GDS Investments

Client Note, June 12, 2025

> *"Tell me who your heroes are, and I'll tell you who you'll turn out to be."*
>
> – Warren Buffett, Chairman and CEO of Berkshire Hathaway

We cannot begin our letter this week without acknowledging the imminent end of an era.

Last month, Warren Buffett announced that he would be stepping down as CEO of Berkshire Hathaway at the end of the year. He will likely be replaced by Greg Abel, who is currently chairman and CEO of Berkshire Hathaway subsidiary, Berkshire Hathaway Energy.

Buffett is, of course, 94 years old. No one can claim to be surprised that he is finally retiring after over half a century at the helm of the esteemed holding company, but it nevertheless reflects the loss of a genuinely legendary investor, leader, and visionary. The numbers don't lie: during his decades as its leader, Berkshire Hathaway's stock has risen by 5,502,284%. The S&P 500 delivered a meagre (at least by comparison) 39,054% return over the same timeframe.

But the numbers don't tell the whole story, either. His impact goes beyond financial transactions. Regular readers of this letter will know we frequently reference his wisdom. He has quite literally transformed the way many investors even think about investing. He's not the *first* value investor (that would be Ben Graham, who taught Buffett at Columbia University), but Buffett has nevertheless become the quintessential value investor for many of us. He has an extraordinary knack for pinpointing and relaying the very few core ideas to which we, as investors, can confidently attach ourselves, knowing they will remain as true tomorrow as today and yesterday.

One of our favorite Buffett-isms (out of many possible such examples) is something he famously said nearly 30 years ago: "**The stock market is there to serve you and not to instruct you**."

That one statement packs a punch, particularly in times of turmoil and volatility like the economic era in which we find ourselves now. The stock market is virtually designed for short-termism, but this is not its ideal use. If we were to follow its tumult (i.e., allow it to "instruct" us), we would find ourselves flailing all over the place—and costing ourselves long-term gains in the process. Instead, Buffett advises us to stay detached and coolheaded, avoid abrupt or panic-driven decisions, and remain focused on long-term value. Indeed, Buffett has always preached the value of the long-term: if we make smart decisions and are patient, we will be rewarded.

Ultimately, for us to be able to overlap our life and learning around someone who's contributed so much to the industry is remarkable. We feel incredibly fortunate to live in a world with Warren Buffett in it. We genuinely wish him a happy retirement and hope that stepping back from leading Berkshire Hathaway won't preclude him from continuing to share his insights and wisdom.

Novo Nordisk

Speaking of long-term value and growth potential, we have recently begun acquiring a new position in Novo Nordisk (**NYSE: NVO**), the Danish pharmaceutical company that makes semaglutide, a compound used in its brand-name medications Ozempic and Wegovy.

Semaglutide essentially mimics the actions of the GLP-1 hormone in the body and has shown fantastic success in helping people manage conditions like diabetes and obesity.

Novo is operating in a relatively new and emerging market, and it has had some stumbles over the past year (more on that momentarily). Initially the dominant entity in the market of GLP-1 analogues, Novo has since slipped to second place. Today, after its principal competitor Eli Lilly, Novo controls a 46% share of the global market for GLP-1 analogues.

And what a market it appears to be. The segment is still emerging, so no one is quite sure how to set expectations. That said, every estimate we have seen speaks of a voluminous market primed for expansive growth. One estimate, for example, anticipates the GLP-1 analogues market reaching $471.1 billion by 2032, growing at an astounding compound growth rate (CAGR) of 33.2%. Even if growth falls short of those admittedly ambitious numbers, this is clearly a market with a *lot* of growth potential.

That shouldn't surprise us, however; it tracks directly with the expected increase in Type 2 Diabetes cases over the next decade. Global prevalence of diabetes doubled between 1990 and 2022, with nearly two-thirds (59%) of adults with diabetes yet untreated, according to the World Health Organization. Prevalence is expected to continue expanding.

Similarly, the market for medications to treat obesity has also been growing dramatically. Novo Nordisk's Wegovy did around $8 billion in sales in 2024, in a market that is expected to grow to be worth $150 billion by 2030. Given that Wegovy has been shown to do more than just facilitate weight loss—in one study, it reduced the risk of "major adverse cardiovascular events" by 18.75%—its total actual market is likely larger than even this.

Investors have been skeptical of Novo for the past few months, however, as seen in the sharp downward trend of its stock value, falling from its high of $141.96 a year ago to $58.08 in April 2025.

The question is whether that skepticism is born out of genuine, inherent, and persistent problems; or if it's an overreaction to temporary, correctable, and ultimately short-term issues?

Our read is that we're looking at the latter scenario.

First, there were genuine missteps by Novo itself, but they are already correcting them.

At the top of the list: Novo Nordisk essentially botched the initial releases of Wegovy and Ozempic by completely underestimating demand, likely due to an earlier product (Saxenda) failing to gain as much traction as expected. As a result, they were forced to start rationing in 2023, going so far as to ask physicians *not* to bring new patients on. Wegovy and Ozempic were not removed from the FDA's shortage list until earlier this year. This gap in supply helped competitor Eli Lilley gain market share, especially as they focused on making their own Wegovy competitor, Zepbound, accessible to priced-out patients.

Novo Nordisk has taken reassuring steps toward addressing the issues related to the botched rollout. Novo CEO Lars Fruergaard Jørgensen, who oversaw the distribution troubles, resigned last month. They also acquired contract manufacturer Catalent at the end of December for $16.5 billion. This will enable them to both increase and gain more control over their own production capacity. They've also taken steps to make the drugs more accessible through partnerships and discounted direct-to-consumer sales.

Second, there were overreactions by the market to late-2024 news coming out of Novo.

Novo has been testing its next-gen weight-loss medication, CagriSema, with Phase 3 trial results published late last year. Novo was originally expecting the trial to show 25%-plus weight loss in participants (compared to 15% with Wegovy). However, they "only" hit 22.7%. As a result, the share price dropped by 19%. This strikes us as a frankly massive overreaction. The important part: CagriSema outperformed Wegovy, meaning the next-gen product should be more effective than its predecessor. That's exactly what we want out of a pipeline of future products.

Third, there has likely been a correction in the investor makeup of the company.

We suspect that partly what happened after the CagriSema trials, in terms of investor reaction, is that Novo had been attracting a lot of momentum- and excitement-driven shareholders. Remember, this is a new market being served by products that have been getting *a lot* of headlines. Momentum-driven investors are not known for steadfastness, however, and they likely simply reallocated their portfolios in the face of short-term disappointment interrupting the hype cycle.

Fourth, it's also worth at least mentioning that several externalities outside of Novo's control haven't helped.

For example, lingering supply chain effects from Covid-19 almost certainly played at least some role in Novo's early distribution woes, and their stock bottomed out at $58 per share only in the immediate aftermath of Trump's April tariff announcement.

What we see in Novo is a firm with strong growth potential operating in a market where they don't even need to have dominant market share to outperform. They continue to hold the keys to long-term value, including retention of incredibly valuable patents through 2032; a strong R&D program that promises a pipeline of increasingly effective next-generation products; much stronger and more reliable distribution capabilities; and—last but far from least—serving a market in which already-high demand is poised to continue growing for least the rest of the decade.

When we sum up all these advantages, we see double-digit 10-year growth, an operating margin ranging between 35% to 45%, an annualized return on invested capital (ROIC) consistently hovering around 25%, and a net profit margin just under 35%—all relative to a balance sheet with very little leverage. Behind some of these recent headlines, Novo has done extremely well, and it retains the same solid core that has driven past overperformance.

Put simply, this is an elite company that prints money but that is being priced unduly low for issues that are ultimately short-term headaches.

And while it's not the most important element, it's perhaps worth noting that we also appreciate the people-oriented ethos under which Novo Nordisk seems to operate. At the end of the day, they are a company founded with scientific roots, and they clearly want to benefit people. They are willing to go out of their way to make it affordable and accessible, e.g. developing an internal direct-to-consumer pharmacy operation and partnering with discount distribution networks like Hims & Hers Health, Inc. (**NYSE: HIMS**) to make their product offerings both more affordable and more accessible.

For more information about Novo Nordisk, we recommend this nearly four-hour deep-dive episode of *Acquired*, available via YouTube.

Rivian

We wrote briefly about Rivian (**NASDAQ: RIVN**) earlier this year, and we are increasingly confident in Rivian as a source of long-term growth potential.

Rivian has admittedly had an uneven history. In 2019, Amazon invested $700 million into the company in return for a stake and 100,000 delivery vans by 2030. But Rivian also seemed to stumble out of the gate, in no small part due to supply chain disruption caused by the pandemic. Key parts, for example, proved hard or impossible to get. Their initial public offering was also priced absurdly high, likely due more to hype and Amazon's involvement than anything else, and subsequently crashed. This has led to a lot of investor skepticism since then.

What caught our eye, however, is the degree to which Rivian has turned its struggles into opportunities.

They laid out a path to gross margin profitability and appear to have achieved it. They reported a gross profit of $206 million in Q1 2025, marking the second consecutive quarter of gross profit, and the highest yet. This is largely the result of continuous internal improvements, like improved supply chain sourcing, more effective scaling strategies, and lowering material costs. They improved fixed cost absorption on labor and overhead, which has helped reduce unit costs. Cost of goods sold (COGS) per vehicle fell by $22,600 in Q1 2025 compared to Q1 2024, an impressive feat in only a year.

Recently, they have come out with long-term margin guidance. They expect to achieve a gross margin of 25%, free cash flow of 10%, and EBITDA in the high teens. In short, they have built a machine internally that is exceptionally good (and getting better) at generating profitability.

A recent partnership with Volkswagen cements their prospects. This arrangement is truly a win-win: Rivian gets $5.8 billion (tied to operational milestones, which are being met), as well as guidance and assistance with distribution. In turn, Volkswagen benefits from Rivian's software stack.

In many ways, Rivian is as much a "car operating system" company as it is an auto manufacturer. In fact, its software and services segment generated more than half of its Q1 2025 gross profit ($114 million) compared to the automotive segment ($92 million). Even better, the software component opens the door to additional consumer-pleasing and money-making options. For example, with improved data on consumer use of the software, Rivian can roll out better and more impactful updates, which are especially important as they move toward full-self driving. It may also end up fueling a network effect that could help to lock in market share.

Our take: while this position is a little more speculative, we believe in the larger vision here. We see a massively improved internal operation leading to a very promising rollout of the next-gen, mass-market R2 model, delivering a product with more upgrade options, so that customers aren't being asked to make sacrifices, even as COGS falls significantly. As we wrote back in April: "We suspect [the R2] may turn out to be a gamechanger, debuting at nearly half the price as Rivian's other, high-end models and competitive with Tesla's lower tier models." Even better, by moving forward with partnerships with reliable firms like Amazon and Volkswagen, Rivian has been able to de-risk the balance sheet and scale up distribution.

Internally, Rivian is founder-led, with an impressive CEO, RJ Scaringe, overseeing a brand that deeply connects with customers. Comparable examples include Netflix, Amazon, and even Apple under Steve Jobs. There's a combined level of customer engagement and brand appeal that's primed to drive future success.

However, we were not willing to take this ride until the price came down and the liquidity situation improved. Rivian is operating in a competitive, challenging, and capital-intensive business. It's no exaggeration to say you've got to lose billions before you make money in this sector. Plus, their initial mistakes in rolling out the R1 cooled a lot of interest in the company. But their recent performance showcases their commitment to nonstop improvement and management geared toward benefitting shareholders.

For more information about Rivian, we recommend the interviews with Scaringe on (1) the Rich Roll podcast (here) and (2) the Kleiner Perkins Grit Podcast (here). Scaringe also participated in an informative "fireside chat" at the UBS Auto and Auto Tech Conference earlier this month.

We will conclude our letter this month by pointing out a commonality between both Rivian and Novo Nordisk, two very different firms operating in wholly separate markets. The throughline is price.

The risk judgment process is only ever one-half of our investment analysis and decision-making. The other half: waiting patiently until we can acquire the position at discount relative to fair value. Otherwise, if we overpay for assets, we will struggle to do well. The recent investor flight from these still-strong positions is what has made them attractive *now*. Here too we might turn to the wisdom of Warren Buffett: "Be fearful when others are greedy and greedy when others are fearful".

At GDS Investments, we diligently and meticulously focus every day on *both* making accurate risk judgments *and* determining ideal pricing for asset acquisition. By doing so, our goal is to enhance returns reliably and confidently for our clients.

As always, I remain grateful to you for your ongoing support. With warm regards,

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