

US Biopharmaceuticals

Diabetes + Obesity Update: Novo 4Q23
Read-through

Industry Overview

Robust 2024 sales guidance bodes well for Lilly

Novo Nordisk (covered by our EU Pharma team) announced 4Q earnings and gave initial 2024 guidance; we provide read-throughs to our coverage. Following Novo's momentum off the back of clinical + commercial success in diabetes + obesity, it's not surprising that 2024 guidance reflects this strength, with sales growth of 18-26% CER (vs. cons 24%) and operating profit growth of 21-29% (cons 26%). Notably, Novo stressed the progress it's made on supply + reimbursement dynamics, with both having favorable read-throughs to Lilly, in our view. Indeed, we expect the duopoly between Lilly and Novo to remain beneficial to both parties (e.g., building out the nascent obesity market), driving differentiated growth profiles. We maintain Buy and our \$750 PO on Lilly.

Supply + reimbursement dynamics remain top of mind

Given the unparalleled demand for GLP-1's, both regarding treatment of Type 2 diabetes (T2D) and obesity, investors have been focused on Novo + Lilly's ability to supply demand. While Novo didn't provide concrete metrics for additional supply, management does expect to add significant additional volumes for starter doses of Wegovy in the US in 2024 (plans to double the available starter doses) with gradual supply increases thereafter, in-line with what we've heard from Lilly management. On reimbursement for obesity, Novo continues to see 50M people having access to Wegovy, with 50% employers opting in which has a positive read-through for Lilly, as opt-in's are typically class wide. When we caught up with our prescribers, notably, access for Wegovy has remained consistent, while for Mounjaro + Zepbound, access has improved 2-3x in the past several months, a testament to Lilly's strong commercial execution, in our view.

R&D competition continues to foster innovation

We didn't receive Novo's oral amycretin results, but the data is now in house, with Novo evaluating next steps, though management stressed it's likely to advance (we should find out at CMD). Recall, this is Novo's competitor to Lilly's oral, orforglipron, which is already in phase 3 trials in T2D and obesity (we should see first results in late '24/'25).

GLP-1 class continues to grow; room for multiple players

GLP-1 products increased 52% CER, with FY2023 Ozempic (DKK95.7B; +4% cons) and Rybelsus (DKK18.8B; +4%) outperforming, while Wegovy missed due to supply constraints (DKK31.3B; -2% cons). Notably, the GLP-1 class continues to expand meaningful, with Novo's injectable GLP-1's assets growing 50% and Rybelsus 71%. Novo ended 4Q with 54.8% share of the GLP-1 market (from 54.3% in 3Q); however, with Lilly's launch of Zepbound we wouldn't be surprised if the tides begin turning in Lilly's favor. Regardless, we expect both players to continue to expand volumes as 1) the GLP-1 class moves into earlier lines of T2D, 2) we see expanded reimbursement coverage for obesity, and 3) Lilly + Novo increase parenteral manufacturing/ supply. Indeed, we remain confident in Lilly's competitive positioning in the space and suspect the commercial duopoly will be a net benefit.

31 January 2024

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Abbreviations:

GLP-1: glucagon like peptide 1

Ph: phase

CMD: Capital markets day

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Price objective basis & risk

Eli Lilly and Company (LLY, (\$645, B-1-7))

Our \$750 price objective is based on a probability-adjusted net present value (NPV) analysis of franchise verticals including Endocrinology (\$531/share), Oncology (\$123/share), Cardiovascular (\$4/share), Neuroscience (\$11/share), Immunology (\$42/share), other pharmaceutical products and early pipeline assets (\$57/share), as well as approximately -\$15/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
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	Acumen Pharma	ABOS	ABOS US	Geoff Meacham
	Agios 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
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	Krystal Biotech	KRYS	KRYS US	Alec W. Stranahan
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	Lyell Immunopharma	LYEL	LYEL US	Geoff Meacham
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	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
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	Bristol-Myers Squibb	BMJ	BMJ US	Geoff Meacham
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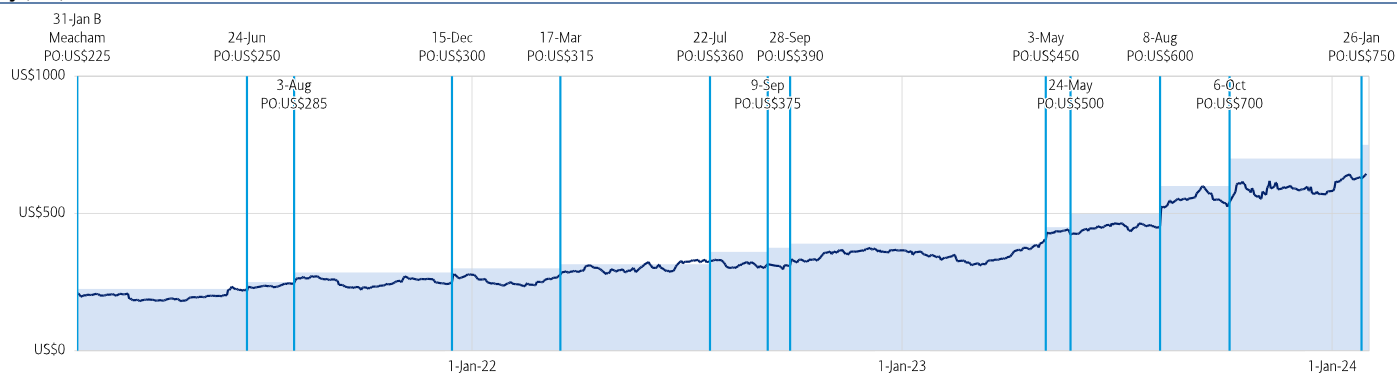
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	LianBio	LIAN	LIAN US	Geoff Meacham
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	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

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Eli Lilly (LLY) Price Chart



LLY — PO

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

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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%

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