

October 11, 2024

[LLY, NVO] GLP-1s & CBO Data Dive

Key Takeaways: We continue to think legislation to allow Medicare Part D coverage of anti-obesity medications (AOMs) [Eli Lilly (LLY), Novo Nordisk (NVO)] is unlikely to pass this year, despite the relatively modest budgetary [estimates](#) for full access provided by the Congressional Budget Office (CBO) earlier this week. That said, CBO's [supplemental](#) data tables offer investors useful information for scaling the potential opportunity, estimating the impact of Inflation Reduction Act (IRA) negotiations, and the trajectory of adoption. With House Ways & Means Committee endorsement of a much [narrower bill](#) back in June, however, we give toss-up odds for enactment in 2025, but would view the revenue implications as a directionally positive – but likely incremental – benefit.

John Leppard

202-935-0238

john.leppard@capitolpolicypartners.com

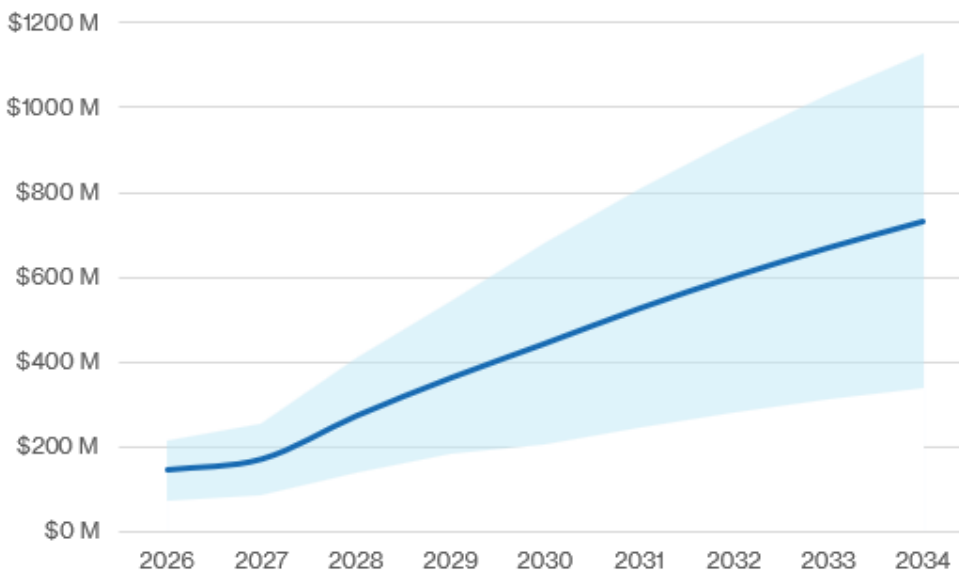
Eli Lilly and Company (LLY)

Price:	\$916.00
52-Week High:	\$972.53
52-Week Low:	\$547.61

Novo Nordisk A/S (NVO)

Price:	\$119.29
52-Week High:	\$148.15
52-Week Low:	\$92.94

Estimated AOM Medicare Sales - House Bill



Source: CBO, Ways & Means Committee, Capitol Policy Partners

CBO Estimates vs Legislative Realities

It should be remembered that the CBO publication this week attempted to score a *hypothetical* bill that would allow Part D plans to broadly cover AOMs for all those with a body mass index (BMI) ≥ 35 and those with a BMI 25-30 and at least one related comorbidity. This would imply ~12M Medicare beneficiaries becoming newly eligible for coverage, but with an assumed adoption rate of just 2% in 2026, increasing to 14% by 2034, as well as net AOM prices that fall ~30% following IRA negotiations [*highlighted below*], expenditures would equal ~\$39B over that full time horizon.

YEAR	CBO EST. GROSS PRICE			CBO EST. NET PRICE		
	WEGOVY	ZEPBOUND	AVERAGE	AVERAGE	%Δ YoY	DISCOUNT
2026	\$16,658	\$13,087	\$14,872	\$5,900	--	-60%
2027	\$17,024	\$13,375	\$15,200	\$4,000	-32%	-74%
2028	\$17,416	\$13,683	\$15,549	\$4,200	5%	-73%
2029	\$17,764	\$13,956	\$15,860	\$4,300	2%	-73%
2030	\$18,119	\$14,236	\$16,177	\$4,500	5%	-72%
2031	\$18,482	\$14,520	\$16,501	\$4,700	4%	-72%
2032	\$18,851	\$14,811	\$16,831	\$4,900	4%	-71%
2033	\$19,228	\$15,107	\$17,168	\$5,100	4%	-70%
2034	\$19,613	\$15,409	\$17,511	\$5,300	4%	-70%

Source: CBO, Capitol Policy Partners (CPP)

YEAR	CURRENT LAW		BROAD COVERAGE			
	CURRENT INDICATIONS	FUTURE INDICATIONS	NEWLY ELIGIBLE	AOM USERS	% NEWLY ELIGIBLE	EST. NET AOM SALES
2026	15.8 M	258 K	12.5 M	279 K	2%	\$1.6 B
2027	16.2 M	529 K	12.5 M	487 K	4%	\$1.8 B
2028	16.5 M	810 K	12.5 M	743 K	6%	\$2.9 B
2029	16.9 M	1.1 M	12.5 M	961 K	8%	\$3.8 B
2030	17.2 M	1.4 M	12.4 M	1.2 M	9%	\$4.4 B
2031	17.4 M	1.7 M	12.3 M	1.3 M	11%	\$5.1 B
2032	17.6 M	2.1 M	12.2 M	1.4 M	12%	\$5.9 B
2033	17.9 M	2.3 M	12.0 M	1.5 M	13%	\$6.5 B
2034	18.1 M	2.7 M	11.9 M	1.6 M	14%	\$7.1 B
CAGR	2%	34%	-1%	25%	25%	21%

Source: CBO, Capitol Policy Partners (CPP)

Of course, the [current bill](#) under consideration that [passed](#) the House Ways & Means (W&M) Committee back in June is far narrower in scope than the hypothetical one CBO scored and the original version introduced in previous Congresses. This scaled-back measure would merely allow Part D plans to continue covering GLP-1s for their weight loss indications in patients that had already been taking those medications for at least one year prior to enrollment in Medicare. The effective date of these provisions would also be delayed until Jan. 1, 2027, indicating that, if enactment fails in 2024, we expect that date to be pushed out further still.

AOM ESTIMATES	2026	2027	2028	2029	2030	2031	2032	2033	2034
CBO - Full Coverage	\$1.6 B	\$1.8 B	\$2.9 B	\$3.8 B	\$4.3 B	\$5.1 B	\$5.8 B	\$6.5 B	\$7.1 B
%Δ YoY		16%	59%	34%	13%	18%	14%	11%	9%
Average Net Price	\$5,900	\$4,000	\$4,200	\$4,300	\$4,500	\$4,700	\$4,900	\$5,100	\$5,300
%Δ YoY		-32%	5%	2%	5%	4%	4%	4%	4%
AOM Users	279 K	487 K	743 K	961 K	1.2 M	1.3 M	1.4 M	1.5 M	1.6 M
%Δ YoY		75%	53%	29%	20%	14%	10%	7%	5%
CPP Est. #1 - House Bill	\$75 M	\$86 M	\$137 M	\$184 M	\$207 M	\$245 M	\$279 M	\$310 M	\$339 M
AOM Users	13 K	22 K	33 K	43 K	46 K	52 K	57 K	61 K	64 K
CPP Est. #2 - House Bill	\$215 M	\$255 M	\$408 M	\$541 M	\$681 M	\$809 M	\$925 M	\$1.0 B	\$1.1 B
AOM Users	37 K	64 K	97 K	126 K	151 K	172 K	189 K	202 K	213 K

Source: CBO, Capitol Policy Partners (CPP)

While there is no official score for the amended legislation, the plan’s sponsors [Brad Wenstrup (R-OH) and Gwen Moore (D-WI)] have [suggested](#) that impact modeling yields a 10-year cost of \$1.7B that, when controlling for the modest health system

savings associated with weight loss identified by CBO this week, likely implies AOM spending of \$1.9B, or ~\$190M per year. This compares to ~\$4.4B in Wegovy and Zepbound sales through just 1H24.

Alternatively, Committee staffers have indicated that “without this coverage, 1.25 million patients are projected to lose coverage over the next decade as they transition into Medicare.” If we were to then employ the same adoption trajectory / net AOM price assumptions outlined by CBO this week, the result would be ~\$6B in total spending over 10 years, or ~\$600M per year.

These two scenarios constitute the upper and lower bounds of the range outlined in the chart on page one.

Despite this summer’s W&M endorsement, however, we have seen little progress to date on a companion bill in the Senate, and with both chambers of Congress out of session until Nov. 12, which will be quickly followed by a Dec. 20 government funding deadline, there seems little time for a consensus to be reached.

Read-Through to IRA Negotiations

In its report, CBO says it “*expects [NVO’s] semaglutide to be selected by HHS for price negotiation in 2025...The agency projects that the net price of semaglutide products [Ozempic, Rybelsus, Wegovy] will fall substantially beginning in 2027. Furthermore, CBO expects that the reduction in the price of semaglutide will affect the prices of other AOMs, such as [LLY’s] Zepbound. As a result, average federal Part D spending per user of AOMs will decrease by roughly one-third.*”

Recall that the IRA requires the next list of 15 Part D drugs subject to negotiation to be released by Feb. 1, 2025, with the resulting price disclosed by Nov. 30, 2025 and taking effect Jan. 1, 2027.

We also suspect that CBO’s estimate of a one-third reduction in net price may be overstated for the following reasons:

- Among the first 10 drugs whose negotiated rates were [released](#) on Aug. 15, we estimate that the delta between the *current* net price and CMS’s Maximum Fair Price (MFP) averaged -16% for those that had been on the market 9-11 years, as would be the case for semaglutide. In fact, the weighted average net price decline across all selected products was -27%.
- For NVO in particular, the company has previously [disclosed](#) that it provides “sales discounts and rebates amounting to 74% of U.S. gross sales.” Using that as a baseline would suggest that the negotiated rates for the company’s Novolog and Fiasp products announced this year resulted in an ~18% net price reduction.
- Similarly, CBO estimates that Wegovy’s net price is already 65% below its gross amount, as shown above, but we suspect Ozempic and Rybelsus are closer to the firm-wide average. Considering then that the MFP will be set on a volume-weighted basis across the three semaglutide products, a further 30%+ reduction would appear disproportionate to the initial round of negotiations.

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