

NOVARTIS CORP  
Form DFAN14A  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

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**Presentation to Shareholders Regarding**

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**Agenda**

**Introduction**

An Opportunity for Growth but Not Without Risks

\$45 Per Share is a Full Value for Chiron

**Until Recently, Novartis Has Been a Long-term Financial Investor in Chiron**

Passive Investor

|      |  |
|------|--|
| 1994 | Ciba-Geigy enters into strategic partnership with Chiron<br>Increase existing 4.3% stake to 49.9%<br>Contribution of diagnostics business (8.3%)<br>\$1.4bn purchase of shares (37.3%)<br>Enters into Governance Agreement |
| 1996 | Ciba-Geigy and Sandoz merge to form Novartis<br>Limited strategic interaction with Chiron  |
| 2000 | Chiron acquires PathoGenesis, a Seattle-based biotech company for \$700 million  |
| 2003 | Chiron acquires PowderJect, a U.K.-based vaccines company for \$881 million  |
| 2004 | Chiron's license to manufacture at the Liverpool facility suspended  |
| 2005 | Chiron independent directors reject Novartis' \$40 per share offer to acquire the remaining stake in Chiron and unanimously approve Novartis' revised \$45 per share offer   |



**The Transaction Merits Need to Be Seen Together with Chiron's Challenges and Risks**

**Novartis transaction rationale**

Strategic platform in vaccines

Blood Testing business provides a potential basis to be extended into personalized medicine

Potentially interesting early stage oncology assets

Preserve value of existing 44% stake

**Chiron's challenges and risks**

Strategically overstretched underinvestment in Vaccines

High risk, early stage pipeline in Biopharma

Flu vaccine manufacturing: Remediation ongoing

Growing competition in flu vaccine market declining market share

Significant operational and investment hurdles to meet targets and expectations

**\$45 Per Share is a Full Offer**

Well above Novartis view on the stand-alone value (USD 34.75 per share)

In excess of Wall Street target prices

Compares favorably to key valuation benchmarks

Offer value allocates more than 70% - beyond fair share to non-Novartis shareholders (USD 8.40 per share)

**Agenda**

Introduction

**An Opportunity for Growth but Not Without Risks**

\$45 Per Share is a Full Value

**Chiron Has Mid- and Long-Term Opportunities**

|  |                                   |                              |
|--|-----------------------------------|------------------------------|
| Vaccines                                     | Blood testing                     | BioPharmaceuticals           |
| <b>Flu</b>                                   | <b>NAT: HIV, HCV, HBV, WNV</b>    | <b>Cystic fibrosis</b>       |
| <b>Meningococcus C</b>                       | <b>Immunoassays:<br/>HIV, HCV</b> | <b>Skin / renal cancer</b>   |
| <b>Travel</b>                                | <i>Procleix Ultrio (US)</i>       | <i>Specialty antibiotics</i> |
| <b>Pediatrics</b>                            | <i>Molecular diagnostics</i>      | <i>Oncology</i>              |
| <i>Meningococcus B, ACWY</i>                 |                                   |                              |
| <i>Therapeutic vaccines, cancer vaccines</i> |                                   |                              |

**Marketed products**

*Pipeline*

*Long-term opportunities*

**But Many Issues Remain Unresolved**

Ongoing remediation at Liverpool, Marburg and Siena facilities

Open FDA 483 issues in Liverpool, Marburg and Emeryville

Ongoing sterility issues in Marburg facility prevented BEGRIVAC vaccine supply for 2005-2006 and may delay cell flu program

High risk, early-stage pipeline

Ongoing legal issues and distractions relating to the disclosure of Chiron's manufacturing problems in 2004

**Remediation of Manufacturing Sites is Ongoing and Will Take Time and Capital to Complete**

|                   |   |
|-------------------|---|
| <b>Liverpool</b>  | Further investments needed<br>1960s facility requires environmental upgrades, air handling and water systems improvements |
| <b>Marburg</b>    | Remediation ongoing<br>Substandard engineering<br>Improvement in flu cell culture facility design needed                  |
| <b>Siena</b>      | Past maintenance minimised catch-up needed to ensure ongoing critical operations  |
| <b>Emeryville</b> | Ongoing upgrades required for BioPharma and Blood Testing   |

Incremental remediation Capex through 2010 to reach \$200m

**The Biopharmaceuticals Pipeline is High Risk and Dependent on the Success of Tifacogin**

| Product        | Phase       | Earliest launch | Peak sales(1) | PoS(1) | Comments  |
|----------------|-------------|-----------------|---------------|--------|---|
| PULMINIQ       | Registr     | NA              | \$ 50m        | 50%    | Approvable letter ; further clinical studies required but not planned |
| Tifacogin      | Phase III   | 2008            | \$ 750m       | 25%    | OPTIMIST Phase III trial in 1,754 patients failed                     |
| Tobramycin DPI | Phase III   | 2009            | \$ 64m(2)     | 70%    | Significant technical risks/hurdles                                   |
| CHIR 258       | Phase I     | 2010            | \$ 300m       | 10%    | Early stage   |
| CHIR 12.12     | Phase I     | 2010            | \$ 300m       | 10%    | Early stage   |
| CHIR 265       | Preclinical | NA              | NA            | NA     | Early stage   |

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(1) **Source: Lehman Brothers, PharmaPipelines, October 2005**

(2) **These are incremental sales beyond peak sales estimate for TOBI, as these will be cannibalised**

**and Tifacogin's Success Remains Questionable**

Tifacogin failed a Phase III study to measure efficacy and safety in 1,754 patients with severe sepsis

no survival benefit vs placebo on the primary endpoint (mortality at 28 days) and on all pre-specified sub-group analyses

safety issues, particularly CNS bleeds, were more frequent with tifacogin than with other anticoagulants (e.g. heparin)

In one *retrospective* sub-group analysis of 157 patients (sCAP patients with documented bacterial infection and not treated with heparin) tifacogin showed a benefit vs placebo

However, other tifacogin treated sub-groups showed a trend to greater mortality, including sCAP patients not treated with heparin without documented evidence of infection

Even if successful in showing benefit in this sCAP population in the ongoing study, commercial prospects are likely to be limited

Only 30% of sCAP patients don't receive heparin

56 000 patients / year in the US(1)

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(1) Am J Resp & Crit Care Med 165:766 (2002)



**whilst the Vaccine Market is an Attractive Growth Platform**

Innovative vaccines for established and novel targets, including therapeutic vaccines

New opportunities through break-through technologies (e.g. recombinant vaccines)

Increasing awareness of the potential of vaccines to reduce health care burden

Improving pricing and funding

Global vaccine market (\$ bn)

[CHART]

Source: Historical data based on annual reports and equity research. 2009 based on average growth projections by Evaluate Pharma, IMS, Deutsche Bank, West LB and Datamonitor

**Chiron Has Under-Invested in Vaccines R&D Resulting in a Smaller Late Stage Portfolio**

**2004A Chiron R&D spend (\$ m)**

[CHART]

**2004A vaccine companies R&D spend (\$ m)**

[CHART]

**Current Phase II & III vaccine products**

[CHART]

**Source: Company filings and equity research**

**1: Based on GSK's indication that vaccine R&D spend is in-line with overall Pharma**

**as a Result Chiron Lacks Projects in Major Growth Areas**

**Blockbuster vaccine launches 2000-2010**

| Product           | Indication   | Projected peak sales (\$ m) | Projected launch |
|-------------------|--------------|-----------------------------|------------------|
| Gardasil (Merck)  | HPV          | [CHART]                     | 2006             |
| Pevnar (Wyeth)    | Pneumococcus |                             | 2000             |
| Cervarix (GSK)    | HPV          |                             | 2007             |
| Streptarix (GSK)  | Pneumococcus |                             | 2009             |
| Gardasil (Sanofi) | HPV          |                             | 2008             |
| Rotarix (GSK)     | Rotavirus    |                             | 2006             |
| Rotateq (Merck)   | Rotavirus    |                             | 2006             |

Source: Peak sales estimates and launch dates are per Lehman Pharma Pipeline

**In Addition Competition is Increasing Capacity in Chiron's Key Franchise - Flu Vaccines**

**Planned capacity of main players**

[CHART]

Market evolving from a duopoly to five strong suppliers

Expected total capacity of approximately 280 m doses in 2009 equal to the US population

A general vaccination recommendation will be needed to avoid oversupply

**Source: Data presented at the National Influenza Summit 2006 and company announcements**

**Pandemics Continue to Be a Threat to Public Health with a Potential Unmet Need**

Influenza A subtypes in the human population

|        |            |                             |                              |                              |                              |                              |
|--------|------------|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Strain | H3 ?<br>=> | H1N1<br>=><br>(Spanish flu) | H2N2<br>=><br>(Asian flu)    | H3N2<br>=>                   | H1N1<br>=><br>(re-emerged)   | H5N1<br>=><br>(bird flu)     |
|        | 1900       | 1920                        | 1940                         | 1960                         | 1980                         | 2000                         |
| Impact | Unknown    | 40 m deaths<br>world wide   | >1 m<br>deaths<br>world wide | >1 m<br>deaths<br>world wide | >1 m<br>deaths<br>world wide | >1 m<br>deaths<br>world wide |

Source: Adapted from Palese, *Nature Medicine*, 10(12): S82-S87 (2004); CDC

**...but History Teaches Us That They May Not Necessarily Materialize**

1976 - swine flu

February: Influenza A Hsw1N1 strain caused severe respiratory illness in 13 soldiers with one death in Fort Dix, NJ

Summer: Initial vaccination campaign foreseen to target 150 m patients only 43 m were actually vaccinated

December: Epidemic viewed as unlikely by Center for Disease Control (CDC), campaign stopped

**And in the Event of an Avian Flu Pandemic  
There May Be Little Commercial Value**

Regulatory pathway still needs to be clarified with different Governments focusing on different specifications

The strain may still mutate making existing products obsolete. As such, there is unclear pricing and stockpiling needs

Production of H5N1 has low yields and will cannibalize existing flu vaccine capacity today only small quantities are produced in the winter

Twelve companies are involved in the development of a H5N1 vaccine with five phase II programs and over 20 earlier stage programs ongoing

History suggests that a real pandemic will most likely require an altruistic approach by industry - which can only be funded by larger companies

**The Status Quo is Less Attractive Than Novartis Offer**

Overstretched across three different business units, all of which are sub critical in size

Underinvestment in Vaccines and Diagnostics

Suboptimal R&D output from BioPharma

Business is highly dependent on royalties

Investment requirement cannot be sustained

Over \$ 600 m in capex required in vaccines by 2010(1)

Stand-Alone case is highly dependent on tifacogin, which has a low probability of success

A stronger international sales and marketing platform will be required to realize Chiron's pipeline potential

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(1) Estimated capex need including investment in flu cell culture



**Agenda**

Introduction

An Opportunity for Growth but Not Without Risks

**\$45 Per Share is a Full Value**

**An Uninspiring Investment Since 1994**

**From Novartis initial investment to offer**

[CHART]

Source: Factset

**Near-Term Management Forecasts Are Below Wall Street Expectations, Long-Term Forecasts Are Very Aggressive**

**Revenue (\$bn)**

[CHART]

**Net Income (\$m)**

[CHART]

Note: 2005A Net Income adjusted for normalized tax rate of 25.0%  
Chiron's management projections underlying Chiron's valuation analysis

**Business is Dependent on Royalties**

Chiron royalties provide only short-term cash flow and flatter Chiron's valuation parameters

Significant patent expiries from 2008 onwards

**Chiron projected royalty revenue****2005 adjusted P&L**

|         | (\$m)               | Adj. Incl.<br>Royalties | Excluding<br>Royalties |
|---------|---------------------|-------------------------|------------------------|
|         | Revenues            | 1,920                   | 1,603                  |
|         | Gross Profit        | 1,189                   | 871                    |
| [CHART] | Operating Profit    | 232                     | (85)                   |
|         | Adj. Net Income     | 214                     | (24)                   |
|         | EPS (\$)            | 1.11                    | (0.13)                 |
|         | Implied P/E at \$45 | 40.5x                   | NM                     |

Note: Adjusted net income assuming recurring 25% tax rate  
Net income from royalties tax effected at a 25% tax rate

**\$45 Offer Grants More Than 70% of Synergy Value to non-NVS Shareholders**

| Methodology             | Value per share (\$) | Comments   |
|-------------------------|----------------------|--|
| 52-Week Trading Range   | [CHART]              | Trading Range post Fluvirin announcement: \$30.80-38.63<br><br>Average prices: \$36.23 / 36.12 (3M/6M)                   |
| Research Target Prices  |                      | Target prices published prior to 31-Aug offer<br><br>Consensus recommendation: Hold<br><br>Outliers excluded             |
| DCF Standalone          |                      | Sum-of-parts DCF<br><br>10% discount rate<br><br>Sensitivity is a range of 3.5% - 4.5% terminal growth rate for Fluvirin |
| DCF with 50% Synergies  |                      | Standalone DCF plus 50% of expected synergy value over all outstanding shares  |
| DCF with 100% Synergies |                      | Standalone DCF plus 100% of expected synergy value over all outstanding shares   |

Source: Goldman Sachs analysis filed in the 13E-3

**Limited Upcoming Share Price Catalysts**

Chiron delayed negotiations for 11 months to capture positive newsflow during discussions

First contact December 2004

Negotiations ended October 2005

Newsflow incorporated in price

Re-entry to U.S. flu market

First Phase 3 trial in EU for flu cell culture

Initiation of Phase 1 / Phase 2 in U.S. for flu cell culture

Positive data on MF59 adjuvant with potential pandemic strain

Initiation of Phase 3 for TIP

Initiation of Phase 1 for CHIR-12.12

Geographic expansion and ex. U.S. PROCLEIX ULTRIO penetration

Limited upcoming newsflow left

## Wall Street Analysts See Few Remaining Growth Drivers and Have Price Targets Below \$ 45

### Pre-offer views

**We see few remaining growth drivers over the next 12-18 months... (..) as the flu vaccine business comes under significant pressure from competition** (*Morgan Stanley, 31-Aug-2005*)

In our opinion, **Chiron lacks depth in regards to a product pipeline** in comparison to its peer group (...) (*Citigroup, 27-Jul-2005*)

We believe the **continued funding** of further development of Proleukin, as well as resurrected programs such as Tifacogin, and attempts at diversification in the testing business, **will fail to bear fruit** (*Bernstein, 28-Jul-2005*)

### Post-offer views

Thus, we believe **Chiron shareholders would get more value and reduce risk through an all-cash acquisition by Novartis than if existing management continued to run the business** (*Merrill Lynch, 06-Sep-2005*)

We believe it is unlikely that there will be other offers/bidders... **and recommend taking profits at or above our target price of \$42 per share** (*Citigroup, 01-Sep-2005*)

Our sum-of-the-parts valuation suggests that the company is **fairly valued with a range of \$37-\$44 per share...** (*AG Edwards, 02-Sep-2005*)

Source: Wall Street research

**Conclusion**

Chiron is overstretched in all three businesses

Stand-alone option is not in the best shareholder interest

Novartis is offering a full and fair price

No significant value-driving milestone in the near term

Turnaround period of 3-5 years