Novo Nordisk A/S ADR (NVO)

Updated December 9th, 2019 by Prakash Kolli

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	5.9%	**Volatility Percentile:**	17.7%
Fair Value Price:	$50	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	65.2%
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Growth Percentile:**	61.5%
Dividend Yield:	2.3%	**5 Year Price Target**	$67	**Valuation Percentile:**	49.8%
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Total Return Percentile:**	45.6%

Overview & Current Events

Novo Nordisk A/S ADR is a global healthcare company headquartered in Denmark. Today, the company 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. The company's products are marketed in 170 countries but approximately 48% of net sales are from North America (mostly U.S.) and the rest is international sales. Novo Nordisk has a ~$133.73B market capitalization.[1]

Novo Nordsk reported solid 9M 2019 results on November 1, 2019. Companywide sales increased 9% in Danish kroner to $13.27B and earnings per share increased 2% to $1.88 from $1.84 on a year-over-year basis driven by growth in all markets. Diabetes & Obesity sales increased 9% due to strong uptake of Saxenda (obesity), which grew 56%. Saxenda is now launched in 43 countries. Long acting insulin drugs Tresiba and Xultophy grew sales at 19% and 40%, respectively. Premix insulin drug Ryzodeg increased sales 45%. Fiasp (fast acting insulin) sales grew 109%. Total GLP-1 sales grew 25% on the expansion of Ozempic to the U.S. Biopharmaceuticals segment sales grew 8%. Novo Nordisk continues to expand distribution of its latest therapies and gain approval for new indications. In the U.S., the company gained approval for Rybelsus for type 2 diabetes. Four late stage trails for chronic kidney disease, diabetes, diabetic retinopathy, and cardiovascular were started. Novo Nordisk provided increased 2019 sales growth guidance to ranging from 5% 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[2]	2,939	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,406	***2,346***	***2,121***

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, Ryzodeg, Tresiba, Fiasp, and Saxenda. According to Novo Nordisk, more than 425 million people around the world have diabetes. The prevalence of diabetes is expected to soar in the coming decades as a result of an increasingly overweight and aging worldwide 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. Novo Nordisk has been paying a consistent and growing dividend in DKK. However, currency effects can 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.

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[1] Novo Nordsk trades as an American Depository Receipt or 'ADR' on the NYSE. The company reports quarterly earnings in Danish kroner (DKK). This report will used USD at the prevailing exchange rates.

[2] Share count is in millions.

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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	***21.4***	***19.0***
Avg. Yld.	1.9%	1.6%	1.6%	1.7%	1.8%	1.9%	1.4%	2.9%	2.7%	2.8%	***2.3%***	***2.7%***

Over the past decade shares of Novo Nordisk have traded hands at an average of about 21.0 times earnings. However, this was also during a time when earnings per share 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

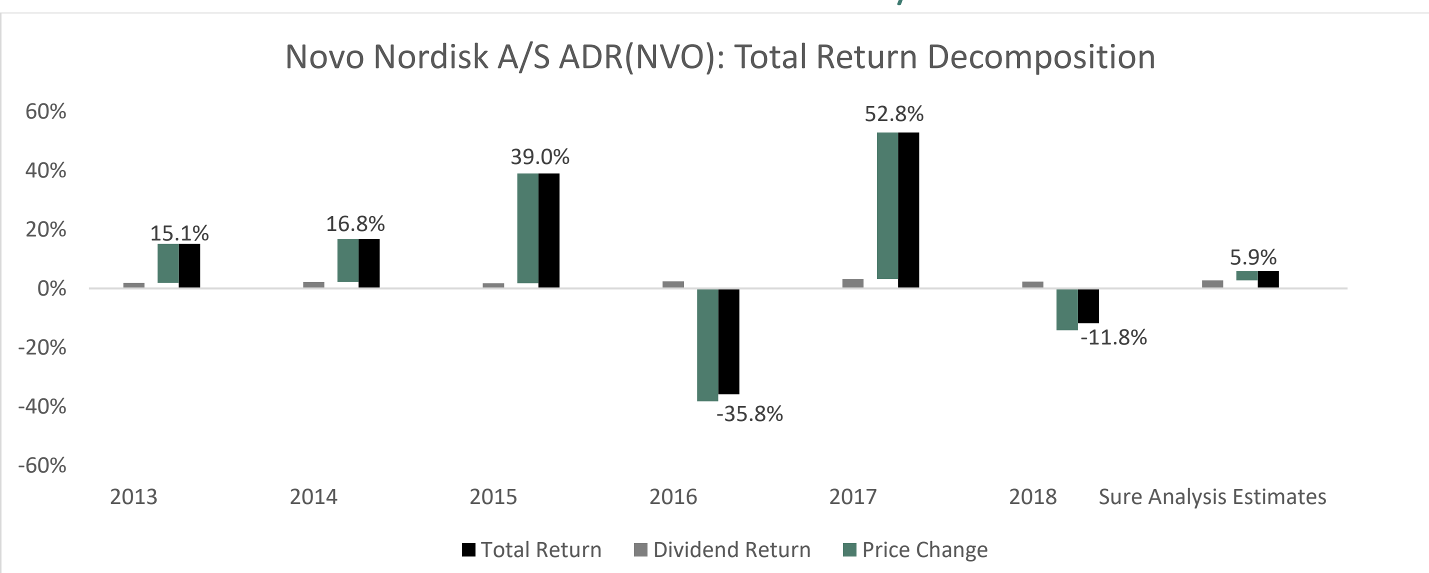
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	32%	31%	37%	36%	36%	51%	37%	67%	46%	52%	***50%***	***52%***

Novo Nordisk has a large competitive advantage with ~47% market share of the global insulin market, about 28% of the global diabetes market, roughly 68% of the obesity market, and about 45% of the GLP-1 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 and expand to other indications. Saying that, branded competitors exist with Sanofi and Eli Lilly for insulin. 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 patent expiration risk and pricing risk as insulin and diabetes drugs are subject to price cuts from U.S. Medicare and Medicaid.

Final Thoughts & Recommendation

At present we are forecasting a 5.9% annualized return through 2024 down from our last report due to market gains. Novo Nordisk's global market leadership and growth in insulin, diabetes, obesity, and GLP-1 markets make it a promising stock to own. Furthermore, the company is expanding distribution of existing therapies to new countries and there are several drugs in the R&D pipeline which portends well for future earnings. But at the current price, rate this stock a hold.

Total Return Breakdown by Year



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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.

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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.