Novo Nordisk (NVO)

Updated February 6th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	7.8%	**Volatility Percentile:**	68.3%
Fair Value Price:	$48	**5 Year Growth Estimate:**	5.7%	**Momentum Percentile:**	46.2%
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Growth Percentile:**	48.7%
Dividend Yield:	2.6%	**5 Year Price Target**	$63	**Valuation Percentile:**	44.2%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	37.8%

Overview & Current Events

Novo Nordisk 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. Novo Nordisk is a $117 billion market cap company that employs about 43,000 people and generates north of $6 billion in annual profits.

On February 1st, 2019 Novo Nordisk reported full year 2018 results for the period ending December 31st, 2018. Sales increased 5% in local currencies, driven by growth in a variety of products. Sales of Victoza, Ozempic, Saxenda, and Tesiba increased 9%, 18%, 60%, and 15% respectively. International sales increased by 7%, while North America increased by 3%. Diabetes and Obesity care products increased 6% for the year. For 2018 Novo Nordisk reported $17.7 billion in revenue, a 5% year-over-year increase, and earnings-per-share of $2.52.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.69	$0.88	$1.04	$1.38	$1.73	$1.64	$1.98	$2.12	$2.48	$2.52	***$2.65***	***$3.50***
DPS	$0.22	$0.27	$0.38	$0.50	$0.62	$0.83	$0.73	$1.41	$1.14	$1.27	***$1.30***	***$1.36***
Shares	2,939	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,406	***2,400***	***2,300***

Novo Nordisk experienced strong earnings growth in the years after the last 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. 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.

Growth may be stymied somewhat by prescription pricing power, a seemingly bipartisan focal point in the U.S., but this could be offset by the expectation of an increasingly overweight and aging population requiring the company's diabetes and obesity products. Novo Nordisk has a long-term goal of growing operating profit by 5% annually. Combined with the possibility of share repurchases, this is roughly where our growth expectations are as well.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.3	19.6	22.2	21.4	19.8	27.1	27.1	23.0	17.2	18.3	***18.5***	***18.0***
Avg. Yld.	1.9%	1.6%	1.6%	1.7%	1.8%	1.9%	1.4%	2.9%	2.7%	2.8%	***2.7%***	***2.0%***

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Over the past decade shares of Novo Nordisk have traded hands at an average P/E ratio of about 21 times earnings. However, this was also during a time when earnings-per-share were growing by 15%+ per annum. Moving forward growth is still expected, but certainly not to the same degree; an idea highlighted by recent results. As such, we have lowered our fair value multiple estimate, but not significantly due to the company's sound financial footing.

Novo Nordisk has been paying a consistent and growing dividend in Danish Krone, however there are three cautionary notes to be made: 1) currency effects can influence this consistency when translated to USD, 2) the timing (previously once a year, now twice a year) is more typical of an International rather than U.S.-based company and 3) investors could have a withholding tax on dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2024**
Payout	32%	31%	37%	36%	36%	51%	37%	67%	46%	50%	***49%***	***39%***

Novo Nordisk has a large competitive advantage with an almost 50% market share of the global insulin market. Competitors exist and generic insulin will gain traction, but so will the addressable market.

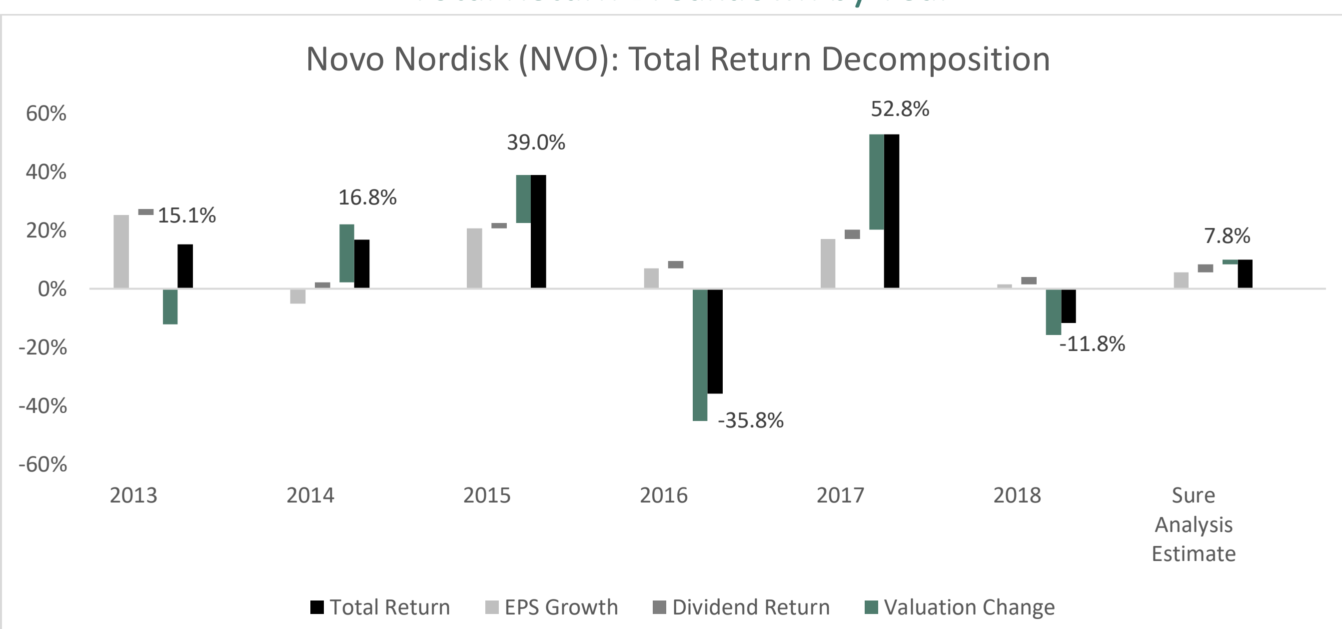
Novo Nordisk is likely to be recession resistant, as people need their medications in good times or bad. During the last recession the company posted earnings-per-share results of $0.53, $0.59, $0.69 and $0.88 in the 2007 through 2010 stretch. Moreover, the dividend kept increasing during this time as well.

As of the most recent report, Novo Nordisk held ~$9.0 billion in current assets and ~$17.0 billion in total assets against ~$8.3 billion in current liabilities and ~$9.0 billion in total liabilities. And, the company carries no long-term debt.

Final Thoughts & Recommendation

There's a lot to like about Novo Nordisk, including reasonable growth prospects, a solid (albeit erratic) dividend, a strong history and a conservative balance sheet. Of course there are challenges as well, including slowing growth (driven by falling drug prices and elevated generic competition) and an average, but not overly compelling valuation. We currently rate the security a hold, but we could become more enthused should growth pick up in a meaningful way.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	9559	10820	12394	13475	14881	15839	16057	16615	17002	17715
Gross Profit	7606	8740	10042	11149	12363	13242	13648	14061	14318	14924
Gross Margin	79.6%	80.8%	81.0%	82.7%	83.1%	83.6%	85.0%	84.6%	84.2%	84.2%
SG&A Exp.	3403	3785	4156	4292	4788	4773	4786	4807	4890	5277
D&A Exp.	477	439	511	465	498	613	440	475	484	622
Operating Profit	2859	3363	4180	5090	5608	6152	7356	7199	7454	7484
Operating Margin	29.9%	31.1%	33.7%	37.8%	37.7%	38.8%	45.8%	43.3%	43.8%	42.2%
Net Profit	2015	2564	3194	3701	4484	4723	5186	5637	5804	6119
Net Margin	21.1%	23.7%	25.8%	27.5%	30.1%	29.8%	32.3%	33.9%	34.1%	34.5%
Free Cash Flow	2304	2811	3370	3211	3971	4884	4743	5952	4950	5102
Income Tax	603	691	902	1102	1310	1358	1283	1467	1606	1424

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	10529	10954	11274	11639	13019	12582	13447	13871	16495	16969
Cash & Equivalents	2173	2144	2336	2048	1986	2350	2479	2658	3038	2396
Acc. Receivable	1358	1516	1629	1708	2019	2129	2268	2877	3250	3491
Inventories	1926	1728	1644	1691	1768	1854	1869	2039	2477	2503
Goodwill & Int.	199	260	259	265	299	225	316	386	536	788
Total Liabilities	3656	4359	4749	4438	5140	6003	6567	7433	8467	9027
Accounts Payable	431	518	573	684	757	808	722	855	904	1035
Long-Term Debt	267	397	149	89	40	118	157	33	273	79
Total Equity	6873	6594	6526	7202	7879	6579	6880	6438	8028	7941
D/E Ratio	0.04	0.06	0.02	0.01	0.01	0.02	0.02	0.01	0.03	0.01

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	20.1%	23.9%	28.7%	32.3%	36.4%	36.9%	39.9%	41.3%	38.2%	36.6%
Return on Equity	30.8%	38.1%	48.7%	53.9%	59.5%	65.3%	77.1%	84.7%	80.2%	76.6%
ROIC	29.2%	36.3%	46.7%	53.0%	59.0%	64.6%	75.5%	83.5%	78.6%	75.0%
Shares Out.	2,939	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,406
Revenue/Share	3.16	3.70	4.35	4.89	5.52	6.02	6.23	6.55	6.86	7.31
FCF/Share	0.76	0.96	1.18	1.16	1.47	1.86	1.84	2.35	2.00	2.10

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