



NOVARTIS

| Healthcare
| Pharmaceuticals

BUY - TOP PICKS

Fair Value CHF100(+12%)
Share price CHF89.67
EPS 3Y Cagr 8.4%

A record quarter for Novartis, across the board

Q2 numbers are just spectacular

Novartis is reporting today outstanding numbers for its second quarter across the whole P&L. Starting with sales, they were up 9% in Innovative Medicines (IM), but note too that Sandoz returned to growth (+3%) after seven consecutive quarters of decline. Growth in IM was equally spread over the different regions, but largely driven by the most recently launched products like Cosentyx (+25%), the former GSK oncology drugs and a very strong Entresto, now on a very good path (up 81% to USD421 when CS was expecting USD388m). Piqray and Zolgensma were launched, but it is too early to report first sales. When considering the other line in CNS, we see the impact for new products, but this includes both Mayzent and Zolgensma and therefore cannot be isolated. It is fair to say that older products like Glivec and even more Diovan also contributed to the Q2 beat, since generic competition is facing limitations of supply. Sandoz, as we said above, returned to modest growth thanks to a softer decline in the US (-7%) which benefited from several small launches (Faslodex, EpiPen etc...), coupled with solid 9% growth in Europe, driven by biosimilars.

Margin-wise, this results in better-than-expected levels in both divisions. In IM, core operating margin reaches an all-time high 35.4%. This includes one-offs and notably Zolgensma pre-launch inventory provision releases which represent about 100bp in other income and expense. The situation of Diovan is also strongly beneficial. But the underlying margin is nonetheless close to 34%, in our opinion, which is well above expectations. At 20.3%, Sandoz bounces back too, as a reflection of a better mix product and of productivity and efficiency measures.

Guidance for the FY is adjusted upwards

As a consequence of a strong first half and encouraging trends, Novartis revises its FY guidance upwards for sales and operating income. IM sales are now expected to grow **mid-to-high** single digits and Sandoz to be flat to **slightly growing**. Core operating income is now expected to grow in the low-to-mid teens vs 19% in H1 and 20% in Q2. Generics Afinitor, Exjade and Sandostatin LAR are still possible headwinds that could weigh on numbers in H2. That said, new drugs like Zolgensma should contribute positively and so the upper-end of the range looks achievable for the group.

Momentum remains strong although there are binary events ahead

The reason to have Novartis in our TP List was not just to benefit from a strong H1, but also to play future catalysts in terms of clinical and regulatory updates. This includes ofatumumab and PARAGON phase III data or RTH US approval. Fevipirant should follow and SEG101 added up to the list with a priority review (this adds CHF2 to our FV).

Our FV will be revised

We will adjust our numbers to the publication and new guidance which, together with SEG101, will result in a new FV. We reiterate our strong BUY rating.

Eric Le Berrigaud

33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

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Market Data

| Bloomberg / Reuters | NOVN SW/NOVN.VX |
|------------------------|-------------------|
| Market Cap. | CHF226,630m |
| E.V. | CHF228,388m |
| Free Float | 100% |
| Avg. Daily volume (6m) | 4,491 |
| 12m high / low | CHF91.4 / CHF69.6 |
| Ytd Perf. | 6.7% |

| usdM | 12/18 | 12/19e | 12/20e | 12/21e |
|------------|--------|--------|--------|--------|
| Sales | 51,900 | 46,675 | 49,794 | 51,890 |
| % Change | | -10.1% | 6.7% | 4.2% |
| EBITDA | 8,199 | 16,312 | 17,938 | 18,361 |
| % Change | | 99.0% | 10.0% | 2.4% |
| EBIT | 8,199 | 10,312 | 11,938 | 12,861 |
| % Change | | 25.8% | 15.8% | 7.7% |
| Net Income | 12,641 | 8,653 | 10,144 | 11,042 |
| % Change | | -31.5% | 17.2% | 8.8% |
| ROE | 0.17 | 0.11 | 0.13 | 0.14 |

| | 12/18 | 12/19e | 12/20e | 12/21e |
|-----------|-------|--------|--------|--------|
| EV/Sales | 4.3x | 4.8x | 4.4x | 4.1x |
| EV/EBITDA | 27.5x | 13.9x | 12.2x | 11.5x |
| EV/EBIT | 27.5x | 21.9x | 18.3x | 16.4x |
| EPS | 4.71 | 5.06 | 5.64 | 6.00 |
| % change | | 7.5% | 11.3% | 6.4% |
| P/E | 18.8x | 17.5x | 15.7x | 14.8x |
| Div Yield | 3.2% | 3.0% | 3.2% | 3.4% |

Next Catalyst : Conf. Call today @2pm

Last rating Change:

[2018-7-2, If Alcon is worth USD22-23bn, then our FV is CHF95](#)

Last FV Change:

[2019-5-27, Zolgensma and Piqray approved by the FDA on the same day](#)

Last Reports:

[2019-7-17, NOVARTIS \(BUY - Top Picks, FV CHF100\) | Is consensus ahead of Q2 figures too conservative?](#)

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| | |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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NEUTRAL ratings 43.8%

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BRYAN, GARNIER & CO

London

Bryan, Garnier & Co Ltd
Beaufort House
15 St. Botolph Street
London EC3A 7BB
United Kingdom
+44 207 332 2500

Paris

Bryan, Garnier & Co Ltd
26 Avenue des Champs-
Elysées
75008 Paris
France
+33 1 56 68 75 20

Munich

Bryan, Garnier & Co. GmbH
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

Zurich

Bryan, Garnier & Co
Theaterstrasse 4
8001 Zurich
Switzerland
+41 44 991 3300

New York

Bryan Garnier Securities
750 Lexington Avenue
16th floor
New York, NY 10022
United States
+1 212 337 7000

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