

## **Novartis ESG Update – April 29, 2020** <sup>[1]</sup>

### **Below note was sent to our investors / analysts**

Dear investors and analysts,

What has been apparent during the challenges of the past two months is that the importance of ESG and engagement with stakeholders has never been more pronounced. A cornerstone of our approach to ESG is consistent and fruitful engagement with shareholders and wider stakeholders. Consequently, we have decided to increase the frequency of our ESG communication and will issue a regular ESG newsletter that will provide investors with updates on progress with ESG initiatives and any material alterations to our ESG approach. Below we try and address a few of the questions that Novartis' Board of Directors, Executive Committee and the Investor Relations team have received over the last few weeks, oftentimes related to COVID-19, but also covering other ESG topics.

### **Novartis' evolving response to COVID-19**

Many of you have commented that this is a time for collaborative action across all businesses, organizations and governments to minimize the potential negative impacts of the pandemic. In addition, there is wider encouragement to align with the approach that Novartis has taken to focus not only on shareholders, but also on all our stakeholders, most importantly employees and the communities in which we operate.

To support the global public health response, we are engaged in multiple collaborative R&D efforts, large scale clinical trials and donations to support local communities in need (see also the information available at our external COVID-19 Information Center:

<https://www.novartis.com/coronavirus> <sup>[2]</sup>):

- Novartis has committed to donate up to 130 million doses of hydroxychloroquine, reaching over 60 countries, and to generate high quality evidence on the drugs benefit-risk profile in COVID-19 patients. 50 million doses have already been shipped to 25 countries (including 30 million doses to the US Department of Health and Human Services).
- To help achieve broad access to hydroxychloroquine we will make available any intellectual property within our control that relates to the use of hydroxychloroquine to treat or prevent COVID-19. Any use in tackling the pandemic should be driven entirely by safety and efficacy.
- We currently are sponsoring three clinical studies (testing: hydroxychloroquine, canakinumab, ruxolitinib) and support 32 investigator initiated trials with a number of other molecules.

- We continue to screen our chemical libraries for leads with potential anti-viral activity and have launched drug discovery efforts with the University of California, Berkeley to try to address all pandemic causing coronaviruses. We have become members of the COVID-19 Therapeutics Accelerator, a joined industry-wide and governmental effort, under the coordination of the Bill & Melinda Gates Foundation and which is co-chaired by our CEO.
- Novartis has allocated \$40 million to COVID-19 Response Funds that provide urgently needed support for healthcare workers and communities around the world. Currently we have supported more than 80 projects in 60 countries.

For our associates we have committed to no COVID-19 related job losses and a full range of support programs including: 12 days paid leave; childcare assistance; adapted sales-incentive scheme and recognition payment for lab and production staff; provided on line training tools and wellbeing initiatives which are also extended to family members.

Some of you in your general (not Novartis specific) statements commented on the need to consider updating the capital allocation strategy. We believe that Novartis is well positioned to meet its' ongoing financial obligations and has sufficient liquidity to support our normal business activities. In addition, please note:

- Novartis continues to report strong underlying business, has a strong balance sheet and operates with financial prudence
- Novartis does not make use of any support related to continuation of employment (neither by applying for such support nor if such support is granted automatically)
- Novartis does not actively apply for reliefs granted related to COVID-19
- Novartis does not make use of any extensions granted for payment of taxes
- Novartis has not experienced liquidity or cash flow disruptions

## Changing ESG Landscape, Materiality, Primary data source

In our interactions with you and your stewardship teams, we have noted that ESG is evolving. The majority of investors appear to be using ESG criteria for investment decision making with "ESG integration" and some screening for controversies (negative factors). Most recently, some of you are reporting your ESG analytics are moving away from the focus on "*doing no harm*" to considering "*impact*" on society. The unprecedented nature of the COVID-19 pandemic has, or maybe will, increase the focus on the positive *long-term impact healthcare companies* can have on society, as the "S" of ESG can be the most pertinent material factor in assessing ESG performance for companies like Novartis. One such impact at the forefront of our Global Health teams approach is expressed by Patrice Matchaba (Group Head of Global Health & Corporate Responsibility): "*One of the key learnings from the COVID-19 pandemic, the greatest public health challenge of a generation, is that healthcare systems strengthening is essential for access to innovation. Fragile healthcare systems limit innovative global health care interventions and subsequently our ability to respond to the public health challenges of the 21st century. To us as company, COVID-19 reinforces the need to continue do more to strengthen healthcare systems across the globe as we implement the 'Access Principles' throughout our portfolio as endorsed by the Board and ECN.*"

Clearly our materiality assessment which will be updated in 2021, is even more relevant now

than it has ever been. Based on the prior survey of both internal and over two hundred external stakeholders the highest ranked materiality factors were: access to healthcare, innovation, patient health and safety and ethical business practices. The *Novartis in Society ESG Report 2019* (<https://www.novartis.com/our-company/corporate-responsibility/corporate-responsibility-reporting-and-disclosure/novartis-society-report> <sup>[3]</sup>) provides a detailed account of our ESG strategy and describes these factors. Additionally, Novartis has introduced ESG targets for 2020, which are transparent, systemically reviewed and linked to executive compensation.

We understand it is difficult for you to obtain primary sources of ESG data and so investors often find themselves having to rely on secondary sources from third party providers. This year, a new Novartis ESG Index (<https://www.novartis.com/investors/environmental-social-and-governance/esg-index> <sup>[4]</sup>) has been issued, which will be updated regularly, to help analysts and investors navigate our disclosures of ESG data, policies and processes. We hope this primary data source will make it easier for you to find the information required to help with your investment decisions. However, we still consider the most effective way of fostering mutual understanding to be direct engagement and would be happy to engage with you face to face or via TC.

## **The role of third party organizations in evaluating a company's ESG performance**

Several of you have informed us of the increasingly important role of third party ESG performance ratings in the overall evaluation of investment decisions. We welcome this development and support the work that ESG rating agencies are undertaking. We also acknowledge the difficulty of their task as publically available data is often imperfect and there is an absence of universal frameworks, unlike the consistent financial standards investors are accustomed to. Particularly, when it comes to the assessment of 'controversies' the agencies find themselves having to form subjective views based, as outlined in various methodologies, on secondary sources of data such as media reports and 'controversy noise' rather than purely legal proof. One such instance was the Zolgensma data integrity issues that influenced the reports of several ESG rating agencies despite the FDA ultimately deciding to take no further action with respect to quality concerns. We reaffirm our commitment to providing quality products to our patients and HCPs.

As a company, we have communicated our concerns and the potential unintended consequences that any misrepresentation may have to a leading ESG rating agency. We encourage you to read our letter which is motivated by our efforts to bridge the gap between information and interpretation. Whilst the agency has been receptive and have committed to reviewing their methodology, they have advised us to ask our shareholders, their clients, to outline any concerns they may have with them directly.

## **Acknowledging the importance of engagement**

ESG factors will continue to grow in importance in a post-COVID world and we as a company are continuing to ensure that we deliver on the trust that you as investors have placed in us. We have made significant progress in recent years but there will always be more that we can do. We remain of the view that there is no substitute for direct engagement. As such, if there

are areas where you believe we can continue to improve in terms of ESG oversight and responsible business practices, we are always open to written feedback or engagement calls and meetings. We hope this letter reaffirms our commitments to openness and transparency.

Our Q1 2020 earnings presentation was published on the 28th April 2020 we hope this will address any questions you may have on business operations.

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**Source URL:** <https://www.novartis.com/investors/environmental-social-and-governance/april-2020-update>

**Links**

[1] <https://www.novartis.com/investors/environmental-social-and-governance/april-2020-update>

[2] <https://www.novartis.com/coronavirus>

[3] <https://www.novartis.com/news/media-library/novartis-society-esg-report-2019>

[4] <https://www.novartis.com/investors/environmental-social-and-governance/esg-index>