Weekly Blog
November 6th, 2023

Source: Mount Murray Investment

Much has been written about the impact of anti-obesity-medications on sectors that have tended to either "cater" to consumption - calorie dense foods (sugary drinks/snacks) - or plied their trade in the economics of treating the effects thereof - bariatric surgery/orthopedics/insulin pumps. To this end, a recent report highlighted the fact that the shift in market value YTD between the new obesity disruptors and their revenue prey has been larger than the $430 bn size of the US drug market. Wall Street's latest feeding frenzy appears to be confined to the developed world, a rich person's "disease", which is striking given the fact that the developing world is where the longer-term growth opportunity is. North America and Europe will account for less than 8% of the growth in the disease in the next 20 years.

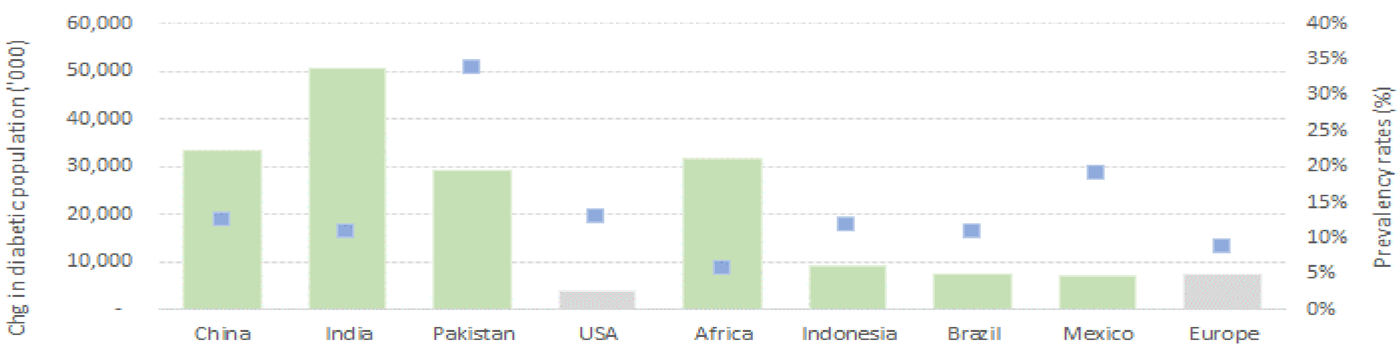
Obesity is tipping the scales in emerging markets - RaiaDrogasil, Brazil's largest pharmacy chain, already reports that Ozempic is its single biggest selling drug.

In 2021, 537 million people aged 20-79 years old lived with diabetes worldwide - or 10.5% of the population. This number is expected to grow at 3 times the rate the population will to 783 million by the end of 2045 (a 1.5% CAGR versus 0.5% for the global population). According to the International Diabetes Federation, 75% of adults with diabetes live in low- and middle-income countries.

Just 8% of Pakistan's population was classified as diabetic in 2011 but is set to add more diabetes sufferers than there are currently in the US, as the proportion rises to 34% by 2045. Africa will see its diabetic population more than double, whilst India will add more sufferers than anyone else with 50 million new citizens coming down with the disease. Somewhat surprisingly, the US and Europe are set to exhibit the slowest growth profiles out of the major diabetic economies. Although aging supports the prevalence of the disease, this impact diminishes post the age of 60.

Given that the healthcare costs for people who are obese are 2.7x that of a "healthy" individual, the business case for a higher adoption of GLP-1's as a type of preventative medicine appears sound. This is particularly relevant for emerging economies given their overburdened and under funded healthcare systems.

Growth in diabetic population vs prevalency rates - 2021 to 2045



Source: International Diabetes Federation

Global thematics always tend to find their way into local narratives and this healthcare disruptor will be no different. For now, affordability, in most jurisdictions, will crimp demand given that the product is usually an out-of-pocket expense. In India, Wegovy (the weight loss semaglutide) will set you back Rs 80,000 (CAD $ 1,300) for one month's treatment of weekly shots. Not cheap in anyone's book and affordable for only a tiny sliver of high earning Indians (18 million in 2021).

Manufacturing capacity has a long lead time while viable product substitutes are questionable given the complexity of pharma engineering. Generics and locally produced semaglutide may offer longer term hope to broader acceptance with the branded version set to get cheaper as production and competition ramp up.

With adoption rates still embryonic in growth economies it appears as if manufacturers of calorie rich staples such as snacks and sugary beverages can sleep easy. Comments from the likes of the Coca Cola bottlers (Femsa, Coca Cola Hellenic, Coca Cola Icecek), Pepsico and Yum Brands have been relatively muted with regards to the impact of anti-obesity-drugs on their beverages and snacks portfolio.

Our job as investors is to ensure that we engage with management teams on a regular basis to better understand their product market mitigants and how the future portfolio will be positioned for growth. At this juncture, it is too early to tell if these new miracle weight loss drugs will see tectonic shifts in investor perception in the emerging world. It seems emerging markets would be insulated for now, so to speak.

A larger secular trend that has played out over the last few years has been that of better lifestyle choices made by consumers opting for low calorie alternatives, especially amongst millennials. 65% of Coca Cola's portfolio is now geared to this category. In addition to this, snack producers could also look to smaller packaging that provide portion control and the benefit of higher margins.

Best regards,

Mount Murray Investment