Novartis AG

Novartis AG - Q1 2025 Earnings Call

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Event Participants

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Operator Operator

Good morning and good afternoon, and welcome to the Novartis Q1 2025 Results Release Conference Call and Live Webcast. [Operator Instructions] The conference is being recorded. [Operator Instructions] A recording of the conference call including the Q&A session will be available on our website shortly after the call ends. With that, I would like to hand over to Ms. Sloan Simpson, Head of Investor Relations.

Please go ahead, Madam.

Sloan Simpson Executive

Thank you, Heidi. Good morning and good afternoon, everyone, and welcome to our Q1 2025 earnings call. The information presented today contains forward-looking statements that involve known and unknown risks, uncertainties and other factors. These may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. For a description of some of these factors, please refer to the company's Form 20-F and its most recent quarterly results on Form 6-K that respectively were filed with and furnished to the U.S.

Securities and Exchange Commission. [Operator Instructions] And with that, I will hand over to Vas.

Vasant Narasimhan Executive

Thank you, Sloan, and thanks, everyone, for joining today's conference call. If we could move forward to Slide 4. Novartis delivered double-digit sales growth in the quarter, really strong start to the year. We had robust margin expansion. And that all supported an upgrade to our full year 2025 guidance, which Harry will go through in more detail.

Sales were up 15% core operating income up 27%. Our core margin reached 42.1%, up 400 basis points. And we also had important innovation highlights in the quarter, some of which I'll go through in detail in a moment. Pluvicto, Vanrafia and Fabhalta all achieved approvals in their relevant indications. We had a global submission for remibrutinib in CSU and our OAV101 IT gene therapy for patients with SMA older than 2 years of age had a positive readout, and we're in process now of filing that globally.

So taken together, a very strong start to the year. And going into a little bit more detail, starting on Slide 5.

We had strong growth momentum from all of our priority brands in the quarter. And I think that really demonstrates the replacement power, which gives us confidence in our midterm guide of 5%-plus and also our confidence that we have the levers that we need to continue to grow into the 2030s. You can see strong growth of 32% constant currency, excluding Entresto, the portfolio was up 38%. And I wanted to go through on each of these key brands, some of the key highlights.

So moving to Slide 6. So Kisqali grew 56% in constant currency, and that reflects our positioning globally, reflects our positioning as the preferred CDK4/6 inhibitor in both metastatic and early breast cancer. You can see that the growth was strong, both outside of the United States and in the U.S. I'll go through that in a bit more detail in a moment. In the central panel, you can see that our total brand NBRx now is market-leading, trending very strongly, really powered by the early breast cancer launch, which is leading to strong performance both in early breast cancer and metastatic breast cancer.

Now turning to each region. In the U.S., we were up 87% in the quarter. We have leading share in metastatic NBRx now at 48%. And that's -- we're also now tied for TRx leadership, really demonstrating now those NBRxs are impacting our TRx growth. In early breast cancer, our NBRx grew 65%, and we've reached 60% NBRx share.

And what's important to note here is 56% of that volume we estimate is from the population that's exclusive to the Kisqali label.

Now outside of the U.S., we're still in the early stages of the early breast cancer launch. We were up 24% in constant currency. We're the metastatic breast cancer leader in 10 of our top countries with 46% share. Our NBRx share at 35% TRx share. And our early breast cancer indication is now improved in the EU plus 9 other countries.

Now I think you all will know, we have strong guideline support with Category 1 NCCN guidelines, and we've also achieved very strong guidelines as well with ESMO. So overall, we're really pleased with the performance of Kisqali as it continues to grow towards our peak sales guidance of $8 billion-plus.

Now moving to Slide 7. Kesimpta grew 43% in constant currency. It's outpacing both the B-cell and MS market. Our overall sales were robust, both in the U.S. and ex U.S.

markets. In the U.S., 41% TRx growth. We're outpacing the B-cell and MS markets, as I mentioned, in the U.S. Outside of the U.S., we have leading NBRx share in 8 out of 10 major markets, really reflecting the ease of use of the medicine. We continue to generate further

long-term data to support the profile of Kesimpta.

7-year data was presented at AAN, which reinforced the benefit risk profile of the medicine. And as a reminder, we continue to believe the profile of Kesimpta with convenient at-home self-administration makes it the preferred medicine for patients who don't want to have IV administration at a doctor's office. So I think that really positions us well outside the U.S. and in a large segment inside the U.S. where there continues to be robust growth of B-cell therapies, which we plan to participate in.

Now moving to Slide 8. Pluvicto grew 21% in quarter 1. And most importantly, for us, we laid the foundation -- continue to lay the foundation for our pre-taxane launch with the PSMAfore population. When you look at some of the dynamics for Pluvicto, first, with the post-taxane setting, we have now leading NBRx share in the first-line VISION population setting, so post-taxane at 40%. And this, I think, really demonstrates that we are getting strongly established in this post-taxane population.

Now when you look at some of the momentum we're seeing, we're seeing that we are gaining traction in the community setting with 4,000 TRxs, that's 11% up versus prior year. We also see overall, I'd say, encouraging signs that more and more community practices want to take on radioligand therapy.

Outside of the U.S., we see continuous growth driven primarily by European markets, which are increasingly adopting RLT and also with improved pricing that we're seeing in key markets and now with the expansion in over 20-plus countries. And most importantly, for this brand, we had the March FDA approval of the PSMAfore population, the pre-taxane population. As a reminder, Pluvicto doubled the median PFS and had a very favorable safety profile versus a daily oral ARPI. The final OS analysis for the medicine when unadjusted for crossover was 0.91, but importantly, crossover adjusted was 0.59, and that's been very well received in the community. And we already have NCCN guideline support for the use of Pluvicto in this setting.

We're also continuing to advance our Pluvicto life cycle management efforts. The PSMAddition readout is on track for the second half of 2025. And as a reminder, the PSMAddition incidence is similar to that we see in the pre-taxane setting.

So moving to Slide 9, just a little bit more on our preparations for the PSMAfore launch in the U.S. We have a strong foundation in place, 620 sites opened, large population now that we've expanded into, a prefilled syringe that's enabling broad adoption is now nationally launched. 50% of PSMAfore patients are treated by HCPs who have already prescribed in the VISION population. And we're also continuing to increase and have increased our promotional spend. We've doubled our field force and are maintaining a very robust direct-to-consumer advertising campaign.

Now in terms of the launch dynamics we expect to see, it would take about 4 to 7 weeks of lead time for new patients to be treated for them to get the necessary scans as well as the necessary laboratory tests to be able to receive the medicine. We expect initial uptake to be driven by depth in our established accounts in the VISION setting. And also, we expect to, over time, expand our breadth in the community and urology settings. So -- and as I

mentioned, we also have the favorable NCCN guidelines. So I think set up well.

This will really be a second half story. And really in the next few months, we want to ensure we start to build the momentum that will allow this brand now to break through past the $2 billion mark and then forward to the $4 billion-plus (sic) [$5 billion-plus] guidance that we've given. Now moving to Slide 10. Leqvio grew 72% in the quarter, on track to achieve blockbuster status. We have the steady march upwards that we're very pleased with.

We're seeing solid growth both in the U.S. and ex U.S. We see a steady climb in monthly TRxs. It's 70% up versus prior year, and that's growth across all of the key channels we're targeting. We're also seeing increasing depth in the priority systems that we're trying to establish the medicine.

That's up 51% versus prior year. We've also evolved our field operating model to better serve physicians and systems that would like to use Leqvio to manage their patients to goal for cholesterol lowering. Outside of the U.S., we're seeing robust growth across our key markets, 74% growth. I would want to highlight the solid pricing and access we've secured in Japan as well as the continued out-of-pocket expansion we're seeing in China, which I think bodes well for the future of this medicine in Asia. We know there's a significant runway ahead of us.

Only about 2% of secondary prevention patients receive any advanced lipid-lowering therapy. And there's increasing guideline recommendations that recommend these patients receive advanced lipid-lowering therapy. So a big market opportunity and step by step, we're on track to fully realize the potential of this medicine. Now moving to Slide 11. Now Scemblix, as you know, has established itself as a leader in the third-line plus setting.

And now our focus has switched to really establishing the medicine in earlier lines given our recent approvals. Now in the third-line setting, we are up at 54% NBRx share. We're 3x higher than the next competitor, reflecting the excellent profile of Scemblix. Outside of the U.S. in key markets, 68% in Japan and 47% in Germany for NBRx share and an overall share of 47%.

So I think we're really well positioned now in the third-line setting. So our focus has shifted to driving our performance in earlier lines. We see continued momentum in the U.S. We have a very strong start building off the NCCN guidelines for our Category 1 preferred recommendation. We have 54% of commercial lives covered now to label.

We're seeing expanding prescriber breadth 16% versus prior quarter and a strong uptake in second line, where we've already achieved 40% share and steady progress as well in first line, where we have 10% NBRx share. And as a reminder, we are, of course, working against generic imatinib and the generic second-generation TKIs, but we feel confident that step-by-step, we'll continue to be able to take significant share from those medicines. Our early line approvals are on track globally. We have already approval in 10 countries and our submission is now completed in Europe. So moving to Slide 12 and turning to Cosentyx.

Cosentyx grew 18% on the quarter. It was driven by both our launches in HS and IV, but also importantly, very good performance in our core indications. In the U.S., we saw strong demand growth, 29%, more than offsetting the expected impact of the Part D redesign. Our NBRx volume is outperforming the market in our core indications, 15% versus the market in psoriasis, 12% in the spondyloarthropathies. And we also have continued NBRx leadership in

HS at 53%, even in the face of a new competitor entry.

Now when you look at the IV formulation, we have 1,900 accounts using the medicine. That's a 13% growth. I think it's still early stages for the IV launch, but we're confident that step-by-step now that we have the relevant reimbursement and support in place that the IV launch can also accelerate over the years to come. Outside the U.S., we delivered 15% volume growth, mainly in the core indications. We're the leading originator biologic now in Europe and China.

And we've also achieved now HS reimbursement across our key markets. So taken together, we're confident in continued growth. We are on track to get the Phase III readouts in both GCA and PMR, and we're also well prepared to launch in those indications when and if approved.

Now moving to Slide 13. And now turning to Entresto, which continues to have strong performance at 22% growth. You can see here on the quarter, reaching over $2.2 billion in global sales. We expect continued growth in the U.S. up until LOE, and we continue to guide to a mid-2025 LOE, but we can get into that in more detail on the call.

But in terms of outside the U.S., we have a very strong guideline position. We have balanced geographic sales with 50% of our sales outside of the U.S. We expect RDP protection in Europe to November 2026. And also, of course, we'll continue to pursue other avenues to fully protect the medicine in Europe. June 2030 in Japan with possible additional protections as well.

And I would say that the hypertension indication is performing extremely well in China and Japan and the possibility for that to drive our growth towards -- through the end of the decade is something we're continuing to remain focused on.

Now moving to Slide 14. I did want to say a word about our renal portfolio. As you know, we've been building out a strong renal portfolio around the globe. We have the ongoing launch now of Fabhalta and the recent approval of Vanrafia. When you look at Fabhalta, or IgAN, we've already seen 100% volume growth and 60% increase in writers versus the prior quarter.

I think that reflects the excitement around the impact the medicine could have for these patients. We have over 90% of patients remaining on treatment out at 5 months. We have 68% commercial coverage to label. And in C3G, while we're only improved in March, we already see positive signs over 2,000 physicians are REMS certified, and that's applicable across both indications. Now Vanrafia, it was approved by FDA in April, a once-a-day nonsteroidal oral treatment.

What's exciting about this medicine is on -- from an efficacy standpoint, it can be seamlessly added on to existing RAS inhibitors that a patient may be on without any discontinuation needed. But also importantly, there was no REMS for the label or for hepatotoxicity or pregnancy. So a nice clean label as well, which was the business case for this medicine. So we really have now a safe, effective oral medicine to be given for the management of the endothelium in the kidney with this medicine. So overall, we're driving strong synergies across this portfolio, and our aspiration will be to continue to build out the strength of our renal pipeline to really ensure we can establish ourselves as a long-term renal leader.

Now moving to Slide 15. I did want to say a word about the OAV101 IT gene therapy readout that we had in the quarter. So looking at the left-hand part of the slide, you can see the primary endpoint was achieved in patients 2 to 18 years of age. But I wanted to focus in on the patients 5 to 18 years of age, particularly given that Zolgensma has been in the market for some period of time. The treatment effect versus placebo of 2.45 is really very strong and I think differentiating versus the competition and positions us well, we believe, to get both hopefully the approval and ultimately, payer support for the use of this onetime therapy in patients 5 to 18 years of age.

And so we're excited about the STEER & STRENGTH studies, the overall favorable safety profiles we've been able to deliver with the medicine. And as I mentioned, we're on track for global regulatory submissions over the course of the first half of 2025. So moving to the next slide. Also from a clinical data standpoint, we did have long-term data on remibrutinib in CSU, which we think further supports the differentiated profile of the medicine. Strong efficacy was maintained out to 52 weeks, even as the placebo group crossed over on to active 25 milligrams BID.

You can see that we have meaningful improvements in symptom control across all measures. But I think really importantly, that symptom control starts as early as week 1 in a highly symptomatic disease where itch can lead to disruption and quality of life and quality of sleep. Patients want something that will hopefully impact their disease very soon after initiating a therapy. We also had a very favorable safety profile in the data set, including balanced LFTs. I can say that in our mid-cycle review, we did not receive any questions from FDA with respect to the liver profile of the medicine.

So I think in CSU, that bodes well for the profile of remibrutinib. We continue to achieve our key milestones. We had the New England Journal of Medicine publication. We've completed submissions now in the U.S., EU and China. We've initiated a head-to-head study versus dupilumab with a readout expected in 2027, where we'll focus very much on the speed of onset, of action of remibrutinib.

And we continue to advance a full range of indications. Our Phase III in chronic inducible urticaria is ongoing and targeted for a 2026 submission. We've initiated our HS Phase III study. We also have Phase IIab studies ongoing for food allergy with a readout expected in the second half of this year. And as you all know, at a higher dose, we also are looking at in neuroscience at relapsing MS as well as myasthenia gravis.

So the next milestone for us will be an FDA decision on CSU in the second half of the year.

So moving to Slide 17. Taken all together, are on track for our innovation milestones for the year. We will continue to keep you updated as we continue to get readouts. But importantly, as well, the progress on our early and mid-stage pipeline, which we believe will generate the replacement power to enable us to grow strongly into the next decade. So with that, I'll hand it over to Harry.

Harry Kirsch Executive

Yes. Thank you, Vas. Good morning, good afternoon, everybody. I will now talk you through our financials for the first quarter which reflect a very strong start to the year. As always, my

comments refer to growth rates in constant currencies unless otherwise noted.

So starting on Page #19. Net sales grew 15% in quarter 1 versus prior year and core operating income grew 27%. Our core margin was 42%, reflecting a 400 basis points improvement driven by the excellent sales growth and good cost management. Core earnings per share was $2.28, up 31% and free cash flow was $3.4 billion.

Now just to note, gross to net favorability, mainly in the U.S. added about 2 percent points to growth in quarter 1 from gross to net true-ups based on invoices related to prior quarters in 2024. So the underlying growth in quarter 1 was still a very strong 13%. On the next slide, just a focus -- short focus on free cash flow, which was up 66% in U.S. dollars.

And this is, of course, a continued area of focus for us. Our very strong ability to turn excellent core operating income growth into great free cash flow provides, of course, ample capacity to reinvest in the business, pursue bolt-on deals and return capital to shareholders via growing dividends and share buybacks. Speaking of capital allocation, next slide, please. Yes, we remain committed to our shareholder-friendly capital allocation strategy, which optimizes both investing in the business and returning capital to shareholders. So we continue to invest in R&D and CapEx and pursue, of course, also value-creating bolt-on M&A and BD&L deals.

For example, we recently announced a 5-year $23 billion investment into our U.S.-based manufacturing and R&D footprint. And we also closed the acquisition of Anthos Therapeutics in April. In terms of returning capital to shareholders, we paid $7.8 billion in dividends in March and April of this year and continued our up to $15 billion share buyback in quarter 1, which has approximately $2.7 billion left to be executed over the next months. Moving to Slide 22. So our continued strong business momentum, combined with the gross to net favorability mainly in U.S., allowed us to raise our full year guidance to the upper end of the prior provided range for both top and bottom line.

So we now expect sales to grow high single digit, up from mid- to high single digit, and we expect core operating income to grow low double digit, up from high single to low double digit. Embedded in our guidance is the continued financial planning assumption that Tasigna, Promacta and Entresto would have U.S. generic entries occurring mid of this year. And to complete our full year guidance, please note that we continue to expect core net financial expenses to be around $1 billion and our core tax rate to be in the range of 16% to 16.5%. So no change versus what we said end of January.

Now to my final slide already, where we have outlined details regarding the expected currency impact. If late April rates would prevail for the remainder of 2025, we would expect the full year currency impact to be neutral on net sales and a negative 2 percentage points on core operating income. As a reminder, we provide an estimated impact on exchange -- of exchange rates on our results on a monthly basis on our website, which I hope is useful to you, especially in times of a bit more volatility lately. So with that, back to Vas.

Vasant Narasimhan Executive

Thank you, Harry. So in conclusion, on Slide 25, strong start to the year with double-digit sales growth, robust core margin expansion, strong core operating income growth, strong

free cash flow generation. Given that strong start, we've upgraded our guidance for the full year. I think importantly, significant pipeline progress in quarter 1, we had 3 new approvals in a span of 3 weeks that we believe can generate important growth for the company. And we remain confident even with the uncertainties of the geopolitical environment in achieving our mid- to long-term growth outlook, as we've outlined previously.

So with that, I think we can open the line for questions.

Operator Operator

[Operator Instructions] We will take our first question and your first question comes from the line of Simon Baker from Redburn Atlantic.

Simon Baker Analyst

Two, if I may, please. Firstly, on the issue of tariffs. Vas, most of your peers have led their quarterly presentations this time with tariffs and the impact and the correlation between where drugs are made, where they're sold. You chose not to. So I just wondered if you could give us some thoughts on the tariff exposure as you see it now?

And related to that, given it's a few weeks since it was published, I wonder if you could give us some feedback on your letter with Paul Hudson to the FT. And then secondly, on -- for Harry on the gross to net positive impact of 2 percentage points. Could you give us any more color on precisely where that was disproportionately landing? I'm assuming it wasn't equally distributed across the portfolio. So a little bit of color at the drug level would be very helpful there.

Vasant Narasimhan Executive

Thank you, Simon. So first on tariffs. I think as Harry noted and we noted earlier today as well, our guidance fully accounts for any potential tariffs that we've modeled or scenarios that we expect in this year and in the medium-term guidance. We've taken, I think, appropriate actions with inventory levels and in terms of managing our supply chain to enable us to feel comfortable we can manage it this year and in the medium term. As you also saw with our $23 billion investment, our goal in the coming years is to have 100% of our key U.S.

products fully produced end-to-end in the U.S., and we're on track to do that. So we think it's manageable and not something that we need to highlight with respect to our financial outlook.

Hence, we don't place a lot of emphasis on it. This is something we've been working on since January, and we feel good about where we are. Now with respect to the letter on EU properly rewarding innovation, we believe there is an opportunity right now given the deliberations at the European Commission on how to maintain a competitive environment for the biopharmaceutical industry to hopefully make the commission consider doing something more proactive to ensure that we have a better environment in Europe. Clearly, prices in Europe have continued to decline, no longer reflecting the innovation that we deliver.

The combination of capping market growth, penalizing new indications, low prices at launch has really led to 30% of medicines not being launched in Europe or being delayed in Europe.

That number will only grow over time. So as an industry, I think this is something we're taking up. We put forward 3 ideas on how we could potentially address the situation, maybe other ideas as well. And we're hopeful that the European Commission will take it up, and we'll stay determined to educate policymakers at the country level and at the commission level to really address the situation.

Now with respect to gross to net, Harry?

Harry Kirsch Executive

Yes. Thank you. Thanks, Simon, for the question. Obviously, we continue to monitor. As you know, this is due to invoice we get 6 to 9 months late sometimes.

We try to always be on the midpoint based on latest information we get. And again, we got a bit lower Medicaid utilization and more favorable channel mix, which gives prior period adjustment. I mentioned the 2 points of impact, but of course, also has -- informs us about future. So also when we come to the upgrade, it's not only the prior period gross to net, it's also a better revenue deduction outlook for year to go, if you will, for the future as well as continued very good brand performance. And I think Kisqali may see fantastic performance there.

Now in terms of -- it's really across many brands so I don't want to call out one brand. It's not distorting growth rates very much. It's in this range of 1% to 4% or something like that. So it's not worth mentioning a single product. It's quite broad-based.

Vasant Narasimhan Executive

Thank you, Simon. [Operator Instructions]

Operator Operator

We will take the next question. Your next question comes from the line of Graham Parry from Bank of America.

Graham Parry Analyst

So it's just a follow-up on tariffs actually there, Vas. So your guidance so -- and your midterm guidance focuses on revenue and margin. Obviously, Novartis is one of the companies that has a lower global tax rate because of the booking of profits in Switzerland, it looks like from the reported accounts so just 16.5%. That's obviously quite a long way below U.S. corporate tax rate.

So when you're talking about factoring this into your guidance, is that also factoring in the potential for any actions on transfer pricing or IP, patent boxes, et cetera, which would impact on tax rate as well?

Vasant Narasimhan Executive

Harry?

Harry Kirsch Executive

Yes, Graham. So we feel very confident in our tax rate, in our tax planning, in our transfer pricing, all of that is very robust, right? From that standpoint, we are at the moment in the 16% to 16.5%. This already includes Pillar 2, 15% minimum in, for example, Switzerland. So all of that, we feel is very robust.

And of course, I don't want to talk about others, but overall, all of this is also OECD conform. So from that standpoint, I believe that our tax rate will be in that range of 16% to 7% as a core tax rate.

Vasant Narasimhan Executive

And I think, Graham, of course, we don't know. We're monitoring the situation if the government were to -- the U.S. government were to take more extreme actions, we'd, of course, have to reevaluate. But based on everything we're hearing, we believe we can manage the policies that have been put forward thus far, and so I feel confident in the position we have.

Operator Operator

Your next question comes from the line of Emmanuel Papadakis from Deutsche Bank.

Emmanuel Papadakis Analyst

Maybe a question on Pluvicto. Just firstly, a clarification. I think you mentioned guys earlier, a $4 billion ultimate peak sales ambition. But if I recall correctly, last year, you provided us with a $5 billion number. So I just want to confirm if that changed or that was just a typo?

And then just talk to us a little bit about the confidence on the H2 PSMAfore inflection, is that really based on confidence that you're going to transcend this community referrals bottleneck? Is it actually expanding the number of sites that will be capable of administering therapy? If you could provide a little bit more color there, that would be extremely helpful.

Vasant Narasimhan Executive

Yes. Thank you, Emmanuel. My apologies, it is still $5 billion-plus, I misspoke. So with respect to Pluvicto and the dynamics that we're seeing, I think within the academic centers and large integrated health centers that already are well set up, we expect to see a rapid uptake. I mean in these accounts, these are accounts that are familiar with the medicine.

They have capacity. They do need to staff up, but we believe that's within their reach. And those are the accounts where we expect to see initial rapid uptake of the medicine, and that will drive, I think, the second half performance. I think to reach the full potential within the PSMAfore population and the PSMAddition population, we're going to have to continue to expand not only the number of centers, but getting many of those centers to increase the volume of patients that they're seeing.

So we would estimate of the centers that we've gotten set up, about half of those centers are using Pluvicto at a target rate in terms of the number of patients are actually able -- they're actually processing through their clinic. And the remaining 300, we need to get up. We need to get up to a higher level of utilization, and then we also need to expand the number of sites.

That's going to be some combination of getting comfort with use of the medicine, hence, we roll out the prefilled syringe, use with the referral networks and adequate capacity as well for the imaging, which we're working through as well. We've reorganized our field force to enable easier referrals, but also to hopefully better align with where imaging capacity is.

And I think that will be really important as well. And then, of course, continuing to promote the medicine to patients and physicians so they understand the strong data set that we have. I mentioned the unadjusted OS and the adjusted OS, both of which I think have given confidence to experts that the medicine has the opportunity to have a significant impact on these patients. So each one of those activities is ongoing. And I think this is important for us not only obviously, because of Pluvicto, but also given the broader radioligand therapy portfolio that we're developing.

We're now entering the clinic with multiple RLTs in rapid succession, targets such as FAP, fibroblast activation protein, targets like HER2, B7-H3, DLL3, all of these targets now entering the clinic. And for those medicines to be successful, we know we need to build out this community capacity and hence, a big focus for the company to figure this out.

Operator Operator

Your next question comes from the line of Florent Cespedes from Bernstein.

Florent Cespedes Analyst

Just a quick follow-up on Pluvicto. In the U.S., when you said that 50% of the sellers are not using Pluvicto at the target rate. Is it -- what's the main pushback from these sellers? Is just they need more convenience sort of prefilled syringe would help or other -- any color on this front would be helpful.

Vasant Narasimhan Executive

Yes. I think it's a combination of things, Florent. I think one is, of course, once you have a patient treated to ensure you have adequate reimbursement and then see the process ultimately work. I think second, continuing to educate on the staffing needs and to be ahead of the curve in order to get patients treated. And then I think the referral networks and making sure the referral networks are operative so that patients are referred to locations where Pluvicto is available.

I think these are all surmountable challenges. I think we've already made tremendous progress each 6-month period in terms of expanding the reach of the medicine. And I remember a few quarters ago, we were at 100 or 150 centers now providing the medicine and now we're at multiples higher than that. So I think we're getting there step by step. But of course, with each account, it is a puzzle that we need to solve.

We've mapped that out geographically. We are reorging our field force to match to that mapping and then we just have to, I think, stay consistent. And then when I look at corollaries and you think about how long it took chemotherapy and -- long ago to ultimately roll out. I mean we know these things take time. But once you establish them into the standard of care, they stick.

And that's the mindset we're taking, consistent investment over time to make it stick given the portfolio that we have that we're bringing forward.

Operator Operator

Your next question comes from the line of Peter Verdult from BNP Paribas Exane.

Peter Verdult Analyst

Just one question for you guys on ianalumab in Sjögren's. I mean, the feedback from the docs is positive, but we know that there are no systemic treatment options to offer patients. It just seems from the feedback we're getting that replicating that Phase II data you presented earlier will be enough to get the community excited. So I just wanted to check in on your latest thoughts ahead of that readout and how you're seeing the commercial opportunity. If we were to compare it to something like Cosentyx and HS, do you see Sjögren's, ianalumab being that sort of similar size or even bigger?

Vasant Narasimhan Executive

Yes. I think we see ianal being a very significant medicine if successful. I think clearly, with Sjögren's having no approved systemic therapies and given the size of the patient population, there's an opportunity here to create a significant medicine. We haven't guided to specific numbers yet, but I think certainly, a multibillion-dollar potential medicine is what we would expect in just the Sjögren's indication. Now I think it -- but that, I think, goes without saying that this will be a challenge with respect to, one, when you look at this disease, it's a heterogeneous disease.

Hence, the endpoint here, the ESSDAI endpoint is a challenging endpoint. We've done everything we can in the design of the study to ensure that we control for placebo effects that we power appropriately with the appropriate statistical analysis hierarchy, that we've included FDA-requested patient-reported outcomes, which I think will also be important for physicians.

We've done all of the steps needed to really give ourselves the best chance. And I think also it's going to be important to have impact not only on composite endpoints like ESSDAI, but also very specific areas that patients care about saliva production, fatigue, et cetera. So I think each one of these elements of the story have to ultimately tie together. And then I think the opportunity then is significant given that we're targeting patients here with systemic manifestations of the disease. So patients that clearly are having this impact their daily lives.

And if we can demonstrate that we move the needle for patient's quality of life, we would expect a very significant medicine. So we're excited about the readout. Hopefully, we can replicate what we saw in Phase IIb, but we fully also acknowledge that this is a high-risk study that we have to deliver on.

Operator Operator

Your next question comes from the line of Richard Vosser from JPMorgan.

Richard Vosser Analyst

A question on Scemblix, please. The growth on prescriptions is very stunning, but revenue growth is a bit below that. So just wondering whether you're having to rebate more heavily to generate first-line volume or we could see an uptick later on this year in terms of Scemblix more towards the prescriptions?

Vasant Narasimhan Executive

Yes. We've looked into this a bit. And I think one of the things we're seeing is when we look at the IQVIA data set versus what our internal data sets would show, our internal data sets would show 73% in TRx growth of Scemblix versus prior year, and that ties to the 75% net sales growth, so very much in line. We know IQVIA is showing a higher number. We think this might have to do with the nature of a rare disease product that's not flowing fully through only the pharmacy, but also through a specialty distribution chain.

So I think that's the key difference. It has more to do with channel than anything underlying the performance. I think most important for us is that we're seeing strong growth in the second line and first-line indications. We have the reimbursement in place. We have the NCCN guidelines.

And now we think that the growth should accelerate in the first and second line. And we think this medicine, as you know, has a very significant potential that we plan to fully realize.

Operator Operator

Your next question comes from the line of James Quigley from Goldman Sachs.

James Quigley Analyst

I've got a question on pelacarsen competitiveness. So last month, Lilly put out Phase II data demonstrating a 94% reduction in Lp(a) at the highest dose with a 180-day administration interval. The Phase III will clearly come after HORIZON, and we need to see that to really sort of see where the competitive landscape will move. But with data emerging for competitors with longer dosing intervals, how does this impact your view on the competitiveness and/or your launch strategy for pelacarsen assuming positive HORIZON data? And does this also increase the need to accelerate development of your own 6 monthly or longer-acting Lp(a) option?

Vasant Narasimhan Executive

Yes. Thanks, James. Certainly, we're watching the competitive landscape, but our core focus right now is to deliver on the Phase III trial and then accelerate towards a launch and hopefully establish ourselves as a first-in-class therapy and building the -- on our global cardiovascular presence with the monthly dosing, really get a broad base of patients on therapy. And we acknowledge the fact there could be competitors coming down the line with quarterly dosing, and we'll see what the clinical data ultimately shows for that medicine and then 6 monthly dosing, as you mentioned, later in the decade. But we feel confident that pelacarsen can have a very significant outlook with its current profile.

I would note as well, when we look at the recently published study that we -- that the investigators published on the baseline characteristics of the HORIZON study, you see a

situation where the median level of Lp(a) was around 108.

We had 80% of patients above 90. So I think that shows that we've enrolled a high-risk patient population in the study, which hopefully gives confidence that if the modeled performance of the drug ultimately and the modeled impact of Lp(a) reductions ultimately bears out that we have a good chance to win on the study when it fully reads out. I would say as well, we do have multiple efforts ongoing to get to less frequently dosed siRNAs or ASOs. Those could be as far out as out to 1 year is certainly the goal we're trying to get to annual dosing. So we have the opportunity to establish ourselves in the market with a month, monthly dose therapy and then life cycle managed into a much less frequently dosed medicine that we'll be looking to hopefully bring to market at the end of the decade or the early part of the 2030s.

Operator Operator

Your next question comes from the line of Thibault Boutherin from Morgan Stanley.

Thibault Boutherin Analyst

I just have a question on the new Phase III study. You started with Kesimpta in the new dosing regimen. Is it extending injection interval? Is it exploring higher dose for more efficacy? Because it's quite late in the life cycle of the drug.

So just trying to understand the goal here. And could it be something potentially helping with IP duration, for example?

Vasant Narasimhan Executive

Yes. Thanks, Thibault. This is an effort for us to increasing the dosing interval of Kesimpta before the end of the life cycle of the medicine. I think when we look now at the competitiveness of Kesimpta, given the situation with competitors not fully achieving their goals. I think we have an opportunity to continue to extend this franchise longer.

So we're looking at infrequent dosing. We also have other internal efforts ongoing because we believe that Kesimpta can be a mainstay B-cell therapy for an extended period of time, given its convenience at-home dosing, which is, I think, convenient for patients around the globe. We continue to pursue a BTK inhibitor, remibrutinib as well in MS, but we, of course, are cognizant of the fact that we do have 4 studies that have not shown an impact on REMS to date from competitor products. So we would characterize that as still a high-risk opportunity. But given the overall competitive landscape, we want to ensure now that we fully life cycle Kesimpta.

We currently don't believe we would face biosimilars in the United States until the early part of the 2030s. So we believe there's time to develop these alternative formulations.

Operator Operator

Your next question comes from the line of Matthew Weston from UBS.

Matthew Weston Analyst

It's a question for Harry, please. Harry, in the 4Q slide deck earlier this year, there was a very

prominent slide on the first half, second half dynamics in the year, especially around profitability. It's absent in today's slides. Is that because you're expecting less of a sharp contrast in first half, second half, now you've seen the launch of Kisqali and continued growth of Kesimpta? Or is it just that you decided not to include it today?

Harry Kirsch Executive

We just wanted to see if you notice. No, kidding. But no, thank you, Matthew. So obviously, the onetime effect of the gross to net for prior period, that is reflected in the current quarter. And then there are a couple of other effects that give us further confidence and contribute to the overall full year upgrade, right?

And one is that with this, there should be also better gross to net going forward. We adjusted our assumptions. We always learn every quarter. Of course, we have fully modeled in and accrued for the Medicare Part D redesign, which you already see part of Q1. And the second -- the other contributor is, of course, very good growth performance overall.

So clearly -- and therefore, I see both half 1 being better than what we outlook, but also half 2, right, where half 2, I mentioned low to mid-single digit. We now would see the half 2 to be in the mid-single-digit range given these 2 improvements of more favorable gross to net ongoing as well as better-than-expected performance on some brands. So I hope that answers your question, but we can happily add that slide back if this is very helpful. And then we continue to see if our midyear assumption for the 3 to be genericized brands in the U.S. as a financial planning assumption plays out or we would have updates for you.

But of course, the moment we would know, we will inform you. Therefore, for the time being, we recommend that, that continues to be the financial planning assumption for everybody.

Operator Operator

Your next question comes from the line of Kerry Holford from Berenberg.

Kerry Holford Analyst

On votoplam, please. Are you still on track to release that Phase II data in the first half of this year? And do you see the potential to file and secure an approval in Huntington's on that data alone? Or should we assume a Phase III study is likely to be required?

Vasant Narasimhan Executive

Yes. Thanks, Kerry. As you know, votoplam is currently being -- the Phase II study is being conducted by PTC so we do expect the readout in the first half of this year. And I think when we see the data, we'll have a better sense of if on top of mutant huntingtin protein reduction, we also see improvements in clinical endpoints, which would be, I think, needed for us to be able to file with FDA. So I think based on the data, we'll work with our partners at PTC to determine what's the right approach, whether to file off of that Phase IIb or to move forward to conduct a pivotal Phase III study.

So stay tuned. I think we'll obviously know more once we have a look at the data. And of course, we're staying abreast of the evolving kind of mindset within FDA and certainly what

other competitors are doing as well. So we'll see how the data unfolds.

Operator Operator

Your next question comes from the line of Seamus Christopher Fernandez from Guggenheim.

Seamus Fernandez Analyst

So really just wanted to ask about value-creating bolt-ons and areas of focus for BD. In particular, if you see opportunities for life cycle management via BD around your hypertension and heart failure portfolio, particularly given the upcoming loss of Entresto in the U.S., but the robust opportunity for Entresto in overseas markets.

Vasant Narasimhan Executive

Yes. Thanks, Seamus. So nothing specific to say. I mean we feel very good about our cardiovascular pipeline overall. We have, of course, Entresto, Leqvio, pelacarsen.

We have our entire renal portfolio. We recently did the Anthos acquisition to get abMAA, the monoclonal antibody for anticoagulation into the portfolio. We have a broad range of siRNAs targeting cholesterol lowering, targeting Lp(a) lowering, targeting hypertension lowering in-house as well. So all those programs are proceeding and also an anti-arrhythmics portfolio. So I think we, of course, are looking across the opportunities out from a bolt-on standpoint, but no particular focus on cardiovascular medicines at this time.

Operator Operator

Your next question comes from the line of Steve Scala from TD Securities.

Steve Scala Analyst

Novartis has among the fewest manufacturing plants in the U.S. in the industry, but did announce the $23 billion program to expand the U.S. footprint. The question is, how much of that $23 billion build-out to the footprint will be complete in -- by 2028? It seems that such a profound pivot could be a less than ideal decision if the views in the U.S.

were different in 4 years. If instead, it was an inevitable pivot regardless of the U.S. President, then why didn't it start sooner? And related to this, you said Novartis can manage plans put forward in the U.S. so far.

Does that include most favored nation legislation?

Vasant Narasimhan Executive

Thanks, Steve. So on point one, I think we would acknowledge, I think we could have done this earlier. I mean this is a strategic decision to say that U.S. is our most important single market from a growth and revenue standpoint. And we want to be in a position to be able to produce all of our key medicines end-to-end in the U.S.

And so I think we -- you're right, we should have recognized it sooner, but now we have recognized it. And I think independent of who's President, it's prudent for us to be able to have our supply chain stable inside the United States. We do have a number of medicines

already fully produced in the U.S., cell and gene, our Leqvio, Kesimpta, our gene therapies, Pluvicto. And then in the other relevant therapies, we believe within this period of time, we can get the necessary manufacturing plants up and running, given our footprint that we already have in certain locations to manage this.

But it is a strategic decision independent of the President to make sure that we have that capacity inside the United States. Now in terms of most favorite nations, of course, I think if this policy, which I think would be devastating to the industry was ultimately put forward in any kind of meaningful way, it would cause, I think, all companies to have to relook at their long-term -- medium- to long-term outlook. It goes without saying. But I think it's really important that we keep advocating that the United States should not import European price controls and the European anti-innovation or challenging innovation environment into the United States. I don't think that will serve patients well, serve health care systems well and the biotechnology ecosystem well.

And that's certainly what we're advocating for. Rather, the focus should be to correct the imbalances that have occurred in Europe over the last decade and hopefully get a better environment in Europe that's more competitive with the United States.

Operator Operator

Your next question comes from the line of Graham Parry from Bank of America.

Graham Parry Analyst

So first one was just on Pluvicto and PSMAddition. Just wondered, when you get the PFS primary endpoint read, roughly what proportion of overall survival events you think you'd have and whether that will be sufficient for filing just given you needed more OS data on PSMAfore? And then actually, I just wanted to follow up on Harry's comment on Entresto. I think -- because Vas, I think you have quoted on the wires this morning saying you expect generic Entresto in July. Harry, still refers to that as a modeling assumption.

So could we still see some flex in that? Is there potential for a 918 patent ruling or a settlement there that could see this bumped into 2026 in the scenarios that you see?

Vasant Narasimhan Executive

Yes. Thanks, Graham. So first on Pluvicto PSMAddition. So at the time of the rPFS output, difficult to say exactly, but we would expect OS in the range -- the OS events in the range of 40% to 60%, something in that range overall. And I think our view is that we would maintain the study blind and then with a small group, review the data set with FDA to ensure that FDA felt like the OS is sufficient at that point in time, assuming the study is positive for us to take it forward.

And if they tell -- inform us it's not the case, then we'll maintain the study blind so as not to inadvertently change the rate of crossover in the study. So that's the approach we're currently taking on PSMAddition.

Now with respect to Entresto, there are multiple cases ongoing. So we have 2 generic filers that we have not settled with. We do have the ongoing patent litigation on the amorphous

complex patent, which is pending. We have the ongoing trade dress litigation as well with MSN. We have the ongoing litigation with the FDA on whether the approvals are valid.

So all of these litigations are ongoing. And at any point in time, any of those litigations could shift our perspective on the mid-2025 LOE. But I think until we hear from any of those cases, the most prudent course for us is to maintain a mid-'25 LOE. And if it changes, of course, we'll immediately update the market and then update our outlook accordingly.

Graham Parry Analyst

Okay. So just to be clear, that's based on litigation outcome as opposed to settlement that you're referring to potential for it to move?

Vasant Narasimhan Executive

It could be litigation outcome or settlement. All of the above are things we're working on.

Operator Operator

Your next question comes from the line of James Quigley from Goldman Sachs.

James Quigley Analyst

Just a quick follow-up for me, given that European pricing has been mentioned a couple of times. So how -- what is the politicians view on this at the moment? Is it seen as a problem? Or do you have some support from some European politicians about addressing the innovation imbalance that you see between Europe and the U.S.? And have any negotiations or discussions started?

Or are we still at a standing start and hence, the reason for your letter?

Vasant Narasimhan Executive

Yes. Thanks, James. There is a letter from EFPIA to the European Commission, which I think has been published -- which has been published publicly, which I think outlines some of the topics, but not the specific recommendations that Paul and I put forward in the FT. But I think that was a response to a request from the European Commission to understand how the innovation environment in Europe can ensure that they retain their leading biotechnology sector, biotechnology manufacturing, biopharmaceutical R&D. I think a lot of the focus right now is in streamlining regulations, which are welcome, streamlining and improving regulatory data protection, also welcome, strengthening overall support for the biotech ecosystem, venture capital, et cetera, all welcome as well.

But I think we as an industry and at least some of other CEOs strongly believe that this also should be an opportunity to rethink the overall approach to valuing innovation in the European community. And I think that's what we're trying to focus on. I can't really comment on whether or not those -- that is being viewed as something that will be taken up by the commission. That's not something they've communicated back to us, but it's certainly something we're advocating for both at the commission level and with individual countries around Europe as well.

Operator Operator

Your next question comes from the line of Thibault Boutherin from Morgan Stanley.

Thibault Boutherin Analyst

Your press release mentioned a litigation with drug manufacturer for a generic of Lutathera. Just if you could help us understand what generic would look like with radioligands in terms of the type of price discount, any challenges a potential generic maker could face in terms of penetration, super challenges, these kind of things?

Vasant Narasimhan Executive

Yes. So first, I think on generics in RLT, this is not something where there is, we believe, an adequate or clear regulatory standard. So while one topic is does any proposed generic infringe on our IP, which is what the litigation is referring to. Separate from that, we have filed citizens petitions and continue to advocate with the regulators around the world to clarify what is expected of a radioligand therapy and that it should absolutely be held to the standard of ensuring patients and the tumor is receiving an equivalent dose of radiation to ensure efficacy and appropriate safety. So that's all, I think, also ongoing.

And then a third question is the supply chain and can a potential generic manufacturer produce the medicine in a way that doesn't also infringe on our patents in terms of production and know-how in terms of production, but also in a way that reliably provides these medicines to patients, given that you have a 4-day -- a 3- to 5-day window depending on the medicine to actually get it to physicians. And as we've learned, it's absolutely critical to be on time in full. And Novartis right now is 99.9% on time in full for our radioligand therapy business. And that's the standard, I think physicians expect and that any generic company would also have to meet. So I think those are the 3 levels of the ongoing discussion and I think it will take years to resolve, but it will be important because these standards will ultimately be what defines the sector in the longer run.

Operator Operator

Your next question comes from the line of Matthew Weston from UBS.

Matthew Weston Analyst

I'd love to go back to Graham's question on tax, Harry. On the Astra call, Pascal was prepared to say that he believes Astra pays a fair amount of tax in the U.S. relative to the sales booked in the U.S. and the total tax paid by the company. There's been a lot of discussion in the past as to how Novartis pays tax in the U.S., some of it before your time.

So I'd just be interested if you're comfortable saying the same thing from a Novartis perspective.

Vasant Narasimhan Executive

Thank you, Matthew. Harry?

Harry Kirsch Executive

Of course, we pay in every jurisdiction we do business, our fair and proper amount of taxes. And by the way, we don't have any offshore balance sheet structure. So from that standpoint, we are very confident in our tax planning and very robust.

Operator Operator

Your next question comes from the line of Graham Parry from Bank of America.

Graham Parry Analyst

Last one, I promise. So I just wanted to follow up actually Vas on the -- to qualify the comment you said about MFN being devastating for the industry as I think the word you used if it was implemented. When you say devastating, are you talking about MFN being imposed across both government and commercial setting? Or do you see that just an imposition across Medicare, Medicaid would actually have that level of impact? I think that's an important clarification.

Vasant Narasimhan Executive

Yes, absolutely. And look, of course, the devil is in the details with these things. I think MFN, if it's as previously conceived is limited to Part B drugs. For Novartis, highly manageable. If it's MFN in Medicare Part B and Part D, but we no longer have to pay rebates and a number of other discounts disappear, manageable.

If it's Medicare Part B, Part D with the spillover into Medicaid, the spillover into 340B pricing and all of the other problems, definitely painful. If it spills over into the private market, devastating. So I mean, I think all of this, of course, is something to look at.

And here, I speak about the industry, I think, broadly as well. I mean, of course, for Novartis, given our relative exposure to the U.S. and relative exposure to Medicare, if this policy ultimately were to come into place, we're well positioned relatively speaking. But that still doesn't mean that we would in any way want this to happen given -- obviously, given the damage it would do to our ability to invest in R&D, invest in manufacturing, invest in future pipeline of medicines for patients around the globe, it would definitely have a significant impact. But certainly, it depends on the details of what ultimately is conceived.

Operator Operator

Your next question comes from the line of Florent Cespedes from Bernstein.

Florent Cespedes Analyst

First, a big picture question on IRA. Could we have your thoughts about the difference in exclusivity between small molecule and large molecules in 9 years versus 13 years. Do you see any, let's say, possible happy endings or more favorable trend on this front? Any color would be great.

Vasant Narasimhan Executive

I think it was very promising and I think a good sign that in the President's executive order that there was support for moving the small molecule 9 years to 13 years. That's something the industry has made our top priority from a legislative standpoint. We have the pay force to enable this to happen. So it's our absolute focus that any reconciliation bill that's taken forward that the correction of 9 and 13 is part of that reconciliation bill. And I think we have a good bipartisan support, both in the House and Senate to make that happen.

And I think we know that with respect to these kinds of bills, it really comes down to the very final language on the last day. So we can never be sure. But I think all signs are positive that we have an opportunity to get this fixed, which would really, I think, enable us to sustain small molecule drug innovation into the future. So I'm hopeful, I'm hopeful at this point that we could make something happen. I think while on that, I think we continue to also advocate, of course, on PBM reform.

I think there was a good bill that nearly passed in December, and we continue to hope that can happen. And then we continue to advocate for the fixing the 340B system as well. That may not happen legislatively, but we continue to pursue all avenues to ensure that there's no abuse of the 340B system. There was an important report put out by the Senate Health Committee, I think that highlights the problems in the current system. So hopefully, step by step, we get to a place where that program is also put into its proper context of actually helping patients and clinics in low-income communities and disadvantaged rural communities get the support they need without the abuse that we're seeing around the country.

So those would be the 3, I think, big legislative priorities for the industry and for Novartis. I think we have one more question, maybe?

Operator Operator

[Operator Instructions]

Vasant Narasimhan Executive

No? All right. Very good. Thank you all very much. Thank you for joining today's call.

We look forward to keeping you up to speed on all happenings at Novartis, and we wish you a great day.

Operator Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.