Exited Novo Nordisk (NVO)

We exited our position in Novo Nordisk due to impairment of the investment thesis. We initiated our first position in October 2014 at a split-adjusted price of approximately $23, when our thesis centered on the company's strong competitive position in diabetes treatment and the substantial, growing population of underpenetrated patients. At the time, the opportunity was supported by both insulin and early GLP-1 therapies, though the thesis was primarily driven by the broader expansion opportunity within type 2 diabetes.

As insulin pricing pressure persisted and GLP-1 therapies continued to improve, our thesis evolved toward the significantly larger opportunity in GLP-1s, which offered stronger pricing power and more compelling clinical differentiation, including improved cardiovascular outcomes. As additional data emerged demonstrating meaningful weight-loss benefits in type 2 diabetics, we began to view this as an important incremental driver of GLP-1 adoption. That opportunity expanded materially once Novo Nordisk advanced trials in non-diabetic patients, dramatically increasing the addressable market and helping establish an early leadership position in obesity.

Going into our exit, the investment case rested on two pillars: Novo's durable GLP-1 moat in a market with years of underpenetrated demand and pricing power, and the CagriSema pipeline as the efficacy bridge that would keep Novo ahead of Eli Lilly competitively. Both pillars have been materially damaged. Compounding-driven disruption eroded Wegovy's commercial foundation almost from inception, CagriSema failed in direct competition against tirzepatide, and the near-term financial outlook reflects structural pricing impairment rather than a one-time reset.

Compounding and Patent Infringement

Wegovy's commercial history has been defined as much by what happened outside Novo's control as within it. When the FDA approved semaglutide for obesity in June 2021, the market was confronted almost immediately with a supply problem severe enough to land Wegovy on the FDA's official drug shortage list. That designation, intended as a public health accommodation, opened the door to compounding pharmacies, which under federal law are permitted to produce copies of shortage-listed drugs.

What followed was an episode with no precedent in the pharmaceutical industry. Hundreds of compounding pharmacies began producing semaglutide at a fraction of Wegovy's list price, with telehealth platforms aggregating demand at scale. The shortage designation that began as a supply management tool became, in practice, a years-long government-sanctioned infringement of Novo's valid patent.

The FDA's enforcement posture was consistently late and soft. Even after formally declaring the shortage over in early 2025 and extending a grace period for compounders to wind down, Novo's own year-end results confirm that compounding volumes remained stable through the close of FY2025.

The commercial consequences extend beyond direct revenue displacement with mass compounding resetting patient price expectations for semaglutide well below the levels around which Novo had built its commercial model, and Novo now finds itself competing against that floor in its own self-pay channel. U.S. revenue is expected to decline meaningfully this year, driven almost entirely by pricing rather than volume.

CagriSema: A Two-Phase Disappointment

Zepbound's approval and launch in late 2023 shifted the competitive dynamics in obesity care in Lilly's favor. Some degree of market share erosion for Novo was always an expected consequence of new entrants into the category — Novo had held near-monopoly positioning in obesity treatment, and that was never a sustainable baseline. The more important consideration was that tirzepatide's supply constraints limited the pace at which Lilly could take share, and Novo remained meaningfully ahead in demonstrating cardiovascular outcomes benefits, a clinical profile that carries substantial weight with payers and prescribers. Taken together, these factors supported our willingness to look through near-term share losses, with the expectation that CagriSema's eventual launch as a more efficacious product would shift the competitive balance back in Novo's favor. That thesis has now been refuted in two stages.

The first came in late 2024, when CagriSema's pivotal obesity trial delivered results that were clinically meaningful but fell well short of expectations. Rather than demonstrating clear superiority over tirzepatide, CagriSema's efficacy profile appeared broadly comparable — a significant disappointment against a bar that we and the market had set considerably higher. The trial's design precluded a direct head-to-head comparison with Zepbound, with the ambiguity preserving CagriSema's value in Novo's investment case, though reduced considerably. The remaining investment rationale was contingent upon CagriSema's efficacy being comparable to Zepbound, thereby positioning Novo with a product capable of effectively competing for market share against Zepbound.

This morning, the trial to confirm this reported results. CagriSema failed to demonstrate non-inferiority to tirzepatide on weight loss at the dose Novo intends to bring to market. The result is compounded by the trial's open-label design, which typically confers a subtle advantage to the experimental drug through expectation effects and closer monitoring. The proven efficacy shortfall will impact patient preferences, and the magnitude of the gap will serve as the reference point for insurers and formulary managers in access negotiations for years.

CagriSema may still reach approval later this year on the basis of its earlier placebo-controlled trials, but it will enter the market with a head-to-head loss on record. Novo's pivot to higher doses offers longer-term optionality, though the higher-dose program is unvalidated, years from approval, and the next planned study does not include a head-to-head comparison. CagriSema's capacity to restore Novo's pricing authority or formulary preference over tirzepatide is not supported by the available evidence.

Competitive Profile Going Forward

The events of the past several years have systematically eroded the components that made Novo's thesis compelling. The pricing moat, long assumed to be durable given Novo's first-mover advantage, scale, and brand equity in GLP-1, has been undermined by mass compounding that reset patient price expectations. CagriSema was the centerpiece of Novo's competitive response to Lilly — the asset closest to market and best positioned to reclaim share — and today's result removes it as a viable answer to tirzepatide for the foreseeable future. The remaining obesity pipeline carries credible early signals but is years from approval. The near-term financial outlook reflects meaningful revenue declines driven by pricing as the company absorbs the cost of those impairments concurrently.

Looking further out, the pipeline sequencing problem is unresolved. Novo has credible next-generation assets in development, but they are years from broad approval. Lilly is advancing its own next wave of compounds that could establish a new efficacy benchmark before Novo's higher-dose or next-generation responses are validated. The window Novo had to reestablish its lead ahead of the next competitive wave has likely closed.

Disclosures

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Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

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