

NOVARTIS AG
Form 6-K
February 24, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated February 22, 2005

(Commission File No. 1-15024)

Novartis AG

(Name of Registrant)

Lichtstrasse 35

4056 Basel

Switzerland

(Address of Principal Executive Offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F: **Form 40-F:**

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes: No:

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Yes: No:

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes: No:

Enclosures:

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Focus on Medicines:

**Creating A Global Leader
in Generics**

Analyst Conference Call

February 21, 2005

[LOGO]

The following information contains certain **Forward-looking Statements** relating to the transaction and resulting business combination described herein, which can be identified by the use of forward-looking terminology such as **will** or **expect**, or by discussions of strategy, plans, intentions or potential outcomes (including synergies). Such statements include the ability to obtain governmental approvals for the transaction on the proposed terms and schedule; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; social and political conditions such as war, political unrest and terrorism or natural disasters; general economic conditions and normal business uncertainty and competition and its effect on pricing, spending, third-party relationships and revenues. Such statements reflect the current plans, expectations, objectives, intentions or views of management with respect to future events, are based on the current beliefs and expectations of management and are subject to significant risks, uncertainties and assumptions. Management's expectations could be affected by, among other things, competition in general, the general economic environment and other risks such as, but not limited to, those referred to in Novartis AG's Form 20-F on file with the U.S. Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those set forth or implied by the forward-looking statements.

Security holders of Eon Labs Inc. are urged to read the tender offer statement relating to the tender offer, when such document becomes available. The tender offer statement will contain important information. Securityholders will be able to obtain a free copy of the tender offer statement and other filed documents when they become available on the SEC's internet site (<http://www.sec.gov>).

The information presented in this presentation represents management's expectations and intentions as of February 21st, 2005. Novartis expressly disavows any obligation to update the information presented in this program.

Agenda

| | |
|--------------------------|------------|
| Transaction rationale | D. Vasella |
| Creating a global leader | A. Rummelt |
| Financials | R. Breu |

Novartis Purpose Focusing on Patient Needs

A commitment to

Better therapeutic benefit through a continuous flow of innovative, branded pharmaceuticals

Rapid market entry of high quality and best cost generics

Convenient, easily available quality OTC products

Novartis Strategy
Consistently Focusing the Portfolio on Medicines

Novartis net sales in % by
division for the full year
2004

[CHART]

Sales contribution
Hexal & Eon Labs

Novartis net sales in % by
division for the full year
2004E(1)

[CHART]

(1) based on unaudited, preliminary financial consolidated statements 2004

**Generics Market Place
High Demand and Double-Digit Growth**

Generics retail market segment estimates in USD bn(1)

| | CAGR in % 2004-2009E | |
|-------------------|-------------------------|---|
| [CHART] Worldwide | 10.0 | [GRAPHIC] Global CAGR 2004-2009E: 10% US and Western Europe expected to grow fastest |
| Japan | 4.8 | |
| Rest of America | 9.7 | |
| Western Europe | 10.5 | |
| US | 12.6 | |
| Other | 9.3 | |

(1) Biopharmaceuticals excluded, after rebates

Source: Internal estimates Sandoz based on IMS Health at ex-manufacturer prices

Generics Market Offers Significant Opportunities

Total value of US drugs going off-patent per year(1)

[CHART]

(1) Value of patent expiries by 2010 based on 2003 sales in USD m

Source: Global Generic Drug Stocks, Citigroup Smith Barney, September 21 2004

Generics Penetration is Expected to Increase in Key Markets

Generics penetration by value 2004 2009

| Market | Change Q3 2004(1)-2009 (% pts) | Q3 2004(1) (in %) | 2009E (in %) |
|---------------|---|------------------------------|-------------------------|
| Germany | [CHART] | 19.5 | 24.9 |
| France | | 5.6 | 10.3 |
| Italy | | 1.9 | 5.3 |
| Spain | | 4.7 | 7.1 |
| Canada(1) | | 13.7(2) | 16.0 |
| US(2) | | 6.7(2) | 7.7 |

(1) Moving annual total per Q3 2004

(2) MAT Q2 2004

Source: Sandoz estimates

Building a Global Generics Leader

Strong competitive position in relevant markets

First entry and broad product offering

Continuous productivity gains and cost leadership intent

Technological differentiation (difficult to make biopharmaceuticals)

Skilled and engaged team

A Transformational Transaction for Sandoz

[CHART]

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Moving into the Top Rank

**Nine-Month 2004 sales (in USD m)
Excluding branded product sales for Teva, Watson and Mylan**

| | |
|-----------------------|-------|
| Sandoz (pro forma) | 3 631 |
| Teva | 3 105 |
| Sandoz | 2 178 |
| Merck Gx | 1 452 |
| Ivax | 1 328 |
| Ratiopharm | 1 136 |
| Hexal | 1 132 |
| Watson | 947 |
| Alpharma | 925 |
| Barr | 869 |
| Mylan | 779 |
| Eon Labs | 321 |

Source: Quarterly company reports, Ratiopharm based on IMS and internal assumptions

A Compelling Business Portfolio

[CHART]

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Complementary Geographic Contributions

Sandoz
USD 3.0 bn

[CHART]

Hexal(1)
USD 1.6 bn

[CHART]

[CHART]

Eon Labs
USD 0.4 bn

[CHART]

Sandoz
Global annual
sales of
USD 5.1 bn

-
- (1) **2004 estimates for retail sales by region**
 - (2) **Global sales in biopharmaceuticals and anti-infectives**
 - (3) **Includes Eastern Europe, Middle East and Africa**

Leading Positions in Key European Markets

[CHART]

Source: Sandoz Business Intelligence, IMS/MAT Q3/04

Strong Business Logic

Sandoz

Global organization, production and R&D network

World leader in anti-infectives

Vertically integrated

Advanced in biopharmaceuticals

Hexal

Best in class registration and development

Market leader in Germany and strong in other key markets

Strong marketing and licensing capabilities

Strong know-how in:

Patches & implants

Advanced formulations

Biopharmaceutical formulations

Eon Labs

One of the most effective product development teams in US

Leading market share for most of its products

Proven track record of ANDA filings

A Transaction that Meets Strategic Objectives

Highly complementary (geography, portfolio and technologies)

Top positions in key markets, particularly in US and in Germany

Significantly broadened product portfolio

One of the largest pipelines in the industry covering most generic opportunities

Best-in-class development teams with proven track record of being first to market

Leadership in high-value delivery technologies and biopharmaceuticals

Scale in manufacturing and infrastructure in low-cost countries

Entry into key emerging markets: Japan and China

Transaction Synergies

Transformational transaction

Sales synergies through broader geographic coverage of complementary product line

Potential sales synergies between generics and branded, innovative pharmaceuticals with large customers, e.g. governments, pharmacy-chains

Production synergies between generics and branded pharmaceuticals (e.g. biopharmaceuticals)

Cost synergies of USD 200 m p.a. within three years

Experienced Leadership Team in Place(1)

[CHART]

* Bernhard Hampl, currently CEO of Eon Labs, has been designated as new head of the US operations of Sandoz and will report to Thomas Strüngmann.

(1) The chart reflects the nominated leadership team, effective as of closing of transaction. Also this chart indicates the functional reporting relationship of the leadership team to Andreas Rummelt.

The members actual reporting is within the companies which employ them.

Agenda

Transaction rationale D. Vasella

Creating a global leader A. Rummelt

Financials R. Breu

Key Success Factors in the Generics Market

Strong market position in most key markets

First to the market and last in market

Broad product portfolio including difficult-to-make generics

Biopharmaceuticals market opportunities

Cost competitiveness (production, sourcing and vertical integration)

Quick and creative response to changing market conditions

Sandoz A Powerhouse in the Making

Strongest brand names in Generics coming together

1 worldwide

1 in Europe

1 in Germany

2 in US

1 in antibiotics

A pioneer in biopharmaceuticals

Strengthened position in injectables

Strong Presence Across the Globe

[GRAPHIC]

(1) Based on in-market sales (includes also countries without local subsidiaries)

Broad Product Portfolio

Top marketed brands

[CHART]

Centers of Excellence in Development

[GRAPHIC]

(1) API (Active Pharmaceutical Ingredients),

(2) Antibiotics,

(3) Oncology

Strong Pipeline
Major Launches in 2005 in the US and Germany

Number of planned launches 2005

[CHART]

| | | Brand sales(1) 2003, in USD |
|------------------|----|--|
| Sandoz (US, Ger) | 33 | 8.5 bn |
| Hexal (Ger) | 24 | 0.8 bn |
| Eon Labs (US) | 13 | 6.5 bn |

70 planned launches in 2005

(1) Source: IMS for brand sales 2003

Powerful Position in Biopharmaceuticals

Leading position in biopharmaceuticals

Combined company with more than 10 year track record in developing and producing biopharmaceutical products

Development centers in Kundl, Schafteuau, Ljubljana and Munich

Many advanced development programs

Highly complementary geographic and portfolio split

Sandoz provides manufacturing expertise in biopharmaceutical API and finished dosage forms

Hexal offers a highly complementary network of partner companies

Global Production Network and Strong Technology Centers of Excellence

[GRAPHIC]

Positioned for Dynamic Growth

Market presence

No. 1 player in Germany, No. 2 player in US
No. 1 or 2 position in 7 key European markets
Stronger foothold in Asia and Latin America

Technologies

Strengthened technology base in development and production
Extended capabilities in Biopharmaceuticals

Costs

Strengthen capabilities in vertical integration to secure future cost competitiveness
Scale in manufacturing and infrastructure in low cost regions

Pipeline

70 planned launches in 2005 (US and Germany)
More than 250 development projects

Integration Strategy

Significant work already done

Decision on top positions taken

Best of all three people concept

Excellent talent in all three companies

Best skills and abilities to match jobs

Integration of a global manufacturing network

Centers of expertise in development

Local sales and marketing

Entrepreneurial spirit and speed

Significant Synergies To be Captured Short-, Mid- and Long-Term

Short term

Reduced need for licensing in

Reduction of overlapping development projects

Capture early entry opportunities as preferred partner

Mid term

Consolidation of operations and distribution in M&S

Savings in shared services

Consolidation of development activities

Increased negotiation power for sourcing

Long term

Consolidation of global production network

COGS reduction due to vertical integration

Integration Process

Announcement

Targets / Governance

Define integration governance / structure

Decide key staffing

Set synergy targets

Close

Integration planning

Create task forces and integration office

Develop master plan

Make and finalize recommendations

Confirm synergies

Implementation

Kick-off integration

Identify and capture quick wins

Establish budget, financial and non-financial targets

Integrate development and production network

Harmonize pipelines

Conclusions

Excellent strategic rationale

Highly complementary assets

Experienced management team

Industry leading development platform

Well-positioned for future growth

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Transaction Terms

Two separate agreements to acquire in cash for EUR 5.65 bn 100% of Hexal and 67.7%(1) of Eon Labs

This will be entirely financed by available cash reserves and by the ongoing generation of free cash flow

The acquired companies will be fully consolidated at closing

Closing is expected in H2 2005

60 m share block purchase subject to closing of Hexal deal

Subject to customary regulatory approvals

(1) **60 m shares held by the Strüngmann family, remaining shares held by Hexal**

Transaction Terms for Eon Labs Minority Shareholders

Tender offer to acquire the 31.9 m remaining fully diluted shares at USD 31.00 per share representing a total value of USD 1.0 bn

A premium of 25 % over the unaffected price and a premium of 9% to the price paid for controlling block

Transaction unanimously recommended by Board of Eon Labs

Financed from Group cash reserves

Closing expected in H2 2005

Subject to customary US regulatory approvals

Subject to acquisition of the 60 m share block purchase

All Three Companies Have a History of Above Market Growth

CAGR 1997-2004(1)

[CHART]

(1) Growth in USD, Source: Sandoz analysis for global market, internal data for companies

Overview of Key Financials(1)

| 2004 pro forma figures in USD m | Hexal(1) | Eon Labs(1) | Sandoz | Sandoz (combined) |
|------------------------------------|----------------|--------------|-----------------|----------------------|
| Sales | 1 605 | 431 | 3 045 | 5 081 |
| Gross profit | 945(2) | 240 | 1 422 | 2 607 |
| <i>in percent of sales</i> | <i>58.9%</i> | <i>55.8%</i> | <i>46.7%</i> | <i>51.3%</i> |
| R&D | 156 | 22 | 286 | 463 |
| <i>in percent of sales</i> | <i>9.7%</i> | <i>5.0%</i> | <i>9.4%</i> | <i>9.1%</i> |
| SG&A | 545(2) | 46 | 710 | 1 301 |
| <i>in percent of sales</i> | <i>33.9%</i> | <i>10.7%</i> | <i>23.3%</i> | <i>25.0%</i> |
| Operating income | 244(3) | 173 | 235 | 652 |
| <i>in percent of sales</i> | <i>15.2%</i> | <i>40.0%</i> | <i>7.7%</i> | <i>12.8%</i> |
| Employees | ~ 7 000 | ~ 500 | ~ 13 000 | >20 000 |

(1) Based on unaudited, preliminary consolidated financial statements 2004

(2) Normalized for one-time effects

(3) Excl. amortisation of intangibles

USD 200 m in Annual Cost Synergies to be Realized Within 3-Year Time Period

Realized cost synergies by year in %

[CHART]

Financial Conclusions

Valuation underpinned by growth prospects and synergies

13.9 x EBIT and 11.7 x EBITDA (after synergies)

Accretive to reported earnings in 2006, even including all acquisition related expenses and amortisation

Financing out of Group cash reserves and strong free cash flow generation

No change in AAA rating expected

Continuation of share buy-back policy up to 50% of Free Cash Flow generated and not reserved for acquisitions is available for share buy backs

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Novartis AG

Date: February 22, 2005

By: /s/ MALCOLM B. CHEETHAM
Name: Malcolm B. Cheetham
Title: Head Group Financial
Reporting and Accounting
