Closer Look

MEMORANDUM

Novartis 3Q15 - Galvus revenues up 12% in constant currencies YOY and 3% sequentially to $281 million; Lucentis sales decline; Alcon division (Google collaborator) to implement growth acceleration plan - October 27, 2015

Executive Highlights

- Galvus (vildagliptin) sales of $281 million grew 12% in constant currencies (dropped 4% as reported) YOY and grew 3% sequentially to $281 million. While this is greater growth than recent quarters, revenues remain low compared to those prior to the German market withdrawal.
- Lucentis (intravitreal ranibizumab) revenues were labeled as a "disappointment," dropping 8% in constant currencies (21% as reported) YOY and 10% sequentially to $485 million. Alcon, the division partnered with Google, announced implementation of a growth acceleration plan.

This morning, Novartis CEO Mr. Joseph Jimenez led the company's 3Q15 financial update. Sales of DPP-4 inhibitor Galvus (vildagliptin), marketed ex-US only, grew 12% in constant currencies (dropped 4% as reported) YOY and grew 3% sequentially to $281 million. Similar to previous updates, the 3Q15 update had almost no mention of Galvus in its call or presentation slides - another sign that the company likely does not plan to be investing additional resources in the drug. While 3Q15 has seen greater growth than recent quarters, overall revenues have been on a slight downward trend ever since the drug's withdrawal from German markets last year. Management did however briefly note that among other products, Galvus had "strong double-digit growth" in 3Q15. The "only real disappointment" for the pharmaceutical division was Lucentis (intravitreal ranibizumab) revenues, which dropped 8% in constant currencies (dropped 21% as reported) YOY and dropped 10% sequentially to $485 million. The company pointed out that Lucentis "continues to face pressures" from the increased use of Roche's Avastin (bevacizumab) and management had less than optimistic commentary on future Lucentis revenues in the call's Q&A - see our 2Q15 report for more on conflicts regarding the off-label use and reimbursement of Avastin. Roche, which receives revenue for Lucentis in the US, offered similarly pessimistic commentary in its 3Q15 update last week.

While the call provided no updates on Novartis' collaboration with Google, management briefly mentioned Alcon's (the Novartis division involved in this partnership) implementation of a growth acceleration plan as a response to the division's slow growth. The company stated it will unveil the plan's details in January. Otherwise, there was no mention of Novartis' establishment of a joint investment company in digital medicines with Qualcomm Ventures or the company's SGLT-1/2 dual inhibitor candidate LIK066 - see our 2Q15 report for more details on the latest we've heard on these fronts. There was also no mention of the company's new Novartis Access program, which was recently launched in Kenya. This will be the first country to utilize Novartis' portfolio of 15 affordable medicines to treat diabetes, cardiovascular disease, respiratory illness, and breast cancer. For more on this innovative work, please see our coverage of the program's introduction and see below for relevant Q&A from the 3Q15 call.

Questions and Answers

Q: Regarding Lucentis, how should we think about growth moving forward?

A: With Lucentis, we've been benefiting historically over the last year as well as from the launch of the new indications in RVO [retinal vein occlusion] and diabetic retinopathy. As that benefit starts to wane and as that patient population on drug gets bigger and we penetrate, you start to see some of the greater weakness we have in AMD [age-related macular degeneration], particularly against Avastin. And at the same time, there is pricing pressure. So I think for the brand going forward, I'll try to give a good number as a guidance - I think flat at best would be the way to look at it. And even more likely, it will be little bit negative.

-- by Melissa An, Emily Regier, and Kelly Close