

NOVARTIS (NVS)
Investment Notes

Please read Disclaimer at bottom of these notes!

“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 ('09 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” Value Line 4/15/11

Novartis AG

Novartis AG was incorporated on February 29, 1996 under the laws of Switzerland as a stock corporation (*Aktiengesellschaft*) with an indefinite duration. On December 20, 1996, our predecessor companies, Ciba-Geigy and Sandoz, merged into this new entity, creating Novartis. We are domiciled in and governed by the laws of Switzerland. Our registered office is located at the following address:

Novartis AG
Lichtstrasse 35
CH-4056 Basel, Switzerland
Telephone: 011-41-61-324-1111
Web: www.novartis.com

The Novartis Group is a multinational group of companies specializing in the research, development, manufacturing and marketing of a broad range of healthcare products led by innovative pharmaceuticals. Novartis AG, our Swiss holding company, owns, directly or indirectly, 100% of most significant operating companies, with the particular exception of Alcon, Inc. and its subsidiaries, which are currently majority owned. For a list of our significant operating subsidiaries, see "Item 18. Financial Statements—note 31."

From 2010 Annual Report

OVERVIEW

Novartis provides healthcare solutions that address the evolving needs of patients and societies worldwide. Our broad portfolio includes innovative medicines, preventive vaccines and diagnostic tools, generic pharmaceuticals and consumer health products. Novartis is the only company to have leadership positions in each of these areas.

The Group's wholly-owned businesses are organized in four global operating divisions:

- Pharmaceuticals: Innovative patent-protected prescription medicines
- Vaccines and Diagnostics: Human vaccines and blood-testing diagnostics
- Sandoz: Generic pharmaceuticals
- Consumer Health: OTC (over-the-counter medicines), Animal Health and CIBA Vision (contact lenses and lens-care products)

In addition, the Group's healthcare portfolio is complemented by 77% ownership of Alcon, Inc, which discovers and develops innovative eye care products to improve the quality of life by helping people see better.

Thesis:

Large company in a depressed industry. International exposure, creates a US Dollar hedge of sorts. Diversified product base with Pharmaceuticals, Vaccines and Diagnostics, Generic Pharmaceuticals and Consumer Health (OTC medicines, Animal Health and CIBA Vision.) Aging population create need and demand. Discussions of strong pipeline, although current risks of products coming off patent. Risks include failing to integrate massive acquisitions, Revenues from patent loss not replaced as expected. Earnings and Free Cash Flow Yield expected to be > 7.25%. I think our Annualized projections of ROI over 15 years being 8% is very conservative. We arrive at this using 10 year growth rates of 5%, followed by 3% for the next 5 years (year 15). Return on Equity consistently in the teens, and I project at 15.3% for F2011. P/E a touch higher than some others at 13.2X, yet still below 5 and 10 year norm. Shares under pressure due to European financial concerns. I feel this European economic turmoil of course will one day resolve. Earnings to Enterprise Value at ~7% (4.37/62.45). Credit rating AA-. Dividend Yield 3.23%.

Fundamental Analysis:

Company Name	Novartis
Symbol	NVS
Date Worked On	10-May-11
Base Year	31-Dec-11
Price	\$60.00
Shares Outstanding	2,286
Market Capitalization	\$137,160
Cash and CE	\$8,764
Long Term Debt	\$14,360
Minority Interests	\$0
Goodwill	\$30,346
Intangibles	\$34,983
Other Intangibles	\$0
Enterprise Value	\$142,756

Short Term Debt	\$8,627
Stockholders Equity	\$65,340
Depreciation and Amortization	\$5,000
CapEx	\$4,100
Revenues	\$58,000
Total Assets	\$127,218
Net Income	\$10,000
Dividend Per Share	\$1.94
Interest Expense	\$800
Net Income Before Taxes	\$11,766
Enterprise Value Per Share	\$62.45
Price To Enterprise Value	96.08%
Total Debt	\$22,987
Total Debt / Net Income	229.87%
Total Debt Per Share	\$10.06
Tangible Book Value	\$11
Book Value Per Share	\$28.58
Tangible Book Value Per Share	\$0.00
Price / Book Value	209.92%
Price / Tangible Book Value	1246909.09%
Price / Earnings Ratio	13.72
Enterprise Value / Earnings Ratio	14.28
Earnings Yield	7.29%
Price To Sales Ratio	236.48%

Net Income / Total Assets	7.86%
Total Assets / (Revenues/365)	800.60
Enterprise Value / Revenues	246.13%
Goodwill / Total Assets	23.85%
Goodwill / Stockholders Equity	46.44%
Debt / Equity	35.18%
Average P/E Last 10 Years	15.0
Free Operating Cash Flow	\$10,900
Free Operating Cash Flow Per Share	4.77
Free Operating Cash Flow Flow Yield	7.95%
Price / Free Operating Cash Flow	12.58
Revenues Per Share	\$25.37
Net Income Per Share	\$4.37
Return on Equity	15.30%
Bond Rating (S&P)	AA-
Growth Rate	5.00%
Dividend Yield	3.23%
Dividend / Net Income	44.35%
Dividend / Cash Flow	40.69%
Interest Coverage Ratio	15.71
Insider Activity	Not Known
Buy-Backs	Yes
Dilution	No
Management Compensation	Fair

Price to consider to buy more	\$60.00
Price to sell or consider reducing	\$80.00
Action (Buy, Hold or Sell)	Buy / Hold
Portfolio Allocation Suggestion	4%

Company	Novartis
As of Date	March 31, 2011
EV Analysis	
Date Worked On	May 10, 2011
Share Outstanding	2,286.00
Share Price	\$60.00
Market Capitalization	\$137,160.00
Less: Cash and Short Term Investments	(\$8,764.00)
Add: Long Term Debt	\$14,360.00
Minority Interest	\$0.00
Enterprise Value	\$142,756.00
EV per share	\$62.45
Stockholders' Equity	\$65,340.00
Adjustments:	
Goodwill	(\$30,346.00)
Tradenames	\$0.00
Other Intangibles	(\$34,983.00)
Net Stockholders' Equity	\$11.00
Adjusted Book Value per Share	\$0.00

Company	Novartis
Quick Projections	May 10, 2011
Revenue	\$58,000.00
Net Margin % before tax	20.25%
Net Margin before taxes	\$11,745.00
Tax Rate	15.00%
Corporate Taxes	\$1,761.75
Net Income after Taxes	\$9,983.25
Net Margin %	17.21%
Shares Outstanding	2,286.00
eps	\$4.37

Company	Novartis
FV of current equity and future earnings	10-May-11
Adjusted Stockholder's Equity	\$11.00
Net Income after Taxes	\$9,983.25
Growth Rate of Net Profit for 10N	5.00%
Growth Rate of Net Profit after 10N through 15N	3.00%
FV of Net Profit in 10N	\$16,261.66
FV of Net Profit in 15N	\$18,851.72
FV of tangible book value plus Net Profits for 10N	\$125,586.16
FV of tangible book value plus Net Profits for years 11 - 15N	\$231,924.16
Current Enterprise Value	\$142,756.00
FV of tangible book value plus Net Profits for 10N	(\$125,586.16)
Years	10
ROI on tangible book value plus Net Profits for 10N	-1.27%
FV of tangible book value plus Net Profits for 10N	\$125,586.16
FV of tangible book value multiplier	2.00
FV of Tangible Book Value using BV multiplier in year 10	\$251,172.33
Current Enterprise Value	\$142,756.00

FV of tangible book value plus Net Profits for years 11 - 15N	(\$231,924.16)
Years	15
ROI on tangible book value plus Net Profits for 15N	3.29%
FV of tangible book value plus Net Profits for 15N	\$231,924.16
FV of tangible book value multiplier	2.0
FV of Tangible Book Value using BV multiplier in year 15	\$463,848.31
Potential Future EV using BV multiplier above	
Current Enterprise Value	\$142,756.00
FV of Tangible Book Value using BV multiplier in year 10	(\$251,172.33)
Years	10
ROI on FV of Tangible Book Value using BV multiplier in year 10	5.81%
Current Enterprise Value	\$142,756.00
FV of Tangible Book Value using BV multiplier in year 15	(\$463,848.31)
Years	15
ROI on FV of Tangible Book Value using BV multiplier in year 15	8.17%
Sanity Checks:	
P/E in future	
FV of Net Profit in 15N	\$18,852
P/E estimate	15.00
Market Cap on above	-\$282,776
Years	15
Current Enterprise Value	\$142,756
ROI in 15N using above	4.65%
Potential Revenue Growth	
Current Revenues	\$58,000
Growth Rate of Revenues for 10N	5.00%
Growth Rate of Revenues after 10N through 15N	3.00%
FV of Revenues in 10N	(\$94,476)
FV of Revenues in 15N	\$109,523
FV of Revenues in 15N	\$109,523

Revenue Multiplier based on AI Meyer Rule of Thumb net margins	3
Possible Market Cap year 15	(\$328,570)
Years	15
Current Enterprise Value	\$142,756
ROI in 15N using above	6%

Company	Novartis
Report Date	10-May-11
Price	60.02
Growth Rate	6.50%
Price/Sales	2.37
Price/ Net Cash Flow	12.58
Price/ Net Book Value	545.64
P/E Ratio Current	13.49
P/E Ratio Year 2	12.50
Current Ratio	0.90
Quick Ratio	0.70
LT Debt / Shr. Equity	21.98%
LT Debt / Current Assets	49.35%
Return on Shr. Equity	15.30%
PEG Ratio (Current)	2.08
PEG Ratio Year 2	1.92
PEGY Ratio (Current)	1.39
PEGY Ratio Year 2	1.28
Graham Ratio (current)	7359.35
Graham Ratio Year 2	6822.73
Growth Flow Ratio (<12=nrml)	6.80
Cash King (s/b > 10 %)	18.80%
Flow Ratio (s/b < 1.25)	0.86
Intrinsic Value (current)	76.54
Intrinsic Value Year 2	82.56
Intrinsic Value Year 3	87.93
Intrinsic Value Year 4	93.64
Intrinsic Value Year 5	99.73
Intrinsic Value / Price (current)	27.52%
Intrinsic Value / Price Year 2	37.55%
Intrinsic Value / Price Year 3	46.50%

Intrinsic Value / Price Year 4	56.02%
Intrinsic Value / Price Year 5	66.16%

FINANCIAL HIGHLIGHTS

KEY FIGURES

(In USD millions, unless indicated otherwise)

	2010	2009
Net sales	50 624	44 267
Operating income	11 526	9 982
Return on net sales (%)	22.8	22.5
Net income	9 969	8 454
Basic earnings per share ¹ (USD)	4.28	3.70
Core ²		
Operating income	14 006	11 437
Return on core net sales (%)	27.7	25.8
Net income	12 029	10 267
Basic earnings per share ¹ (USD)	5.15	4.50
Research & Development	8 080	7 287
As a % of net sales	16.0	16.5
Number of associates (FTE) ³	119 418	99 834
Return on average equity (%)	15.7	15.7
Free cash flow	7 860	5 505

SHARE INFORMATION

	2010	2009
Share price at year-end (CHF)	54.95	56.50
ADS price at year-end (USD)	58.95	54.43
Dividend ⁵ (CHF)	2.20	2.10
Pay-out ratio ⁶	55	53

From 2010 Annual Report

2010 NET SALES BY REGION

(% and in USD millions)

United States	31	15 863
Europe	37	18 558
Asia/Africa/Australasia	18	9 416
Canada and Latin America	9	4 361
Alcon, Inc. ⁷	5	2 426
Total		50 624

From 2010 Annual Report

2010 Compared to 2009

Key Figures

	Year ended December 31,	Year ended December 31,	Change in \$	Change in constant currencies
	2010	2009		
	\$ millions	\$ millions	%	%
Net sales	50,624	44,267	14	14
Other Revenues	937	836	12	11
Cost of Goods Sold	(14,488)	(12,179)	19	19
Marketing & Sales	(13,316)	(12,050)	11	10
Research & Development	(9,070)	(7,469)	21	20
General & Administration	(2,481)	(2,281)	9	7
Other income	1,234	782	58	56
Other expense	(1,914)	(1,924)	(1)	(1)
Operating income	11,526	9,982	15	17
Income from associated companies	804	293	174	173
Financial income	64	198	(68)	(68)
Interest expense	(692)	(551)	26	25
Income before taxes	11,702	9,922	18	19
Taxes	(1,733)	(1,468)	18	18
Group net income	9,969	8,454	18	20

Attributable to:

Shareholders of Novartis AG	9,794	8,400	17	18
Non-controlling interests	175	54	224	226
Basic earnings per share	4.28	3.70	16	17

	Year ended December 31,	Year ended December 31,	Change in \$	Change in constant currencies
	2010	2009		
	\$ millions	\$ millions	%	%
Core operating income	14,006	11,437	22	24
Core net income	12,029	10,267	17	18
Core earnings per share	5.15	4.50	14	15

Net Sales

	Year ended	Year ended	Change in \$	Change in constant currencies
	December 31,	December 31,		
	2010	2009		
	\$ millions	\$ millions	%	%
Pharmaceuticals	30,558	28,538	7	6
Vaccines and Diagnostics	2,918	2,424	20	25
Sandoz	8,518	7,493	14	15
Consumer Health	6,204	5,812	7	6
Total Novartis excl. Alcon, Inc.	48,198	44,267	9	9
Alcon, Inc.	2,426			
Net sales	50,624	44,267	14	14

Top Twenty Pharmaceuticals Division Product Net Sales—2010

Brands	Therapeutic area	United States	Change in constant currencies	Rest of world	Change in constant currencies	Total	Change in \$	Change in constant currencies
		\$ millions	%	\$ millions	%	\$ millions	%	%
<i>Diovan/Co-Diovan</i>	Hypertension	2,520	1	3,533	(1)	6,053	1	
<i>Gleevec/Glivec</i>	Chronic myeloid leukemia	1,285	18	2,980	3	4,265	8	7
<i>Lucentis</i>	Age-related macular degeneration			1,533	24	1,533	24	24
<i>Zometa</i>	Cancer complications	721		790	4	1,511	3	2
<i>Femara</i>	Breast cancer	650	14	726	5	1,376	9	9
<i>Sandostatin</i>	Acromegaly	511	12	780	11	1,291	12	11
<i>Exelon/Exelon Patch</i>	Alzheimer's disease	379	5	624	6	1,003	5	6
<i>Exforge</i>	Hypertension	284	24	620	41	904	35	35
<i>Neoral/Sandimmun</i>	Transplantation	82	(9)	789	(6)	871	(5)	(7)
<i>Voltaren (excl. OTC)</i>	Inflammation/pain		nm	791		791	(1)	(1)
Top ten products total		6,432	7	13,166	5	19,598	6	6
<i>Exjade</i>	Iron chelator	264	7	498	22	762	17	16
<i>Comtan/Stalevo</i>	Parkinson's disease	231	6	369	8	600	8	8
<i>Reclast/Aclasta</i>	Osteoporosis	393	20	186	29	579	23	23
<i>Ritalin/Focalin</i>	Attention Deficit/Hyperactivity Disorder	339	(1)	125	15	464	3	3
<i>Myfortic</i>	Transplantation	163	21	281	25	444	26	23
<i>Tekturna/Rasilez</i>	Hypertension	207	29	231	83	438	51	53
<i>Lescol</i>	Cholesterol reduction	97	(20)	339	(25)	436	(23)	(24)
<i>Tasigna</i>	Chronic myeloid leukemia	134	116	265	78	399	88	89
<i>Galvus</i>	Diabetes			391	122	391	117	122
<i>Xolair</i>	Asthma	24	(73)	345	44	369	9	12
Top 20 products total		8,284	7	16,196	9	24,480	9	8
<i>Rest of portfolio</i>		1,759	(4)	4,319	1	6,078		(1)
Total Division sales		10,043	5	20,515	7	30,558	7	6

Operating Income by Segments

	Year ended December 31,		Year ended December 31,		Change in \$
	2010	% of net sales	2009	% of net sales	
	\$ millions	%	\$ millions	%	
Pharmaceuticals	8,798	28.8	8,392	29.4	5
Vaccines and Diagnostics	612	21.0	372	15.3	65
Sandoz	1,272	14.9	1,071	14.3	19
Consumer Health	1,153	18.6	1,016	17.5	13
Alcon, Inc .	323	13.3			
Corporate income & expenses, net	(632)		(869)		
Operating income	11,526	22.8	9,982	22.5	15

Core Operating Income by Segments

	Year ended December 31,		Year ended December 31,		Change in \$
	2010	% of net sales	2009	% of net sales	
	\$ millions	%	\$ millions	%	
Pharmaceuticals	9,909	32.4	9,068	31.8	9
Vaccines and Diagnostics	1,066	36.5	719	29.7	48
Sandoz	1,685	19.8	1,395	18.6	21
Consumer Health	1,253	20.2	1,118	19.2	12
Alcon, Inc.	852	35.1			
Corporate income & expenses, net	(759)		(863)		(12)
Core operating income	14,006	27.7	11,437	25.8	22.0

From SEC Filing of earnings on 4/19/11 for 1Q11

Consolidated income statements (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	% change (USD)
Net sales	14 027	12 131	16
Other revenues	195	225	-13
Cost of Goods Sold	-4 458	-3 096	44
Gross profit	9 764	9 260	5
Marketing & Sales	-3 524	-3 014	17
Research & Development	-2 188	-2 037	7
General & Administration	-694	-570	22
Other income	549	180	205
Other expense	-499	-308	62
Operating income	3 408	3 511	-3
Income from associated companies	117	103	14
Financial income	22	49	-55
Interest expense	-189	-133	42
Income before taxes	3 358	3 530	-5
Taxes	-537	-582	-8
Net income	2 821	2 948	-4
<i>Attributable to:</i>			
Shareholders of Novartis AG	2 770	2 933	-6
Non-controlling interests	51	15	240
Average number of shares outstanding – Basic (million)	2 290.2	2 279.1	0
Basic earnings per share (USD) ¹	1.21	1.29	-6
Average number of shares outstanding – Diluted (million)	2 304.5	2 290.3	1
Diluted earnings per share (USD) ¹	1.20	1.28	-6

¹ Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG

Consolidated statements of comprehensive income (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	Change USD m
Net income	2 821	2 948	-127
Fair value adjustments on financial instruments, net of taxes		5	-5
Net actuarial losses from defined benefit plans, net of taxes	-1	-178	177
Novartis share of other items recorded in comprehensive income recognized by associated companies, net of taxes	8	-48	56
Translation effects	914	-997	1 911
Comprehensive income	3 742	1 730	2 012
<i>Attributable to:</i>			
Shareholders of Novartis AG	3 674	1 714	1 960
Non-controlling interests	68	16	52

Condensed consolidated balance sheets

	March 31, 2011 (unaudited) USD m	Dec 31, 2010 (audited) USD m	Change USD m	March 31, 2010 (unaudited) USD m
Assets				
Non-current assets				
Property, plant & equipment	16 344	15 840	504	13 577
Goodwill	30 346	29 692	654	11 688
Intangible assets other than goodwill	34 983	35 231	-248	9 883
Financial and other non-current assets	16 445	15 870	575	24 847
Total non-current assets	98 118	96 633	1 485	59 995
Current assets				
Inventories	6 621	6 093	528	5 658
Trade receivables	10 861	9 873	988	7 773
Other current assets	2 854	2 585	269	2 471
Cash, short-term deposits and marketable securities	8 764	8 134	630	19 898
Total current assets	29 100	26 685	2 415	35 800
Total assets	127 218	123 318	3 900	95 795
Equity and liabilities				
Total equity	65 340	69 769	-4 429	55 216
Non-current liabilities				
Financial debts	14 532	14 360	172	13 445
Other non-current liabilities	15 130	14 531	599	9 702
Total non-current liabilities	29 662	28 891	771	23 147
Current liabilities				
Trade payables	4 496	4 788	-292	3 561
Financial debts and derivatives	16 581	8 627	7 954	4 484
Other current liabilities	11 139	11 243	-104	9 387
Total current liabilities	32 216	24 658	7 558	17 432
Total liabilities	61 878	53 549	8 329	40 579
Total equity and liabilities	127 218	123 318	3 900	95 795

Condensed consolidated changes in equity (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	Change USD m
Consolidated equity at January 1	69 769	57 462	12 307
Comprehensive income	3 742	1 730	2 012
(Purchase)/sale of treasury shares, net	-582	366	-948
Equity-based compensation	171	141	30
Dividends	-5 352	-4 468	-884
Excess of the purchase price for acquiring Alcon non-controlling interests compared to their recorded values	-1 095		-1 095
Reduction in non-controlling interests	-1 313	-15	-1 298
Consolidated equity at March 31	65 340	55 216	10 124

Condensed consolidated cash flow statements (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	Change USD m
Net income	2 821	2 948	-127
Reversal of non-cash items			
Taxes	537	582	-45
Depreciation, amortization and impairments	1 205	761	444
Change in provisions and other non-current liabilities	122	189	-67
Net financial income	167	84	83
Other	-77	75	-152
Net income adjusted for non-cash items	4 775	4 639	136
Interest and other financial receipts	395	340	55
Interest and other financial payments	-202	-137	-65
Taxes paid	-770	-469	-301
Cash flows before working capital changes	4 198	4 373	-175
Payments out of provisions and other net cash movements in non-current liabilities	-598	-127	-471
Change in net current assets and other operating cash flow items	-1 693	-939	-754
Cash flows from operating activities	1 907	3 307	-1 400
Purchase of property, plant & equipment	-419	-304	-115
Purchase of intangible, financial and other non-current assets	-87	-144	57
Proceeds from sales of property, plant & equipment, intangible, financial and other non-current assets	221	44	177
Acquisitions of subsidiaries	-589	-413	-176
Change in marketable securities	1 365	-319	1 684
Cash flows from / used in investing activities	491	-1 136	1 627
Change in current and non-current financial debts	7 718	4 234	3 484
Dividends paid to shareholders of Novartis AG	-5 352	-4 468	-884
Treasury share transactions	-392	368	-760
Acquisition of Alcon non-controlling interests	-2 437		-2 437
Other financing cash flows	-24	-112	88
Cash flows used in / from financing activities	-487	22	-509
Translation effect on cash and cash equivalents	-56	-21	-35
Change in cash and cash equivalents	1 855	2 172	-317
Cash and cash equivalents at January 1	5 319	2 894	2 425
Cash and cash equivalents at March 31	7 174	5 066	2 108

Share information (unaudited)

	March 31, 2011	March 31, 2010
Number of shares outstanding (million)	2 286.0	2 287.9
Registered share price (CHF)	49.82	56.95
ADS price (USD)	54.35	54.10
Market capitalization (USD billion)	124.1	122.1
Market capitalization (CHF billion)	113.9	130.3

Supplementary tables: First quarter 2011 – Net sales of top 20 pharmaceutical products (unaudited)

Brands		US		Rest of world		Total		
		% change		% change		% change		
		USD m	in constant currencies	USD m	in constant currencies	USD m	in USD	in constant currencies
<i>Diovan/Co-Diovan</i>	Hypertension	557	-5	848	-4	1 405	-3	-5
<i>Gleevec/Glivec</i>	Chronic myeloid leukemia	318	11	758	-1	1 076	4	2
<i>Lucentis</i>	Age-related macular degeneration			444	18	444	22	18
<i>Zometa</i>	Cancer complications	174	-2	199	-2	373	-1	-2
<i>Femara</i>	Breast cancer	169	6	185	-2	354	3	2
<i>Sandostatin</i>	Acromegaly	130	7	207	8	337	9	7
<i>Exforge</i>	Hypertension	74	12	187	34	261	28	27
<i>Exelon/Exelon Patch</i>	Alzheimer's disease	90	-8	161	4	251	0	-1
<i>Neoral/Sandimmun</i>	Transplantation	17	-23	197	0	214	1	-3
<i>Voltaren (excl. OTC)</i>	Inflammation/pain	1	0	187	3	188	2	3
Top ten products total		1 530	1	3 373	3	4 903	4	2
<i>Exjade</i>	Iron chelator	51	-18	128	7	179	0	-2
<i>Tasigna</i>	Chronic myeloid leukemia	59	146	94	80	153	104	100
<i>Comtan/Stalevo</i>	Parkinson's disease	52	-4	94	6	146	4	2
<i>Reclast/Aclasta</i>	Osteoporosis	86	9	49	12	135	10	10
<i>Ritalin/Focalin</i>	Attention deficit/hyperactivity disorder	99	10	34	14	133	12	11
<i>Galvus</i>	Diabetes			132	72	132	74	72
<i>Tektura/Rasilez</i>	Hypertension	57	33	74	57	131	47	46
<i>Myfortic</i>	Transplantation	45	22	75	18	120	20	18
<i>Xolair</i>	Asthma	3	0	104	35	107	34	38
<i>Afinitor</i>	Advanced renal cell carcinoma	31	48	59	193	90	120	117
Top 20 products total		2 013	4	4 216	8	6 229	9	7
Rest of portfolio		414	-8	1 122	-1	1 536	-1	-4
Total Division sales		2 427	2	5 338	6	7 765	7	5

From Annual 20-F FYE 12/31/2010

	Year Ended December 31,				
	2010	2009	2008	2007	2006
(\$ millions, except per share information)					
INCOME STATEMENT DATA					
Net sales from continuing operations	50,624	44,267	41,459	38,072	34,393
Operating income from continuing operations	11,526	9,982	8,964	6,781	7,642
Income from associated companies	804	293	441	412	264
Financial income	64	198	384	531	354
Interest expense	(692)	(551)	(290)	(237)	(266)
Income before taxes from continuing operations	11,702	9,922	9,499	7,487	7,994
Taxes	(1,733)	(1,468)	(1,336)	(947)	(1,169)
Net income from continuing operations	9,969	8,454	8,163	6,540	6,825
Net income from discontinued operations			70	5,428	377
Group net income	<u>9,969</u>	<u>8,454</u>	<u>8,233</u>	<u>11,968</u>	<u>7,202</u>
Attributable to:					
Shareholders of Novartis AG	9,794	8,400	8,195	11,946	7,175
Non-controlling interests	175	54	38	22	27
Operating income from discontinued operations (including divestment gains)					
			70	6,152	532
Basic earnings per share (\$):					
—Continuing operations	4.28	3.70	3.59	2.81	2.90
—Discontinued operations			0.03	2.34	0.16
—Total	4.28	3.70	3.62	5.15	3.06
Diluted earnings per share (\$):					
—Continuing operations	4.26	3.69	3.56	2.80	2.88
—Discontinued operations			0.03	2.33	0.16
—Total	4.26	3.69	3.59	5.13	3.04
Cash dividends ⁽¹⁾	4,486	3,941	3,345	2,598	2,049
Cash dividends per share in CHF ⁽²⁾	2.20	2.10	2.00	1.60	1.35
Operating income from continuing operations earnings per share (\$):					
—Basic	5.04	4.40	3.96	2.93	3.26
—Diluted	5.01	4.38	3.92	2.91	3.24

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(\$ millions)				
BALANCE SHEET DATA					
Cash, cash equivalents and marketable securities & derivative financial instruments	8,134	17,449	6,117	13,201	7,955
Inventories	6,093	5,830	5,792	5,455	4,498
Other current assets	12,458	10,412	8,972	8,774	8,215
Non-current assets	96,633	61,814	57,418	48,022	46,604
Assets held for sale related to discontinued operations					736
Total assets	123,318	95,505	78,299	75,452	68,008
Trade accounts payable	4,788	4,012	3,395	3,018	2,487
Other current liabilities	19,870	15,458	13,109	13,623	13,540
Non-current liabilities	28,891	18,573	11,358	9,415	10,480
Liabilities related to discontinued operations					207
Total liabilities	53,549	38,043	27,862	26,056	26,714
Issued share capital and reserves attributable to shareholders of Novartis AG	63,196	57,387	50,288	49,223	41,111
Non-controlling interests	6,573	75	149	173	183
Total equity	69,769	57,462	50,437	49,396	41,294
Total liabilities and equity	123,318	95,505	78,299	75,452	68,008
Net assets	69,769	57,462	50,437	49,396	41,294
Outstanding share capital	832	825	820	815	850
Total outstanding shares (millions)	2,289	2,274	2,265	2,264	2,348

<u>Year Earned</u>	<u>Month and Year Paid</u>	<u>Total Dividend per share (CHF)</u>	<u>Total Dividend per share in \$</u>
2006	March 2007	1.35	1.09
2007	February 2008	1.60	1.53
2008	February 2009	2.00	1.72
2009	March 2010	2.10	1.95
2010 ⁽¹⁾	March 2011	2.20	2.34 ⁽²⁾

Deutsche Bank 4/19/11

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Financial Summary					
DB EPS (USD)	4.13	4.49	5.15	5.65	5.99
Reported EPS (USD)	3.59	3.69	4.26	4.57	4.92
DPS (USD)	1.85	1.93	2.32	2.49	2.68
BVPS (USD)	22.2	25.2	27.6	28.9	33.0
Weighted average shares (m)	2,266	2,268	2,286	2,391	2,426
Average market cap (USDm)	116,972	100,786	123,773	129,488	131,395
Enterprise value (USDm)	99,292	76,646	134,569	132,506	125,998
Valuation Metrics					
P/E (DB) (x)	12.5	9.9	10.5	9.6	9.0
P/E (Reported) (x)	14.4	12.0	12.7	11.8	11.0
P/BV (x)	2.23	2.17	1.89	1.87	1.64
FCF Yield (%)	6.6	9.5	10.0	10.0	11.2
Dividend Yield (%)	3.6	4.4	4.3	4.6	4.9
EV/Sales (x)	2.3	1.7	2.6	2.3	2.1
EV/EBITDA (x)	8.5	5.1	8.9	7.3	6.7
EV/EBIT (x)	11.1	7.7	11.7	9.9	9.0
Income Statement (USDm)					
Sales revenue	42,584	45,103	51,560	58,746	60,781
Gross profit	31,145	32,924	37,072	41,075	42,370
EBITDA	11,724	15,050	15,103	18,059	18,764
Depreciation	1,231	1,958	1,373	1,468	1,594
Amortisation	1,529	3,111	2,204	3,274	3,232
EBIT	8,964	9,982	11,526	13,317	13,939
Net interest income(expense)	94	-353	-628	-650	-431
Associates/affiliates	441	293	804	679	746
Exceptionals/extraordinaries	70	0	0	-84	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	9,499	9,922	11,702	13,347	14,254
Income tax expense	1,336	1,468	1,733	2,086	2,215
Minorities	38	54	175	163	16
Other post-tax income/(expense)	0	0	0	0	0
Net profit	8,195	8,400	9,794	11,014	12,023
DB adjustments (including dilution)	1,236	1,813	2,060	2,595	2,624
DB Net profit	9,431	10,213	11,854	13,609	14,646
Cash Flow (USDm)					
Cash flow from operations	9,769	12,191	14,067	15,346	17,544
Net Capex	-2,089	-2,634	-1,651	-2,447	-2,820
Free cash flow	7,680	9,557	12,416	12,899	14,724
Equity raised/(bought back)	-473	263	419	-2,400	-100
Dividends paid	-3,345	-3,941	-4,486	-5,538	-6,035
Net inc/(dec) in borrowings	1,295	6,539	8,279	-3,120	-6,642
Other investing/financing cash flows	-8,479	-11,562	-14,203	-5,164	-1,655
Net cash flow	-3,322	856	2,425	-3,323	291
Change in working capital	-398	921	-329	-1,567	-57
Balance Sheet (USDm)					
Cash and other liquid assets	2,038	2,894	5,319	1,996	2,287
Tangible fixed assets	13,100	14,075	15,840	16,544	17,497
Goodwill/intangible assets	20,819	22,370	64,923	62,081	59,281
Associates/investments	23,155	35,309	13,445	14,926	16,407
Other assets	19,187	20,857	23,791	29,887	31,921
Total assets	78,299	95,505	123,318	125,434	127,393
Interest bearing debt	7,364	13,988	22,987	19,867	13,224
Other liabilities	20,498	24,055	30,562	35,368	34,065
Total liabilities	27,862	38,043	53,549	55,235	47,289
Shareholders' equity	50,288	57,387	63,196	70,126	80,031
Minorities	149	75	6,573	73	73
Total shareholders' equity	50,437	57,462	69,769	70,199	80,104
Net debt	5,326	11,094	17,668	17,871	10,937
Key Company Metrics					
Sales growth (%)	nm	5.9	14.3	13.9	3.5
DB EPS growth (%)	na	8.7	14.8	9.7	6.0
EBITDA Margin (%)	27.5	33.4	29.3	30.7	30.9
EBIT Margin (%)	21.0	22.1	22.4	22.7	22.9
Payout ratio (%)	51.1	52.2	54.0	54.0	54.0
ROE (%)	16.5	15.6	16.2	16.5	16.0
Capex/sales (%)	5.4	6.1	4.3	5.3	5.7
Capex/depreciation (x)	0.8	0.5	0.6	0.7	0.7
Net debt/equity (%)	10.6	19.3	25.3	25.5	13.7
Net interest cover (x)	nm	28.3	18.4	20.5	32.4

Source: Company data, Deutsche Bank estimates

Figure 1: Summary of forecast changes

	2011E	2012E	2013E	2014E	2015E
Sales					
Old	57,642	59,504	59,486	62,052	64,220
New	57,763	59,758	59,696	62,221	64,332
Change (%)	0.2	0.4	0.4	0.3	0.2
Core EPS					
Old	5.76	6.01	5.77	6.17	6.58
New	5.69	6.04	5.81	6.21	6.60
Change (%)	-1.1	0.5	0.7	0.6	0.3

Source: Deutsche Bank

Merrill Lynch 4/21/11

1. “Following 1Q11 results that were ahead of our expectations, we have raised 11E EPS 2.6% on higher sales and margins across Pharma, Sandoz, Consumer and reduced tax rate. These more than offset lowered share buyback, following management’s implication that it may only buy back another \$1.8bn (versus our prior expectation of \$4.4bn). For 12E and beyond, EPS estimates have moved +2% to -2.5% as reduced buyback assumptions offset increased EBIT for Sandoz, consumer and Alcon (more synergies). With Novartis still-well positioned to weather its patent cliff and Alcon-related flowback now being offset by the buyback, we maintain our Buy rating.”

2.

Estimates (Dec)

(USD)	2009A	2010A	2011E	2012E	2013E
EPS (Adjusted)	4.50	5.15	5.78	5.89	5.81
EPS Change (YoY)	7.8%	14.3%	12.3%	2.0%	-1.5%
Dividend / Share	1.93	2.26	2.43	2.45	2.48
ADR EPS (Adjusted - US\$)	4.50	5.15	5.78	5.89	5.81
ADR Dividend / Share (US\$)	1.93	2.26	2.43	2.45	2.48

Valuation (Dec)

	2009A	2010A	2011E	2012E	2013E
P/E	10.8x	10.5x	9.69x	9.50x	9.64x
Dividend Yield	3.45%	4.03%	4.34%	4.38%	4.43%
EV / EBITDA*	11.1x	8.49x	7.27x	7.08x	7.20x
Free Cash Flow Yield*	7.44%	9.24%	7.91%	8.30%	8.27%

* For full definitions of *iQmethod*SM measures, see page 23.

Key Income Statement Data (Dec)	2009A	2010A	2011E	2012E	2013E
(US\$ Millions)					
Sales	44,267	50,624	58,195	59,551	59,349
EBITDA Adjusted	14,114	18,502	21,612	22,193	21,808
Depreciation & Amortization	(2,341)	(3,577)	(4,809)	(5,020)	(5,226)
EBIT Adjusted	11,773	14,925	16,803	17,172	16,583
Net Interest & Other Income	(353)	(628)	(484)	(434)	(387)
Tax Expense / Benefit	(1,468)	(1,733)	(2,025)	(1,988)	(1,931)
Net Income (Adjusted)	10,213	11,767	13,619	14,178	13,781
Average Fully Diluted Shares Outstanding	2,277	2,301	2,371	2,420	2,388
Key Cash Flow Statement Data					
Net Income (Reported)	8,400	9,794	10,814	10,728	10,327
Depreciation & Amortization	2,341	3,577	4,809	5,020	5,226
Change in Working Capital	688	1,762	(316)	(98.5)	(19.9)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	762	(1,066)	(809)	(615)	(695)
Cash Flow from Operations	12,191	14,067	14,499	15,035	14,837
Capital Expenditure	(2,733)	(2,232)	(4,061)	(3,858)	(3,844)
(Acquisition) / Disposal of Investments	(1,006)	(26,666)	(3,120)	0	0
Other CFI	(10,480)	13,142	420	0	0
Cash Flow from Investing	(14,219)	(15,756)	(6,760)	(3,858)	(3,844)
Share Issue / (Repurchase)	224	400	(2,400)	(2,000)	(2,000)
Cost of Dividends Paid	(3,941)	(4,486)	(5,732)	(5,901)	(5,886)
Increase (decrease) debt	6,624	8,999	(500)	(2,733)	(3,733)
Other CFF	(98.0)	(797)	0	0	0
Cash Flow from Financing	2,809	4,116	(8,632)	(10,634)	(11,620)
Total Cash Flow (CFO + CFI + CFF)	781	2,427	(893)	543	(627)
FX and other changes to cash	10,551	(11,742)	0	0	0
Change in Cash	11,332	(9,315)	(893)	543	(627)
Change in Net Debt	(4,708)	18,314	393	(3,277)	(3,106)
Net Debt	(3,461)	14,853	15,246	11,969	8,863
Key Balance Sheet Data					
Property, Plant & Equipment	14,075	15,840	17,806	19,387	20,795
Goodwill	12,039	29,692	29,678	29,678	29,678
Other Intangibles	10,331	35,231	32,516	29,772	26,983
Other Non-Current Assets	25,369	15,870	16,430	17,068	17,787
Trade Receivables	8,310	9,873	11,349	11,614	11,575
Cash & Equivalents	17,449	8,134	7,241	7,785	7,158
Other Current Assets	7,932	8,678	9,976	10,208	10,174
Total Assets	95,505	123,318	124,996	125,512	124,150
Long-Term Debt	8,675	14,360	16,593	16,593	15,593
Other Non-Current Liabilities	9,898	14,531	14,531	14,531	14,531
Short-Term Debt	5,313	8,627	5,894	3,160	427
Other Current Liabilities	14,157	16,031	18,550	18,918	18,794
Total Liabilities	38,043	53,549	55,568	53,203	49,345
Total Equity	57,462	69,769	69,428	72,310	74,804
Total Equity & Liabilities	95,505	123,318	124,996	125,512	124,150
Business Performance*					
Return On Capital Employed	13.6%	13.5%	13.3%	13.7%	13.3%
Return On Equity	19.0%	19.5%	20.6%	20.2%	18.9%
Operating Margin	22.5%	22.8%	22.1%	21.1%	20.2%
Free Cash Flow (MM)	9,458	11,835	10,439	11,177	10,993
Quality of Earnings*					
Cash Realization Ratio	1.19x	1.20x	1.06x	1.06x	1.08x
Asset Replacement Ratio	2.19x	1.63x	2.66x	2.28x	2.07x
Tax Rate	14.7%	14.7%	15.5%	15.4%	15.5%
Net Debt/Equity	-6.02%	21.3%	22.0%	16.6%	11.8%
Interest Cover	21.4x	21.6x	28.0x	27.6x	28.0x

* For full definitions of *iQmethod*SM measures, see page 23.

Table 1: Changes to core EPS (pre-exceptionals and intangible amortisation)

Year to December	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E
New EPS (\$)	5.15	5.78	5.89	5.81	6.35	6.45	6.73	7.22
Old EPS (\$)	5.15	5.64	5.96	5.96	6.47	6.43	6.62	7.10
% Change	0.0%	2.6%	-1.0%	-2.5%	-1.9%	0.4%	1.7%	1.8%

Source: BofA Merrill Lynch Global Research

Table 18: Novartis Profit & Loss

Year to December (\$m)	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Growth YoY					CAGR 12-15E
										2011E	2012E	2013E	2014E	2015E	
Total sales	50,624	58,195	59,551	59,349	61,417	62,625	64,580	66,920	68,744	15	2	-0	3	2	1.7
Other revenues	937	969	1,002	1,030	1,048	1,067	1,087	1,107	1,128	3	3	3	2	2	2.1
COGS (CORE)	-13,044	-15,394	-15,886	-16,339	-16,850	-17,568	-18,294	-18,873	-19,395	18	3	3	3	4	3.4
Gross profit (CORE)	38,517	43,769	44,667	44,040	45,615	46,125	47,373	49,154	50,478	14	2	-1	4	1	3.3
S,G & A (CORE)	-15,792	-17,907	-18,427	-18,696	-19,139	-19,680	-20,291	-20,820	-21,278	13	3	1	2	3	2.2
Marketing & Sales (CORE)	-13,315	-15,082	-15,607	-15,861	-16,238	-16,679	-17,199	-17,624	-17,988	13	3	2	2	3	2.2
General & Administration (CORE)	-2,477	-2,825	-2,820	-2,835	-2,900	-3,001	-3,092	-3,196	-3,290	14	-0	1	2	3	2.1
R&D (CORE)	-8,080	-9,067	-9,169	-8,957	-8,995	-9,072	-9,309	-9,614	-9,853	12	1	-2	0	1	-0.35
Other operating income/ (expense)															
Core	-639	-637	-636	-636	-636	-636	-636	-636	-636	-0	-0	0	0	0	0.0
Operating profit core	14,006	16,278	16,685	16,100	17,245	17,136	17,536	18,484	19,111	16	2	-4	7	-1	0.9
Operating profit (GAAP)	11,526	12,860	12,566	11,979	13,175	13,086	13,486	14,434	15,061	12	-2	-5	10	-1	1.4
Core Income from associated companies	1,041	733	792	855	893	939	980	1,023	1,047	-30	8	8	4	5	5.8
Financial net income	-628	-484	-434	-387	-284	-156	-33	101	247	-23	-10	-11	-27	-45	-28.9
Pretax income CORE	14,419	16,527	17,044	16,569	17,855	17,919	18,483	19,608	20,406	15	3	-3	8	0	1.7
Core Tax	-2,390	-2,727	-2,812	-2,734	-2,946	-2,957	-3,050	-3,235	-3,367	14	3	-3	8	0	1.7
Core tax rate (%)	16.6	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5						
Minority interests (GAAP)	-175	-96	-54	-54	-54	-54	-54	-54	-54	-45	-44	0	0	0	0.0
Profit from Continuing Operations	9,794	10,814	10,728	10,327	11,430	11,500	11,971	12,910	13,576	10	-1	-4	11	1	2.3
Profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Core net income to shareholders	11,767	13,619	14,178	13,781	14,855	14,908	15,379	16,319	16,985	16	4	-3	8	0	1.7
Basic Shares, Average (m)	2,286	2,355	2,405	2,372	2,341	2,312	2,285	2,260	2,236	3	2	-1	-1	-1	-1.3
Per share data (USD)															
Core EPS (co focus)	5.15	5.78	5.89	5.81	6.35	6.45	6.73	7.22	7.59	12	2	-1	9	2	3.0
Cont EPS (Basic)	4.28	4.59	4.46	4.35	4.88	4.97	5.24	5.71	6.07	7	-3	-2	12	2	3.7
DPS (Basic)- \$	2.26	2.43	2.45	2.48	2.59	2.74	2.88	3.14	3.34	8	1	1	4	6	3.7
Per share data (CHF)															
Core EPS co focus (CHF)	5.37	5.44	5.55	5.46	5.97	6.07	6.33	6.79	7.14	1	2	-1	9	2	3.0
Cont EPS (Basic) (CHF)	4.47	4.32	4.20	4.10	4.59	4.68	4.93	5.37	5.71	-3	-3	-2	12	2	3.7
DPS (Basic)- CHF	2.20	2.29	2.31	2.33	2.43	2.57	2.71	2.96	3.14	4	1	1	4	6	3.7
Margins (% Sales)															
Gross profit (CORE)	76.1	75.2	75.0	74.2	74.3	73.7	73.4	73.5	73.4						
Operating profit core	27.7	28.0	28.0	27.1	28.1	27.4	27.2	27.6	27.8						
Pretax income CORE	28.5	28.4	28.6	27.9	29.1	28.6	28.6	29.3	29.7						
Profit from Continuing Operations	19.3	18.6	18.0	17.4	18.6	18.4	18.5	19.3	19.7						
Costs (% Sales)															
COGS (CORE)	25.8	26.5	26.7	27.5	27.4	28.1	28.3	28.2	28.2						
S,G & A (CORE)	31.2	30.8	30.9	31.5	31.2	31.4	31.4	31.1	31.0						
Marketing & Sales (CORE)	26.3	25.9	26.2	26.7	26.4	26.6	26.6	26.3	26.2						
General & Administration (CORE)	4.9	4.9	4.7	4.8	4.7	4.8	4.8	4.8	4.8						
R&D (CORE)	16.0	15.6	15.4	15.1	14.6	14.5	14.4	14.4	14.3						

Source: BofA Merrill Lynch Global Research

Table 19: Reconciliation to GAAP EPS

Year to December (\$m)	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Growth YoY					CAGR 12-15E
										2011E	2012E	2013E	2014E	2015E	
Operating profit core	14,006	16,278	16,685	16,100	17,245	17,136	17,536	18,484	19,111	16	2	-4	7	-1	0.9
Recurring amortization	1,131	3,208	3,207	3,207	3,207	3,207	3,207	3,207	3,207	184	-0	0	0	0	0.0
Impairment of intangible assets	981	259	239	239	239	239	239	239	239	-74	-8	0	0	0	0.0
Intangible asset charges	2,112	3,467	3,446	3,446	3,446	3,446	3,446	3,446	3,446						
Inventory writedown	0	0	0	0	0	0	0	0	0	nm	nm	nm	nm	nm	nm
Restructuring	600	-3	107	38	24	4	4	4	4	nm	nm	-64	-37	-83	-66.6
Others	-236	-169	316	287	200	200	200	200	200	-28	nm	-9	-30	0	-14.1
Total significant exceptional items	364	-172	423	325	224	204	204	204	204	nm	nm	-23	-31	-9	-1.9
Total adjustments	2476	3295	3869	3771	3670	3650	3650	3650	3650						
Operating profit (GAAP)	11,526	12,860	12,566	11,979	13,175	13,086	13,486	14,434	15,061	12	-2	-5	10	-1	1.4
<i>operating margins (GAAP)</i>	<i>22.8%</i>	<i>22.1%</i>	<i>21.1%</i>	<i>20.2%</i>	<i>21.5%</i>	<i>20.9%</i>	<i>20.9%</i>	<i>21.6%</i>	<i>21.9%</i>						
Core Income from associated companies	1,041	733	792	855	893	939	980	1,023	1,047	-30	8	8	4	5	5.8
Add back associate amortization, and one-offs	237	173	155	136	136	136	136	136	136	-27	-11	-12	0	0	-4.2
Net financial expense/income	-628	-484	-434	-387	-284	-156	-33	101	247	-23	-10	-11	-27	-45	-28.9
Taxes (adjusted for above items)	-1,733	-2,025	-1,988	-1,931	-2,164	-2,179	-2,272	-2,458	-2,589	17	-2	-3	12	1	3.1
Net Income (GAAP)	9,969	10,910	10,782	10,381	11,484	11,554	12,025	12,964	13,630	9	-1	-4	11	1	nm
Minority interests (GAAP)	-175	-96	-54	-54	-54	-54	-54	-54	-54	-45	-44	0	0	0	0.0
Profit attributable to shareholders (GAAP)	9,794	10,814	10,728	10,327	11,430	11,500	11,971	12,910	13,576	10	-1	-4	11	1	2.3
GAAP EPS (Basic)	4.28	4.59	4.46	4.35	4.88	4.97	5.24	5.71	6.07	7	-3	-2	12	2	3.7

Source: BofA Merrill Lynch Global Research

Table 25: Novartis Balance Sheet Model

As at 31 December	2009A	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Assets									
Tangible fixed assets (Net)	14,075	15,840	17,806	19,387	20,795	22,152	23,405	24,593	25,729
Intangible assets (Net)	10,331	35,231	32,516	29,772	26,983	24,171	21,326	18,453	15,557
Goodwill (Net)	12,039	29,692	29,678	29,678	29,678	29,678	29,678	29,678	29,678
Investments in associated companies	17,791	8,385	8,945	9,583	10,302	11,059	11,863	12,706	13,594
Deferred taxes	4,615	5,240	5,240	5,240	5,240	5,240	5,240	5,240	5,240
Other financial assets	2,963	2,245	2,245	2,245	2,245	2,245	2,245	2,245	2,245
Total long-term assets	61,814	96,633	96,430	95,905	95,244	94,545	93,757	92,915	92,042
Inventories	5,830	6,093	7,004	7,167	7,143	7,392	7,537	7,773	8,054
Trade accounts receivable	8,310	9,873	11,349	11,614	11,575	11,978	12,213	12,595	13,051
Other current assets	2,102	2,585	2,972	3,041	3,031	3,136	3,198	3,298	3,417
Marketable securities & financial derivatives	14,555	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815
Cash and cash equivalents	2,894	5,319	4,426	4,970	4,343	5,664	6,822	8,907	13,527
Total current assets	33,691	26,685	28,566	29,607	28,906	30,985	32,586	35,387	40,865
Total assets	95,505	123,318	124,996	125,512	124,150	125,531	126,342	128,302	132,907
Equity and liabilities									
Total equity	57,462	69,769	69,428	72,310	74,804	78,231	81,460	84,900	88,764
Of which belonging to minority interest	75	6,573	669	723	777	831	885	939	993
Financial debts	8,675	14,360	16,593	16,593	15,593	12,893	10,093	7,993	7,993
Deferred taxes	4,407	7,689	7,689	7,689	7,689	7,689	7,689	7,689	7,689
Provisions and other long-term liabilities	5,491	6,842	6,842	6,842	6,842	6,842	6,842	6,842	6,842
Total long-term liabilities	18,573	28,891	31,124	31,124	30,124	27,424	24,624	22,524	22,524
Trade accounts payable	4,012	4,788	5,504	5,632	5,613	5,809	5,923	6,108	6,329
Financial debts (excl. LTD)	5,313	8,627	5,894	3,160	427	427	427	427	427
Other short-term liabilities	10,145	11,243	13,046	13,286	13,181	13,640	13,908	14,342	14,862
Total short-term liabilities	19,470	24,658	24,444	22,078	19,221	19,876	20,258	20,877	21,618
Total liabilities	38,043	53,549	55,568	53,203	49,345	47,300	44,883	43,402	44,143
Total equity and liabilities	95,505	123,318	124,996	125,512	124,150	125,531	126,342	128,302	132,907
Gross debt	13,988	22,987	22,487	19,754	16,020	13,320	10,520	8,420	8,420
Cash & equivalents	17,449	8,134	7,241	7,785	7,158	8,479	9,637	11,722	16,342
Net debt	-3,461	14,853	15,246	11,969	8,863	4,841	883	-3,302	-7,922
Net debt/equity	(6%)	21%	22%	17%	12%	6%	1%	(4%)	(9%)

Source: BofA Merrill Lynch Global Research

Table 26: Novartis Cash Flow Model

	2009A	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net income	8,454	9,969	10,910	10,782	10,381	11,484	11,554	12,025	12,964
Reversal of non-cash items									
Taxes charged to P&L	1,468	1,733	2,025	1,988	1,931	2,164	2,179	2,272	2,458
Depreciation / impairment	1,250	1,373	1,526	1,694	1,856	2,021	2,191	2,365	2,544
Amortization / impairment	1,051	2,046	3,284	3,326	3,369	3,413	3,458	3,504	3,551
Goodwill impairment	40	158	0	0	0	0	0	0	0
Income from Associates	-293	-804	-560	-638	-719	-757	-803	-844	-887
Others (incl. Gains, fin. assets)	1,579	1,028	0	0	0	0	0	0	0
Other non-cash gains			-345	-31	-30				
Net financial income in P&L	353	628	484	434	387	284	156	33	-101
Total reversal of non-cash items	5,448	6,162	6,414	6,773	6,794	7,125	7,181	7,330	7,565
Net income adjusted for non-cash items	13,902	16,131	17,325	17,555	17,175	18,609	18,735	19,354	20,529
Net interest and other financial items	-545	-497	-484	-434	-387	-284	-156	-33	101
Other (incl. Receipts from Associates)	504	568	0	0	0	0	0	0	0
Taxes paid	-1,623	-2,616	-2,025	-1,988	-1,931	-2,164	-2,179	-2,272	-2,458
Cash flow before working capital and provision changes	12,238	13,586	14,815	15,133	14,857	16,161	16,399	17,050	18,172
Restructuring payments	-735	-1,281	0	0	0	0	0	0	0
Change in Working Capital	688	1,762	-316	-99	-20	-103	-60	-97	-116
Cash flow from operating activities	12,191	14,067	14,499	15,035	14,837	16,058	16,339	16,952	18,056
Capex	-2,733	-2,232	-4,061	-3,858	-3,844	-3,978	-4,057	-4,183	-4,335
Investments in tangible fixed assets	-1,887	-1,678	-3,492	-3,275	-3,264	-3,378	-3,444	-3,552	-3,681
Purchase of Intangible assets	-846	-554	-569	-582	-580	-601	-612	-631	-654
Disposal of tangible, intangible assets	99	581	420	0	0	0	0	0	0
Net Acquisitions/ Disposals of businesses	-1,006	-26,666	-3,120	0	0	0	0	0	0
Net increase in financial assets (incl. def taxes)	-111	-70	0	0	0	0	0	0	0
Increase in marketable securities (incl. other such as acq/divest)	-10,468	12,631	0	0	0	0	0	0	0
Cash flow used for investing activities	-14,219	-15,756	-6,760	-3,858	-3,844	-3,978	-4,057	-4,183	-4,335
Acquisition of treasury shares	224	400	-2,400	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000
Proceeds from issue of options	0		0	0	0	0	0	0	0
Proceeds from issuance of share capital to 3rd parties by subsidiaries	39	19	0	0	0	0	0	0	0
Change in Long-Term Financial Debt	7,030	5,669	2,233	0	-1,000	-2,700	-2,800	-2,100	0
Change in Short-Term Financial Debt	-491	2,610	-2,733	-2,733	-2,733	0	0	0	0
Dividends Paid	-3,941	-4,486	-5,732	-5,901	-5,886	-6,058	-6,325	-6,584	-7,101
Minority dividends	-52	-96	0	0	0	0	0	0	0
Cash flow used for financing activities	2,809	4,116	-8,632	-10,634	-11,620	-10,758	-11,125	-10,684	-9,101
Cash flow from discontinued items	0	0	0	0	0	0	0	0	0
Translation effect on cash and cash equivalents	75	-2	0	0	0	0	0	0	0
Net change in cash and cash equivalents	856	2,425	-893	543	-627	1,322	1,158	2,085	4,620
Cash and cash equivalents at January 1	2,038	2,894	5,319	4,426	4,970	4,343	5,664	6,822	8,907
Cash and cash equivalents at end of the period	2,894	5,319	4,426	4,970	4,343	5,664	6,822	8,907	13,527
Operating Cash Flow	12,191	14,067	14,499	15,035	14,837	16,058	16,339	16,952	18,056
Investing Cash Flow	-14,219	-15,756	-6,760	-3,858	-3,844	-3,978	-4,057	-4,183	-4,335
Financing Cash Flow	2,809	4,116	-8,632	-10,634	-11,620	-10,758	-11,125	-10,684	-9,101
Net Change in Cash	781	2,427	-893	543	-627	1,322	1,158	2,085	4,620
Free Cash Flow	9,458	11,835	10,439	11,177	10,993	12,080	12,283	12,769	13,721
CFPS	0.34	1.06	-0.38	0.23	-0.26	0.56	0.50	0.91	2.04
Free CFPS	4.17	5.18	4.43	4.65	4.63	5.16	5.31	5.59	6.07

Source: BofA Merrill Lynch Global Research

Morningstar 4/19/11
Novartis AG NVS [NYSE] | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
60.31 USD	71.00 USD	56.80 USD	88.80 USD	Low	Wide	B	AA+	Drug Manufacturers - Major

Value Line 4/15/11

1. Several of the metrics came down slightly from prior report. These include 2011 eps and cash flow. Yet 2012 seems to still be the same (or near such.) Projects F2012 eps of \$4.80.
2. Full ownership of Alcon should set off drop in Vaccine Revenues, which will drop as Pandemic Flu sales will drop off dramatically.
3. Expects share buy-backs to offset dilution from Alcon purchase.
4. “Relatively risk averse name in large-cap pharma universe. With a top rank for Safety, thanks to rock-solid finances, this equity is suited for the more conservative investor.”
5. Expects dividend to grow with profits.
6. Target price range 2014 – 2016 ~\$66 - ~\$81.

November 15, 2010 (56.42) R Barron’s article “Pipeline Promise.”

1. Claims price is sitting roughly where it was in 2005, yet dividend has doubled, and profits have increased at an average double-digit rate.
2. Blames stock performance on sector problems. Primarily patents expiring.
3. Failures and successes are part of the Pharma business.
4. 68% of sales are outside the U.S. 22% in emerging markets.
5. Claims strong balance sheet, “prodigious cash flow” and a 3.5% dividend yield.
6. Patent expiration includes Diovan (hypertension). \$6B annually, and 14% of total revenues, loses patent protection between 2011 and 2013. Gleevec (Leukemia) \$4B, 2014 – 2016.
7. Claims following metrics based on price of \$54.50, 2010E P/E 10.8, 2011E P/E of 10.3, div yield of 3.9% and Market Value of \$147B. Ranked by market cap it looks to be the largest pharma.
8. Contends that upcoming compounds plus Alcon will easily offset patent revenue loss of Diovan.
9. Drubs 67% of Sales and 77% of operating profits.
10. Sandoz is the number 2 producer of generic drugs. Claims Sandoz subsidiary does not get enough attention.

October 11 (58.33) R Review of Value Line 10/15/10

1. A+ Financial Strength
2. 4/16/10 cash flow growth was 6.5%, reduced to 6.0% on 7/10 report, and now 7.5%. 4/16/10 dividend growth was 9.0%, reduced to 7.0% on 4/16/10, as of 10/15/10 back up to 9% growth..
3. Revenues per share projected at 6.15 per share for 2011, and was formerly tabled at 5.65 per share on 4/16/10, and 6.10 on 7/10.
4. Earnings expected at 4.55 F2010 and 4.75 F2011. They were previously projected 4/10 at 4.25, and as of 7/10, 4.70 for 2011.
5. Dividends expected 1.94 F2010, and 2.18 F2011.
6. Shares outstanding to 2275 from 2270 for 2011.
7. “Solid drug pipeline.” “Oncology franchise that would be hard to replicate.”
8. Owns 2nd largest generic drug company by sales.
9. Lacks biotech presence, but with strong finances, that could change.
10. “Risk averse income oriented investors should take a peek here. With rock solid finances.....the dividend payout should continue to grow in relation to increasing profits.”

October 4, 2010 (56.97) J

Updated the valuation analysis and intrinsic valuation worksheet. The assumption and results are as follow:

Intrinsic value

30 yr bond rate	4.4%	5.25%
Growth rate	7%	6.5%
2010 est eps	\$4.45	\$4.53
2011 est eps	\$4.70	\$4.82
Intrinsic value	\$100.13	\$81.63

Valuation analysis

2010 est. eps	\$4.53	\$4.53	\$4.53
10 yr growth rate	3%	7.5%	6.5%
15 year growth rate	5%	7.5%	5.0%
Tangible book multiple	2	3	2.5
Yr 10 ROI	10.58%	18.37%	15.52%
Yr 15 ROI	10.97%	17.22%	14.50%
Yr 15 ROI assuming PE=15	5.42%	9.32%	7.79%
Yr 15 ROI using Al Meyer rule of thumb	6%	10%	9%

Revenues were up 15% in the first half of the year using constant currency and operating income increased 33%. EPS increased 28% in the first half. An oral multiple sclerosis drug was approved by the FDA within the past month. Some analysts think it could generate \$1B in sales.

Sandoz, the generic portion of Novartis, continues to do well with sales up 11% constant currency for the six months ending June 30 vs. 1st year. Operating income also increased 11% during that period.

Morningstar rates as 4 stars and has a fair value of \$71. In a 7/16 note, they describe the company as a "juggernaut with diversified operating platforms and an industry-leading number of new blockbuster drugs. It has four complementary operations that reduce overall volatility and create synergies. The acquisition of Alcon will greatly boost its consumer business. They project an annual 6% sales increase over the next 10 years.

July 16, 2010 (50.71) R Review of Value Line 7/16/10

11. A+ Financial Strength
12. 4/16/10 cash flow growth was 6.5%, now reduced to 6.0%. 4/16/10 dividend growth was 9.0%, now reduced to 7.0%. 4/16/10 Book Value growth was 6.0%, now reduced to 5.0%.
13. Yet, I look at Projected 2011 Revenues per share and they are projected at 6.10 per share for 2011, and was formerly tabled at 5.65 per share on 4/16/10. Same with Earnings as they were previously projected at 4.25 and now 4.70 for 2011. Dividends paid were projected at 2.20 for 2011, and now at 2.18 in 7/16/10 report. Shares outstanding stayed the same at 2270 for 2011.

14. Talks about great potential of Gilenia (MS drug). Possible Revenue of \$3.8b during 2013 – 2015.
15. Excellent Oncology franchise.

5/19/10 Novartis (NVS) (46.08)

Current year eps estimate of 5.10, PE of 9; next year estimate of 5.36, PE of 8.6. The dividend is 2.15 (4.6%). Recently has been hurt more than PFE and MRK due to European fears. I like this more than MRK and PFE but the share price will be more volatile and substantial weakness in the price should be a sign to buy.

April 20, 2010 (53.42) J

Novartis reported first quarter earnings today. EPS of \$1.29 (vs. \$0.87 last year). Sales increased 25% vs. last year, although 7% of that gain was currency related. 1st qtr revenue was \$12.1B vs. \$9.7B last year. \$1.1B of current year was due to H1N1 vaccine sales. The company notes that “Core Operating Income” rose 48% to \$3.9B. Core operating income excludes exceptional items and amortization of intangible assets.

April 16, 2010 (53.37) J

Value Line (4/16/10):

Novartis is one-stop shopping for the discerning drug industry investor. It has myriad brand-name prescription drugs with only Diovan to go off patent in the near future (2012). Huge vaccine business, mainly seasonal, that has wide market share and significant opportunity in emerging countries. It also has the second largest generic drug operation (TEVA is the largest) and a growing consumer product segment. The only thing NVS lacks is a major biotech presence, but with over \$17B cash and little debt, this could easily change. It also pays out a good dividend (4%).

Novartis is in the process of acquiring Alcon (eyecare) from Nestle. They have a call option to acquire 77% of Alcon and then plans to buy the remaining 23% from minority shareholders. Alcon will be combined with Novartis' existing eyecare business, and could result in cost savings of about \$300M. Novartis has a powerful distribution network that will allow it to easily penetrate lucrative emerging markets.

Given the company's many operational assets, including an oncology franchise that would be difficult to genericize, their 3-5 year projection could be conservative. VL has a Sales growth projection of 7.5% through 13-15, earnings growth of 7% and cash flow growth of 6.5%.

Morningstar (3/22/10):

Novartis is a “juggernaut with diversified operating platforms and an industry-leading number of new potential blockbuster drugs. Strong intellectual property supporting multi-billion dollar products combined with a plethora of late pipeline products create a wide economic moat for the firm.”

Novartis has a diversified operating platform that includes pharmaceuticals, generics, vaccines, diagnostics, and consumer products. Most competitors focus on high-margin pharmaceutical business, Novartis complementary operations serve to reduce overall volatility and create synergies. They think Novartis offers stable footing on a path to favorable earnings growth.

Morningstar rates as 5 stars with a fair value of \$71; a consider buying price of \$56.80 and consider selling at \$88.80. They project 6% annual sales growth for the next 10 years. Gross margin will decline

over the next 10 years with more generic sales but the reduction will be offset by lower marketing associated with pharmaceuticals. They use 8.5% cost of capital in their valuation.

S&P (1/29/10):

Expect high teens revenue growth in 2010 with gains in all key business segments. Gross margin in 2010 will narrow from 2009 due to less favorable sales mix, but operating costs should be well controlled. Project EBIT margins expanding to 24.4% in 2010 vs. 22.5% in 2009.

They rate it as 4 stars with a target price of \$62, based on a 12.7 PE to 2010 eps. Their discounted cash flow model which assumes decelerating cash flow growth also has an intrinsic value in the \$62 range.

Morgan Stanley (10/21/09):

“Needs to run fast to keep still; Downgrading to EW” – The market’s enthusiasm does not reflect the magnitude of Novartis’ long-term challenges. The “base-case” price target is \$47, based on 9x 2010 estimated earnings of \$5.17. MS projected eps growth of 7.8% in 2011 vs. 2010 and 5.6% growth in 2012 vs. 2011.

3 things that concern them:

1. Outlook after 2015 is a concern. They anticipate company will look to M&A pre-2015 to mitigate earnings impact.
2. They are not positive on vaccines. “Much vaunted” meningitis vaccine, they feel, will not prove to be a commercial success.
3. Concern with the impact of genericisation. Limited flexibility to outsource manufacturing due to tax benefits in Switzerland.

Morgan Stanley updated note 1/26/10 – still equal weight but they changed their price target to \$62 and increased their earnings estimates. They increased their earnings and revenue projections (but didn’t indicate the price target change or the projections changes); the note spoke to management changes and the possible push for cost changes.

New 2010 eps is \$5.32 (vs. \$5.10 earlier).

Bank of America/Merrill Lynch (2/1/10):

They feel management changes are a positive. (Role of Chairman/CEO has been split) The new CEO is more likely to focus on shareholder return, cash and margin. Novartis is structurally one of the most attractive stocks in the sector. Feel the company has an attractive pipeline, well-diversified business model and high exposure to fast-growing emerging markets. 2010 offers pipeline and earnings catalysts to drive the shares and they expect outperformance.

ML notes that NVS may use shorter duration instruments and existing cash to finance the remaining \$29B for the acquisition of Alcon in the second half of 2010. The company has indicated that it will pay down all Alcon debt within 4 years.

It is rated a buy with a price target of \$66.30.

Earnings estimates of \$5 in 2010, \$5.38 in 2011, and \$5.73 in 2012.

John

Based on the reports I’ve read this looks like a no-brainer. I ran the ROI analysis and the potential returns over 10 and 15 years are outstanding. In order to buy these shares, we have to reduce holdings in something else. My first choice is a material reduction in PFE. Although they are in the same industry, I

think NVS is a much more attractive holding. Certainly nothing is guaranteed in the drug industry, but I think there is less risk involved with NVS, given PFE's patent expiration issues. Biggest fear is that I am overestimating the company because I am comparing it to PFE – and, in my opinion, there is no comparison.

Ron is not as bullish as me. He did reduce PFE to make room for NVS but accounts still have a very material position of PFE. My first choice was a complete swap of PFE fro NVS.

Based on 12/31/09 reports, NVS has a book value of \$25.24 per share and tangible book of \$15.40 per share; it currently trades at around 2.1x book and 3.5x tangible book.

Results of RBCo valuation analysis (as prepared by John):

	Low growth	High growth	Average growth
2010 estimated eps	\$3.83	\$3.83	\$3.83
10 year revenue growth	3%	7.5%	6.5%
15 year revenue growth	5%	7.5%	5%
Tangible book value multiplier	2	3	2.5
10 year ROI	10.07%	17.94%	15.07%
15 year ROI	10.51%	16.79%	14.07%

2010 earnings estimates range from \$3.48 to \$5.89, with the mean at \$4.66 according to Morningstar.

2011 earnings estimates range from \$3.63 to \$6.08 with a mean of \$5.05.

The shares currently trade at 12.3 times 2010's mean earnings estimate. The 5 year average PE is 17.5.

I think the shares are currently worth around \$67-\$70 (using 2010 earnings times 5 yr PE), a 25%-30% premium to where they currently trade.

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