

Summary of the financial reports for Novartis from 2010-2017

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First, some definitions:

-Sales/revenue: For these reports I try to stick to the revenues from pharmaceutical sales only whenever possible. Many of these companies have other product lines such as medical devices, over-the counter (OTC) health aids or nutritional products. When possible, I separate out the revenues from those product sales, though.

-Profit: Net income after taxes. Many companies will add or subtract money from taxes or other revenue/fees from discontinued items to their net income after taxes. In such cases I'll use net income attributable to that company for profit.

-Research includes research and development and purchased in-process research.

-Marketing is usually listed as Selling, informational, and administrative. It includes more than just the money spent on direct to consumer advertising. The marketing budget also includes money spent on pharmaceutical representatives that visit your doctor, free drug samples left at doctors' offices, payments to doctors who give "educational" talks on behalf of pharmaceutical companies, etc...

There are other administrative expenses that are not directly related to marketing lumped into this budget. This might even include such expenses as litigation costs to fight lawsuits against these companies. Still, the pharmaceutical companies could list their marketing budget as a separate expense if they wanted the way Bristol-Myers Squibb lists their advertising budget separately, so it's their choice not to. Anyway, much of what Pharmaceutical companies call research is really just marketing so all figures should be taken with a grain of salt.

-Rebates/Chargebacks: Rebates are payments that go mostly to pharmacy benefit managers (PBMs) in the U.S. These rebates are incentives for the PBMs "prefer" certain medications when deciding which medications to cover. Chargebacks are normally refunds given to medication suppliers to balance the rebates given to the PBMs. Both rebates and chargebacks are normally deducted from the total pharmaceutical revenue of a company initially, and not listed as an expense.

-Revisions: When a figure is revised in a subsequent report it's often because that company divested one or more products by either selling that line to another company or splitting off a new company. When companies do this, they often retroactively deduct the revenues and expenses related to that division from the finances of previous years, but not the profits. This makes year over year comparisons for these companies challenging. For the most part, I only use original data, and not revised data for these reports.

Novartis is a Swiss pharmaceutical company with several divisions. Their main pharmaceutical division markets a number of brand name medications like Diovan as well as some novel cancer treatments like Gleevec. Both these medications have lost their patent protection in recent years leaving Novartis with very few medications that sell well, especially in the U.S. As a result, sales revenues for Novartis have been flat since 2010.

Novartis also has two other divisions: Sandoz, which markets generic medications and Alcon, which makes surgical and vision care products. Prior to 2014 Novartis also had two other divisions which marketed vaccines and consumer health products.

Here are the composite numbers for Novartis from 2010-2017:

| | |
|--|---------------|
| Total Sales Revenue (for all divisions): | \$423 Billion |
| Total Profit: | \$81 Billion |
| Total Spent on Research: | \$74 Billion |
| Total Spent on Marketing: | \$106 Billion |
| Total Spent in Taxes: | \$11 Billion |
| US Revenue: | \$142 Billion |
| Revenue from All Other Countries: | \$281 Billion |

Proportional Allocation of Revenue 2010-2017

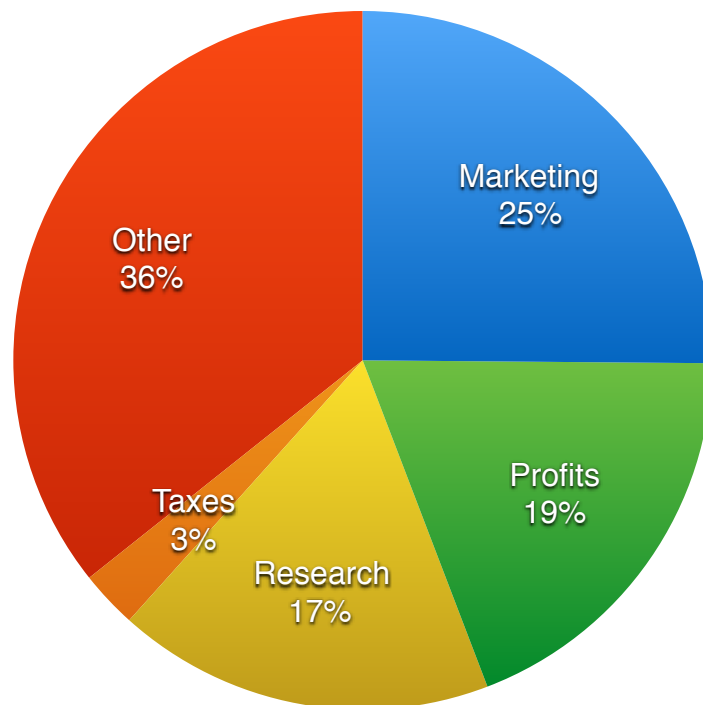


Figure 1: The proportion of Novartis' total revenue that was allocated toward research, marketing, taxes and profits.

Proportion of Novartis' Pharmaceutical Revenue from US vs. All Other Countries

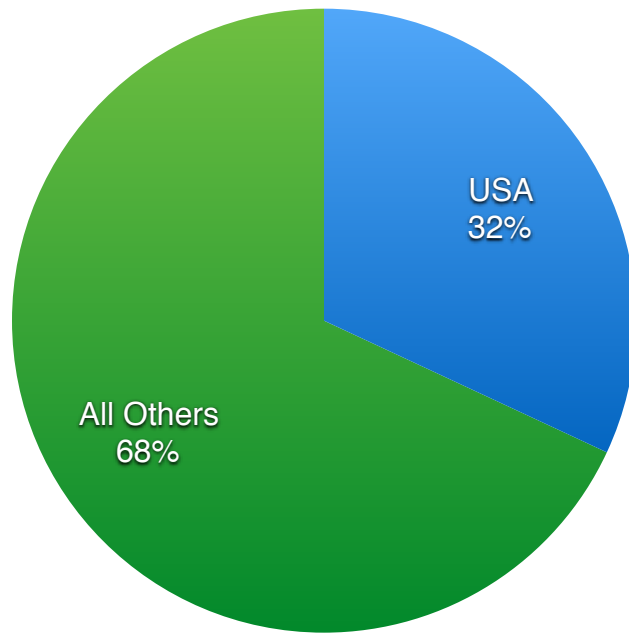


Figure 2: About 32% of Novartis' main (brand name) pharmaceutical revenue since 2010 has come from sales in the U.S.

Annual Revenue Novartis Earns From Diovan Sales

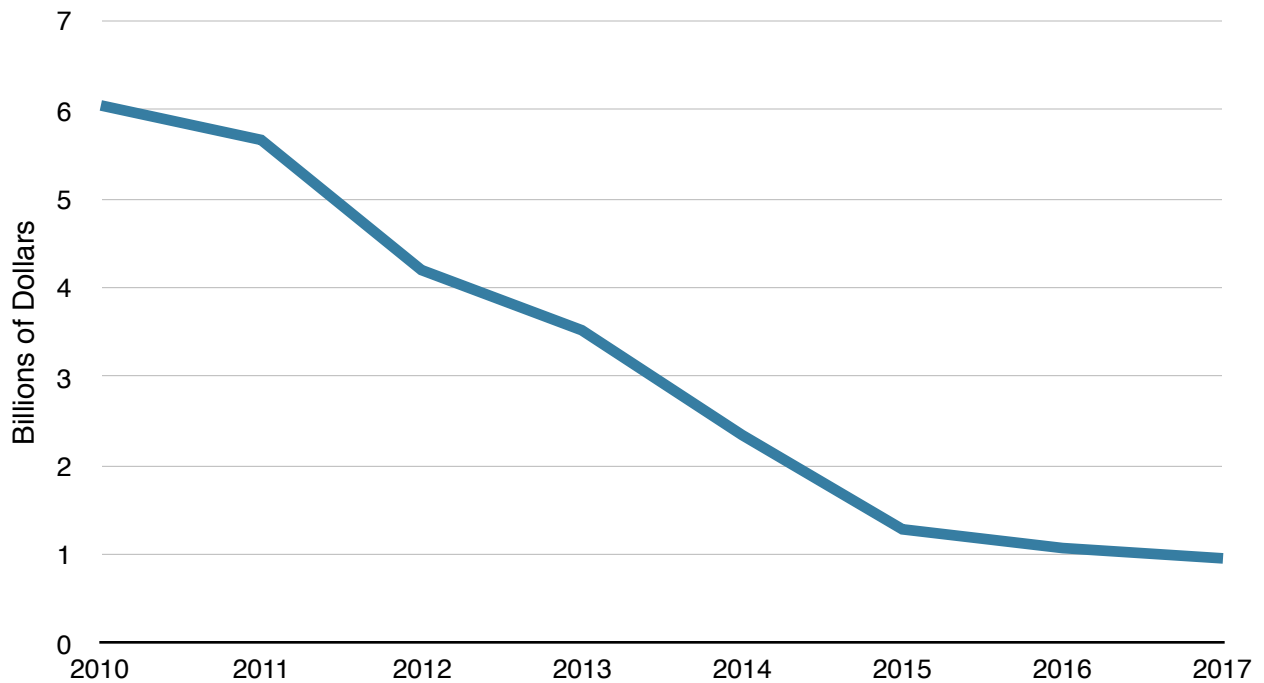


Figure 3: Novartis lost their patent protection for Diovan in 2012. This figure shows how much that loss impacted their revenue from that drug.

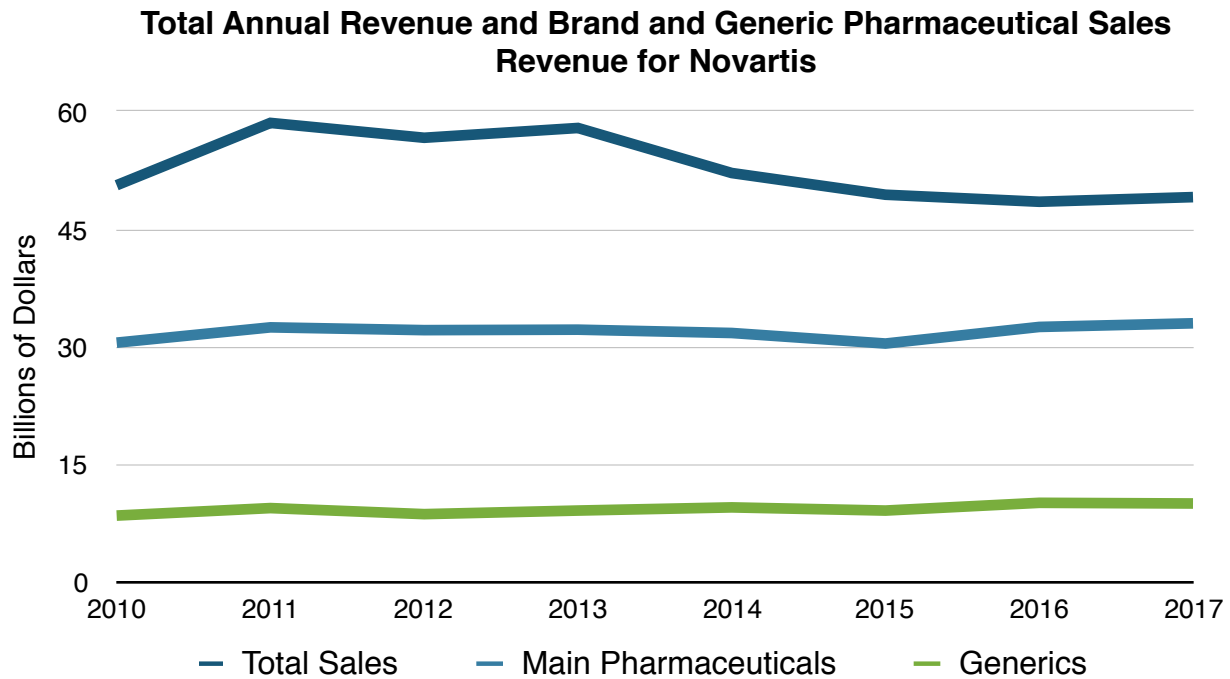


Figure 4: Annual revenues for both brand name and generic medications have been quite flat for Novartis since 2010. Their loss in total revenue since 2013 is largely due to their divesting their vaccine and consumer health divisions.

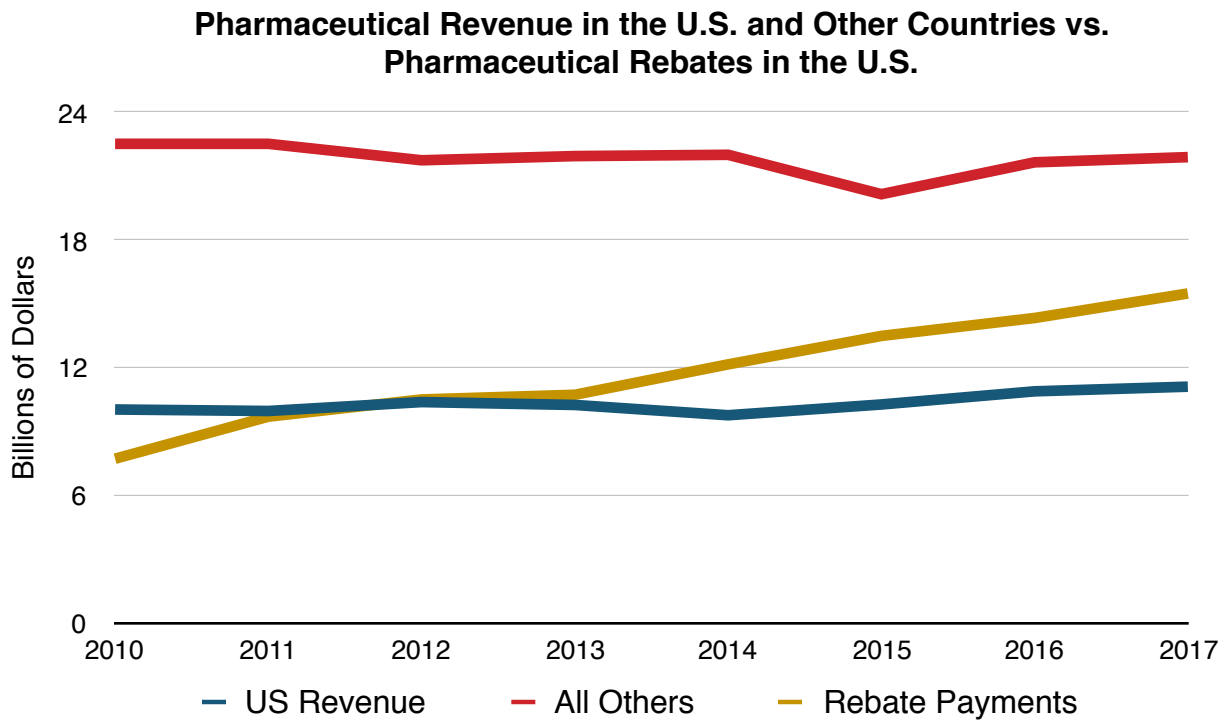


Figure 5: In spite of the fact that Novartis has nearly doubled their rebate payments to U.S. PBMs, their sales in the U.S. have been largely flat since 2010. This is likely due to a decline in the number of marketable products they have left to sell here.

Total Executive pay for Novartis was \$64.9 million in 2017 with \$13.1 million going to their CEO Joseph Jimenez.

<http://insiders.morningstar.com/trading/executive-compensation.action?t=NVS>

http://truecostofhealthcare.net/pharmaceutical_financial_index/