

Eli Lilly and Company

Our Conference Takeaways

Maintain Rating: BUY | PO: 700.00 USD | Price: 625.48 USD

Focus on long-term commercial + clinical picture

Lilly's presentation focused on the long-term picture for its commercial and clinical portfolios, highlighting its best-in-class growth potential. But while we got a better sense for management's portfolio strategy, we'd say we only received incremental color for near-term dynamics, so we're maintaining our 2024 rev/ EPS forecasts of \$42B/ \$13.55 vs. \$39B/ \$12.52 for the Street. Indeed, our top three takeaways are: 1) Lilly is growing R&D and sustaining productivity through organic internal investments + external innovation (>50% of current assets sourced externally); 2) Lilly plans to increase BD through acquisitions of people + methodologies which, by precedent, has created differentiated innovation (e.g., Lilly Gateway labs); and 3) Lilly is pursuing large indications with high unmet need, but isn't pursuing 'me too' programs (Lilly plans to be early in adopting new modalities). Overall, we'd say that the color we received today bolsters our confidence in upside potential for Lilly's profile and as such, Lilly remains our favorite stock under coverage as it's a "have" in a sea of "have nots" (see [our 2023 Biopharma outlook here](#)). We maintain Buy and our \$700 PO.

2024 to be a year of clinical/ commercial execution

We thought management did a good job highlighting long-term expectations for its 'diabesity' portfolio, given open questions on access/ reimbursement, supply, and persistence of use. Indeed, Lilly was clear that tirzepatide is not the end game, with oral, orforglipron, and triple G, retatrutide, and six additional assets contributing to the lifecycle of its incretin portfolio. However, Lilly expects 2024 to be a year of commercial execution, given it will be the second full year of Mounjaro's launch and first year of Zepbound's launch, though we do expect pivotal results in obstructive sleep apnea (OSA) and HFrEF. Notably, these indications further expand the total addressable market and potentially allow for reimbursement through Medicare Part D as it currently excludes anti-obesity medications. While obesity is top of mind, Alzheimer's is another important vertical that has been eclipsed by obesity. Importantly, Lilly pointed to prevention of disease as the larger market, also stressing that in earlier stage patients, the clinical results could be more robust than what was seen with donanemab in TRAILBLAZER-ALZ 2 (see [our thoughts on the results here](#)). Nevertheless, there is still a lot of wood to chop when it comes to commercialization, so we see 2024-2026 as years of commercial investment, which was echoed by management during the presentation,

Thesis Impact

We'd say that Lilly's fireside chat with CEO Dave Ricks wasn't thesis changing, but it did provide validation on Lilly's best-in-class growth profile as we've gotten a better sense of how management is thinking about the long-term picture from a clinical + commercial perspective. Indeed, this is particularly important as Lilly's multiple is meaningfully higher than peers at >40x (peers 18x) in 2024, but outside of the growth narrative, we still think its story is highly differentiated given material margin expansion growth, and pipeline/ portfolio opportunities. Moreover, we see ample opportunities for upside on these metrics, which is a key way for Lilly's share price to keep up its momentum.

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Stock Data

Price	625.48 USD
Price Objective	700.00 USD
Date Established	6-Oct-2023
Investment Opinion	B-1-7
52-Week Range	309.20 USD - 636.41 USD
Mkt Val (mn) / Shares Out (mn)	593,773 USD / 949.3
Free Float	89.3%
Average Daily Value (mn)	1870.11 USD
BofA Ticker / Exchange	LLY / NYS
Bloomberg / Reuters	LLY US / LLY.N
ROE (2023E)	56.9%
Net Dbt to Eqty (Dec-2022A)	130.2%
ESGMeter™	High

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Abbreviations:

G: GLP-1, GIP, and glucagon

BD: business development

HFrEF: Heart failure with preserved ejection fraction

Price objective basis & risk

Eli Lilly and Company (LLY)

Our \$700 price objective is based on a probability-adjusted net present value (NPV) analysis of franchise verticals including Endocrinology (\$393/share), Oncology (\$127/share), Cardiovascular (\$4/share), Neuroscience (\$12/share), Immunology (\$28/share), other pharmaceutical products and early pipeline assets (\$150/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.

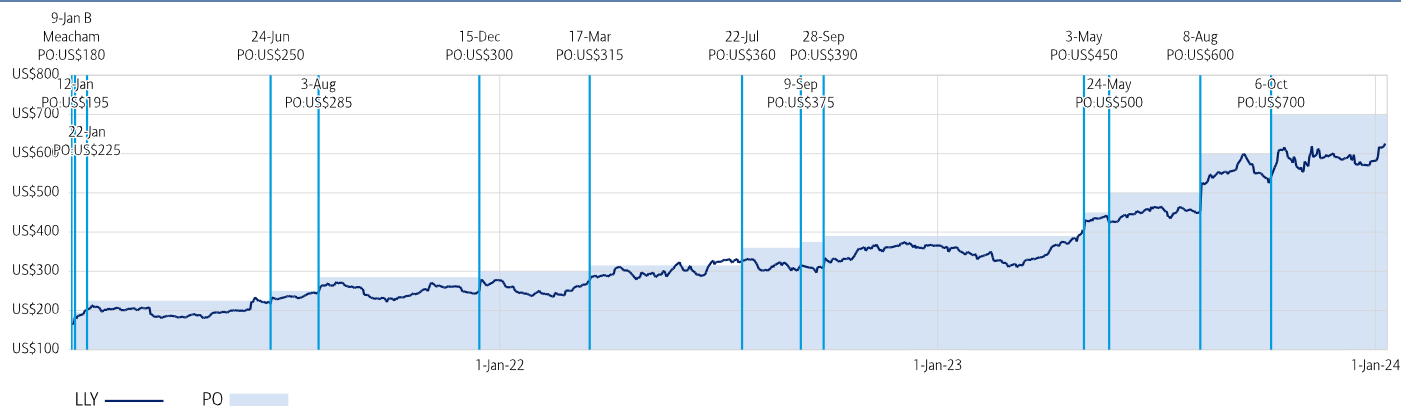
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Eli Lilly (LLY) Price Chart



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

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