

Novo Nordisk A/S Class B

CORE HOLDING*

Recommended since 31.05.24

31.05.2024



Country DK	Market capitalization (bn) DKK 4083,2	Perf. since reco. (%)
Sector Health Care	Free float 92,9%	Novo Nordisk A/S Class B 0,0
Factset NOVO.B-DK	Closing price DKK 918,30	Sector 0,0
ISIN DK0062498333	ESG Risk score* 23,1 Medium risk	



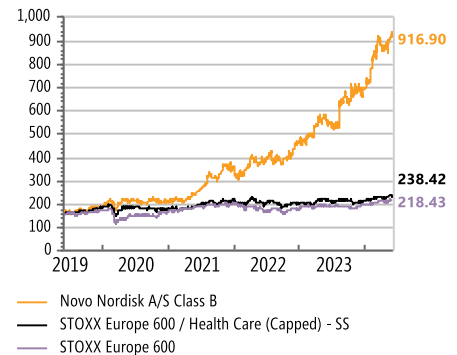
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 1923, Novo Nordisk is a Danish pharmaceutical company with a leading position in diabetes and obesity care (93% of sales) and a presence in rare diseases (7% of sales - hemophilia and growth disorders).

Market - competition - positions - barriers to entry

Novo Nordisk is a pure player in diabetes and obesity care, through the marketing of its GLP-1 franchise (Ozempic, Wegovy). The obesity indication, whose market size has yet to be defined, represents a major long-term growth driver. Novo Nordisk shares this market with Eli Lilly. Barriers to entry include innovation, with a high R&D budget (14%); the clinical development process; the complexity of molecules and formulations; and the regulatory environment.



Source: Factset

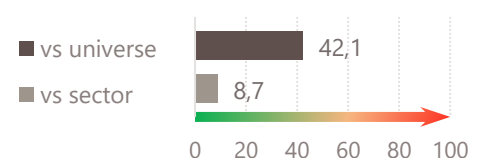
Investment case

- As a leader in diabetes and obesity care, with its GLP-1 franchise (Ozempic in type 2 diabetes, Wegovy in obesity), Novo Nordisk will benefit from market expansion. The obesity indication represents a major long-term opportunity and will underpin sales growth over the next decade. The GLP-1 market potential is estimated at \$100-130bn by 2030, including \$50bn for Novo Nordisk. Price pressure (already visible) and intensifying competition by 2030 are non-negligible risks, but are seen as a driving force for market expansion.
- With over 800mio people suffering from obesity (BMI>30) worldwide, the target market is considerable, but its size remains to be defined and will depend on six factors: 1/ duration of treatment (average duration > 6 months at present, only 1/3 of patients remain on treatment after one year); 2/ pricing pressure; 3/ reimbursement (20% reimbursed / 80% out-of-pocket); 4/ deployment of production capacity (under constraint in the medium term); 5/ side effects (only gastrointestinal / the risk of thyroid cancer is monitored and restricted for at-risk patients); 6/ patient willingness to be treated.
- In order to extend reimbursement of Wegovy, the company is conducting a clinical program to evaluate its impact on co-morbidities. The improvement demonstrated in heart failure (10% of obese patients) and chronic renal failure will help to improve the long-term management of these patients. The duration of treatment is currently low, due to three main factors: 1/ side effects (vomiting, nausea, etc.); 2/ disappointment with weight loss; 3/ restricted access due to insufficient production capacity; 4/ reimbursement. While the first two will remain an obstacle, the ramp-up of production and an extension of reimbursement will enable an increase in the average duration of treatment.
- Ozempic and Wegovy will lose their patents in 2031, but two therapies currently in R&D should help offset the impact: 1/ cagrisema (phase III expected in 2024 - injection 1x/week), which is expected to be more effective than Wegovy (10-15% weight loss) and close to Mounjaro (Eli Lilly - 20% weight loss) and 2/ oral amycretin in phase II.

ESG - risks and key points

- Novo Nordisk's ESG risk level is medium and linked to its business sector (notably the risk of side effects for innovative drugs) and to its presence in the US market (55% of sales), which is likely to generate more litigation and where drug prices are a major concern.
- Despite strong management of ESG issues and solid corporate governance performance, the company has experienced a high level of controversy : the ever-increasing price of insulin has come under scrutiny from health authorities and governments, leading to the implementation of a more affordable price.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in DKK

Current price	Value Bordier Scenario
918	1 027

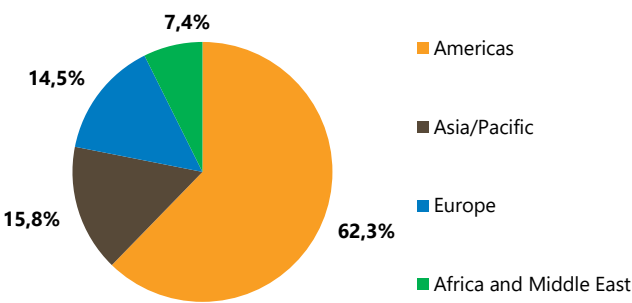
Our scenario assumes a risk-free rate of 2.5%; organic growth averaging 10% p.a. over the period; EBIT margin reaching 46% in 2027 (+200bp vs. 2023), then stabilizing at the end of the period.

**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of DKK	2022	2023	2024e	2025e	2026e
Sales revenue	176 954	232 261	291 488	350 660	403 258
Sales growth %	21,0%	27,0%	25,5%	20,3%	15,0%
o/w organic	14,0%	27,0%	25,5%	20,3%	15,0%
EBIT adjusted	74 809	102 574	130 878	158 849	187 112
% of sales	42,3%	44,2%	44,9%	45,3%	46,4%
Net income	55 525	83 683	104 702	127 079	149 690
Adjusted EPS	12,22	18,48	23,22	28,29	33,46
Adjusted EPS growth	17,8%	51,2%	25,7%	21,8%	18,3%
Capex/Sales	6,9%	16,7%	16,5%	12,5%	10,8%
Free cash-flow	66 741	70 012	55 255	85 439	111 748
FCF/Sales	37,7%	30,1%	19,0%	24,4%	27,7%
Dividend per share	12,40	9,40	11,61	14,15	16,73
Dividend yield	1,4%	1,0%	1,3%	1,5%	1,8%
ROCE - WACC	31,6%	32,5%	34,4%	35,0%	33,8%
ROE (%)	66,5%	78,5%	70,4%	62,5%	55,5%
Net debt/Ebitda	2,7%	-2,9%	2,9%	-5,2%	-18,3%

Sales breakdown - 12/2023



Governance and ownership structure

Since 2017 - CEO Lars Fruergaard Jørgensen

Key shareholders (if any):

The Novo Nordisk Foundation holds 28.1% of the capital and 77.1% of the voting rights (via class A shares).

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

Capital split between 1/ unlisted class A shares (28.1% of capital, 100 voting rights per share) and 2/ listed class B shares (71.9% of capital, 10 voting rights per share).

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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