

Initiating Coverage:

Eli Lilly and Company

Zepbound for Success

Key Take-away: While Eli Lilly missed on expectations for EPS and Revenue in Q3, certain drugs including Mounjaro, Zepbound, and Donanemab show strong growth potential despite missing on sales expectations.

Mounjaro remains a significant revenue driver, and its expected expansion into obesity treatment is a significant bright spot signaling high growth expectations. Zepbound is seeing rapid adoption and demand growth, signaling strong future expectations for the obesity drug despite recent supply challenges. Donanemab, Eli Lilly's early Alzheimer's treatment, represents a key future growth area as it moves through different stages of testing and regulatory approvals.

Donanemab Phase 3 trial: During the Clinical Trials on Alzheimer's Disease Conference, Eli Lilly released positive results from their phase 3 TRAILBLAZER-ALZ 6 trial where they tested shifting 1 vial from the first infusion to the third. This trial showed a 14% reduction in the frequency of ARIA-E at week 24 as compared with 24% in the standard dosing regimen. Looking forward, Lilly is optimistic about the broader rollout and approval of the potentially blockbuster drug. Given that Alzheimer's treatments represent a relatively unfulfilled need, regulatory approvals and market penetration are critical for long term growth. The inclusion of the drug in future guidance suggests its potential as a major revenue driver once it secures regulatory approval.

Zepbound Sales Fall Short: Despite Zepbound and Mounjaro sales being bright spots for Q3 Earnings, Zepbound, Eli Lilly's blockbuster obesity drug, fell short of analyst estimates of \$1.7 billion, with Eli Lilly reporting about \$1.3 billion in sales. Lilly stated that they were unable to meet the growing demand for Zepbound which led to inventory decreases in the wholesale channel. Currently to solve the supply issue, Lilly is investing heavily in direct-to-consumer efforts. Throughout Q4 and 2025, Zepbound is expected to continue to rise in popularity among consumers. Given the increasing focus and growth of GLP-1 obesity treatments in the market, Zepbound is well positioned to have a meaningful contribution to revenue growth in upcoming quarters as long as supply issues are dealt with.

Valuation: We initiate coverage with a \$1,215 PT.

Consortium Equity Research
Healthcare | Pharmaceutical
December 16th, 2024

Stock Rating: Overweight

Price Target: \$1,215

Price: \$779.02

Potential Upside/Downside: 55.95%

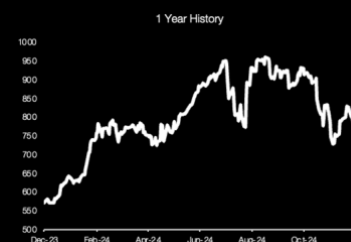
Ticker(s): SLLY

Market Cap: \$741.48b

Shares Outstanding: 899.32mm

Free Float (%): 88.77%

Dividend Yield: 0.77%



Healthcare Coverage Team





Analyst





Maxymilian Banoun

Suffolk University

Max.banoun@su.suffolk.edu

Peer Comparisons

Comparable Companies						
\$mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
 Novo Nordisk A/S (XNYS:NVO)	\$ 487,020	\$ 484,840	36.5x	\$ 39,330	\$ 19,360	
 ABBVIE INC. (XNYS:ABBV)	\$ 321,210	\$ 385,050	23.9x	\$ 55,530	\$ 28,070	
 JOHNSON & JOHNSON (XNYS:JNJ)	\$ 372,700	\$ 388,150	20.2x	\$ 87,700	\$ 30,180	
 MERCK & CO., INC. (XSGO:MRK)	\$ 254,510	\$ 278,100	18.0x	\$ 63,170	\$ 20,670	
Eli Lilly and Company	\$ 759,260	\$ 786,940	60.9x	\$ 40,860	\$ 16,110	

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
 Novo Nordisk A/S (XNYS:NVO)	25.04x	84.1%	50.4%	47.4%	21.4%
 ABBVIE INC. (XNYS:ABBV)	13.72x	71.4%	40.9%	26.5%	3.8%
 JOHNSON & JOHNSON (XNYS:JNJ)	12.86x	69.8%	30.8%	22.6%	5.3%
 MERCK & CO., INC. (XSGO:MRK)	13.45x	76.7%	30.7%	23.6%	4.4%
Eli Lilly and Company	48.85x	81.0%	17.4%	13.3%	20.4%

High	48.85x	84.1%	50.4%	47.4%	21.4%
75th Percentile	25.04x	81.0%	40.9%	26.5%	20.4%
Average	22.78x	76.6%	34.0%	26.7%	11.1%
Median	13.72x	76.7%	30.8%	23.6%	5.3%
25th Percentile	13.45x	71.4%	30.7%	22.6%	4.4%
Low	12.86x	69.8%	17.4%	13.3%	3.8%

Eli Lilly and Company Valuation	
Implied Enterprise Value (25th Percentile)	\$ 216,748
Implied Enterprise Value (Median)	\$ 220,989
Implied Enterprise Value (75th Percentile)	\$ 403,449
Implied Share Price (25th Percentile)	204.8326769
Implied Share Price (Median)	\$ 209.30
Implied Share Price (75th Percentile)	401.5011946

Source: (Bloomberg)

Company Overview

A Legacy of Innovation: Since they were founded in 1876, Eli Lilly has built a reputation for their commitment to innovation in the pharmaceutical industry. Their business model focuses on developing innovative medications for some of the most pressing global health challenges, exhibiting a robust pipeline of 50 medicines in different stages of clinical trials and regulatory review. With their recent \$4.5 billion investment in a state-of-the-art research and manufacturing facility, they continue to cement their position as a leader in the pharmaceutical industry, especially in high demand areas like diabetes, oncology, and neurological disorders.

A Leader in the Diabetes and GLP-1 Market: Eli Lilly has established itself as a leader in diabetes care, especially with the success of their GLP-1 drug, Mounjaro, which has shown great effectiveness in both weight loss and blood sugar control. What differentiates Lilly from their competitors like Novo Nordisk is their ability to treat both type 2 diabetes and obesity with one drug. With the global GLP-1 market

projected to grow at a CAGR of 12.1%, Lilly's strengths lie in its innovation and ability to capture a large market share through a variety of products.

Regulatory Success: Eli Lilly's track record of navigating regulations and FDA approvals both efficiently and successfully is a key indicator of future success. Their ability to consistently bring new drugs to market demonstrates their expertise in creating profitable products through R&D efforts. This sets them apart from competitors who may face longer approval timelines or more regulatory hurdles, reinforcing their reputation for both innovation and execution within the pharmaceutical industry.

Industry Overview

Growing Demand for GLP-1 Drugs: The Pharmaceutical industry is currently seeing massive growth in the GLP-1 drug market, which is led by the rise in type 2 diabetes and obesity diagnoses globally. These drugs, which manage blood sugar levels and aid in weight loss, have become a major growth area in the pharmaceutical industry. The global market for GLP-1 drugs is expected to see rapid growth, with North American and Asian-Pacific countries growing the fastest. This is led by rising obesity rates, increased healthcare spending, and a growing demand for these innovative multi-use drugs. These tailwinds position GLP-1 treatments as one of the fastest growing sub-verticals in the industry.

AI Revolution: AI is rapidly changing the pharmaceutical industry as companies integrate it to rapidly analyze data, identify potential drug candidates, and predict how the drugs will interact with the human body. This can reduce the time and cost associated with drug discovery, which will allow for faster development of new therapies. It is improving clinical trials by aiding in patient group selection, predicting trial outcomes, and monitoring data, which will lead to more personalized and efficient trials. As AI use continues to change in the pharmaceutical industry, companies that utilize it will gain a significant competitive advantage.

Supply Chain Challenges: Supply chain disruptions have become a major issue in the pharmaceutical industry, with the Covid-19 pandemic and global tensions exposing weaknesses in production and distribution networks. Companies are facing increasing pressure to maintain availability while managing rapidly growing demand, raw material shortages, and a variety of logistical challenges. To minimize risks, many companies are investing in more resilient supply chains, utilizing local manufacturing, diversified material sourcing, and the use real-time supply chain monitoring. Effective supply chain management will be crucial in ensuring drug availability, minimal delays, and ease of access to vital medications.

Investment Theses

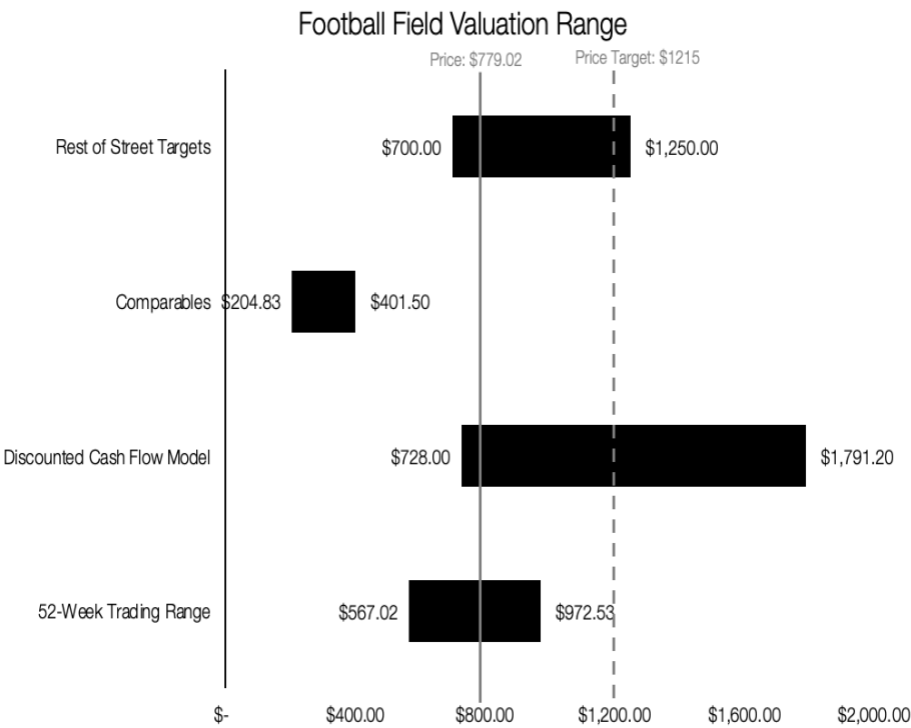
Strong pipeline: Eli Lilly currently has 50 medicine candidates in clinical development or under regulatory review. These drugs include 11 obesity drugs and a variety of other treatments for Alzheimer's disease, ALS, and other neurological disorders. With a \$4.5 billion investment in a state-of-the-art research and manufacturing facility aimed toward finding more efficient manufacturing methods, Lilly is well positioned to expand upon their pipeline. As these treatments progress through clinical trials and regulatory review, Lilly can potentially see significant revenue growth, with expectations of a 26.9% CAGR over the next 5 years.

FDA Approvals: Eli Lilly’s ability to consistently secure FDA approvals is a major catalyst for growth. Recent approvals, such as the July 2, 2024, approval of Donanemab, an early Alzheimer’s treatment, emphasize their expertise in bringing breakthrough drugs to market. Additionally, as their pipeline advances, new FDA approvals could further expand Lilly’s market share, strengthening their competitive advantage in key treatment areas.

Growing GLP-1 Market: Eli Lilly is poised to hold a major share of the rapidly expanding GLP-1 drug market as long as they solve their supply challenges and continue to innovate. Over the next 6-7 years, the global GLP-1 market is projected to grow at a 12.1% CAGR. With their leading drug Mounjaro, which has shown major success in treating both obesity and diabetes, Lilly stands to benefit from the rapidly increasing demand for these treatments.

Price Target & Valuation

Our analysis gives \$LLY a price target of \$1215 and an Overweight rating.



Potential Downsides to Our Rating

Our Price Target: **\$1215**

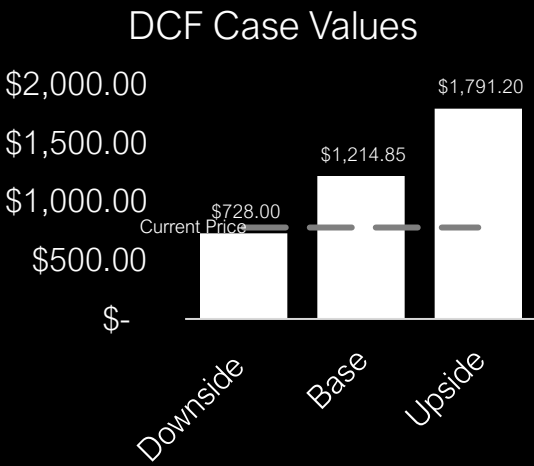
Our PT is based on the assumption that Eli Lilly’s pipeline advances through R&D and FDA approvals with minimal setbacks as well as continued demand growth for GLP-1 drugs over the next 5-10 years.

Our Upside Case: **\$1791**

Our upside case assumes that Eli Lilly achieves faster than expected FDA approvals for key drugs, including their obesity and Alzheimer’s treatments, and holds a larger share of the GLP-1 drug market

Our Downside Case: **\$728**

Our downside case is that there are significant delays in clinical trials or regulatory setbacks, alongside continued supply issues and increased competition in the GLP-1 market

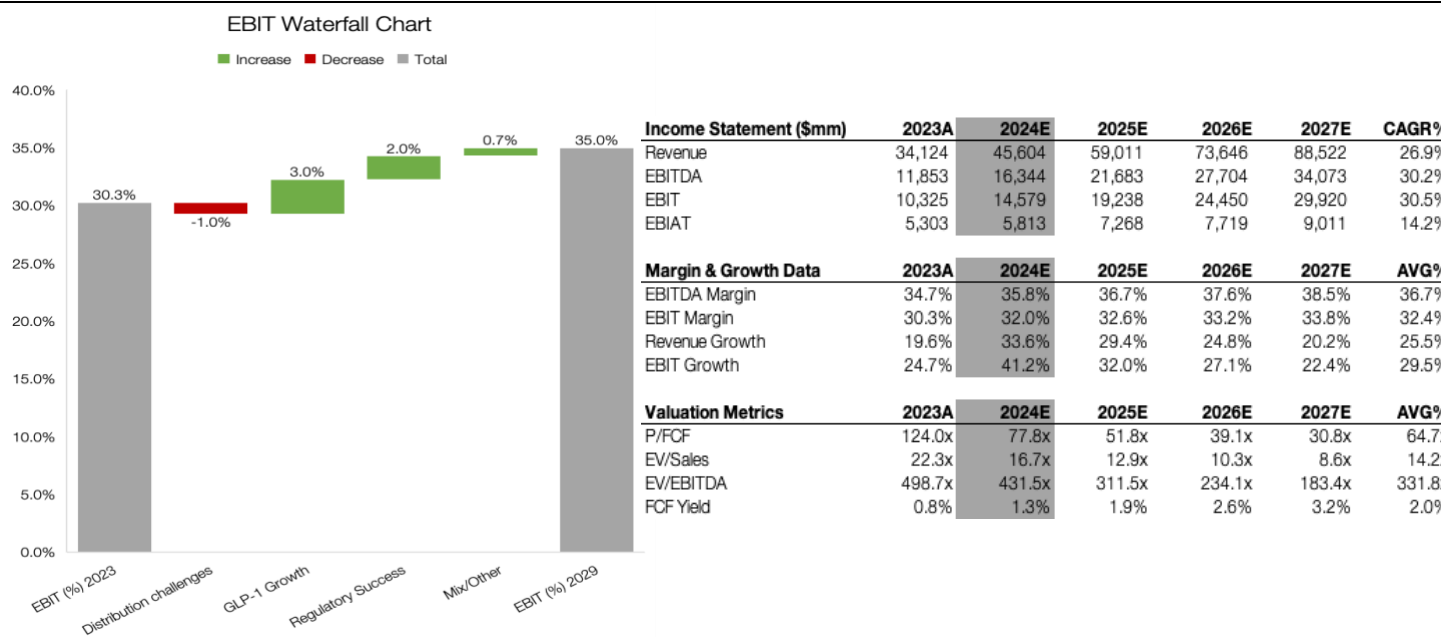


Patent Expirations and Generic Competition: With Eli Lilly facing expiration of some of their key patents, they will likely be exposed to competition from generic copies. As some of their top-selling drugs near the end of their patent protection, there is the risk of significant revenue loss as cheaper generic copies enter the market. Currently a variety of drugs including diabetes and cancer treatments are facing patent expiration This could significantly affect Lilly’s market share and overall profitability, especially if key pipeline drugs face delays or underperform in the market. The impact of patent expirations could be intensified if Lilly does not offset their losses with continued innovation and diversification of its drug pipeline.

Regulatory and Clinical Trial Delays: Eli Lilly relies heavily on successful approvals of drugs in their drug pipeline. Delays in clinical trials, safety concerns, or failing to receive approval from regulatory bodies like the FDA could lead to major delays or potentially hinder the company’s ability to bring new treatments to market all together. With the increased scrutiny on drug safety, especially in prominent areas like Alzheimer’s and obesity treatments, there is the potential for longer approval timelines or stricter regulation that could lead to major delays decreasing future revenue growth. These delays could potentially provide competitors the opportunity to receive faster approvals of competing drugs which will minimize Lilly’s total market share.

Competition in the GLP-1 Market: While Eli Lilly is currently a leader in the GLP-1 market with drugs like Mounjaro and Zepbound, they are facing increased competition, especially from Novo Nordisk, who has also successfully developed their own effective diabetes and obesity treatments. As the market becomes more saturated, Lilly risks losing significant market share if their competitors develop more effective or lower priced alternatives. Additionally, the cost of maintaining the competitive edge through marketing and continued innovation could decrease profitability, especially if new competitors force price reductions or introduce more effective drugs.

Projections



About \$LLY

Eli Lilly and Company (\$LLY), founded in 1876 and headquartered in Indianapolis, Indiana, operates globally with a focus on pharmaceutical innovation. The company's primary business segments include human pharmaceuticals, covering areas such as diabetes, oncology, immunology, and neuroscience. Eli Lilly develops, manufactures, and markets prescription medicines, with a key emphasis on advancing treatments for chronic and complex diseases. The company's mission is to improve patient outcomes through cutting-edge drug research and development, bolstered by a robust pipeline and numerous FDA approvals

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

DCF Analysis (\$mm)											
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
Stub						0.04	0.04	0.04	0.04	0.04	0.04
Discount Period						0.02	0.54	1.54	2.54	3.54	4.54
Revenue	22,319.50	24,539.80	28,318.40	28,541.40	34,124.10	45,603.50	59,010.93	73,645.64	88,522.06	102,331.50	113,587.96
Revenue Growth	0%	10%	15%	1%	20%	34%	29%	25%	20%	16%	11%
EBIT	5,931.40	6,849.60	7,842.00	8,280.40	10,325.40	14,578.80	19,237.56	24,450.35	29,920.46	35,202.04	39,755.79
EBIT Margin	27%	28%	28%	29%	30%	32%	33%	33%	34%	34%	35%
Tax Expense	628.00	1,036.20	573.80	561.60	1,314.20	2,378.91	2,021.59	2,569.38	3,144.21	3,699.22	4,177.76
Effective Tax Rate	11%	15%	7%	7%	13%	16%	11%	11%	11%	11%	11%
NOPAT	5,303.40	5,813.40	7,268.20	7,718.80	9,011.20	12,199.89	17,215.97	21,880.98	26,776.25	31,502.81	35,578.03
D&A	1,232.60	1,323.90	1,547.60	1,522.50	1,527.30	1,765.24	2,445.63	3,253.60	4,152.96	5,080.73	5,950.31
Capex	679.10	1,387.90	1,309.80	1,854.30	3,447.60	4,113.33	4,964.45	5,748.59	6,372.47	6,745.42	6,797.92
Changes in NWC	(863.60)	(612.30)	(2,178.30)	792.70	398.40	350.00	421.33	486.42	537.32	566.40	567.94
UFCF	3,780.70	3,813.20	3,780.10	6,657.20	5,962.00	9,501.80	14,275.83	18,899.55	24,019.41	29,271.72	34,162.48
PV of FCF						9,490.35	13,829.59	17,265.13	20,691.47	23,778.69	26,169.75

Weighted Average Cost of Capital (\$mm)

Market Risk Premium	4.24%
Beta	0.40
Risk Free Rate	4.40%
Cost of Equity	5.91%
Weighted Average Cost of Debt	5.00%
Tax Rate	10.51%
Cost of Debt	0.13%
Total Equity	\$739,536
Total Debt	\$22,298
Equity/Total Capitalization	97.07%
Debt/Total Capitalization	2.93%
WACC	6.04%

Terminal Value	
Perpetuity Growth Method	
2029 FCF	\$34,162
Growth	3.50%
Terminal Value	\$ 1,389,424
PV of Terminal Value	\$ 1,064,350.83
PV of Projection Period	\$111,225
PV of Terminal Value	\$1,064,351
Implied TEV	\$1,175,576
(-) Debt	\$25,225
(+) Cash	\$2,928
Implied Equity Value	\$1,153,278
Basic Shares Outstanding	949
Implied Share Price	1214.852129
Upside/Downside	56%
Implied BF EV/EBIT	80.63597821

Terminal Value	
Exit Multiple Method	
2029 EBITDA	\$45,706
EV/EBITDA Exit Multiple	0x
Terminal Value	\$0
PV of Terminal Value	0
PV of Projection Period	\$111,225
PV of Terminal Value	\$0
Implied TEV	\$111,225
(-) Debt	\$25,225
(+) Cash	\$2,928
Implied Equity Value	\$88,927
Diluted Shares Outstanding	949
Implied Share Price	\$93.68
Upside/Downside	-88%
Implied PGR	✓
#DIV/0!	

Blended Share Price	
Perpetuity Growth Method	100%
Exit Multiple Method	0%
Blended Share Price	\$1,214.85
Upside/Downside	0.559462054