



Novartis
ESG Management Office

Materiality Assessment 2021 Kickoff Webinar

Dialogue matters – support us to spur positive impact
February 8, 2021

 **NOVARTIS** | Reimagining Medicine

Agenda



Jeff Sturchio



Welcome

Why it's important?

What have we achieved?

Where are we heading?

We would like to hear from you

Open Q&A

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

Moderator & Speakers



Jeff Sturchio
Chairman

Rabin Martin



Dr. Patrice Matchaba
Head US Corporate
Responsibility and President

Novartis US Foundation



Dr. Lutz Hegemann
Group Head Corporate Affairs
and Global Health

Novartis



Samir Shah
Head Investor Relations

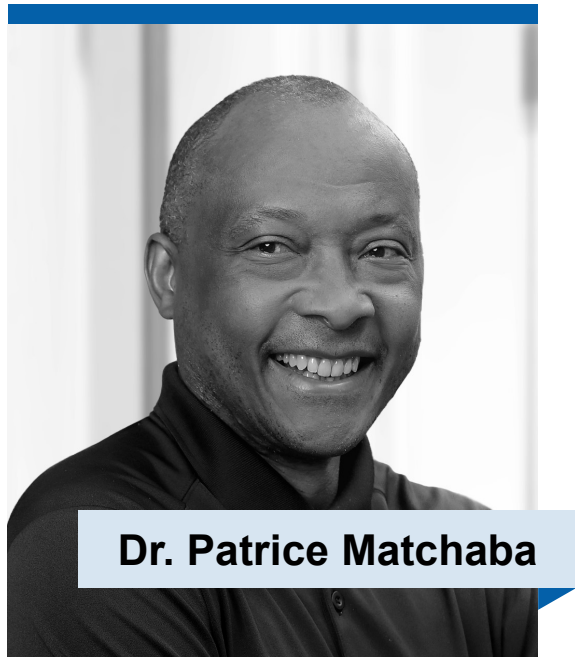
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Carrie Scott
Head ESG Management
Office

Novartis

Agenda



Dr. Patrice Matchaba



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Dr. Lutz Hegemann



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Novartis Our Purpose

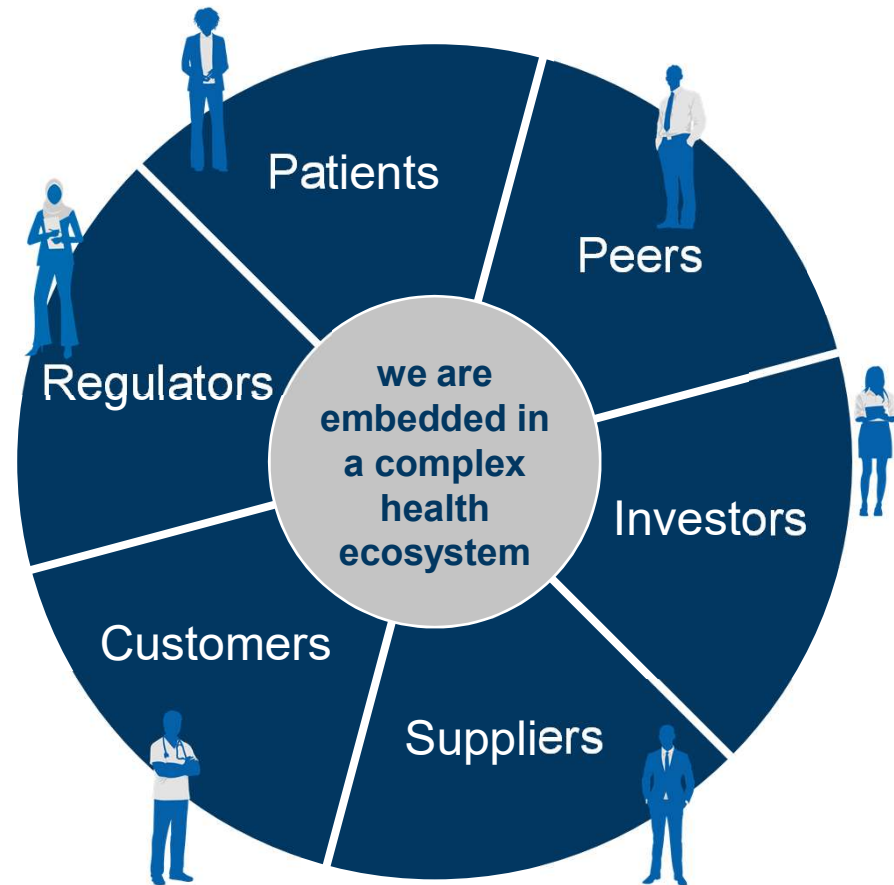


Our purpose is to reimagine medicine to improve and extend people's lives. We use innovative science and technology to address some of society's most challenging healthcare issues.

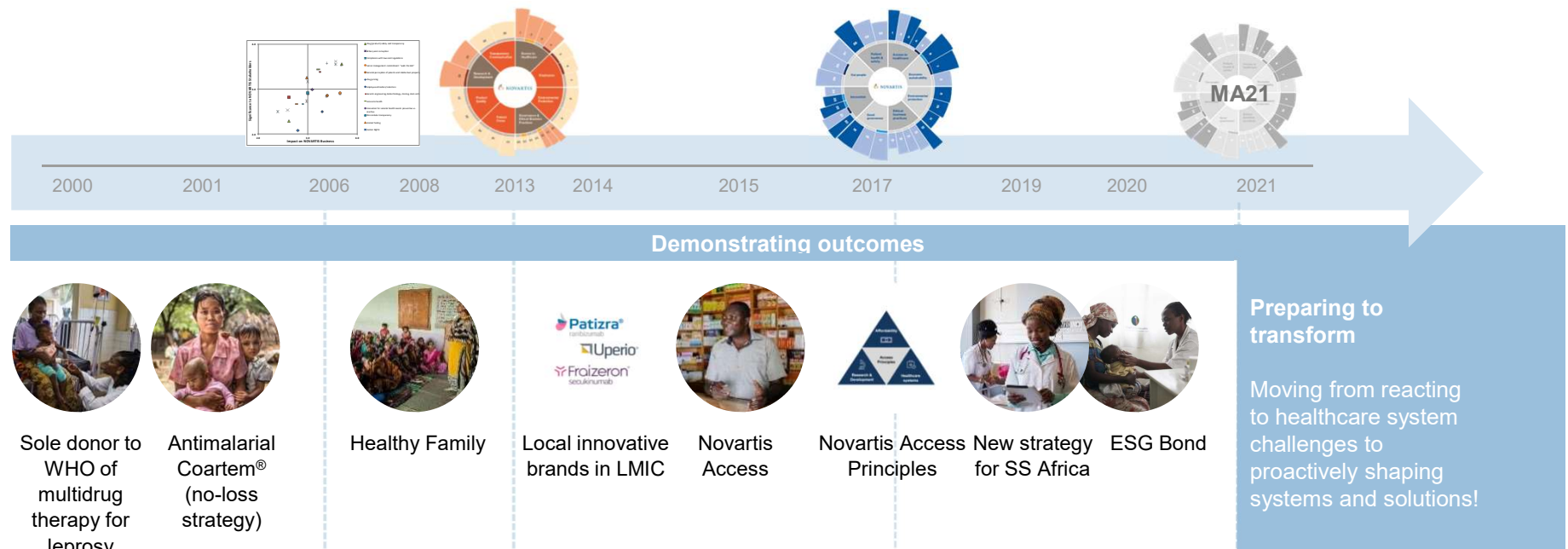
We discover and develop breakthrough treatments and find new ways to deliver them to as many people as possible.

We also aim to reward those who invest their money, time and ideas in our company.”

**Listening to our
stakeholders to
understand
what matters
most for our
mission**



Materiality Assessments at Novartis have shaped our approach



Stakeholder input from the materiality assessment informs our core actions



MA results will inform:

- Divisional & Functional Processes
- Enterprise Risk Management
- Annual Corporate Strategy Review

Ownership:

- Novartis Executive Committee
- Board of Directors

Agenda



Samir Shah



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Why it's important?

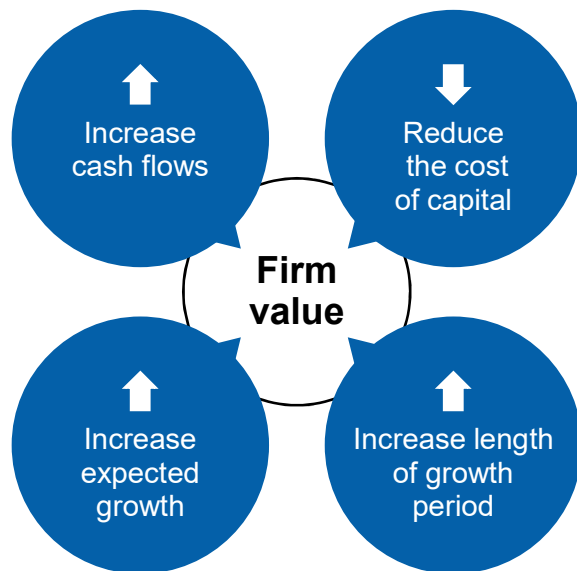
What have we achieved?

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How can a healthcare company increase its value?



Source: Aswath Damodaran: Value Enhancements: Back to Basics, Vontobel Equity Research

Novartis share price dependent on:

- 1 **Driving top line**
excellence in launches
- 2 **Driving bottom line**
operational excellence
- 3 **Pipeline**
delivering on innovation

4 **ESG**

ESG principles in Novartis

- 1 Materiality Analyses**
- 2 ESG needs to be integrated into functions**
e.g. sustainability bond
- 3 Great ESG scores are not the direct objective**



Consensus

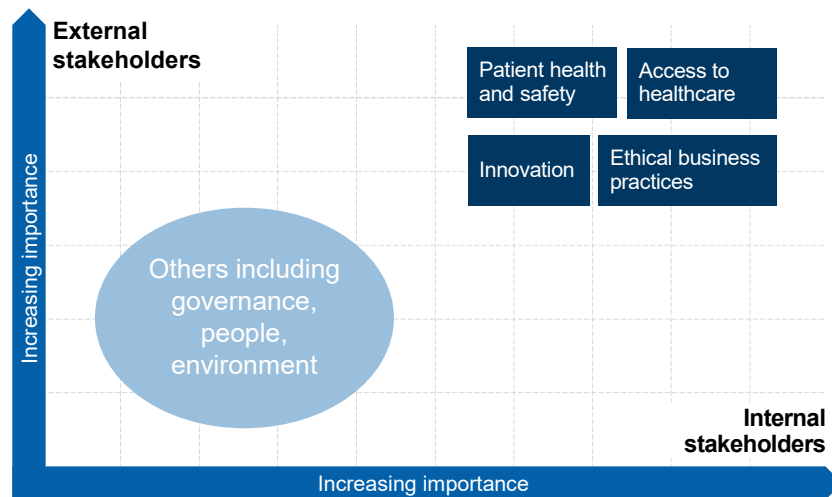
Materiality Analyses are fundamental to determining relevance of ESG factors

(e.g. company, or investment decision)

Novartis also uses Materiality Analyses for this

Key first step to defining the ESG strategy

Most relevant ESG factors



ESG pillars



1. Interactions with 200+ stakeholders from academia, fin. markets, governments, healthcare providers, NGOs. Materiality assessment webinar series: <https://www.novartis.com/investors/environmental-social-and-governance/materiality-assessments>

But materiality...

Is about answering what the **purpose is of using ESG data**

Depends on **stakeholder** (IR world, asset manager, investor, hedge fund, pension fund)

Depends on **geography**

Changes with **time**

... which explains why materiality is the most and least consensual term in ESG investing

Any fact, describing an asset, that helps you decide whether or not you should invest in this asset¹

Relevance of a sustainability factor to a company's financial performance³

Information that is important, relevant and critical to long-term value creation²

Pose direct financial risks, may be regulated, drive best practices, raised by stakeholders, opportunities for innovation / growth⁴

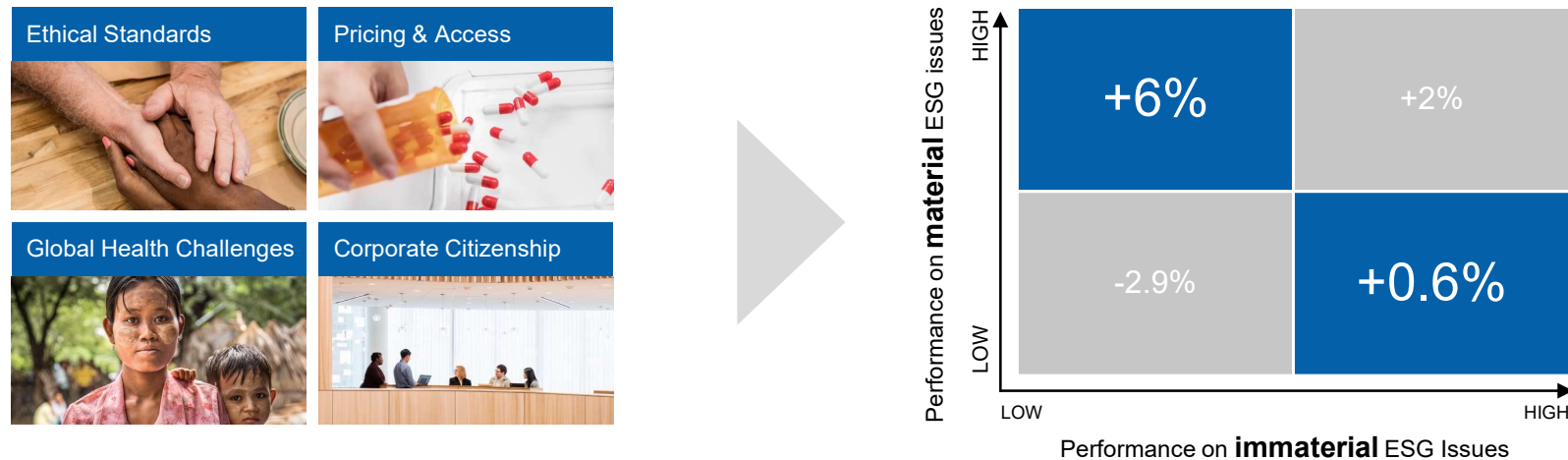
1. JPMorgan research March 2020: What Happened to ESG, Hecker et al 2. WEF Measuring stakeholder capitalism September 2020 3. <https://www.robeco.com/en/key-strengths/sustainable-investing/glossary/materiality.html#:~:text=The%20relevance%20of%20a%20sustainability,margins%2C%20required%20capital%20and%20risk> 4. SASB's approach to materiality for hte purpose of standards development staff bulletin no. SB002-07062017 July 2017

Robust methodology is important

Novartis approach: varied inputs from stakeholders, geography, time-relevant



It's not ESG per se, but the focus on material ESG issues that is correlated to improved share price



1. Serafeim, George et al. (2015): Corporate Sustainability: First evidence on materiality. HBS Working Paper 15-073. Other sources: Cheng, Ioannou and Serafeim (2014); Dhaliwal et. al (2011); Dhaliwal et. al (2012); Grewal, Riedl and Serafeim (2017); Khan, Yoon and Serafeim (2016); Grewal, Hauptman and Serafeim (2017).

First sustainability-linked bond in the industry


An open accountability to our ESG commitments

“Driving purpose, stakeholder value; happens when at center of systems, integrated, targets mandatory & conditional”

“Creating symbiotic innovation ecosystem requires new methods, metrics, and indicators”

Mariana Mazzucato

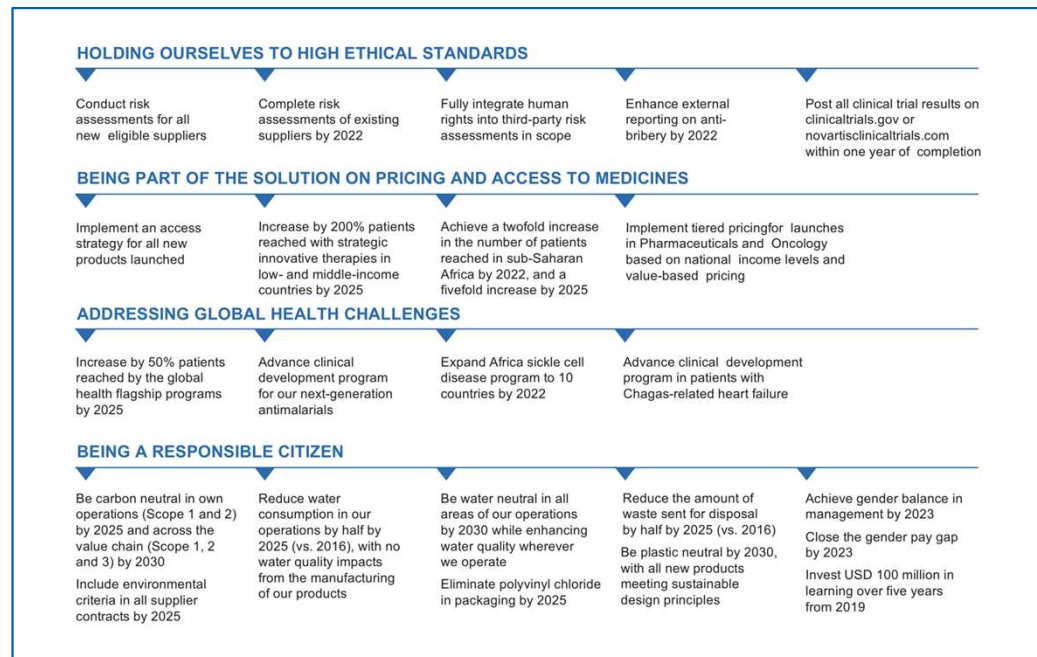
Novartis Sustainability linked bond



Treasury issued (ESG) linked bond

- Materiality Analyses**
bases of Targets
(access/patients reached with medicines)
- Conditional**
Step up
- Mandatory**
Targets included in CEO balanced scorecard
- Symbiotic**
Bond buyers partnership with company

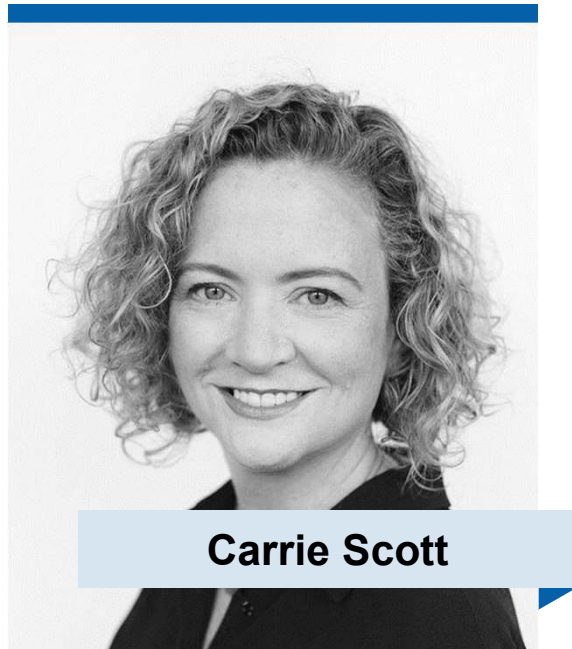
Operationalized Materiality Analyses into strategic pillars and then into management targets



See Novartis in Society
ESG Report 2020



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Carrie Scott



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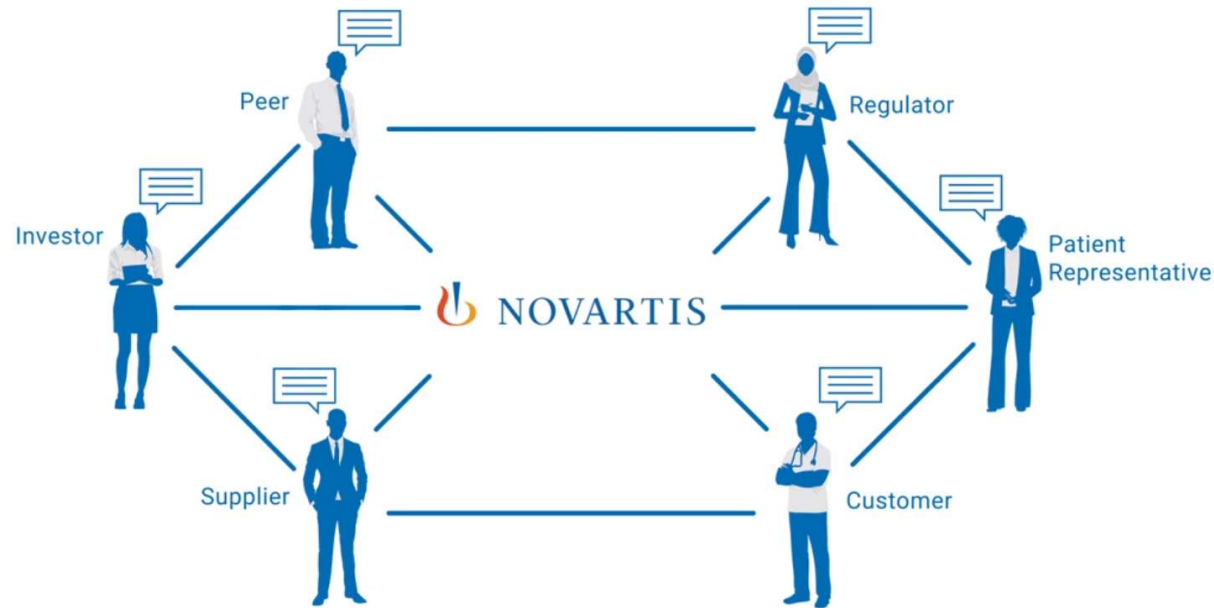
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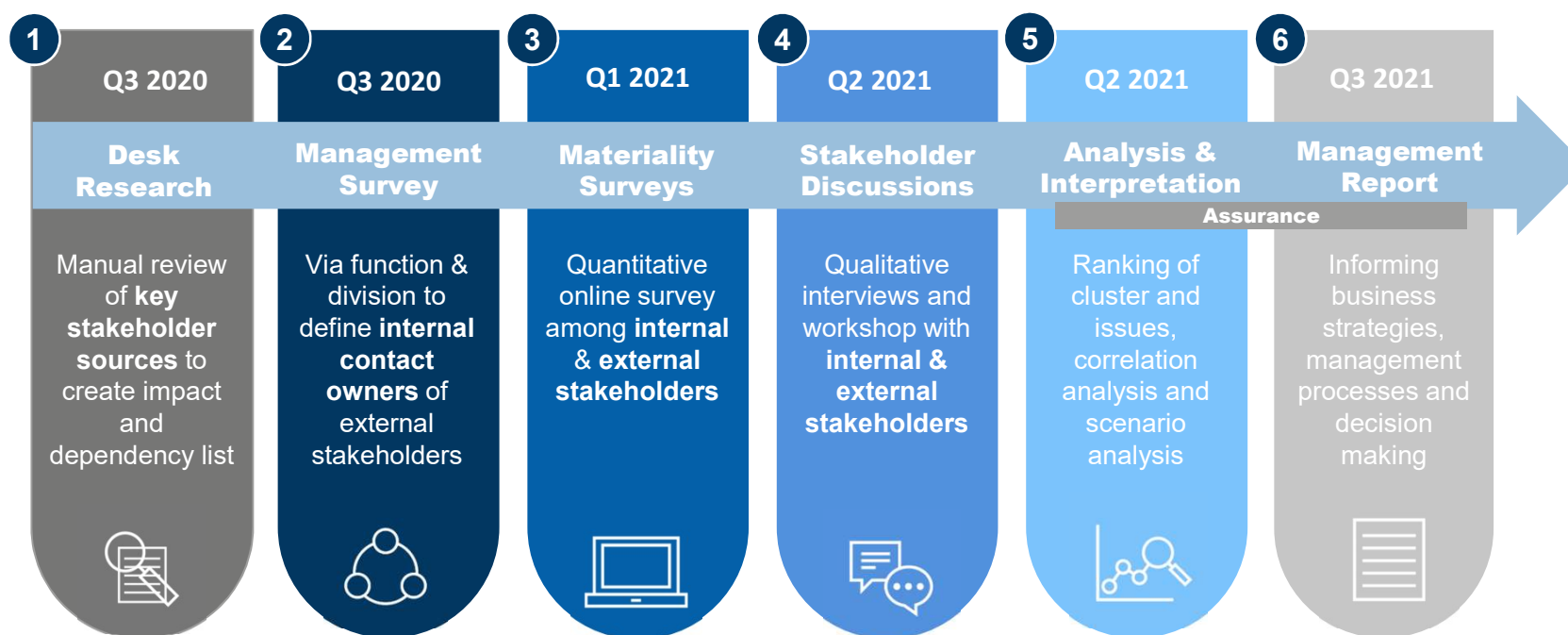
Open Q&A

A systematic stakeholder engagement follows a robust methodology



<https://www.youtube.com/watch?v=lqFLSV6Hnms&feature=youtu.be>

Process Overview



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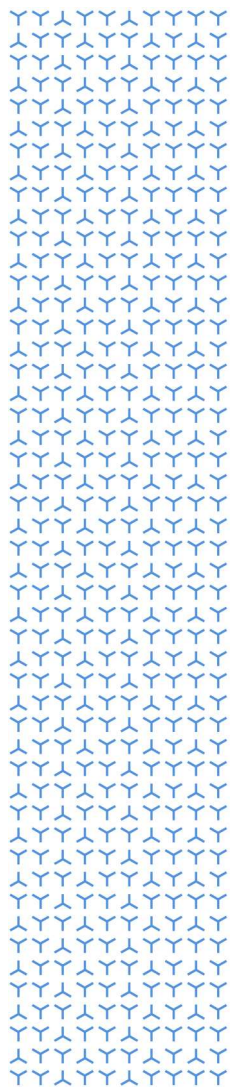
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Thank you for your attention!

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



Backup

Materiality Assessments highlight our impacts from the perspectives of our stakeholders

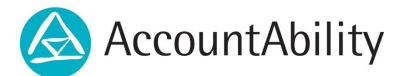
across all dimensions of **E**nvironment, **S**ocial and **G**overnance



Novartis' corporate responsibility “materiality” definition

Social, environmental or economic issues are being considered to be material for Novartis if they have a substantial likelihood to influence the judgment and decisions of key stakeholder groups and a significant impact on Novartis performance and business overall

Key sources



2017 Results at a glance show each topic's relative importance

