

# From Health to Economy, Industries Shift as Pharmaceuticals Reshape the Future

*"The doctor of the future will give no medicine but will instruct his patient in the care of the human frame, in diet and in the cause and prevention of disease."*

- Thomas Edison

## Insights

***Novo Nordisk's pharmaceuticals, Ozempic and Wegovy, have experienced a surge in popularity in recent years.***

Initially approved by the Food and Drug Administration (FDA) in 2017, Ozempic gained recognition for its efficacy in treating diabetes and associated heart disease. In 2021, the FDA further expanded its approval to Wegovy, a drug with a higher dose of the active ingredient, semaglutide, specifically formulated to address obesity. Subsequently, both medications garnered widespread attention, with notable figures like Elon Musk and Andy Cohen contributing to their increasing prominence on social media platforms.

Ozempic and Wegovy operate by mimicking the action of glucagon-like peptide-1, a hormone that influences appetite regulation in the brain. While Ozempic primarily targets Type 2 diabetes, it has demonstrated effectiveness as a weight management tool. Similarly, Wegovy, with a slightly higher maximum dose compared to Ozempic, has shown promise for off-label use in Type 2 diabetes patients. The heightened demand for these drugs has led to shortages in pharmacies nationwide.

In November 2023, Novo Nordisk presented pivotal findings from the SELECT Study at the American Heart Association (AHA) conference. The study indicated a substantial 20% reduction in the risk of cardiovascular events, encompassing benefits in Cardiovascular Death risk and All-Cause mortality reduction.

Positive updates on the FLOW trial for chronic kidney disease (CKD) and heart failure with preserved ejection fraction (HFpEF) further reinforced the potential of these medications in preventing various chronic diseases.

Beyond the direct impact on public health, the implications of these weight loss drugs extend to economic and market dynamics. A report from the World Obesity Federation forecasts a significant rise in global obesity-related costs, with over half the world's population expected to be overweight or obese by 2035. The economic impact, projected at \$4.32 trillion annually, represents approximately 3% of the global GDP, surpassing the impact of the COVID-19 pandemic in 2020. A healthier population could contribute to positive economic growth, impacting workforce participation and productivity.

Moreover, these medications are reshaping markets, with potential disruptions evident in various sectors. Share prices of major kidney dialysis providers, such as Fresenius Medical Care and DaVita, have faced pressure, while companies producing similar medications to Ozempic are experiencing surges. The food and drink industry, particularly high-calorie product manufacturers, faces a potential drop in consumption, with analysts predicting up to a 3% decline through 2035. Notably, Krispy Kreme has witnessed a stock downgrade, reflecting concerns about reduced demand.

The economic ramifications may extend beyond traditional sectors, affecting behaviors associated with addiction. GLP-1 drugs, including those in Ozempic and Wegovy, could potentially curb cravings for substances such as alcohol and nicotine, as suggested by anecdotal reports and animal trials.



While the impact on a large scale remains uncertain, any reduction in addictive behaviors could have substantial consequences, particularly in industries displaying Pareto distributions, where a minority of users contributes significantly to profits.

In a surprising turn, the airline industry may also feel the effects, as weight-loss drugs like Ozempic could contribute to reduced jet fuel costs. Given that fuel constitutes about 25% of airlines' expenses, a Jefferies report suggests that United Airlines alone could potentially save USD 80 million annually in jet fuel costs if passengers were to lose an average of 10 pounds in weight. This underscores the far-reaching and multifaceted impact of these medications on various aspects of society and the economy.



In accordance with findings from Morgan Stanley's research, it is observed that while sales growth in the short term has been constrained by supply limitations, the global obesity market is anticipated to witness a substantial increase, potentially transitioning from a \$2.4 billion category in 2022 to a noteworthy \$77 billion by the year 2030.

Notably, leading pharmaceutical entities such as Novo Nordisk (Ozempic/Wegovy) and Eli Lilly (Mounjaro/Zepbound) are strategically positioned to derive benefits from this evolving market landscape. These companies exhibit best-in-class assets in the diabesity domain, substantiated by the latest data and a growing body of evidence from expansive outcomes trials.

In assessing market performance, both Novo Nordisk and Eli Lilly have demonstrated noteworthy equity price surges this year, with Novo experiencing an approximate 50% rise and Eli Lilly showcasing an impressive 60% increase. From an investment standpoint, a more strategic approach to gaining exposure to this thematic sector involves the initiation of a fixed coupon note with a strike price set 5-10 percent away from the current spot price, thereby ensuring investors receive consistent coupon payments. Importantly, this approach provides investors with the advantage of acquiring these stocks at a discounted rate in the event of a decline in stock prices, enhancing the overall investment value proposition.

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