BofA SECURITIES

Eli Lilly and Company

Readthroughs from Novo's CMD

Maintain Rating: BUY | PO: 1,000.00 USD | Price: 777.41 USD

Results highlight competitive barrier to new entrants

Novo Nordisk (covered by our EU Pharma team) hosted a Capital Markets Day to highlight the breadth/ depth of its pipeline and progress on its portfolio. While we thought the early data impressed, easily the biggest take, in our view, was the under-appreciated competitive barrier Lilly + Novo's clinical incretin program have established—with the growing clinical and commercial bar set by both developers easily positioning the commercial landscape as a two-horse race, at least over the mid-term. Going into the event, we'd say most investors were focused on Novo's oral amycretin phase 1 results along with color on manufacturing supply constraints that have served as the biggest overhang on the space. Notably, amycretin demonstrated a 12% placebo (pbo) adjusted weight loss at 12 weeks in a phase 1, in-line with Lilly's triple G agonist retatrutide at 11% and its oral GLP-1 orforglipron at 7%—both currently in phase 3s (results expected 1H26 and 1H25, respectively). Admittedly, it's still early days, with much to sort out in terms of its comparative efficacy and safety, with the company awaiting the results from its phase 1 subQ formulation (expected in 2025) before solidifying its overall development plan. Nonetheless, with Lilly likely to retain the pole position near-term, we maintain our Buy and $1,000 PO (see our thoughts on what's next for Lilly).

Next-generation endocrinology drugs impress

Novo also provided an early insight into monlunabant (INV-202), an oral small molecule CB1R inverse agonist, along with its dual GLP-1/ GIP agonist. After 28 days, monlunabant, demonstrated 3.8% pbo adjusted weight loss and a well-tolerated profile. Currently, Novo is running two phase 2s in diabetic kidney disease and in obesity, while also initiating another phase 1 in combo with next-gen INV-347. While these results appear favorable, we'd note Rimonabant, another CB1R inverse agonist, was withdrawn from the market in 2008 (approved in 2006) due to psychiatric side effects—raising the prospect it could be contraindicated in those with psychiatric disorders. Preliminary results for Novo's dual GLP-1/ GIP agonist (recall Lilly's tirzepatide is a dual GLP-1/ GIP agonist) were also favorable, driving a 12% pbo adjusted weight loss at 15 weeks and a 0.5% pbo adjusted HbA1c reduction in another phase 1 in Type 2 diabetes (T2D) at week 4. Phase 2 dose finding studies in both indications are set to initiate 1H24. Altogether, we think Novo's next-gen endocrinology pipeline looks compelling, but we'd argue from a market perspective, increasing access/ reimbursement + manufacturing capacity remain the major drivers of the narrative currently.

Stepping up CapEx, but no clarity on Wegovy supply

While Novo stressed it's focusing on stepping up CapEx investments, we didn't get any more clarity on when additional Wegovy supply will come online. That said, Novo reiterated that its acquisition of Catalent (covered by Ryskin + De Bruin) is expected to close in 2024, with a major impact on supply unlikely much before 2026. At a high level, we think both Lilly and Novo have done a good job investing in manufacturing (see our thoughts on the investments), especially as additional indications are set to be approved (e.g., OSA and HFpEF)—further putting both ahead of any competitive threat.

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Equity

Geoff Meacham
Research Analyst
BofAS
+1 646 855 1004
geoff.meacham@bofa.com

Alexandria Hammond
Research Analyst
BofAS
+1 646 855 1654
alexandria.hammond@bofa.com

Susan Chor
Research Analyst
BofAS
susan.chor@bofa.com

Charlie Yang
Research Analyst
BofAS
charlie.yang@bofa.com

John Joy
Research Analyst
BofAS
john.joy@bofa.com

Stock Data

Price	777.41 USD
Price Objective	1,000.00 USD
Date Established	1-Mar-2024
Investment Opinion	B-1-7
52-Week Range	309.32 USD - 800.78 USD
Mrkt Val (mn) / Shares Out (mn)	738,667 USD / 950.2
Free Float	89.4%
Average Daily Value (mn)	2773.05 USD
BofA Ticker / Exchange	LLY / NYS
Bloomberg / Reuters	LLY US / LLY.N
ROE (2024E)	81.8%
Net Dbt to Eqty (Dec-2023A)	205.2%
ESGMeter™	High

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Abbreviations:
GLP-1: glucagon like peptide 1
Triple G: GLP-1, GIP, Glucagon
SubQ: subcutaneous
CB1R: Cannabinoid receptor 1 receptor
GIP: Gastric inhibitory polypeptide
HbA1c: Glycated hemoglobin
OSA: obstructive sleep apnea
HFpEF: Heart failure with preserved ejection fraction

Price objective basis & risk

Eli Lilly and Company (LLY)
Our $1000 price objective is based on a probability-adjusted net present value (NPV) analysis of franchise verticals including Endocrinology ($691/share), Oncology ($135/share), Cardiovascular ($4/share), Neuroscience ($14/share), Immunology ($46/share), other pharmaceutical products and early pipeline assets ($128/share), as well as approximately -$17/share in net cash. We use a WACC ranging from 5% for approved products to 8% for pipeline products, depending on the stage of development. We apply terminal values ranging from -12% (cardiology) to 1% (endocrinology) based on projected sales decline following loss of exclusivity within each business vertical.

Risks to our price objective are 1) better-than-expected launches of competing products, 2) emerging clinical data for pipeline assets that does not confirm prior observations, 3) failure to effectively commercialize approved products, 4) potential drug pricing system restructuring in the US.

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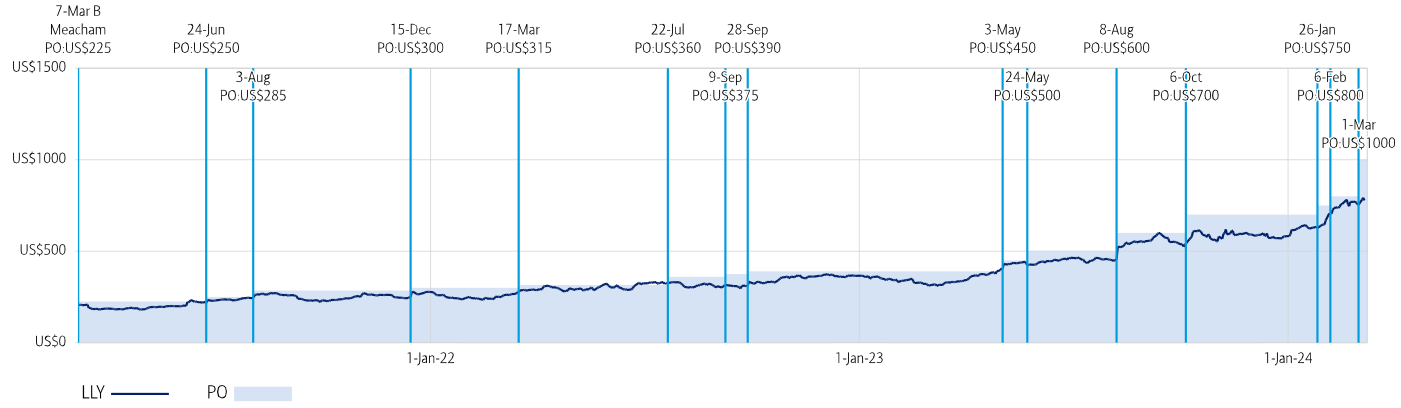
Eli Lilly (LLY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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