

Shrinking To Grow; The Bull Market in Weight Loss Drugs is Just Getting Started

It's not that frequently that a drug hits the front pages of the newspapers and gets the gossip columnists frantic with activity. Jeremy Clarkson, amongst other well-known journalists, has written up his quite favourable experience with weight loss drug Wegovy in the Sunday Times. It's also pretty rare for the drug to be so popular that a secondary market is created bringing about a shortage of supply for those patients the drug is actually approved for, but that is the case with Wegovy and Mounjaro, the two weight loss drugs made by Novo Nordisk and Eli Lilly respectively.

Both these drugs were originally approved for diabetes, rather than weight loss, although Wegovy now has an obesity label and Mounjaro is expected to get its approval for obesity in November. Both drugs belong to the same class, known as GLP-1, which means they work in the same way. The reason for all the excitement is that recent studies have shown that they can help patients lose up to 20% of their body weight, which is a very significant number, and helps to treat diabetes as many Type 2 patients have obesity as a co-morbidity. Weight loss has become one of the holy grails of medicine now that obesity has become such a prevalent condition globally, with approximately 150m obese people in the US alone.

Despite all the promise of an appetite suppressing drug with minimal side effects, one issue remains, which is patients have to pay for the treatment themselves. It is deemed by the medical insurance industry, those that pay for many of the drugs prescribed in America, as a cosmetic issue and is therefore not covered. However, Novo Nordisk's recent SELECT trial showed a 20% reduction in heart attacks and stroke in patients using Wegovy, and this changes the picture for reimbursement. With this sort of cardiovascular benefit in a vulnerable population, insurers will be compelled to pay for the treatment. Eli Lilly has a similar trial which won't read out until 2025, but it is expected that its drug will be covered too, as its mechanism of action is so similar.

This is great news for patients and great news for the companies. There is little competition, although that will come for sure, but Eli Lilly and Novo Nordisk are already working on next generation formulations, as well as oral pills, which will be much better tolerated than the current injections. As for the size of the market, it's hard to say exactly but it's pretty clear that it's going to be the biggest market the world has yet seen in pharmaceutical drugs. We own Eli Lilly in the VT Tyndall North American Fund and its drug Mounjaro is expected to have revenue in excess of \$4bn in year one of launch, which is unheard of. Peak sales are estimated at \$70bn, but that could be too low. For context, the biggest selling drug pre Covid was Humira which did \$21bn in revenue in 2021.

Doctors and the medical community are also now thinking about GLP 1 drugs as a standard of care for patients who present with other conditions. Here is a drug that is proven to help patients lose a meaningful amount of weight, has a significant reduction in risk of cardiac

events – what else might it achieve? Could this be the equivalent of statins in cholesterol management? Could this be the new standard of care for any diabetic/obese/cardio patient?

These are the longer-term opportunities but for now Novo and Lilly have other priorities, like manufacturing – how to keep up with demand. New facilities are being built and should be online in 2024. It's been quite some time that the pharmaceutical industry has had a true breakthrough in disease care, and this is evidenced by the significant outperformance of Lilly and Novo against their peer group pharma companies. I believe that is likely to continue as we are still in such early days of treatment.

The cosmetic use and media furore aside, this is an important drug for one of the most pressing conditions of the 21 century and both companies will play a key role in its management.

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 15 August 2023

Data source: Fierce Pharma, Bloomberg.

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