

Novartis

Price CHF68.75

Ongoing review of options in CNS?**Fair Value CHF81 (+18%)****NEUTRAL**

Bloomberg	NOVN.VX
Reuters	NOVN.VX
12-month High / Low (CHF)	87.5 / 68.2
Market Cap (CHFm)	180,614
Avg. 6m daily volume (000)	4 694

ANALYSIS

- Reuters reported yesterday that Novartis is considering an asset-sale and is in talks to divest “some of its older CNS drugs, including Ritalin for ADHD and Exelon patch for Alzheimer’s” while mentioning parties interested like Endo or Mallinckrodt.
- In principle, we think that new Head of Innovative Medicines, Paul Hudson who came from AstraZeneca at mid-year, is probably finalising a portfolio review. We know that the future of the Respiratory franchise is the subject of discussions and that relative strengths are weighed up before deciding to invest behind it in the US. But the review is undoubtedly broader. And even more for somebody coming from AstraZeneca, where focusing the portfolio is central to the strategy. So we can easily imagine that the future of parts of the so-called tail products might be called into question. Should Novartis keep them, partner them or sell them? Who is the best owner?
- That said, mention of a portfolio that “could bring in as much as USD496m” is less clear and suggests caution. Exelon and Ritalin together do more. Would some geographies stay within Novartis like emerging markets? Are the two products really included in the discussion?

VALUATION

- What is probably true is that Novartis is reviewing its operations and the scope of its portfolio under a new leadership. It is premature to say what can come out of the discussions, but it would make sense to imagine a bit of focus - even more so if ambitions in Respiratory get bigger. Positive headlines from the CRYSTAL study assessing the benefit of a switch from various standard drugs in COPD to Ultibro or Seebri might support this thesis.

NEXT CATALYSTS

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Distribution of stock ratings

BUY ratings 72%

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