Cataracts previously impaired Maria Lúcia Martins Moreira’s vision. She had to ask passersby in São Paulo, Brazil to read bus signs for her when collecting her grandson. Cataract surgery, performed using Alcon surgical equipment, has since solved her eyesight problems.
Powerful demographic trends are reshaping the healthcare industry. In 2014 Novartis sharpened its strategy and launched a major transformation to prepare for a more competitive future.

15tn
Total spending on healthcare worldwide is projected to more than double by 2025 (USD)

6→3
Transformation to focus Novartis on three powerhouse divisions

1
Clear Novartis strategy
OUR ENVIRONMENT

Rapid aging in society, growing populations and the steady march of scientific innovation are increasing demand for healthcare around the globe and changing how it is delivered. These trends are likely to have a profound impact on society and on healthcare companies like Novartis, creating both new opportunities and new challenges.

Powerful demographic shifts are driving fundamental changes in society.

Almost a billion more people are expected to inhabit the planet by 2025, with most of the increase in developing countries, according to estimates by the United Nations (UN). The number of people over the age of 50 is projected to increase by about 500 million, as improvements in healthcare and living standards help people live longer. Indeed, the over-50 age group is expected to be the fastest-growing segment of the population and to account for more than 25% of the global population by 2025, according to the UN.

At the same time, aging populations and rising living standards around the globe are contributing to a shift in the types of illnesses people face. Infectious diseases continue to decline while chronic illnesses such as cancer and heart disease are on the rise. Chronic and non-communicable diseases could account for more than 70% of illnesses globally by 2025, up from about 60% in 2010, based on World Health Organization (WHO) projections.

THE IMPACT OF INNOVATION

Medical innovation continues to move forward, driven by advances in cell therapy, better understanding of the underlying causes of disease, and increasing use of digital technologies in healthcare. For instance, advances in understanding the genetic and cellular mechanisms behind diseases have sparked work on a new generation of therapies that researchers believe will more effectively target the cause of the illness. These advances are producing new breakthroughs, such as unlocking the body’s ability to regenerate itself.

Meanwhile, the proliferation of smartphones and network-connected medical devices is streamlining healthcare delivery and improving medical outcomes for patients. This is empowering consumers, who are increasingly well-informed about medical options and more involved in decisions about their own treatment. Today consumers and healthcare professionals can choose from among more than 100,000 healthcare apps available for mobile devices, according to industry estimates. We believe the use of mobile devices to monitor patient conditions and communicate with health providers will continue to expand at a rapid pace.

These factors are contributing to an increase in demand for healthcare worldwide. We expect healthcare spending to more than double by 2025, to over USD 15 trillion. And we think about half of that growth will be in the developing world as more and more people gain access to modern medical care.

Taken together, these developments are positive for patients and society. They continue to fuel longer, healthier lives for people across the globe.

NEW OPPORTUNITIES, NEW CHALLENGES

These broad trends present significant opportunities for healthcare companies in general and for Novartis in particular. With our patented medicines and eye care and generics divisions, we have a leading presence in growing segments of healthcare. We believe our focus on science-based innovation will help us respond to increasing demand for healthcare and deliver better outcomes for patients and healthcare systems.

But these demographic and industry trends are also likely to raise new challenges for society and for companies. The continuing rapid rise in healthcare spending by governments, private insurers and individuals is putting strain on government and household budgets. Governments and health insurers are searching for ways to keep spending in check.

One approach now gaining momentum is for governments and insurers to focus more intensely on getting the most value for money spent on healthcare products and services. Increasingly they are demanding evidence that new drugs and medical devices deliver
Only companies that can consistently deliver true breakthrough medicines and devices – and make them available on a global scale – are likely to thrive and create value over the long term.

Significant health improvements compared to existing treatments, based on the experiences of patients in real-world settings. Those improvements could include prolonging patients’ lives, for instance, or significantly improving their quality of life.

Government agencies, such as the National Institute for Health and Care Excellence in the United Kingdom, are increasingly looking at cost-effectiveness when evaluating whether to recommend new treatments for reimbursement. Advances in digital technology are supporting the trend toward measuring and improving cost-effectiveness. The continuing development of sophisticated databases and mobile measurement devices is expected to facilitate evaluations of how well patients respond to specific medicines and treatments. Indeed, an increasing number of non-healthcare companies such as Google, Apple, IBM and Microsoft are entering the healthcare field in search of opportunities.

SEEKING BREAKTHROUGHS

However, the future is uncertain and these trends may develop at different speeds in different parts of the world, or with varying degrees of intensity. If global economic growth slows significantly and government budgets become further strained, there may be additional pressure in some countries to manage spending on healthcare. While this would likely contribute to continued growth in the use of generic medicines, it also may mean that governments pay closer attention to spending on patented medicines and medical products.

In addition to these new trends, we continue to face the familiar challenge of patent expirations, the effects of which must be continually offset by a steady stream of new products. All of these developments are raising the bar for innovation. In an increasingly demanding and cost-conscious environment, only companies that can consistently deliver true breakthrough medicines and devices – and make them available on a global scale – are likely to thrive and create value over the long term for patients, society and shareholders. That will require significant ongoing investment in research and development.

Faced with increasingly diverse and complex challenges in the years ahead, at Novartis we have refined our strategy and are transforming our business portfolio to make Novartis as fit as possible, with the ability to compete effectively over the next decade and beyond.

We are reinforcing our strength in science in an effort to stay in the lead in innovation. We are exploring creative new ways to augment the benefits patients receive from our products. And we are focusing on growth areas in healthcare – including the developing regions of the world and therapeutic areas such as cancer, where the need for treatment is expanding along with the size of the world’s aging population.

Part-time kindergarten teacher Tamara Ivanovna Yachmentseva had a heart attack five years ago. She now participates in a Novartis-sponsored hypertension program at a hospital in Yaroslavl, Russia.
OUR STRATEGY

We believe Novartis is well prepared for a world with a growing, aging population and continuously evolving healthcare needs. We have a clear mission, focused strategy and strong culture, all of which we expect will support the creation of value over the long term for our company, our shareholders and society.

OUR MISSION

Our mission is to care and cure. We want to discover, develop and successfully market innovative products to prevent and cure diseases, to ease suffering and to enhance the quality of life.

We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest their money, their time and their ideas in our company.

OUR VISION

To be the world’s most respected and successful healthcare company.

OUR STRATEGY

To deliver better outcomes for patients through science-based innovation. We aim to lead in growing areas of healthcare.

Better patient outcomes

Our customers demand products that yield clear health benefits in everyday use, not just in the controlled setting of clinical trials. We focus our resources on developing medicines and devices that can produce positive real-world outcomes for patients and healthcare providers. The benefits can range from improving the cost-effectiveness of high-quality care to prolonging lives. We also are developing services and technologies to augment the benefits of our core products, such as diagnostic tools, smartphone applications to monitor patient health, and programs to help people lead healthier lifestyles.

Science-based innovation

We believe innovation that produces breakthrough medicines and devices will be more important than ever in the healthcare industry in the coming years. We maintain substantial investment in research and development aimed at areas of unmet medical need. Our product pipeline is fed by a distinctive research and
clinical approach that focuses on scientific advances before market potential. It is augmented by collaborations with academic researchers and other companies.

**Lead in growing areas of healthcare**
We aim to develop innovative products in growing areas of healthcare. We focus on patented medicines, generic medicines and eye care – segments where we have the innovation power and global scale necessary to compete effectively. At the same time, we are expanding our presence in the emerging markets of Asia, Africa and Latin America, where there is fast-growing demand for access to high-quality medicines and healthcare.

**Our Values**
Our values define our culture and help us execute the Novartis strategy in line with our mission and vision. They describe the professional behavior we expect from our employees.

**Innovation**
Innovation founded in strong science is at the heart of Novartis and key for our strategy. We nurture a culture of innovation by encouraging people to experiment and take smart risks. The aim is to foster creative thinking that leads to practical solutions to healthcare and business challenges.

**Quality**
Delivering high quality is critical to ensuring a reliable supply of important medicines and earning the trust of our customers and society. Our focus on quality excellence includes upgraded standards, technology and training for our people.

**Collaboration**
We foster teamwork among our employees to efficiently deliver innovative new products to patients and healthcare providers. This leverages the diversity and creativity of our global staff.

**Performance**
People at Novartis are known for their focus on delivering results and they often make extraordinary efforts to achieve their goals. We aim to reinforce that focus on personal and collective achievement while maintaining high ethical standards.

**Courage**
We want our associates to speak out, challenge conventional thinking and stand up for their ideas. We also want them to have the courage to do the right thing in the face of resistance or moral dilemmas. They need the fortitude to take smart risks, even when the chance of failure is high.

**Integrity**
High performance with integrity is fundamental to the way we operate at Novartis and is critical to maintaining the support of society and governments. Our Code of Conduct sets high ethical standards and comprehensive training ensures our associates know how to apply these standards in their work. We also enforce our rules, investigating allegations of wrongdoing and taking decisive corrective action when needed.

*Innovation founded in strong science is at the heart of Novartis*
In 2014, Novartis announced a series of transactions that, once completed, aim to make Novartis more focused, more profitable and able to grow faster. The transactions were the result of a portfolio review begun in 2013. During that review we concluded that in today’s increasingly demanding environment in the healthcare industry, only businesses with innovation power and global scale will thrive over the next decade and beyond. Our Pharmaceuticals, Alcon (eye care) and Sandoz (generics) Divisions have the scale to compete. However, we concluded that our Vaccines, Animal Health and Over-the-Counter (OTC) Divisions, while attractive businesses, lacked the innovation power and commercial scale to compete effectively as independent businesses.

The series of transactions we announced address this and, once concluded, will reduce the number of divisions in our company from six to three. Novartis plans to acquire GlaxoSmithKline’s (GSK) oncology products to strengthen our position as the world’s number two company in cancer treatments. Novartis plans to sell its Vaccines Division, excluding the influenza business, to GSK – creating the world’s largest vaccines business – while it plans to sell its influenza vaccines business to CSL Limited in a separate transaction. Novartis and GSK plan to merge their OTC businesses into a joint venture that would be one of the world’s largest consumer healthcare companies. Novartis will own 36.5% of this joint venture. In January 2015, Novartis also sold its Animal Health business to Eli Lilly, creating the world’s second-largest company in that sector.

Once these transactions are completed, Novartis will become a company with three powerhouse divisions:

— Pharmaceuticals
One of the world’s largest providers of innovative medicines. A strong pipeline, with 135 projects in development. About 43% of sales come from growth products launched since 2009, or with exclusivity in key markets until at least 2018.

— Alcon
#1 eye care company worldwide, with a strong presence in ophthalmic pharmaceuticals, surgical equipment and vision care products, such as contact lenses.

— Sandoz
#2 generic medicines provider globally. #1 in differentiated generics, including medicines that are difficult to develop and manufacture. A leading biosimilars business, with three products on the market and a strong pipeline in clinical development.

We believe these transactions will lead to an increase in our core operating margin. We also believe they could accelerate sales growth because of the addition of GSK’s oncology products, our ability to focus investment on just three divisions, and greater attention from senior management on our most competitive businesses.
In July, we created Novartis Business Services (NBS) to consolidate business support services across Novartis divisions. NBS will help drive efficiency, increase standardization, and simplify processes to deliver services at a better price. NBS aims to harmonize six service domains and related services, including human resources services, real estate management and facility services, procurement, information technology, and financial reporting and accounting operations, among others. NBS currently includes approximately 7,500 associates. It is expected to play a key role in accelerating our productivity gains. Productivity is strategic for Novartis: It supports our continued investment in research and development, and underpins strong financial results.

The Novartis Institutes for BioMedical Research (NIBR), with more than 6,000 scientists and physicians worldwide, is the innovation engine of Novartis. It focuses on discovering new drugs that can change the practice of medicine.

Planned transactions focus Novartis on three leading divisions

**PHARMACEUTICALS**
Develops innovative, patent-protected medicines and is at the forefront of development and commercialization in oncology, primary care and specialty medicines.

**ALCON**
Provides products that enhance quality of life by helping people see better. It offers the world’s widest spectrum of eye care products.

**SANDOZ**
A leader in the growing generics industry, offering more than 1,000 different types of high-quality, affordable medicines across a broad range of therapeutic areas.

**Novartis Institutes for BioMedical Research**
The Novartis Institutes for BioMedical Research (NIBR), with more than 6,000 scientists and physicians worldwide, is the innovation engine of Novartis. It focuses on discovering new drugs that can change the practice of medicine.

**FURTHER DETAIL**
On NIBR and innovation, see page 40