Cenkos News  28th February 2013

Nappy Wars

Those of you that attended our recent presentations in Jersey and Guernsey will be familiar with the following statement:

“Sales of adult diapers in Japan exceeded those for babies for the first time last year (2011)”.

You could be forgiven for thinking that this is a statistic that the Investment Management team has fabricated to emphasize a point and thereby add humour to a presentation; however, the sad truth is that this really is the case. Bloomberg.com reported the following in May last year: “Unicharm Corp.’s sales of adult diapers in Japan exceeded those for babies for the first time last year. At Daiei Inc. supermarkets, customers can feel Japan aging – literally: It has made shopping carts lighter.”1 And this trend is not restricted to Japan. The UN estimates that, by 2050, over 16% of the world’s population will be over 65 years of age.

Source: www.news.naij.com

The idea of getting old and, more poignantly, an ageing population, could be seen as rather depressing. However, it is an unavoidable truth (except for me; I’m definitely not getting older…) and one that we would be fools not to take into account when considering how best to invest. As ever, though, through adversity comes opportunity; and the investment opportunities created by this ageing trend are plentiful (and not solely in nappy companies!).

Source: Google Images

Healthcare is one of our long-term investment themes. Since we remain adamant that we cannot predict the future, we must therefore base investment decisions on hard facts such as the demographic trends that are moulding our world. Here’s one: older people require more healthcare. Here’s another: the chances are that by the time we are 65 we will all be taking at least one tablet a day – some for cholesterol, some for arthritis, some for gout (you know who you are!) and so on.

As well as tablets, we will require care, perhaps in the form of care homes or in-home care. What about facilities? Will I need handrails in my shower, a ramp for my front door, an emergency call-out buzzer and a stair lift? I don’t know, but what I do know is that more people will. As investors, we must ensure that we are on the right side of this trend by investing into companies that research, produce and distribute the products that an ageing population will need.

One of our favourite global companies is Johnson & Johnson. This company not only has one of the most recognisable brands in the world and annual revenues of over $65bn, but also designs, produces and sells consumer healthcare products, medical devices and...
pharmaceuticals in over 60 countries worldwide. In fact, Johnson & Johnson is, by revenue, the 6th largest healthcare company, the 5th largest biologics company and the 8th largest pharmaceuticals company in the world. Medtronic, another behemoth in the field, is the largest independent medical devices company in the world. Via Medtronic, investors can also gain exposure to a manufacturer of heart stents, which help sufferers of chronic cardiovascular disease – the number 1 US killer. Novartis, a global healthcare solutions company with revenues of over CHF 50bn, is at the forefront of innovative medicines, cost-saving generic pharmaceuticals, eye care, consumer health products, preventative vaccines and diagnostic tools. These companies are on the right side of the trend and are exactly the sort of businesses to which we want exposure.

Growing populations in emerging markets will naturally increase the demand for healthcare. As disposable incomes increase, inhabitants will also demand a better standard of healthcare and healthcare resources. Lifestyles will inevitably change as these economies develop and people will develop diseases and conditions that were not previously commonplace. Diabetes, heart disease and cancer are all Western ailments that are “exported” along with branded goods, diets and lifestyle habits.

So, what then of countries that do not have ageing demographics but do have some of the largest populations? These countries are not being overlooked by the healthcare giants. In fact, they are seen as a key source of growth as economic pressure stifles progression in home markets. Evidence of their commitment to these regions is captured by the above picture of Johnson & Johnson Medical (Suzhou) Ltd's innovation centre in China, which has been designed to develop medical devices and diagnostic products specifically for Asia’s emerging markets – focusing primarily on China and India.

So what will it be? As investors we can gaze wistfully into the future buying stories that might happen and selling stories that might not. Or we can invest into irrefutable global trends that are shaping our physical, social and investment worlds; investing via companies that will adapt and grow whilst driving innovation forward. I will leave that decision with you…

Source: Google Images

Sophie Yabsley
Cenkos Channel Islands Investment Management Ltd.

2 http://www.jnj.com/connect/about-jnj/