

FROM HEALTH RISKS TO ECONOMIC IMPACTS, OBESITY TAKES PART IN THE DEBATE

SOS

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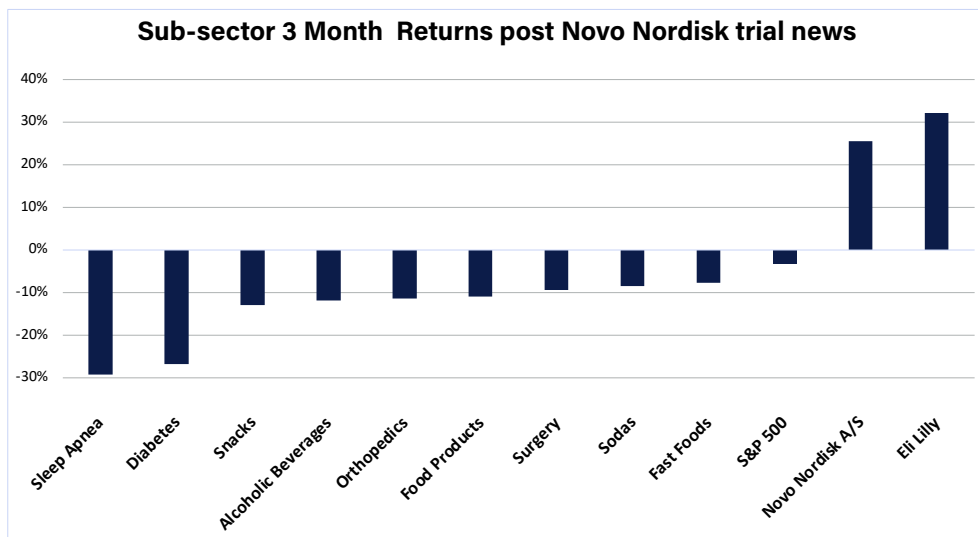
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Do GLP-1 drugs mean the end of obesity?

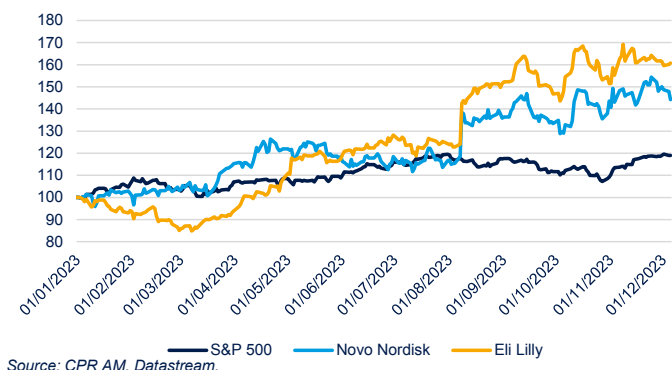
GLP-1 drugs, whose role in fighting obesity we discussed in our previous article, have made a huge splash on the equity markets in 2023. At their peak, GLP-1 “winners” had outperformed the supposed GLP-1 “losers” by more than 100%. While the winners performed well throughout the year, the “losers” sold off when studies came out demonstrating the efficacy of GLP-1 drugs on some comorbidities.



Source: CPRAM, FactSet

OBESITY

2023 Returns (base 100 2023 Jan 1st)



Two drug stocks have been the big winners

Let's give credit where it is due. Novo Nordisk's and Eli Lilly's stocks have performed remarkably well throughout the year. With no real competition in the short term, the two drugmakers are expected to account for 90% of GLP-1 drug sales by 2032. Analysts expect use of GLP-1 drugs to rise substantially and US penetration to amount to about 15 million patients by the end of the decade. Riding on the two drugmakers coattails, share prices of some manufacturers and suppliers of pre-filled syringes have also spiked.

A shakeup in the US medtech sector

Alongside these spectacular gains, entire swaths of the healthcare sector have suffered steep losses. The most severe adjustments have occurred in US medtech. The sleep apnea segment has taken a big hit from the release of these positive findings, as have orthopaedics, diabetes and dialysis. Obesity is one cause of sleep apnea and, indeed some orthopaedic surgeries are due directly to excess weight, but, on the other hand, orthopaedics companies report that GLP-1 drugs could open surgery up to patients who had previously been excluded owing to their excessive body mass index. The same goes for diabetes – starting an GLP-1 regimen to fight diabetes requires more glycaemia tests, not fewer! These segments were all hit hard by the GLP-1 boom, but companies point out that not all these pathologies will disappear, neither today, nor in a decade. In indiscriminately bidding down certain stocks by 20% to 30% between August and October, the market was probably getting carried away. And some stocks, particularly in diabetes, have rallied strongly since November. Even so, not until much later

will we find out whether or not US medtech is correct about the disruptive impact of GLP-1 drugs, once other companies' revenues show, quarter after quarter, that they have not been affected by the distribution of GLP-1 drugs.

Is consumption of certain foods at risk?

Could a drug that suppresses appetite threaten the agro-food industry? While all food manufacturers, retailers and restaurants would be affected, nutritionists agree that not all calories are the same. Unsurprisingly, carbohydrate-rich foods and beverages, including refined sugars (candy, chocolate, sodas and alcoholic beverages, salty snacks, fast foods, etc.) are regarded as the most heavily exposed to a reduction of calorie intake. According to retailers' initial findings, patients taking GLP-1 drugs eat less (based on lower spending on groceries) but better, with a preference for fresh produce (fruits and vegetables) and proteins (poultry and fish). Beyond rebalanced diets, these figures show increased spending on staying in shape (via sportswear and sports equipment), which could be related to the change-of-life recommendations that come with the drug prescriptions for the purpose of optimising weight loss over the long term and limiting side-effects.

GLP-1 drugs' appetite suppression impact has contributed to the underperformance of sector stocks. Yet, while the growing adoption of anti-obesity drugs is a long-term risk for those companies, the short-term impact looks modest. This looks even truer in light of recent comments by companies penalised by this narrative. Moreover, there is little data available on the consumer habits of GLP-1 drug patients, and some companies may benefit from geographical exposure outside the US or innovate more to adjust their offering (limiting the size of portions, and reducing sodium, fat and sugar).

What is the impact on insurance companies?

On a more anecdotal level, GLP-1 drugs could affect the insurance segment by potentially helping term-life insurers and harming insurers exposed to longer lifespans. Term-life insurers would benefit the most from GLP-1 drugs, as treatment of diabetes, obesity and related comorbidities would lengthen the lifespans of the insured persons. However, GLP-1 drugs would have a negative impact on

1. "Ozempic Is Making People Buy Less Food, Walmart Says", Bloomberg, 4 October 2023.

insurers who cover the risk of longer lifespans, as those longer lifespans would mean more benefits paid out over time. The trend towards longer lifespans is nothing new, and insurance companies already price a certain decline in mortality into their premiums. Once the initial enthusiasm has worn off, the impacts are likely to be neutral in the short term and potentially more positive in the very long term as new therapies become more widespread.

An issue of scale

As noted in the first article of our series, two thirds of the US population is overweight and 44% is obese, but the two drugmakers expect sales to peak at 10 to 15 million patients. GLP-1 drugs have had beneficial impacts on heart conditions, and the American Heart Association reports that 523 million persons worldwide suffer from cardiac problems and that these problems are responsible for 19 million deaths annually worldwide (this figure has risen by 18% in the past decade).

Likewise, figures on diabetes are vertiginous: 537 million adults from 20 to 79 years old now suffer from diabetes, or 10.5% of the global population in this age group. This figure is expected to rise to 643 million (11.3%) by 2030 and to 783 million (12.2%) by 2045!

However, GLP-1 drugs simply cannot meet all these healthcare challenges. The global population is ageing; that is inevitable and implies growing needs in medical and medtech solutions.

An issue of cost

In the US, treating adults with GLP-1 drugs is expected be costly in the short term and could have an impact on

coverage policies. At a monthly price of about \$1300 for the listed price (but with discounts granted to intermediaries such as PBMs), covering the cost of these treatments is a key issue. Medicare (the US health insurance programme for persons older than 65) is already forbidden by law from reimbursing the cost of GLP-1s, and even in the private sector, insurance companies are closely monitoring GLP-1 drugs. US media report that some of them are toughening the terms of coverage of these drugs, authorising them only for persons with the highest body mass indices. There could be substantial long-term savings from reduced obesity and its related risks, but these are being held back by GLP-1 drugs' current prices in the US and the fact that life-long use will no doubt be necessary for maintaining its health benefits.

Conclusion

While the new generation of GLP-1 drugs constitute real progress in the fight against obesity, they will not disrupt the rest of the healthcare sector. Population groups will continue to age, and their bodies will continue to wear out, and while the improvements in vitals are remarkable in patients, that will mean a steep rise in the demand for treatments for cardiovascular disorders, diabetes, etc. Likewise, the food sector will be only slightly affected by the reduction of food intake. GLP-1 drugs are a new tool for nutritionists in treating obesity but are not a cure-all. Combatting obesity is effective only over time and when accompanied by a physical exercise regimen and changes in lifestyle. In terms of public health policy, preventative measures will have to focus on young and poorer persons to generate visible and, hopefully, sustained benefits globally over the coming decades.

2. Tsoo CW, Aday AW, Almarzooq ZI, Alonso A, Beaton AZ, Bittencourt MS, et al. Heart-disease and stroke statistics — 2022 update: a report from the American Heart Association. *Circulation* 2022
 1. International Diabetes Federation.

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