Novo Nordisk A/S ADR (NVO)

Updated November 16th, 2021 by Prakash Kolli

Key Metrics

Current Price:	$115	**5 Year CAGR Estimate:**	-0.8%	**Market Cap:**	$257.55B
Fair Value Price:	$75	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/26/22[1]
% Fair Value:	153%	**5 Year Valuation Multiple Estimate:**	-8.2%	**Dividend Payment Date:**	04/07/22
Dividend Yield:	1.4%	**5 Year Price Target**	$100	**Years Of Dividend Growth:**	0
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	8.7%

Overview & Current Events

Novo Nordisk A/S ADR is a large global pharmaceutical company headquartered in Denmark. The company focuses on two core business segments: 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 and other chronic diseases. Novo Nordisk 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.[2] Total revenue was nearly $21B in 2020.

Novo Nordisk reported excellent Q3 2021 results on November 3rd, 2021. For the first nine months, companywide sales were up 8% in Danish kroner to 102,467M ($15,596M) and diluted earnings per share rose 14% to 15.98 DKK ($2.43) from 14.00 DKK ($2.13) on a year-over-year basis. Diabetes & Obesity sales increased 10% to 87,977M DKK ($13,391M) driven by increases in Xultophy (long-acting insulin), premix insulins, Fiasp (fast-acting insulin), Ozempic (GLP-1), Rybelsus (GLP-1), Saxenda (obesity), and Wegovy (obesity). The Biopharmaceuticals segment sales were flat at 14,490M DKK ($2,205M) driven by growth in hemophilia drugs offset by declines in older drugs.

Ozempic and Xtulphy were approved in China for Type II diabetes. Wegovy (obesity) and semaglutide 2.0 mg were approved in the U.S. The company's cardiovascular therapy candidate entered Phase 3a trials.

The company raised guidance again to 12% - 15% sales growth and 12% - 15% operating profit growth in 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.04	$1.38	$1.73	$1.64	$1.98	$2.12	$2.48	$2.44	$2.47	$2.97	***$3.40***	***$4.55***
DPS	$0.38	$0.50	$0.62	$0.83	$0.73	$1.41	$1.14	$1.27	$1.23	$1.48	***$1.58***	***$2.22***
Shares[3]	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,394	2,352	2,313	***2,292***	***2,180***

Novo Nordisk experienced strong earnings growth after the last recession driven by the global economic recovery, rising drug prices, and lower share count. However, earnings growth slowed due to patent expirations and competition from generics. Going forward, Novo Nordisk should generate sales growth from its portfolio of approved insulin products, Saxenda and Wegovy (obesity), Ozempic, Victoza, and Rybelsus (GLP-1), multiple hemophilia drugs, and Norditropin (growth disorder). According to Novo Nordisk, more than 460 million people around the world have diabetes and the numbers are expected rise because of an increasingly overweight and aging worldwide population. We are forecasting 6% growth in earnings per share out to 2026 due to new therapy launches, higher volumes, and pricing. Novo Nordisk has been paying a growing dividend in DKK. However, currency effects can influence this consistency when translated to USD. But on average we are forecasting 7% annual growth in the dividend out to 2026.

[1] Anticipated dates. Novo Nordsk's board issues a semi-annual dividend.

[2] 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.

[3] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	22.2	21.4	19.8	27.1	27.1	23.0	17.2	19.8	20.8	21.8	***33.7***	***22.0***
Avg. Yld.	1.6%	1.7%	1.8%	1.9%	1.4%	2.9%	2.7%	2.8%	2.5%	2.0%	***1.4%***	***2.2%***

Novo Nordsk's stock price is up again since our last report. We have maintained our earnings estimates since our last report. The stock is trading well above our fair value for the long haul of 22X earnings, which is the average over the past decade. Our current fair value is now $75. Our 5-year price target is now $100.

Safety, Quality, Competitive Advantage, & Recession Resiliency

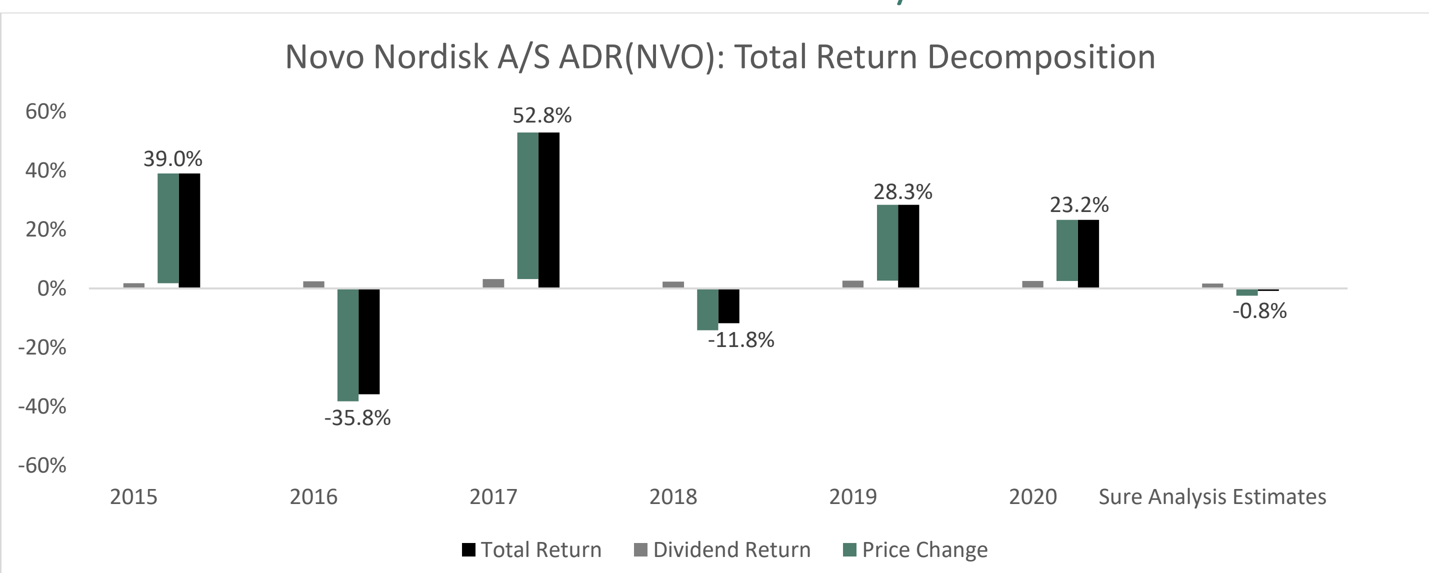
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	37%	36%	36%	51%	37%	67%	46%	52%	50%	50%	***46%***	***49%***

Novo Nordisk has a strong competitive advantage with ~44% market share of the global insulin market, about 30% of the global diabetes market, roughly 65% of the global obesity market, about 52% of the GLP-1 market, and over 10% of the hemophilia market. The company has global manufacturing, distribution, and marketing scale to maintain this market share. Novo Nordisk spends on R&D to develop new drugs and expand to other indications. The company is also active in M&A to expand its pipeline in cardiovascular and renal diseases. 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 patients 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 (-0.8%) annualized total return through 2026. Novo Nordisk's momentum has continued into 2021 on the strength of new therapies and growing market share in GLP-1 and diabetes. The company is expanding distribution worldwide of its new products, which bodes well for growth. The R&D pipeline is productive, and several therapies are in Phase 3 trials. But the current stock price is rich. We rate this quality stock a sell 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	12394	13475	14881	15839	16057	16615	17002	17715	18296	19451
Gross Profit	10042	11149	12363	13242	13648	14061	14318	14924	15284	16244
Gross Margin	81.0%	82.7%	83.1%	83.6%	85.0%	84.6%	84.2%	84.2%	83.5%	83.5%
SG&A Exp.	4156	4292	4788	4773	4786	4807	4890	5277	5372	5652
D&A Exp.	511	465	498	613	440	475	484	622	849	881
Operating Profit	4180	5090	5608	6152	7356	7199	7454	7484	7869	8293
Operating Margin	33.7%	37.8%	37.7%	38.8%	45.8%	43.3%	43.8%	42.2%	43.0%	42.6%
Net Profit	3194	3701	4484	4723	5186	5637	5804	6119	5840	6456
Net Margin	25.8%	27.5%	30.1%	29.8%	32.3%	33.9%	34.1%	34.5%	31.9%	33.2%
Free Cash Flow	3370	3211	3971	4884	4743	5952	4950	5102	5331	4577
Income Tax	902	1102	1310	1358	1283	1467	1606	1424	1440	1684

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	11274	11639	13019	12582	13447	13871	16495	16969	18832	23953
Cash & Equivalents	2336	2048	1986	2350	2479	2658	3038	2396	2320	2109
Acc. Receivable	1629	1708	2019	2129	2268	2877	3250	3491	3735	4584
Inventories	1644	1691	1768	1854	1869	2039	2477	2503	2645	3064
Goodwill & Int.	259	265	299	225	316	386	536	788	875	3414
Total Liabilities	4749	4438	5140	6003	6567	7433	8467	9027	10198	13487
Accounts Payable	573	684	757	808	722	855	904	1035	953	945
Long-Term Debt	149	89	40	118	157	33	273	79	99	1105
Total Equity	6526	7202	7879	6579	6880	6438	8028	7941	8634	10467
D/E Ratio	0.02	0.01	0.01	0.02	0.02	0.01	0.03	0.01	0.01	0.11

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	28.7%	32.3%	36.4%	36.9%	39.9%	41.3%	38.2%	36.6%	32.6%	30.2%
Return on Equity	48.7%	53.9%	59.5%	65.3%	77.1%	84.7%	80.2%	76.6%	70.5%	67.6%
ROIC	46.7%	53.0%	59.0%	64.6%	75.5%	83.5%	78.6%	75.0%	69.7%	63.6%
Shares Out.	2,780	2,715	2,647	2,593	2,548	2,504	2,444	2,406	2,346	2,339
Revenue/Share	4.35	4.89	5.52	6.02	6.23	6.55	6.86	7.31	7.69	8.31
FCF/Share	1.18	1.16	1.47	1.86	1.84	2.35	2.00	2.10	2.24	1.96

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