

Ozempic Overreaction: Spotlight on GLP-1s



Investors weighing their appetite for medical device and healthcare products companies following a surge in GLP-1 prescriptions

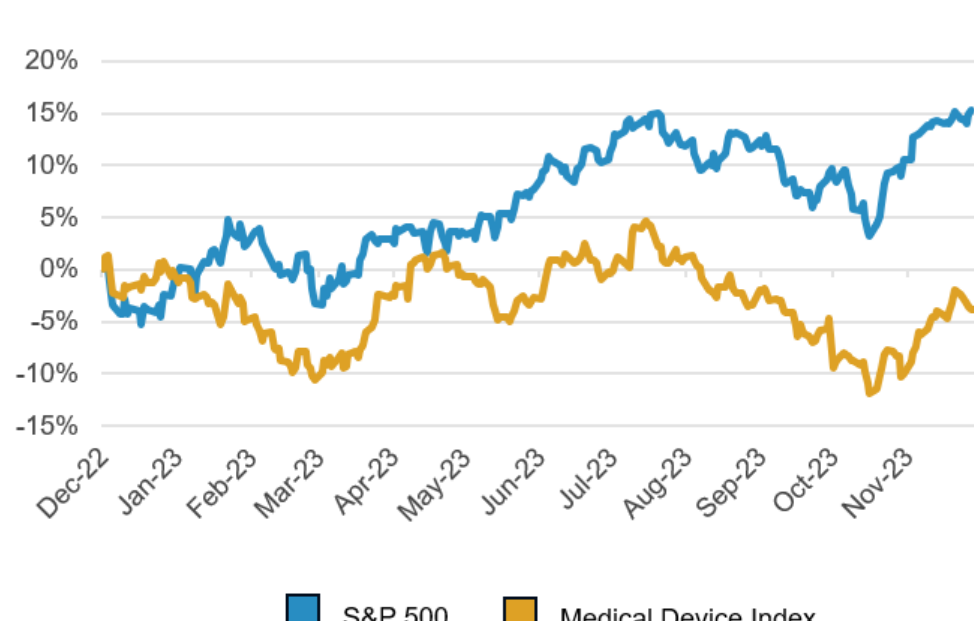
OZEMPIC

A recent surge in the use of glucagon-like peptide-1 agonists ("GLP-1") for weight loss has caused investors to rethink their appetite for healthcare investments, particularly across medical devices and healthcare products commonly used to treat obesity and associated weight-related conditions, given uncertainty around the long-term dampening effect these drugs may have on demand.

Originally developed to manage symptoms of type 2 diabetes and obesity, GLP-1s such as semaglutide (Ozempic and Wegovy) and tirzepatide (Mounjaro and the recently approved Zepbound) are increasingly being used off-label for cosmetic weight loss, including for non-diabetic & non-obese patients. While these drugs will undoubtedly enable many patients to better manage weight in the short term, we believe there are meaningful barriers to widespread long-term adoption and remain skeptical they'll serve as a panacea for many of the chronic conditions impacting global population health.

While public markets have demonstrated a knee-jerk reaction to the proliferation of GLP-1s (see graph below), we believe longer-term trends remain favorable for medical device / technology companies and the broader healthcare market given persistent adverse trends in public health and chronic disease. With that in mind, this may be an opportune time for thoughtful private company acquirors to capitalize on ongoing market disruptions driven by GLP-1s.

PUBLIC MEDICAL DEVICE COMPANIES HAVE MEANINGFULLY UNDERPERFORMED¹

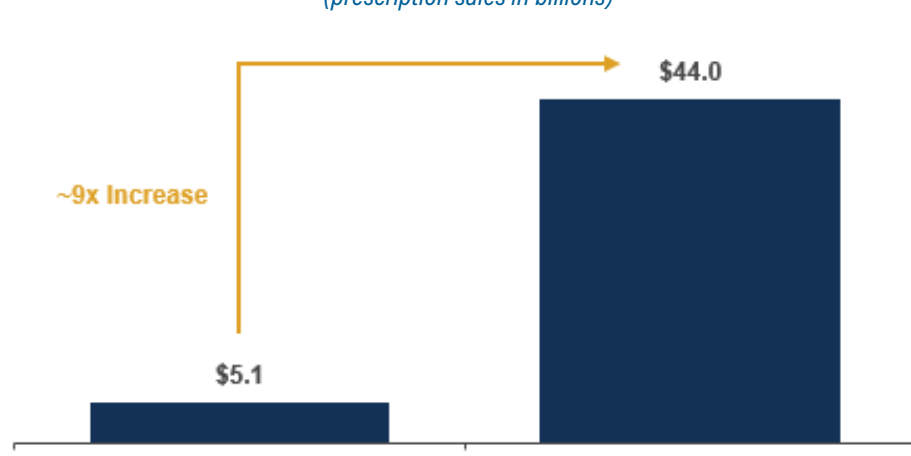


SHORT-TERM CHALLENGES TO WIDESPREAD GLP-1 ADOPTION

We believe recent negative market reaction, particularly for makers of products whose demand is driven in part by obesity (e.g., continuous glucose monitors, insulin pumps and knee-replacement products), overstates potential long-term impacts from GLP-1s. Obesity and excess weight are well-established contributors to a multitude of chronic health conditions (including diabetes, kidney disease, and cardiovascular diseases) which have proven difficult to effectively manage long-term. While GLP-1s represent a powerful "arrow in the quiver" for patients seeking to lose weight, we note that a reduction in *bodyweight* does not necessarily correlate to an increase in overall *health*. Further, we believe there are meaningful barriers which will moderate sustained and widespread adoption of GLP-1s:

- Cost** - list prices for GLP-1s average ~\$1,000 per month, with many patients forced to pay out-of-pocket for off-label use
- Payor coverage** - most insurance providers do not cover GLP-1s for off-label weight loss, although this may change over time as payors focus on "preventative" weight management to reduce long-term expenses related to obesity; regardless, payors are likely to struggle balancing these potential benefits with their high associated cost
- Availability** - Novo Nordisk has had widely publicized challenges meeting growing consumer demand for semaglutide, leading to shortages and supply constraints (particularly in "starting doses" for patients just beginning their regimen)
- Patient adherence** - drug administration currently requires regular self-administered injections (although a pill-based format is currently under development), and long-term adherence is a serious challenge across the healthcare system
- Impacts of discontinuation** - GLP-1s require ongoing usage to suppress appetite and facilitate weight loss; patients often regain weight quickly once usage is discontinued
- Side effects** - the long-term impacts of GLP-1 usage for cosmetic weight loss are still unknown, although some patients have experienced adverse gastrointestinal or other side effects

RAPIDLY GROWING U.S. OBESITY PHARMACEUTICALS MARKET²
(prescription sales in billions)



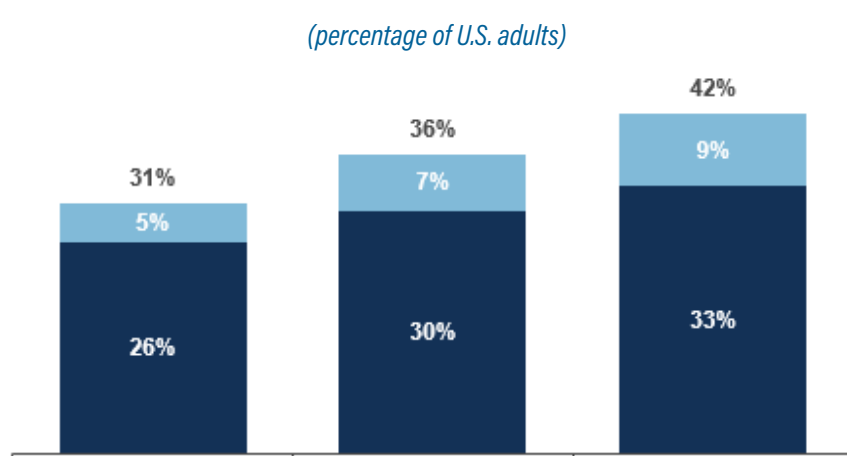
Despite these challenges, the increasing popularity of GLP-1s is causing companies across a wide swath of industries to rethink their long-term strategies. In the healthcare market, investors are increasingly questioning whether potential reductions in care for obesity and other co-morbid conditions will impact long-term demand for certain medical devices and obesity-related healthcare products, and if so, how long it will take these changes to manifest.

LONG-TERM DEMAND DRIVERS FOR ESSENTIAL HEALTHCARE PRODUCTS REMAIN INTACT

We believe GLP-1s may moderately reduce long-term growth in certain healthcare sub-sectors (assuming forecasts around GLP-1 adoption are to be believed), particularly if (i) problems of cost and patient adherence are addressed, and (ii) additional clinical evidence validates GLP-1s' efficacy beyond weight loss (e.g., reduction in heart attacks, strokes and cardiovascular deaths).

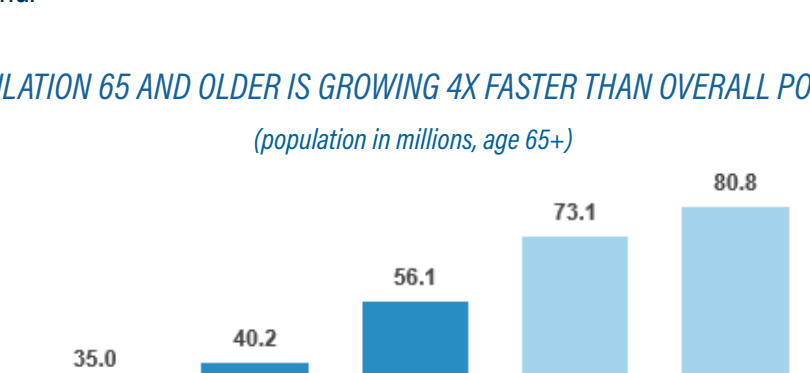
However, persistent underlying factors driving demand remain strong - including an aging and overweight population (with over 40% of the U.S. population characterized as obese). We believe only a portion of these individuals would be eligible for (or interested in obtaining and adhering to) GLP-1 prescriptions, further limited by their high cost and inconvenience (J.P. Morgan estimates that ~9% of the U.S. population will take such medications by 2030²).

OBESITY PREVALENCE HAS STEADILY INCREASED³
(percentage of U.S. adults)



The U.S. population has become increasingly unhealthy in recent decades. This change is driven in part by a proliferation of processed foods (and larger portions), more sedentary lifestyles and a reduced focus on preventative healthcare. We do not foresee a meaningful reversal in these broader population health trends, notwithstanding the potential for GLP-1s to enable a subset of consumers to better moderate their bodyweight. In addition, the rapid pace of successful medical technology innovation suggests many diagnostic and treatment modalities currently under development will "fill the void" by expanding the market for medical devices and essential healthcare products while increasing overall demand.

U.S. POPULATION 65 AND OLDER IS GROWING 4X FASTER THAN OVERALL POPULATION⁴
(population in millions, age 65+)



CONCLUSION

We believe the long-term impact of GLP-1s on medical device and healthcare product demand will be less dramatic than conventional wisdom would suggest, notwithstanding negative market sentiment. In many of our recent discussions, private equity and strategic acquirors are raising thoughtful questions around the long-term prospects for healthcare and whether GLP-1s will precipitate a "seismic shift" in demand for medical devices and other essential healthcare products. In our view, recent market reactions are overdone, creating opportunities for knowledgeable investors with conviction around the powerful macro population health trends that continue to support the attractiveness of healthcare investing.

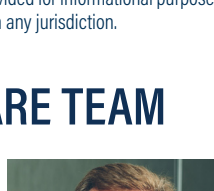
(1) Per Capital IQ; index includes Abbott Laboratories, Baxter, Becton Dickinson, Boston Scientific, Intuitive Surgical, Johnson & Johnson, Siemens Healthineers, Smith & Nephew, Stryker Corporation; data as of 12/11/2023
(2) J.P. Morgan Global Research, <https://www.jpmorgan.com/insights/global-research/current-events/obesity-drugs>
(3) CDC; obesity defined as body mass index ("BMI") >30.0; severe obesity includes BMI of 40.0 or higher
(4) U.S. Census Bureau

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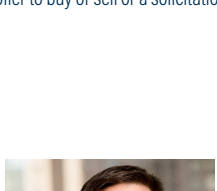
TM CAPITAL'S HEALTHCARE TEAM



James McLaren
Managing Director
jmcclaren@tmcapital.com
212.809.1414



Michael Goldman
Managing Director
mgoldman@tmcapital.com
212.809.1419



John Dean
Principal
jdean@tmcapital.com
404.995.6234