14th June 2016

Healthcare

Novo Nordisk

Price DKK363.20

LEADER is a quite good name for lira CV outcome study

Fair Value DKK400 (+10%) **NEUTRAL**

Bloomberg	NOVOB DC
Reuters	NOVOB.CO
12-month High / Low (DKK)	410.7 / 306.4
Market Cap (DKKm)	730,963
Ev (BG Estimates) (DKKm)	706,151
Avg. 6m daily volume (000)	2,641
3y EPS CAGR	9.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.7%	-4.2%	-3.9%	-9.2%
Healthcare	0.3%	0.0%	-7.0%	-10.6%
DJ Stoxx 600	-2.4%	-4.5%	-8.1%	-10.7%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	107,915	114,249	120,921	124,688
% change		*5.9%*	*5.8%*	*3.1%*
EBITDA	52,391	52,668	56,724	59,362
EBIT	49,432	48,868	52,924	55,562
% change		*-1.1%*	*8.3%*	*5.0%*
Net income	34,848	37,579	41,099	43,499
% change		*7.8%*	*9.4%*	*5.8%*

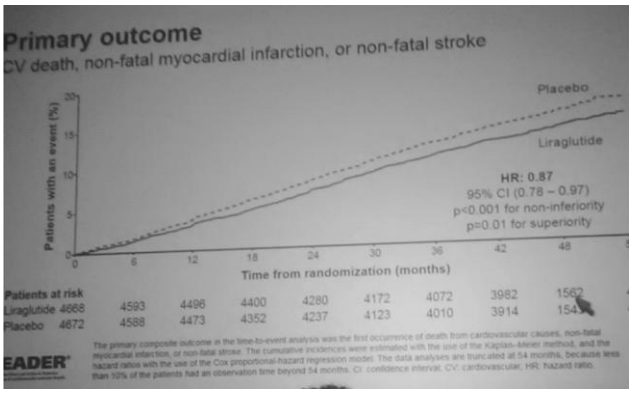
	2015	2016e	2017e	2018e
Operating margin	45.8	42.8	43.8	44.6
Net margin	32.3	32.9	34.0	34.9
ROE	74.2	69.5	52.8	42.6
ROCE	82.0	76.7	97.8	78.6
Gearing	-41.9	-45.9	-57.5	-65.9

(DKK)	2015	2016e	2017e	2018e
EPS	13.56	15.00	16.57	17.54
% change	-	*10.7%*	*10.5%*	*5.8%*
P/E	26.8x	24.2x	21.9x	20.7x
FCF yield (%)	3.5%	3.9%	4.1%	4.6%
Dividends (DKK)	6.40	6.75	7.46	7.89
Div yield (%)	1.8%	1.9%	2.1%	2.2%
EV/Sales	6.6x	6.2x	5.7x	5.3x
EV/EBITDA	13.6x	13.4x	12.1x	11.2x
EV/EBIT	14.4x	14.5x	13.0x	11.9x

2016 ADA congress almost concluded yesterday with the presentation of detailed results from the cv outcomes study of liraglutide LEADER. Although 3-point MACE was reduced by only 13% (low end of expectations), data are good because each of the underlying criteria was improved, cv death risk reduced by 22% and safety was good. We expect Novo to benefit from the data today, although estimates changes should be limited.

ANALYSIS

- Several investigators of the LEADER cv outcomes study presented the results yesterday in New Orleans. And the overall impression is good although it is fair to say that risk reduction in 3-point MACE (primary endpoint) only hit the low-end of the expected range with HR of 0.87. However, the result is very consistent across each of the three points i.e. non-fatal stroke (HR:0.89), non-fatal MI (HR:0.88) and more importantly cv death whose risk was reduced by a remarkable 22%. This comes in contrast with EMPA-REG OUTCOMES results where empagliflozin did not show benefit on stroke. When a 6-component endpoint is considered, the statement is the same and the results are actually very consistent over all the sub-group and liraglutide also beat placebo on renal microvascular event (not on eye-related events).

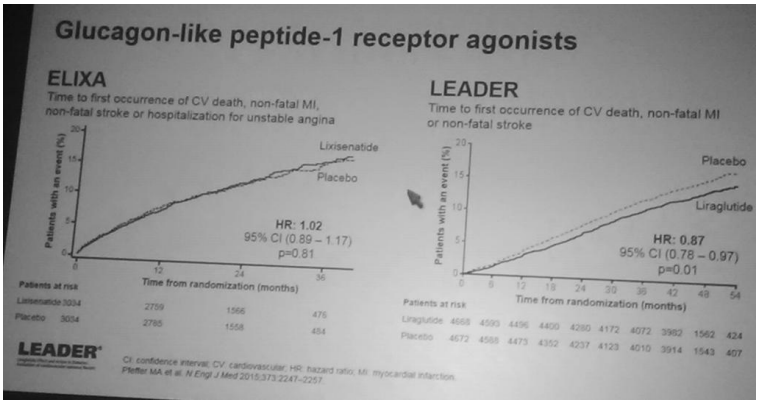


- At least as impressive were the safety results because liraglutide beat placebo on serious and severe adverse events and also presented less hypos. This has to do with the protocol that allowed for use of other antidiabetics to achieve glycemic control. In the placebo arm, people used more isulins and SU, hence the hypos. Nausea and vomiting were reported in less than 2% of the patients which is likely due to the duration of the trial. This is all the more surprising that average dose of Lira was 1.78 mg. In any case, there were very few discontinuations thus making the trial very robust.

- Actually the least impressive number was the reduction in HbA1c which was "only" 0.40% at month 36 out of a baseline of 8.7%. However the two arms were not comparable in terms of concomittent drug use. At month 36, 1336 patients used insulin in the Lira arm vs 2018 in the placebo arm whereas the percentage was similar at baseline.

- As long as neoplasms, there is nothing significant to report (no difference by tissue) and same for pancreatitis (including acute ones).

- Lastly, conclusion by principal investigator compared the results with those of ELIXA and EMPA-REG OUTCOMES after calling for cautious when comparing non head to head trials. Despite some protocol differences, putting ELIXA and LEADER on the same slide (see our picture) was not kind for Sanofi and Zealand and obviously helps Victoza. When trying to explain the difference, he suggested that half lifes and overall profiles, as well as Molecular specificities might be behind. When comparing the results to empagliflozin's, he mainly raised that effects were of various natures, benefit coming faster with empa (diuretic ?) vs longer but more consistent effect with lira (anti thrombotic ?). The difference was also reflected in the influence on strokes.



- So, overall, we deem the results as good; not outstanding, but solid. They should help Novo Nordisk build its leadership in the GLP1 market further. Because GLP1s are good for the margin mix, we expect the market to react positively today. That said, we are not sure how much it can impact and expand the market vs CS expectations. Obviously, what is good for Victoza is also good for Xultophy which is another strategic brand for the group.

VALUATION

- No changes to our fair value and rating.
- As a reminder, Novo Nordisk's GLP-1 franchise amounted to 17% of total turnover in 2015 (DKK18.6bn) and we estimate its contribution to reach 36% towards 2021e (BGe) or DKK47bn.

NEXT CATALYSTS

- August 5th: H1 results

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