



# Novo Nordisk A/S Sponsored Adr Class B

**Recommendation: Long**

*Novo Nordisk is a 10%+ EPS grower from 2020 to 2025*

EXPECTED RETURN	TIMEFRAME	POSTED
10.8%	2 Years To 5 Years	3/20/2021



**Author:** Ole Søberg

**Posted While At:** Nordic Investment Partners

Report Generated By



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# About Ole S eberg

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Nordic Investment Partners - family office with equity long only strategy; GARP investing in growth clusters of the future. 25 stocks in active portfolio and 75 stocks on the bench. Target return of 10%+ per year. For stock markets in general I expect 5-6% return per year in the 2020 decade. Roles global equity markets since 1985; investment analyst, asset manager, sales, Investor Relations, CIO, board member and advisor. Employers include Carnegie , Alfred Berg, TDC, Tryg in Denmark and Skagenfunds in Norway

# Novo Nordisk A/S Sponsored ADR Class B

Asset Class: **Equity** Symbol: **NVO:US** Updated: **11/3/2022** Posted: **3/20/2021**



BY:  
**Ole Søeberg**

CURRENTLY AT  
**Nordic Investment Partners**

CURRENT RANKING:  
★ **#7 Large-Cap - Jan '23**

COMMUNITY RATING: ★★★★★ 10 VOTES

PERCENTILE: **74%**

Novo Nordisk is a 10%+ EPS grower from 2020 to 2025

Return Performance	
RETURN TO DATE:	▲ <b>+97.%</b>
EXPECTED RETURN:	<b>10.8%</b>
IRR:	<b>46.0%</b>
RETURN VS. BENCHMARK: (SPDR EURO STOXX 50 ETF)	<b>104.2%</b>

Pricing Details <span style="float: right;">↑ LONG</span>	
RECENT PRICE:	<b>136.77 USD</b> <small>1/04/23 at 12:00AM</small>
TARGET PRICE:	<b>150.00 USD</b>
INITIAL PRICE:	<b>70.84 USD</b> <small>3/20/21 at 04:28PM</small>
CLOSING PRICE:	<b>N/A</b>

ASSET CLASS:  
**Equity**

SITUATION:  
**GARP**

TARGET ALLOCATION:  
**5% - 10%**

CATALYSTS:  
**N/A**

TIMEFRAME:  
**2-5 Years**

## Fundamentals

CURRENCY	United States Dollar
52 WK. RANGE	<b>N/A</b>
MARKET CAP	<b>USD</b>
EV	<b>237.97 Billion</b>
TOTAL CASH	<b>N/A</b>
TOTAL DEBT	<b>N/A</b>
BOOK VALUE PER SHARE	<b>4.50</b>
THREE MO. AVG. DAILY VOLUME (USD)	<b>0</b>
SELLSIDE CONSENSUS	<b>1.57</b>

## Multiples/Ratios

LTM P/E	<b>5.75</b>
FORWARD P/E	<b>4.91</b>
EV/EBITDA	<b>20.95</b>
EV FCF	<b>27.50</b>
EV SALES	<b>N/A</b>
PRICE BOOK	<b>N/A</b>
FCF YIELD	<b>0.04</b>
DEBT BOOK	<b>N/A</b>
DIV YIELD	<b>1.46</b>

## Additional Data

SECTOR	<b>Health Care</b>
INDUSTRY	<b>Biotech &amp; Pharma</b>
COUNTRY	<b>Denmark</b>
REGION	<b>Western Europe</b>

# Thesis

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**Disclaimer:** The author of this idea and the author's fund had a position in this security at the time of posting and may trade in and out of this position without informing the SumZero community.

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**Novo Nordisk** is the largest company by market cap in the Nordic region has has been so for the last 9 years. And there's no real contender as NovoNordisk is a world leader in diabetes, obesity and treatment of hemophilia. The forward growth in EPS is likely above 10% per year towards 2025 and it's priced at 20x 2022 earnings

## Background

Founded in 1923. In 2000 NovoZymes and NovoNordisk split and since 2000 NovoNordisk grew sales by 10% per year from 2000 to 2015. The first 15 years journey as a pure pharmaceutical company they trimmed the cost base and gross margin rose from 68% to 85%. Hence EBIT grew 15% per year. Due to disciplined capital allocation and net stock buy backs EPS rose 20% per year. A very good formula for a long term compounder.

## The 2015-20 period

In the 2015-2019 period the train came to a sudden halt and lots of investors left the stock.

There was several management changes, pricing in the important US market got under pressure and the stock derated significantly. CEO from 2000 to 2017 was Lars Rebien and during his stewardship the performance was mainly very good. There's always the occasional hick-up but in large it was a good period. Lars Fruergaard, CEO since 2017, has set a new executive team. Novo have a history of breeding managers internally, so the current team knows the business well from many years spend in various corners of the business.

The new management team have only over the past few quarters shown a path towards higher growth, but it seems the market has not yet bought fully into it

## The road forward

In 2020 and after several new products launched with patent protection up until 2032, Novo has started to move again. In the diabetes treatment franchise they will likely grow their global market share from 29% in

2020 to 35% by 2025 via new and better diabetes treatments Rybelsus and Tresiba. In the obesity franchise, where they are pretty much alone today, they will continue grow the Saxenda franchise for overweight persons while rolling out the GLP-1 formulation for weight loss to reduce the risk of getting diabetes. There's no hard evidence of how big the revenue stream for obesity treatment will be and it seems Novo's own guidance of 8 bn DKK (1.4bn\$) in 2025 is low-balling. The GLP-1 pill for weight loss has not been priced yet, but just a simple assumption of 5\$ per day for 1.5 years for 10 million people would leave you with a revenue stream thats larger than the current annual revenues for the company. There's more than 600 million diabetics worldwide and even more people with weight issues, so the market potential is huge.

Today, 20% of Novo's revenue stream comes from biopharmaceuticals and are focused on growth hormone disorder and hemophilia. Both areas are likely to get smaller in the 2040 perspective as genetic adjustments to avoid hemophilia is in the works. For the next 10-20 years there will however still be markets for treatments of these inherited conditions.

New franchises in fatty liver (NASH) and Alzheimer progression delay drugs are options for access to a very large optional market in 2030-40.

Novo's main competitor is Eli Lilly. Sanofi used to be a big competitor via their Hoechst acqiuition in 1990'es, but Sanofi has decided to have a lower priority in the diabetes area going forward.

Novo Nordisk annual shareholder meeting is next week, and the Chairman has been out at several occasions in local media highlighting Novo's qualities. Having followed the company for more than 30 years, I do not recall such communication previously. Anyhow, the most recent one is the Chairman saying 'Novo will have 'sprudlende' growth, which translates into effervescent growth. Not a word a Chairman would normally use in an interview in my opinion.

### **Risk to keep in mind**

Pharmaceutical investors should always have the risk in mind that one of the approved products turns completely pear-shaped. The probability is however, very low given all the rigid approval processes around trials and side effect testing before the product come to market.

The US pricing regime is well described and in Novo's annual reports they have a section about listing prices and actual net selling prices. There's 60-70% difference, yet it has not helped much in the political perception of pharmaceutical companies charging high prices for their products.

The obesity, NASH and Alzheimer markets are huge potential revenue pools that remain more or less

untouched so far. Eli Lilly, Gilead, Novo and others are all clearly communicating their paths forward, yet the revenue pools of the future are highly uncertain. They might never materialize, or they could be many times bigger than estimated. Lilly's recent stock price move (down 10-15% on a mixed reading in their testing of new Alzheimer treatment) shows the sensitivity to premature discounting of data readouts for new drugs.

## Shareholder structure and IR

Novo is controlled by the Novo Foundation and as such Novo can't be acquired. The governance model is top notch and the foundation that appoint key board members has a history of good stewardship of capital allocation. As example, all buy backs are made pro-rata between free-float and the foundations' shares

Outside the foundation it's mainly more or less indexed capital being the largest holders. Capital research used to be very big holder, but they sold most of their shares in the 2016-17 period of uncertainty. They can of course come back, but I haven't noticed that yet.

## Valuation

There's at least 300 good institutional investors following the company and more than 25 sell-side analysts, so company is well understood and researched. As seen in the figure below the EV/EBIT has been range bound in the 10 -20x range since 2005. The current EV/EBIT is 18x. With a expected improvement in EBIT it's a EV/EBIT of 15x in 2023. Valuation is a moving target, but I would argue a quality compounder in a world with negative real long term interest rates could justify 4% earnings yield, which would translate into a stock price approximately 50% higher than the current level

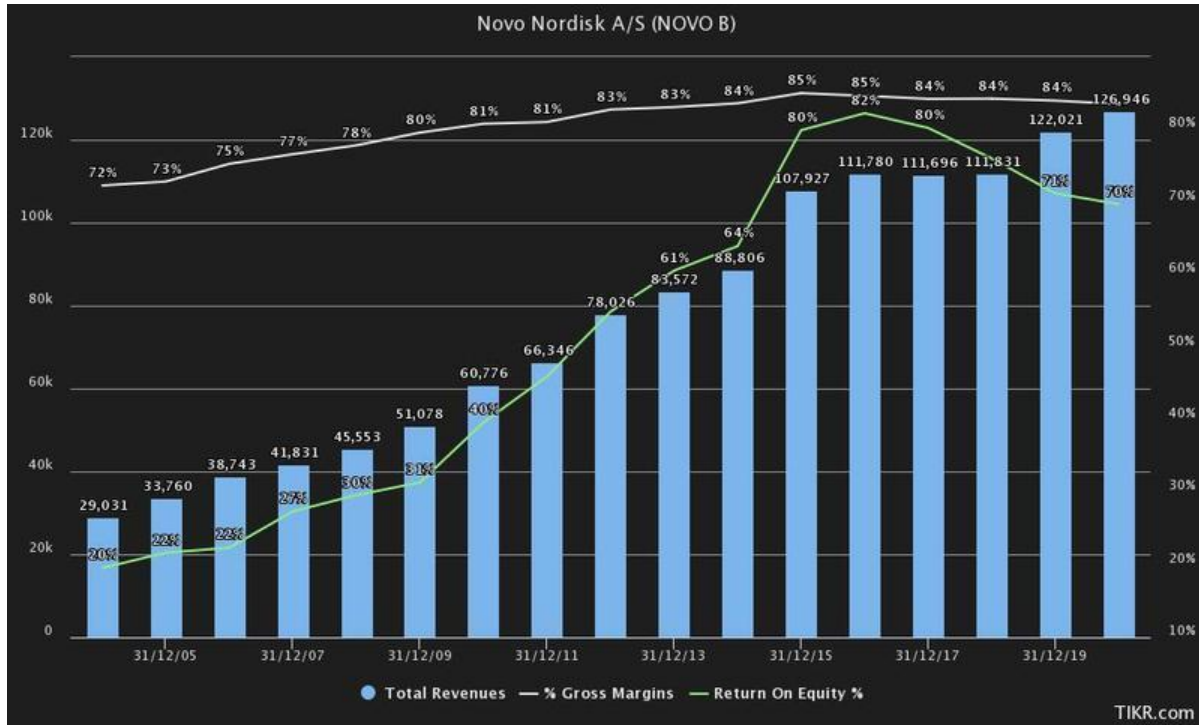
Large pharmaceuticals are in general inexpensive valued due to a mix of pricing concerns on the honeypot US market as well as preference for 'opening up' companies, but eventually the steady grind of better and better earnings should be reflected in the stock prices.

Using several valuation methods like observable and forward measures such EV/EBIT and P/E the preference is for longer term DCF measure on the business. Using consensus numbers for 2021-23, followed by 10% growth to 2023 and then 6% growth towards 2040 the DCF lands at 95\$ (590 DKK) without a terminal value.

Hence, if there's evidence of larger revenue pools and earnings opportunity in obesity, NASH and Alzheimer etc, it's not reflected in the current stock price.

## Triggers

It's a compounder so they daily, weekly, monthly, quarterly and annual grind is the biggest drivers. There's several read-out dates on their homepage, so no reason to report it here. [www.novonordisk.com](http://www.novonordisk.com) for more

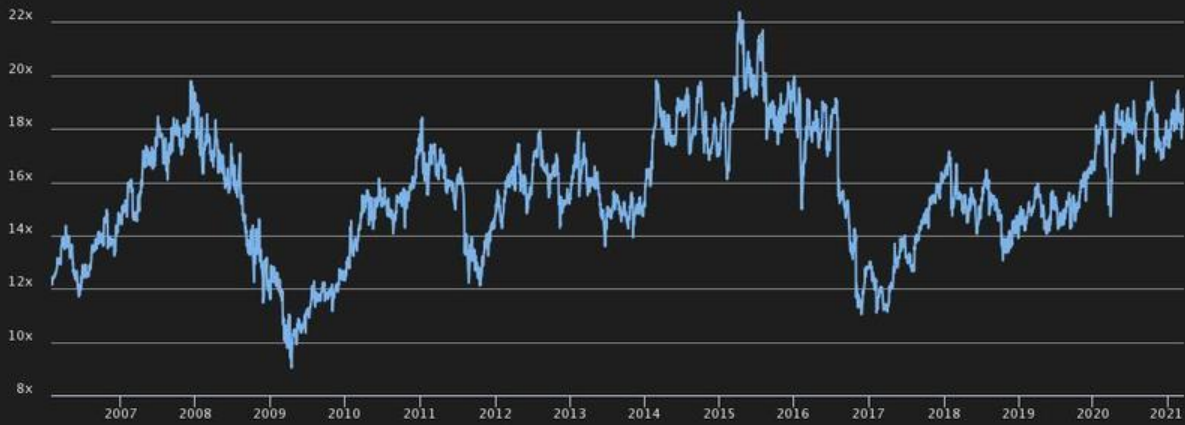




Novo Nordisk A/S (NOVO B)

• NTM Total Enterprise Value / EBIT: Mean: 15.64x High: 22.37x Low: 9.04x Last: 18.44x

Zoom 3m 6m ytd 1yr 3yr 5y 10y all



— NTM Total Enterprise Value / EBIT

TIKR.com

# Idea Updates

5/6/2021



Neutral Update



TARGET ALLOCATION

2% - 5% → 5% - 10%

1Q 2021 performance update

Novo Nordisk reported sales and earnings growth in line with expectations and is on track for the price objective in 2024 of around 600 DKK (460 DKK) currently. Stock was a bit weak after the conference call as management pointed to pricing pressure in China. They didn't mention pricing pressure in USA on a call a few...

6/5/2021



Positive Update

Tick in the box for US weightloss drug

Friday 4 June 2021 FDA approved the once weekly injection of Wegovy, which reduce weight by 15-20% over 12-18 months for persons with BMI of 28 and higher.

This is one of the main triggers in 2021 and it was widely expeted to get thumps up by the sell-side community. Buy side is a bit more cautious,...

6/6/2021



Positive Update

# Comments

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## Portfolio Manager

\$500M - \$1B HEDGE FUND • MARCH 25, 2021

They are a good company, but this write-up doesn't really argue for why now vs. any other time in the past 3 years?

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## Ole Sørensen

NORDIC INVESTMENT PARTNERS • MARCH 26, 2021

It's the grind on daily, weekly, monthly and quarterly basis. There's several readouts on various trials in 2021 and 2022. The bigger potential movers for the stock price are;

1. 2Q 2021 US decision on sema for obesity
  - 2....
- 



## Vice President

\$1B - \$3B SMA • APRIL 06, 2021

Have heard from two doctors, including one who was involved in the trials, that the obesity drug is a game changer and based on my reading seems undervalued by most.

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## Continue the discussion

There are **10 comments** on this idea. Visit <https://sumzero.com/pro/research/ideas/19632> for the full discussion.

# About SumZero

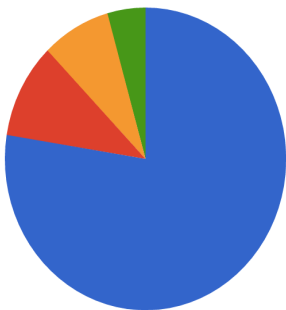
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## 10,000+

### Ideas Published on SumZero

#### REGION



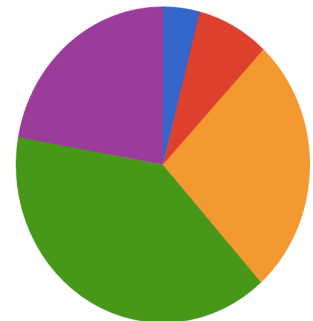
- North America - 77.5%
- Western Europe - 10.2%
- East and South Asia - 7.9%
- Other - 4.4%

#### MARKET CAP



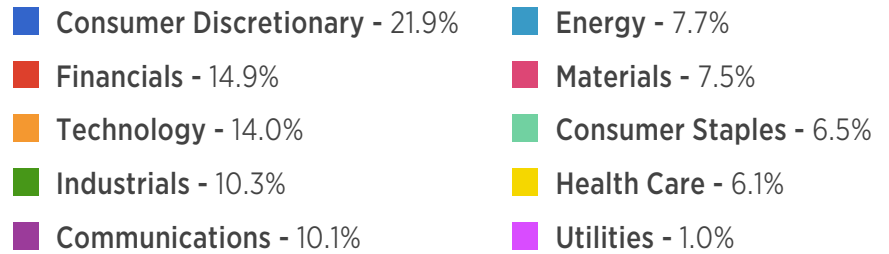
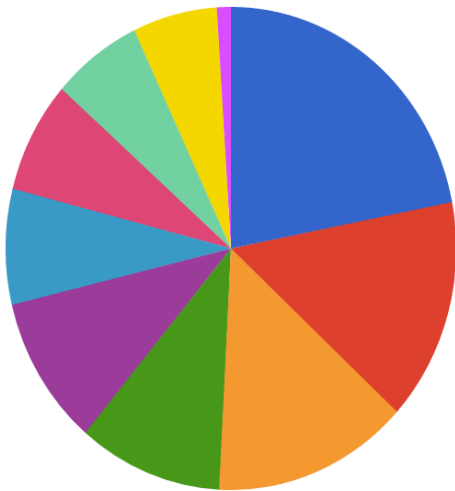
- Small Cap - 25.2%
- Mid Cap - 21.6%
- Mega Cap - 14.4%
- Micro Cap - 14.0%
- Large Cap - 13.4%
- Nano Cap - 11.5%

#### TIMEFRAME

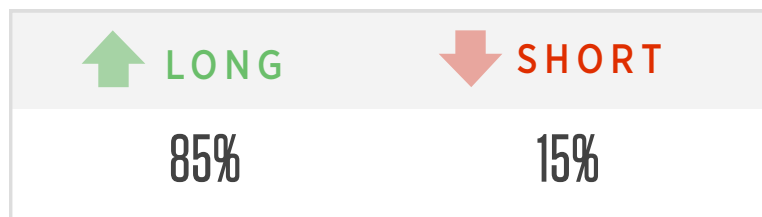


- Less than 3 months - 4.0%
- 3-6 months - 8.0%
- 6 mo. - 1 Year - 26.4%
- 1-2 Years - 39.4%
- 2-5 Years - 22.2%

## IDEA BREAKDOWN BY SECTOR



## IDEA BREAKDOWN BY DIRECTION



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