



Insigneo Weekly Dispatch

# Is Obesity the New AI? A New Horizon for Obesity-Related Drugs

A brief summary of the new trends in obesity treatments and their main participants.



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## Is Obesity the new AI? A New Horizon for Obesity- Related Drugs

While artificial intelligence has been the focal point of markets recently, it's important to recognize significant progress being made in other areas, such as obesity treatments. But what exactly is obesity? According to the World Health Organization (WHO), obesity is defined as abnormal or excessive fat accumulation that poses health risks. Once primarily viewed through the lens of individual lifestyle choices, obesity is now recognized as a complex disease. In 2013, the American Medical Association formally classified obesity as a chronic disease, marking a pivotal moment that spurred increased attention and research into this area. This reclassification prompted laboratories and pharmaceutical companies to redirect their efforts toward developing targeted therapies specifically designed to combat obesity. Being mindful that we are discussing a disease, let's explore the progress that science has made in addressing this health challenge and its potential investment opportunities.

To understand the magnitude of this issue, let's start from the beginning. Obesity is measured by the Body Mass Index (BMI), which is a person's weight in kilograms divided by their height in square meters. An adult with a BMI over 25 is considered overweight, while a BMI above 35 is considered severely obese. According to the 2024 World

Obesity Atlas, by 2035, 54% of the global adult population and 39% of the global child population will be overweight or obese. This translates to 3.3 billion adults with high BMIs by 2035, compared to 2.2 billion adults in 2020. For the United States, the World Obesity Atlas reported that 79% of the US adult population, roughly 200 million people, have a high BMI as of today. Finally, given the connection between obesity and chronic diseases, the 2024 Global Burden of Disease report indicated that between 5% to 42% of deaths from cancers (neoplasms), coronary heart disease, stroke, and diabetes are related to high BMIs.

Prior to the reclassification made in 2013, pharmaceutical companies tried to develop treatments for obesity without much demand and little success. One notable attempt goes back to 1990 when the fenfluramine/phentermine (fen-phen) anti-obesity pill was released in the United States. While this product showed early signs of success, some patients started to develop significant negative health problems. After some research by the Mayo Clinic, a paper published in August 1997 concluded that fen-phen was causing pulmonary hypertension and heart valve problems in its patients. American Home Products, the company responsible for fen-phen, had to pull it from the market in 1997 facing \$13 billion in legal claims. Fen-phen gained notoriety for its health and legal troubles, but it was just one of many efforts to tackle obesity over the years. Progress remained slow until a breakthrough made in 2010 by the Danish pharmaceutical company Novo Nordisk (NVO).

In 2010, the FDA approved Novo Nordisk's new treatment for diabetes called Victoza. This treatment contained a glucagon-like peptide-1 (GLP-1) amino acid commonly used to enhance insulin synthesis, which had an unexpected side effect: slight weight loss. Building on this discovery, NVO's scientists decided to further explore this side effect, leading to the release of their first treatment focused specifically on obesity in 2014. By 2018, NVO introduced Ozempic, its new anti-obesity treatment; however, it wasn't until 2021 that Ozempic received FDA approval for its commercialization as a chronic weight management treatment under the name Wegovy. While Novo Nordisk has been the pioneer in the development of obesity-focused treatments, US-based pharmaceutical company Eli Lilly & Co. (LLY) obtained FDA approval to sell Mounjaro, its own chronic weight management treatment aimed at adults with type 2 diabetes, back in November of 2023.

So, how big is the pharmaceutical market for obesity treatment? Well, based on the numbers we presented at the beginning of the text, it could encompass nearly half of the global adult population in the near future. However, currently, these drugs are only approved for use in chronic weight management and type 2 diabetes patients. Additionally, these treatments are expensive, have limited insurance coverage, and are typically prescribed. In May 2023, the chronic weight treatment market reported sales of around \$6 billion dollars. Projections made by JPM, which include the recent approval of LLY's Mounjaro, estimate that the weight treatment market will reach close to \$71 billion by 2032. Pfizer's CEO

estimates that this market will approach \$90 billion by 2032, while Goldman Sachs' analysts have recently revised their estimate to \$130 billion by 2030.

While the market opportunity appears significant, the industry is a duopoly dominated by NVO and LLY. As previously mentioned, either by chance or by design, the main components for these drugs stem from insulin-related medications. Entering this market necessitates extensive research, many years of testing, a robust supply chain infrastructure, and the resources to navigate the lengthy and expensive FDA approval processes. Notably, in the past year, NVO held an estimated 85% share of the weight treatment market. While other competitors are progressing toward approval, Goldman Sachs' analysts estimate that by 2030, NVO and LLY will collectively have 80% of the weight control treatment market. LLY is expected to report sales of \$52 billion and NVO of \$28 billion from their respective weight management programs.

Well, markets haven't missed out on the action. NVO's stock has surged almost 150% in the last three years, while LLY has seen a rise of over 200% during the same period. NVO is trading around 38 times its P/E ratio and LLY is trading around 55.3 times its P/E ratio, compared to 15.6 times for their peers. So, did we miss the party? Maybe not. During June's 45th Annual Global Healthcare Conference, NVO's management highlighted certain points related to the development of this relatively new industry. They mentioned that the company is confident in its ability to supply the US market,

despite facing initial challenges in meeting new demand since the beginning of the year. Additionally, they don't foresee pricing threats due to the lack of aggressive competition in this segment, as it is a market with high barriers to entry. Eventually, they will need to adjust prices as volumes increase, but as mentioned, this market operates as a duopoly.

Both companies are currently investing in and developing less invasive treatments such as oral pills, which are expected to drive adoption of these drugs in the coming years. Given the elevated valuations of both NVO and LLY, it wouldn't be surprising if these companies face challenges during a market downturn. However, we can expect a scenario similar to NVDA, where these stocks decouple from the overall market. The near future looks promising for this emerging industry, and the strong financial positions of both companies will enable them to scale up their products. As mentioned earlier, expectations suggest that obesity will worsen over the next decade. Therefore, maintaining a long-term investment strategy in this sector could potentially yield substantial portfolio benefits.



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