



Novartis
ESG Management Office

Materiality Assessment 2021 Webinar

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

Agenda



Jeff Sturchio



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

Moderator & Speakers



Jeff Sturchio
Chairman

Rabin Martin



Paul Penepent
Head Financial Reporting
and Accounting

Novartis



Colin Mayer
Peter Moores Professor of
Management Studies

Oxford University

Feedback from previous MA Webinar

MA Kick-off Webinar - February 8, 2021

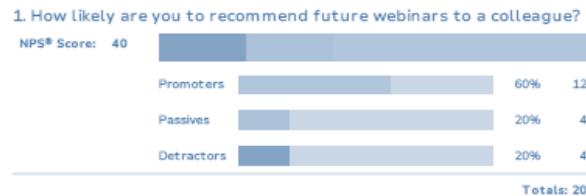
~250 Participants

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?”



3. How satisfied were you with the following aspects of the webinar?

	Very satisfied	Satisfied	Neither	Dissatisfied	Very dissatisfied	Responses
Agenda						
Count	7	7	2	0	0	16
Row %	43.8%	43.8%	12.5%	0.0%	0.0%	
Speakers						
Count	10	5	0	1	0	16
Row %	62.5%	31.3%	0.0%	6.3%	0.0%	
Opportunity to engage						
Count	3	8	4	1	0	16
Row %	18.8%	50.0%	25.0%	6.3%	0.0%	
Ease of connecting to the webinar						
Count	12	3	1	0	0	16
Row %	75.0%	18.8%	6.3%	0.0%	0.0%	
Totals						16
Total Responses						

Agenda



Paul Penepent

Welcome



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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.”

Materiality Assessments highlight our impacts from the perspectives of our stakeholders

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



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



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

From measuring perception to Novartis performance

Materiality Assessments inform Impact Valuation indicators



Understand stakeholder expectations and their perception of Novartis' impact on society and the environment

Qualitative analysis

Benefits / Goals

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



Impact Valuation

Social
Impact

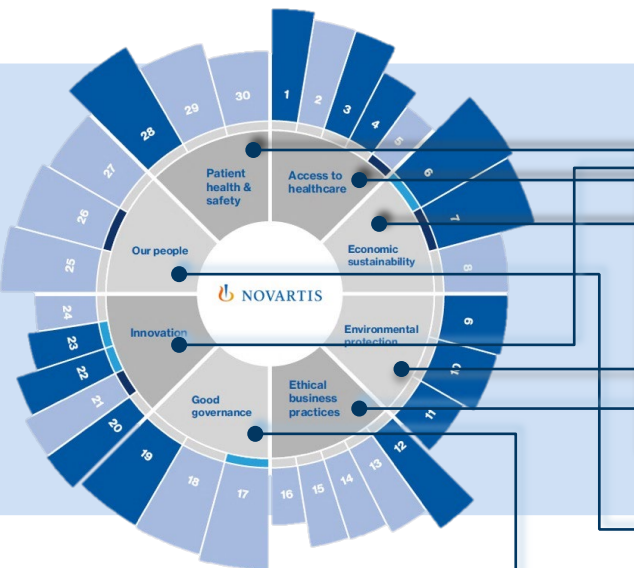
Environmental
impact

Economic
impact

Understand Novartis impact on society and the environment in monetary terms

Quantitative analysis

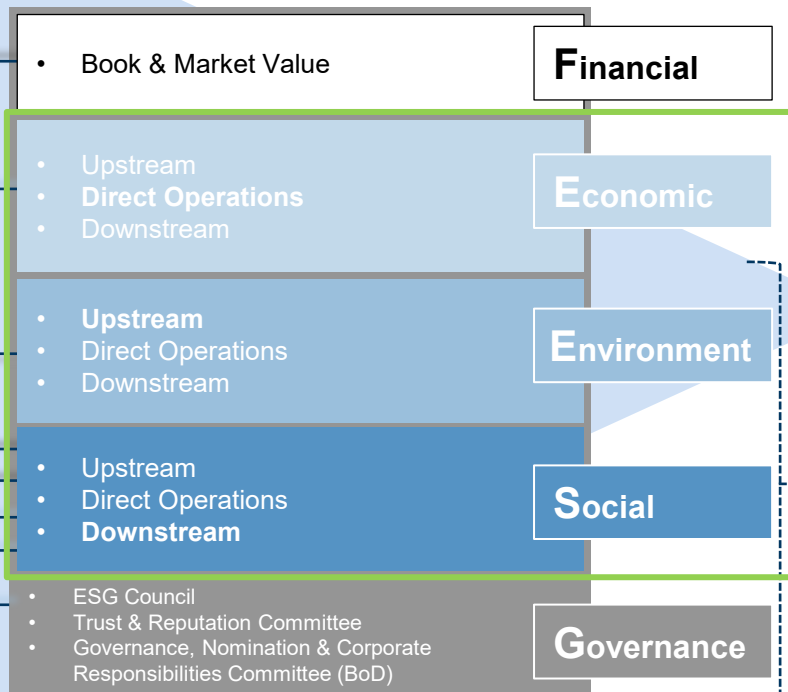
Novartis impact on society by reimagining medicines



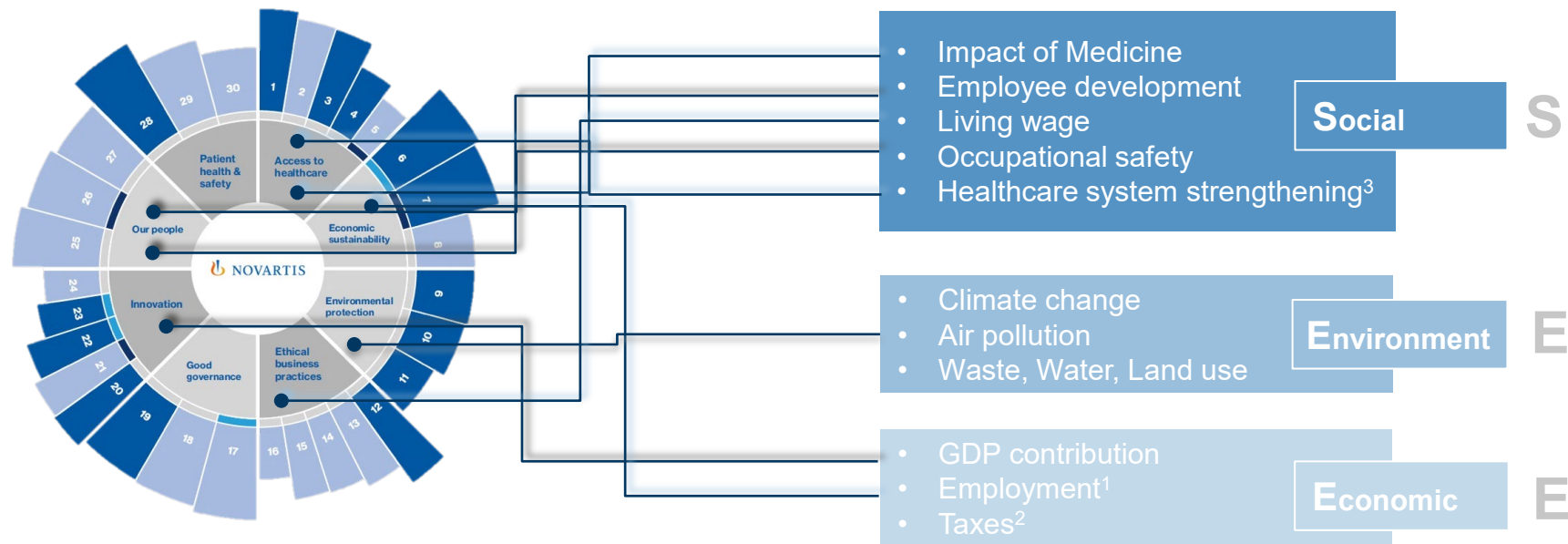
Focus on what's material

1 Country-level only
2 Number of jobs created

Novartis value creation, preservation and destruction



Materiality Assessment 2017 identified 11 Impact Valuation indicators across SEE



(1) in number of Full Time Equivalents (Jobs); (2) additional indicators that could be covered with local input; (3) country-level only

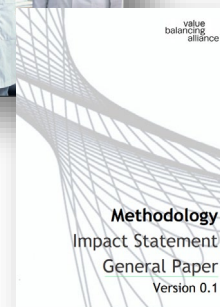
Valuation highlights materiality of Novartis' SEE impacts

Novartis social, environmental and economic impact 2019

Indicator	Results ^{1,2}	Remarks
Social		
Living wages	USD 2.2 bn	Own operations USD 1 bn, indirect USD 1.2 bn
Employee development	USD 1.5 bn	Own operations USD 80 m, indirect USD 697 m, induced USD 775 m
Occupational safety	-USD 1.8 bn	Own operations USD 461 m, indirect USD 767 m, induced USD 561 m
Other human capital impacts		Employee well-being, voluntary turnover, human rights beyond living wages not valued in 2019
Products	USD 219 bn	Based on 54 Innovative Medicines brands and 40 Sandoz products in 132 countries
Environmental		
Climate, energy and air pollution	-USD 3.80 bn	Own operations USD 164 m, indirect USD 1.4 bn, induced USD 2.2 bn
Water and waste	-USD 1.03 bn	Own operations USD 15 m, indirect USD 322 m, induced USD 542 m, downstream USD 152 m
Land use	-USD 1.71 bn	Own operations USD 43 000, indirect USD 266 m, induced USD 1.441 m
Other environmental impacts		Biodiversity not valued in 2019
Economic		
GDP contribution	USD 90.4 bn	Own operations USD 52.1 bn, indirect impacts USD 17.7 bn, induced impacts USD 20.6 bn
Employment	974 000 FTEs	Own operations 104 000 FTEs, indirect 351 000 FTEs, induced 519 000 FTEs
Economic inefficiencies		Not valued in 2019 – no methodology available
Total taxes		Not valued globally in 2019

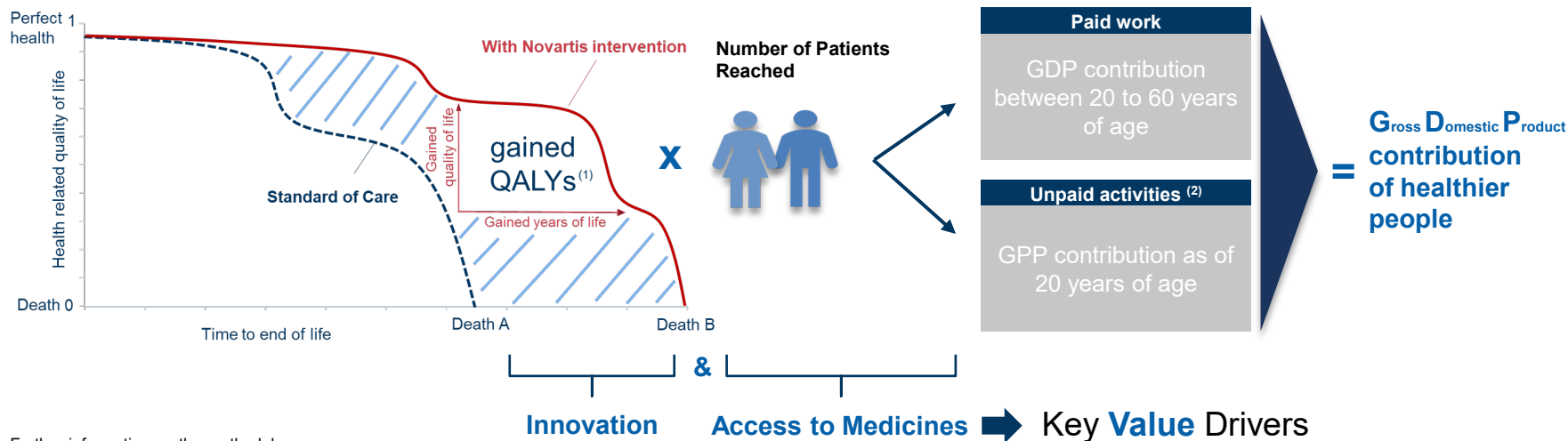
¹ Our methodology is based on leading approaches including WifOR (social impact of medicines, direct GDP contribution, indirect and induced environmental and economic impacts), Valuing Nature (social impact of wages and salaries), VBA (employee development, occupational safety, waste, land use) and Impact 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.wifor.com/uploads/2021/01/Social_Impact_of_Innovative_Medicines.pdf;

https://www.youtube.com/watch?v=CtWOIKiar4U&list=PL6Yfpl0VEjhsIJA0_xaQm2pGi9tv3x5v2&index=5

1) QALYs: Quality Adjusted Life Years; 2) Unpaid work: household production, voluntary work

Agenda



Colin Mayer

Welcome

The Novartis Narrative – where do we stand?



Societal purpose – how to best measure?

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Your Questions

Purpose

Conceptual Logic Model



To produce profitable solutions for problems of people and planet, not profiting from producing problems for either.



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Total impact

**769 million
patients
reached**



**155 countries
where products
are sold**



**ENVIRONMENTAL
IMPACT
-\$7 billion**



**SOCIAL IMPACT
\$219 billion***



**TOTAL MARKET VALUE
CAPITAL OF NOVARTIS
\$214 billion**



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



*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



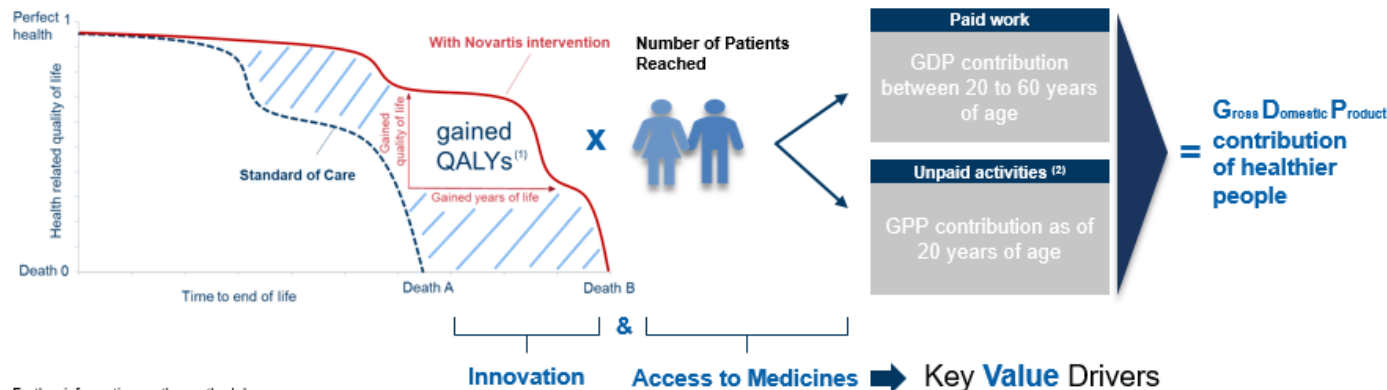
Data -
monitoring
measuring,
motivating



Trust -
commitment to
solving others'
problems

The social impact of medicines a proxy for measuring performance on our purpose

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https://www.youtube.com/watch?v=CtW0IKiar4U&list=PL8YfpI0VEjhsIJA0_xaQm2pGi0tv3x5v2&index=5

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
remedying
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**

Example

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
detriments

Double materiality –
financial and
environmental/
social valuations

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Jeff Sturchio

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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