

Novo Nordisk

Substantial fill and finish capex; acquiring three Catalent sites

Maintain Rating: BUY | PO: 875.00 DKK | Price: 781.40 DKK

Novo Nordisk to acquire 3 fill-finish sites from Catalent

Novo Holdings to acquire Catalent, with Novo Nordisk acquiring three of the fill-finish sites from Novo Holdings for \$11bn, supporting substantial in house API expansion, driving potential to address many millions of additional patients. The acquisition is expected to gradually increase Novo's filling capacity from 26E onwards, where Novo had flagged at FY23 results that its current focus is on getting fill-finish capacity to match its API capacity. The acquisition will be mainly debt financed. Importantly, we estimate the acquisition is only expected to have a low single-digit negative impact on EPS in 24/25E. As a reminder we are still ahead of cons in 24/25E driven by our confidence in the GLP1/Wegovy trade, see [our post FY23 results feedback](#). We are attending investor meetings with Novo CEO and CFO today.

Forecasts remain ahead of cons; Supply biggest delta

FY24 guidance was solid for the start of the year and likely conservative, in our view, as was in evidence throughout FY23. Supply remains the key variable, where visibility is low. We continue to forecast EBIT growth c8% ahead of guide. For Wegovy, our forecast assumes 5k additional TRx per week, with weekly TRx reaching c360k by ear-end.

Buy. EPS upgrade cycle; Cagrisema PIII 2H24. Amycretin

Novo share price outperformance in the last 18m has been driven by a Ozempic/Wegovy EPS upgrade cycle. We expect the earnings upgrades cycle to continue, with us c8% ahead of cons. We also believe FY24 remains a busy pipeline year: 1) CagriSema first PIII with obesity data late 24E and diabetes 1H25. Across the programme Novo frames target HbA1c of c2-2.3% (directionally better vs tirzepatide), with weight loss in obesity of c25%, c20% in obese diabetics, and slightly slower in non-obese diabetics at high teens to low 20's percent (directionally better vs tirzepatide with greatest delta in diabetic population); 2) Further SELECT sub-analyses and FLOW CKD detailed data; 3) Semaglutide further indications with PIII STRIDE PAD mid-24E and NASH end-24.

Estimates (Dec) (DKK)	2022A	2023A	2024E	2025E	2026E
EPS (Reported Diluted)	12.2	18.6	25.2	30.5	35.7
EPS Change (YoY)	17.8%	52.4%	35.2%	21.2%	17.0%
Dividend / Share	6.06	9.40	12.7	15.4	18.0
ADR EPS (Reported Diluted - US\$)	1.73	2.70	3.65	4.42	5.17
ADR Dividend / Share (US\$)	0.86	1.36	1.84	2.23	2.61
Valuation (Dec)					
P/E	64.0x	42.0x	31.0x	25.6x	21.9x
Dividend Yield	0.78%	1.20%	1.63%	1.97%	2.31%
EV / EBITDA*	41.7x	30.6x	23.3x	19.2x	16.5x
Free Cash Flow Yield*	1.89%	2.37%	2.70%	3.60%	4.11%

* For full definitions of *IQmethod*SM measures, see page 5.

05 February 2024

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Stock Data

Price (Common / ADR)	781.40 DKK / 113.70 USD
Price Objective	875.00 DKK / 125.20 USD
Date Established	6-Nov-2023 / 6-Nov-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	465.45 DKK-795.70 DKK
Market Value (mn)	3,463,766 DKK
Shares Outstanding (mn)	4,432.8 / 4,432.8
Average Daily Value (mn)	269.79 USD
Free Float	73.3%
BofA Ticker / Exchange	NONOF / CPH
BofA Ticker / Exchange	NVO / NYS
Bloomberg / Reuters	NOVOB DC / NOVOb.CO
ROE (2024E)	84.8%
Net Dbt to Eqty (Dec-2023A)	-5.2%
ESGMeter TM	High

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 05 February 2024 07:09AM EST

iQprofileSM Novo Nordisk

Key Income Statement Data (Dec)

(DKr Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	176,954	232,261	303,445	368,290	428,799
EBITDA Adjusted	82,171	111,987	147,185	178,453	207,724
Depreciation & Amortization	(7,362)	(9,413)	(8,999)	(10,762)	(12,501)
EBIT Adjusted	74,809	102,574	138,187	167,691	195,222
Net Interest & Other Income	(5,747)	2,100	1,284	163	(464)
Tax Expense / Benefit	(13,537)	(20,991)	(27,894)	(33,571)	(38,952)
Net Income (Adjusted)	55,525	83,683	111,577	134,283	155,807
Average Fully Diluted Shares Outstanding	4,545	4,496	4,432	4,400	4,363

Key Cash Flow Statement Data

Net Income (Reported)	55,525	83,683	111,577	134,283	155,807
Depreciation & Amortization	7,362	9,413	8,999	10,762	12,501
Change in Working Capital	(5,336)	(12,245)	(21,753)	(19,815)	(18,491)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	21,336	28,057	38,558	35,124	32,776
Cash Flow from Operations	78,887	108,908	137,381	160,354	182,594
Capital Expenditure	(12,146)	(25,806)	(44,000)	(36,829)	(42,880)
(Acquisition) / Disposal of Investments	(7,075)	0	0	0	0
Other CFI	(5,697)	(18,086)	0	0	0
Cash Flow from Investing	(24,918)	(43,892)	(44,000)	(36,829)	(42,880)
Share Issue / (Repurchase)	(24,086)	(29,924)	(20,000)	(30,000)	(30,000)
Cost of Dividends Paid	(25,303)	(31,767)	(41,668)	(67,320)	(78,118)
Increase (decrease) debt	(861)	1,222	0	0	0
Other CFF	(1,785)	(2,808)	0	0	0
Cash Flow from Financing	(52,035)	(63,277)	(61,668)	(97,320)	(108,118)
Total Cash Flow (CFO + CFI + CFF)	1,934	1,739	31,713	26,205	31,596
FX and other changes to cash	5,192	4,534	0	0	0
Change in Cash	7,126	6,273	31,713	26,205	31,596
Change in Net Debt	(7,987)	(5,051)	(31,713)	(26,205)	(31,596)
Net Debt	(517)	(5,568)	(37,281)	(63,486)	(95,082)

Key Balance Sheet Data

Property, Plant & Equipment	66,671	90,961	127,953	156,011	188,380
Goodwill	0	0	0	0	0
Other Intangibles	51,416	60,406	58,415	56,424	54,433
Other Non-Current Assets	14,976	23,473	23,473	23,473	23,473
Trade Receivables	50,560	64,770	84,621	102,704	119,578
Cash & Equivalents	26,301	32,574	64,287	90,492	122,088
Other Current Assets	31,333	42,302	55,267	67,077	78,098
Total Assets	241,257	314,486	414,016	496,181	586,050
Long-Term Debt	24,318	20,528	20,528	20,528	20,528
Other Non-Current Liabilities	12,513	17,742	17,742	17,742	17,742
Short-Term Debt	1,466	6,478	6,478	6,478	6,478
Other Current Liabilities	119,474	163,177	212,798	258,000	300,180
Total Liabilities	157,771	207,925	257,546	302,748	344,928
Total Equity	83,486	106,561	156,470	193,433	241,122
Total Equity & Liabilities	241,257	314,486	414,016	496,181	586,050

Business Performance*

Return On Capital Employed	52.4%	61.8%	63.7%	61.5%	59.7%
Return On Equity	72.0%	88.1%	84.8%	76.8%	71.7%
Operating Margin	42.3%	44.2%	45.5%	45.5%	45.5%
Free Cash Flow (MM)	66,741	83,102	93,381	123,525	139,714

Quality of Earnings*

Cash Realization Ratio	1.42x	1.30x	1.23x	1.19x	1.17x
Asset Replacement Ratio	2.11x	3.40x	6.28x	4.20x	4.08x
Tax Rate	19.6%	20.1%	20.0%	20.0%	20.0%
Net Debt/Equity	-0.62%	-5.23%	-23.8%	-32.8%	-39.4%
Interest Cover	12.5x	NM	NM	NM	NM

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Pharmaceuticals

Company Description

Novo Nordisk is a Denmark-based world leader in insulin and diabetes care and also manufactures and markets a variety of other pharmaceutical products. Key products include Wegovy and Semaglutide (GLP-1) and long acting basal insulins.

Investment Rationale

We have a Buy rating on Novo Nordisk given strong c11% 2025-28E sales CAGR driven by Wegovy launch layers on top of a solid diabetes franchise with strong GLP1 (Ozempic and Rybelsus)-driven growth and mid-term pipeline options.

Stock Data

Shares / ADR	1.00
Price to Book Value	22.0x

Quarterly Earnings Estimates

	2023	2024
Q1	4.39A	5.46E
Q2	4.31A	5.91E
Q3	5.01A	6.64E
Q4	4.91A	7.16E



Price objective basis & risk

Novo Nordisk (NONOF / NVO)

Our PO of DKK875/US\$125.2 assumes shares trade at c30x 2025E PE, above its prior absolute trading range given solid sales 25-28E CAGR (c11% versus sector c6%), increased confidence in growth from very positive outcomes data, and potential mid-term upside from strong obesity and continued strong GLP1 trends in diabetes

Our target sector multiple of c16x 25E PE is based on: 1) A 40% premium to the market average multiple which implies c15x 25E PE, a premium which is in line with the long-term historical trend for periods of growth for the sector during times of broader market uncertainty, 2) Regression analysis of historical sector forward PEs and three-year-forward EPS CAGR implies a target PE of c16x 25E PE based on sector growth of c7%, 3) Our DCF valuations imply c17x 25E PE

Upside risks to our PO are pipeline success, better-than-expected pipeline data/approvals, and better-than-expected launches of key products.

Downside risks to our PO are Wegovy & Rybelsus trajectory, China VBP insulin, risk of litigation, adverse currency moves, tirzepatide (Mounjaro) competition, and product concentration.

Analyst Certification

I, Sachin Jain, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Pharma & Biotech Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AstraZeneca	AZN	AZN US	Sachin Jain, CFA
	AstraZeneca	AZNCF	AZN LN	Sachin Jain, CFA
	Genmab	GNMSF	GMAB DC	Sachin Jain, CFA
	Genmab	GMAB	GMAB US	Sachin Jain, CFA
	Grifols S.A.	GIFLF	GRF SM	Graham Parry
	Grifols S.A. - B	GRFS	GRFS US	Graham Parry
	Grifols S.A. - B	GIFO	GRF/P SM	Graham Parry
	Lonza AG	LZAGF	LONN SW	Charlie Haywood
	Lonza AG	LZAGY	LZAGY US	Charlie Haywood
	Merck KGaA	MKGAF	MRK GY	Sachin Jain, CFA
	Merck KGaA	MKKGY	MKKGY US	Sachin Jain, CFA
	Novartis	NVSEF	NOVN SW	Graham Parry
	Novartis	NVS	NVS US	Graham Parry
	Novo Nordisk	NONOF	NOVOB DC	Sachin Jain, CFA
	Novo Nordisk	NVO	NVO US	Sachin Jain, CFA
	Sandoz Group AG	SDZXF	SDZ SW	Graham Parry
	Sandoz Group AG	SDZNY	SDZNY US	Graham Parry
	Sanofi	SNYNF	SAN FP	Graham Parry
	Sanofi	SNY	SNY US	Graham Parry
	Sartorius AG	SUVPF	SRT3 GY	Charlie Haywood
NEUTRAL				
	H. Lundbeck A/S	HLUKF	HLUNB DC	Sachin Jain, CFA
	Idorsia	IDRSF	IDIA SW	Sachin Jain, CFA
	Ipser	IPSEF	IPN FP	Sachin Jain, CFA
	Roche Holdings	RHHBF	ROG SW	Sachin Jain, CFA
	Roche Holdings	RHHBY	RHHBY US	Sachin Jain, CFA
UNDERPERFORM				
	Bayer	BAYZF	BAYN GY	Sachin Jain, CFA

EMEA - Pharma & Biotech Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Bayer	BAYRY	BAYRY US	Sachin Jain, CFA
	GSK Plc	GSK	GSK US	Graham Parry
	GSK Plc	GLAXF	GSK LN	Graham Parry
	Orion	ORINF	ORNBV FH	Graham Parry
	UCB	UCBJF	UCB BB	Graham Parry
	UCB	UCBJY	UCBJY US	Graham Parry

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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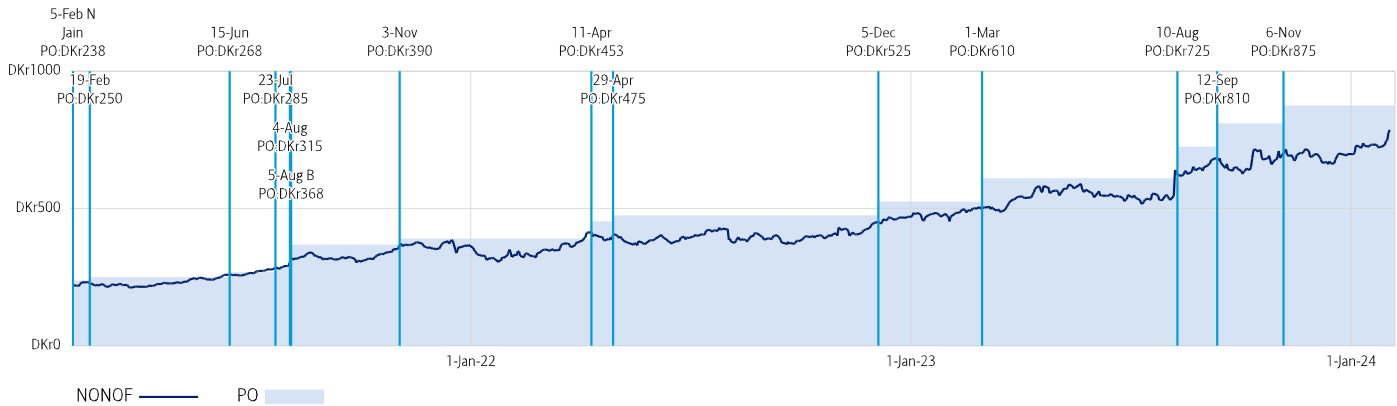
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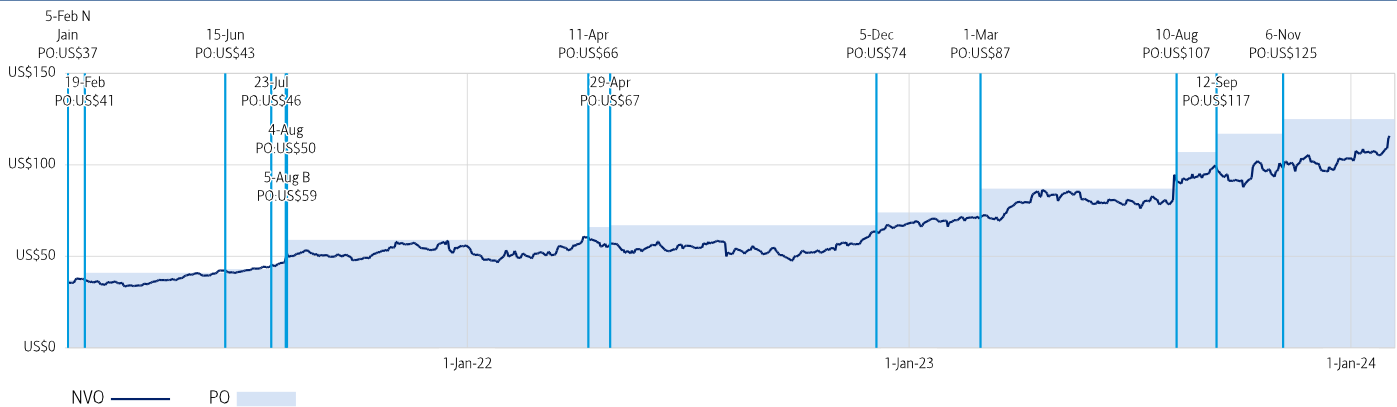
Novo Nordisk (NONOF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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