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TRANSCRIPT

Vaccine Mandates and Walmart's Insulin

Featuring:

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Mike Disabato:

What's up, everyone, and welcome to the weekly edition of ESG Now, where we cover how the environment, our society and corporate governance affects and are affected by our economy. I'm your host, Mike Disabato, and we have two social impact stories for you this week.

Mike Disabato:

First, we discuss the new mandates by some companies for their employees to be vaccinated, and then we discuss a new, relatively low-cost insulin product brought to market by Walmart. Thanks as always for joining us. Stay tuned.

Mike Disabato:

As the Delta variant of the coronavirus spreads, some companies have responded by making a vaccine compulsory for some of their employees. Disney, Walmart, Google, Facebook, and Uber are just a few of the companies that have new requirements that some employees be vaccinated. There's a lot of variety in the mandates, who is covered, who is not, and some companies are offering benefits for those that do get vaccinated.

Mike Disabato:

For us today, we wanted to discuss the decision by these companies to step into the public health sphere as an act of preparedness. The Delta variant is more transmissible than the viruses that cause MERS, SARS, Ebola, the common cold, the seasonal flu, and smallpox. And it is as contagious as chickenpox, according to the U.S. Centers for Disease Control and Prevention. But infections in vaccinated people are rare compared to those in unvaccinated people. So, a company with a workforce that is vaccinated has a better chance of keeping its facilities open than a company without one.

Mike Disabato:

The decision to mandate a workforce or new employee to be vaccinated is different for companies based on the region they operate in and the type of work done by their employees. And for those that view vaccines as a relatively harmless solution to the relatively more assured damage that COVID-19 can cause, these acts may seem like a godsend. But for others, those that resist the vaccine and are worried about its possible side effects, a majority of which have been disproven, by the way, this may seem like a step too far. But for companies that have a lot of workers on the frontline, the decision to mandate or help provide workers with a vaccine might mean they are better prepared for any current or future coronavirus outbreaks.

Mike Disabato:

So to me, this seems like a form of health and safety for these companies. A planned act like safety checks at a natural gas plant that has a purpose to avoid future calamity. So, I thought I would talk about this in that manner with my colleague Sam Block, because Sam is somewhat of a health and safety aficionado. So I called him up, asked him what he thought, and here's what he said.

Sam Block:

Health and safety is a changed conversation with COVID. Not only that, but it's a new conversation for a lot of companies. The health and safety does not often affect a lot of industries. We actually only have about a quarter of the industries that we rate that we consider health and safety as a key issue. Traditionally those industries like metals and mining, those were the ones that had to worry about health and safety.

Sam Block:

So now, people that work at restaurants and retail shops, they also have to worry about their health every day at work, and they will look to be protected. The industries where workers are used to dangerous places like mining or oil and gas, safety is a daily conversation, and they have well-established systems and personnel to come up with strong strategies to reduce the risk to their personnel. Industries are going to have to develop maybe these resources and also the strategy on how to prevent COVID and prevent disruptions to their business.

Mike Disabato:

Yeah, and it's interesting that we have this sort of miracle cure to prevent any mass infection at a company. So, they're assuming, well, why not we ensure it's used? On the one hand, you're requiring employees to be jabbed with a substance they might not be in agreement with. But then on the other hand, in typical health and safety situations, whenever a disaster happens such as an entire facility being infected with COVID, the question then becomes, what did the companies do or what did they not do to avoid disaster? If you watch interviews with employees after an accident, most harp on the lack of safety procedures that were put into place to proactively avoid said disaster from happening. Then after that, there's these long-term labor issues between labor and management. So, the conversation is a bit difficult to deal with and it's controversial.

Sam Block:

I don't know if all employees will appreciate a mandate on a vaccine. Some employees certainly would, but I do think what employees really appreciate and which could be seen as a benefit in terms of social impact would be for companies to help secure vaccines for their employees, especially in countries that are don't have good vaccination rates or don't have access to a lot of vaccines. It was something I think we saw in India during the surge that they were experiencing a few months back, and for companies that were able to secure a vaccine for their employees, I think that it came across great, and I think that was a huge benefit. It really showed that the company's willing to step forward and do something for their employees.

Sam Block:

There are many cases where companies, especially like mining companies, oil and gas companies, operate in these very remote areas in frontier markets or in areas where sometimes the government is not taking care of people's needs, and sometimes these companies are looked to as a substitute in a sense, and saying, "You are the big institution here," and the pressure is on them, to a certain extent to, to deliver.

Mike Disabato:

That pressure is reflected in the disparity between low-income and high-income country vaccine rates, which has become so bad that the World Health Organization recently asked wealthy nations to stop giving out COVID-19 vaccine booster shots while people in poor countries wait for their first dose. Irrespective of all that, as an investor, you might be looking at two types of companies in the future. One that has had multiple shutdowns because its workforce isn't vaccinated, and one that has run smoothly after implementing or providing an incentive for its workforce to be better vaccinated.

Mike Disabato:

Walmart is a special sort of controversial company in ESG. It has been involved in controversies ranging from poor wages, overtime pay abuses, meager employee benefits, gender discrimination, negative impacts on small businesses, supply chain abuses. You name it and the retail giant has likely been involved in it. But proponents of one of the world's largest employers point to the affordability Walmart provides its customers, and that has meant Walmart has waded into services beyond retail that are unaffordable for low income individuals.

Mike Disabato:

For example, in 2014, Walmart started to offer banking services to its customers. They can provide checks, you can pay bills there. Walmart started providing wire transfer services. They started selling prepaid debit cards. They said that they are giving out starter kits for checking accounts with no overdraft fees or minimum account balances.

Mike Disabato:

And then it got into the healthcare game in the U.S. Around the same time it started offering banking services, Walmart began offering $4 U.S. generic prescription programs, it said, was to increase access to quality, affordable healthcare resources to the underserved. And now there's just been a recent addition to Walmart's affordable healthcare product line. Two new, relatively low cost insulin treatments, an analog insulin vial for $73 U.S., and a FlexPen vial for $86 U.S. will be specifically marketed by Walmart to uninsured groups in its stores, starting in July.

Mike Disabato:

By the way, just to give you some context here, because we're going to say it once or twice during the episode, there's analog insulin, which has faster onset and offset insulin effects when compared with regular human insulin. So, basically what I'm saying there is Walmart's offering the good stuff, and that's important for people with type one diabetes since they need insulin injections to live, because type one diabetes is an autoimmune disease that destroys beta cells in the pancreas, meaning that the body can no longer produce insulin. And insulin is really cheap to make because this gentleman named Frederick Banting, who invented it in its distributed form, said, "Insulin does not belong to me. It belongs to the world." And he backed up those words by selling the patent rights to the University of Toronto for $1, thus enabling its widespread distribution.

Mike Disabato:

But the insulin production market in the U.S. is dominated by three major players, Eli Lilly, Novo Nordisk, and Sanofi. These three companies have hiked the price of insulin consistently, to the point where newer versions of insulin ranges from $175 to $300 U.S. per vial. Since patients need on average two to three vials per month, the cost to an uninsured American can reach up to $900.

Mike Disabato:

So, Walmart offering an under $80 U.S. option is a pretty big deal, and it begs a sort of humorous question of whether Walmart has become a social impact company. To discuss this, I called up my colleague Namita Nair, who covers the healthcare industry for us, and I asked her what she thinks about the new under $80 insulin option at Walmart.

Namita Nair:

Okay, so for context, a BMG Global Health article in 2018 estimated that the cost of production of a vial of analog insulin is between $5 to $8 U.S. So, when an insulin is actually not on patent, it is just that some variants are made which, depending on the duration of their action, they kind of get under patent. But the actual insulin is not on the patent.

Namita Nair:

So, when the cost of production is just $5 to $7 USD, you can imagine the sort of margins that a company is making when it is selling that at $175 to $300 per vial. Now, Walmart has actually collaborated with Nova Nordisk on this, and one reason that has been posited for Nova Nordisk being the manufacturer is that Nova Nordisk itself is facing downward pricing pressure in the United States, which is a very critical market for that company. The issue is that there have been a few important changes in the way the reimbursements are paid through Medicare, and it has rebates that are being paid back to Medicare, and also the Medicare Part D changes in the way that is being implemented. So, all these reasons are causing an erosion of the margins for Nova Nordisk anyway.

Mike Disabato:

It's odd that it hasn't happened already, actually. As Namita said earlier, it costs around $5 to $7 U.S. to make the insulin. And that same peer reviewed study published in BMJ Global Health Journal that Namita noted found that companies could profitably manufacturer biosimilar insulins at prices of $72 U.S. per year or less for human insulin, and $133 per year or less for insulin analogs. That is because there's about 100 million people in the world with type one diabetes.

Mike Disabato:

According to the UN Commodity Trade statistics for insulin trade, there are around 34 companies that can manufacture insulin safely throughout the world. So, let's see. 100 million divided by 34 is around 3 million people each that need insulin, and let's pump up the price of that insulin to around $200 a year, even. And so those 34 companies could make $600 million U.S. a year in revenue just from insulin. And that ain't too bad for one product, especially for a product that people literally need to live. Imagine charging that much for water, for example. So it's a market, as Silicon valley would say, that is ripe for disruption, and it's also a market that regulators want to fix.

Namita Nair:

Well, all these companies, Eli Lilly, Sanofi, and Novo Nordisk, are currently under investigation for alleged price rises instead. So, under such circumstances, when a company comes up with something like this, it is not that it is not going to get margins. Walmart has a number of advantages that it can offer, one of these being location. So, it has a large number of locations through which it could retail this store brand insulin. The generic market is ripe for harnessing these opportunities because there are a number of uninsured people in the U.S. population anyway, and they would resort to these sort of insulins if they had such an alternative.

Mike Disabato:

That's not the only thing that Walmart is doing in the healthcare system. You might remember that $4 prescription program. I mentioned at the beginning of the show. They're getting into that and they're getting into other aspects of health care as well that is a notoriously difficult market to make inroads into.

Namita Nair:

Another thing that Walmart is doing is also, it acquired a telemedicine company called MeMD in May, 2021. The company has also piloted clinics, health care clinics attached to its

Walmart locations. So this may be inroads into a health care strategy for Walmart. Maybe not entirely into the provision of healthcare, but definitely on the side of generic drugs, for sure.

Mike Disabato:

So what do you think? Do you think that Walmart... You, the listener. I'm not talking to the Namita anymore. Do you think that Walmart has turned itself into a social impact company, or at least a company that is providing relatively better access to healthcare with their product, thus turning over a new leaf of socially conscious business strategies?

Mike Disabato:

Well, I don't think so, but they are providing a cheaper version of a life-saving drug, and there is this factor that we assess companies on called differential pricing that looks at whether pharmaceutical companies use different pricing mechanisms for drugs they offer in high-income and low-income countries. This is kind of sort of what Walmart is doing. They're not a pharmaceutical company, but they are doing this differential pricing aspect that we view as being socially impactful for a pharmaceutical. So, in that aspect, Walmart is engaging in some social impact access to medicine-type activities.

Mike Disabato:

On the other hand, the three companies offering insulin are literally getting sued for price discrimination, and it costs about $7 to make a life-saving product, and Walmart is getting a $70 profit from that product. So, it might be too far to say it's become a social impact company, but it was a fun idea to explore.

Mike Disabato:

That's it for the week. I wanted to thank Sam and Namita for discussing this week's news with an ESG twist, and I wanted to thank you so much for listening. I really appreciate it. Don't forget to rate and review us wherever you get your podcasts. And don't forget, next week Bentley Kaplan is going to be interviewing our colleague Patrick Kellerman, who has done academic research on the invulnerability of infrastructure to floods. So, we're going to be revisiting the story we did a couple of weeks ago about the floods in Europe and China, and we're going to have a much more detailed conversation around what these climate impacts might mean for the future of critical infrastructure.

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