peer-median top- and bottom-line growth with the aspiration of sustaining a leadership position, become a top 5 biopharmaceutical company in the US by 2026, maintain and build on leadership across other markets internationally—and most importantly, improve and extend the lives of millions of people living with devastating diseases. In the end, our medicines are only as good as the outcomes they enable, and Reimagining Medicine means generating patient outcomes equitably and at scale.

Thus, it is imperative that we evolve the way we work and how we are organized. We must future-proof our growth ambition to account for increasing uncertainties in business and healthcare, faster innovation cycles, and intensifying competition in our major markets. And in addition to meeting our strategy and latest industry trends with the right structure for performance, it's important to note that as we run a focused medicines business with what is still a conglomerate structure, our costs of administering our company are now exceeding the high-end of our peers, limiting our ability to invest in essential activities like R&D and licensing. We are expecting these changes to result in fully realized savings of at least USD 1bn by 2024.

Now is the right time to build a stronger Novartis, bring our structure into alignment with our strategic focus, shape a more agile organization for better collaboration, sharpen our focus on investing in and launching new medicines, and enable faster decision-making with leaner, fit-for-purpose structures.

## What will change

Effective immediately, we will establish the leadership to move to a new global operating model. The headline changes are as follows:

### A new commercial structure

Nearly 20 years ago when Novartis adopted a split commercial structure, we were essentially a Primary Care business and an Oncology business. Over time, as we evolved from a Primary Care to a specialty pharmaceuticals business focused on innovative medicines and high-end technologies, the lines have increasingly blurred between our commercial organizations, and we have created complexity by running two commercial structures across all geographies.

That is why it's time for us to combine our existing Novartis Pharmaceuticals and Novartis Oncology business units and leverage scale for growth across Innovative Medicines by creating two new powerhouse commercial organizations with regional focuses: Innovative Medicines International and Innovative Medicines US. Our focuses on building on our Oncology legacy, delivering launch excellence, and fueling our growth drivers remain critical priorities, and creating a US-focused organization will ensure we can perform and lead in the differentiated US market. At the same time, we will be able to have full leadership attention on strengthening and growing our leading market positions in our other global markets, including our other three priority markets: China, Germany, and Japan.

Each commercial organization will be led by a President who will sit on the ECN, report to the CEO, and have responsibility for full P&L across their respective areas. They will take ownership for customer experience, marketing and sales, market access, and the alignment of the organization to meet its strategic commercial objectives. All global, regional and country structures outside the US will be integrated into the Innovative Medicines International organization. This organization will be led by Marie-France Tschudin, President, Innovative Medicines International and Chief Commercial Officer. Innovative Medicines US will be led by Victor Bulto, President Innovative Medicines US.

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### A new Strategy & Growth function

We will create an integrated Strategy & Growth function that aligns and drives end-to-end enterprise portfolio strategy to further strengthen pipeline with high value medicines across internal and external opportunities. The Strategy & Growth function will include the Corporate Strategy team, a new Portfolio Strategy & Analytics team, a new Strategic Competitive Intelligence team and an integrated BD&L team. The function will have a singular focus on strengthening our pipeline with medicines that are both transformational and can make significant contributions to our growth. In addition to unifying the approach, the function will institutionalize stronger analytical rigor and the use of robust external insights and intelligence to evaluate both internal and external opportunities. Through this function, we will also create the frameworks that will help us sharpen portfolio management through clear prioritization, strengthen collaboration across units, and drive faster decision-making. The Strategy & Growth function will be led by a Chief Strategy & Growth Officer, who will become a member of the ECN. The search is currently underway for this new leader and in the interim the team will be led by Lutz Hegemann, President, Global Health.

### Integrated Operations and Global Functions

All global functions - Finance, P&O, ERC, Legal, and Comms & Engagement - will be integrated on global and country levels and shift to a central financial reporting model with global cost lines. This structure will not change the commitment of all global functions for business proximity and should not change their seat at the table on unit or country leadership teams.

As we simplify our operating model at Novartis and build a more agile organization, we are also rethinking our approach to operations. We will combine NTO and CTS into a single, operational backbone that will provide high quality products to patients, and services and technology solutions to all associates enabling them to be at their best. In bringing these two units together we have the opportunity to apply an operational excellence mindset to everything we do and create an industry leading operations organization. Leveraging the strong foundation of operational excellence that we have built in NTO, together with the strengths of CTS, we will be able to establish a Operations organization that will set new performance standards. Operations will also focus on scaling technology, automation and innovation to continuously improve the experience for our associates and patients. And, have a focus on compliance and strong controls to reduce and mitigate risks to the business.

### What teams will form Novartis Operations?

- Technical Operations (NTO), including platforms and global functions Manufacturing Science & Technology (MS&T), Engineering, Site Development, Global Operation Centers (GOCs), Supply Chain Management (SCM), as well as Quality Assurance.
- From CTS the following units will join Novartis Operations: Technology and Transformation (TT), Data Science and AI, Digital Transformation and Innovation, Lean Digital Core program (LDC), Real Estate and Facility Services (REFS), Procurement, CONEXTS, Environmental Sustainability as well as Strategy and Operations.
- As with other units, the following will report operationally into their respective global functions and will have a functional line to Operations: Finance, P&O, Ethics, Risk and Compliance (ERC), Legal, and Comms and Engagement.

It will be led by Steffen Lang, President, Operations.



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## What won't change

The proposed changes will bring both challenge and opportunity over the coming months as we transition to our new operating model. While many things will change, core elements of our company will remain and even be strengthened.

We aim for the changes to cause minimal disruption to our customer-facing teams, R&D teams, or manufacturing teams. In fact, one of the driving purposes of the new operating model is to support them more effectively.

Our culture transformation to drive performance will continue. At this important moment for our company, we must move forward together in ways that reflect our culture and the strengthened commitment to integrity we have been building on for the past four years.

Our strategy will not change and our focus on performance will continue and in many ways be enhanced. Launch excellence remains a critical priority, and we will implement the forthcoming changes with minimal disruption to our customer-facing operations. We will also remain laser-focused on improving R&D execution and product development so we can follow-through and deliver on the promise and potential of our pipeline. Sandoz will continue to operate independently and should not be significantly affected by these changes.

Finally, Reimagining Medicine to improve and extend lives remains our purpose. In working together to shape an even better Novartis, we will unlock new ways to deliver innovation, achieve excellent performance and growth, and have a greater impact on patients and societies.

## What's next?

All above country, high-level structural and ECN leadership changes are effective immediately. To plan and execute all aspects of this change, a global transformation team led by the ECN has been created. Further details on the membership and structure can be found on our dedicated page on OneNovartis. As we finalize our design, teams in all functions should continue business as usual. Country teams should not begin independent efforts until they receive appropriate direction from Global.

More details on the key milestones of the transformation will be communicated shortly. However, we do have some high-level milestones already mapped. We plan to have the leadership teams for the new units (ECN-1) confirmed and appointed by **June 15, 2022**, along with further details on the core organizational set-up and governance for the new units and integrated global functions.

The next level of leadership (ECN-2) appointments will be announced by **July 31, 2022** and we plan to have the final organizational changes, including in countries, implemented by **October 1, 2022**.

We understand that these changes will create uncertainty for many, and we are committed to providing regular and transparent updates throughout the coming months to provide guidance and clarity for those impacted. We will consult with our employee representation bodies and establish new, two-way communication channels, the ECN team is committed to listening and engaging regularly to hear your ideas, thoughts, and suggestions.

For now, the key source of information is our new Transforming for Growth homepage on OneNovartis. We will be updating this site regularly, and it will be our one-stop-shop for critical information, including all leadership announcements. In the coming weeks, we will announce opportunities for you to learn more and get involved in our change process.

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# Innovative Medicines International

*These key messages are intended to supplement the enterprise key messages to further explain the vision, rationale, and imperatives for Innovative Medicines International.*

## Why are we doing this?

- We know that too many patients continue to wait too long to get optimal treatment and we simply must do more to reach more patients, faster than ever before.
- It is imperative that we evolve the way we work and how we are organized to meet the evolving needs of our customers and realize the potential of our pipeline. We must future-proof our growth ambition to account for increasing uncertainties in business and healthcare, faster innovation cycles, and intensifying competition in major markets.
- This will also allow us to become a more effective and simpler organization, liberating resources to reinvest in new capabilities, scaling efforts to minimize duplication in areas that are common to both businesses (e.g., market access, NGE, PSS, data and digital, etc.), while ensuring deep and distinct therapeutic area expertise.

## What is it?

- We are combining our existing Novartis Pharmaceuticals and Novartis Oncology business units and creating two new powerhouse commercial organizations with regional focuses: Innovative Medicines International and Innovative Medicines US.
- Innovative Medicines International (IMI) will be focused on strengthening and growing our positions in our markets outside of the US. While the US represents our largest growth opportunity, we are expected to drive growth worldwide with a focus on Germany, China, and Japan.
- In addition to her role as President of IMI, Marie-France Tschudin will also serve as Chief Commercial Officer (CCO) for Novartis where she will oversee global strategy for our pipeline and our in-market medicines, and work to effectively bridge our scientific and commercial efforts for our medicines in close collaboration with IMUS, GDD, NIBR and Strategy & Growth.
- Corporate functions (Finance, P&O, Communications & Engagement, Strategy & Growth, ERC and Legal) will also be integrated on global and country levels. In markets with a Country President from Pharma or Oncology, each country will move to having one Innovative Medicines GM who will assume the responsibilities of the current Country President. For P&O, C&E, Legal, Finance, and ERC, each country will also move to having one functional head for Innovative Medicines.
- We strongly believe in the importance and potential of our oncology business and are committed to ensuring that we build on our rich history. In the short term, to ensure business continuity, Gianmarco Calvo (CFO, Oncology) will be Head of Oncology, ad interim, reporting to Marie-France Tschudin – while we define the new structure and leadership of an integrated IMI.
- With this new structure comes a streamlined organization which will lead to savings over time. These changes will also lead to impacted roles. We will be able to provide more details on this in the coming months once new organizational and leadership structures have been established.

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**How will we move forward?**

- We commit to holding ourselves accountable to maintain high and fair standards when making decisions, to move forward with empathy and respect and we will work with the respective employee representative bodies where applicable.
- We are aiming to announce Marie-France’s leadership team and other critical leadership roles across the organization by no later than the end of April.
- Announcements regarding organizational structure for Innovative Medicines International, including the setup for all regions, countries and platforms (AAA, Cell & Gene, Novartis Gene Therapies), will follow in the coming months.
- A Project Management Office including leaders from both Pharma and Oncology and led by Jose Marcilla will drive this process for the remainder of the year as we make decisions across all layers of the new IMI and GPS organizations.
- We acknowledge that this is a lot to take in. As you digest this news, we count on you to remain focused on delivering for customers despite the uncertainty we may feel.
- It’s in times of change when each and every one of us need to make a conscious choice to stay on course. Let’s do our best to focus on “what could be” vs. “what is”. Our passion for patients must continue to prevail. Together we will deliver even greater impact as we continue to reimagine medicine and serve the patients who are waiting for our medicines. We will share regular updates and do our best to keep you all engaged as we make progress.



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# Innovative Medicines US

- Across our Oncology and Pharma businesses in the US, we have an incredible opportunity to reach many more patients than we do today with our life-changing medicines and secure a top 5 position.
- In the past five years, we've brought more new medicines through FDA approval than any other company in the world. To fully deliver on our responsibility to patients and unlock the potential ahead for Novartis, we need to take bold steps to grow and secure our leadership in the US, the world's largest market. This means addressing the unique challenges and complex dynamics of the US healthcare system and evolving to meet and exceed the ever-increasing expectations of patients, prescribers, systems and payers.
- By bringing US Oncology and Pharma together under Innovative Medicines, we will become a commercial powerhouse in the US. Merging our two core businesses allows us to fully share and benefit from our collective scale, knowledge, talents and capabilities while, maintaining and building on the unique aspects of our businesses where the differences can be advantageous.
- Together we will embark upon this journey toward Transforming for Growth. We must learn from one another, thoughtfully focus our energy and clearly prioritize our efforts. Together our new Innovative Medicines US powerhouse will deliver even greater impact as we continue to reimagine medicine and serve the patients who are waiting for our medicines. Patients are counting on us, and we cannot lose any time.

## Situation until now

- Never before have US patients had to navigate such a complex healthcare system. They face steep barriers to receiving a diagnosis, obtaining medicine and staying on treatment due to unaffordability and a myriad of other issues.
- This is unacceptable. We can and we must do better for patients.
- At the same time, Novartis is the #10 company in terms of total revenue in the US.
- External experts who study our industry predict that Novartis will rise in the ranks from number 10 to 7 or 8 by 2025. Our aim is to exceed this prediction by achieving a top 5 industry leading position by 2025.

## What has changed / Why we must transform to grow

- The Oncology and Pharma segments of our business in the US have evolved dramatically, and while there are clear and distinct differences, both have game-changing therapies across specialty diseases where more than ever we can draw on commonalities.
- The changes occurring with patients, HCPs and healthcare systems are similar across our Innovative Medicines portfolio and serve as an imperative for bringing together our two core businesses.
  - The expectations of our patients and customers are now being shaped by their interactions with the likes of Amazon and Google, and COVID-19 rapidly accelerated this shift.
  - Access to HCPs has diminished, and how we engage with them has fundamentally and rapidly changed to a hybrid of in-person and virtual/digital interactions. At the same time, HCPs are organizing in different ways, and health care systems play an increasingly important role in treatment decisions.
  - Net prices for our treatments are declining. Payer suppression and cost pressures continue to mount. Go-to-market models, marketing approaches, and customer engagement strategies have rapidly shifted.

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- We want to transform our business for growth, as well as lead the transformation of the entire industry.
- If we are going to lead the industry and become the most valued and trusted medicines company, we must become a rapidly adaptive, self-transforming, technology-driven, customer-obsessed organization committed to meeting the ever-changing needs of patients and customers. This will require advanced, world class capabilities, and we cannot do this in isolation. We must meet patients and providers in, and become a part of, the ecosystems in which they live.

## Our role in society: To Reimagine Medicine, improve and extend patients' lives

- As a company our role is to discover and develop new medicines. The role of the commercial organization is to then turn these medicines into patient outcomes, both at scale and equitably. In order to do so, we have to master the art of nudging behaviors. Patient behaviors, HCP behaviors, payer behaviors, and more, challenging existing beliefs, well established practices, system incentives and changing paradigms.
- Doing so is extremely challenging and is at the core of the transformation needed both at Novartis and across the industry. That's why about a year ago we embarked on a joint journey – Oncology and Pharma together – to define how we were going to transform our organizations to win for patients and become one of the top 5 pharma companies in the US.
- We have the right set of medicines to achieve this aspiration and even exceed it:
  - Current launches in Oncology: Scemblix for CML, Lu-PSMA for advanced prostate cancer; and within the Pharma therapeutic areas of Cardiovascular and Multiple Sclerosis: Leqvio for ASCVD and Kesimpta for MS
  - Upcoming launches in Oncology: Vijoice for PROS, Kymriah for Follicular Lymphoma, Tislelizumab for esophageal cancer; and in Pharma: Cosentyx Hidradenitis suppurativa (HS) and IV ankylosing spondylitis (AS) and psoriatic arthritis (PsA).
  - Our priority products and growth drivers: Kisqali for advanced breast cancer, Cosentyx for various immunologic diseases, Entresto for chronic heart failure
  - A mid- to near-term pipeline across IM: canakinumab (cell lung cancer), tislelizumab (lung cancer combinations), iptacopan (renal disease and hematologic disorders), pelacarsen (cardiovascular disease)
- We concluded that we needed to focus on three areas:
  - Strengthen key advanced capabilities and talent
  - Ensure strong and consistent preparation for launch success
  - Enhance portfolio competitiveness for US market complexity

## What we are going to do / The opportunity

- The US will continue to be the largest growing market for pharmaceuticals for the next 5-10 years – with Oncology projected to be the fastest and largest growth segment – despite a some challenges.
- We have made a compelling case for what it would take for Novartis to achieve a top-tier leadership position in the US by 2025. We have an opportunity to extend our reach to many more patients and are confident the time is right to act.
- Innovative Medicines will merge Novartis Pharmaceuticals and Novartis Oncology business units to leverage scale for growth by creating two commercial powerhouses with regional focuses: International Innovative Medicines (IMI) and Innovative Medicines US (IM US), fully sharing and benefiting from our collective scale, knowledge, talents and capabilities while maintaining and building on the unique aspects of our businesses where the differences can be advantageous.

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- To enable and accelerate transforming for growth, IM US will be led by Victor Bulto who will report to Vas with immediate effect and join the ECN on May 1.
- This will allow us to become a leaner organization, enabling speed and liberating resources for reinvestment in new capabilities, scaling efforts to minimize duplication in areas that are common to both businesses (e.g., market access, NGE, PSS, data and digital, etc.), while ensuring deep therapeutic expertise in areas that are different.
- An explosion of science, personalized medicine and technologies will help bring even more promising therapies in the future. To take advantage of these opportunities and reach more patients we will need to develop advanced capabilities that require significant investment, prioritize our portfolio, align ways of working with research and development, and do all of this in a more agile way.
- Bringing two large organizations together, along with our functional partners, will not be an easy task and will take several months to design a strong, focused organization that supports us in achieving our ambitions.
- We will work to ensure there is minimal disruption to our customer-facing teams due to this change and it is critical you stay the course and resist distraction. While structures might change, our responsibility for patients remains steadfast and we count on your support.

### Our commitment to a strong partnership

- Victor and Reshema have established a strong partnership anchored by trust and respect. Both bring deep US expertise and will ensure that US competitiveness is prioritized at the ECN level to accelerate the growth of IM. They are committed to learning and listening to our teams, acting with speed and agility to build the best IM organization in the US for Novartis.
- Reshema will continue to be a strong leader for Oncology, as well as an integral member of the IM US leadership team reporting now to Victor.
- We are committed to investing in and building in Oncology. In fact, 45% of our total R&D investment is in Oncology. With the most launches – 25 – across any of our therapeutic areas in the next five years, Oncology will be a launch powerhouse from which we can learn and apply across IM.
- The Pharma and Oncology strategies known as Accelerating our Strategy (AoS) and 5 by 25 remain and will continue to move forward. We have learned a lot from our AoS and 5 by 25 work and will take time to look at the clear synergies to determine what is fit for purpose, integrating the best of both into one wholistic approach for IM, while ensuring little disruption to our patients and customers.

### What will success look like

- We will be successful when we:
  - Achieve our ambition to reach many more patients by 2025 across the entire IM portfolio.
  - Lean into our culture and build the capabilities that are needed to ensure we are an organization that is rapidly adaptive, customer-obsessed and meeting the ever-changing needs of patients and customers, while being a magnet for top talent in the industry.
  - Beat expectations and move to a number five position by 2025.

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What’s next

- A PMO has been organized including trusted leaders from both Oncology and Pharma. It will be led by IM US Transformation Lead Kavya Gopal, a leader with deep expertise across Oncology, Pharma, and several geographies.
- The IM US Leadership Team will not be announced prior to April 20. Until then, OLTUS and US PEC will continue to deliver on the critical work at hand.
- Detailed structures will be worked on beginning now and will be communicated as they become available – we expect this will take through the fall of this year.
- All global functions—Finance, P&O, ERC, Legal, and Comms & Engagement—will be integrated on global and country levels and shift to a central financial reporting model with global cost lines. This structure will not change the commitment of all global functions for business proximity and should not change their seat at the table on unit or country leadership teams.
- Ongoing communications can be expected with our teams, and external stakeholders.

What we need from you

- This transformation and change is not going to be easy.
- We must continue to perform while we transform. Until the new IM leadership team is announced, nothing changes, and we ask you to stay focused on your objectives/ deliverables and share any questions you have with your manager.
- Trust that as we work to integrate, we will make decisions as quickly and transparently as possible and will take every possible step to ensure our people are treated with fairness and respect throughout the process.
- Be an active part of this change, support the transformation, embrace curiosity and keep learning. Together our new Innovative Medicines powerhouse will deliver even greater impact as we continue to reimagine medicine and serve the patients who are waiting for our medicines. Patients are counting on us, and we cannot lose any time.

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# Strategy & Growth

**Headline message: Create an integrated Strategy & Growth function that aligns and drives end-to-end enterprise portfolio strategy to further strengthen pipeline with high value medicines across internal and external opportunities**

## Case for change

As we simplify our structure and operating model at Novartis, we are rethinking our approach to how we develop and execute our enterprise portfolio strategy.

We currently have a predominantly unit-specific approach to developing and executing the portfolio strategy. While we have made significant progress in introducing more collaboration and governance discipline, we are still lacking a) a common understanding of portfolio needs across the enterprise b) consistent analytical rigor applied to internal and external pipeline evaluation and c) the portfolio decision-making speed that is critical for a company like ours, in what is an incredibly competitive and complex environment.

The Strategy & Growth function will aim to change this by designing a truly enterprise approach. The function will have a singular focus on strengthening our pipeline with medicines that are both transformational and can make significant contributions to our growth. In addition to unifying the approach, the function will institutionalize stronger analytical rigor and the use of robust external insights and intelligence to evaluate both internal and external opportunities. Through this function, we will also create the frameworks that will help us sharpen portfolio management through clear prioritization, strengthen collaboration across units, and drive faster decision-making. We believe that by making this change, we will be able to unlock the full potential of our pipeline and exceed our growth ambitions.

## Overview of changes

The Strategy & Growth function will be led by a Chief Strategy & Growth Officer, who will become a member of the ECN and report to the CEO. The search is currently underway for this new leader and in the interim the function will be led by Lutz Hegemann, President, Global Health.

This new function will be comprised of the following teams:

### Corporate Strategy

This team will focus on developing a holistic growth strategy for Novartis and lead the company's annual strategy development process. The team will also be responsible for tracking progress against the strategic priorities. The Corporate Strategy team, currently within Corporate Affairs & Global Health will become part of the Strategy & Growth function. All other strategy groups across Novartis units will report functionally into Corporate Strategy.

### BD&L

The BD&L team will be fully focused on identifying external growth opportunities that are linked to, but not limited to our existing core therapeutic areas and technology platforms. The team will also aim to simplify decision-making and strengthen prioritization with respect to deals. All BD&L teams including those within Finance, NIBR, GDD, Innovative Medicines and Digital that are focused on the innovative medicines portfolio will operationally report into the new Strategy & Growth function. The Corporate M&A team will report operationally to Finance. The reporting of teams currently focused on BD&L within country affiliates will be determined as part of the transformation project.

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Portfolio Strategy & Analytics

The Portfolio Strategy & Analytics team will ensure we have one enterprise view of portfolio needs, manage portfolio decisions holistically and focus on bringing industry-leading analytics capabilities to help advance medicines that are both transformational and can make significant contributions to our growth. Building on the work of the Forecasting Consortium, the team will also continue to work on strengthening our forecasting approach across the portfolio. All strategic portfolio management and analytics teams will operationally report into this group. Specifically, this new team will initially include the NIBR Portfolio Management team and the GDD Portfolio Strategy & Management teams. These teams will have a dual reporting set-up until we determine which elements should be fully moved to Portfolio Strategy & Analytics. The strategic portfolio management and portfolio analytics teams within the commercial organizations will report functionally into Portfolio Strategy & Analytics.

Strategic Competitive Intelligence

This newly formed team will be responsible for providing robust external insights on portfolio choices. The team will track competitor events, industry developments and introduce more robust scenario planning and horizon scanning to help guide our strategic decision-making. Additionally, the team will provide a comprehensive external view on forecasts across our portfolio of medicines that are generated by our New Products and Portfolio Strategy & Analytics teams. The competitive intelligence work on products and therapeutic areas currently happening across various parts of the organization will not be in scope for the Strategic Competitive Intelligence team.

Next steps

We recognize that these changes create uncertainty for all of you and that you may have questions.

Over the coming days, we will engage with all the teams that are part of the new Strategy & Growth function to share more details in terms of the implementation roadmap for these changes. Additionally, you may also reach out to your current department heads to learn more about the changes and how you may be able to support the transformation project.

As we are in the critical phase of the Annual Strategy and Portfolio Review processes, we ask everyone to stay focused on the key deliverables and business activities.

We will provide transparency and clarity around the integration at regular intervals.



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# Operations

## We are proposing an integrated approach to operations

- As we simplify our operating model at Novartis, we are also rethinking our approach to operations.
- The combination of our commercial business units and full integration of our functions allows us to bring parts of CTS and manufacturing into one Operations unit.
- This new organization will house
  - Technical Operations (NTO), including platforms and global functions Manufacturing Science & Technology (MS&T), Engineering, Site Development, Global Operation Centers (GOCs), Supply Chain Management (SCM), as well as Quality Assurance.
  - From CTS the following units will join Novartis Operations: Technology and Transformation (TT), Data Science and AI, Digital Transformation and Innovation, Lean Digital Core program (LDC), Real Estate and Facility Services (REFS), Procurement, CONEXTS, Environmental Sustainability as well as Strategy and Operations.
  - As with other units, the following will report operationally into their respective global functions and will have a functional line to Operations: Finance, P&O, Ethics, Risk and Compliance (ERC), Legal, and Comms and Engagement.

## Our aspiration: Become a leading operations organization

- In combining parts of CTS and NTO's portfolio and capabilities and bringing both units' associates together, we aspire to create an industry leading operations organization.
- Combining NTO and CTS into a single, operational backbone will drive Novartis mission by providing high quality products to patients, and services and technology solutions to all associates enabling them to be at their best.
- In bringing the associates of the two units together we have the opportunity to apply an operational excellence mindset in everything we do and create an industry leading operations organization.
- Leveraging the strong foundation of operational excellence that we have built in NTO, together with the strengths of CTS, we will be able establish a Novartis Operations organization that will set new performance standards.
- In addition, Operations will also focus on scaling technology, automation and innovation to continuously improve the experience for our associates and patients. And, have a focus on compliance and strong controls to reduce and mitigate risks to the business.

## Our commitment: Investment in innovation

- Over the past few years, we have invested heavily in technology platforms in NTO and CTS. Our commitment to our data, digital and technology agenda remains a priority and we will continue to invest in innovation.
- Thanks to these investments, we are already strongly positioned at the cutting edge of technologies in medicines today. We have successfully deployed future ready platforms along the value chain and fully embedded them into our operations.
- Here are some examples from 2021 across CTS and NTO that demonstrate our commitment:
  - In Technology Transformation we have developed platforms such as **FormulaOne**, a future ready enterprise big data platform ingesting and unifying data to accelerate reusability and availability at scale to drive bold business outcomes.
  - In Data & Digital Novartis' **data42** program is bringing data points from across the organization together and using machine learning to find insights that can change the way we develop medicines. The program houses more than 700 clinical trials over two decades. In 2021 Data42 was used by more than 900 employees working on around 300 projects.

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- **Nerve Live program** in GDD enables insights-driven decision-making at scale, speeding up and improving the development process.
- **SpotOn** is the Novartis Technical Operations (NTO) Insights Center, a key pillar of NTOs digital transformation developed in collaboration with the TT teams. SpotOn aims to connect and contextualize data, bringing advanced analytics to our manufacturing sites and supply chain network unlocking data-based predictive product management by connecting all NTO relevant data along the value chain. It will enable every associate in NTO to see, learn and act in a data-driven way thereby potentially reducing time to reach patients by advanced analytics leading to lower through-put time and reduced WIP inventory. One of these solutions already helps 18 production sites to optimize finished goods supply chains for more than 400 of our products.
- **SPEED**, one program for integrated E2E planning across the whole supply chain, connecting all existing planning systems and bringing together all markets, using the solution Kinaxis Rapid Response, developed with TT teams. The solution will enable an agile, responsive, market and product driven supply chain allowing better decision making to ensure that the NVS Supply Chain Network is completely interconnected and permanently synchronized.
- **Digital QC** (Quality Control), a program to support NTO Quality laboratories, developed in collaboration with TT – a major step in the Digital Transformation for NTO Quality, leveraging analytics and integrations.
- **In NTO we invested in TT from 2019-21:** (project details see above)
  - ~\$40m for SPEED
  - ~\$60mm for Digital QC, 1QEM (One Quality Event Management), OBBR (One Button Batch Release), PLM (all technology projects for Quality function)
  - ~\$20mm for Integrated MES (Integrated MES system: to enable streamlined scheduling and shop-floor control with providing the operator guidance for the execution and final Electronic Batch Record Report) and ERP
- **We will continue to invest heavily in new manufacturing technology in (2022-24):**
  - ~\$540m for capacity expansion
  - ~\$120m Cell Culture2+ in Schafftenau
  - ~90m for next-gen Anti-infectives manufacturing in Kundl
  - ~192m for Biofuture in Schafftenau (2021)

## Success factors for our new Operations unit

In Operations, we need to stay focused on making and supplying life changing medicines for patients and ensure uninterrupted service delivery to all Novartis associates.

There are four factors essential for the success of Operations:

- Understanding internal and external customer needs
- Scale technology, automation and innovation to continuously improve the quality and experience of service delivery for our associates
- Embed operational excellence and drive enterprise productivity to enable profitable growth
- Focus on compliance and strong controls to reduce and mitigate risks to business at the core

## Our biggest success factor: Our people

- Our culture transformation to drive performance will continue.
- As the largest organizational unit in Novartis, we will have the opportunity to combine a wealth of experience and expertise, and further leverage the great diversity of our talented teams to achieve our objectives and aspiration.
- We aspire to build an environment in which all our associates can develop, grow, and learn from one another, accessing and contributing to the vast pool of knowledge that we own to be better, faster and more efficient for internal customers and patients.

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# Global Functions

All global functions will be fully integrated on global and country levels, with operating reporting lines into the function and shift to a central financial reporting model with global cost lines. This structure will not change our commitment to business intimacy and will not affect our seat at the table on unit or country leadership teams.

## P&O

- As Novartis continues its journey of change – evolving from a health conglomerate to a focused, innovative medicines company, our role in P&O is more important than ever as we future proof our organization to succeed in today's competitive environment.
- As of today, and as for all global functions, P&O will be integrated on global and country levels and shift to a central financial reporting model with global cost lines. This structure will not change our commitment to business intimacy and will not affect our seat at the table on unit or country leadership teams.
- We've heard from all of you how complex our organization is and this provides an opportunity to simplify and address concerns you've been sharing for years.
- We will re-design and re-align business P&O roles to new business structures and principles.
- P&O Operations will move into the P&O global function. This full integration of our function will create a truly unified "One P&O", allowing us to streamline our approach to operations and amplify business intimacy and partnership across the organization to drive growth and innovation.
- These new changes build on the journey we have already begun in P&O through our P&O Transformation, which is still valid and to be continued. Through our P&O Transformation, we are already focused on:
  - Bringing together previously fragmented practices and processes to create a nimble, leading-edge organization that easily adapts to market changes and improves business impact
  - Designing end-to-end processes that embed operational excellence and ensure focus and full accountability
  - Implementing a fully integrated team structure for all P&O
- These new changes will help us to further streamline and drive functional efficiency and effectiveness and bring to the unique and critical US market enhanced structural focus.
- We will need to re-assess and fine-tune our approach in harmony with the new organizational structures. We are fully committed to keeping you informed as we progress with the process and will provide regular opportunities for you to share your questions and concerns.
- All teams will remain focused and continue to deliver on their priorities in close collaboration with their respective business partners.
- We will continue to focus on unleashing the power of our people to be at their best to drive performance and deliver impact to reimagine medicine for our patients. Our strategy and P&O priorities will not change and our focus on culture to drive performance, talent and transformation will continue and in many ways be enhanced, with P&O playing a critical role in enabling the wider transformation.
- At this important moment for our company, we must move forward together in ways that reflect our culture and the strengthened commitment to integrity we have been building on for the past four years.
- We will support each other on our journey, we will be redoubling our efforts to listen to your concerns, to be transparent about decision-making and to provide you with the practical information you need.

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**Finance**

- With the change of reporting lines, our Finance Strategy and BBO's remain unchanged, as does our commitment to support the business as our highest priority and to drive innovation and growth.
- FRA Ops will shift from CTS into the Finance function with Head FRA Operations reporting operationally to the Global Head FRA. This will not change the FRA organization's service delivery, or our interactions with other functions or with our business partners.
- The newly formed IM International and IM US will provide us with an opportunity to re-shape the BPA support model. This will not change our commitment for business proximity and intimacy; however, it will help us to further streamline and drive functional efficiency and effectiveness.
- Work and scope of FRA and BPA will be adapted over time to reflect the new organizational model of Novartis as all aspects of the change come into effect. Once we have these plans in place, we will communicate to our employees and business partners in a timely manner.
- Our corporate finance functions will continue to work within the current set up and service delivery scope.
- The LDC program will continue as planned under the sponsorship of Steffen Lang and Harry Kirsch. Operationally, LDC will move to Operations and Fred Simoes, Head LDC, will report to Steffen Lang, President, Operations.
- BD&L will move to the newly created Strategy & Growth function. M&A will operationally report to the CFO.

**Legal & Public Affairs**

Effective May 1, the Global Security team will join the Legal function further strengthening the cooperation in investigations and protecting our intellectual properties and our products. David Herring, Head of Global Security, will operationally report to Karen Hale, Chief Legal Officer, and will join the Legal Leadership Team.

**Internal Audit**

- The following changes to NBAA organization will come into effect as of May 1:
  - Global Security will operationally report to the Chief Legal Officer
  - The Internal Audit team will stay separate and independent and will be led by Kees Roks, new Chief Audit Officer. Kees will report to Vas with a functional reporting line to Liz Doherty, Audit Compliance & Committee Chair.
  - QDOS will be staying with IA and continue to deliver quality, training, and analytics.
  - Prior to this transformation project, Natacha decided to pursue the next step in her career. Natacha's new role within Novartis will be communicated at a later stage. She will work closely with Kees over the coming weeks to ensure a smooth transition.
- All teams will remain focused and continue to deliver on their priorities in close collaboration with their respective business partners.
- The internal audit plan will likely be adjusted to reflect the announced organizational changes. This will be done in alignment with the business partners and communicated in a timely manner. While there is no expected major impact on the team, the structure will be reviewed to ensure IA is best placed to cover the business under the new organizational setup.

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## ERC

- At global, regional, and country levels, our ERC representatives in Novartis Pharmaceutical and Novartis Oncology business units will merge to become an Innovative Medicines International ERC Team. The US ERC Head will join the ERC Leadership Team.
- Operational reporting lines will move to the ERC function.
- The current ERC CTS and ERC NTO teams will form the new Operations Unit ERC Team. Business proximity will stay key for ERC and all other support functions. ERC will remain part of the respective leadership teams in units/countries. Further ERC support for the Strategy and Portfolio Function to be defined.
- Our ERC Strategy and BBO's remain unchanged, as too does our commitment to ONE ERC. We will continue to follow the needs of the business and assess our activities and areas of focus accordingly.
- Following the appointment of Jan Hansen to PMO Head for Transforming for Growth, reporting to Vas, our ERC Risk & Resilience team will be led by Barbara Badoino who will join the ERC Leadership Team, effective immediately.

## Communications & Engagement

- Communications & Engagement is already operating in a fully integrated model on global and country levels, with reporting lines into the function and a central financial reporting model with global cost lines.
- As a strategic business partnering function, business intimacy continues to be a core design principle of C&E. As a result, we will adapt our organizational set-up to the new enterprise set-up and further simplify our ways of working, without compromising on our recently designed, integrated operating model. We are fully committed to keep our C&E associates and business stakeholders informed about these adaptations to our model.
- Our C&E mandate, our priorities and our strategy are not changing. We will continue to drive culture, build trust with relevant stakeholders and support must-win launches and have defined where to play and how to win. We also remain committed to our Patient Engagement strategy and investment case.