Novo Nordisk A/S ADR (NVO)

Updated August 13th, 2019 by Prakash Kolli

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	7.9%	**Volatility Percentile:**	61.9%
Fair Value Price:	$50	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	66.1%
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Growth Percentile:**	54.1%
Dividend Yield:	2.5%	**5 Year Price Target**	$67	**Valuation Percentile:**	47.5%
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Total Return Percentile:**	38.5%

Overview & Current Events

Novo Nordisk A/S ADR is a global healthcare company headquartered in Denmark. Today, the company performs R&D, manufacturing and distribution of pharmaceutical products. It focuses on two core business segments that are 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. The Biopharmaceuticals segment manufactures products for hemophilia, growth hormone therapy, and hormone replacement therapy. Novo Nordsk derives ~55% of revenue from insulin drugs. Approximately 48% of net sales are from North America (mostly U.S.) and the rest is international sales. Novo Nordisk has a ~$119.8B market capitalization.

Note that Novo Nordisk trades as an ADR on NYSE. The company reports quarterly earnings in Danish kroner (DKK).

Novo Nordsk reported solid 1H 2019 results on August 9, 2019. Companywide sales increased 9% in Danish kroner (5% constant exchange rates) to DKK 59.3B while EPS declined (3%) to 8.39 DKK from 8.66 DKK on a year-over-year basis. Diabetes and Obesity segments sales increased 10% to 50.1B DKK driven by double-digit growth of Tresiba and Xultophy (long acting insulins), Ryzodeg (pre-mix insulin), Fiasp (fast acting insulin), and Saxenda (obesity). The GLP-1 drug, Ozempic, continued to rapidly increase sales reaching $3,750M DKK in 1H 2019. Ozempic has been launched in 21 countries. Novo Nordisk is expanding R&D for Ozempic for other indications. Biopharmaceutical sales increased 7% to 9,273M DKK. Sales NovoEight (hemophilia) grew 20% and all other drugs increased sales at single-digit rates.

Novo Nordisk provided increased 2019 sales growth guidance to ranging from 4% to 6%.

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***	***$3.55***
DPS	$0.22	$0.27	$0.38	$0.50	$0.62	$0.83	$0.73	$1.41	$1.14	$1.27	***$1.32***	***$1.85***
Shares[1]	2,939	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,406	***2,352***	***2,126***

Novo Nordisk experienced strong earnings growth in the years after the last recession driven by the global economic recovery, rising drug prices, and reduction of share count. However, earnings growth has recently slowed due to patent expirations and heightened competition from generics. But the company recently launched Ozempic that should revive growth. Novo Nordisk should also have sales strong growth from Xultophy (long acting insulin), Ryzodeg (premix insulin), Tresiba (long acting insulin), Fiasp (fast acting insulin), and Saxenda (obesity). According to Novo Nordisk, more than 425 million people around the world have diabetes and the company will likely grow its large market share. The prevalence of diabetes is expected to soar in the coming decades as a result of an increasingly overweight and aging population. Going forward, we are forecasting 6% growth in EPS out to 2024 due to higher volumes and pricing.

Novo Nordisk changed its annual dividend to a bi-annual dividend in 2016. This was accompanied by a jump in the payout. Novo Nordisk has been paying a consistent and growing dividend in DKK. However, currency effects can

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

influence this consistency when translated to USD and investors could have a withholding tax on dividends. But on average we are forecasting 7% annual growth in the dividend out to 2024.

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	18.9	***19.6***	***19.0***
Avg. Yld.	1.9%	1.6%	1.6%	1.7%	1.8%	1.9%	1.4%	2.9%	2.7%	2.8%	***2.5%***	***2.7%***

Over the past decade shares of Novo Nordisk have traded hands at an average P/E ratio of about 21.0 times earnings. However, this was also during a time when EPS was growing by 16%+ per annum. Moving forward lower growth is expected and as such, we have lowered our fair value multiple estimate to 19.0. Our current fair value estimate based on expected 2019 earnings is $50. Our 5-year price target is $67.

Safety, Quality, Competitive Advantage, & Recession Resiliency

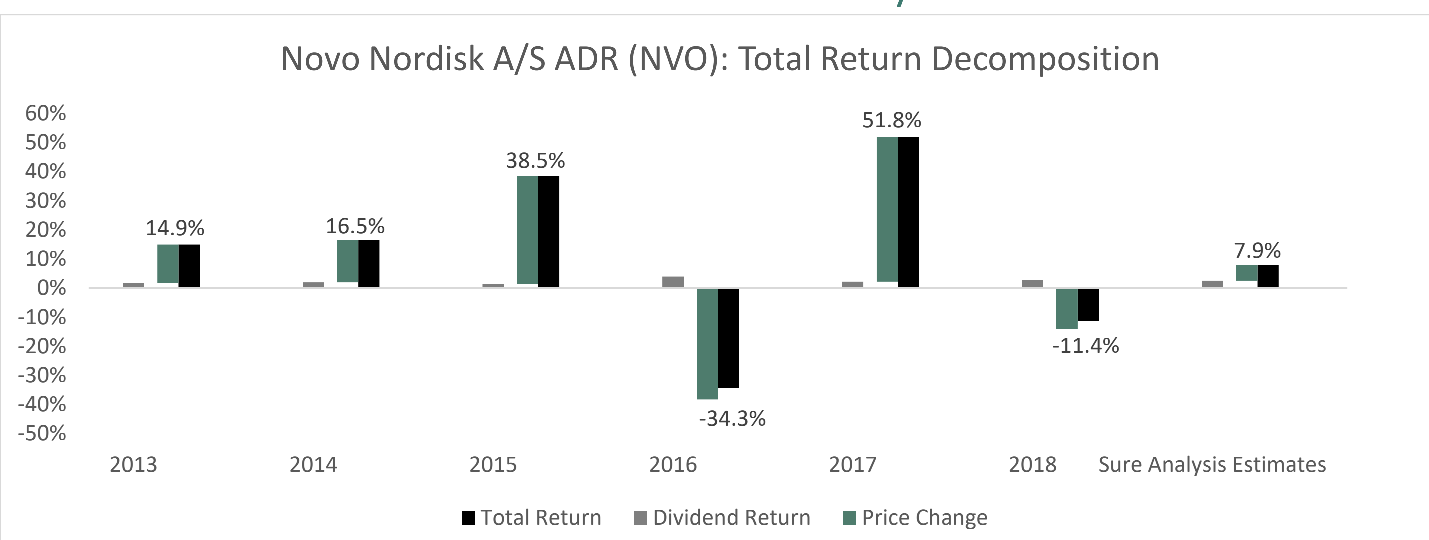
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	31.9%	30.7%	36.5%	36.2%	35.8%	50.6%	36.9%	66.5%	46.0%	52.0%	***49.8%***	***52.1%***

Novo Nordisk has a large competitive advantage with ~50% market share of the global insulin market, nearly 33% of the global diabetes market, and about 46% of the GLP market. The company has global manufacturing, distribution and marketing scale to maintain this market share. Furthermore, Novo Nordisk spends on R&D to develop new therapies. Saying that, branded competitors exist with Sanofi and Eli Lilly. In addition, off patent insulin is available as a generic. But complex manufacturing requirements, high upfront costs and low insulin pricing will keep most generics at bay. Novo Nordisk has recession resistant characteristics, as people require insulin and diabetes drugs in good times or bad. The company does face pricing risk as insulin and diabetes drugs are subject to price cuts in U.S. Medicare and Medicaid.

Final Thoughts & Recommendation

At present we are forecasting a 7.9% annualized return through 2024 down from our last report due to market action. The return is comprised of 6.0% earnings growth, 2.5% dividend yield and (0.6%) from multiple contraction. Novo Nordisk's dominance and the promise of growth from new drugs in the insulin, diabetes and obesity, and GLP-1 markets make it a promising stock to own. But the stock is now trading above our fair value. We currently rate this stock a hold.

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.