

Novartis International AG



Q4 and FY 2017 Results

Media Presentation | January 24, 2018

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Agenda

Introduction

Joseph Jimenez

Chief Executive Officer

2017 financial review

Harry Kirsch






Chief Financial Officer

Future direction of Novartis and 2018 goals

Vas Narasimhan

Global Head Drug Development & CMO

2017 was a good year for Novartis

	Delivered financial targets	Sales grew +2% (cc) vs. PY Core OpInc in line (cc) with PY
	Achieved breakthrough innovation	16 key approvals, including world's first CAR-T therapy Major trial readouts: CANTOS, RTH258, Kymriah™ in DLBCL
	Executed well on key growth drivers	Cosentyx® reached multi-blockbuster status Entresto® exceeded FY sales of USD 500m Ex-Glivec®, Oncology showed strong growth (+10% cc)
	Returned Alcon to growth	Sales +4% (cc) with growth in both franchises and all regions Core OpInc +5% (cc) vs. PY
	Strengthened the organization	Implemented new operating model Manufacturing network transformation on track

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2017 financial results above or at upper end of guidance

Group full year guidance (January 2017)
in cc

Actual
vs. PY
in cc

“Sales are expected to be broadly in line with prior year”

→ 2% ✓

“Core operating income expected to be broadly in line with PY to low single digit decline”

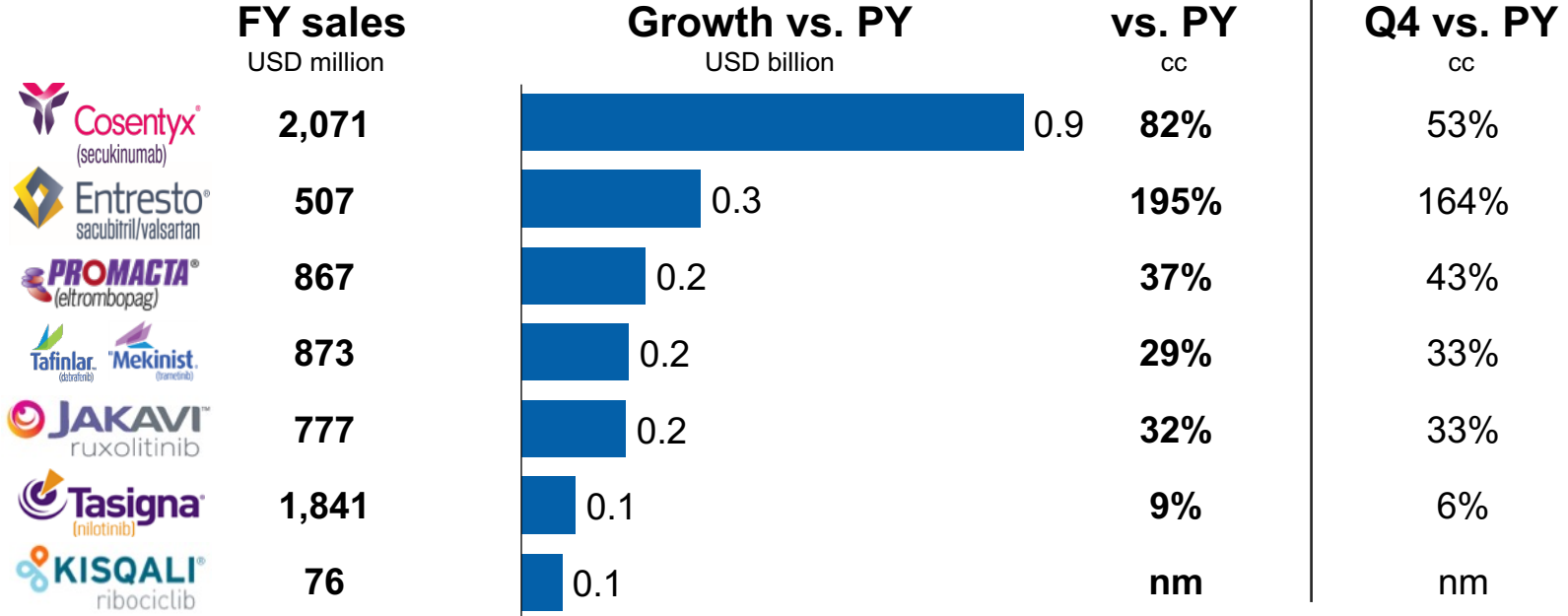
→ 0% ✓

Summary of Q4 and FY 2017 financial results

Group ¹ USD million	Q4 2017	Change vs. PY		FY 2017	Change vs. PY	
		% USD	% cc		% USD	% cc
Net Sales	12,915	5	2	49,109	1	2
Core Operating income	3,223	7	5	12,850	-1	0
Operating income	2,070	42	41	8,629	4	7
Net Income	1,976	111	58	7,703	15	12
Core EPS (USD)	1.21	8	6	4.86	2	3
EPS (USD)	0.85	113	59	3.28	16	14
Free Cash Flow	2,456	-17		10,428	10	

1. Core results, constant currencies and free cash flow are non-IFRS measures. Further details regarding non-IFRS measures can be found starting on page 42 of the Condensed Financial Report

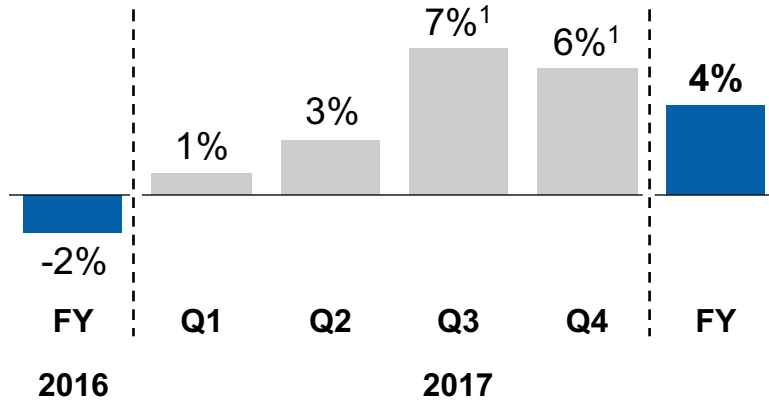
Innovative Medicines, with strong 2017 sales performance from key growth drivers



Alcon returned to growth in 2017

Sales growth

vs. PY, cc



**FY net sales grew +4%,
core operating income grew +5%:**

Driven by improving operations,
innovation, and customer
relationships

Core OpInc

vs. PY, cc

-27%	-18%	-7%	+23%	+36%	+5%
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Core

margin

14.6%	13.2%	13.9%	15.6%	14.1%	14.2%
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FY net sales by franchise:

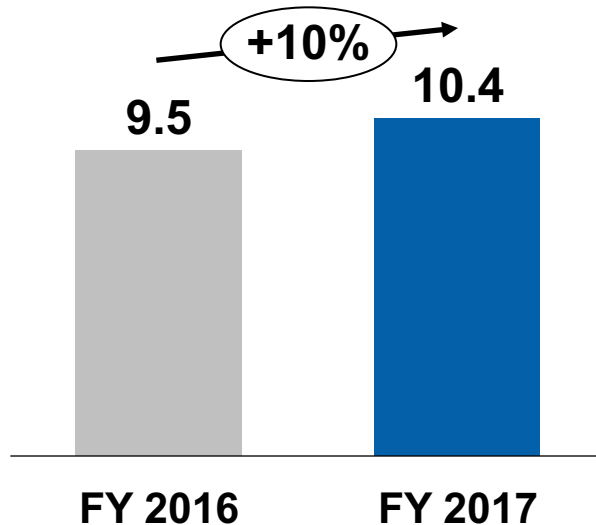
Surgical +5% and Vision Care +3%

1. Alcon sales growth benefitted from stock in trade movements, approximately 2% (cc) in Q3 2017 and 1% (cc) in Q4 2017

FY 2017 free cash flow strong at USD 10.4bn

Group free cash flow

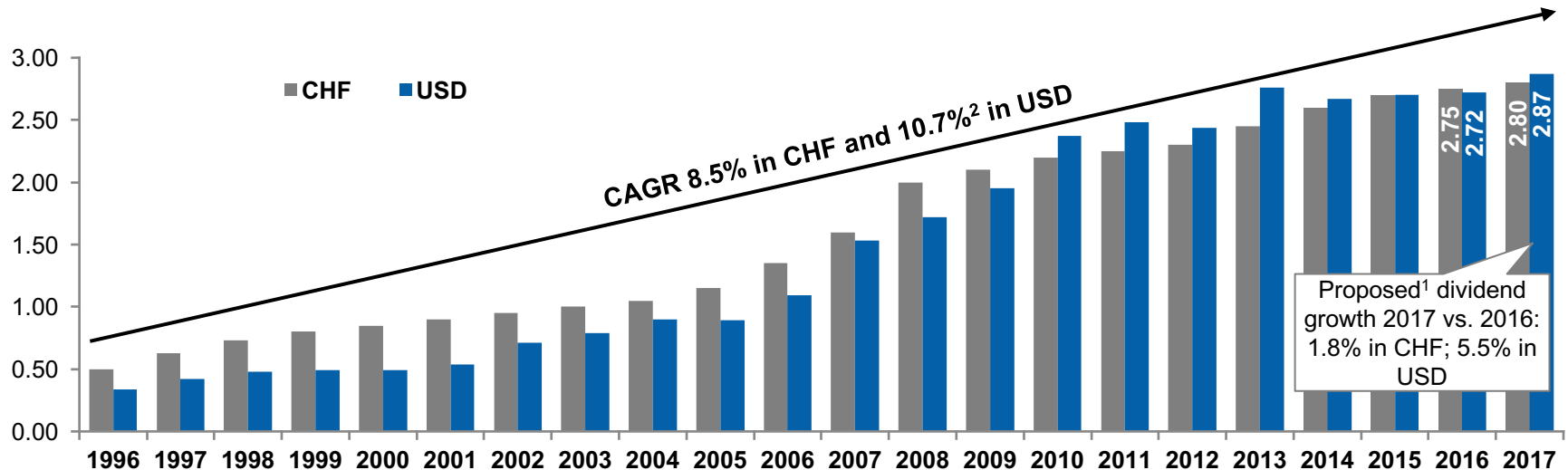
USD billion



Key drivers vs. PY:

- + Working capital
- + Lower legal settlements
- + Lower CapEx
- Higher net investments

Novartis proposes the 21st consecutive dividend increase to the AGM: 2.80 CHF / share



1. Proposal to shareholders at the 2018 Annual General Meeting, taking place on March 2, 2018 2. Converted at historic exchange rates on the dividend payment date as per Bloomberg; assumes an exchange rate of USD / CHF of 0.977 as of December 31, 2017 for 2017

2018 full year guidance

Barring unforeseen events

Full year guidance

Growth vs. PY (in cc)

Group sales are expected to grow low to mid single digit¹

- IM Division to grow mid single digit
- Sandoz to be broadly in line to a slight decline
- Alcon to grow low to mid single digit

Group core operating income expected to grow mid to high single digit

1. 2018 Sales guidance by Division reflects the announced transfer of Novartis ophthalmic OTC products, together with a small portfolio of surgical diagnostic products, from the Innovative Medicines Division to the Alcon Division, effective January 1, 2018

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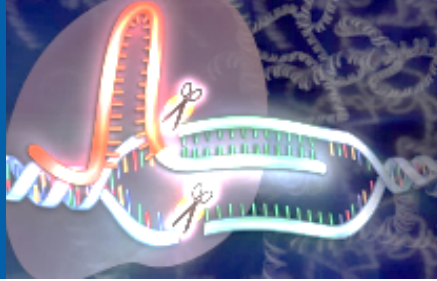
Harry Kirsch
Chief Financial Officer

Future direction of Novartis and 2018 goals

Vas Narasimhan
Global Head Drug Development & CMO

We face a dynamic, complex external environment

Opportunities



High unmet needs

New science of therapeutics

Demand for curative therapies and QOL improvement

Data / digital revolution

Challenges



Increasing competition

Rising standard of care

Payor / pricing pressure

Industry reputation

Our aspiration is to lead for the long term

Strategic

Leading innovator of **transformative therapies**

Leader in **data / digital**

Productivity leader with a **lean, agile organization**

Leader in attracting and retaining **top talent**

Financial

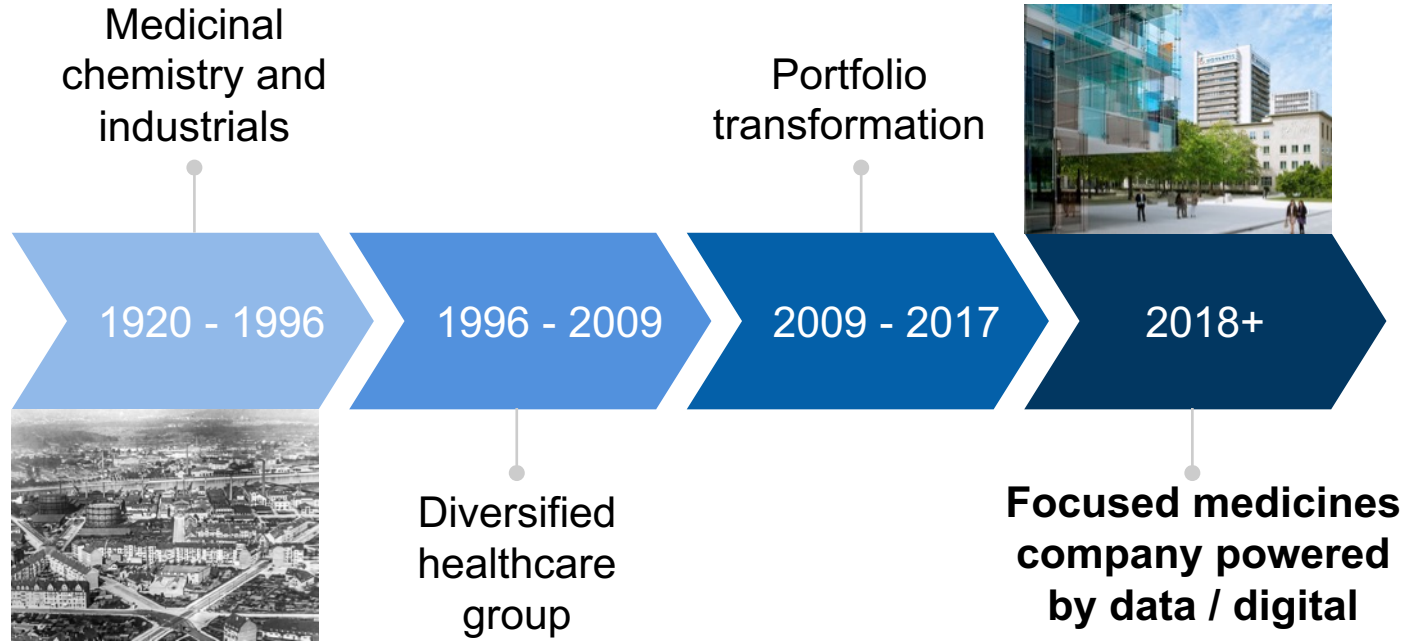
Long-term sustainable **top-line growth**

Ongoing **core margin expansion**

Solid **cash flow**

Improving **return on capital employed**

We plan to continue to focus the company



Five key priorities to shape our future

Operational Execution



Ensure launch excellence, high levels of productivity, and margin improvement

Breakthrough Innovation



Focus on high-end, transformative innovation

Data / Digital Leadership



Pivot to become a data-centric, digitally powered company

Trust & Reputation



Rebuild trust with society

Culture Transformation

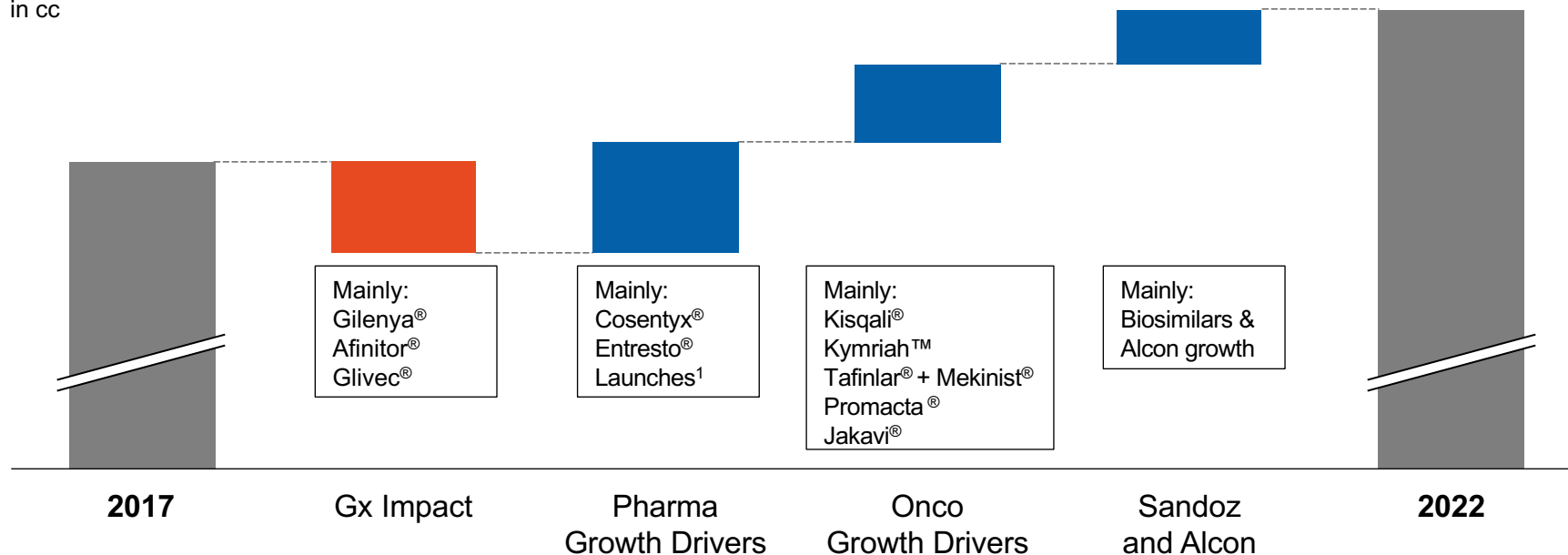


Shift to a more empowered, inspired, unbureaucratic organization

We are positioned well to grow sales....

Illustrative sales FY 2017–2022

in cc



1. Including RTH258, BAF312, Entresto[®] HFpEF, Aimovig[™], OMB157; The brand name Aimovig[™] has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country

...while driving our leading innovation engine¹

#1

In US/EU
approvals past
10 years²

#3

In pipeline
replacement
power³

21

Breakthrough
Therapy
designations⁴

175+

Projects in the
clinic

90+

New molecular
entities in the
clinic

500+

Active clinical
trials

1. Data for Global Drug Development: Innovative Medicines and Sandoz biosimilars 2. In number of new molecular entities (NMEs) approved including fixed dose combinations 2007-2016 3. Source: Novartis peer group analysis based on data from EvaluatePharma (download from January 16, 2017) as presented during Novartis R&D Day in January 2017 4. Since introduction of the Breakthrough Therapy Designation (BTD) by the FDA, the Novartis pipeline included a total of 21 BTDs of which 18 are currently actively under development or in approved indications

2018: Returning to growth and building the foundation for the future

Operational Execution



- Strengthen commercial execution on recent launches
- Prepare for 12 potential launches, including 3 in 2018
- Progress Alcon review; optimize Sandoz US portfolio
- Advance productivity efforts

Breakthrough Innovation



- Regulatory decisions, e.g.: Aimovig™¹, Kymriah™ DLBCL
- Submissions, e.g.: RTH258, BAF312
- Trial readouts, e.g.: Entresto® HFpEF interim, Kisqali® MONALEESA-3

Data / Digital Leadership



- Develop data / digital strategy for all units and functions
- Build new Digital Organization

Trust & Reputation



- Ensure high levels of Quality and Compliance
- Lead in value-based healthcare and access to medicines

Culture Transformation



- Establish baseline for culture transformation
- Drive simplification and reduce bureaucracy
- Increase diversity and inclusion

Deliver Financials

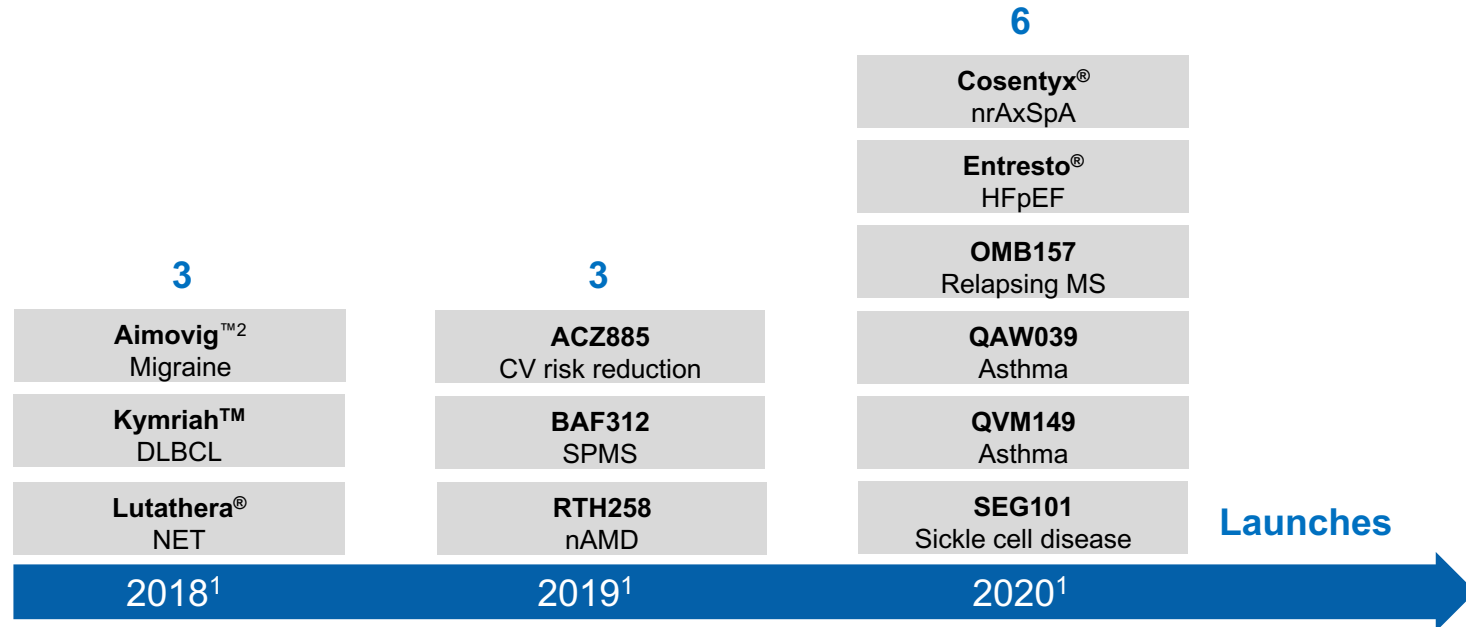
Group net sales expected to grow low to mid single digit (cc)

Group core operating income expected to grow mid to high single digit (cc)

(barring unforeseen events)

1. The brand name Aimovig™ has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country

Must prepare for and deliver on upcoming potential blockbuster launches



1. Exact launches and timing depends on filing date, HAs decisions and timelines 2. The brand name AimovigTM has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country

Progressing portfolio review of Alcon; accelerating Sandoz US focus on differentiated portfolio



- Alcon management focused on completing the turnaround
- Making progress to enable a potential capital markets exit
- No change to our potential timing of action



- US oral solids business challenged due to industry-wide pricing pressures
- Continuing to reshape our US business with a focus on more complex products, while preparing for upcoming biosimilar launches

2017 was a landmark year for innovation at Novartis

16

Key approvals

16

Key submissions

6

Breakthrough
Therapy
designations

6

Positive readouts
of potential
blockbusters

14

Transitions from
NIBR to
Development

2018 pipeline milestones expected to continue the momentum

15+

Key approvals

Aimovig™¹

Migraine prevention (US/EU)

Kymriah™

DLBCL (US/EU)

Tafinlar® + Mekinist®

Adjuvant melanoma (US/EU/JP)

15+

Key submissions

RTH258

nAMD (US/EU)

BAF312

MS (US/EU/JP)

Kisqali®

MONALEESA-7 & 3 (US/EU)

Multiple

Late-stage readouts

Entresto®

HF-pEF interim analysis

Kisqali®

MONALEESA-3 readout

BYL719

HR+ BC readout

1. The brand name Aimovig™ has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country.

Range of emerging assets advancing 2018 milestones

Oncology



BYL719

Phase 3 readout

ACZ885 (NSCLC)

Phase 3 start

INC280

Phase 2 readout

Cardio-Metabolic



LIK066

Phase 2 readout

APO(a)-LRx¹

Phase 2 readout

Neuroscience



CNP520

Phase 2/3 enrolling

BYM338

Phase 2 readout

Liver



LJN452

Phase 2 readout

VAY785

Phase 2 readout

Dermatology



QGE031 (CSU)

Phase 3 start

1. Novartis has an option to license APO(a)-LRx from Ionis Pharmaceuticals, Inc. and its affiliate Akcea Therapeutics, Inc.

Strengthening the pipeline with value-creating bolt-ons and partnerships



- Acquisition bolsters strong NET franchise
- Adds Lutathera[®], first-in-class radioligand therapy
- Introduces new technology platform and pipeline assets to Novartis

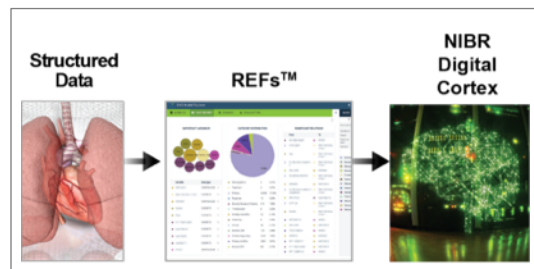


- Global partnership on next-generation biosimilars
- Strengthens pipeline with multiple immunology and oncology biologics
- Enables cost-sharing in development of select assets

Advancing a digital transformation

Example initiatives

NIBR



Digital Cortex

- Novel compound prediction
- In-silico heart failure simulation
- Image-based response prediction

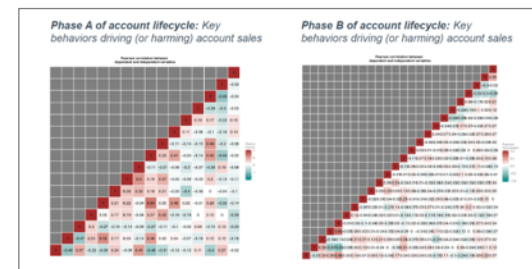
GDD



NerveLive

- Module for optimized trial execution
- Prediction of delays
- Potential 15% reduction in enrollment times

Commercial

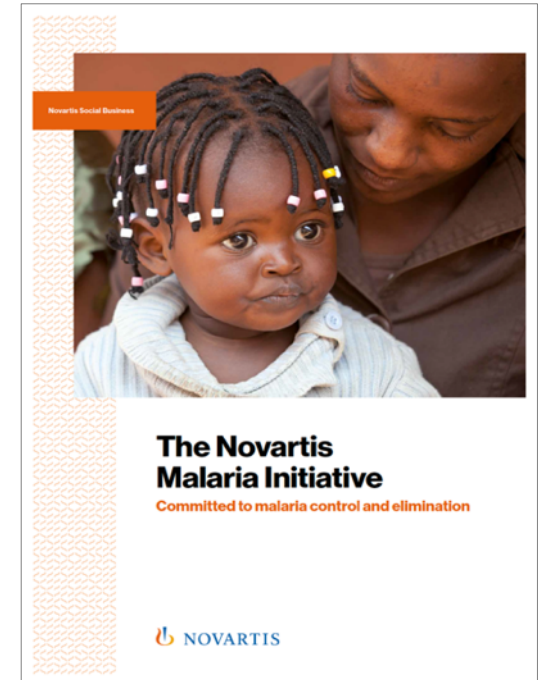


Marketing Intelligence

- Omnichannel segmentation and targeting
- Next-best-action in HCP outreach
- Tender strategy optimization

Rebuilding trust with society

- Operate with the highest values
- Ensure high levels of Quality and Compliance
- Lead in value-based healthcare
- Expand access to underserved populations
- Partner with health systems to address their challenges



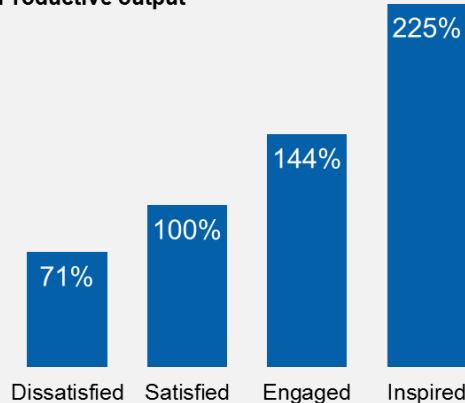
Transforming our culture



Source (for image on the left): Harvard Business Review cover, Jan/Feb 2018 issue

Inspired employees are the most productive

Productive output



Source: Bain & Company and EIU Research, 2015

Novartis Global Employee Survey Results, 2017

- High levels of engagement
- Strong alignment around company priorities and values
- Greatest areas of opportunity vs. global benchmark levels:
 - Eliminating bureaucracy
 - Empowering associates

Dynamic and exciting future for the company



Focusing as a medicines company powered by data and digital



Entering our next growth phase, with a full pipeline to sustain growth into the future



Transforming our productivity, culture and reputation

Q&A