Novo Nordisk A/S ADR (NVO)

Updated May 13th, 2020 by Prakash Kolli

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$147.5BM
Fair Value Price:	$51	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/27/20
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	04/07/20
Dividend Yield:	2.1%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	0
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	-2.4%%

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 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 and the rest is international sales.[1]

Novo Nordsk reported excellent Q1 2020 results on May 6th, 2020. Companywide sales increased 16% in Danish kroner to 33,875M ($4,912M) and earnings per share increased 16% to 5.05 DKK ($2.39) from 15.94 DKK ($0.73) on a year-over-year basis driven by growth in all markets. Diabetes & Obesity sales increased 15% to 28.6B DKK ($4.15B) driven by 13% increase in Diabetes sales and 30% increase in Obesity sales. Sales of GLP-1 grew 37% driven by the continued growth of Ozempic, particularly in the U.S. Rybelsus (GLP-1) continues to grow in the U.S. and has attained 8.8% market share. The company is expanding distribution of Rybelus to the EU, UK and China. Saxenda (obesity) sales continue to grow rapidly at 30%, and global market share is now about 59%. Total insulin sales grew only 3% to 15.9B DKK ($2.31B) driven by Tresiba, Xultophy, Ryzodeg, NovoMix, Fiasp, and human insulin, but offset by declines in Levemir, NovoRapid. The Biopharmaceuticals segment sales grew 18% to 5.3B DKK ($0.77B) driven by 28% growth in Norditropin, and 7% growth in NovoSeven (haemophilia). The company is rolling out Refixia and Esperoct for hemophilia globally.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
EPS	$0.88	$1.04	$1.38	$1.73	$1.64	$1.98	$2.12	$2.48	$2.44	$2.39	***$2.53***	***$3.39***
DPS	$0.27	$0.38	$0.50	$0.62	$0.83	$0.73	$1.41	$1.14	$1.27	$1.23	***$1.32***	***$1.85***
Shares[2]	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,394	2,363	***2,339***	***2,224***

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. The company recently launched Ozempic (GLP-1) that should revive growth. Novo Nordisk should also have sales growth from its portfolio of insulin products, 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 earnings per share out to 2025 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 2025.

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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 use USD at the prevailing exchange rates.

[2] Share count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	19.6	22.2	21.4	19.8	27.1	27.1	23.0	17.2	19.8	20.9	***24.9***	***20.0***
Avg. Yld.	1.6%	1.6%	1.7%	1.8%	1.9%	1.4%	2.9%	2.7%	2.8%	2.5%	***2.1%***	***2.7%***

Novo Nordsk's stock price is essentially unchanged since our last report reflecting limited effect from the global pandemic. The stock is still trading well above over fair value estimate for long haul of 20X and the trailing 10-year average multiple. Our current fair value estimate is $51. Our 5-year price target is now $68.

Safety, Quality, Competitive Advantage, & Recession Resiliency

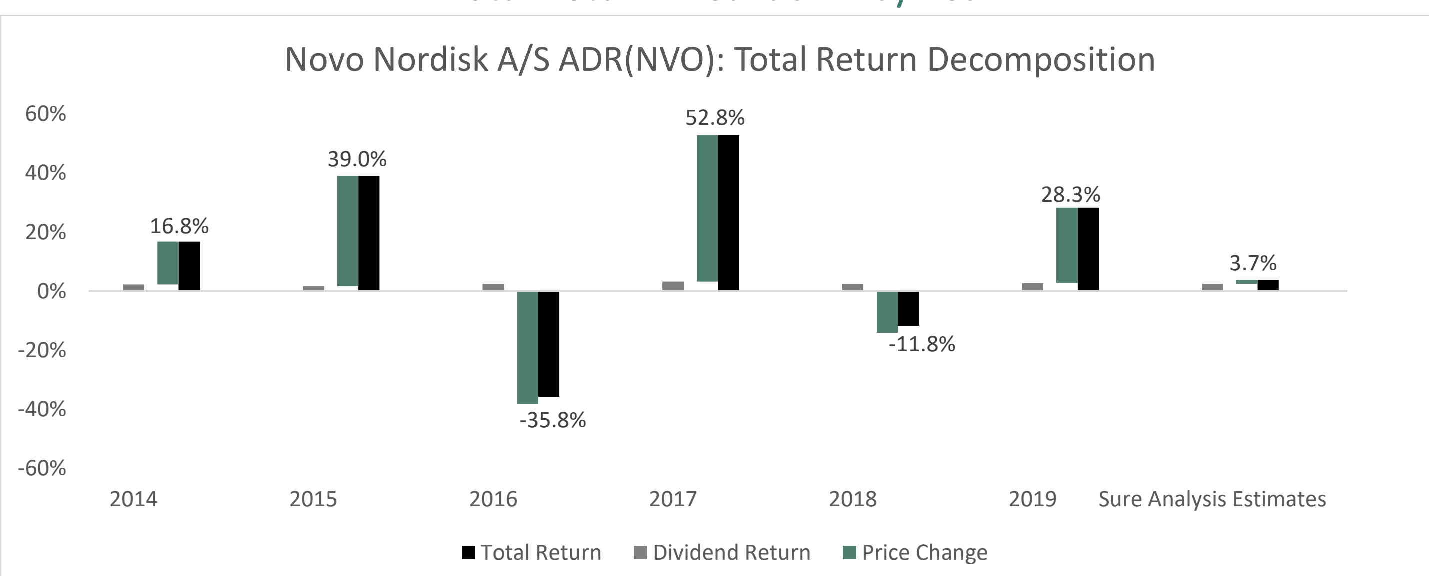
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	31%	37%	36%	36%	51%	37%	67%	46%	52%	52%	***52%***	***55%***

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 48% 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 3.7% annualized total return through 2025. Novo Nordisk is still forecasting sales growth. Most of their medicines treat chronic diseases so this is not surprising despite the pandemic. The company is being impacted by COVID-19, but the main problem seems to be for trials and new products launches. Growth should continue with expanded distribution of existing medicines. We rate this stock a hold at the current price.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	10820	12394	13475	14881	15839	16057	16615	17002	17715	18296
Gross Profit	8740	10042	11149	12363	13242	13648	14061	14318	14924	15284
Gross Margin	80.8%	81.0%	82.7%	83.1%	83.6%	85.0%	84.6%	84.2%	84.2%	83.5%
SG&A Exp.	3785	4156	4292	4788	4773	4786	4807	4890	5277	5372
D&A Exp.	439	511	465	498	613	440	475	484	622	849
Operating Profit	3363	4180	5090	5608	6152	7356	7199	7454	7484	7869
Operating Margin	31.1%	33.7%	37.8%	37.7%	38.8%	45.8%	43.3%	43.8%	42.2%	43.0%
Net Profit	2564	3194	3701	4484	4723	5186	5637	5804	6119	5840
Net Margin	23.7%	25.8%	27.5%	30.1%	29.8%	32.3%	33.9%	34.1%	34.5%	31.9%
Free Cash Flow	2811	3370	3211	3971	4884	4743	5952	4950	5102	5331
Income Tax	691	902	1102	1310	1358	1283	1467	1606	1424	1440

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	10954	11274	11639	13019	12582	13447	13871	16495	16969	18832
Cash & Equivalents	2144	2336	2048	1986	2350	2479	2658	3038	2396	2320
Acc. Receivable	1516	1629	1708	2019	2129	2268	2877	3250	3491	3735
Inventories	1728	1644	1691	1768	1854	1869	2039	2477	2503	2645
Goodwill & Int.	260	259	265	299	225	316	386	536	788	875
Total Liabilities	4359	4749	4438	5140	6003	6567	7433	8467	9027	10198
Accounts Payable	518	573	684	757	808	722	855	904	1035	953
Long-Term Debt	397	149	89	40	118	157	33	273	79	99
Total Equity	6594	6526	7202	7879	6579	6880	6438	8028	7941	8634
D/E Ratio	0.06	0.02	0.01	0.01	0.02	0.02	0.01	0.03	0.01	0.01

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	23.9%	28.7%	32.3%	36.4%	36.9%	39.9%	41.3%	38.2%	36.6%	32.6%
Return on Equity	38.1%	48.7%	53.9%	59.5%	65.3%	77.1%	84.7%	80.2%	76.6%	70.5%
ROIC	36.3%	46.7%	53.0%	59.0%	64.6%	75.5%	83.5%	78.6%	75.0%	69.7%
Shares Out.	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,406	2,346
Revenue/Share	3.70	4.35	4.89	5.52	6.02	6.23	6.55	6.86	7.31	7.69
FCF/Share	0.96	1.18	1.16	1.47	1.86	1.84	2.35	2.00	2.10	2.24

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