

GLOBAL EQUITY

αgebris
INVESTMENTS

Appetite for Destruction

February 2025



Over the past decade, malnutrition has emerged as a significant global challenge, bringing with it substantial social consequences. One major aspect of this issue has been the rising prevalence of obesity, driven by various factors. The increasing cost of living and reduced disposable income for families have led many to rely more often on inexpensive, low-quality, energy-dense foods.

The increasing cost of living and reduced disposable income for families have led many to rely more often on inexpensive, low-quality, energy-dense foods.

Overconsumption of unhealthy food has contributed to higher rates of obesity and related health complications, including diabetes, heart attacks, and cardiovascular diseases. With public health systems struggling to cope with the escalating costs of healthcare, addressing these conditions may bear more pressure on the system over time.

Weight loss drugs, introduced by biopharma companies Eli Lilly and Novo Nordisk have reversed the course on what seemed to be a downward spiraling trend. Supported by a growing of 'organic' trend in people's diets, new prescriptions grew exponentially in the last 36 months, at great benefit to the performance of Eli Lilly and Novo Nordisk. Food manufacturers have seen their expected revenue growth lag because of the projected decrease in consumption. One way food manufacturers can avoid this fate is a strong pivot to healthier food options.

The food paradox: health vs accessibility

According to the UN and FAO, global obesity has nearly tripled since 1975, with 2.5 billion adults over the age of 18 classified as overweight and 890 million classified as obese in 2022. Over the long term, several reasons have contributed to this strong rise in weight gain. In the last years, some noticeable dynamics have been: (i) changing taste preferences, (ii) deteriorating consumers' ability to spend, in part due to (iii) food cost inflation. These have contributed to making the consumption of fast foods and snacks become more commonplace.

Indeed, over the last two decades, food inflation has caused the purchasing power of the average consumer to decrease, as nearly 66% of countries reported food price increases of 10% or more since 2022. This has led to worsening diets, with c42% of the world's population not being able to afford healthy foods (with these numbers being closer to 70-80% in Africa and South Asia).

Figure 1: Percentage of countries with food price inflation greater than 10% YoY in the 2000s



Source: Bank of America, FAOStat. Data as at 04/03/2024

Diabetes, along with other malnutrition conditions such as cardiovascular complications, musculoskeletal disorders like osteoarthritis, and even some cancers, are examples of proliferating conditions which may be contributing to the current strain on global healthcare systems and could engender increases of some healthcare costs.

Today, consumer preferences are again changing. There has been a shift to a health-focused lifestyle and predominantly healthy diets. And while the release of highly effective obesity medications (GLP-1 agonists) by Novo Nordisk and Eli Lilly may represent one of the most impactful milestones in biopharma history, they also have come about at an optimal moment.

GLP-1 (Glucagon-like peptide-1) drugs work by stimulating brain receptors that suppress appetite, diminish cravings, and control addictive tendencies. Novo Nordisk’s Wegovy and Ozempic, along with Eli Lilly’s Zepbound and Trulicity, are GLP-1 therapies that can lead to substantial weight reduction due to their broad range of effects.

The GLP-1 revolution

The GLP-1 market is dominated by two main players – a duopoly of sorts – with Eli Lilly and Novo Nordisk controlling c99% of prescriptions across various treatments as of February 2024. Novo, a Danish company, leads with a c54% market share, thanks to its diverse range of GLP-1 products, including Ozempic for diabetes, Wegovy for weight loss, and the oral variant of their GLP-1 lineup, Rybelsus. Eli Lilly, on the other hand, only offered GLP-1 treatments for diabetes until the release of its obesity medication, Zepbound, in December 2023.

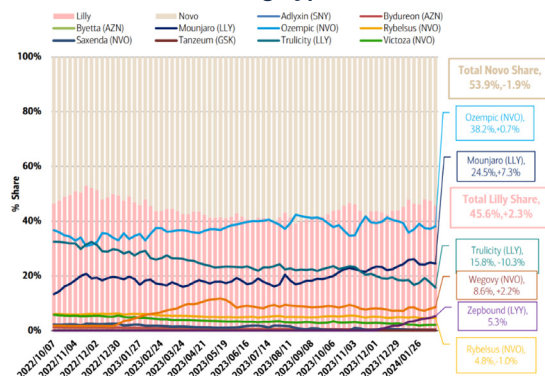
Since its launch, Zepbound has enabled Eli Lilly to gain momentum, helping them increase their GLP-1-market share by c2% in less than a year according to Bank of America (figure 2).

Capitalising on the high barriers to entry endemic to the pharmaceutical industry, Novo and Eli are mostly competing between themselves for the time being. Their head start is mostly due to their R&D advantage compared to other companies in the sector.

In 2023, Novo Nordisk spent c\$9.3 billion, while Eli Lilly deployed c\$4.7 billion.

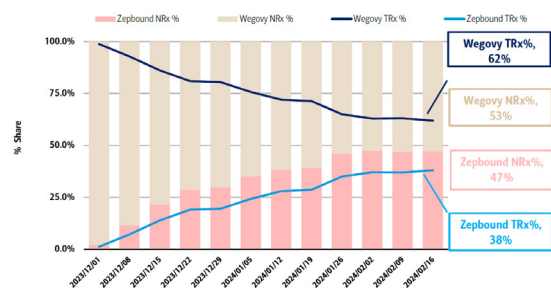
Indeed, notwithstanding Novo Nordisk’s first-mover advantage with Wegovy, Eli Lilly’s Zepbound has seen the largest increase in total prescriptions (referred to as TRx), growing c38% between the start 1H23 to 1H24 as seen in figure 3.

Figure 2: US GLP-1 Market Share by Company; Drug Type



Source: Bank of America, IMS. Data as at 26/02/2024

Figure 3: US GLP-1 Market (TRx, total weekly subscriptions)



Source: Bank of America, IMS. Data as at 26/02/2024

Lastly, biopharmaceutical companies' collaborations with healthcare providers and insurers have further strengthened their market presence and widespread acceptance of their offerings. From a government perspective, Ozempic/Wegovy, Zepbound, and other incoming GLP-1-based medications are likely to be part of the dialogue when it comes to price negotiations and inclusion in Medicare in the US.

While this may create price pressures for biopharmaceutical companies, it may also provide more visibility long term.

While this may create price pressures for biopharmaceutical companies, it may also provide more visibility long term.

Strengthened by supporting policy such as the Treat and Reduce Obesity Act of 2021, biopharmaceutical companies have worked to secure regulatory approvals for new variations and extended use cases that have significantly broadened the potential user base for their products, driving continued growth and market dominance. The tumultuous current policy landscape ahead may also pose some risks, however. Where the growing weight loss trends have prompted the occasional misuse of the diabetes drugs for weight loss, rather than the made-for-purpose ones such as Ozempic, some policies may be introduced to control distribution and dosage. Though the inclusion of these drugs in government and insurance programs is likely to tone down this risk, policies may impact Novo, Eli, and especially new entrants, in a variety of ways – unforeseen until the policies are made public.

A slimmer future for food companies

Food companies are the most exposed to the negative repercussions of these advancements in biopharma. On average, Americans consume around 1.3 billion calories daily (about 3,800 calories per person, according to the UN's FAO). By the 2030s, if 25-50 million people start using anti-obesity drugs and experience a 15-20% reduction in their caloric intake, the overall food and beverage sector could see a 1-3% decline in total calorie consumption following analyses by Bank of America.

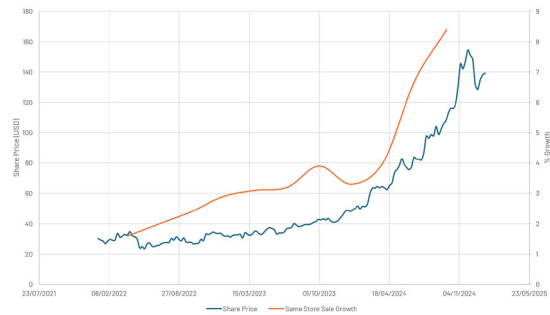
While we see this option as a distant possibility, there are noticeable carrying drivers that could lead to this outcome. In fact, a decrease in low-quality food consumption could be supported by the existing (and strengthening) consumer preference shift towards healthier diets and now accelerated by growing adoption rates of GLP-1 drugs. Together, both factors could have behavioural repercussions impacting companies across the food and beverage sector, namely via:

1. Consumption of processed and high-fat foods could decline in the coming years, with people consuming less premade meals, and lead to snacking or other improvised eating occasions possibly coming under pressure.
2. Fewer visits to fast food chains and take-away restaurants may mean more priority given to traditional meals, like lunch or dinner at home. In turn, increased home cooking (healthier cooking overall) is likely to impact consumer preferences at the grocery stores. Additionally, more restaurants may serve healthier food to attract more customers.
3. Grocery chains are likely to see wavering demand for packaged foods, and a spike in interest in more organic and healthy produce.

One such example has been the meteoric rise of Sprout Farmers' Market, which has grown 55% annually over the last 5 years thanks to its widespread adoption across the US (see figure 5).

They have strongly positioned themselves as 'farm to table' leaders, targeting specific geographic locations where much of the healthy-diet trend began, and helped the social shift pick up speed over the last 3 years.

Figure 5: Sprout Farmer's Market Share Price and Store Sales from 2022-2025

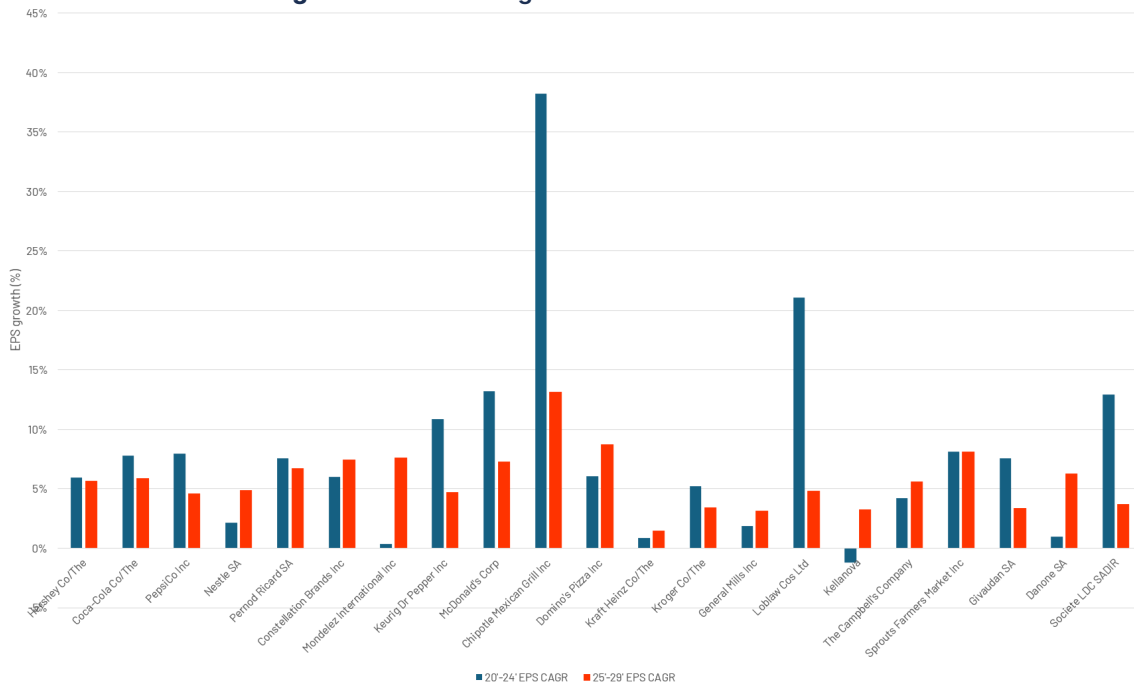


Source: Algebris Investments. Bloomberg Finance LP. Data as at 20/01/2025. Prospected scenarios may not materialise.

Consequently, current estimates reflect the reality that faltering demand could likely drag on projected earnings growth over the next 5-year period, where packaged food producers US Foods and Constellation Brands and grocery and retail Loblaws' all see expected decreasing EPS growth in the 25'-29' period compared to the earnings performance in the 20'-24' period (see figure 6 for more examples).

With these challenges on the horizon, F&B companies are likely to see a need to adjust their product offerings, rebrand some of their product lines and advertise them to consumers as more health-conscious alternatives to retain buyers and market share. Many companies will also have to make slight supply chain adjustments to source healthier ingredients. Doing so may incur some costs in the short term, which is likely to put even more downward pressure on EPS forecasts, shifting into slower-growth territory.

Figure 6: Food sector growth – 2020-2029 EPS CAGR



Source: Algebris Investments. Bloomberg Finance LP. Data as at 20/01/2025. Prospected scenarios may not materialise.

Towards a healthier tomorrow

In summary, the growing adoption of GLP-1 drugs and the rising momentum of healthier diet trends signal a fundamental shift in consumer behaviour, with widespread implications for the food industry. While biopharmaceutical companies like Novo Nordisk and Eli Lilly capitalise on these changes with unprecedented growth in obesity treatments, food manufacturers and retailers face mounting challenges but also potential long-term opportunities.

Declining caloric intake, driven by appetite suppression and changing dietary preferences, poses a risk to revenue growth, particularly for companies heavily reliant on processed and calorie-dense products.

Grocery chains and fast-food operators are likely to feel the strain as demand for traditional foods and snacks gives way to healthier and organic alternatives.

Grocery chains and fast-food operators are likely to feel the strain as demand for traditional foods and snacks gives way to healthier and organic alternatives.

To navigate this new reality, food companies will need to pivot toward health-conscious offerings, rebrand their product lines, and overhaul supply chains, though these efforts come at significant cost. As consumer behaviour evolves, companies that fail to adapt risk losing relevance, while those that embrace innovation may find opportunities for growth in the long run.

Figure 7: Food & Beverage Sector

Company	Price	Currency	Mkt Cap (Mn)	EV/Sales 2024	EV/Sales 2025	EV/Sales 2026	EV/Sales 2027	EV/EBITDA 2024	EV/EBITDA 2025	EV/EBITDA 2026	EV/EBITDA 2027	EV/EBITDA 2028	EV/EBITDA 2029	EV/EBITDA 2030	EV/EBITDA 2031	EV/EBITDA 2032	EV/EBITDA 2033	EV/EBITDA 2034	EV/EBITDA 2035	EV/EBITDA 2036	EV/EBITDA 2037	EV/EBITDA 2038	EV/EBITDA 2039	EV/EBITDA 2040	EV/EBITDA 2041	EV/EBITDA 2042	EV/EBITDA 2043	EV/EBITDA 2044	EV/EBITDA 2045	EV/EBITDA 2046	EV/EBITDA 2047	EV/EBITDA 2048	EV/EBITDA 2049	EV/EBITDA 2050																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
HERSHEY CO	152.9	USD	30,934	3.2	3.2	3.1	3.1	12.1	13.7	12.9	14.4	15.9	15.6	16.9	18.4	19.9	21.4	22.9	24.4	25.9	27.4	28.9	30.4	31.9	33.4	34.9	36.4	37.9	39.4	40.9	42.4	43.9	45.4	46.9	48.4	49.9	51.4	52.9	54.4	55.9	57.4	58.9	60.4	61.9	63.4	64.9	66.4	67.9	69.4	70.9	72.4	73.9	75.4	76.9	78.4	79.9	81.4	82.9	84.4	85.9	87.4	88.9	90.4	91.9	93.4	94.9	96.4	97.9	99.4	100.9	102.4	103.9	105.4	106.9	108.4	109.9	111.4	112.9	114.4	115.9	117.4	118.9	120.4	121.9	123.4	124.9	126.4	127.9	129.4	130.9	132.4	133.9	135.4	136.9	138.4	139.9	141.4	142.9	144.4	145.9	147.4	148.9	150.4	151.9	153.4	154.9	156.4	157.9	159.4	160.9	162.4	163.9	165.4	166.9	168.4	169.9	171.4	172.9	174.4	175.9	177.4	178.9	180.4	181.9	183.4	184.9	186.4	187.9	189.4	190.9	192.4	193.9	195.4	196.9	198.4	199.9	201.4	202.9	204.4	205.9	207.4	208.9	210.4	211.9	213.4	214.9	216.4	217.9	219.4	220.9	222.4	223.9	225.4	226.9	228.4	229.9	231.4	232.9	234.4	235.9	237.4	238.9	240.4	241.9	243.4	244.9	246.4	247.9	249.4	250.9	252.4	253.9	255.4	256.9	258.4	259.9	261.4	262.9	264.4	265.9	267.4	268.9	270.4	271.9	273.4	274.9	276.4	277.9	279.4	280.9	282.4	283.9	285.4	286.9	288.4	289.9	291.4	292.9	294.4	295.9	297.4	298.9	300.4	301.9	303.4	304.9	306.4	307.9	309.4	310.9	312.4	313.9	315.4	316.9	318.4	319.9	321.4	322.9	324.4	325.9	327.4	328.9	330.4	331.9	333.4	334.9	336.4	337.9	339.4	340.9	342.4	343.9	345.4	346.9	348.4	349.9	351.4	352.9	354.4	355.9	357.4	358.9	360.4	361.9	363.4	364.9	366.4	367.9	369.4	370.9	372.4	373.9	375.4	376.9	378.4	379.9	381.4	382.9	384.4	385.9	387.4	388.9	390.4	391.9	393.4	394.9	396.4	397.9	399.4	400.9	402.4	403.9	405.4	406.9	408.4	409.9	411.4	412.9	414.4	415.9	417.4	418.9	420.4	421.9	423.4	424.9	426.4	427.9	429.4	430.9	432.4	433.9	435.4	436.9	438.4	439.9	441.4	442.9	444.4	445.9	447.4	448.9	450.4	451.9	453.4	454.9	456.4	457.9	459.4	460.9	462.4	463.9	465.4	466.9	468.4	469.9	471.4	472.9	474.4	475.9	477.4	478.9	480.4	481.9	483.4	484.9	486.4	487.9	489.4	490.9	492.4	493.9	495.4	496.9	498.4	499.9	501.4	502.9	504.4	505.9	507.4	508.9	510.4	511.9	513.4	514.9	516.4	517.9	519.4	520.9	522.4	523.9	525.4	526.9	528.4	529.9	531.4	532.9	534.4	535.9	537.4	538.9	540.4	541.9	543.4	544.9	546.4	547.9	549.4	550.9	552.4	553.9	555.4	556.9	558.4	559.9	561.4	562.9	564.4	565.9	567.4	568.9	570.4	571.9	573.4	574.9	576.4	577.9	579.4	580.9	582.4	583.9	585.4	586.9	588.4	589.9	591.4	592.9	594.4	595.9	597.4	598.9	600.4	601.9	603.4	604.9	606.4	607.9	609.4	610.9	612.4	613.9	615.4	616.9	618.4	619.9	621.4	622.9	624.4	625.9	627.4	628.9	630.4	631.9	633.4	634.9	636.4	637.9	639.4	640.9	642.4	643.9	645.4	646.9	648.4	649.9	651.4	652.9	654.4	655.9	657.4	658.9	660.4	661.9	663.4	664.9	666.4	667.9	669.4	670.9	672.4	673.9	675.4	676.9	678.4	679.9	681.4	682.9	684.4	685.9	687.4	688.9	690.4	691.9	693.4	694.9	696.4	697.9	699.4	700.9	702.4	703.9	705.4	706.9	708.4	709.9	711.4	712.9	714.4	715.9	717.4	718.9	720.4	721.9	723.4	724.9	726.4	727.9	729.4	730.9	732.4	733.9	735.4	736.9	738.4	739.9	741.4	742.9	744.4	745.9	747.4	748.9	750.4	751.9	753.4	754.9	756.4	757.9	759.4	760.9	762.4	763.9	765.4	766.9	768.4	769.9	771.4	772.9	774.4	775.9	777.4	778.9	780.4	781.9	783.4	784.9	786.4	787.9	789.4	790.9	792.4	793.9	795.4	796.9	798.4	799.9	801.4	802.9	804.4	805.9	807.4	808.9	810.4	811.9	813.4	814.9	816.4	817.9	819.4	820.9	822.4	823.9	825.4	826.9	828.4	829.9	831.4	832.9	834.4	835.9	837.4	838.9	840.4	841.9	843.4	844.9	846.4	847.9	849.4	850.9	852.4	853.9	855.4	856.9	858.4	859.9	861.4	862.9	864.4	865.9	867.4	868.9	870.4	871.9	873.4	874.9	876.4	877.9	879.4	880.9	882.4	883.9	885.4	886.9	888.4	889.9	891.4	892.9	894.4	895.9	897.4	898.9	900.4	901.9	903.4	904.9	906.4	907.9	909.4	910.9	912.4	913.9	915.4	916.9	918.4	919.9	921.4	922.9	924.4	925.9	927.4	928.9	930.4	931.9	933.4	934.9	936.4	937.9	939.4	940.9	942.4	943.9	945.4	946.9	948.4	949.9	951.4	952.9	954.4	955.9	957.4	958.9	960.4	961.9	963.4	964.9	966.4	967.9	969.4	970.9	972.4	973.9	975.4	976.9	978.4	979.9	981.4	982.9	984.4	985.9	987.4	988.9	990.4	991.9	993.4	994.9	996.4	997.9	999.4	1000.9

Source: Algebris Investments. Bloomberg Finance LP. Data as at 20/01/2025

AUTHORS

Algebris Investments'
Global Equity Team

Antonio Focella
Equity Analyst

Elisa Natali
Equity Analyst

Iacopo Esposito
ESG Analyst

Silvia Merler
Head of ESG & Policy Research

Simone Ragazzi
Global Equity Portfolio Manager

NOTES

For more information about Algebris and its products, or to be added to our distribution lists, please contact Client Relations at: client.relations@algebris.com.

Visit [Algebris Insights](#) for past commentaries.

SOURCES

The source for all graphs is indicated near the graph.

The source of images is Adobe Stock unless indicated otherwise.

DISCLAIMER

Please see www.algebris.com/disclaimer for important information about this document.

© 2025 Algebris Investments. Algebris Investments is the trading name for the Algebris Group.