



Novartis AG  
Investor Relations



# **Novartis concludes strategic review of Alcon, initiates share buyback of up to USD 5bn**

Investor presentation | June 29, 2018

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This presentation contains forward-looking statements that can be identified by terminology such as such as “potential,” “expected,” “will,” “planned,” “pipeline,” “outlook,” or similar expressions, or by express or implied discussions regarding the potential completion of the announced spinoff of Alcon; regarding the potential completion of the announced share buyback, regarding whether these actions are in the best interests of shareholders, regarding the future commercial performance of Novartis or of a separate Alcon business, or regarding any potential strategic benefits, synergies or opportunities as a result of these actions; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements. Such forward looking statements are based on our current beliefs and expectations regarding future events, and are subject to significant known and unknown risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those set forth in the forward looking statements. There can be no guarantee that the proposed transaction will be completed in the expected form or within the expected time frame or at all. Neither can there be any guarantee that Novartis will complete the announced share buyback in the expected form, to the expected limits or within the expected time frame or at all. Nor can there be any guarantee that Novartis will be able to realize any of the potential strategic benefits, synergies or opportunities as a result of these actions. Neither can there be any guarantee that shareholders will achieve any particular level of shareholder returns. Nor can there be any guarantee that the spinoff of Alcon or the share buyback will be in the best interests of shareholders, or that the Group, or any of its divisions, or a separate Alcon business, will be commercially successful in the future, or achieve any particular credit rating or financial results. In particular, our expectations could be affected by, among other things: an unexpected failure to complete the required closing conditions, or to obtain the shareholder approvals needed to complete these actions, or unexpected delays in meeting these requirements; the potential that the strategic benefits, synergies or opportunities expected from the transaction may not be realized or may take longer to realize than expected; global trends toward health care cost containment, including government, payor and general public pricing and reimbursement pressures and requirements for increased pricing transparency; regulatory actions or delays or government regulation generally; the inherent uncertainties involved in predicting shareholder returns; the uncertainties inherent in the research and development of new healthcare products, including clinical trial results and additional analysis of existing clinical data; our ability to obtain or maintain proprietary intellectual property protection, including the ultimate extent of the impact on Novartis of the loss of patent protection and exclusivity on key products which commenced in prior years and will continue this year; safety, quality or manufacturing issues; uncertainties regarding actual or potential legal proceedings, including, among others, actual or potential product liability litigation, litigation and investigations regarding sales and marketing practices, intellectual property disputes and government investigations generally; uncertainties involved in the development or adoption of potentially transformational technologies and business models; general political and economic conditions, including uncertainties regarding the effects of ongoing instability in various parts of the world; uncertainties regarding future global exchange rates; uncertainties regarding future demand for our products; and uncertainties regarding potential significant breaches of data security or data privacy, or disruptions of our information technology systems; and other risks and factors referred to in Novartis AG’s current Form 20-F on file with the US Securities and Exchange Commission. Novartis is providing the information in this presentation as of this date and does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

# Agenda

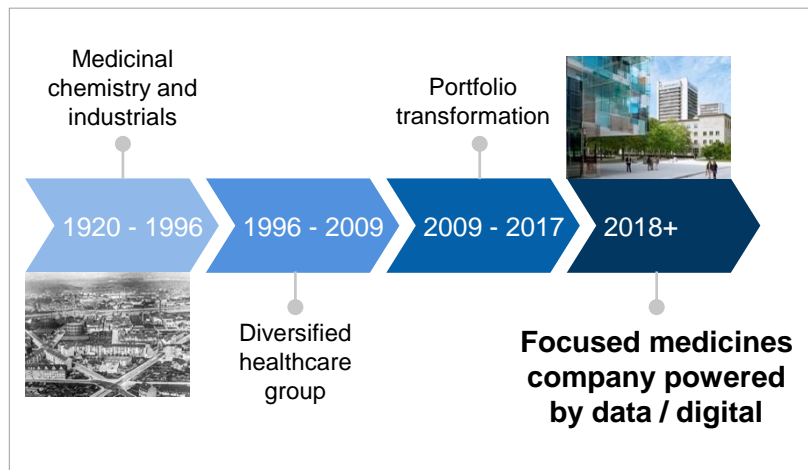
## 1. Novartis strategy and transaction rationale

## 2. Transaction overview

## 3. Alcon investment highlights

# Novartis long-term strategy

## Focus the company and our capital



## Pursue 5 priorities to drive growth

1. Operational Execution
2. Breakthrough Innovation
3. Data / Digital Leadership
4. Trust & Reputation
5. Culture Transformation

# Today's announcements reflect our strategy and capital allocation priorities

## Proposed 100% spinoff of Alcon

Strategic review concludes 100% spinoff<sup>1</sup> of Alcon would be in best interest of shareholders

Subject to final Board of Directors endorsement and shareholder approval at the 2019 AGM

Preparations for planned Alcon spinoff<sup>1</sup> well advanced, expected completion in H1 2019

## Share buyback, dividend commitment

Capital allocation priorities:

- 1 Investments in organic business
- 2 Growing annual dividend in CHF  
Novartis intends to continue paying a strong and growing dividend in CHF, without any adjustments for Alcon spinoff
- 3 Value-creating transactions<sup>2</sup>
- 4 Share buybacks  
Novartis initiates a share buyback of up to USD 5bn to be executed by the end of 2019

1. The planned spinoff is subject to general market conditions, tax rulings and opinions, final Board endorsement and shareholder approval at the AGM in February 2019; completion expected in H1 2019 2. Includes M&A and BD&L

# Rationale for separation of the Alcon eye care devices business<sup>1</sup>



- Consistent with Novartis strategy of focusing as a leading medicines company
- Focus Novartis capital allocation into the medicines pipeline and capabilities



- Focus Alcon eye care devices business on its distinct business model, product development cycles and customer base
- Increase Alcon flexibility to pursue its device-specific growth strategies

1. The planned spinoff is subject to general market conditions, tax rulings and opinions, final Board endorsement and shareholder approval at the AGM in February 2019; completion expected in H1 2019

# Strategic review concludes 100% spinoff of Alcon would be in best interest of shareholders<sup>1</sup>



Spinoff would allow shareholders to benefit from potential future successes of a more focused Novartis and a standalone Alcon



Spinoff allows a tax neutral transaction to Novartis



Spinoffs have been the preferred form of public market separations in the past and in line with previous Novartis capital markets transactions, i.e. Syngenta, Ciba Specialty Chemicals

1. The planned spinoff is subject to general market conditions, tax rulings and opinions, final Board endorsement and shareholder approval at the AGM in February 2019; completion expected in H1 2019

# Planned spinoff would create the world-leading standalone eye care devices company<sup>1</sup>

## Revenue by eye care segment

FY 2017, USD bn



1. The planned spinoff is subject to general market conditions, tax rulings and opinions, final Board endorsement and shareholder approval at the AGM in February 2019; completion expected in H1 2019 2. All Alcon numbers are post transfer of Ophthalmic OTC and Diagnostics products from the Innovative Medicines Division to Alcon 3. J&J FY17 represents partial year reporting after AMO acquisition in February 2017



# Highly experienced leadership team with successful track record in medical devices and ophthalmology



**Mike Ball**

Chairman-designate

- Joined Alcon in February 2016 and successfully led turnaround
- Will step down from the Executive Committee to focus fully on the Alcon separation
- Previously, CEO of Hospira (2011-2015), conducted a turnaround of the company
- Held a number of senior leadership positions, including President at Allergan
- Holds a B.Sc. and an MBA from Queen's University, Kingston, Ontario, Canada



**David Endicott**

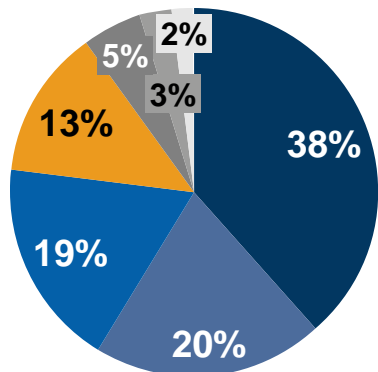
Chief Executive Officer

- Joined Alcon in July 2016 and played an integral role in the turnaround
- Previously, President of Hospira Infusion Systems, a Pfizer company
- Former Allergan Officer and Member of Executive Committee
- Holds an undergraduate degree in Chemistry from Whitman College and an MBA from the University of Southern California

**Key leadership positions in place; on track to have a full executive team in place on the day of spinoff**

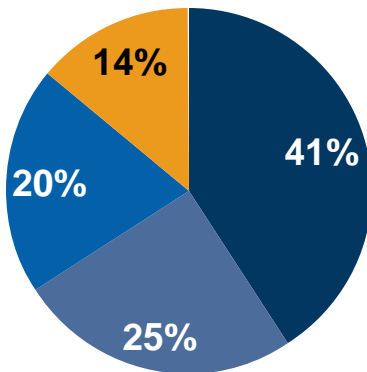
# An Alcon spinoff<sup>1</sup> would further focus Novartis' portfolio as a leading medicines company

2014 pre portfolio transformation



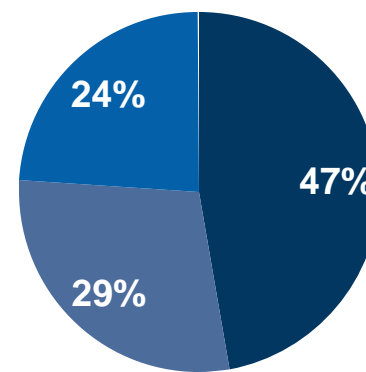
Net sales = USD 58bn

2017 pre Alcon spinoff



Net sales = USD 49bn

2017 post Alcon spinoff



Net sales = USD 42bn

■ Pharmaceuticals BU ■ Oncology BU ■ Sandoz ■ Alcon<sup>2</sup> ■ OTC ■ Vaccines<sup>3</sup> ■ Animal Health

1. The planned spinoff is subject to general market conditions, tax rulings and opinions, final Board endorsement and shareholder approval at the AGM in February 2019; completion expected in H1 2019 2. Alcon 2014 and 2017 net sales include the Ophthalmic OTC and Diagnostics products transferred from the Innovative Medicines Division from January 1, 2018, and exclude the remaining Ophthalmic Pharmaceuticals business transferred to the Innovative Medicines Division from January 1, 2016 3. Excluding sales from the Blood Transfusions Diagnostics Unit divested to Grifols S.A. on January 9, 2014

# Novartis retains leading ophthalmology pharmaceuticals business

Novartis retains benefits of prior Alcon portfolio of in-market and pipeline ophthalmology pharmaceuticals products

## Novartis Ophthalmology franchise USD 4.6bn<sup>1</sup>

In-market products	Lucentis®	USD 1.9bn	} Leading franchise with global reach and capabilities
	Former Alcon Ophtha Pharma	USD 2.7bn	
Selected pipeline	RTH258	Expected filing: 2018	} RTH258 offers potential to expand into US retina market  } Exciting pipeline including potential novel treatments for presbyopia, dry eye, and genetic disease
	Luxturna® <sup>2</sup>	EMA filing: July 2017	
	ECF843	Expected filing: ≥ 2022	
	UNR844	Expected filing: 2021	

1. All numbers: net sales 2017; net sales include former Alcon pharmaceuticals portfolio of USD 2.7bn. Does not include Alcon OTC USD 0.7bn including Systane®, other artificial tears and diagnostics as transferred on January 1, 2018 from Innovative Medicines to Alcon 2. Signed licensing agreement with Spark for ex-US rights

# We are announcing a share buyback of up to USD 5bn...



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Reflects strict financial discipline and is in line with strategic capital allocation priorities

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Largely funded by the proceeds from the Consumer Health Joint Venture stake divestment (USD 13.0bn), net of AveXis acquisition (USD 8.7bn)

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Current AGM authority (i.e. the 7<sup>th</sup> share repurchase program) will allow buyback of up to CHF 2.9bn, consequently a new framework program would be proposed to shareholders at the 2019 AGM

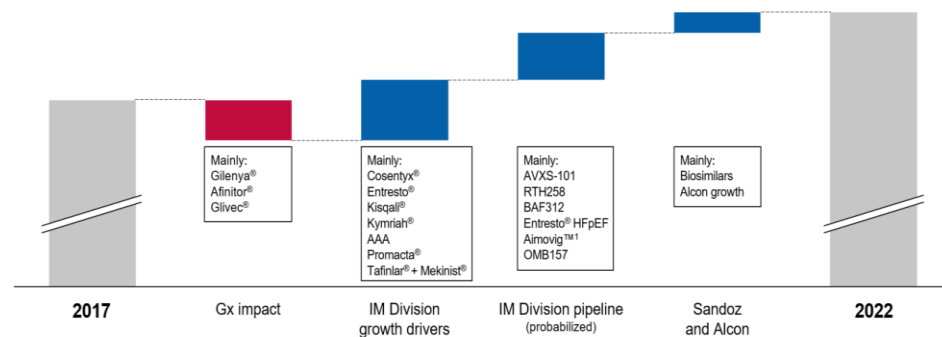
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Share buyback to be executed by the end of 2019

# ...which reflects our confidence in top-line growth and margin expansion

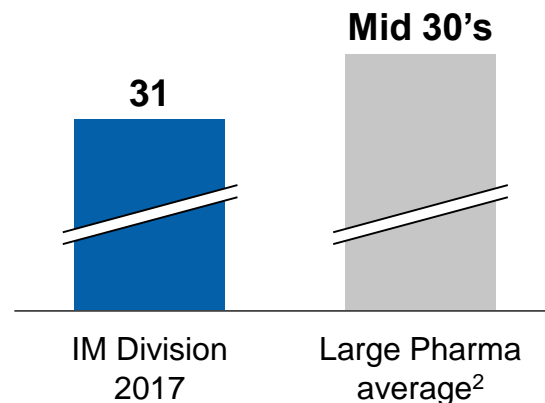
## Illustrative sales growth<sup>3</sup>

FY 2017–2022, in cc



## Plan to drive margin expansion

Innovative Medicines, core margin in %



1. Aimovig<sup>™</sup> is developed in collaboration with Amgen. Companies to co-commercialize in the US (Amgen to book sales to third party), Novartis to have Aimovig<sup>™</sup> exclusive rights in rest of world excluding Japan. 2. Source: Novartis analysis of average 2016 core margins of Large Pharma peer companies 3. Chart as presented at Meet Novartis Management investor event in May 2018

# Agenda

1. Novartis strategy and transaction rationale

**2. Transaction overview**

3. Alcon investment highlights

# Dual-listing planned on SIX and NYSE



Natural listing location for a Swiss company

Main listing location of Novartis

Enables maximum number of Novartis shareholders to remain invested

Targeting SMI<sup>®1</sup> inclusion

**Alcon**  
listing

Access to large US investor base

Enables geographically restricted shareholders to invest

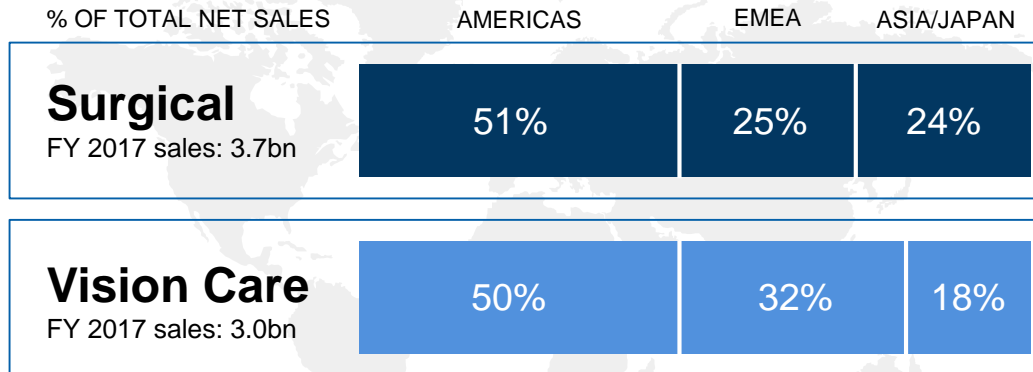
Main listing venue for large cap MedTech peers

1. SMI<sup>®</sup> is a registered trademark of the SIX Swiss Exchange

# Global company to be incorporated in Switzerland

## Global reach and scale serving patients in over 140 countries

- USD 7bn in sales in 2017
- More than 20,000 employees
- Headquarters would be in Switzerland
- Fort Worth would continue to be a key location



All Alcon numbers are post transfer of Ophthalmic OTC and Diagnostics products from the Innovative Medicines Division to Alcon



# Key transaction milestones

1. Preparations for planned Alcon spinoff<sup>1</sup> well advanced, expected completion in H1 2019

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2. Alcon Capital Markets Days planned for Q4 2018 in New York and London

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3. Subject to final Board of Directors endorsement and shareholder approval at the 2019 AGM

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1. The planned spinoff is subject to general market conditions, tax rulings and opinions, final Board endorsement and shareholder approval at the AGM in February 2019; completion expected in H1 2019

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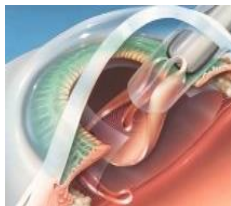
**3. Alcon investment highlights**

# Eye care is a large, attractive and growing market

USD  
~20bn

## Large and profitable eye care devices market expected to grow mid-single digits

- Changing lifestyles and patient desire for spectacle independence
- Aging population with high unmet needs
- Growing middle class in emerging markets



## Surgical market USD 8bn (expected to grow +4%<sup>1</sup> per year), growth drivers:

- Supportive demographic trends and technological advancements, incl. AT-IOLs
- Improved diagnostics and visualization technologies



## Vision Care market USD 12bn (expected to grow +4%<sup>1</sup> per year), growth drivers:

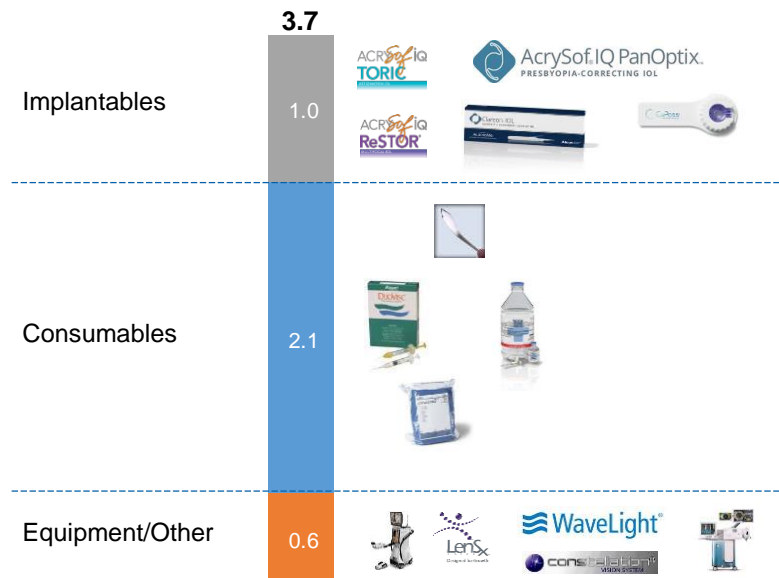
- Uptake of toric/multifocal specialty lenses
- Trade-up to daily lenses/premium materials
- Increased marketing behind dry eye brands

1. Based on Novartis analysis, company filings

# Alcon is the global leader in this market, with a broad product portfolio across Surgical and Vision Care...

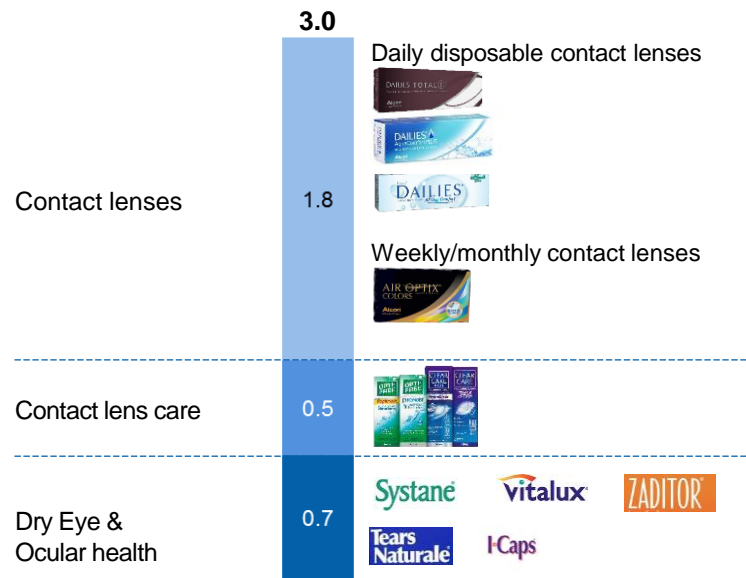
## Surgical 2017 net sales

USD billion



## Vision Care 2017 net sales

USD billion



# ...and a robust pipeline to fuel future growth

	Recent launches	2018 – 2020 planned launches	2020+ planned launches
<b>Surgical</b>	Clareon® with AutonoMe™ – OUS	Non-diffractive extended depth of focus IOL – OUS	New IOL platforms
	UltraSert™ – US/OUS	PanOptix® Trifocal – US	Next generation cataract and vitreoretinal technology platforms
	PanOptix® Trifocal – OUS	Clareon® with AutonoMe™ – US	Integrative technologies to connect the clinic to the operating room
	ReSTOR® Toric with ACTIVEFOCUS™ – US	ORA™ System with VerifEye™ Lynk – US/OUS	
	NGENUITY® 3D – US/OUS		
<b>Vision Care</b>	AIR OPTIX® plus HydraGlyde®	AIR OPTIX® plus HydraGlyde® (Toric and Multifocal lenses)	2 innovative new contact lens platforms
	Dailies Total1® Multifocal	AIR OPTIX® Colors – 3 new colors	Accommodating contact lens
	Clear Care® plus HydraGlyde®	FRESHLOOK® – 5 new limbal lenses	Systane® Ultra
		Systane® Complete	Systane® Hydration
		New daily disposable lens	

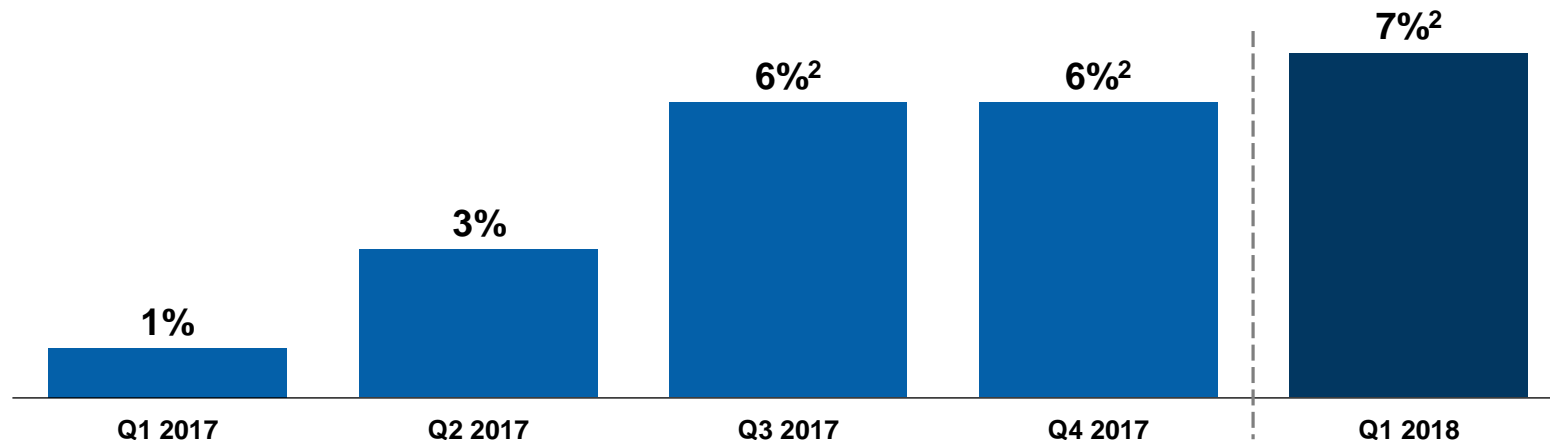
# Alcon is embarking on the next phase of the growth acceleration strategy



# Alcon actions resulted in growth in 2017 and expect to deliver long-term sustainable growth

## Net sales growth<sup>1</sup>

vs. PY, % cc



1. Alcon Division Q1 2017 to Q4 2017 growth rates updated to include the Ophthalmic OTC and Diagnostics products, transferred from the Innovative Medicines Division from January 1, 2018, and are compared against the Q1 2016 to Q4 2016 updated financials including the product transfers 2. Alcon sales growth benefitted from stock in trade movements, approx. 2% (cc) in Q3 2017, 1% (cc) in Q4 2017, and 1% (cc) in Q1 2018

# Alcon summary

- 1 Alcon is the global leader in eye care devices, with leading positions in Surgical and Vision Care
- 2 Alcon is ideally positioned in the attractive USD 20bn eye care market, which exhibits sound fundamentals and considerable opportunities for future growth
- 3 Alcon invested behind key growth drivers and improved foundational systems and capabilities, enabling a superior customer experience
- 4 Actions resulted in a return to profitable growth in 2017; with continued innovation and investment, Alcon expects to deliver long-term, sustainable growth



# Summary

## Proposed 100% spinoff<sup>1</sup> of Alcon

- Strategic review concludes 100% spinoff of Alcon would be in best interest of shareholders
- Alcon Capital Markets Days planned for Q4 2018 in New York and London
- Subject to final Board of Directors endorsement and shareholder approval at the 2019 AGM
- Preparations for planned Alcon spinoff well advanced, expected completion in H1 2019

## Share buyback

- Initiating up to USD 5bn share buyback, reflecting our confidence in top-line growth and margin expansion

1. The planned spinoff is subject to general market conditions, tax rulings and opinions, final Board endorsement and shareholder approval at the AGM in February 2019; completion expected in H1 2019