Novartis AG

Novartis AG - Special Call - Novartis AG

Monday, December 9, 2024 10:00 AM

Event Participants

Executives 4

Maria Victoria Cuevas-Pautonnier, Vasant Narasimhan, Lutz Hegemann, Steffen Lang

Maria Victoria Cuevas-Pautonnier Executive

Hello. Welcome to our Annual Impact and Sustainability Event. My name is Mavic Cuevas from the Novartis Investor Relations team, and I look after environment, social, and governance matters. We are also joined here today by Lutz Hegemann, who is the President of Global Health. And in his presentation, he will cover how we are covering access to medicines in an inclusive way.

We also have Steffen Lang, who is our President of our Operations, and in his presentation, he will cover environmental sustainability and supply chain resilience.

There will be a Q&A section at the end so you should see a Q&A box in front of your screen, which you could use to submit your questions, and we will make sure that we address them at the end.

Let me just read this quickly. 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 recently quarterly results on Form 6-K that, respectively, were filed with and furnished to the U.S. Securities and Exchange Commission.

And with that, let me hand over to our CEO, Vas Narasimhan.

Vasant Narasimhan Executive

Hello, and welcome, everyone. Thank you for joining today's Impact and Sustainability Investor event, where we'll share how Novartis is driving social impact and leading on crucial ESG topics that influence our sector and the broader world. Our commitment to sustainability is at the core of everything we do. It's fundamental to our business and the value we create for our shareholders, patients, employees, and society.

At Novartis, impact isn't just a measure of our performance, it's central to our value proposition. We carefully consider where we can create the greatest contribution, having more people benefit from our innovative medicines while building resilient capabilities in an ever-changing world.

We're dedicated to expanding inclusive access to medicines through both our innovative portfolio and our global health work. This demonstrates our ability to find solutions to unmet needs and our leadership in addressing critical global health challenges.

We continue to advance innovation in R&D for neglected tropical diseases and malaria, diseases that climate change will amplify, requiring sustained innovation and investment. The upcoming launch of our pediatric malaria medicine, Coartem Baby is just one example and marks a turning point in how we treat the most vulnerable patients suffering from this notorious disease. Innovation also guides our approach to collaboration. We forge strong purpose-driven partnerships with international stakeholders to enable broader access to treatments where we work hand-in-hand to identify and break down barriers to health care. This includes establishing novel community health models focused on ensuring better health for entire populations, an exciting endeavor you will hear more about today.

To secure our future, environmental sustainability is core to how we operate. As our team will detail, we've made progress against our ambitious Science Based Targets and are increasing the resilience of our supply chain. We also recognize the evolving regulatory landscape around ESG and are well positioned to meet emerging requirements while ensuring full compliance across all jurisdictions. We know that delivering social impact starts with our people, which is why we foster a diverse and inclusive workplace. Through targeted hiring efforts, we're building an organization that can meet tomorrow's health challenges.

Finally, I'll just add, this is personal for me. As a physician scientist who spent part of my early career working on malaria and public health across Africa, I've seen up close how access to effective medicines makes a difference in the lives of patients. Those experiences were part of what led me to Novartis, and I remain committed to build a more inclusive health care system, both through the development of new treatments and our efforts to improve access to medicines.

So in closing, thank you for being here today and your interest in our sustainability commitment. I'm proud of the way we've embedded the principles of sustainability into everything we do as a company that reimagines medicine.

And now I will hand it over to my leadership team to share more details on our approach.

Lutz Hegemann Executive

Thank you very much, and let me add my personal welcome to that of Vas and Mavic. We greatly appreciate that you are joining us this afternoon, and thank you for your interest. Could I have the first slide, please?

Let's start by reminding ourselves about the overarching strategy for Novartis as a whole because, as you know, we fundamentally believe that our ESG and impact strategy needs to be in lockstep with our overall company strategy. And as you are aware, we have recently

focused on 4 key therapeutic areas. We have technologies that serve as a platform to drive innovation, and we are operating in 4 priority geographies. And as you will have seen from the results, these strategies are serving us well, and we are committed to continuing on that path and remaining focused on those areas.

The next slide now shows more into the overarching strategy that we have for ESG. And here, we can distinguish 2 elements. ESG needs to help create value but at the same time also has elements that help us in mitigating our risks. And in the next 15 minutes or so, I'll be talking about the innovation and access to medicines part, and I'll share a number of examples, share with you how we have progressed in our thinking and in our approach before we will then pivot into the environmental sustainability element.

We, of course, also appreciate that now for many years, our efforts have been recognized by ESG rating agencies, whether that is in the access space or in the Responsible Business Conduct or like in the CDP, the Carbon Disclosure Project, the AA rating that we have accomplished on climate and water, which to the best of my knowledge, is the leading rating that any large-cap pharmaceutical company has accomplished.

So on the next slide, Slide 7, you will see proof points that truly indicate that we are embedding impact and sustainability into everything we do into the entire value chain. Starting with innovation, you are aware of our Kigali commitment to invest USD 250 million into R&D for neglected tropical diseases and malaria, and we are well on our way with that commitment. We have, and I'll share that later, a fairly broad and deep pipeline that addresses 6 global health priority diseases. And we have made progress in our clinical trial diversity and inclusiveness with a specific focus on the United States.

Steffen Lang, our Head of Operations, will then talk about supply chain resilience and how we are accomplishing the targets in terms of emission reduction but also sustainability at large with a focus on nature in the supply chain.

In the commercial and access space, we have accomplished our goal of having 100% of our new launches with the global access strategy. We are continuing with our tiered pricing approach, which is enabled through the emerging market brands. And we are reaching a very significant number of patients across many, many countries, and last but not least, also meeting the targets that we had identified for our sustainability-linked bond and I'll spend a bit more time on that as well.

And as Vas said in his opening comments, impact for us is not just a performance measurement tool, but it is central to our value proposition to shareholders, patients, employees, and society at large.

Now the next slide gives a little bit more context about the ranking of the Access to Medicines Index, which just came out a couple of weeks ago. And of course, we are very encouraged by the fact that for the first time, we accomplished the #1 rank, having been in the leaders group for the last 10 years, but of course, being called out as #1 is something that's special to us and that we certainly appreciate.

And as you know, the access has 3 different components. The governance of access where we also, in the subcategory, ranked #1. And here, I think what really matters is the oversight

that we have to the access agenda all the way up to the Board of Directors but also the way how we formulate comprehensive strategies very early on in our value chain.

Research and development, being a researcher and developer myself, my background, of course, was very pleased to see that we received recognition for our broad pipeline, both against communicable diseases but also noncommunicable diseases. And last but not least, in product delivery, you know that over the years, we have piloted many different approaches to make sure that our medicines reach those patients who are in need of these medicines and to qualify medically no matter where they reside in the world.

The next slide reminds us that the north star since 2017 has been the Novartis Access Principles. And they still continue even to date to guide our efforts to create and sustain social impact. You are aware that we have reflected the targets for access, both on the new launches, the innovative therapies, but also on the global health programs and have translated those targets as metrics for our sustainability-linked bond.

And you see on the right side some selected examples in R&D, trial diversity strategy, global submissions, adaptive development, affordability through our tiered pricing framework or through the Access to Oncology Medicines Coalition where we contributed an innovative medicine through a voluntary licensing approach, which was the first approach that had been taken in the noncommunicable disease space. And then, of course, the inclusive health care systems where we work with health systems in order to strengthen the continuum of care.

But at the same time, of course, there is elements that we can -- that are under our control, for instance, how inclusive we conduct our research and development efforts or how we ensure availability and affordability. But to ultimately reach patients, there is a lot that is beyond our control and we have to acknowledge that.

We are not selling directly our medicines to patients. We sell them into existing health care systems with distributors, health care professional, payers, insurance companies. And of course, they all can influence whether access ultimately happens, and we can do what we control and we can help work with partners and influence those elements that are beyond our direct control.

The next slide shows one of those elements that we can squarely control, that squarely sit in our mandate. And that is the timing with which we submit innovative medicines to health authorities around the globe for regulatory approval. And historically, we have seen a lag phase of up to 10 years, the average somewhere between 3 and 8 years of innovative medicines being launched in high-income countries versus low- and middle-income countries. And through our global submission strategy, we have brought this down now to just a few months, on average, 4 to 8 months.

And you see the select examples here relative to the first launch in the European Union. In some instances, we even launched in developing countries before we were able to launch in the European Union. And with the other examples, you see that we are trying to minimize that lag time wherever we can, which is the first and very important step toward global access and making sure that innovation reaches everyone who needs it also as fast as possible.

The next slide talks more about how we partner with other stakeholders across the entire

value chain, research and development, commercial. But then as I said earlier, in the access space where our impact becomes more indirect. And you have a host of partners from academia, the so-called product development partnerships, funding bodies and philanthropy, and then non-for-profit organizations that you see then trending more towards the right.

So as soon as we see and I firmly believe that in global health, partnerships are always superior to individual efforts. As soon as we find a partner who has a shared objective, who is like-minded and brings complementary skills into the mix, then we would very favorably evaluate such a partnership.

The next slide shows one example where we have partnered both internally and externally. And this is an example from Vietnam, our Healthy Family program in Vietnam, where our efforts are geared towards improving health outcome across socioeconomic tiers in Vietnam.

And while our international business focuses on Tier 1 and Tier 2 cities but also hospital, through the global health efforts, we can expand the patient reach a lot more into the periphery, both in terms of the more remote areas but also smaller hospitals work more closely with the district hospital primary care and with the public channel because we believe that particularly for cardiovascular disease, we need to reach into the community in order to detect and treat diseases early so that we can avoid the events, whether that be stroke or heart attacks or other events that then create a true challenge for the individual and for the health care sector alike.

And what we have seen with this model is that we create impact by reaching more patients, but we also create revenues, not to the extent as we do in Tier 1 and Tier 2, but still, we create meaningful revenues that makes this model sustainable. And in the specific situation in Vietnam, we even could secure the World Bank as a co-funding partner for the health system's strengthening efforts that we do, which, of course, are agnostic to our medicines that we bring into the mix.

And based on that success, on the next slide, we have formulated a plan to further scale this model and bring it to other countries over the next 5 years. And we are currently engaged in the scoping discussions and look particularly into low- and middle-income countries in Latin America, Asia Pacific, or also the Republic of South Africa. The aspiration is over the next 5 years to bring this proven model from Vietnam into 10 more countries.

We'll put significant investment behind this effort, and we will align it to one of our key strengths, which is cardiovascular disease, so that we can create sustainable impact by improving the diagnosis and the earlier diagnosis of people with or at risk of cardiovascular disease, strengthening the linkage to care and disease control and ultimately, reducing catastrophic events like stroke and myocardial infarctions. And collectively, now between Global Health and the international unit, we aspire to reach many more patients that through traditional channels we could not reach.

The next slide takes us to a different element in Global Health because in recent years, we have seen that Global Health truly needs to think global, not only the global south but also in relatively wealthy countries, we see striking health inequities, one example being the U.S. but by far not the only example. And we see this in a number of metrics. We see that there is a

very selective population in the United States that participates in clinical trials, which is not representative of all the patients that will use our medical innovation.

And through the Beacon of Hope initiative that's led by our Novartis US Foundation, we have engaged in a 10-year collaboration in order to address some of the underlying factors that drive this inequity. And we have to go very deep because just fixing key performance indicators is not going to deliver lasting change, and we need to understand what are those barriers. And they often stem from a lack of understanding, appreciation, and trust into the established system or even into science. And that's where we are trying to start here in order to make a gradual change together with the historic black colleges and universities.

And then we hope that through this new approach, we'll also see this being reflected in greater trial diversity that we see specifically in the United States. We are already today, all of our studies that we run in the U.S. are being evaluated against DE&I principles during the feasibility planning.

The next slide speaks about another cooperation that we are very proud of and where at the American Society for Hematology last week, we just announced an expansion into a new disease area. With The Max Foundation, we started 25 years ago with Glivec at the Glivec International Patient Assistance Program called GIPAP. And gradually, over the years and building on the tremendous impact that this partnership makes in low- and middle-income countries, where now patients have the same survival rate in low-resource setting than in high-resource setting. And where we have, over the years, added more and more oncology medicines, now we are also adding iptacopan to reach patients with PNH, which, as you know, is a rare disease but has a very significant impact on survival rate and on health and well-being.

And we are building on this 20-year collaboration because the core group that we need to engage are the hematologists, which have been part of the Max Foundation collaboration for many years, where we have now reached more than 100,000 patients to date, and we are looking forward to now expand this scope into PNH as well.

The next slide briefly talks about sub-Saharan Africa. And you know that in 2019, we changed our approach to sub-Saharan Africa from what was previously very much a standard focus on profit which left patients behind to a focus on patient reach where we incorporated patient reach as a metric, as a success factor alongside financial performance. And now we are pivoting more towards impact, which is appropriate, given the selective innovative medicines portfolio that we have. But at the same time, of course, we are not discontinuing the work that we do in neglected tropical diseases and in malaria. And we continue to pioneer new inclusive business model that synergize with the core business and provide the sustainability that we are looking for because none of what we do in Global Health is pure philanthropy, but serves a business purpose and is ultimately accretive to the business.

The next slide takes us to the discussion of climate and health, which, as you know, has been debated, particularly in recent years quite substantially. And it's fair to say that human health is becoming the face of climate change in many ways. And we have looked at our portfolio to see how well do our disease areas align with those diseases where we expect an increasing burden as a consequence of climate change. And there's a lot of good evidence out there,

not only in vector-borne and communicable diseases, but also in noncommunicable diseases, most notably in cardiovascular disease or, for instance, in lung cancer.

And we have to make sure that we factor the expected and inevitable changes that we will see in the climate into our portfolio evaluation, both from a risk but also from an opportunity perspective. And what we saw is that there is very good alignment already today, which we would -- we will further strengthen in that we have this broad portfolio for vector-borne diseases but also in the way how we lead our discussion on access, which ultimately builds resilience into health systems. And that is very urgently needed in the face of climate change, but also for that matter, in case that a new pandemic were to hit us.

And then lastly, also how we engage with health systems partners. We have joined the sustainable market initiative in order to look at the carbon footprint that the health care sector generates, which is about 5% of global greenhouse gas emissions, or into how can we create more inclusive models that also detect diseases and treat diseases that are treatable and preventable early on as quickly as possible in a pilot that we are running with the Rwandan Ministry of Health, which I'm very excited about because I think a lot of the innovation that we currently bring into the world has a disproportionate value in resource-constrained settings. Next slide shows again the broad and deep pipeline that we have against neglected tropical diseases, arguably an area that everyone expects to spread geographically to rise as a consequence of global warming but also catastrophic climate events. And we need to be prepared for a greater spread in malaria, in dengue fever, in Chagas disease, in many other diseases where we need to have new tools in order to be able to effectively address the challenges of tomorrow. And we cannot just continue utilizing medicines that were developed 50 years ago.

The next slide shows a little bit more in depth about malaria, where we have a legacy that we are very proud of, over 25-plus years. We have maximized, I would say, the benefit of Coartem through probably one of the largest global health access programs in the industry where already a few years ago, we reached more than 1 billion treatment of Coartem that was delivered. But we are not stopping here.

We have a rich pipeline that's scheduled to read out over the next few years, whether that is the specific baby formulation for Coartem, babies arguably being a very, very vulnerable population where currently we don't have an approved pediatric formulation, as Vas in his introduction had mentioned, or the next-generation combination therapy which replaces artemisinin against we see early signs of resistance now with a totally unrelated chemical class that would be the first new combination medicine for uncomplicated malaria since we launched Coartem. So we're looking very much forward to it, and there is more to come that helps elevate the standard of care in malaria and addresses the early signs of emerging resistance.

Beyond malaria, it's also interesting to note that the notion of inclusive development, that inclusivity carries through into our core portfolio as well and here specifically, addressing the needs of children, where children often need pediatric formulations. There's pharmacokinetic differences between children so that they metabolize drugs in a different way from adults, which can lead to a different therapeutic response but also to potentially a different adverse

effect profile. And children are not just small adults but they need specific tailor-made solutions. And we have one of the largest portfolio of pediatric studies in the industry. And certainly, the number of medicines where we have a specific pediatric label is far beyond what the average benchmark data show.

The next slide sums up what I've just shared with you as examples for innovation and access. I know we covered a lot of ground but I felt it was important to give you as many proof points as I could of the day-to-day efforts that we are driving.

This completes the discussion around the innovation and access to medicines part. And I now have the pleasure of handing over to my colleague, Steffen Lang, who will talk about the risk mitigation elements with a very specific focus on environmental sustainability. Thank you.

Steffen Lang Executive

Thank you very much, Lutz, and also a very warm welcome from my side. As Lutz mentioned, I will cover in my talk the environmental sustainability as well as the supply chain risk management. I will start with the environmental sustainability. And as you can see here on the slide, which is projected, I would like to use this to set the overall context.

For sure, research has shown that the climate change and health are intrinsically linked. There are some impressive numbers depicted here that, for example, there is a projection of 250,000 additional deaths per year which are expected to be caused by climate change between 2030 and 2050. Also infectious diseases are expected to be aggravated in a significant amount.

As Lutz already mentioned, health care, the sector also plays a role in that as we contribute about 5% of the global greenhouse gas emissions. And as such, climate change and health are intrinsically linked, and pharmaceutical companies have a role to play in both climate risk mitigation and adaptation.

Now let's focus on what we are doing at Novartis around environmental sustainability. Can I have the next slide, please? We have structured our approach to environmental sustainability in 3 time horizons. The first one is up to 2025. The second one up to 2030.

The most longer-term outlook is 2040. I will walk you through all 3 chapters but I will start now with 2025 that you can see here on the left-hand side, our environmental sustainability agenda is structured by climate, water, and waste.

On climate, our 2025 target is to become carbon neutral in our own operations. We're making very good progress. You can see '24 the target as well as how we progressed year-to-date in 2024. We have almost achieved our target for 2024 and we are on track to also achieve our target 2025.

On water, our target for 2025 is to reduce water consumption by half in our own operations. And I'm very happy and glad to report that we, earlier this year, already achieved our 2025 objective. And we are now trending below the 50% level as outlined here.

On waste, similarly, very good progress. Our objective to reduce our waste disposal by half in our operations by 2025, we already achieved last year. Now we are basically at a level of

minus 70% versus baseline. Can I go to the next slide, please?

Now we are focusing on the evolution for 2030 and in line with the outside expectations but also in line with emerging regulations. We have updated our environmental sustainability targets and approaches, and we have introduced a dimension of nature side-by-side to the climate dimension.

Let us first focus on the climate dimension. We have received recently the approval from the Science Based Targets initiative on our approach here, which is divided in 2 horizons, the 2030 horizon, which is depicted here. Then Scope 1 and 2, we have the target to reduce our emission down to minus 90%. And on Scope 3, we will reduce by 2030 by minus 42%.

On the longer-term horizon, 2040, we plan to reduce both Scope 1, 2, and Scope 3 by minus 90%. We also updated under the nature pillar our water-based targets, which were already well covered with our initial approach. Also, we added newly a big topic on nature, is the biodiversity and raw materials. I will come to the specifics of this in a moment later in my presentation. Can I have the next slide, please?

Now let's really focus on what we are doing on our net zero transition for our carbon footprint. We have a clear road map across the entire value chain. On this very complex slide, I admit we have on the upper part, the so-called Scope 1, which is the emission from our own operation. On the lower part, we have the so-called Scope 3, which are the emissions from our value chain. Let us go from left to right, where we start with our Scope 1.

2016 is the baseline year, and you can see how we progressed over time and reduced our emission.

So the milestones, 2023, for example, we achieved already a 63% reduction in emissions. And as mentioned before, by 2025, we are on track to further reduce and the objective and target for 2030 is also outlined here to get to minus 90%. The approach we are following and using very successfully is we will continue to focus on energy efficiencies, on process innovation through technology, and adopting green technologies.

Let's now switch over to the Scope 3, where you also see that the totality -- in our totality, this is almost 94%, meaning this is the much larger part of our emission. But here also, we started in the baseline of 2022 and we already made some progress. 2023 was a milestone for us, minus 9%. And as we continue to go through our planning, we will further reduce, until at the end 2040, we reach net zero and we have also the intermediate target for the Scope 3 by 2030, the minus 42% I mentioned earlier on.

Certainly, Scope 3 is a big challenge as you can see with regard to the magnitude. That's why I want to spend some time on the next slide to explain to you how we're approaching this important chapter. Next slide, please.

And Scope 3 is largely around our upstream supply chain. This is material and services which we buy. So the solution to this is the active engagement with our suppliers. This has 3 major activities, the onboarding. We have been working with our suppliers to integrate our requirements and criteria in the contracts we have with them.

As of today, 76% of our Scope 3 emissions are already covered in the criteria embedded in the contracts. And we have an objective by the end of 2025 to reach full coverage. This is a very important first step.

Secondly, there's a lot of work underway with regard to engaging to collect data. We have launched a new database called [Cyrene] where our suppliers are invited and they started to enter their data, their emission data related to what we source from them into the database that we have a more transparent data collection moving forward.

Last but not least, this is an effort we cannot do alone. We have entered a number of partnerships with industry peers, but also with the supplier network. I want to mention the Energize program, which is a cross-pharma supplier approach.

And of course, we start also to establish then sustainability sector standards and so on. It remains a very big challenge because, of course, there is different maturity of our suppliers, different level of understanding. There's also still a limited availability of clean technologies, and there are different approaches, different requirements with regard to policy and timing across the different countries, which is another factor which makes it more difficult. But we are very confident that the approach we are taking is making us progress, and we will, of course, track this on our trajectory to 2030 and 2040. May we have the next slide, please?

Now, let's switch gears. Whilst the SBTi approach, and this was a very important milestone for us, to get the approval is a relatively new approach and we are satisfied with it. At the same time, we, earlier this year, started a deep dive and an assessment, a technical assessment about nature on our direct operations and upstream supply chain.

And you can see on the left-hand side here, the key insights, which we have received. First of all, 50% -- a little bit more than 50% of our own manufacturing sites are in so-called nature sensitive areas. This is a significant large number. And when we reviewed more carefully the data, we realized that the reason is that mostly our manufacturing sites in Europe, they are closely to areas where a higher coverage of forests are. And of course, there's then the risk of pollutions which we need to avoid.

Our assessment so far shows that all of those sites are well covered and protected, and this risk is mitigated through our existing plans already. So this is, of course, an ongoing work for us and it's listed also here under biodiversity that we will continue to do deep dives with regard to major assessments of our priority sites where we have this close proximity.

At the same time, we also looked into the other aspects of direct operation and upstream supply chain. We found similar results as we are already having in our plans, which SBTi approved, as depicted here, with regard to the impact. So this is covered by our existing sustainability strategy for direct.

And for the upstream part, there is land use, water withdrawals, and Scope 3 emissions as key topics. The latter 2 ones already covered by our plans, which we have in place. But we have an opportunity on the land use, which we have started to work on with regard to raw materials, where we are now implementing sustainable sourcing strategies for materials with regard to packaging or which we use directly into our products. And we are working on this to firm up our plans and then also define their necessary and meaningful targets. Can I have the

next slide, please?

Yes, this was the overview of the environmental sustainability. Now let's switch gears to a supply chain resilience. Of course, for us, a robust supply chain, which reliably supplies our medications to patients is key. Given, however, our environment, given the geopolitical factors and events, we can have disruptions and expect challenges with regard to supply. That's why we have a comprehensive plan in place of mitigation actions, which are outlined across the 4 pillars listed here.

First of all, we are building on a diverse network with dual supply. So all of our products will be, very soon, having 2 separate parallel supply chains composed of our internal sites. We have approximately 35 internal manufacturing sites globally, complemented by external supply that we basically are not dependent of regional effects but we have 2 separate supply chains to compensate for that.

We manage our products with dedicated product leadership teams who make sure that we have the right risk management in plants in place, we have the right supply plans in place, and we have a strategic inventory across the entire value chain.

And for example, in the countries, we typically have between 3 and 4 months of supplies, which can be, of course, shipped to wholesalers and pharmacies, which gives us a very good coverage. And last but not least, of course, we are having a very rigorous demand versus supply planning and capacity planning process on the short, mid and long term, which is very robust. It has proven very successful during the pandemic, where we had very high customer service levels. And those levels continue to be close to 100%. Year-to-date numbers in 2024 are 99.8%, which is a very, very good result, which also shows how successful the approaches we have in place are.

Hand in hand with this next slide is, of course, technology, automation, and artificial intelligence. This helps us with regard to robustness of our clinical supply chain but it helps us also with regard to efficiency.

We have these technologies embedded and continue to evolve and apply those technologies across the entire value chain from planning to sourcing, making product, testing and releasing product, delivering it to the country and, of course, many enabling functions making this happy. A few examples are listed here.

With regard to yield optimization, we are using artificial intelligence for sales and operations planning and also for distribution and shipment optimization. All of this is well supported by skilled associates who are very well equipped to help us to continue to be able to deliver our medications to patients on time and in full.

This brings me to the end of my short presentation around environmental sustainability and supply chain resilience.

And with this, I hand back to Lutz again.

Lutz Hegemann Executive

Yes. Thank you very much, Steffen, for those examples and the overall progress that you have

showed, which brings me to 2 aspects to close off today's presentation before we move into Q&A.

The first one is our scorecard, which has the very clearly articulated targets in the ESG space that partly are linked to the sustainability-linked bond. And as I could show you on the innovation and access part, we are well positioned to reach those targets based on the current performance that we are demonstrating.

And then as Steffen had mentioned on the environmental sustainability, we are likewise very well on track and in some cases have already reached the targets of the year to come, showing the great progress that's being made. And then, of course, for completeness, we're also doing quite well on the elements of gender balance, which is one of the main metrics that we see in the human capital space. And you can see all of that on our web page. And of course, you have even greater detail being shown there.

The other element in the next slide, Mavic, please, that I quickly wanted to touch, the changing requirements for nonfinancial disclosures and due diligence regulations and how we are getting ready to meet those compliance-driven requirements, which, of course, we welcome because it will ultimately enhance greater transparency and greater comparability between different organizations.

And for us here in Switzerland, the first new regulation that becomes applicable even now that we are reporting last year is the Swiss Article 964, Transparency on Nonfinancial Reporting, which we have implemented, and this applies for, as I said, this full reporting year when it comes to the TCFD.

We are likewise very well prepared for the upcoming EU Corporate Sustainability Reporting Directive, EU Taxonomy, and so forth, understanding that there is still a bit of ambiguity on how the European Union wants to implement this. It was just discussed recently in Brussels whether there is further opportunity to harmonize the reporting and reduce the reporting requirements so we'll carefully watch that space. But we are, of course, getting ready with our own internal systems, also involving our financial reporting systems, learning from them because we want to apply the same rigor and transparency for the nonfinancial disclosures as we do for our financial disclosures.

You will see in this year's Novartis in Society report some changes that we have implemented in anticipation of meeting CSRD requirements. But you can rest assured we are not changing our approach, and we are also not compromising our transparency in reporting out what we are accomplishing. It may not be in the Novartis in Society Report but maybe on our corporate website but we remain committed to full transparency in this space. The next slide just summarizes some concluding comments before we move into Q&A. I hope we could demonstrate that we remain committed to maximize our social impact through the advancement of innovation and access to medicines approach.

We want to secure future impact in ensuring environmental sustainability and supply chain resilience, and Steffen gave some very clear indication how we go about it. And then last but not least, we are making the desired progress on our ESG goals and on the nonfinancial disclosure requirements.

With that, I would like to thank you once again for your interest and attention and hand it over to Mavic to lead us through the Q&A. Thank you.

Maria Victoria Cuevas-Pautonnier Executive

Great. Thank you so much, Lutz and Steffen. I think we covered a lot of ground here. So let me just open up to the Q&A. [Operator Instructions]

So we have received already a question from Juan Salazar from Pictet. And the question is, has the Board considered incorporating material ESG KPIs and targets into the long-term executive compensation plan? Maybe I start a bit, and I'll hand over to you, Lutz and Steffen, in terms of what the Board has been discussing on material ESG factors.

So ESG target is a constant discussion at the Board level, specifically at the Compensation Committee. And at the moment, many of you are aware that ESG is incorporated in the short-term incentive under the strategic objectives, which is 40% of the contribution. So at the moment, there is a constant discussion whether it should be short-term incentive or long-term incentive. And based on some of the investor feedback we've been received, I think we are in good position that we keep it in the short-term incentive. But nonetheless, we will continue to monitor ongoing developments.

Maybe I hand over to Lutz and Steffen in terms of Board discussions.

Lutz Hegemann Executive

Yes. No, I think you summarized it well. I believe what's important to highlight is that there is a link and a very clear link between performance and the performance measurement and how that links to compensation and the ESG criteria. And that has always been the desire. But as you said, the Governance, Sustainability, and Nomination Committee is, of course, debating what is the best way how to implement that and where it should be reflected, whether it's in the STI, the LTI or both.

But I can assure you that's an ongoing discussion that we'll hopefully see, yes, continuing and leading to the desired change. But the spirit of linking pay to performance and that includes ESG performance, that is very, very clearly articulated.

Maria Victoria Cuevas-Pautonnier Executive

You want to add anything to that?

Steffen Lang Executive

No, I think it's very clearly summarized. No, nothing to add.

Maria Victoria Cuevas-Pautonnier Executive

All right. So we have a second question from Emily Nathan from NBIM. So the question, I think this is for you, Steffen, and I'm not sure how much detail you could provide.

But thank you for the helpful presentation. Where do you source heavy metals for PLUVICTO and other such products from? And how are you controlling for the collection of the

radioactive materials? Can it have a broader impact on the environment?

Steffen Lang Executive

Yes, thank you very much for the question. We have multiple sources for our raw materials, which we use in our radioligand therapies, and PLUVICTO is one of the products we have. I cannot now list all names but we can certainly follow up separately on that topic. With regard to radioactive waste and recycling, on the one side, it's very important to note that our isotope which we use is recycled. So we reuse it at an efficiency level of more than 95%.

So there is, of course, a remaining part which we recycle and then store in the appropriate environment to protect the -- or to avoid any radioactivity leaking. And the same applies at the medical treatment centers where PLUVICTO is applied. There are clear protocols in place and how waste is collected and managed.

Maria Victoria Cuevas-Pautonnier Executive

Perfect. Thank you so much, Steffen. So we have another question and I think this is for you, Lutz. This is from Ellie Higgins from Federated Hermes. How do you anticipate that AI and other digital solutions will impact global health equity?

Is this something that Novartis will scale up in its access programs?

Lutz Hegemann Executive

Yes. I think it's -- of course, AI may have many, many applications in health care and in the pharmaceutical industry specifically, where I personally see the greatest potential is currently in 2 areas. One is in drug discovery, where the precision and the speed of identifying new targets can be accelerated. And Fiona Marshall, our Head of the Biomedical Research Group would be certainly able to provide many examples here where we actively use this.

But I would see that also for neglected tropical diseases. If we can, with the same effort, generate more molecules, then of course, that would be a win, particularly also in an area where there is no financial incentive of being there in the first place.

And then secondly, and maybe Steffen can also talk to that, I see AI being a great enabler to drive operational efficiency. And we see this in clinical trial recruitment processes. We see this, I believe, in the manufacturing part. We see this in distribution. And I would hope that some of those new technologies like AI but also data and digital at large like telemedicine can help overcome infrastructural inefficiencies in particularly developing countries.

And that would nicely close the loop then between cutting-edge technology and needs in developing countries. I don't know, Steffen, if you would like to add on the operations part.

Steffen Lang Executive

Yes, sure. As you rightly outlined, there is a great potential for automation and generative AI and AI technologies, and AI technologies in general to speed up development, to increase efficiencies. I had, in my presentation also, a few examples in the manufacturing space with regard to supply planning, with regard to execution of manufacturing, yields improvement.

In clinical trials, of course, a lot of time is required to write documents, clinical trial protocols, regulatory documents. We have efforts around this to equip our teams with the right tools.

We also see the first examples where AI has helped to faster and better identify patients for clinical trials so recruitment is faster. And this helps all development projects to better -- go faster with the development cycle. So huge potential and we have broad applicabilities across the entire value chain.

Lutz Hegemann Executive

Maybe if we go beyond Novartis then, of course, there is also multiple promising indications where AI could help. If you, for instance, consider the precision of diagnosis. And we have now started together with the Bill and Melinda Gates Foundation and some other pharmaceutical companies a program we are rolling out handheld ultrasound devices, for instance, in Kenya, so that you have a point of care in the periphery. You have capabilities that you would normally only have in a tertiary hospital.

And now the next step to the availability, putting it in the hand of community health workers, would be to use artificial intelligence to enable better decision-making and diagnosis. And that is possible that you overlay your ultrasound image with AI. And then all of a sudden, the health care worker, who may not be a trained physician, has the ability to identify abnormality that then needs to be referred to the next level. So I think we will see great advances, both in the pharmaceutical space but also in the health care space at large.

Maria Victoria Cuevas-Pautonnier Executive

Sounds very promising. Steffen, I think we have a question on supply chain resilience from Emily Nathan again from Norges. So any thoughts around the likelihood of Biosecure Act passing? And how are you preparing for it?

Steffen Lang Executive

Yes, thank you very much for the question. Yes. Of course, I think this needs to be awaited if this law will pass or not. We, of course, looked at what this means for us. And I can share with you, we have a very minimal exposure.

And this is already, as we speak, mitigated so from a manufacturing supply chain, there is no concern for Novartis.

Maria Victoria Cuevas-Pautonnier Executive

All right. I'm just conscious of time because we have 3 minutes left, But Lutz and Steffen, this is actually one of the top questions we receive from investors, and it's about the value creation of our environmental and access to medicines program. Can you briefly talk about what is the financial rationale of these programs?

Lutz Hegemann Executive

I think the first statement that I would make is that we do those programs because we fundamentally believe that society expects this from a responsible private sector player. And of course, the way we would like to do it is in an accretive way to our business, both in terms

of the impact that we generate, reaching more patients, but also financially, not maybe to the same extent with the same profit margin as our core business but it should be financially accretive.

And I showed you the example of Vietnam, which meets all of these criteria. And those are the programs that we actively want to roll out more that we want to scale that we are looking for because we need to have those 2 elements. And patients, even if they pay less for medicine, now having access to medicines they otherwise wouldn't get is a win for the patients as it is a win for us.

The other element that I should highlight here is also the importance that these programs have to our 75,000 colleagues around the globe, where they really drive particularly, I would say, also in the younger generation that is looking more after the purpose of the work that they do, that they take pride in the work we do. And I hope ultimately that, that enables us to have access to talent or retain talent that would otherwise potentially be at a flight risk. But it's always amazing to see how proud our colleagues are about the work that we do, which again reinforces that this meets expectation both internally and externally.

Maria Victoria Cuevas-Pautonnier Executive

Steffen, is there anything you'd like to add on that on the environmental side?

Steffen Lang Executive

Yes, please. First of all, I fully agree with Lutz. It's the right thing to do. That's the prime motivation. And then I think you started early on years ago already in manufacturing where we do a lot of recapitalization of our equipment chain to embed requirements of sustainability and environmental sustainability into our recapitalization plans.

So it was not something which comes -- came extra, and on top, it was integrated and embedded.

And to the surprise of many colleagues, most of the projects around environmental sustainability and manufacturing had a positive business case. So it's not only about being more sustainable, it also increases efficiency and productivity and I think that's ideal actually. And that's why we also are, of course, continuing on that journey.

Maria Victoria Cuevas-Pautonnier Executive

Perfect. Thank you. I'm afraid we just ran out of time. But in case you have further questions, feel free to reach out to me or the Investor -- anyone in the Investor Relations team.

And thank you, Steffen and Lutz for covering a lot of ground today and for your engagement. And to everybody who joined in, thank you so much again. We appreciate your questions, your time, and we look forward to continuing the dialogue with you. Thank you.