

7 April 2008

Novartis	
Hold	CHF 52.4
(Previously Add)	
Target Price:	Under Review (73.2) (73.0)
Reuters Code:	NOVN.VX
Bloomberg Ticker:	NOVN VX
EPS adj.	
Dec 2006A	\$2.89
Dec 2007E	\$2.80
Dec 2008E	\$3.66
Dec 2009E	\$4.28
WestLB Research estimates	
Market Cap:	CHF 122,721m

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Novartis

Alcon takeover seems reasonable, but also pricy

- Novartis announced today that it will acquire the US eye care company Alcon on two steps for a total consideration of \$39bn. We believe that Alcon is set to substantially boost Novartis' position in eye market with a potential combination with CIBA Vision, but 50% of Alcon is pure add-on operation (surgical equipment&devices) and any potential integration and synergy may not be executable before 2010/11. Given these concerns and the relatively high price despite the high growth profile of Alcon, we have opted to lower our recommendation to hold. A conference call will take place at 14:00 CET.
- The deal. Novartis agreed to acquire initially a 25% stake in the US eye care company Alcon for a total consideration of \$11bn from Nestle, and has furthermore been granted the right to take another 52% stake in 2010/11 for a total payment of \$28bn.
- The rationale. The takeover seems to be reasonable in some areas like the consumer care (OTC) activities of Alcon (14% of sales) as well as the Pharmaceuticals part of Alcon (41% of sales), where the activities could be at some point combined with Novartis CIBA Vision operations, but the surgical equipment and devices business of the US company (45% sales) seems to be pure add-on, hence unlikely to allow for any substantial synergies.
- The price. The takeover price amounts to \$143 per share for the initial tranche and \$181 for the remaining 52% stake, implying a weighted price of \$169 per share which puts Alcon 8x 2008 sales and 21x EBITDA, a very rich price in our view despite the double-digit growth projected for the company.
- Main issues in our view. Apart from the relatively high price our main concern relates to the fact that a) any integration and therefore synergy realisation may not be executable before the 2010/11E timeframe b) the business overlap seems only relate to 50% of the Alcon portfolio c) the transaction does not address the issues NOVNI has in its pharmaceuticals operations

Novartis forecasts and multiples

Year End	Sales	EBT	EPS adj.	P/E	EV/EBITDA	Yield
Dec	(\$m)	(\$m)	(\$)	(x)	(x)	(%)
2006A	34,393	7,994	2.89	18.1	12.9	2.1
2007E	38,072	7,487	2.80	18.6	13.2	2.1
2008E	39,909	9,735	3.66	14.3	10.6	3.3
2009E	42,764	11,067	4.28	12.2	9.2	3.9
Net cash/Share ¹		-\$2.4				
NAV/Share		\$18.9				

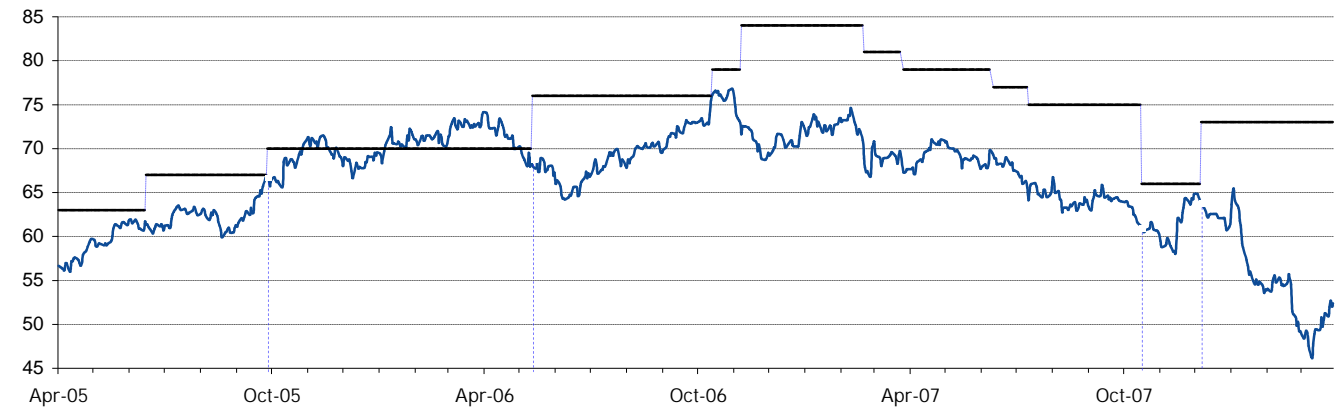
¹ Cash/debt at end of current year

Source Novartis, WestLB Research estimates

Andreas Theisen

07 April 2008

Novartis NOVN.VX



Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
07-Apr-08	52.24	Hold	23-Oct-07	52.10	Hold	04-Oct-05	51.20	Hold
13-Dec-07	55.86	Add	19-May-06	55.67	Add			

Coverage History Rating at 08/04/2005 was Add

Source FactSet/JCF, WestLB Research

Change of analyst as of 21 Apr 2006

Prices adjusted for capital changes on 07 May 2001 and 06 November 2000.

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Hold	70	28	Hold	7	14
Sell/Reduce	14	6	Sell/Reduce	3	6

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