

ODLUM BROWN REPORT

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ODLUM BROWN
Investing for Generations®

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Odlum Brown's Annual Address

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Will Weight-Loss Drugs Spoil Food Stocks?

In October, Walmart sent ripples through the packaged food industry when it noted that customers on weight-loss drugs were buying less food. The next day, shares of several food and beverage companies, including Mondelez, Coca-Cola, Pepsico and Kraft Heinz, fell between 3% and 5%.

Consumer staples stocks such as these have been under some pressure this year for a few different reasons. We've all experienced the significant rise in the cost of food due to inflation, and investors are concerned that consumers can't keep paying higher prices. Rising interest rates have also cast a shadow on these companies as their dividends become less attractive relative to bonds. The potential impact of weight-loss drugs only adds another question mark to the uncertainty already impacting this sector.

The weight-loss drugs at issue are medically referred to as glucagon-like peptide 1 (GLP-1) receptor agonists. They are sold under brand names such as Ozempic, Wegovy, Rybelsus and Mounjaro. Despite their sudden prevalence in the media, these medications are not new. In fact, the first was approved in the U.S. in 2005 to treat type 2 diabetes. Scientists noticed that people taking these drugs experienced reduced appetites. Further research led to a GLP-1 drug obtaining U.S. FDA approval specifically for weight loss in 2014. These treatments stimulate insulin production, delay food from leaving the stomach and target areas of the brain that regulate appetite. The end result is that people feel full for longer on less food. Many patients report losing 10-20% of their body weight, and new drugs in the pipeline could bring about even greater weight loss. Studies suggest a whole host of new health benefits, too, including a decrease in cardiovascular events and kidney disease. It's no wonder some are calling these "miracle drugs."

While the impact to society could be tremendously beneficial, investors are worried about the influence they will have on food companies. Early reports indicate that people are skipping meals, forgoing snacks, and eating more fruits and vegetables instead of chocolate, chips and soft drinks. We have long recommended investments in Mondelez, Kraft Heinz, Unilever and Nestlé, all of which sell products that could be meaningfully affected. These businesses are very profitable and have attractive dividends and decent growth prospects. But could GLP-1 drugs spoil these investments?

To answer that question, we must consider how many people will end up using these interventions. The World Health Organization estimates there are two billion overweight adults in the world, including over 650 million who are considered obese. This includes data from the U.S., where nearly 200 million adults are overweight, and more than 100 million are obese. The potential market for weight-loss drugs is substantial, but what will it actually look like?

Continued on next page

Waterstone

CANADA'S MOST ADMIRABLE CORPORATE CULTURES

2023

We are proud to announce that Odium Brown has been recognized as one of Canada's Most Admired™ Corporate Cultures for 2023. This marks the third consecutive time we have been honoured with this award, which requires requalification every three years.

Founded by Waterstone Human Capital, this national program recognizes best-in-class Canadian organizations for having cultures that enhance performance and sustain a competitive advantage. We are particularly proud to achieve this recognition in our 100th anniversary year, as our unique, supportive culture is one of the key differentiators that has enabled us to reach this milestone.

We would like to acknowledge all of our team members for the many ways in which they make us Most Admired, not least of which are upholding our firm's core values and dedicating themselves to our purpose to help our clients achieve their financial goals.

Pharmaceutical uptake is sometimes challenging because the health benefits of a drug are not always visible. For instance, you can't see blood thinning or hypertension improving. But in the case of GLP-1s, people see the effects every time they look in the mirror, and the results can be dramatic. In theory, this may make people more inclined to stay on the drug. For those who struggle with weight loss, GLP-1s are a pretty straightforward solution – an injection once a week. This could become even easier as drug companies are working on a daily oral pill. Insurance coverage is likely to improve as well as more health benefits are confirmed.

On the other hand, the medications are very expensive, currently around \$1,000 per month in the U.S. Prices may come down in time, but they will likely never be cheap. And what about side effects? Thankfully, serious side effects are not widespread at this juncture, but there will always be some risk. Most side effects are gastrointestinal: nausea, vomiting and diarrhea, which can be difficult to tolerate. Furthermore, individuals must stay on the drugs indefinitely, otherwise they are likely to regain much of the weight they've lost. Compliance is a common challenge for all medications. Hypertension is an interesting case study. Despite treatment being available for decades, only about 30% of the people in the U.S. with high blood pressure are treated for it. Just because there's a solution doesn't mean it will be applied. Fear of the unknown also presents obstacles – think of the efforts made around vaccinations. Thus far, a high percentage of people on weight-loss drugs are discontinuing use. There are also a host of personal, social and behavioural considerations around long-term use of weight-loss drugs. For example, one individual contemplating using them told us he isn't sure he wants to risk giving up that freshly baked cookie because it brings him joy.

It is hard to say how many people will end up on weight-loss drugs and if the initial changes in consumer behaviour will persist. Moreover, it is possible that new consumer habits will extend to other members of the user's family. It is simply too early to tell; however, we ran a few scenarios. Our base case assumes that approximately 10% of the U.S. population and a smaller percentage of the global population is on weight-loss drugs in 10 years. Many more will have tried the drugs but will have given them up for whatever reason. Under this circumstance, the impact to the revenue and earnings of the big food companies we recommend would be pretty small, and would ultimately be overwhelmed by population growth, international expansion and product innovation.

In a much more punitive scenario, let's assume 25% of Americans are on the drugs in a decade and a few percent of the global population. Analysts on Wall Street have referred to this as a "black swan event," meaning it is highly unlikely. This hypothetical outcome would have a more meaningful impact on food companies, particularly those that sell junk food and those with higher U.S. exposure. Notably, our analysis suggests the food companies we recommend would still grow, albeit at a lower rate. The definitive impact on each stock would be heavily influenced by the level of growth currently reflected in the respective valuation. We continually assess our recommendations in light of this potential impact and others.

It is worth noting that businesses will respond in the face of this change. A well-managed company will adjust to what its consumers want. Some have already had success with zero-sugar versions of their popular products. Others, like Nestlé, are adding micronutrients to some of their products that could appeal to people on weight-loss drugs. Some companies have developed portion control solutions. For example, Oreo Thins are a tasty treat, but on a smaller scale. Businesses can acquire healthier offerings and divest less-desired products. There are many ways in which food companies will seek to respond to GLP-1s.

These drugs could be hugely beneficial to many, which could be a great thing for society. But there is a long way to go and a lot yet to be determined. Right now, we remain comfortable with the names we recommend. In fact, they may be preferred defensive holdings in uncertain economic times. We will continue to monitor and learn about weight-loss drugs and measure the potential risks relative to the returns – as we do with all stocks.



STEPHEN BOLAND, BCOMM, CFA
Equity Analyst
@OBDifference



Year-End Tax Tips and Deadlines

With December upon us, here are several tax considerations and deadlines to remember for the 2023 tax year. Please note that December 31 is a Sunday this year. Plan your contributions and withdrawals accordingly.

DON'T MISS THE 2023 DEADLINES!

Item	Deadline	Notes
Tax-Loss Selling	December 27	To reduce 2023 net taxable capital gains.
Charitable Donations	December 31	To receive a 2023 charitable donation tax credit. December 15 suggested, for in-kind donations.
Carrying Charges	December 31	To deduct from 2023 income.
Spousal Loans	January 30, 2024	To pay accrued 2023 interest on spousal loans to continue income splitting.
T3 Trust Return	March 30, 2024	See note 5 regarding new trust reporting rules for 2023 and future taxation years.
Underused Housing Tax Return	April 30, 2024	The 2022 deadline for affected owners to report residential property owned in Canada is postponed from October 31, 2023. See our article "Staying Ahead of Property and Related Taxes" for further details.
RRSP Contributions	February 29, 2024	To deduct against 2023 income; see note 6 regarding spousal contributions.
If you turn 71 in 2023	December 31	For contributions to your own RRSP and maintaining tax-deferment by converting to RRIFs and/or annuities.
RESP Contributions	December 31	To receive 2023 enhanced Canada Education Savings Grants; see note 8 if beneficiary turned age 15 in 2023.
RESP Withdrawals	December 31	To access 2023 Educational Assistance Payments (EAPs) while a beneficiary is enrolled in a qualifying education program.
RDSP Contributions	December 31	See note 9 regarding government grants and bonds.
First Home Savings Account (FHSA)	December 31	To open account, contribute or carry-forward contribution room for 2023. See note 10 for further details.

Payments, Expenses and Other Transactions

1. Tax-Loss Selling – Selling non-registered investments with unrealized capital losses before year-end can offset capital gains realized in 2023. While this strategy may offer tax advantages, ensure that it also makes sense from an investment perspective. Trades must be placed on Canadian securities exchanges no later than December 27 to settle in time to report in the 2023 tax year. Foreign exchanges may have different deadlines. Losses unused in 2023 can be carried back to offset capital gains from the three preceding years (2022, 2021 and 2020) or carried forward to claim in any future year. Beware of "superficial loss" rules which deny a capital loss if you or your spouse buys an identical investment within 30 days before or after the settlement date, including in an RRSP, RRIF, TFSA or a company controlled by you or your spouse. Denied losses generally increase the adjusted cost base of the purchased identical investment, which may reduce future capital gains.

2. Charitable Donations – The first \$200 of annual donations are eligible for a 15% federal tax credit plus the applicable provincial credit (5.06% in BC). Donations in excess of \$200 are eligible for higher combined credits (up to 53.5% in BC). Donating eligible securities "in kind" in 2023 results in no taxable capital gain while receiving a donation tax credit for the market value of the donated securities.¹

3. Carrying Charges – Investment-related fees, charges and interest paid on money borrowed for most investment purposes (other than in registered accounts) must be paid by December 31 to be deductible in 2023.

4. Splitting Income – The deadline to pay 2023 interest on spousal loans is January 30, 2024. Contrast this with pension income splitting rules, which allow you to allocate to your spouse or partner up to 50% of your eligible pension income by filing an election with your 2023 income tax returns. Eligible pension income includes your RRIF and LIF payments if you are at least age 65 at the end of 2023, and life annuity payments from a registered pension plan at any age.

5. New Trust Reporting for Tax Years Ending December 31, 2023, onward – Federal tax legislation requires certain trusts to file a T3 Trust Income Tax and

Information Return within 90 days of the trust's year-end. A wider range of trusts will now be required to file a T3 return for taxation years ending on or after December 31, 2023, and additional reporting with respect to the trustees, beneficiaries, settlors and anyone who can exert influence over the trustees' decisions (such as a protector) may also apply. For more information, please ask your Odium Brown Investment Advisor or Portfolio Manager for a copy of our article, "New Trust Reporting Requirements," contact your tax professional or visit the CRA website.²

Contributions to Registered Plans

6. Registered Retirement Savings Plans (RRSPs) – You can use your unused RRSP contribution room to contribute to your own RRSP until December 31 of the year in which you turn 71, or to a spousal RRSP until December 31 of the year in which your spouse or common-law partner turns 71. Contributing to a spousal RRSP by December 2023 reduces the income attribution period by one calendar year compared to a contribution made in, say, January 2024. If you have a considerable amount of contribution room, consider maximizing your contributions now, but deducting your contributions over multiple years, depending on your current and expected future taxable income and credits.

7. Tax-Free Savings Accounts (TFSAs) – There is no deadline for TFSA contributions. Unused contribution room is carried forward to be used in future years. If you plan to withdraw from TFSAs in the near future, consider making the withdrawal in December 2023, rather than in 2024. This can enable earlier re-contributions (as early as January 1, 2024), since TFSA withdrawals increase your contribution room the following calendar year.

8. Registered Education Savings Plans (RESPs) – If an RESP beneficiary is enrolled in a qualifying post-secondary educational program, December 31 is the deadline to withdraw a taxable Educational Assistance Payment (EAP) for 2023, taxable to the student. If your child turned 15 in 2023, December 31 is also the last chance to ensure future CESG eligibility at ages 16 and 17 (in 2024 and 2025), by satisfying minimum RESP contributions.

Continued on next page

9. Registered Disability Savings Plans (RDSPs) – RDSPs are tax-deferred long-term savings plans for an individual who is eligible for the disability tax credit. Lifetime contributions of up to \$200,000 can be made by anyone until the beneficiary turns 59 and can create access to federal government assistance in the form of Canada Disability Savings Grants (CDSGs) and Bonds (CDSBs) for up to 10 previous calendar years, until December 31 of the year in which the beneficiary turns 49. RDSP contributions are not tax-deductible.

10. First Home Savings Account (FHSAs) – FHSAs are a new account designed to help individuals between the age of majority (19 in BC) and 71 save for their first home. FHSA holders can make tax-deductible contributions, earn investment income and make qualifying withdrawals tax-free. To earn contribution room for 2023, you must open an FHSA by December 31.



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¹ Consult with your tax advisor to determine timing and suitability with respect to donations of publicly traded securities in light of the proposed changes to the Alternative Minimum Tax in 2024. More information is available at odlumbrown.com/financial-planning/amt.

² canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2023/new-reporting-requirements-trusts-as-december-31-2023.html

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We are pleased to invite you and your guests to attend Odlum Brown's Annual Address, an opportunity to hear timely commentary on the markets and economy, enjoy refreshments with the Odlum Brown team and learn more about how our firm helps clients achieve their financial goals. Speakers will include **Debra Doucette**, Odlum Brown President and CEO, and Executive Vice President, Director, Investment Research, **Murray Leith**. We hope you will join us at one of eight events across BC!

VICTORIA

Monday, February 5, 2 PM

Delta Hotels by Marriott Victoria Ocean Pointe Resort, 100 Harbour Road
RSVP to Monica at 250-952-7775 or odlumbrown.com/rsvp by January 29.

LANGLEY

Tuesday, February 6, 2 PM

Langley Events Centre, Banquet Hall, 7888 200 Street
RSVP to Carlee at 604-607-7508 or odlumbrown.com/rsvp by January 30.

New time! COURTENAY

Wednesday, February 7, 1 PM

Crown Isle Resort, Ballroom, 399 Clubhouse Drive
RSVP to Chani at 250-703-0637 or odlumbrown.com/rsvp by January 31.

WEST VANCOUVER

Thursday, February 8, 7 PM

Kay Meek Arts Centre, Main Stage Theatre, 1700 Mathers Avenue
RSVP to Leanna at 604-844-5336 or odlumbrown.com/rsvp by February 1.

KELOWNA

Monday, February 12, 2 PM

Coast Capri Hotel, Ballroom, 1171 Harvey Avenue
RSVP to Valerie at 250-861-5700 or odlumbrown.com/rsvp by February 5.

SOUTH SURREY

Tuesday, February 13, 7 PM

Morgan Creek Golf Course, 3500 Morgan Creek Way
RSVP to Leanna at 604-844-5336 or odlumbrown.com/rsvp by February 6.

VANCOUVER

Wednesday, February 14, 2 PM

The Fairmont Waterfront, Waterfront Ballroom 900 Canada Place Way
RSVP to Leanna at 604-844-5336 or odlumbrown.com/rsvp by February 7.

New location and time! CHILLIWACK

Thursday, February 15, 4 PM

Chilliwack Cultural Centre, Rotary Hall Studio Theatre, 9201 Corbould Street
RSVP to Carlee at 604-607-7508 or odlumbrown.com/rsvp by February 8.

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