Materiality Assessment 2021 Webinar

Connecting materiality and impact valuation to enable corporate purpose
June 1, 2021
Welcome

The Novartis Narrative – where do we stand?

Societal purpose – how to best measure?

Connecting the dots by measuring purpose?

Your questions
Welcome

Duration: 1 hour

At any time, we invite you to type your questions in the Q&A box

If you are struggling to connect:

- Audio is typically more reliable over a telephone/mobile line than computer audio
- Close other applications not in use, especially those that take bandwidth (e.g. email and additional internet browser tabs)
- Connect to the internet via cable rather than wireless, if possible

Novartis Materiality Webinar | 01.06.2021
Moderator & Speakers

Jeff Sturchio  
Chairman

Paul Penepent  
Head Financial Reporting and Accounting

Colin Mayer  
Peter Moores Professor of Management Studies

Rabin Martin  
Novartis

Novartis Materiality Webinar | 01.06.2021
Feedback from previous MA Webinar

MA Kick-off Webinar - February 8, 2021

Overall, the feedback was very positive

- “Webinars are informative, relevant and give an insight into what is important for the pharmaceutical industry in general. The transparency of Novartis is absolutely brilliant and I personally really appreciate this. Thank you.”
- “Best in class process of engagement; learning experience”
- “Novartis is conducting a strong and inclusive process, which I find many could learn from.”

We also received some constructive feedback

- “I felt like we weren't really hearing about some of the meatier / more challenging aspects of the process”
- “Maybe consider engagement throughout the session and not just in the end”
- “I thought the presenters were excellent and very well-briefed...You are doing great work / perhaps consider a more 'down-to-earth' atmosphere?”
Agenda

Welcome

The Novartis Narrative – where do we stand?

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Your questions

Paul Penepent
Our purpose is to reimagine medicine to improve and extend people's lives. We use innovative science and technology to address some of society's most challenging healthcare issues.

We discover and develop breakthrough treatments and find new ways to deliver them to as many people as possible.

We also aim to reward those who invest their money, time and ideas in our company.”
Materiality Assessments highlight our impacts from the perspectives of our stakeholders across all dimensions of Environment, Social and Governance

**Strategic insights**
Align with societal expectations, business needs and market developments; tease out white space for competitive advantage and leadership opportunities

**Build stakeholder relationships**
Intensify dialog with key stakeholders on a systematic basis to strengthen relationships and enable stakeholder specific communication

**Reporting**
Structure and prioritize reporting; highlight impact measuring needs; validate current impact valuation indicators and contextualize their relevance
Materiality Assessment - Process

1. Q3 2020
   Desk Research
   Manual review of key stakeholder sources to create impact and dependency list

2. Q3 2020
   Management Survey
   Via function & division to define internal contact owners of external stakeholders

3. Q1 2021
   Materiality Surveys
   Quantitative online survey among internal & external stakeholders

4. Q2 2021
   Stakeholder Discussions
   Qualitative interviews and workshop with internal & external stakeholders

5. Q2 2021
   Analysis & Interpretation
   Ranking of cluster and issues, correlation analysis and scenario analysis

6. Q3 2021
   Management Report
   Informing business strategies, management processes and decision making

https://www.youtube.com/watch?v=IqFLSV6Hnns&feature=youtu.be

Novartis Materiality Webinar | 01.06.2021
From measuring perception to Novartis performance
Materiality Assessments inform Impact Valuation indicators

Materiality Assessments
Understand stakeholder expectations and their perception of Novartis’ impact on society and the environment

Benefits / Goals
Company strategy and decision making
Stakeholder engagement
Investment decisions
Demonstrate overall impact on society
Increase transparency

Impact Valuation
Understand Novartis impact on society and the environment in monetary terms

Qualitative analysis
Quantitative analysis
Novartis impact on society by reimagining medicines

Novartis value creation, preservation and destruction

- Book & Market Value
- Upstream
- Direct Operations
- Downstream

Financial

Economic

Environment

Social

Governance

Novartis stakeholders

Suppliers

Investors

Governments

Society

Patients

HPCs

Payers

Novartis Management

Focus on what’s material

1 Country-level only
2 Number of jobs created

11 Novartis Materiality Webinar | 01.06.2021
Materiality Assessment 2017 identified 11 Impact Valuation indicators across SEE

- Impact of Medicine
- Employee development
- Living wage
- Occupational safety
- Healthcare system strengthening

- Climate change
- Air pollution
- Waste, Water, Land use

- GDP contribution
- Employment
- Taxes

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(1) in number of Full Time Equivalents (Jobs); (2) additional indicators that could be covered with local input; (3) country-level only
Valuation highlights materiality of Novartis’ SEE impacts

### Novartis social, environmental and economic impact 2019

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Results</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Living wages</td>
<td>USD 2.2 bn</td>
<td>Own operations USD 1 bn, indirect USD 12 bn</td>
</tr>
<tr>
<td>Employee development</td>
<td>USD 1.5 bn</td>
<td>Own operations USD 80 m, indirect USD 697 m, induced USD 775 m</td>
</tr>
<tr>
<td>Occupational safety</td>
<td>-USD 1.8 bn</td>
<td>Own operations USD 461 m, indirect USD 707 m, induced USD 561 m</td>
</tr>
<tr>
<td>Other human capital impacts</td>
<td></td>
<td>Employee well-being, voluntary turnover, human rights beyond living wages not valued in 2019</td>
</tr>
<tr>
<td>Products</td>
<td>USD 219 bn</td>
<td>Based on 54 Innovative Medicines brands and 40 Sandox products in 132 countries</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate, energy and air pollution</td>
<td>-USD 3.80 bn</td>
<td>Own operations USD 184 m, indirect USD 1.4 bn, induced USD 2.2 bn</td>
</tr>
<tr>
<td>Water and waste</td>
<td>-USD 1.03 bn</td>
<td>Own operations USD 15 m, indirect USD 322 m, induced USD 542 m, downstream USD 152 m</td>
</tr>
<tr>
<td>Land use</td>
<td>-USD 1.71 bn</td>
<td>Own operations USD 43,000, indirect USD 266 m, induced USD 1,441 m</td>
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<tr>
<td>Other environmental impacts</td>
<td></td>
<td>Biodiversity not valued in 2019</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP contribution</td>
<td>USD 90.4 bn</td>
<td>Own operations USD 52.1 bn, indirect impacts USD 177 bn, induced Impacts USD 20.6 bn</td>
</tr>
<tr>
<td>Employment</td>
<td>974,000 FTEs</td>
<td>Own operations 104,000 FTEs, indirect 351,000 FTEs, induced 519,000 FTEs</td>
</tr>
<tr>
<td>Economic inefficiencies</td>
<td></td>
<td>Not valued in 2019 – no methodology available</td>
</tr>
<tr>
<td>Total taxes</td>
<td></td>
<td>Not valued globally in 2019</td>
</tr>
</tbody>
</table>

1. Our methodology is based on leading approaches including WIOFL (social impact of medicines, direct GDP contribution, indirect and induced environmental and economic impacts), Valuing Nature (social impact of wages and salaries), YBE (employee development, occupational safety, waste, land use) and Impact Valuation Roundtable (general approach).
2. Data represent continuing operations.
The social impact of medicines a proxy for measuring performance on our purpose

By reimagining medicines our products create social & economic value to society as we improve and extend people’s lives...

Further information on the methodology:
https://www.youtube.com/watch?v=CTW0Ki404AI&list=PL6Yfp0VEjhsjaO_xaQm2pGt9x3y5z&index=5

1) QALYs: Quality Adjusted Life Years; 2) Unpaid work: household production, voluntary work
The Novartis Narrative – where do we stand?

Societal purpose – how to best measure?

Connecting the dots by measuring purpose?

Your Questions
To produce profitable solutions for problems of people and planet, not profiting from producing problems for either.
Novartis
Our Purpose

“

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We discover and develop breakthrough treatments and find new ways to deliver them to as many people as possible.

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Total impact

769 million patients reached

155 countries where products are sold

ENVIRONMENTAL IMPACT
-$7 billion

Novartis creates approximately $1 of environmental and social capital per $1 of financial market capital value

SOCIAL IMPACT
$219 billion*

TOTAL MARKET VALUE CAPITAL OF NOVARTIS
$214 billion

*Based on 54 Innovative Medicines brands and 40 Sandoz products in 132 countries in 2019
Other figures: Novartis in Society ESG Report 2020
Importance of Impact Valuation assessments

- Investor portfolio allocations
- ESG evaluations
- Impact investment
- Employee motivation
- Social licence and trust
- Regulatory interventions
- Government partnerships
- Double materiality and commercial performance
Not the same as purpose

- Total/average impact assessment
- Purpose about increment and change – solving problems
- Direct link of purpose to performance
- Identification of meaningful challenges that can be solved profitably
- High average impact not necessarily implies high marginal - solved problems
- Purpose linked to strategy, investment and resource allocation
Strategic priorities

- Power of people
- Transformative innovation
- Operational excellence
- Data and digital
- Societal trust
Purpose implementation

People - delegation, ownership, empowering

Innovation - business as well as product innovation

Operationalizing - problem identification, understanding, solving

Data - monitoring, measuring, motivating

Trust - commitment to solving others’ problems
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1) QALYs: Quality Adjusted Life Years; 2) Unpaid work: household production, voluntary work
Key distinction from ESG

- Driven by problem identification
- Identification of common purpose with partner organizations, e.g., government
- Impact measurement – meaningful challenges, motivating partners
- Measures determined by company’s specific purpose
- Related to current operating and capital investment costs
- Performance in terms of solving problems and financial returns on investment
Benefits

For investors – more conventional investment analysis and appraisal

For the board – link to strategy, resource allocation and reporting

For government – identification of potential partnerships

For regulators – alignment of corporate purpose with social licence

For customers and society – greater trust
Measurement

More straightforward than impact valuation because limited exercise

Measures related to strategic objectives

Not necessary to impute prices in absence of market prices

Metrics for problem solving outcomes and impacts

Profits defined net of costs of remediating detriments

Promotes valuing enhancing solutions and avoidance of detriments

Together impact valuation and purpose measurement provide comprehensive account of total value creation and strategic implementation
Novo Nordisk

- Simplify
- Connect
- Own
- Reward
- Exemplify

Source: https://www.novonordisk.com/
Conclusions

- Complementarity between impact valuation and purpose measurement
- Impact valuation – total/ average
- Purpose – business model to solve problems
- Metrics of resources, outcomes and impacts
- Profit net of costs of remedying detrims
- Double materiality – financial and environmental/social valuations
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Fireside Chat
How can we connect the dots by measuring purpose?

Jeff Sturchio
Chairman
Rabin Martin

Paul Penepent
Head Financial Reporting and Accounting
Novartis

Colin Mayer
Peter Moores Professor of Management Studies
Oxford University
Thank you for your attention!

For more information
1. Visit our site: www.novartis.com
2. Read the CR Materiality Assessment Results Report 2017
3. Read the Novartis In Society Report 2020

Any feedback, send an email to cr.materiality@novartis.com