

Eli Lilly and Company

Thoughts Post the 4Q23 Call

Reiterate Rating: BUY | PO: 800.00 USD | Price: 705.01 USD

Clinical + commercial success continues; PO to \$800

While LLY shares were weak today (-1%; DRG index +1%) despite a strong open, we attribute this to profit taking / trading technicals and not any new fundamental concerns with the story. Indeed, Lilly's earnings looked solid across not only financials (4Q: +\$395M / +\$0.31 vs. consensus; 2024 guidance: +4% ahead on revs, in-line on non-GAAP EPS) but also clinical updates, particularly on SYNERGY-NASH, which exceeded expectations. Importantly, Lilly provided a clear line of sight into supply dynamics for its incretin franchise (e.g., Mounjaro + Zepbound), with expectations to expand supply every quarter, with a likely inflection in 2H24 (Lilly expects to increase sellable supply 1.5x from the 2H23 run rate). As such, we've increased our Mounjaro/ Zepbound forecasts, and now model \$11.2B/ \$3.5B (2024), \$13.2B/ \$6.9B (2025) and \$15.8B/ \$10.6B (2026), all above consensus forecasts. Moreover, while Lilly's high multiple might suggest to some investors that the stock reflects all growth opportunities, we're of the opinion that there continues to be meaningful room for upside, particularly on (1) operating margin expansion; (2) label extensions for tirzepatide (e.g., MASH, OSA, HFpEF); and (3) pipeline opportunities (e.g., lepodisiran (Lp(a) siRNA for CV disease). Given this view, we reiterate our Buy rating but we've increased our PO to \$800 (from \$750) due to our increased confidence in Lilly's clinical + commercial portfolio (see below).

Clinical catalysts should keep momentum up

While some investors believe there are not a lot of catalysts to drive engagement in 2024, we think Lilly remains a dynamic story with multiple upside drivers. Indeed, for tirzepatide alone, we're waiting on phase 3 readouts in OSA and HFpEF, likely both in mid-24, and in-depth results from SYNERGY NASH at a medical conference, potentially EASL (June 5-8; Milan).

Model changes

We update our model and now forecast \$43.9B rev / \$13.05 EPS for 2024. And, given another clinical trial win for tirzepatide in MASH, we increased our PoS for its oral, orforglipron, and triple G, retatrutide, to 85% (from 60%). See page 3 for more details and definitions of abbreviations used in the report.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.94	6.32	13.05	17.90	24.95
GAAP EPS	6.90	5.80	12.72	17.64	24.68
EPS Change (YoY)	7.4%	-20.4%	106.5%	37.2%	39.4%
Consensus EPS (Bloomberg)			12.56	17.71	22.72
DPS	3.88	4.46	5.12	5.88	6.75
Valuation (Dec)					
P/E	88.9x	111.7x	54.1x	39.5x	28.3x
GAAP P/E	102.3x	121.8x	55.5x	40.0x	28.6x
Dividend Yield	0.5%	0.6%	0.7%	0.8%	1.0%
EV / EBITDA*	79.5x	86.7x	43.9x	32.9x	24.1x
Free Cash Flow Yield*	0.8%	0.9%	1.8%	2.4%	3.4%

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 06 February 2024 04:24PM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	750.00	800.00
2024E Rev (m)	41,229.6	43,948.7
2025E Rev (m)	49,355.3	51,908.5
2026E Rev (m)	59,814.4	62,693.6
2024E EPS	13.30	13.05
2025E EPS	18.05	17.90
2026E EPS	24.40	24.95
2024E EBITDA (m)	15,261.1	15,654.7
2025E EBITDA (m)	20,483.6	20,909.1
2026E EBITDA (m)	27,616.4	28,599.4

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Stock Data

Price	705.01 USD
Price Objective	800.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	309.20 USD - 711.88 USD
Mkt Val (mn) / Shares Out (mn)	669,271 USD / 949.3
Free Float	89.4%
Average Daily Value (mn)	2042.87 USD
BofA Ticker / Exchange	LLY / NYS
Bloomberg / Reuters	LLY US / LLY.N
ROE (2024E)	81.0%
Net Dbt to Eqty (Dec-2023A)	113.9%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "ESGMeter Methodology."

iQprofileSM Eli Lilly and Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.6%	15.7%	30.3%	32.5%	34.5%
Return on Equity	73.2%	51.9%	81.0%	71.7%	64.4%
Operating Margin	25.0%	18.9%	31.3%	35.9%	41.3%
Free Cash Flow	5,230	6,249	12,199	16,140	22,651

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.5x	1.3x	1.2x	1.2x
Asset Replacement Ratio	1.2x	1.5x	1.5x	1.5x	1.5x
Tax Rate	8.3%	20.1%	14.0%	14.0%	14.0%
Net Debt-to-Equity Ratio	130.2%	113.9%	38.0%	-8.2%	-39.9%
Interest Cover	22.2x	20.7x	17.1x	32.8x	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	28,541	34,124	43,949	51,909	62,694
% Change	0.8%	19.6%	28.8%	18.1%	20.8%
Gross Profit	21,912	27,042	34,939	41,267	49,841
% Change	4.3%	23.4%	29.2%	18.1%	20.8%
EBITDA	8,650	7,937	15,655	20,909	28,599
% Change	9.4%	-8.2%	97.2%	33.6%	36.8%
Net Interest & Other Income	(321)	97	(391)	(152)	2
Net Income (Adjusted)	7,186	5,713	11,788	16,157	22,506
% Change	6.7%	-20.5%	106.3%	37.1%	39.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	6,245	5,240	11,488	15,916	22,261
Depreciation & Amortization	1,523	1,479	1,905	2,250	2,717
Change in Working Capital	(15)	86	(1,090)	(916)	(1,241)
Deferred Taxation Charge	NA	NA	NA	(755)	(1,022)
Other Adjustments, Net	(668)	1,660	2,751	3,017	4,010
Capital Expenditure	(1,854)	(2,217)	(2,855)	(3,372)	(4,073)
Free Cash Flow	5,230	6,249	12,199	16,140	22,651
% Change	-12.1%	19.5%	95.2%	32.3%	40.3%
Share / Issue Repurchase	(1,500)	(500)	(500)	(1,000)	(1,000)
Cost of Dividends Paid	(3,536)	(4,028)	(4,624)	(5,303)	(6,085)
Change in Debt	(62)	157	(622)	983	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,212	3,315	8,986	19,016	33,785
Trade Receivables	6,896	8,245	10,619	12,542	15,148
Other Current Assets	8,927	9,799	12,068	13,953	16,506
Property, Plant & Equipment	10,144	11,385	12,983	14,870	17,149
Other Non-Current Assets	21,311	21,913	22,800	23,400	24,132
Total Assets	49,490	54,656	67,455	83,781	106,721
Short-Term Debt	1,501	1,499	1,499	1,499	1,499
Other Current Liabilities	15,637	18,465	23,184	27,007	32,186
Long-Term Debt	14,738	14,896	14,274	15,257	15,257
Other Non-Current Liabilities	6,839	8,307	10,645	12,553	15,137
Total Liabilities	38,714	43,168	49,602	56,315	64,079
Total Equity	10,775	11,488	17,853	27,466	42,642
Total Equity & Liabilities	49,490	54,656	67,455	83,781	106,721

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Pharmaceuticals

Company Description

Eli Lilly (LLY) is a large diversified biopharmaceutical company developing drugs for the treatment of a variety of disorders, including: diabetes, migraine, cancer, and a range of inflammatory skin conditions, among others. Lilly has been in the business of developing drugs for more than 140 years, during which time the Company has retained focus almost exclusively on pharmaceuticals.

Investment Rationale

Lilly's young product cycle offers a growth profile that should remain differentiated versus peers on both revenue and non-GAAP EPS. We remain bullish on Lilly's key value drivers, Mounjaro, Trulicity and Jardiance, with Taltz (psoriasis), Emgality (migraine), and Verzenio (breast cancer) supporting additional growth. Overall, we view the risk / reward profile in Lilly as compelling with high quality, differentiated growth and modest expectations for added pipeline value.

Stock Data

Average Daily Volume 2,897,650

Quarterly Earnings Estimates

	2023	2024
Q1	1.62A	2.73E
Q2	2.11A	2.82E
Q3	0.10A	3.65E
Q4	2.49A	3.53E

Exhibit 1: Model changes following 4Q23 earnings

Updated to reflect current commercial trends and evolving sales expectations for key products

\$ in millions	2024E		2025E		2026E	
	Prior	Current	Prior	Current	Prior	Current
WW Trulicity	7,009	6,757	6,578	6,392	6,033	5,604
WW Mounjaro	9,013	11,200	11,423	13,235	13,375	15,837
WW Zepbound	2,803	3,494	6,145	6,894	10,625	10,625
WW Jardiance	3,406	3,406	3,708	3,708	3,863	3,863
Total Endocrinology	25,875	28,505	31,131	33,462	36,985	38,950
WW Verzenio	5,033	5,150	6,176	6,176	7,134	7,134
Total Oncology	8,095	8,225	9,604	9,696	10,793	10,911
WW Emgality	761	761	871	871	927	892
Total Neuroscience	1,241	1,282	1,349	1,418	1,408	1,478
WW Taltz	3,142	3,142	3,332	3,332	3,516	3,516
WW Olumiant	915	975	992	1,042	1,056	1,106
Total I&I	4,321	4,393	4,944	5,009	5,603	5,671
Total Revenue	41,230	43,949	49,355	51,909	59,814	62,694
COGS	8,658	9,009	10,118	10,641	12,262	12,852
Gross Profit	32,571	34,939	39,237	41,267	47,552	49,841
SG&A	8,122	9,624	8,934	10,298	9,649	10,916
R&D	10,405	11,185	11,446	11,968	12,361	12,698
Operating Income	13,474	13,750	18,344	18,659	25,024	25,882
Other Income (net)	131	(391)	224	(152)	100	2
Pre-Tax Income	13,605	13,359	18,568	18,507	25,124	25,885
Taxes	1,769	1,870	2,414	2,591	3,266	3,624
Net Income (non-GAAP)	12,022	11,788	16,299	16,157	22,017	22,506
Non-GAAP EPS	\$13.30	\$13.05	\$18.05	\$17.90	\$24.40	\$24.95
Shares Outstanding - Diluted	904	903	903	903	902	902

Source: BofA Global Research estimates, Company Reports

BofA GLOBAL RESEARCH

Abbreviations:

MASH: Metabolic dysfunction-associated steatohepatitis

PoS: probability of success

CV: cardiovascular

OSA; obstructive sleep apnea

HFpEF: Heart failure with preserved ejection fraction

SiRNA: Small interfering RNA

LP(a): Lipoprotein(a)

EASL: European Association for the Study of the Liver

Price objective basis & risk

Eli Lilly and Company (LLY)

Our \$800 price objective is based on a probability-adjusted net present value (NPV) analysis of franchise verticals including Endocrinology (\$569/share), Oncology (\$122/share), Cardiovascular (\$4/share), Neuroscience (\$13/share), Immunology (\$41/share), other pharmaceutical products and early pipeline assets (\$69/share), as well as approximately -\$17/share in net cash. We use a WACC ranging from 5% for approved products to 9% 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.

Analyst Certification

I, Geoff Meacham, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	89bio, Inc	ETNB	ETNB US	Geoff Meacham
	Acumen Pharma	ABOS	ABOS US	Geoff Meacham
	Agiros Pharmaceuticals	AGIO	AGIO US	Greg Harrison, CFA
	Amylyx Pharmaceuticals	AMLX	AMLX US	Geoff Meacham
	BioMarin	BMRN	BMRN US	Geoff Meacham
	BioXcel Therapeutics	BTAI	BTAI US	Greg Harrison, CFA
	BridgeBio Pharma	BBIO	BBIO US	Greg Harrison, CFA
	Caribou	CRBU	CRBU US	Geoff Meacham
	CRISPR Therapeutics	CRSP	CRSP US	Geoff Meacham
	Eli Lilly and Company	LLY	LLY US	Geoff Meacham
	Gilead Sciences Inc.	GILD	GILD US	Geoff Meacham
	HUTCHMED	HCM	HCM US	Alec W. Stranahan
	Immatics	IMTX	IMTX US	Alec W. Stranahan
	Insmid Incorporated	INSM	INSM US	Jason Zemansky
	Intellia Therapeutics	NTLA	NTLA US	Greg Harrison, CFA
	Janux Therapeutics	JANX	JANX US	Geoff Meacham
	Keros	KROS	KROS US	Greg Harrison, CFA
	Kiniksa Pharmaceuticals, Ltd.	KNSA	KNSA US	Geoff Meacham
	Krystal Biotech	KRYS	KRYS US	Alec W. Stranahan
	Kura Oncology	KURA	KURA US	Jason Zemansky
	Liquidia Corporation	LQDA	LQDA US	Greg Harrison, CFA
	Lyell Immunopharma	LYEL	LYEL US	Geoff Meacham
	MeiraGTx	MGTX	MGTX US	Alec W. Stranahan
	Merck & Co.	MRK	MRK US	Geoff Meacham
	Mineralys Therapeutics	MLYS	MLYS US	Greg Harrison, CFA
	Neumora Therapeutics	NMRA	NMRA US	Geoff Meacham
	Rani Therapeutics	RANI	RANI US	Geoff Meacham
	Regenxbio, Inc.	RGNX	RGNX US	Alec W. Stranahan
	Revolution Medicines	RVMD	RVMD US	Alec W. Stranahan
	Rocket Pharmaceuticals, Inc.	RCKT	RCKT US	Greg Harrison, CFA
	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
	Sana Biotechnology	SANA	SANA US	Geoff Meacham
	SpringWorks	SWTX	SWTX US	Alec W. Stranahan

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Syndax Pharmaceuticals	SNDX	SNDX US	Jason Zemansky
	Traverse Therapeutics Inc	TVTX	TVTX US	Greg Harrison, CFA
	Turnstone Biologics	TSBX	TSBX US	Geoff Meacham
	Vertex Pharmaceuticals Inc.	VRTX	VRTX US	Geoff Meacham
	Werewolf Therapeutics	HOWL	HOWL US	Jason Zemansky
	Xencor	XNCR	XNCR US	Alec W. Stranahan
NEUTRAL				
	AbbVie	ABBV	ABBV US	Geoff Meacham
	Alector, Inc	ALEC	ALEC US	Greg Harrison, CFA
	Amgen Inc.	AMGN	AMGN US	Geoff Meacham
	Arcus Biosciences	RCUS	RCUS US	Jason Zemansky
	Beam Therapeutics	BEAM	BEAM US	Greg Harrison, CFA
	Biogen Inc.	BIIB	BIIB US	Geoff Meacham
	Bristol-Myers Squibb	BMJ	BMJ US	Geoff Meacham
	Cytokinetics, Incorporated	CYTK	CYTK US	Jason Zemansky
	Editas Medicine	EDIT	EDIT US	Greg Harrison, CFA
	Erasca	ERAS	ERAS US	Alec W. Stranahan
	Esperion	ESPR	ESPR US	Jason Zemansky
	Exscientia	EXAI	EXAI US	Alec W. Stranahan
	IGM Biosciences	IGMS	IGMS US	Greg Harrison, CFA
	Johnson & Johnson	JNJ	JNJ US	Geoff Meacham
	Kymira Therapeutics	KYMR	KYMR US	Geoff Meacham
	Moderna	MRNA	MRNA US	Geoff Meacham
	Pfizer	PFE	PFE US	Geoff Meacham
	Recursion Pharmaceuticals, Inc.	RXR	RXR US	Alec W. Stranahan
	Tyra Biosciences	TYRA	TYRA US	Greg Harrison, CFA
	Vir	VIR	VIR US	Geoff Meacham
	Y-mAbs Therapeutics, Inc	YMAB	YMAB US	Alec W. Stranahan
UNDERPERFORM				
	AlloVir, Inc.	ALVR	ALVR US	Jason Zemansky
	CureVac	CVAC	CVAC US	Geoff Meacham
	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	LianBio	LIAN	LIAN US	Geoff Meacham
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	Regeneron Pharmaceuticals Inc.	REGN	REGN US	Geoff Meacham
	Reneo Pharmaceuticals	RPHM	RPHM US	Jason Zemansky
	TG Therapeutics	TGTX	TGTX US	Alec W. Stranahan
	United Therapeutics Corporation	UTHR	UTHR US	Greg Harrison, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

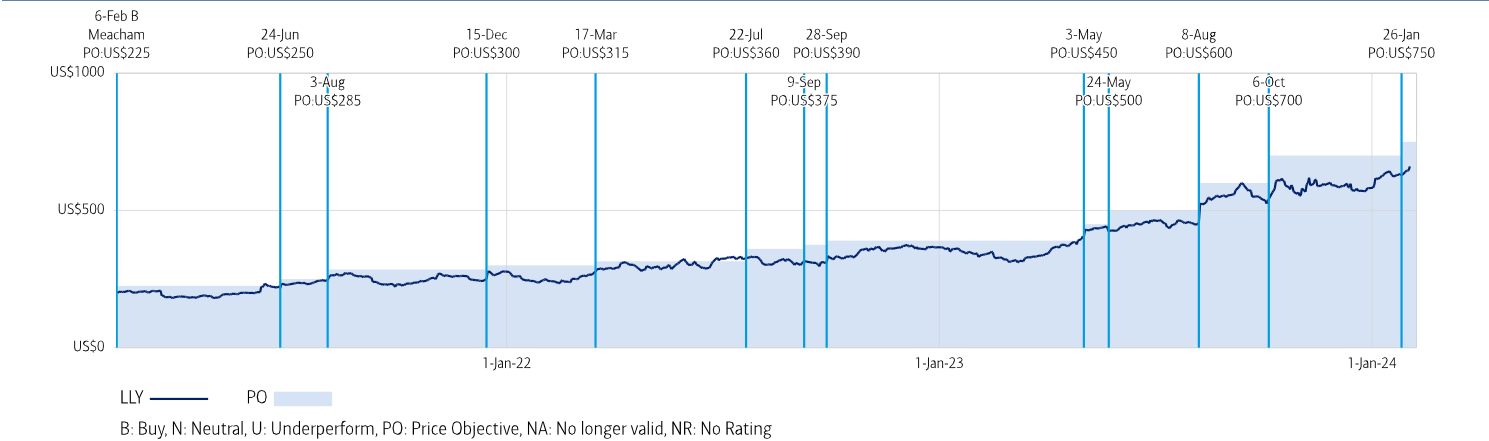
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Disclosures

Important Disclosures

Eli Lilly (LLY) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

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%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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