

Novartis AG (NOVN VX)

Glivec Settlement Adds to Momentum

BUY

Price target CHF87.00

Price CHF79.70

EQUITY RESEARCH EUROPE

Key Takeaway

Novartis' settlement with Sun on the Glivec patent litigation extends the first US Glivec genericisation out to February 2016 versus consensus expectations of mid-2015. Furthermore, multi source generics should comfortably be delayed well beyond this. This should add to the earnings momentum already building as a result of recent restructuring and updates around LCZ696.

Novartis settles patent dispute with Sun: Overnight, Novartis has disclosed it has settled its outstanding patent litigation with Sun Pharma (SUNP IN, INR612.15, Buy), allowing Sun to launch a generic version of Glivec in the US from 1st February 2016. As guided by Novartis, consensus has continued to assume a US genericisation for Glivec post the expiry of the COM patent in July 2015. This was despite the hope that some delay might have been triggered by litigation related to later dated patents, such as the 2019 polycrystalline patent. Whilst this settlement to February 2016 might not be as long a delay as some might have hoped for, it nonetheless should provide upside versus current expectations. We currently model c\$2bn of US revenues will be lost by 2016E, representing c3% of total Group revenues.

A phased genericisation now more likely: Under the settlement, Sun will be the first generic to market. With only one generic initially on the market, we would anticipate pricing remaining relatively robust. Furthermore, it is likely that Novartis' Sandoz generic division will launch an authorized generic in an attempt to retain as much value of the franchise as possible.

Multi source generics may still be years away: Dr Reddy's (DRRD IN, INR2518.35, Hold) has also filed an ANDA, but Novartis sued for patent infringement in March 2014, triggering a 30-month stay to mid-2016. On the assumption that the case does not come to court until around mid-2016, it is possible that a decision on the case might not be handed down until sometime in 2017, possibly delaying multi source generics until 2017 in the event that the case goes against Novartis.

Background to the Sun litigation: Sun filed a paragraph IV ANDA back in 2007. As the 2015 COM patent was not challenged, Novartis did not sue as the 30-month stay would have expired long before the 2015 patent expired. Sun gained tentative approval in Nov 2009. In June 2013, Sun sued NOVN asking for declaratory judgment that it does not infringe the later polycrystalline patent, so that it could launch once the 2015 patent expires.

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Company Description

Novartis was formed in 1996 from the merger of Sandoz and Ciba-Geigy. Since then, a variety of acquisitions and non-healthcare related disposals have created a global diversified healthcare company. Its business areas now spread outside the core branded pharmaceuticals into ophthalmics, generics, consumer healthcare and vaccines & diagnostics.

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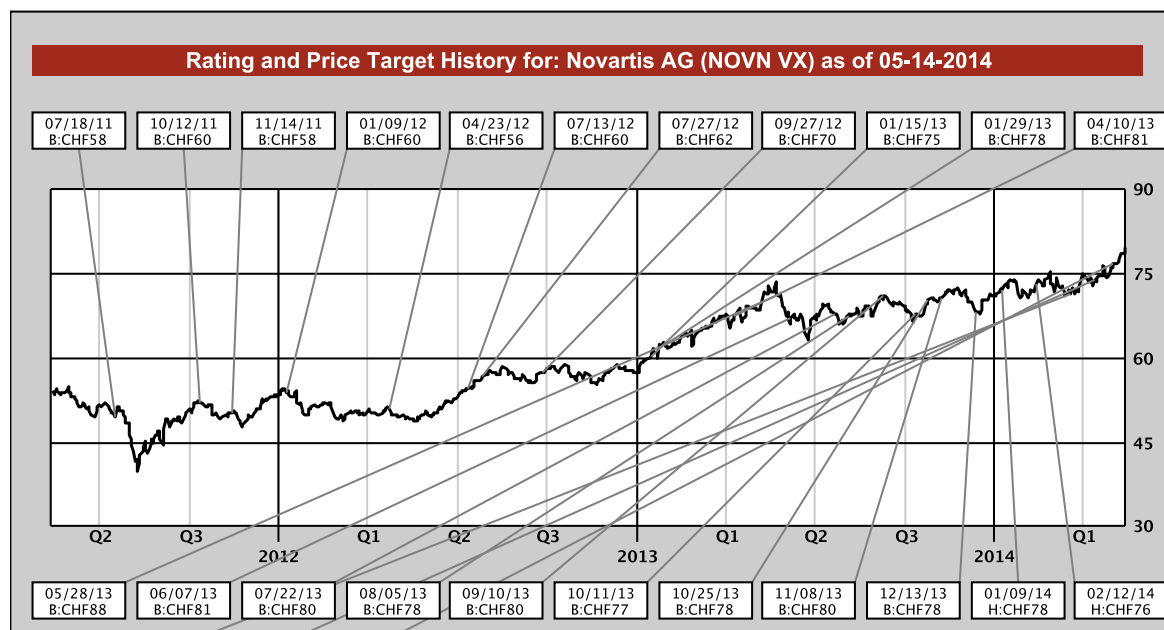
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Other Companies Mentioned in This Report

- Dr. Reddy's Laboratories (DRRD IN: INR2,518.35, HOLD)
- Novartis AG (NOVN VX: CHF79.70, BUY)
- Sun Pharmaceutical Industries Ltd (SUNP IN: INR612.15, BUY)



Rating and Price Target History for: Dr. Reddy's Laboratories (DRRD IN) as of 05-14-2014



Rating and Price Target History for: Sun Pharmaceutical Industries Ltd (SUNP IN) as of 05-14-2014



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			Count	Percent
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HOLD	773	42.17%	133	17.21%
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