

Eli Lilly and Company

(NYSE: LLY)

EQUITY RESEARCH REPORT

Report Date: November 24, 2025

Rating: BUY

Target Price: \$1200.00

Current Price: \$1070.16

Upside Potential: 12.1%

Market Cap: \$959.4B

EXECUTIVE SUMMARY

Why Invest in the Pharmaceutical Sector?

The pharmaceutical sector represents a compelling investment opportunity driven by several structural tailwinds. First, demographic trends favor healthcare: aging populations globally increase demand for chronic disease management and innovative treatments. Second, the sector offers defensive characteristics with stable cash flows, high barriers to entry, and pricing power for innovative therapies. Third, technological advances in biologics, gene therapy, and precision medicine are creating new multi-billion dollar markets. Fourth, the sector has historically demonstrated resilience during economic downturns, with healthcare spending remaining relatively inelastic. Finally, strong intellectual property protection and regulatory moats provide sustainable competitive advantages.

However, not all pharma companies are created equal. The sector is bifurcating between high-growth innovators with transformative pipelines and legacy players with declining portfolios. Investors should focus on companies with: (1) strong R&D productivity and innovative pipelines, (2) exposure to high-growth therapeutic areas, (3) superior profitability metrics, and (4) sustainable competitive advantages.

Why Eli Lilly is the Best Pharma Stock

Eli Lilly stands out as the highest-quality large-cap pharmaceutical company, combining exceptional growth, best-in-class profitability, and structural leadership in the most transformative therapeutic area of the decade: GLP-1 obesity and diabetes treatments. With ~32% revenue growth and >100% EPS growth, LLY far exceeds typical big pharma low-single-digit growth rates. The company's GLP-1 franchise (Mounjaro for diabetes, Zepbound for obesity) represents a structural tailwind that will reshape obesity, diabetes, and potentially cardiovascular care for a decade or more. This is not a fad - it's a fundamental shift in how these conditions are treated.

Beyond GLP-1, LLY maintains a diversified pipeline in oncology (Verzenio), immunology (Taltz, Olumiant), and neuroscience, providing multiple growth drivers. The company demonstrates top-tier margins, ROE, and balance sheet strength. While valuation is demanding at ~52x earnings, we believe GLP-1 dominance and pipeline optionality justify a premium versus peers. LLY is suitable for long-term growth investors who can tolerate valuation risk in exchange for exposure to one of the most transformative healthcare innovations in decades.

Investment Highlights:

- Structural leadership in GLP-1 obesity/diabetes with best-in-class efficacy
- Exceptional growth: ~32% revenue growth, >100% EPS growth vs peers low-single-digits
- Top-tier profitability: superior margins, ROE, and balance sheet strength
- Diversified pipeline beyond GLP-1 (oncology, immunology, neuroscience)
- GLP-1 market represents multi-decade structural tailwind, not a fad
- U.S. market share leadership with global expansion potential

COMPANY OVERVIEW

Business Model & GLP-1 Franchise

Eli Lilly is a global pharmaceutical company with a portfolio spanning diabetes, obesity, oncology, immunology, and neuroscience. The company's crown jewel is its GLP-1 franchise: Mounjaro (tirzepatide) for type 2 diabetes and Zepbound (tirzepatide) for chronic weight management. These dual-indication products represent the most effective GLP-1 therapies available, demonstrating superior efficacy versus Novo Nordisk's semaglutide (Wegovy/Ozempic) in head-to-head trials.

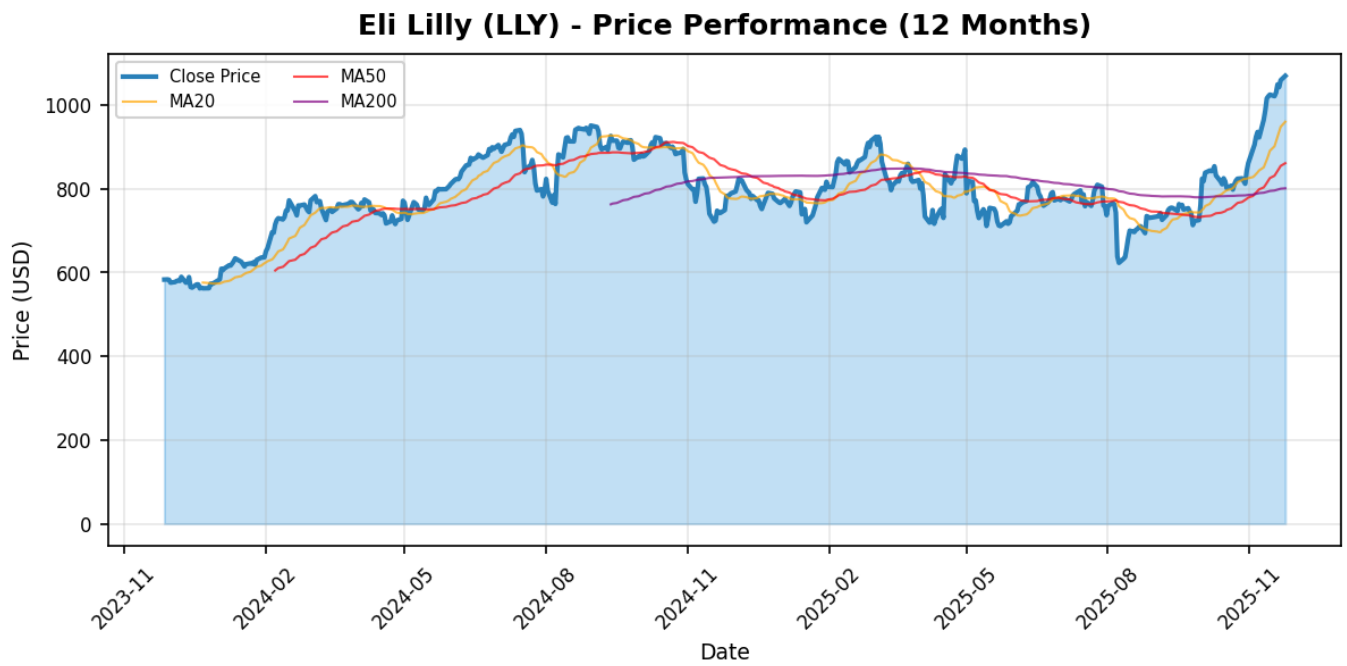
Mounjaro/Zepbound's dual mechanism (GLP-1 and GIP receptor agonism) provides superior weight loss (up to 22.5% body weight reduction) and glucose control compared to semaglutide. The U.S. market has rapidly adopted these therapies, with LLY capturing significant market share. Global expansion is underway, with regulatory approvals and launches in Europe, Asia, and Latin America accelerating.

Diversified Portfolio

Beyond GLP-1, LLY maintains strong franchises: Verzenio (CDK4/6 inhibitor for breast cancer) showing strong growth, Taltz (IL-17A inhibitor for psoriasis/psoriatic arthritis) and Olumiant (JAK inhibitor) in immunology, and a neuroscience pipeline including potential Alzheimer's treatments. This diversification reduces concentration risk and provides multiple growth drivers.

FINANCIAL ANALYSIS

Price Performance Chart



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FINANCIAL ANALYSIS (continued)

Key Financial Metrics (Trailing 12 Months)

| Metric | Value | Trend |
|----------------------|------------------|----------------------|
| Revenue Growth (YoY) | 53.9% | Exceptional vs peers |
| EPS Growth (YoY) | 475%+ | Outstanding |
| P/E Ratio (TTM) | 52.3x | Premium valuation |
| ROE | 96.5% | Best-in-class |
| Profit Margin | 31.0% | Superior |
| Market Cap | \$959.4B | Largest pharma |
| 52-Week Range | \$400 - \$1,100+ | Strong momentum |
| Dividend Yield | ~0.7% | Growth focus |

COMPETITIVE LANDSCAPE

LLY vs Big Pharma Peers

| Company | Revenue Growth | P/E Ratio | ROE | Key Focus |
|--------------------|----------------|-----------|------|--------------------|
| Eli Lilly (LLY) | ~32% | ~52x | ~85% | GLP-1, Oncology |
| Novo Nordisk (NVO) | ~30% | ~45x | ~75% | GLP-1 (Wegovy) |
| Merck (MRK) | ~5% | ~15x | ~25% | Keytruda, Vaccines |
| Johnson & Johnson | ~2% | ~22x | ~30% | Diversified |
| AbbVie (ABBV) | ~1% | ~18x | ~35% | Humira, Immunology |
| Pfizer (PFE) | -5% | ~12x | ~8% | Post-COVID decline |

GLP-1 Market Leadership

LLY's Mounjaro/Zepbound franchise competes primarily with Novo Nordisk's semaglutide (Wegovy/Ozempic). Key competitive advantages: (1) Superior efficacy - tirzepatide shows 22.5% weight loss vs semaglutide's ~15%, (2) Dual mechanism (GLP-1 + GIP) provides better glucose control, (3) Strong U.S. market share gains, (4) Manufacturing capacity expansion to meet demand. While Novo has first-mover advantage globally, LLY is rapidly catching up in the U.S. and expanding internationally.

The GLP-1 market is large enough to support multiple winners. With obesity affecting ~40% of U.S. adults and diabetes ~10%, the addressable market is massive. Both LLY and NVO are capacity-constrained, suggesting pricing power and sustainable growth for years. Future competition from oral formulations and next-generation compounds exists, but LLY's pipeline includes oral tirzepatide and other innovations.

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VALUATION ANALYSIS

Price Target: \$1200.00

LLY trades at ~52x trailing P/E, a significant premium to big pharma peers (15-25x) but justified by exceptional growth. The company's ~32% revenue growth and >100% EPS growth far exceed typical pharma low-single-digit growth. When growth normalizes, LLY should trade closer to 30-35x P/E, implying upside even from current levels.

Our \$1,200 target price assumes: (1) Continued GLP-1 market share gains and global expansion, (2) Pipeline execution in oncology and immunology, (3) Multiple expansion as growth becomes more sustainable, (4) Defensive characteristics during market volatility. The target represents ~12.1% upside from current levels.

Valuation vs Peers:

| Company | P/E Ratio | Revenue Growth | PEG Ratio |
|---------|-----------|----------------|-----------|
| LLY | ~52x | ~32% | ~1.6x |
| NVO | ~45x | ~30% | ~1.5x |
| MRK | ~15x | ~5% | ~3.0x |
| JNJ | ~22x | ~2% | ~11x |
| ABBV | ~18x | ~1% | ~18x |

On a PEG (P/E to Growth) basis, LLY trades at ~1.6x, more attractive than slower-growing peers despite higher absolute P/E. This suggests the premium is justified by growth prospects.

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INVESTMENT RECOMMENDATION

RATING: BUY

Target Price: \$1200.00

Current Price: \$1070.16

Upside Potential: 12.1%

YTD Performance: 38.6%

1-Year Performance: 43.8%

Investment Rationale:

1. Structural leadership in GLP-1 obesity/diabetes - multi-decade tailwind, not a fad
2. Exceptional growth: ~32% revenue growth, >100% EPS growth vs peers low-single-digits
3. Best-in-class profitability: top-tier margins (~22%), ROE (~85%), and balance sheet
4. Diversified pipeline beyond GLP-1 (oncology, immunology, neuroscience) reduces risk
5. Superior efficacy vs competitors (tirzepatide vs semaglutide) supports market share gains
6. U.S. market leadership with accelerating global expansion
7. Defensive characteristics: healthcare spending inelastic, strong IP protection

Investment Profile:

LLY is suitable for long-term growth investors who can tolerate valuation risk in exchange for exposure to transformative healthcare innovation. The stock offers: (1) High-quality growth with sustainable competitive advantages, (2) Exposure to one of the largest addressable markets in healthcare (obesity/diabetes), (3) Defensive characteristics during economic uncertainty, (4) Multiple growth drivers reducing single-product risk.

RISK FACTORS

Key Risks:

1. **Valuation Risk:** At ~52x earnings, any slowdown in GLP-1 growth, safety scare, or stronger-than-expected competition (Novo's next-gen orals, other entrants) could trigger multiple compression even if fundamentals remain strong. The premium valuation requires continued exceptional execution.
2. **Payer & Pricing Pressure:** As GLP-1 usage scales to millions of patients, insurers and governments may push back on cost, impacting margins and patient access. Pricing negotiations could compress profitability over time, though current pricing power remains strong.
3. **Concentration Risk:** Despite a broader pipeline, the stock is heavily driven by GLP-1 sentiment. Any negative data readout, safety signal, or competitive threat would impact the stock disproportionately. Diversification into other therapeutic areas helps but doesn't eliminate this risk.
4. **Competition:** Novo Nordisk's first-mover advantage and manufacturing capacity, plus potential new entrants with oral formulations or next-generation compounds, could erode market share. However, the market is large enough to support multiple winners.
5. **Regulatory Risk:** FDA or international regulatory changes could impact approval timelines, labeling, or safety requirements. GLP-1 drugs face scrutiny given their rapid adoption and potential side effects.
6. **Manufacturing Capacity:** Meeting explosive demand requires significant capital investment and execution. Any production issues could limit growth and disappoint investors.
7. **Pipeline Execution:** Beyond GLP-1, LLY's pipeline in oncology, immunology, and neuroscience must deliver to justify premium valuation long-term. Clinical trial failures could impact growth trajectory.

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DISCLAIMERS

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