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Novartis delivers strong sales growth, robust margin expansion and raises guidance. Announces USD 15 billion share buyback and Board endorses Sandoz spin-off^{1,2}

- **Q2 sales grew +9% (cc³, +7% USD) with core operating income growing +17% (cc, +9% USD)**
 - Innovative Medicines (IM) sales grew +9% (cc, +7% USD) and core operating income +20% (cc, +12% USD), with core margin reaching 39.0%, (+340 bps cc)
 - Growth driven by continued strong performance from *Entresto*, *Kesimpta*, *Pluvicto* and *Kisqali*
 - Sandoz sales grew +8% (cc, +5% USD) and core operating income +6% (cc, -5% USD)
- **Q2 operating income grew +50% (cc, +31% USD) mainly driven by higher sales and lower restructuring charges. Net income grew +54% (cc, +37% USD) mainly due to higher operating income. Free cash flow⁴ was USD 3.3 billion (-6% USD)**
- **Q2 core EPS grew +25% (cc, +17% USD) to USD 1.83**
- **Strong H1 performance with sales growing +8% (cc, +5% USD) and core operating income growing +16% (cc, +9% USD)**
 - IM sales grew +8% (cc, +5% USD) and core operating income +19% (cc, +12% USD), with core margin reaching 38.9%, (+360 bps cc)
 - Sandoz sales grew +8% (cc, +4% USD) and core operating income +5% (cc, -3% USD)
- **Q2 key innovation milestones:**
 - **Cosentyx** – EU approval for moderate to severe hidradenitis suppurativa
 - **Entresto** – EU approval for pediatric heart failure; RDP extends to November 2026
 - **Kisqali** – demonstrated clinically meaningful data in eBC presented at ASCO (NATALEE)
- **Continuing strategic rationalization of development portfolio** including proposed acquisition of Chinook and divestment of front of eye assets⁵
- **Initiating up-to USD 15 billion share buyback** to be completed by year-end 2025, following completion of previously announced share buyback in June 2023
- **Board of Directors endorses the separation of Sandoz**, by way of a 100% spin-off²
- **Full-year 2023 Group guidance raised** based on strong H1 momentum⁶
 - **Group sales** expected to grow **high single digit** (from mid)
 - **Group core operating income** expected to grow **low double digit** (from high single)

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Basel, July 18, 2023 - commenting on the quarter, Vas Narasimhan MD, CEO of Novartis, said: “*Novartis delivers another strong quarter of sales growth and robust margin expansion, supporting an upgrade to Group guidance for 2023. The performance was broad-based across core therapeutic areas and key geographies. Our growth drivers and rich pipeline continue to provide confidence in our mid-term growth outlook, highlighted by upcoming milestones for Kisqali, Pluvicto and iptacopan. Novartis robust balance sheet and expected future growth allow us to initiate an up-to USD 15 billion share buyback while maintaining the flexibility for continued strategic bolt-on acquisitions.*”

¹ Up-to USD 15 billion share buyback to be completed by year-end 2025. ² Sandoz spin-off - there can be no assurance regarding the ultimate timing of the proposed transaction or that the transaction will be completed. Further details of the proposed spin-off will be provided at a later date. ³ Constant currencies (cc), core results and free cash flow are non-IFRS measures. An explanation of non-IFRS measures can be found on page 48 of the Condensed Interim Financial Report. Unless otherwise noted, all growth rates in this Release refer to same period in prior year. ⁴ Effective January 1, 2023, Novartis revised its definition of free cash flow, to define free cash flow as net cash flows from operating activities less purchases of property, plant and equipment. To aid in comparability, the prior year free cash flow amounts have been revised to conform with the new free cash flow definition. See page 48 of the Condensed Interim Financial Report. ⁵ Closing anticipated in H2 2023 and subject to customary conditions. ⁶ Please see detailed guidance assumptions on page 8.

Key figures³

	Q2 2023	Q2 2022	% change		H1 2023	H1 2022	% change	
	USD m	USD m	USD	cc	USD m	USD m	USD	cc
Net sales	13 622	12 781	7	9	26 575	25 312	5	8
Operating income	2 920	2 228	31	50	5 776	5 080	14	28
Net income	2 317	1 695	37	54	4 611	3 914	18	32
EPS (USD)	1.11	0.77	44	62	2.20	1.77	24	39
Free cash flow ⁴	3 275	3 498	-6		5 995	4 890	23	
Core operating income	4 668	4 270	9	17	9 081	8 353	9	16
Core net income	3 811	3 431	11	19	7 425	6 682	11	19
Core EPS (USD)	1.83	1.56	17	25	3.54	3.02	17	25

Strategy Update

Our focus

With our new focused strategy unveiled in 2022, Novartis is transforming into a “pure-play” Innovative Medicines business. We focus on **five core therapeutic areas** (cardiovascular, immunology, neuroscience, solid tumors and hematology), with multiple significant in-market and pipeline assets in each of these areas, that address high disease burden and have substantial growth potential. In addition to two established **technology platforms** (chemistry and biotherapeutics), three emerging platforms (gene & cell therapy, radioligand therapy, and xRNA) are being prioritized for continued investment into new R&D capabilities and manufacturing scale. Geographically, we are focused on growing in our **priority geographies** - the US, China, Germany and Japan.

Our priorities

1. **Accelerate growth:** Renewed attention to deliver high-value medicines (NMEs) and focus on launch excellence, with a rich pipeline across our core therapeutic areas.
2. **Deliver returns:** Continuing to embed operational excellence and deliver improved financials. Novartis remains disciplined and shareholder-focused in our approach to capital allocation, with substantial cash generation and a strong capital structure supporting continued flexibility.
3. **Strengthening foundations:** Unleashing the power of our people, scaling data science and technology and continuing to build trust with society.

Sandoz planned spin-off

The Novartis Board of Directors has unanimously endorsed the proposed separation of Sandoz to create an independent company by way of a 100% spin-off.

As a next step, shareholders of Novartis will be invited to vote on the proposed spin-off and a related reduction of the share capital of Novartis AG at an Extraordinary General Meeting, planned to be held on Friday, 15 September 2023. The invitation to the EGM, a Shareholder Brochure and listing prospectus, which will be published by Sandoz, are planned to be distributed in August 2023.

Sandoz is planned to be listed on the SIX Swiss Exchange, with an American Depositary Receipt (ADR) program in the US.

The proposed spin-off is planned to occur early in the fourth quarter of 2023. In addition to Novartis shareholder approval, completion of the proposed Sandoz spin-off is subject to satisfaction of certain conditions, including obtaining the necessary approvals for the listing of the Sandoz shares, no order prohibiting (and no other event outside the control of Novartis preventing) the spin-off and no material adverse change.²

Entresto patent update (July)

Following a negative decision from the U.S. District Court for the District of Delaware, Novartis will appeal to the U.S. Court of Appeals for the Federal Circuit to uphold validity of Novartis patent covering *Entresto* and combinations of sacubitril and valsartan. No generics have tentative or final approval in the US. Any

commercial launch of a generic *Entresto* product prior to the final outcome of Novartis combination patent appeal, or ongoing litigations involving other patents, may be at risk of later litigation developments.

Financials

Second quarter

Net sales were USD 13.6 billion (+7%, +9% cc) in the second quarter driven by volume growth of 14 percentage points, price erosion of 2 percentage points and the negative impact from generic competition of 3 percentage points.

Operating income was USD 2.9 billion (31%, +50% cc), mainly driven by higher sales and lower restructuring charges.

Net income was USD 2.3 billion (+37%, +54% cc), mainly due to higher operating income. EPS was USD 1.11 (+44%, +62% cc), growing faster than net income, benefiting from lower weighted average number of shares outstanding.

Core operating income was USD 4.7 billion (+9%, +17% cc), mainly driven by higher sales. Core operating income margin was 34.3% of net sales, increasing by 0.9 percentage points (+2.5 percentage points cc).

Core net income was USD 3.8 billion (+11%, +19% cc), mainly due to higher core operating income. Core EPS was USD 1.83 (+17%, +25% cc), growing faster than core net income, benefiting from lower weighted average number of shares outstanding.

Free cash flow amounted to USD 3.3 billion (-6% USD), compared with USD 3.5 billion in the prior year quarter. This decrease was driven by the lower net cash flows from operating activities.

Innovative Medicines net sales were USD 11.2 billion (+7%, +9% cc), with volume contributing 15 percentage points to growth. Sales growth was mainly driven by continued strong performance from *Entresto*, *Kesimpta*, *Pluvicto* and *Kisqali* partly offset by generic competition mainly for *Gilenya*. Generic competition had a negative impact of 4 percentage points. Pricing had a negative impact of 2 percentage points. Sales in the US were USD 4.5 billion (+14%) and in the rest of the world USD 6.7 billion (+3%, +7% cc).

Sandoz net sales were USD 2.4 billion (+5%, +8% cc), with volume contributing 9 percentage points to growth. Pricing had a negative impact of 1 percentage point. Sales growth was mainly driven by Europe USD 1.3 billion (+11%, +13% cc), which benefited from strong volume growth driven by continued momentum from prior year launches, a strong cough and cold season and the biosimilars business. Global sales of Biosimilars grew to USD 531 million (+12%, +13% cc), also driven by growth ex-US.

First half

Net sales were USD 26.6 billion (+5%, +8% cc) in the first half driven by volume growth of 15 percentage points, price erosion of 3 percentage points and the negative impact from generic competition of 4 percentage points.

Operating income was USD 5.8 billion (14%, +28% cc), mainly driven by higher sales.

Net income was USD 4.6 billion (+18%, +32% cc), mainly due to higher operating income. EPS was USD 2.20 (+24%, +39% cc), growing faster than net income, benefiting from lower weighted average number of shares outstanding.

Core operating income was USD 9.1 billion (+9%, +16% cc), mainly driven by higher sales. Core operating income margin was 34.2% of net sales, increasing by 1.2 percentage points (+2.4 percentage points cc).

Core net income was USD 7.4 billion (+11%, +19% cc), mainly due to higher core operating income. Core EPS was USD 3.54 (+17%, +25% cc), growing faster than core net income, benefiting from lower weighted average number of shares outstanding.

Free cash flow amounted to USD 6.0 billion (+23% USD), compared with USD 4.9 billion in the prior year period driven by higher net cash flows from operating activities.

Innovative Medicines net sales were USD 21.8 billion (+5%, +8% cc), with volume contributing 16 percentage points to growth. Sales growth was mainly driven by continued strong performance from *Entresto*, *Kesimpta*, *Pluvicto* and *Kisqali* partly offset by generic competition mainly for *Gilenya*. Generic competition had a negative impact of 5 percentage points. Pricing had a negative impact of 3 percentage points. Sales in the US were USD 8.6 billion (+12%) and in the rest of the world USD 13.2 billion (+1%, +6% cc).

Sandoz net sales were USD 4.8 billion (+4%, +8% cc), with volume contributing 12 percentage points to growth. Pricing had a negative impact of 4 percentage points. Sales growth was mainly driven by Europe USD 2.7 billion (+11%, +14% cc), which benefited from strong volume growth driven by continued momentum from prior year launches, a strong cough and cold season and the biosimilars business. Global sales of Biosimilars grew to USD 1.0 billion (+12%, +15% cc), also driven by growth ex-US.

Disclaimer

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Such forward-looking statements are based on the current beliefs and expectations of management 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. You should not place undue reliance on these statements. There can be no guarantee that the investigational or approved products described in this press release will be submitted or approved for sale or for any additional indications or labeling in any market, or at any particular time. Nor can there be any guarantee that such products will be commercially successful in the future. Neither can there be any guarantee expected benefits or synergies from the transactions described in this press release will be achieved in the expected timeframe, or at all. In particular, our expectations could be affected by, among other things: liquidity or cash flow disruptions affecting our ability to meet our ongoing financial obligations and to support our ongoing business activities; the impact of a partial or complete failure of the return to normal global healthcare systems including prescription dynamics; global trends toward healthcare cost containment, including ongoing government, payer and general public pricing and reimbursement pressures and requirements for increased pricing transparency; uncertainties regarding potential significant breaches of data security or data privacy, or disruptions of our information technology systems; regulatory actions or delays or government regulation generally, including potential regulatory actions or delays with respect to the development of the products described in this press release; the potential that the benefits and opportunities expected from our planned spin-off of Sandoz may not be realized or may be more difficult or take longer to realize than expected; the uncertainties 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; safety, quality, data integrity, or manufacturing issues; uncertainties involved in the development or adoption of potentially transformational technologies and business models; uncertainties regarding actual or potential legal proceedings, investigations or disputes; our performance on environmental, social and governance measures; general political, economic and business conditions, including the effects of and efforts to mitigate pandemic diseases such as COVID-19; uncertainties regarding future global exchange rates; uncertainties regarding future demand for our products; 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 press release 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.

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About Novartis

Novartis is reimagining medicine to improve and extend people's lives. We deliver high-value medicines that alleviate society's greatest disease burdens through technology leadership in R&D and novel access approaches. In our quest to find new medicines, we consistently rank among the world's top companies investing in research and development. About 103,000 people of more than 140 nationalities work together to bring Novartis products to nearly 800 million people around the world. Find out more at <https://www.novartis.com>.

Novartis will conduct a conference call with investors to discuss this news release today at 14:00 Central European time and 8:00 Eastern Time. A simultaneous webcast of the call for investors and other interested parties may be accessed by visiting the Novartis website. A replay will be available after the live webcast by visiting <https://www.novartis.com/investors/event-calendar>.

Detailed financial results accompanying this press release are included in the condensed interim financial report at the link below. Additional information is provided on Novartis divisions and pipeline of selected compounds in late stage development and a copy of today's earnings call presentation can be found at <https://www.novartis.com/investors/event-calendar>.