

NOVARTIS AG ADR NYSE-NVS

RECENT PRICE **55.47** P/E RATIO **11.2** (Trailing: 12.5; Median: 19.0) RELATIVE P/E RATIO **0.87** DIV'D YLD **3.7%** VALUE LINE

TIMELINESS 2 Raised 4/29/11	High: 44.9 46.9 44.1 46.0 50.8 54.7 61.6 60.4 61.3 56.4 60.1 64.8	Target Price Range 2014 2015 2016
SAFETY 1 Raised 10/26/01	Low: 29.2 32.7 34.0 33.8 41.3 45.6 51.7 51.2 41.8 33.3 43.5 52.1	128
TECHNICAL 3 Lowered 9/30/11	LEGENDS 10.0 x "Cash Flow" p sh Relative Price Strength Options: Yes Shaded areas indicate recessions	96
BETA .65 (1.00 = Market)		80
2014-16 PROJECTIONS		64
Price Gain Ann'l Total		48
High 85 (+55%) 14%		40
Low 70 (+25%) 10%		32
Insider Decisions		24
N D J F M A M J J		16
to Buy 0 0 0 0 0 0 0 0		12
Options 0 0 0 0 0 0 0 0		
to Sell 0 0 0 0 0 0 0 0		
Institutional Decisions		
4Q2010 1Q2011 2Q2011	Percent shares traded 3	
to Buy 291 375 322	2	
to Sell 261 359 369	1	
Hld's(000) 219830 353801 245770		

Novartis AG was created by the merger of Sandoz AG and Ciba-Geigy AG in December 1996. The company went public on December 23, 1996, issuing about 69 million shares at \$27 a share on the Swiss stock exchange. On May 11, 2000 they became available in the form of American Depositary shares on the NYSE. On May 7, 2001 the company conducted a 1-for-40 stock split for each underlying share to bring it into parity with an ADR on the NYSE.

CAPITAL STRUCTURE as of 6/30/11
Total Debt \$21908 mill. Due in 5 Yrs \$7812 mill.
LT Debt \$14096 mill. LT Interest \$127.6 mill.

(16% of Cap'l)
Leases, Uncapitalized: Annual rentals \$181 mill.

Pension Assets-12/10 \$3.5 bill **Oblig.** \$1.45 bill.

Common Stock 2,423,572,067 ADRs.
as of 8/8/11
MARKET CAP: \$134.0 billion (Large Cap)

CURRENT POSITION (\$MILL.)	2009	2010	6/30/11
Cash Assets	17449	8134	9190
Receivables	8310	9873	10245
Inventory (Avg Cst)	5830	6093	6056
Other	2102	2585	2328
Current Assets	33691	26685	27819
Accts Payable	4012	4788	4609
Debt Due	5313	8627	7812
Other	10145	11243	11045
Current Liab.	19470	24658	23466

ANNUAL RATES of change (per ADR)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10 to '14-'16
Sales	9.5%	11.0%	5.5%
"Cash Flow"	9.5%	12.0%	6.5%
Earnings	9.0%	10.5%	6.5%
Dividends	14.0%	18.5%	7.5%
Book Value	10.5%	14.0%	8.5%

Cal-endar	QUARTERLY SALES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	9909	10990	10763	9797	41459
2009	9709	10546	11290	12722	44267
2010	11059	11921	12820	14464	50264
2011	14027	15123	13500	13255	55905
2012	14500	14250	14550	14700	58000

Cal-endar	EARNINGS PER ADR ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	1.02	.96	.92	.66	3.56
2009	.86	.90	.92	1.01	3.69
2010	1.27	1.06	.99	.94	4.26
2011	1.41	1.11	1.19	1.24	4.95
2012	1.40	1.25	1.25	1.30	5.20

Cal-endar	GROSS ANNUAL DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2007	--	1.41	--	--	1.41
2008	--	1.68	--	--	1.68
2009	--	1.74	--	--	1.74
2010	--	1.94	--	--	1.94
2011	--	2.04	--	--	2.04

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC 14-16
Translation Rate (\$/CHF) ^A	1.65	1.40	1.55	1.61	1.67	1.93	1.60	1.54	1.61	1.65	1.60	1.55	1.20
Sales per ADR	6.61	8.02	10.08	11.63	13.83	15.65	16.76	18.30	19.50	22.00	23.05	24.15	29.35
"Cash Flow" per ADR	1.77	2.05	2.32	2.95	3.38	3.91	4.08	4.82	4.98	5.58	6.50	6.85	7.55
Earnings per ADR ^B	1.64	2.03	2.00	2.34	2.62	3.04	2.80	3.56	3.69	4.26	4.95	5.20	5.55
Gross Div'd Decl'd ADR ^C	.50	.51	.70	.78	.82	.86	1.41	1.68	1.74	1.94	2.04	2.30	2.72
Cap'l Spending per ADR	.69	.99	.55	.52	.51	.77	1.10	.93	.83	.73	.95	1.00	1.20
Book Value per ADR	8.52	9.82	12.33	13.91	14.16	17.51	21.26	22.26	25.31	30.32	28.80	30.45	41.80
Equip ADRs Outst'g ^D	2885.2	2885.3	2467.8	2428.9	2329.8	2348.3	2323.6	2265.5	2270.5	2300.8	2425	2400	2270
Avg Ann'l P/E Ratio	23.3	19.2	19.5	19.7	19.0	18.5	19.8	14.5	12.1	12.4	12.4	12.4	14.0
Relative P/E Ratio	1.19	1.05	1.11	1.04	1.01	1.00	1.05	.87	.81	.80	.80	.80	.95
Avg Ann'l Div'd Yield	1.3%	1.3%	1.8%	1.7%	1.7%	1.5%	2.5%	3.2%	3.9%	3.7%	3.7%	3.7%	3.5%
Sales (\$mill)	19070	23151	24864	28247	32212	36749	38947	41459	44267	50624	55905	58000	66600
Operating Margin	28.1%	32.2%	23.7%	26.5%	26.1%	26.3%	26.4%	29.2%	29.1%	31.5%	31.5%	30.5%	28.0%
Depreciation (\$mill)	931.0	690.0	717.0	1388.0	1731.0	1987.0	2936.0	2760.0	2856.0	2876.0	3760	3950	4550
Net Profit (\$mill)	4181.0	5224.0	5016.0	5767.0	6141.0	7202.0	6540.0	8163.0	8454.0	9969.0	12005	12480	12600
Income Tax Rate	17.0%	16.9%	15.5%	16.3%	15.3%	12.9%	12.6%	14.1%	14.8%	14.8%	15.0%	15.0%	15.0%
Net Profit Margin	21.9%	22.6%	20.2%	20.4%	19.1%	19.6%	16.8%	19.7%	19.1%	19.7%	21.5%	21.5%	18.9%
Working Cap'l (\$mill)	14353	12576	12953	13533	6115.0	5170.0	10789	4377.0	14221	2027.0	14300	14400	13500
Long-Term Debt (\$mill)	1523.0	2736.0	3191.0	2736.0	1319.0	656.0	677.0	2178.0	5313.0	8627.0	13925	13900	17400
Shr. Equity (\$mill)	24593	28344	30429	33783	32990	41111	49396	50437	57462	69769	69800	73100	94860
Return on Total Cap'l	16.2%	17.1%	15.4%	16.3%	18.0%	17.4%	13.1%	15.8%	13.9%	13.1%	16.0%	15.5%	11.0%
Return on Shr. Equity	17.0%	18.4%	16.5%	17.1%	18.6%	17.5%	13.2%	16.2%	14.7%	14.3%	17.0%	17.0%	13.5%
Retained to Com Eq	11.2%	12.6%	10.8%	11.5%	12.2%	12.5%	6.8%	9.6%	7.9%	7.9%	10.0%	9.5%	6.5%
All Div'd's to Net Prof	34%	31%	34%	33%	34%	28%	49%	41%	47%	45%	41%	44%	49%

BUSINESS: Novartis AG is a major Swiss-based pharmaceutical and health care company. Sales by business category for '10: Pharmaceuticals, 65%; Generics (Sandoz), 18%; Consumer health, 12%; Vaccines and Diagnostics, 5%. Major therapeutic area: hypertension. Major products include *Diovan*, *Lotrel*, *Gleevec*, *Zometa*, *Neoral*, *Femara*, *Sandostatin*, *Lamisil*, and *Zelnorm*. Major product

in development: *Exforge*. '10 R&D, 16.4% of sales. Has about 82,400 employees in 140 countries. Acqd. Chiron, 4/20/06. Largest single investor: Dodge & Cox, 1.1% of common ('10 Form 20F). Chairman: Daniel Vasella, CEO: Jose Jimenez. Inc.: Switzerland. Addr.: Lichtstrasse 35, CH-4056 Basel, Switzerland. Tel.: 011-41-61-324-1111. U.S. tel.: 212-830-2440. Internet: www.novartis.com.

Novartis has a few promising drugs in its extensive portfolio. One of them is *Gilenya*, a once-daily oral multiple sclerosis (m-s) treatment, that has just been approved in Japan. *Gilenya*, besides being easier for patients to administer (it's taken in pill form rather than via an injection), also has fewer side effects than competing m-s drugs because it isn't an interferon. Another promising medication is *Ilaris*, a gout therapy, also recently approved in Japan, and a drug that appears to be gaining sales traction in Europe and the U.S. *Afinitor*, a breast cancer drug, has annual potential sales of \$2.6 billion. This figure is based on a penetration rate of 30% of a \$8.6 billion market (200,000 patients paying \$3,600 a month). Lastly, *Tasigna*, a chronic myeloid leukemia-fighter, has what it takes to replace waning sales of Novartis' own *Gleevec*. *Tasigna* has been found to be particularly efficacious when combined with another of Novartis' cancer-fighting treatments called *LDE225*.

Novartis has a very well-diversified business base. Besides the core pharmaceutical segment (66% of sales), it has an

oncology franchise that would be hard to replicate, a large consumer product operation, spearheaded by Alcon (see below), and Sandoz, the world's third-largest generic drug business. The only thing it lacks is a significant biotech presence, a gap that NVS could easily fill given its ample financial wherewithal.

Alcon adds to Novartis' globally diversified low-risk profile. Alcon, when combined with CIBA Vision, the proprietary eye-care unit, is by far the world's biggest eye-care operation. Alcon (\$7.2 billion in 2010 sales) consists of three divisions: Surgery, Pharmacy, and Vision Care. Surgery looks to be the principle sales driver, notably cataract surgery sales, which will probably generate about \$3.5 billion in revenue in 2011.

This high-quality issue is best suited to the conservative income-oriented investor. The generous and growing dividend is well covered thanks to rock-solid finances. Average annual bottom-line growth of 6%-7% will likely land the stock in the \$70-\$85 range by the 2014-2016 time frame.

Jeremy J. Butler October 14, 2011

(A) At fiscal yearend. (B) Based on U.S. GAAP and diluted ADR's. Each ADR represents one common share. Includes restructuring charge of \$0.19 a share in 2007 (4Q). Next earnings report due late October. (D) In millions. (C) Annual dividend normally paid in the June quarter.

Company's Financial Strength	A++
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	95