

Eli Lilly and Company

Initial Thoughts on 4Q23 Earnings

Maintain Rating: BUY | PO: 750.00 USD | Price: 706.20 USD

2024 rev/ EPS guidance solid, with room for upside

Lilly had another strong quarter with substantial upside on both revenue (\$9.4B; +\$395M consensus) and non-GAAP EPS (\$2.49; +\$0.31). Given the multiple, there were a lot of worries about 2024 guidance, but revenue was above expectations at \$41B (midpoint; BofAe \$41.2B; cons \$39.5B) and non-GAAP EPS guidance was in-line at \$12.45 (midpoint; BofAe \$13.30; cons \$12.56), both of which still have good upside potential, in our view. Indeed, Mounjaro's 4Q beat at \$2.2B (+\$435M cons) and favorable launch dynamics for Zepbound (\$176M; +\$51M cons) should help to bolster investors' concerns on the likelihood of beat + raises throughout 2024. We remain confident in Lilly's clinical + commercial execution and maintain our 2024 forecasts for Mounjaro at \$9B (+\$920M cons) and Zepbound at \$2.8B (-\$435M cons). We maintain Buy and our \$750 PO.

Mounjaro, Zepbound, and Jardiance (\$798M; +\$49M) were bright spots on Lilly's 4Q earnings print, while Trulicity (\$1.7B; -\$65M) and Verzenio (\$1.1B; -\$29M) were soft. Notably, Lilly provided topline results from its phase 2 SYNERGY- NASH trial with tirzepatide, with 74% of patients showing an absence of MASH with no worsening of fibrosis (primary endpoint), which compares favorably to other MASH players. However, there's still questions on whether Lilly will move tirzepatide forward into a pivotal trial given how promising retatrutide looked in NAFLD trials, we'll likely receive more color during the call. *Lilly's call is TODAY at 10:00 am ET, (877) 209-6992; ID# 187676.*

Exhibit 1: LLY 4Q23 Variance Analysis

We're highlighting 4Q performance and 2024 guidance across Lilly's key products / metrics

	4Q23 vs. Cons		4Q23 Performance		4Q23 Growth		4Q23 Variance	
			BofA	Cons	Q/Q	Y/Y	BofA	Cons
WW Trulicity	1,669	MISS	1,819	1,734	0%	-14%	(150)	(65)
WW Mounjaro	2,206	BEAT	1,744	1,771	57%	N/A	462	435
WW Jardiance	798	BEAT	811	749	14%	30%	(13)	49
WW Zepbound	176	BEAT	157	125	N/A	N/A	19	51
WW Verzenio	1,145	MISS	1,208	1,174	10%	42%	(63)	(29)
WW Emgality	186	MISS	195	194	10%	6%	(9)	(8)
WW Taltz	785	MISS	784	790	5%	11%	1	(5)
Total Revenue	9,353	BEAT	9,269	8,958	-2%	28%	84	395
COGS	1,659		1,772	1,777	-4%	17%	(113)	(118)
SG&A	1,925		1,773	1,837	7%	17%	152	88
R&D	2,563		2,274	2,319	6%	28%	289	244
Net Income (non-GAAP)	2,249		2,506	2,158	2272%	19%	(257)	91
Non-GAAP EPS	\$2.49	BEAT	\$2.77	\$2.18	2272%	19%	-\$0.28	\$0.31
2024 Guidance			2024E		Growth		Midpoint Variance	
	Low	High	Company Guidance	BofA	Cons	Y/Y	BofA	Cons
Total Revenue (\$M)	40,400	41,600	ABOVE	41,230	39,521	20%	(230)	1,479
Non-GAAP EPS	12.20	12.70	IN-LINE	13.30	12.56	97%	(0.85)	(0.11)

Source: BofA Global Research, Company Reports, Bloomberg, Visible Alpha

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Timestamp: 06 February 2024 07:25AM EST

06 February 2024

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Stock Data

Price	706.20 USD
Price Objective	750.00 USD
Date Established	26-Jan-2024
Investment Opinion	B-1-7
52-Week Range	309.20 USD - 711.88 USD
Mrkt Val (mn) / Shares Out (mn)	670,401 USD / 949.3
Free Float	89.4%
Average Daily Value (mn)	1929.67 USD
BofA Ticker / Exchange	LLY / NYS
Bloomberg / Reuters	LLY US / LLY.N
ROE (2023E)	53.5%
Net Dbt to Eqty (Dec-2022A)	130.2%
ESGMeter™	High

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Abbreviations:

T2D: Type 2 Diabetes
CV: cardiovascular
GTN: gross-to-net
AHA: American Heart Association
AOM: anti-obesity medication
NASH: Nonalcoholic steatohepatitis
NAFLD: Non-alcoholic fatty liver disease

Price objective basis & risk

Eli Lilly and Company (LLY)

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.

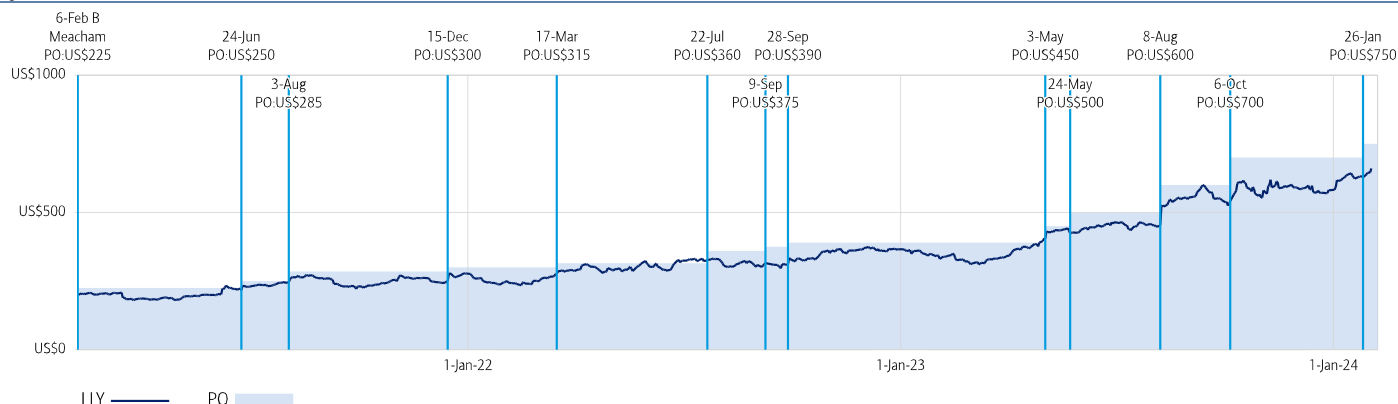
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Eli Lilly (LLY) Price Chart



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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