

19th September 2016

Healthcare

**Novartis**

Price CHF77.55

**EXPAND presented at ECTRIMS while new data support use of Entresto**

**Fair Value CHF87 (+12%)**

**NEUTRAL**

Bloomberg	NOVN.VX
Reuters	NOVN.VX
12-month High / Low (CHF)	94.3 / 68.5
Market Cap (CHFm)	203,733
Avg. 6m daily volume (000)	4 763

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.0%	5.3%	7.9%	-10.7%
Healthcare	-1.6%	5.2%	3.6%	-8.0%
DJ Stoxx 600	-1.6%	5.1%	-0.9%	-7.7%

  

	2015	2016e	2017e	2018e
P/E	15.8x	16.5x	15.1x	13.5x
Div yield (%)	3.5%	3.8%	3.3%	3.7%

#### ANALYSIS

- First detailed results from the EXPAND phase III trial were presented at the ECTRIMS congress during the week end. BAF312 (siponimod) reduced the risk of disability progression by 21% compared to placebo ( $p=0.013$ ) whereas all secondary endpoints were also met. The data package looks robust although it is uncertain whether regulatory authorities will agree on a filing based on a single placebo-controlled study. While no drug has ever been studied in SPMS specifically, several have benefited from a wide label including SPMS as a subgroup of RRMS patients, considering that a portion of patients recruited developed SPMS and benefit from the investigational drug. The issue is that in real life, patients developing SPMS are unlikely to remain untreated although it is difficult to determine a standard-of-care to ask BAF312 to be compared to. Discussions with authorities will take place by year-end. So far, Novartis is maintaining BAF312 in its filing table for 2019.
- Moving to Entresto, there has been a new analysis of the PARADIGM-HF study. Out of 6,981 patients in total, 305 were hospitalised for HF during the first eight months and when comparing the two groups, those who had received Entresto had a much higher quality of life scores than those treated with enalapril (-2.99 vs -4.63,  $p=0.001$ ). On top of reducing the impact of the disease itself on the morbidity and mortality associated with HF, Entresto is also improving QoL for a disease that often remains symptom-free. Considering also pharmaco-economic studies that have demonstrated that the drug was reasonably priced, all this forms a strong rationale for a commercial success now that limiting factors have gone while extra resources were allocated.

#### VALUATION

- As already stated in previous comments, our feeling is that momentum is improving for Novartis. Once the macro environment has normalised, the stock might regain some traction.

#### NEXT CATALYSTS

- 8-12th October 2016: ESMO congress – presentation of LEE011 phase III data

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### Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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