Novo Nordisk (NVO)

Updated November 7th, 2018 by Bob Ciura

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	9.3%	**Volatility Percentile:**	70.9%
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	19.9%
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Growth Percentile:**	30.3%
Dividend Yield:	0.7%	**5 Year Price Target**	$69	**Valuation Percentile:**	81.8%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	72.5%

Overview & Current Events

Novo Nordisk A/S is a global healthcare company. It was founded in 1925 and is headquartered in Denmark. Today, the company performs research, development, and manufacturing of pharmaceutical products. It focuses on two core segments: Diabetes & Obesity Care, and Biopharmaceuticals. The Diabetes & Obesity Care segment manufactures products for insulin, related delivery systems, oral anti-diabetic products, and products to treat obesity. Over 80% of the company's annual sales are derived from its diabetes care products. The Biopharmaceuticals segment manufactures products for hemophilia, growth hormone therapy, and hormone replacement therapy.

On 11/1/18 Novo Nordisk announced third-quarter 2018 financial results. Sales increased by 4% in local currency due to sales growth of multiple products. Sales of Victoza, Ozempic, Saxenda, and Tesiba increased 12%, 18%, 53%, and 15% respectively. International sales increased by 8%, while sales in North America increased by 1%. Diabetes and obesity care products increased by 5% for the quarter. Diluted earnings per share increased by 3%. For 2018, sales growth is now expected to be 4%-5% and operating profit growth is expected to be 2%-5%.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.59	$0.69	$0.88	$1.04	$1.38	$1.73	$1.64	$1.98	$2.12	$2.48	***$2.52***	***$3.22***
DPS	$0.19	$0.22	$0.27	$0.38	$0.50	$0.62	$0.83	$0.73	$1.41	$1.14	***$0.47***	***$0.60***
Shares	3,041	2,939	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	***2,431***	***2,425***

Novo Nordisk experienced strong earnings growth in the years after the Great Recession. The company benefited from the global economic recovery, as well as rising drug prices for many years. However, the environment has shifted, and large pharmaceutical manufacturers are experiencing new challenges. First, Novo Nordisk has had to overcome patent expiration and heightened competition from generics, which has weighed on profit margins. In response, Novo Nordisk is investing aggressively to expand its next-generation insulin portfolio, which includes Tresiba, Ryzodeg, and Xultophy. According to Novo Nordisk, more than 425 million people around the world have diabetes. This is an emerging growth area, and Novo Nordisk is quickly building a top position. We expect 5% earnings and dividend growth per year over the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	20.3	16.3	19.6	22.2	21.4	19.8	27.1	27.1	23.0	17.2	***17.9***	***21.4***
Avg. Yld.	1.6%	1.9%	1.6%	1.6%	1.7%	1.8%	1.9%	1.4%	2.9%	2.7%	***1.0%***	***0.9%***

Shares of Novo Nordisk trade for a price-to-earnings ratio of 17.9. By contrast, in the past 10 years the stock traded for an average price-to-earnings ratio of 21.4. This is a reasonable estimate of fair value, since Novo Nordisk is still generating growth and has a strong business model. We view the stock as modestly undervalued. An expanding price-to-earnings ratio could add approximately 3.6% to Novo Nordisk's annual returns. Novo Nordisk pays a dividend, but significantly reduced its dividend for 2018 compared with prior years. The company declared a dividend of DKK 3.00 per

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share for 2018, after paying out DKK 7.85 in 2017. As a result, the stock has a fairly low dividend yield of 1%. For U.S. investors, there is a 27% dividend withholding tax on dividends, meaning the effective yield is approximately 0.73%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

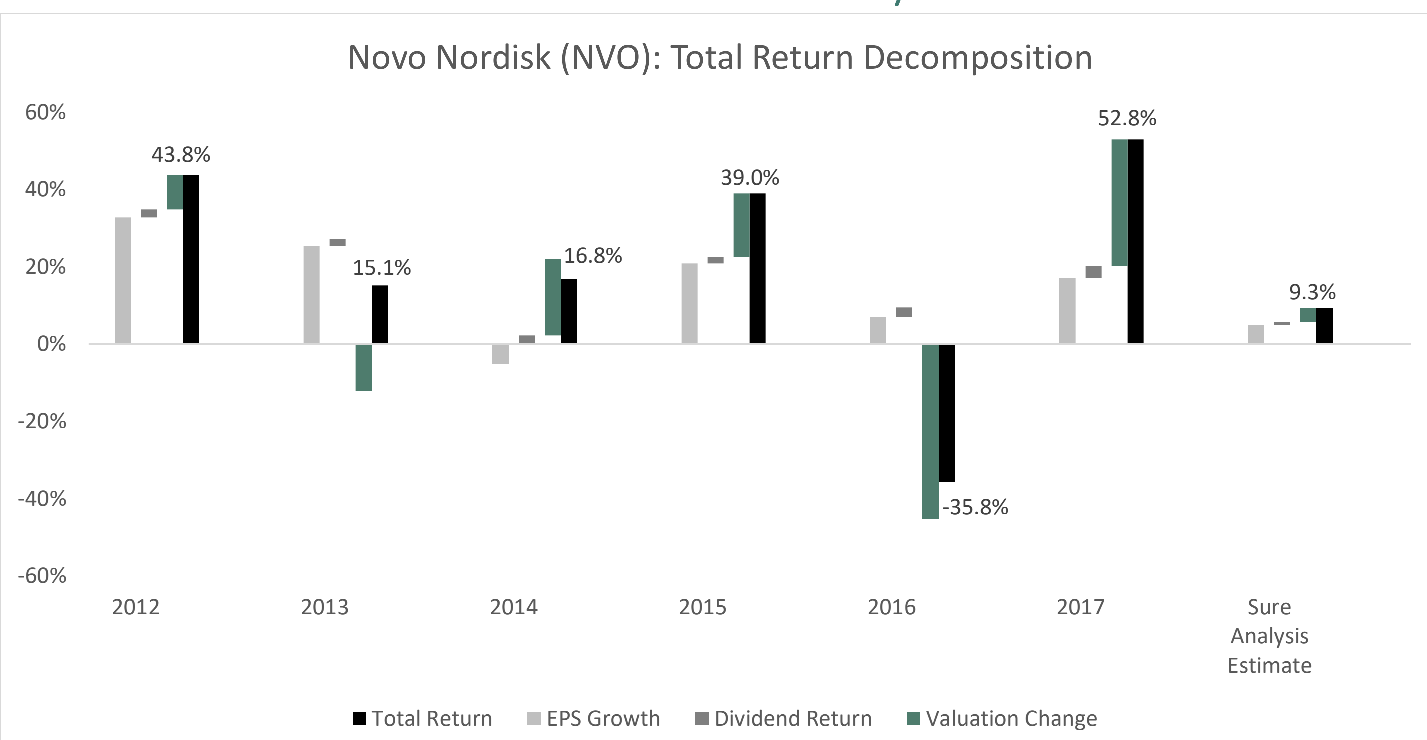
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	73.5%	72.2%	79.8%	89.1%	95.8%	95.0%	105%	102%	101%	86.8%	***87.0%***	***87.0%***
Debt/A	34.8%	34.7%	39.8%	42.1%	38.1%	39.5%	47.7%	48.8%	53.6%	51.3%	***51.5%***	***51.5%***
Int. Cov.	18.2	11.8	9.2	23.3	16.5	48.0	61.3	8.2	66.7	31.9	***32.0***	***32.0***
Payout	32.2%	31.9%	30.7%	36.5%	36.2%	35.8%	50.6%	36.9%	66.5%	46.0%	***18.7%***	***18.7%***
Std. Dev.	27.1%	22.0%	17.6%	25.2%	22.4%	20.0%	23.0%	20.4%	31.3%	19.3%	***19.5%***	***19.5%***

Novo Nordisk receives high marks for safety and quality. The company has a manageable level of debt and a high level of interest coverage. It also has a dividend payout ratio below 20%. Novo Nordisk's competitive advantage is primarily its research and development. The company invested over $2.1 billion into R&D last year, and as a result has a focused portfolio in high-growth categories. Novo Nordisk is likely to be resistant to a recession. People will always need to take their medications, even when the economy is in recession.

Final Thoughts & Recommendation

Novo Nordisk has had to accelerate its investments in new product development, due to falling drug prices and elevated generics competition. The company has done a good job of returning to growth, even in a challenging environment. The only major criticism of Novo Nordisk is its low dividend yield. However, there is room for higher dividend payments down the road, as the turnaround materializes. The combination of earnings growth, dividends, and valuation changes is expected to result in annual returns of 9.3%, which earns Novo Nordisk a hold recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	8996	9559	10820	12394	13475	14881	15839	16057	16615	17002
Gross Profit	7000	7606	8740	10042	11149	12363	13242	13648	14061	14318
Gross Margin	77.8%	79.6%	80.8%	81.0%	82.7%	83.1%	83.6%	85.0%	84.6%	84.2%
SG&A Exp.	3117	3403	3785	4156	4292	4788	4773	4786	4807	4890
D&A Exp.	483	477	439	511	465	498	613	440	475	484
Operating Profit	2445	2859	3363	4180	5090	5608	6152	7356	7199	7454
Operating Margin	27.2%	29.9%	31.1%	33.7%	37.8%	37.7%	38.8%	45.8%	43.3%	43.8%
Net Profit	1904	2015	2564	3194	3701	4484	4723	5186	5637	5804
Net Margin	21.2%	21.1%	23.7%	25.8%	27.5%	30.1%	29.8%	32.3%	33.9%	34.1%
Free Cash Flow	2138	2304	2811	3370	3211	3971	4884	4743	5952	4950
Income Tax	603	603	691	902	1102	1310	1358	1283	1467	1606

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	9519	10529	10954	11274	11639	13019	12582	13447	13871	16495
Cash & Equivalents	1652	2173	2144	2336	2048	1986	2350	2479	2658	3038
Accounts Receivable	1238	1358	1516	1629	1708	2019	2129	2268	2877	3250
Inventories	1808	1926	1728	1644	1691	1768	1854	1869	2039	2477
Goodwill & Int. Ass.	149	199	260	259	265	299	225	316	386	536
Total Liabilities	3316	3656	4359	4749	4438	5140	6003	6567	7433	8467
Accounts Payable	429	431	518	573	684	757	808	722	855	904
Long-Term Debt	436	267	397	149	89	40	118	157	33	273
Shareholder's Equity	6204	6873	6594	6526	7202	7879	6579	6880	6438	8028
D/E Ratio	0.07	0.04	0.06	0.02	0.01	0.01	0.02	0.02	0.01	0.03

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	20.2%	20.1%	23.9%	28.7%	32.3%	36.4%	36.9%	39.9%	41.3%	38.2%
Return on Equity	30.5%	30.8%	38.1%	48.7%	53.9%	59.5%	65.3%	77.1%	84.7%	80.2%
ROIC	28.8%	29.2%	36.3%	46.7%	53.0%	59.0%	64.6%	75.5%	83.5%	78.6%
Shares Out.	3,041	2,939	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444
Revenue/Share	2.89	3.16	3.70	4.35	4.89	5.52	6.02	6.23	6.55	6.86
FCF/Share	0.69	0.76	0.96	1.18	1.16	1.47	1.86	1.84	2.35	2.00

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.