

COMPANY PROFILE

Novo Nordisk A/S

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COMPANY OVERVIEW

Novo Nordisk AS (Novo Nordisk or 'the company') is a global healthcare company engaged in providing diabetes and obesity care products. The company also has a leadership position in haemophilia, growth hormone therapy and hormone replacement therapy. It operates in Europe, North America, China, Japan, Korea and other regions of the world. Novo Nordisk is headquartered in Bagsvaerd, Denmark.

The company reported revenues of (Danish Krone) DKK111,696 million for the fiscal year ended December 2017 (FY2017), a decrease of 0.1% over FY2016. In FY2017, the company's operating margin was 43.8%, compared to an operating margin of 43.3% in FY2016. In FY2017, the company recorded a net margin of 34.1%, compared to a net margin of 33.9% in FY2016.

The company reported revenues of DKK26,930.0 million for the first quarter ended March 2018, a decrease of 3.8% over the previous quarter.

KEY FACTS

Head Office	Novo Nordisk A/S Novo Alle Bagsvaerd Bagsvaerd DNK
Phone	45 44 448888
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Web Address	www.novonordisk.com
Revenue / turnover (DKK Mn)	111,696.0
Revenue (USD Mn)	16,930.3
Financial Year End	December
Employees	42,688
Copenhagen Stock Exchange Ticker	NOVO B

SWOT ANALYSIS

Novo Nordisk (or 'the company') is a global healthcare company engaged in providing diabetes and obesity care products. Improved liquidity position, leadership position in the global diabetes market, and improving profitability are its key strengths, whereas, product recall is an area of concern. In the future, pricing pressure and reimbursement restrictions by payers, competitive pressures; and delays or failure of pipeline products could affect the company's growth. However, establishing presence in obesity treatment market, and expanding leadership position in diabetes could provide growth opportunities for the company.

<p>Strength</p> <p>Leadership position in the global diabetes market Profitability Liquidity position</p>	<p>Weakness</p> <p>Product recalls</p>
<p>Opportunity</p> <p>Establishing presence in obesity treatment market Strategic initiatives to tap haemophilia market Expanding leadership position in diabetes</p>	<p>Threat</p> <p>Pricing pressure and reimbursement restrictions by payers Increasing pressure from competitors Delays or failure of pipeline products</p>

Strength

Leadership position in the global diabetes market

Novo Nordisk has one of the broadest diabetes product portfolios in the industry, including an advanced portfolio of modern insulins, new-generation insulins as well as a human once-daily GLP-1 (glucagon-like peptide-1) analog. The company is the world leader in diabetes care and holds a global value market share of 27%. Victoza, a once-daily GLP-1 analog, is used by approximately millions of people worldwide. Victoza held the global market share leadership in the GLP-1 segment with a 50% value market share in 2017. As a result, Victoza's sales increased by 16%. The GLP-1 segment's value share of the total diabetes care market was at 11.8% in FY2017. Novo Nordisk's leadership position in the global diabetes market provides it with significant bargaining power as well as stabilizes its financial growth. Further, strong brand value allows Novo Nordisk to penetrate into new markets as well as consolidate its presence in the existing ones.

Profitability

Improving profitability expands the company's ability to provide adequate returns to its shareholders. The company's profitability improved during the same period. The company reported an operating income of DKK48,967 million in FY2017 when compared to an operating income of DKK48,432 million in FY2016.

Increased operating performance indicates proper cost management of the company. The company reported a net income of DKK38,130 million in FY2017 when compared to a net loss of DKK37,925 million in FY2016.

Liquidity position

The company's liquidity improved in FY2017. Improved liquidity is an indication of the increasing ease in funding the company's day to day operations, which also improves its ability to capture growth opportunities in the market. The company's current ratio was 1.3 at the end of FY2017. The company's current ratio was higher than that of its major competitors, AstraZeneca Plc and Novartis AG, which reported a current ratio of 0.8 and 1.2 during the same period. The increase in current ratio could be due to 1% decrease in total current liabilities, which decreased from DKK47,436 million in FY2016 to DKK47,056 million in FY2017, due to decrease in accounts payable and accrued expenses.

Weakness

Product recalls

The company has been recalling several of its products. In FY2016, Novo Nordisk initiated voluntary recall of six batches of GlucaGen HypoKit (glucagon [rDNA origin] for injection) in the US due to two customer complaints from the UK and Portugal involved in detached needles on the syringe with Sterile Water for Injection (SWFI). It recalled GlucaGen HypoKit batch numbers Batch: FS6X270, Expiry: 09/30/2017; Batch: FS6X296, Expiry: 09/30/2017; Batch: FS6X538, Expiry: 09/30/2017; Batch: FS6X597, Expiry: 09/30/2017; Batch: FS6X797, Expiry: 09/30/2017; and Batch: FS6X875, Expiry: 09/30/2017. In the past, the company had two instances of product recalls which were related to incorrect labelling of products. Local health authorities were informed in both instances to ensure that distributors, pharmacies, doctors and patients received appropriate information. To protect patient safety, Novo Nordisk recalled all products in the affected batches from wholesalers, pharmacies and patients. Such product recalls may affect the company's brand name.

Opportunity

Establishing presence in obesity treatment market

According to the World Health Organization (WHO), obesity has reached pandemic proportions, with more than 600 million adults having clinical obesity (defined as having a Body Mass Index of 30 or above). Obesity is known to be a major risk factor in developing serious diseases such as type 2 diabetes and cardiovascular diseases. Despite the growing prevalence of obesity globally, there are only a few pharmaceutical treatment options currently available, and reimbursement for these medications is limited. The global pharmaceutical market for obesity products currently amounts to around DKK10 billion (\$1.5 billion). The global market for obesity treatments should reach more than \$7.8 billion by 2021 from over \$4.3 billion in 2016, increasing at a five-year CAGR of 12.7% from 2016 to 2021. To cater to this market segment, Earlier, in the US, Nova Nordisk launched Saxenda (liraglutide 3 mg), its first product for obesity. Saxenda has also received a positive opinion from the European Medicines Agency's expert

committee (CHMP), in the past. Based on this, approval by the EU Commission is expected during 2015 following which Saxenda would be launched in the first European countries. The drug has also been approved in Canada.

Strategic initiatives to tap haemophilia market

According to Novo Nordisk, an estimated 420,000 people worldwide are living with severe or moderate haemophilia. The global haemophilia drug market is estimated at DKK75 billion (approximately \$11.2 billion) and has grown by more than 5% annually in recent years. In April 2016, Novo Nordisk announced investment over EUR100 million in production facilities at its site in Chartres, France. The new facilities would be built on the company's existing 31,000 m² production site in Chartres (France). It manufactures a range of insulin products and FlexPen, the world's most widely used insulin injection device. Earlier, it launched NovoEight in Japan and some European countries for the treatment of people with haemophilia A. The company plans to launch this product in the US. To further ensure sufficient production capacity for its haemophilia products in the coming years.

Previously, Novo Nordisk invested DKK1, 500 million (approximately \$223.2 million) in a new facility in Kalundborg, Denmark. The facility would produce active pharmaceutical ingredients (APIs) for NovoSeven and future products for treating haemophilia. Such strategic initiatives to tap haemophilia market are likely to help the company in generating incremental revenues.

Expanding leadership position in diabetes

According to Novo Nordisk, 8.8% of the world's adult population diagnosed with diabetes, and it is predicted that by 2040 more than 10% of the world's adult population would have diabetes. The global market for diabetes care products amounts to DKK450 billion (approximately \$70.3 billion), of which Novo Nordisk products currently account for about 27%. The market has grown by around 10% annually in the last decade and is expected to experience continued growth driven by an increased prevalence of diabetes and the need for better treatments. Of this global market, insulin accounts for 40% and GLP-1 products for 60%. Diabetes care is Novo Nordisk's largest and fastest-growing business area. Furthermore, Novo Nordisk has been opening new manufacturing facilities for diabetes treatment products. Previously, it opened a new manufacturing facility in the Kaluga region of Russia for formulation and filling of modern insulin for the treatment of diabetes. The production would cover both Penfill cartridges and FlexPen prefilled insulin injection pens for the Russian market. According to the company, there are close to 10 million people with diabetes in Russia. By opening this new facility, the company would be able to tap Russian diabetes market. In this line, in February 2018, the company secured the European Commission approval for Ozempic, which treats adults with type 2 diabetes. In January 2018, the company's Ozempic was approved by the Health Canada to treat adults with type 2 diabetes.

Threat

Pricing pressure and reimbursement restrictions by payers

Europe, China and the US are all main markets for Novo Nordisk where payers, both governments and private payers, take measures to limit spending on medicines, typically by driving down prices,

demanding higher rebates and/or restricting access to and reimbursement of products. This is unlikely to change in the near future. For Novo Nordisk, reimbursement restrictions pose a significant risk when launching a new product such as Tresiba. Despite the patient benefits and data supporting the health-economic benefits of this new basal insulin, which has duration of action beyond 42 hours, it is not always possible to obtain market access on what Novo Nordisk considers reasonable conditions. In some countries, the company may therefore not launch Tresiba or other new products under the current conditions. Hence, pricing pressure and reimbursement restriction by payers could limit spending on medicines.

Increasing pressure from competitors

The increasing prevalence and profile of diabetes in the western world is spurring the level of R&D focus on the market. With obesity prevalence expected to increase, and its strong link to type 2 diabetes, the importance of diabetes looks set to grow. According to industry analysts, the company's competitors, like Merck & Co generated about \$6.04 billion in anti-diabetic revenue and is expected to generate over \$6.12 billion by 2022. The perceived growth in diabetes contrasts with the other major cardiovascular franchises such as hypertension, dyslipidemia, thrombosis and blood disorders, which are all mature markets with low growth potential. Competitive pressures are also growing in the managed healthcare industry, driving both consolidation through mergers and acquisitions and increasingly tough rebate negotiations with pharmaceutical companies. Thus, increasing pressures from competitors in the global diabetes market and from managed care companies for more rebates could affect Novo Nordisk's profit margins.

Delays or failure of pipeline products

Delays or failure of pipeline products could affect the productivity since developing a new pharmaceutical product is an expensive undertaking that could take more than 10 years. It includes extensive non-clinical tests and clinical trials as well as an elaborate regulatory approval process, including approval of the production facilities. During the process, various hurdles may delay the development of a potential product candidate and add substantial expenses. In some cases, significant obstacles could lead to the company eventually deciding to abandon the development of the potential product candidate. In Novo Nordisk's experience, there is a less than 35% chance of a diabetes product candidate in phase 1 clinical trials ultimately being approved for marketing, while the chance of success is around 60% for products in phase 2 trials, rising to around 80% for products in phase 3 trials. However, there is significant uncertainty regarding the timing and success of the regulatory approval process. Delays or failure of pipeline products may have a negative impact on the productivity of the company.

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