Novo Nordisk A/S ADR (NVO)

Updated February 7th, 2023 by Prakash Kolli

Key Metrics

Current Price:	$138	**5 Year CAGR Estimate:**	-2.8%	**Market Cap:**	$311.81B
Fair Value Price:	$82	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/24/23
% Fair Value:	169%	**5 Year Valuation Multiple Estimate:**	-10.0%	**Dividend Payment Date:**	04/04/23
Dividend Yield:	1.2%	**5 Year Price Target**	$110	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 Rare Diseases. The Diabetes & Obesity Care segment manufactures insulin, related delivery systems, oral anti-diabetic products, and products to treat obesity. The Rare Diseases 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.[1] Total revenue was nearly $25.4B in 2022.

Novo Nordisk reported excellent full year 2022 results on February 1st, 2023. Companywide sales were up 26% in Danish kroner to 176,954M ($25,421M) and diluted earnings per share rose 18% to 24.44 DKK ($3.51) from 20.74 DKK ($2.98) on a year-over-year basis. Diabetes & Obesity sales increased 29% to 154,412M DKK ($22,183M) driven by increases in Xultophy (long-acting insulins), Ryzodeg (premix insulin), Fiasp (fast-acting insulin), Ozempic and Rybelsus (GLP-1), Saxenda and Wegovy (obesity) offset by lower sales for Victoza (glucagon-like peptide, GLP-1), Xultophy and Levemir (long-acting insulin), NovoMix (premix insulin), and NovoRapid (fast-acting insulin). The Rare Disease segment sales rose 7% to 20,542M DKK ($2,951M) driven by growth in Hemophilia A, Hemophilia B, and NovoSeven.

The company raised set guidance at 13% - 19% sales growth and operating profit growth in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.73	$1.64	$1.98	$2.12	$2.48	$2.44	$2.47	$2.97	$3.04	$3.51	***$3.72***	***$4.98***
DPS	$0.62	$0.83	$0.73	$1.41	$1.14	$1.27	$1.23	$1.30	$1.47	$1.60	***$1.71***	***$2.40***
Shares[2]	2,647	2,593	2,548	2,504	2,444	2,394	2,352	2,316	2,303	2,280	***2,257***	***2,147***

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 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 to rise because of an increasingly overweight and aging worldwide population. The strategy seems to be working as the firm is growing revenue, earnings, and market share. The company is the market leader in diabetes and obesity care and No. 3 in hemophilia. The two blockbuster GLP-1 drugs have high demand. We are forecasting 6% growth in earnings per share out to 2028 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 2028.

[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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.8	27.1	27.1	23.0	17.2	19.8	20.8	21.8	27.9	***39.5***	***37.2***	***22.0***
Avg. Yld.	1.8%	1.9%	1.4%	2.9%	2.7%	2.8%	2.5%	2.0%	1.7%	***1.2%***	***1.2%***	***2.2%***

Novo Nordisk's stock price is up significantly since our last report on solid results and a strong outlook. We set our 2023 earnings estimate at consensus. But the stock is still trading well above our fair value for the long haul of 22X earnings, which is near the average over the past decade. Our current fair value is now $82. Our 5-year price target is now $110.

Safety, Quality, Competitive Advantage, & Recession Resiliency

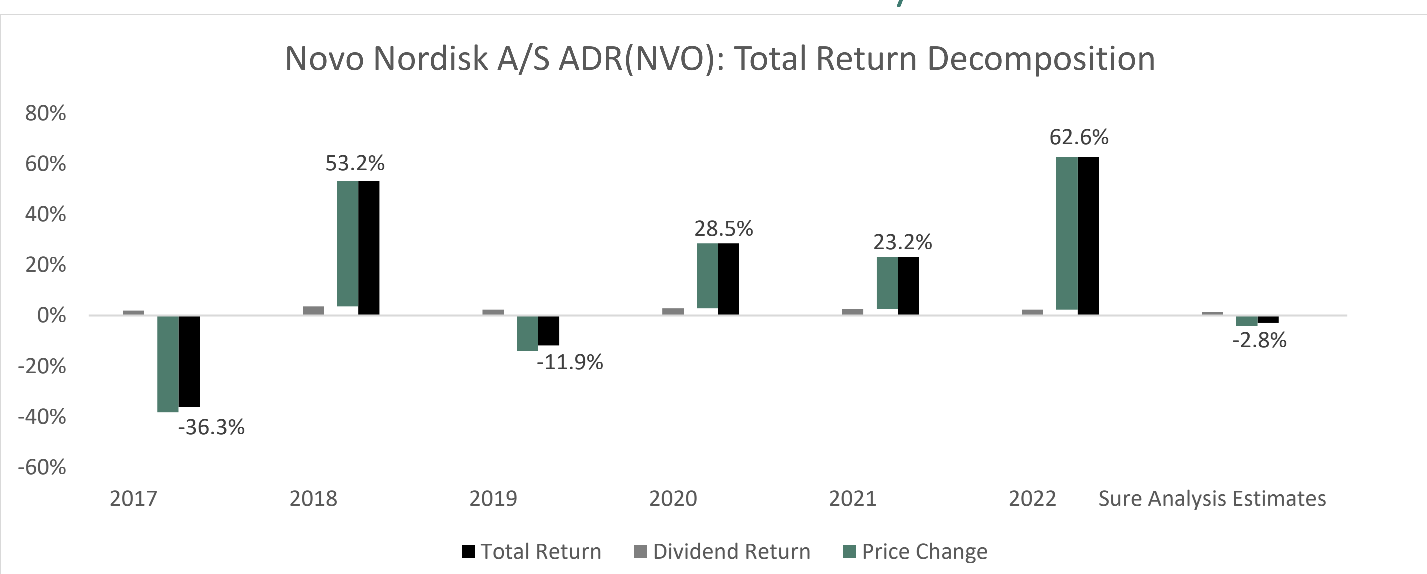
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	36%	51%	37%	67%	46%	52%	50%	44%	48%	46%	***46%***	***48%***

Novo Nordisk has a strong competitive advantage with ~44.6% market share of the global insulin market, about 31.9% of the global diabetes market, roughly 86% of the global obesity care market, about 54.9% 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 US Medicare and Medicaid.

Final Thoughts & Recommendation

At present we are forecasting a (-2.8%) annualized total return through 2028 from a dividend yield of 1.2%, 6% EPS growth, and (-10.0%) P/E multiple contraction. Novo Nordisk is developing new therapies, expanding distribution, and growing market share in obesity and diabetes. The R&D pipeline is productive, and several therapies are in Phase 3 trials. But the current stock price is very rich at this juncture. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	14881	15839	16057	16615	17002	17715	18296	19451	22404	25085
Gross Profit	12363	13242	13648	14061	14318	14924	15284	16244	18640	21052
Gross Margin	83.1%	83.6%	85.0%	84.6%	84.2%	84.2%	83.5%	83.5%	83.2%	83.9%
SG&A Exp.	4788	4773	4786	4807	4890	5277	5372	5652	6533	7185
D&A Exp.	498	613	440	475	484	622	849	881	959	1044
Operating Profit	5608	6152	7356	7199	7454	7484	7869	8293	9331	10605
Operating Margin	37.7%	38.8%	45.8%	43.3%	43.8%	42.2%	43.0%	42.6%	41.6%	42.3%
Net Profit	4484	4723	5186	5637	5804	6119	5840	6456	7599	7871
Net Margin	30.1%	29.8%	32.3%	33.9%	34.1%	34.5%	31.9%	33.2%	33.9%	31.4%
Free Cash Flow	3971	4884	4743	5952	4950	5102	5331	4577	7577	9092
Income Tax	1310	1358	1283	1467	1606	1424	1440	1684	1802	1919

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	13019	12582	13447	13871	16495	16969	18832	23953	29611	34724
Cash & Equivalents	1986	2350	2479	2658	3038	2396	2320	2109	1632	1821
Acc. Receivable	2019	2129	2268	2877	3250	3491	3735	4584	6187	7277
Inventories	1768	1854	1869	2039	2477	2503	2645	3064	2987	3510
Goodwill & Int.	299	225	316	386	536	788	875	3414	6572	7400
Total Liabilities	5140	6003	6567	7433	8467	9027	10198	13487	18841	22708
Accounts Payable	757	808	722	855	904	1035	953	945	1350	2243
Long-Term Debt	40	118	157	33	273	79	99	1105	3428	3059
Total Equity	7879	6579	6880	6438	8028	7941	8634	10467	10770	12016
LTD/E Ratio	0.01	0.02	0.02	0.01	0.03	0.01	0.01	0.11	0.32	0.25

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	36.4%	36.9%	39.9%	41.3%	38.2%	36.6%	32.6%	30.2%	28.4%	24.5%
Return on Equity	59.5%	65.3%	77.1%	84.7%	80.2%	76.6%	70.5%	67.6%	71.6%	69.1%
ROIC	59.0%	64.6%	75.5%	83.5%	78.6%	75.0%	69.7%	63.6%	60.0%	53.8%
Shares Out.	2,647	2,593	2,548	2,504	2,444	2,406	2,346	2,339	2,303	2,272
Revenue/Share	5.52	6.02	6.23	6.55	6.86	7.31	7.69	8.31	9.73	11.04
FCF/Share	1.47	1.86	1.84	2.35	2.00	2.10	2.24	1.96	3.29	4.00

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