

## Would you like fries with that?

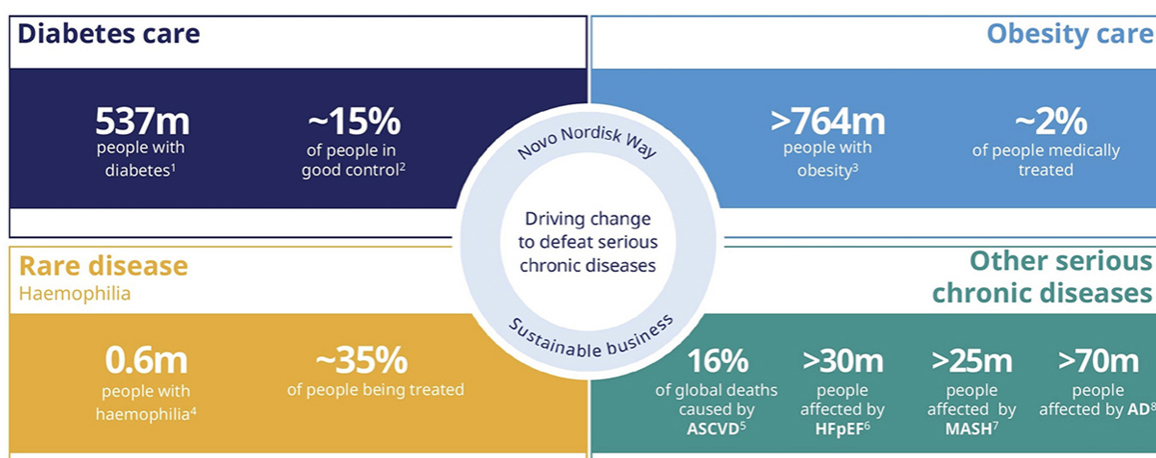
Every now and again something new comes along which changes the world. Until recently, Novo Nordisk, a 100-year-old Danish pharmaceutical company and the original manufacturer of insulin for diabetes treatment, would have been unfamiliar to most people.

They are still at it. Launched in 2017, the Type II diabetes drug Ozempic now generates approximately \$15 billion in annual revenue for the company, with this figure continuing to grow robustly. The key ingredient in the drug, called a semaglutide, mimics a natural hormone found in the body to control blood-sugar levels, assisting those with Type 2 diabetes (T2D) to manage their condition long term.



But sometimes life throws you a super-size deal. In the case of Ozempic, there was an unexpected side effect: significant and sustained weight loss by those on the medication. From a survey of almost 2000 adults categorized as 'obese'<sup>1</sup>, they found that on average the candidates lost 15% of their body weight over a period of 68 weeks. This discovery paved the way for Ozempic the T2D drug to be rebranded as Wegovy the weight loss drug. The drugs act as an appetite suppressant. The benefits are now proven and Ozempic/Wegovy users are likely to maintain healthier weights and are at lower risk of cardiovascular disease.

It is a huge potential market, and currently there are only two real participants – Novo and Eli Lilly. The chart below highlights the untapped potential of diabetes as well as obesity care where hundreds of millions of people are currently not treated globally. The instance of diabetes and obesity is also growing, providing Novo with tailwinds in the volume of people they can support.



<sup>1</sup> International Diabetes Federation: Diabetes Atlas 10<sup>th</sup> edition, 2021; <sup>2</sup>Real-world studies indicate between 30-55% of patients reach HbA<sub>1c</sub> target <7% e.g. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4388968/>, taking 42.5% in good control of treated people; <sup>3</sup>World Diabetes Atlas 2022; <sup>4</sup> WFH annual survey 2020 (120 of 147 countries responded); Prevalence by calculating expected number of patients using 20.9 per 100,000 in haemophilia. Identified patients as proxy for receiving some sort of treatment; <sup>5</sup>The top 10 causes of death; WHO, 9 December 2020 (ASCVD denoted as ischaemic heart disease); <sup>6</sup>Groenewegen A et al. Eur J Heart Fail 2020;22:1342-1356; <sup>7</sup>Gurwitz JH et al. Am J Med 2013;126:393-400; <sup>8</sup>Estes C. Modeling the epidemic of non-alcoholic fatty liver disease demonstrates an exponential increase in burden of disease, Hepatology, 2018; <sup>9</sup>The World Alzheimer Report 2015, The Global Impact of Dementia, Alzheimer's Disease International (ADI), London.

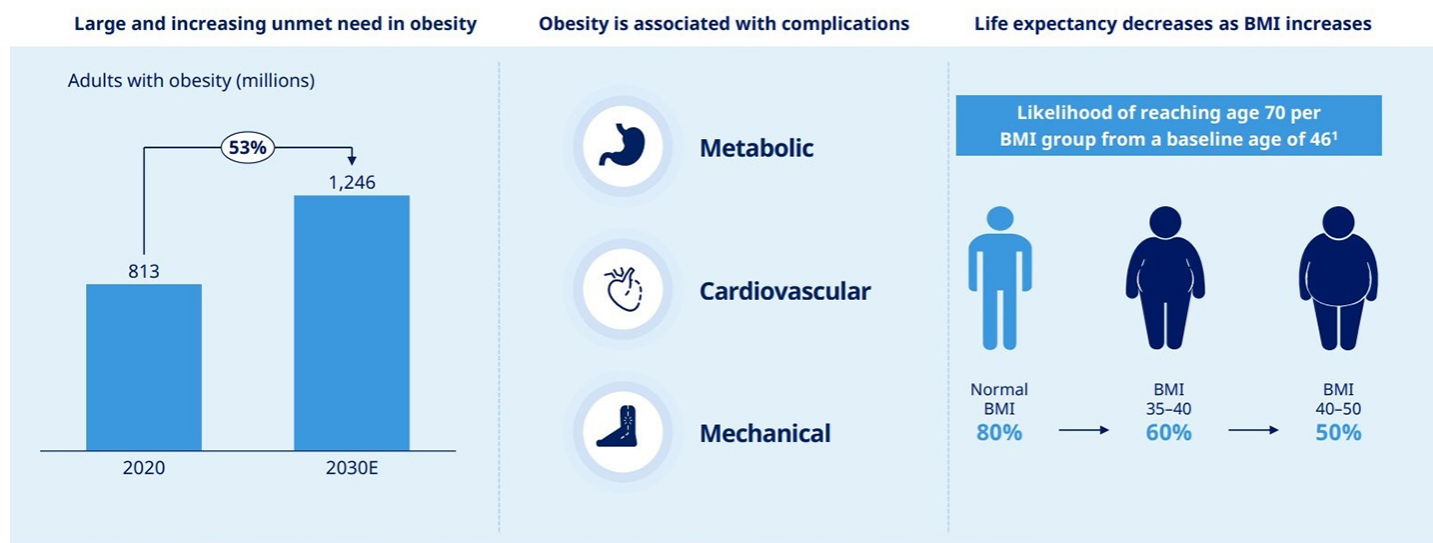
Source: Novo Nordisk; Investor Presentation Jan-Oct 2023

The implications arising from the success of Ozempic and Wegovy are broader than you may imagine and impact a wide range of industries.

- Food volumes for individuals on the drug drop dramatically, impacting sales expectations for the large food retailers such as Walmart.
- Fast food companies are at risk as individuals have no appetite for these forms of meals. Equally so for sugar-based drinks. Alcohol drops in line with a suppressed appetite and less frequent visits to restaurants and general socializing. Alcohol distributors such as Diageo adapt by moving away from volume brands to higher profitability premium brands which are more Ozempic friendly.
- The 'snack' industry is well positioned however, as larger meals are replaced with smaller, more frequent, high protein snacks. Product manufacturers are starting to change their product mix to adapt.
- Fashion retailers are prioritizing sportswear as individuals on the weight loss medication quickly replace their wardrobes. Make-up brands are positioning to support "Ozempic Face" – helping mask the sunken cheeks and ageing skin which can occur on the medication.
- Life expectancy is also longer, impacting how life insurers price morbidity risk.

The far-reaching impact on peoples' lives is very significant and companies who don't adapt will struggle. Take Weight Watchers for example: trading at almost \$100 per share in 2018, it has fallen to \$1.50 since then in the wake of the Ozempic success. Why go on a diet if you can simply take an injection?

## Obesity is a serious chronic disease with a large unmet medical need that impacts many aspects of a patient's life



<sup>1</sup>Prospective Studies Collaboration, Whitlock G, Lewington S, et al. Body-mass index and cause-specific mortality in 900,000 adults: collaborative analyses of 57 prospective studies. Lancet. 2009  
 BMI: Body mass index; E: Estimated  
 Note: Obesity defined as BMI >30  
 Source: World Obesity Atlas 2023

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CAPITAL MARKETS DAY

Source: Novo Nordisk; World Obesity Atlas 2023

Investors in Novo Nordisk and Eli Lilly have done very well of late. Novo doesn't pay much in the way of dividends (an annual yield of just over 1%), but the share price is up 80% over the past year, and up 40% per year, each year for the past 5 years. Novo is now the largest company in Europe, and its market value is greater than the whole GDP of Denmark.

Investors think there is more to come, which is why the share is still trading on a valuation of 49x the past years earnings.

So where does this fit into our lives? The good news is that Novo Nordisk has been a significant holding in the BNY Mellon Long Term Global Equity Fund managed by Walter Scott & Partners in Edinburgh<sup>2</sup>. This is a Tier 1 rated fund used in our clients' Global Equity portfolios.

We use funds like BNY to access what we could term “high quality” businesses. These are businesses like Novo Nordisk, which have immensely strong foundations to put themselves in position to be at the forefront of new product innovation such as Ozempic. Novo never invented the chemical compound used in the drug, but had the long-term vision, the deep pockets, the Foundation based ownership structure and the dedicated group of scientists they could allocate to take a new innovation and turn it into a commercially viable product.

The trouble with high quality businesses like Novo Nordisk is that you rarely pick them up at a bargain price. The lowest Price:Earnings multiple they have traded at over the past three decades is around 15x (1994) and they have averaged 27x over this time. This means they need to deliver on earnings growth above the market to justify this lofty price premium. And they have done just that, averaging 17% earnings growth per year for thirty years, double that of the average company.

It may seem obvious in retrospect, as does a Tesla or an NVIDIA which have similarly delivered exceptional returns. The difference in this instance is that Novo Nordisk is a hundred-year-old company growing at the rate of a start-up! While this is quite unusual it shouldn't be a surprise given the platform they have to develop products like Ozempic and Wegovy which provides them with a substantial advantage. Would you back Weightwatchers to build out their Ozempic competitor?<sup>3</sup> Or Novo Nordisk, with its 64,000 employees scattered across the globe developing new medicines for the past century?

Ozempic is a new drug with a wide impact that will be felt for years to come – for the better. We need to back companies like Novo to identify and develop them, and we need to back companies like Walter Scott to see the opportunity, do the homework and pay up for those companies that will outpace the broad market, and which justify the premium price tag.

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[1] Based on a Body Mass Index (BMI) of 30 or greater

[2] It is currently ~4.5% of the funds holdings, from an initial weighting of 2.5%. Walter Scott has been investing in Novo Nordisk for nearly two decades.

[3] They are doing this interestingly, but one feels it may be too little, too late.

## MARKET REPORT

31 05 2024

|                                    |     | 3m    | YTD   | 1yr   | 3yr pa | 5yr pa | 10yr pa | 5yr Vol1 | 10yr Vol1 |
|------------------------------------|-----|-------|-------|-------|--------|--------|---------|----------|-----------|
| LOCAL MARKET INDICES               |     |       |       |       |        |        |         |          |           |
| SA Equity                          | ZAR | 7.1%  | 1.3%  | 5.5%  | 7.9%   | 9.9%   | 7.1%    | 16.9%    | 14.3%     |
| SA Listed Property                 | ZAR | -1.6% | 3.2%  | 19.7% | 10.1%  | -0.3%  | 2.5%    | 26.9%    | 21.3%     |
| SA Bonds                           | ZAR | 0.0%  | 0.1%  | 12.4% | 5.6%   | 6.6%   | 7.0%    | 8.5%     | 8.1%      |
| SA Cash                            | ZAR | 2.1%  | 3.5%  | 8.5%  | 6.4%   | 6.0%   | 6.6%    | 0.5%     | 0.4%      |
| Balanced Benchmark                 | ZAR | 3.9%  | 2.5%  | 8.5%  | 8.9%   | 9.7%   | 8.2%    | 11.6%    | 9.7%      |
| SA Inflation (1 month lag)         | ZAR | 2.0%  | 2.1%  | 5.2%  | 6.0%   | 5.1%   | 5.0%    | 1.4%     | 1.4%      |
| GLOBAL MARKET INDICES BASED TO USD |     |       |       |       |        |        |         |          |           |
| Global Equity                      | USD | 3.9%  | 9.3%  | 25.1% | 6.8%   | 12.9%  | 9.3%    | 17.9%    | 15.1%     |
| Emerging Markets Equity            | USD | 3.5%  | 3.4%  | 11.9% | -6.5%  | 3.2%   | 2.3%    | 18.7%    | 17.4%     |
| Global Property                    | USD | 0.6%  | -5.0% | 7.3%  | -4.7%  | -0.5%  | 2.1%    | 20.8%    | 16.8%     |
| Global Bonds                       | USD | -0.7% | -3.3% | 0.7%  | -5.8%  | -1.7%  | -0.4%   | 7.6%     | 6.2%      |
| US Cash                            | USD | 1.4%  | 2.3%  | 5.5%  | 3.0%   | 2.2%   | 1.6%    | 0.6%     | 0.5%      |
| MAJOR INDICES BASED TO RANDS       |     |       |       |       |        |        |         |          |           |
| SA Equity                          | ZAR | 7.1%  | 1.3%  | 5.5%  | 7.9%   | 9.9%   | 7.1%    | 16.9%    | 14.3%     |
| Global Equity                      | ZAR | 1.9%  | 11.5% | 18.8% | 18.4%  | 18.8%  | 15.8%   | 15.9%    | 15.8%     |
| Emerging Markets Equity            | ZAR | 1.6%  | 6.4%  | 6.3%  | 3.9%   | 8.7%   | 8.5%    | 14.0%    | 13.8%     |
| Global Property                    | ZAR | -1.2% | -3.1% | 1.9%  | 5.7%   | 4.8%   | 8.1%    | 18.8%    | 17.2%     |
| SA Bonds                           | ZAR | 0.0%  | 0.1%  | 12.4% | 5.6%   | 6.6%   | 7.0%    | 8.5%     | 8.1%      |
| Global Bonds                       | ZAR | -2.6% | -0.5% | -4.4% | 4.5%   | 3.5%   | 5.5%    | 13.4%    | 13.8%     |
| COMMODITIES                        |     |       |       |       |        |        |         |          |           |
| Gold (US Dollars)                  | USD | 14.6% | 13.8% | 19.4% | 7.2%   | 12.5%  | 6.3%    | 14.7%    | 13.7%     |
| Gold (Rands)                       | ZAR | 12.5% | 17.2% | 13.4% | 18.9%  | 18.4%  | 12.6%   | 18.0%    | 16.9%     |
| CURRENCIES                         |     |       |       |       |        |        |         |          |           |
| Rand / Dollar                      | ZAR | 2.0%  | -2.9% | 4.8%  | -11.0% | -5.2%  | -5.9%   | 14.2%    | 14.7%     |
| Rand / GBP Pound                   | ZAR | 1.1%  | -2.9% | 2.2%  | -7.1%  | -5.4%  | -3.1%   | 12.3%    | 14.2%     |
| Rand / Euro                        | ZAR | 1.6%  | -1.1% | 2.9%  | -6.7%  | -4.6%  | -3.5%   | 11.6%    | 13.0%     |

### KEY

| Asset Class             | Represented By:                                           |
|-------------------------|-----------------------------------------------------------|
| SA Bonds                | Satrix Bond Index Tracker                                 |
| SA Cash                 | STeFi                                                     |
| SA Equity               | Satrix ALSI Index Tracker                                 |
| SA Listed Property      | Satrix Property Index Tracker                             |
| Emerging Markets Equity | iShares Emerging Markets Equity Index Tracker             |
| US Cash                 | Fidelity Institutional Liquidity The United States Dollar |
| Global Bonds            | iShares Core Global Aggregate Bond ETF                    |
| Global Equity           | iShares Developed World Index Tracker                     |
| Global Property         | iShares Developed Real Estate Index Tracker               |

# REDFIN WEALTH

INVESTMENT - RETIREMENT - FINANCIAL PLANNERS

May 2024

| Spot Rates           |      | 31-May-24 | Latest Quarter | 1 Year Ago | 5 Years Ago | 10 Years Ago | 20 Years Ago |
|----------------------|------|-----------|----------------|------------|-------------|--------------|--------------|
| CURRENCIES           |      |           |                |            |             |              |              |
| Rand/US\$            | Rand | 18.8      | 18.9           | 19.8       | 14.6        | 10.6         | 6.5          |
| Rand/GBP             | Rand | 23.9      | 23.9           | 24.6       | 18.3        | 17.8         | 11.9         |
| Rand/EUR             | Rand | 20.4      | 20.5           | 21.1       | 16.2        | 14.4         | 8.0          |
| RATES                |      |           |                |            |             |              |              |
| SOFR 6m \$           | US\$ | 5.7       | 5.6            | 5.6        | 2.5         | 0.3          | 1.6          |
| Repo Rate            | Rand | 8.25      | 8.25           | 8.25       | 6.75        | 5.50         | 8.00         |
| Prime                | Rand | 11.75     | 11.75          | 11.75      | 10.25       | 9.00         | 11.50        |
| All Bond Index Yield | Rand | 10.7      | 10.7           | 11.6       | 9.5         | 8.5          | 9.7          |
| COMMODITIES          |      |           |                |            |             |              |              |
| Gold (\$/oz)         | US\$ | 2,330.7   | 2,214.3        | 1,971.5    | 1,300.1     | 1,244.7      | 393.8        |
| Platinum             | US\$ | 1,048.0   | 907.0          | 1,003.0    | 791.0       | 1,464.0      | 832.0        |
| Oil (Brent Crude) \$ | US\$ | 81.8      | 87.4           | 73.6       | 64.9        | 109.6        | 37.1         |
| INFLATION            |      |           |                |            |             |              |              |
| SA Inflation         | %    | 5.2       | 5.6            | 6.3        | 4.5         | 6.5          | 9.4          |

data provided by FE Analytics

Fundhouse is a leading investment adviser specialising in fund research, ratings and portfolio construction services. We help clients manage investments on behalf of the end investor. Our experienced team understands the complexities of the fund management world. We apply this knowledge alongside a client first mindset to improve the outcome for the end investor.

Fundhouse was founded in 2007 by professionals from the investment management industry. We currently operate from offices in the United Kingdom and South Africa, where we cover the local and global fund industry first hand. Our business is 100% independent and owner managed which means we can offer objective advice and services in the best interests of our clients.

Email: [adviser@fundhouse.co.za](mailto:adviser@fundhouse.co.za) | Web: [www.fundhouse.co.za](http://www.fundhouse.co.za)

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