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Novartis CEO's take-home pay jumps 59%. But there's one miss-ethics

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In his first full year as **Novartis** CEO, **Vas Narasimhan** got a huge pay-packet boost, 59% to be exact, thanks to strong financial performance and major portfolio milestones.

As the company's board sees it, the captain sailed the firm through 2019 with flying colors in almost every way except for one: ethics.

Narasimhan got CHF 10.62 million (\$11.37 million) in realized compensation for 2019, up from CHF 6.68 million the prior year, according to its annual report (PDF). The package swelled in every section, but the most came from his cash bonus and vesting of long-term equity awards based on the company's performance in the 2017-19 cycle.

For 2019, **Novartis'** board granted **Narasimhan** incentive pay of CHF 4.02 million, 160% of his target amount. From the financial perspective, which accounted for 60% of that evaluation, **Novartis** beat all expectations, be it group sales, operating income or free cash flow.

The Swiss drugmaker increased sales by 9% at constant currencies to \$47.4 billion in 2019, driven mainly by double-digit growth from psoriasis med **Cosentyx** and heart drug **Entresto**.

As for the 40% tied to strategic objectives, **Narasimhan** came in “significantly above” the innovation marker. Under his leadership, **Novartis** won 18 key approvals in 2019, including new drugs such as age-related macular degeneration med **Beovu** and multiple sclerosis therapy **Mayzent**, and most importantly, spinal muscular atrophy gene therapy **Zolgensma**, which raked in a Street-beating \$361 million since being approved by the FDA last February.

But it was also **Zolgensma** that wiped out **Narasimhan's** incentive pay in the “building trust with society” category.

It all stemmed from an FDA announcement last August. The agency revealed that **Novartis'** newly acquired **AveXis** unit had informed it in late June about doctored animal testing data in its **Zolgensma** application. The fact that **Novartis** had internally confirmed the whistleblower allegation in early May but waited over a month after **Zolgensma** was approved May 24 to alert the FDA drew wide criticism. Critics suspected the firm might have deliberately withheld the information to ensure an FDA nod.

Novartis later explained it was running a more detailed investigation during that gap and pinned the actual data falsification on two now-fired **AveXis** top scientists. It also promised to inform the FDA within five business days about any future data integrity issue in a drug filing. But clearly the incident was a slap in the face for **Narasimhan's** ethics agenda after the Michael Cohen scandal in 2018.

As a result of that reputation crisis, “the CEO has requested that he not receive an incentive payout for his ‘building trust with society’ objective,” despite having put in place a new risk management strategy and strengthened **Novartis'** ethical standards, the **Novartis** board wrote while agreeing with the decision.

On top of his annual bonus, **Narasimhan** also saw a huge jump in vested shares based on the company's performance in the past three years. His long-term performance award, pegged to absolute cash value creation and innovation, was 164% of target, resulting in a payout valued at CHF 3.51 million.

As for share return relative to peers, **Novartis'** ranked 6 out of a group of 16 companies that include AbbVie, AstraZeneca, Bristol-Myers Squibb, Johnson & Johnson, Merck & Co., Pfizer, Roche and Sanofi. So for this section, **Narasimhan** netted CHF 1.11 million, or 138% of target. Last year, he scored none in that column as the company's 2016-18 cycle ranked 11 out of 13 firms.

Narasimhan's total long-term incentive pay also got a boost from a 30% increase in **Novartis'** share price between grant and vesting, according to the board.

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