



## NOVO NORDISK: RETHINKING THE PLAYBOOK

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### Key takeaways

- Demand for anti-obesity drugs continues to soar, but supply, pricing, and regulation are reshaping the market
- Direct-to-consumer models and compounded treatments are changing the playbook for pharmaceutical companies
- Novo Nordisk's new CEO commits to a sharper strategy and better communication

August sees thousands of tourists flock to Edinburgh to experience the city's Fringe Festival. Visitors congregate on the Royal Mile in the heart of the city as aspiring actors and comedians hand out flyers and try to persuade people to attend their performance. With the Fringe spread across 301 venues with 53,942 performances of 3,893 shows, determining what to see becomes something of an art form.

Searching for those stand-out shows might be compared to the work of a stock picker. Walter Scott's Research team filters a broad universe of companies to find those with compelling growth, strong returns, robust balance sheets, and sound governance.

Just as a persuasive flyer on the Royal Mile may not reflect the true quality of a performance, company messaging must be critically assessed. Our engagement with management – both of held and prospective investments – is designed to go beyond surface-level narratives and a company's well-rehearsed pitch. We seek to set the agenda, one that reflects our long-term investment lens and high conviction analytical approach.

This month, our conversations with Novo Nordisk stood out.

Early in the month, we hosted Martin Lange, Novo's chief scientific officer, in our Edinburgh office, followed by calls with CFO Karsten Knudsen and newly appointed CEO Mike Doustdar, just five days into his role. We also reconnected with Eli Lilly, Novo's key competitor, after attending their R&D event in Chicago, and spoke with Hims & Hers Health, a leading US online health platform expanding rapidly in anti-obesity treatment provision.

## A new operating manual

A glance at Novo's share price over the past year reveals the dramatic impact of shifts in the anti-obesity treatment landscape—an area that has attracted immense expectation.

Throughout much of 2024, investor sentiment surged as excitement around Novo's treatments – Ozempic and Wegovy – drove the stock higher. But momentum stalled when supply constraints emerged. Novo, following traditional pharmaceutical company practice, opted for a controlled rollout while investing in new manufacturing capacity. Sensible, perhaps, but the textbook was arguably outdated, especially in the fast-evolving US market.

Social media buzz, fuelled by images of increasingly slender celebrities, amplified demand not only for Novo's offerings but also for Eli Lilly's Mounjaro and Zepbound drugs. Supply couldn't keep pace. The FDA's 503B shortage rule was triggered, allowing generic compounded versions to enter the market. Platforms like Hims & Hers seized the opportunity – and succeeded.

The race to exit the FDA's shortage list began. Eli Lilly led, Novo followed. But the next chapter in this new playbook was also a rewrite. Compounded drugs, significantly cheaper than branded ones, gained traction. With branded treatments often unaffordable or excluded from insurance coverage, demand for compounded alternatives remained strong. Companies like Hims & Hers pivoted to the FDA's 503A rule, which permits compounded drugs when medical personalisation is justified – be it dosage or side-effect management. As a result, compounded sales continue.

From the perspective of Novo and Eli Lilly, this raises patient safety concerns. Compounded drugs lack FDA approval. But go online and the reassuring message that these treatments are manufactured in FDA-approved facilities is equally prominent. For many consumers, the appeal is clear. On Hims & Hers, a compounded GLP-1 currently starts at \$199/month, while branded Wegovy begins at \$1,999 and Mounjaro at \$1,899. Novo has taken steps to narrow, but not eliminate, that stark gap. Pricing for Wegovy through Novo's own direct-to-consumer Novo Care site now starts at \$499/month.

This dynamic challenges the traditional pharmaceutical model – one built on years of R&D and patent protection. Both Novo and Eli Lilly have initiated legal proceedings and await FDA action. But with US healthcare costs under political scrutiny, the regulatory path forward is uncertain.

Still, the market opportunity remains vast. The scale of the obesity market in the US and globally ensures room for multiple players. Whether compounded treatments persist or not, Novo and Eli Lilly are well positioned to benefit. It is estimated that half the world's population will be classed as obese or overweight by 2035.

Novo, in particular, has made notable steps forward this year. In addressing supply constraints, its 2021 investment in manufacturing has paid off with those facilities now producing two-thirds of the global supply of GLP-1s. Additional capacity will come online next year. Pricing has also been addressed: volume growth has enabled reductions in key markets without notable margin erosion. Pricing pressure is familiar territory for pharma companies, and recent conversations with Novo's CFO and CEO reaffirm the company's willingness to address pricing where need be.

Direct-to-consumer (DTC) is another strategic focus, as reflected in Novo's recent treatment price moves. In the US, where affordability is a growing concern, the DTC model – cutting out intermediaries – has obvious political and consumer appeal. Platforms like Hims & Hers empower individuals and offer personalised care and recent growth speaks to the appeal of that offer. While some argue that distrust in "big pharma" may hinder DTC adoption by pharma companies as opposed to health platforms, others see the scientific credibility of a company like Novo as a trust-building asset. Country-specific dynamics will shape this evolution, but Novo is clearly monitoring this field closely. Though its early partnership with Hims & Hers ended abruptly, the company hasn't walked away from this space and will continue to invest in its own platform.

Innovation also remains central. While the CEO and CFO provided strategic reassurance, the chief science officer emphasised Novo's pipeline strength – particularly its edge in an oral anti-obesity treatment which it will add to its injectable treatments. Approval of Novo's oral treatment is expected by year-end, with a launch slated for early 2026.

## Updating the communications plan

In May, the Novo Nordisk Foundation unexpectedly replaced the CEO. Market reaction was mixed. However, our previous engagement with the foundation and our alignment in terms of our long-term lens gave us confidence in its decision. We had met the new CEO, Mike Doustdar previously and respected his leadership of Novo's international operations.

Our recent call with him reinforced that view. Just five days into the role, he was in listening mode – open to shareholder concerns and candid about past missteps. Communication, long a weak spot, is now a priority. As the US

operating manual evolves, so too must the communications strategy. Eli Lilly has outpaced Novo in messaging – clear, careful, and savvy.

In a February magazine interview, Novo's chief scientific advisor remarked, "I really don't like the description 'miracle drug' – the medicine gets misunderstood or overhyped." That sentiment captures the challenge. Misunderstanding and hype are part of today's market, just as DTC platforms and personalised compounded treatments may become standard practice.

Novo must adapt. It has the R&D engine, the culture, and the financial strength. Our engagement with the company during August assured us of sharper strategy to come and a commitment to evolve. Many of the challenges stem from the runaway success of Wegovy and Ozempic. Now, the task is to meet those challenges head-on and seize the opportunity in what remains one of the most exciting healthcare markets we've ever seen.

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### Stock Examples

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