

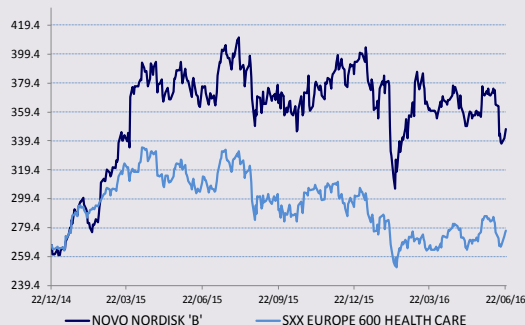
UPDATE
INDEPENDENT RESEARCH

24th June 2016

Healthcare

Bloomberg	NOVOB DC
Reuters	NOVOB.CO
12-month High / Low (DKK)	410.7 / 306.4
Market capitalisation (DKKm)	693,127
Enterprise Value (BG estimates DKKm)	668,315
Avg. 6m daily volume ('000 shares)	2 688
Free Float	71.4%
3y EPS CAGR	9.0%
Gearing (12/15)	-42%
Dividend yields (12/16e)	1.96%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (DKKm)	107,915	114,249	120,921	124,688
EBIT(DKKm)	49,432	48,868	52,924	55,562
Basic EPS (DKK)	13.56	15.00	16.57	17.54
Diluted EPS (DKK)	13.56	15.00	16.57	17.54
EV/Sales	6.2x	5.8x	5.4x	5.0x
EV/EBITDA	12.9x	12.7x	11.4x	10.5x
EV/EBIT	13.6x	13.7x	12.3x	11.3x
P/E	25.4x	23.0x	20.8x	19.6x
ROCE	82.0	76.7	97.8	78.6



Novo Nordisk

Getting stronger

Fair Value DKK400 (price DKK344.40)


NEUTRAL

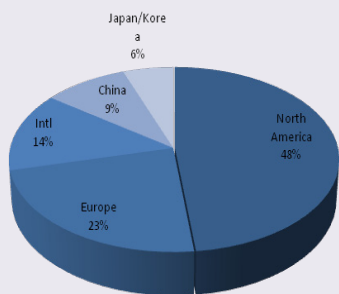
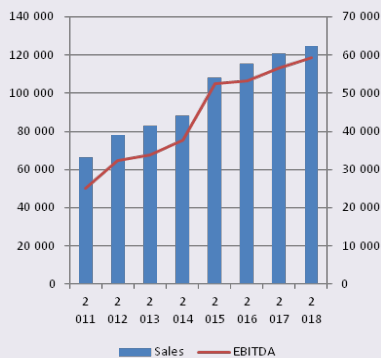
At the 2016 ADA congress in New Orleans, Novo-Nordisk was in the spotlight with the presentation of the LEADER phase III trial results but also with ONSET, DUAL, SUSTAIN and SWITCH. CSO Mads Krogsgaard Thomsen considered this ADA to be the “richest one in his career”. There is little doubt that the group is leading the pack in the field of injectable antidiabetics, the question being how much has yet to be priced in. The coming months will tell.

■ The presentation of the LEADER cv outcome study results was the key event of ADA 2016 in New Orleans earlier this month. While investors sent the stock sharply lower on the following day having been disappointed by the hazard ratio associated with the primary endpoint, the results of the US cohort and comparisons with empagliflozin, this is not our view. The consistency of the results across the various subgroups was remarkable and the safety card was also very clean. Victoza has strengthened its overall profile with LEADER and with SUSTAIN-6 coming, we see Novo-Nordisk running a best-in-class portfolio of GLP-1 analogues. That said, the GLP-1 portion of total revenues is already expected by CS to grow from DKK18bn in 2015 to around DKK30bn in 2020 - without Xultophy which could add another DKK8bn. The real issue? there are too many moving parts in the diabetes field to be able to say for sure that Novo-Nordisk can reach or even exceed these targets. Each opportunity is not fully incremental and some products, like Tresiba with Levemir or Xultophy with monotherapies, will cannibalise the rest of the portfolio. This will therefore have to be closely monitored.

■ Obviously, the coming weeks and months will tell us a lot in terms of the relative competition. FDA decisions on lixisenatide, iGlarLixi and then Xultophy will show if the agency will entertain differences between drugs and how wide the labels are likely to be. We will also learn a lot from pricing strategies. At EASD in September, new data will be presented including from SUSTAIN-6. In Q4 2016, a first approval is expected from the FDA on Fiasp. So far, we expect Tresiba, Xultophy and semaglutide to reach PS of around USD2bn apiece. No change to our numbers, FV and rating..



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Company description

Novo-Nordisk is the worldwide leader in Diabetes where it benefits from strong underlying volume growth due to epidemiology, geographic expansion, mix effects and innovation. Growth has further accelerated in recent quarters as the Danish company successfully added Victoza, a GLP-1 analog, to its wide range of insulins to further strengthen its positioning within the Diabetes field. The drug is quickly gaining market share. Currently, the company is mainly focused on switching its insulins to a new generation of products. In parallel, it is building a franchise in Hemophilia that could significantly leverage margins if NovoSeven is transformed into a diversified product line. In our view, the Novo-Nordisk success story is unlikely to be interrupted in the short term.

Shareholders

Novo A/S Fondation	28.6
Flottant	71.4

Profit & Loss Account (DKK million)	2013	2014	2015	2016e	2017e	2018e
Sales	83,572	88,806	107,915	114,249	120,921	124,688
Change (%)	7.1%	6.3%	21.5%	5.9%	5.8%	3.1%
EBITDA	34,292	37,927	52,391	52,668	56,724	59,362
EBIT	31,493	34,492	49,432	48,868	52,924	55,562
Change (%)	6.8%	9.5%	43.3%	-1.1%	8.3%	5.0%
Financial result	1,046	(396)	(5,961)	(1,300)	(900)	(500)
Pre-Tax profit	32,539	34,096	43,471	47,568	52,024	55,062
Tax	7,355	7,615	8,623	9,989	10,925	11,563
Net profit	25,184	26,481	34,848	37,579	41,099	43,499
Restated net profit	25,184	26,481	34,848	37,579	41,099	43,499
Change (%)	17.5%	5.2%	31.6%	7.8%	9.4%	5.8%

Cash Flow Statement (DKK million)

Operating Cash Flows	26,207	33,840	40,432	41,379	44,899	47,299
Change in working capital	1,218	1,426	(1,188)	574	557	490
Capex, net	2,773	2,064	6,098	7,000	7,000	5,000
Financial investments, net	(13,924)	(14,667)	(17,196)	(14,000)	0.0	0.0
Dividends	9,715	11,866	12,905	16,452	17,354	19,171
Net debt	(15,775)	(15,215)	(19,696)	(24,812)	(44,783)	(67,354)
Free Cash flow	22,704	27,702	33,051	35,567	37,325	41,742

Balance sheet (DKK million)

Shareholders' funds	42,569	40,294	46,969	54,096	77,841	102,169
+Provisions	11,853	17,276	22,398	23,623	23,623	23,623
+Net debt	(15,775)	(15,215)	(19,696)	(24,812)	(44,783)	(67,354)
=Invested Capital	38,647	42,355	49,671	52,908	56,681	58,438
Fixed assets	28,279	30,769	36,665	39,865	43,065	44,265
+ Working Capital	10,368	11,586	13,012	11,824	12,397	12,954
=Capital employed	38,647	42,355	49,677	51,689	55,463	57,221
Total Balance sheet	70,337	77,062	91,805	100,142	123,084	145,573

Financial Ratios

Operating margin	37.68	38.84	45.81	42.77	43.77	44.56
Tax rate	22.60	22.33	19.84	21.00	0.0	21.00
Net margin	30.13	29.82	32.29	32.89	33.99	34.89
ROE (after tax)	59.16	65.72	74.19	69.47	52.80	42.58
ROCE (after tax)	63.98	64.55	81.99	76.69	97.79	78.56
Gearing	(37.06)	(37.76)	(41.93)	(45.87)	(57.53)	(65.92)
Pay out ratio	47.12	48.73	47.21	46.18	46.65	46.65
Number of shares, diluted	2,718	2,630	2,571	2,505	2,480	2,480

Data per Share (DKK)

EPS	9.26	10.07	13.56	15.00	16.57	17.54
Restated EPS	9.26	10.07	13.56	15.00	16.57	17.54
Core EPS	9.26	10.07	13.56	15.00	16.57	17.54
Change (%)	20.9%	8.7%	34.6%	10.7%	10.5%	5.8%
Book Value	15.66	15.32	18.27	21.60	31.39	41.20
Operating Cash flows	9.64	12.87	15.73	16.52	18.11	19.07
FCF	8.35	10.53	12.86	14.20	15.05	16.83
Net dividend	4.17	4.53	6.40	6.75	7.46	7.89

Source: Company Data; Bryan, Garnier & Co ests.

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Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

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NEUTRAL ratings 0%

SELL ratings 00%

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