

A growing obesity issue and the opportunities it creates

Marine Delmarche

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How to seize an opportunity or how Novo Nordisk was able to take advantage of the growing market for obesity treatments?

Eating habits and lifestyles have evolved considerably in 50 years. The healthy cuisine of our grandmothers has given way to fast food and supermarket catering. In parallel, our way of life has become more and more sedentary. This reflects in the way we travel, we move, and work. We add up more calories and have fewer opportunities to burn them. This context favors the development of chronic diseases such as diabetes and obesity. Two intrinsically linked phenomena.

Diabetes is a disease characterized by a malfunctioning of the beta cells belonging to the islets of Langerhans, basically, the body is unable to regulate the sugar level in its blood. There are three types of diabetes. The type 2 diabetes, which is the most widespread (90% of cases) and which is growing the most, is favored by obesity. According to the World Health Organization, the number of cases of obesity has tripled since 1975. The organization publishes, on March 4, 2022, that more than one billion people in the world are obese and estimates that by 2025, approximately 167 million people will be in poorer health due to their overweight or obesity. Novo Nordisk, a Danish company, offers a treatment for both diseases.

Novo Nordisk was founded in 1923 under the name of "Nordisk Insulinlaboratorium". It produces and markets insulin, an essential drug for diabetics. Since the company's creation, its insulin offer has continuously expanded and improved, allowing Novo Nordisk to enjoy stable development. The company could position itself as the world leader in this very profitable market as in the United States alone, 1.3 million people consume insulin. In addition to this comfortable position, Novo Nordisk, a pioneer in its field, understood the importance of innovation and succeeded in the challenge of combining pharmaceutical advances and technology. In 1985, the company launched the first insulin pen (The NovoPen), in 1999, a continuous blood glucose monitoring device and, later, its own connected systems. Following up on this entrepreneurial logic, a new revolutionary drug, called Wegovy, was recently developed and put on the market, and has allowed the giant to take its place in the fight against obesity. Authorized since 2021 by the FDA (Food and Drug Administration), this treatment places the firm in an even larger market than that of diabetes. This new activity has become Novo Nordisk's first source of income and looks promising for the future. In 2022, the company's annual revenues increased by 25.7%, its operating margin exceeded 42.3% and its ROCE (return on capital employed) was 137.29%. Its share has appreciated by 200% in 5 years and posted a YTD performance of +17.20% at the end of March.

Although Novo Nordisk's valuation is 33.7 times its earnings, we are keeping this company in our investment universe. It is a proud example of the kind of stock we appreciate. Stable growth, low debt, and a high ability to invest in research and constant development, allowing stable growth over the long term, regardless of market turbulence.

