Eli Lilly, based in Indianapolis, develops and manufactures therapies to treat pain, diabetes, cancer, and neurodegenerative diseases. The shares are a component of the S&P 500 Index.

Analyst's Notes

Analysis by Jasper Hellweg, May 8, 2025

ARGUS RATING: BUY

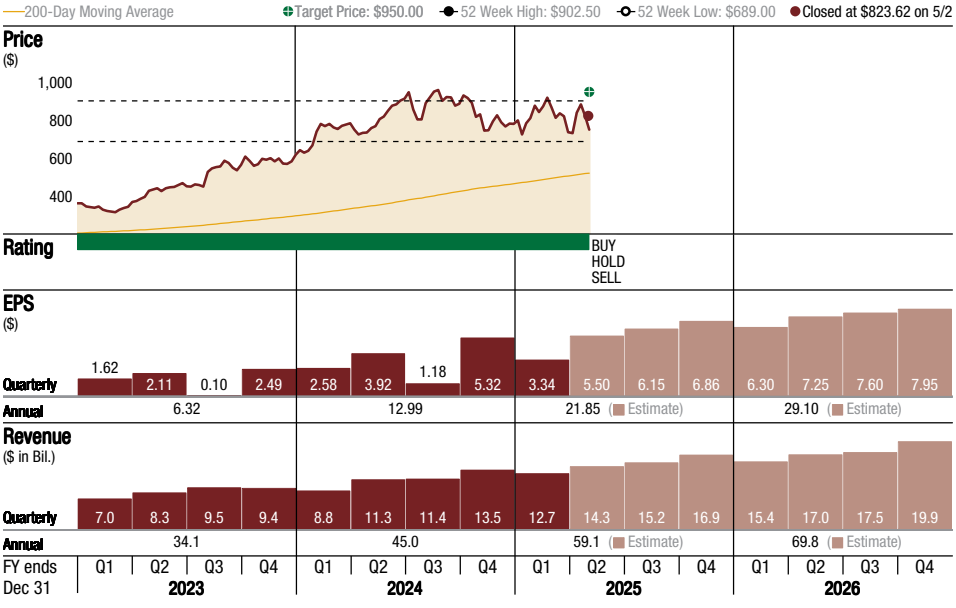
- Discounted price offers buying opportunity
- Eli Lilly has benefited significantly from sales of its antidiabetic medication Mounjaro and its recently launched obesity medication Zepbound, two formulations of its GIP and GLP-1 receptor agonist tirzepatide. We expect these medications to drive strong growth throughout 2025 and beyond.
- During the first quarter, Mounjaro saw sales jump 113% to $3.84 billion from $1.81 billion in 1Q24, while Zepbound generated $2.31 billion in sales, up from $517 million in 1Q24.
- Meanwhile, Lilly recently announced positive top-line results from a study evaluating orforglipron, the first oral small molecule GLP-1 receptor agonist to successfully complete a Phase 3 trial, in adults with type 2 diabetes.
- Lilly expects to submit orforglipron for weight management to global regulatory agencies by the end of 2025, with the submission for the treatment of type 2 diabetes anticipated in 2026. Given the product candidate's oral delivery, we believe that orforglipron could attract a significant number of people who are less inclined to take injectable GLP-1 products.
- Management expects the company to generate adjusted EPS of $20.78-$22.28, representing growth of 60%-72% from its 2024 results.

INVESTMENT THESIS

Our rating on Focus List selection Eli Lilly & Co. (NYSE: LLY) is BUY. The company has benefited significantly from sales of its antidiabetic medication Mounjaro and its recently launched obesity medication Zepbound, two formulations of its GIP and GLP-1 receptor agonist tirzepatide. We expect these medications to drive strong growth throughout 2025 and beyond. Meanwhile, the company is also working to develop other products to improve its positioning in the GLP-1 market, and recently announced positive top-line results from a study evaluating orforglipron, the first oral small molecule GLP-1 receptor agonist to successfully complete a Phase 3 trial, in adults with type 2 diabetes. Lilly expects to submit orforglipron for weight management to global regulatory agencies by the end of 2025, with the submission for the treatment of type 2 diabetes anticipated in 2026. Given the product candidate's oral delivery, we believe that orforglipron could attract a significant number of people who are less inclined to take injectable GLP-1

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 27% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$751.45
Target Price	$950.00
52 Week Price Range	$677.09 to $972.53
Shares Outstanding	947.74 Million
Dividend	$6.00

Sector Overview

Sector	Healthcare
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	10.80%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	70.9%
Return on Equity	137.4%
Net Margin	22.7%
Payout Ratio	0.27
Current Ratio	1.15
Revenue	$49.00 Billion
After-Tax Income	$11.11 Billion

Valuation

Current FY P/E	34.39
Prior FY P/E	57.85
Price/Sales	14.53
Price/Book	45.19
Book Value/Share	$16.63
Market Capitalization	$712.18 Billion

Forecasted Growth

1 Year EPS Growth Forecast	68.21%
5 Year EPS Growth Forecast	20.00%
1 Year Dividend Growth Forecast	15.38%

Risk

Beta	0.76
Institutional Ownership	82.18%

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Analyst's Notes ...Continued

products. Outside of the company's GLP-1 franchise, the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) recently issued a positive opinion for Jaypirca (pirtobrutinib), a non-covalent (reversible) Bruton's tyrosine kinase (BTK) inhibitor, for the treatment of adult patients with relapsed or refractory chronic lymphocytic leukemia (CLL) who have been previously treated with a BTK inhibitor.

Looking ahead, management expects the company to generate adjusted EPS of $20.78-$22.28, representing growth of 60%-72% from its 2024 results. It also anticipates 2025 sales of $58.0 billion-$61.0 billion, representing growth of 32% at the midpoint from its 2024 results. Lilly looks for revenue growth contributions in 2025 from new Lilly medicines such as Zepbound, Mounjaro, Jaypirca, Ebglyss, Omvoh, and Kisunla; approvals of new indications for existing Lilly medicines; launches of Mounjaro in additional worldwide markets; and potential launches of new medicines such as imlunestrant for metastatic breast cancer. We expect these developments to boost sales and earnings and to benefit LLY shares over the next year. Our revised target price of $950 implies a total potential return, including the dividend, of roughly 29% from current levels.

RECENT DEVELOPMENTS

LLY shares have underperformed over the past quarter, declining 15% while the S&P 500 has fallen 6%. The stock has also underperformed over the past year, falling 4% while the market has increased 10%. Over the past five years, the stock has gained 384% versus a gain of 95% for the S&P 500 and a gain of 32% for the industry ETF IYH.

Lilly has developed a diabetes drug, tirzepatide, which has garnered significant attention for its ability to cause weight loss. The product was first approved in the U.S. as Mounjaro for the treatment of type 2 diabetes in May 2022 and later as Zepbound as a treatment for obesity in November 2023 and as a treatment for obstructive sleep apnea (OSA) in December 2024. Most recently, on February 25, the company announced the launch of 7.5 mg and 10 mg Zepbound single-dose vials, available for $499 with the new Zepbound Self Pay Journey Program, while also reducing the price of the 2.5 mg and 5 mg vials to $349 per month and $499 per month, respectively. These new offerings are available exclusively through LillyDirect Self Pay Pharmacy Solutions, which enables a transparent price by removing third-party supply chain entities and allowing patients to access savings directly outside of insurance.

Outside of its currently approved GLP-1 products, the company is also working to develop other products to improve its positioning in the GLP-1 market. On April 17, Lilly announced positive topline Phase 3 results from a trial evaluating the safety and efficacy of orforglipron compared to placebo in adults with type 2 diabetes and inadequate glycemic control with diet and exercise alone. Orforglipron is the first oral small molecule glucagon-like peptide-1 (GLP-1) receptor agonist, taken without food and water restrictions, to successfully complete a Phase 3 trial.

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	24,540	28,318	28,541	34,124	45,043
COGS	5,483	7,313	6,630	7,082	8,418
Gross Profit	19,057	21,006	21,912	27,042	36,624
SG&A	5,869	6,142	6,068	6,941	8,132
R&D	5,976	6,931	7,191	9,313	10,991
Operating Income	7,211	7,933	8,653	10,787	17,502
Interest Expense	327	314	269	312	605
Pretax Income	7,230	6,156	6,806	6,555	12,680
Income Taxes	1,036	574	562	1,314	2,090
Tax Rate (%)	14	9	8	20	16
Net Income	6,194	5,582	6,245	5,240	10,590
Diluted Shares Outstanding	913	912	905	903	904
EPS	6.79	6.12	6.90	5.80	11.71
Dividend	2.96	3.40	3.92	4.52	5.20
GROWTH RATES (%)					
Revenue	9.9	15.4	0.8	19.6	32.0
Operating Income	20.2	10.0	9.1	24.7	62.2
Net Income	-25.5	-9.9	11.9	-16.1	102.1
EPS	36.9	-9.9	12.7	-15.9	101.9
Dividend	14.7	14.9	15.3	15.3	15.0
Sustainable Growth Rate	72.0	47.2	29.1	9.8	30.1
VALUATION ANALYSIS					
Price: High	$173.90	$283.90	$375.25	$629.97	$972.53
Price: Low	$117.06	$161.78	$231.87	$309.20	$579.05
Price/Sales: High-Low	6.5 - 4.4	9.1 - 5.2	11.9 - 7.3	16.7 - 8.2	19.5 - 11.6
P/E: High-Low	25.6 - 17.2	46.4 - 26.4	54.4 - 33.6	108.6 - 53.3	83.1 - 49.4
Price/Cash Flow: High-Low	23.9 - 16.1	37.4 - 21.3	44.5 - 27.5	99.6 - 48.9	145.8 - 86.8

Financial & Risk Analysis

FINANCIAL STRENGTH	2022	2023	2024
Cash ($ in Millions)	2,067	2,819	3,268
Working Capital ($ in Millions)	896	-1,566	4,363
Current Ratio	1.05	0.94	1.15
LT Debt/Equity Ratio (%)	138.4	170.1	201.0
Total Debt/Equity Ratio (%)	152.5	234.2	237.1
RATIOS (%)			
Gross Profit Margin	76.8	79.2	81.3
Operating Margin	30.3	31.6	38.9
Net Margin	21.9	15.4	23.5
Return On Assets	12.7	9.2	14.8
Return On Equity	63.6	48.9	84.8
RISK ANALYSIS			
Cash Cycle (days)	213.2	228.6	244.8
Cash Flow/Cap Ex	2.5	0.6	1.0
Oper. Income/Int. Exp. (ratio)	21.5	14.5	17.2
Payout Ratio	50.2	57.0	79.2

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Analyst's Notes ...Continued

Within the study, orforglipron met the primary endpoint of superior reduction in A1C, a measure of blood sugar, compared to placebo at 40 weeks, lowering A1C by an average of 1.3% to 1.6% from a baseline of 8.0%. In a key secondary endpoint, more than 65% of participants taking the highest dose of orforglipron achieved an A1C less than or equal to 6.5%, which is below the American Diabetes Association's (ADA) defined threshold for diabetes. In an additional key secondary endpoint, participants taking orforglipron lost an average of 16.0 lbs. (7.9%) at the highest dose. Given that participants had not yet reached a weight plateau at the time the study ended, it appears that full weight reduction was not yet attained. Lilly expects to submit orforglipron for weight management to global regulatory agencies by the end of the 2025 year, with the submission for the treatment of type 2 diabetes anticipated in 2026. If approved, the company is confident in its ability to launch orforglipron worldwide without supply constraints. Given the product's oral delivery, we believe that orforglipron could attract a significant number of people who are less inclined to take injectable GLP-1 products.

Other recent developments include the following:

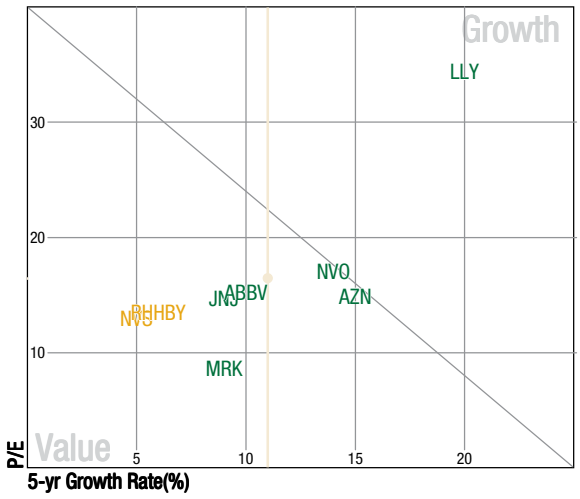
On March 30, Lilly announced positive Phase 2 results for lepodisiran, an investigational small interfering RNA (siRNA) therapy designed to lower the production of lipoprotein(a) Lp(a), a genetically inherited risk factor for heart disease. In the Phase 2 study, lepodisiran significantly reduced Lp(a) levels by an average of 93.9% over the 60 to 180-day period after treatment with the highest tested dose (400 mg), meeting the primary endpoint. Participants who received the 16 mg and 96 mg lepodisiran doses experienced a 40.8% reduction and a 75.2% reduction in Lp(a) levels over the same time period, respectively. The Phase 3 clinical development program investigating the effect of lepodisiran on the reduction of cardiovascular events in adults with elevated Lp(a) is currently enrolling.

On February 28, Lilly announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion for Jaypirca (pirtobrutinib), a non-covalent (reversible) Bruton's tyrosine kinase (BTK) inhibitor, for the treatment of adult patients with relapsed or refractory chronic lymphocytic leukemia (CLL) who have been previously treated with a BTK inhibitor. The positive opinion was supported by data from the first randomized Phase 3 study in CLL ever conducted exclusively in patients previously treated with a BTK inhibitor. The study's primary endpoint of progression-free survival (PFS) was met at the prespecified time of final analysis, based on independent review committee (IRC) assessment, demonstrating pirtobrutinib was superior to investigator's choice of idelalisib plus rituximab (IdelaR) or bendamustine plus rituximab (BR), both global standards of care. At an updated analysis, pirtobrutinib reduced the risk of disease progression or death by 46% compared to IdelaR or BR, consistent with the primary analysis. In addition to its potential use as a treatment for patients with CCL, Jaypirca has also previously received a conditional

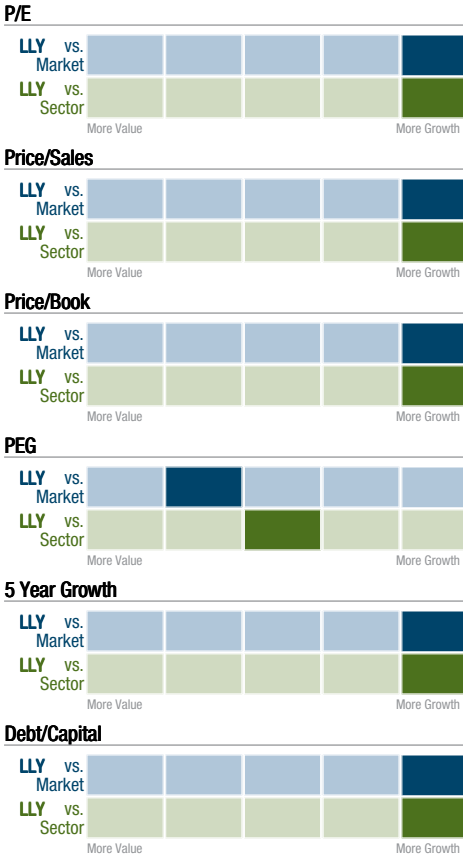
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare LLY versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how LLY stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how LLY might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
LLY	Lilly(Eli) & Co	712,176	20.0	34.4	22.7	33.2	BUY
JNJ	Johnson & Johnson	374,529	9.0	14.7	24.4	4.8	BUY
ABBV	AbbVie Inc	328,287	10.0	15.3	7.3	12.8	BUY
NVS	Novartis AG	232,641	5.0	13.0	24.2	5.3	HOLD
NVO	Novo Nordisk	219,850	14.0	17.1	34.5	18.4	BUY
RHHBY	Roche Holding AG	219,818	6.0	13.5	13.7	5.2	HOLD
AZN	AstraZeneca PLC	208,716	15.0	15.0	14.1	13.3	BUY
MRK	Merck & Co Inc	194,982	9.0	8.7	27.3	9.5	BUY
Peer Average		**311,375**	**11.0**	**16.4**	**21.0**	**12.8**	



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Analyst's Notes ...Continued

marketing authorization by the EMA for the treatment of adult patients with relapsed or refractory mantle cell lymphoma (MCL) who have been previously treated with a BTK inhibitor. The product was also approved in the U.S. in 2023 under the FDA's Accelerated Approval pathway for the treatment of adult patients with relapsed or refractory MCL after at least two lines of systemic therapy, including a BTK inhibitor, and for the treatment of adult patients with CLL or small lymphocytic lymphoma (SLL) who have received at least two prior lines of therapy including a BTK inhibitor and BCL-2 inhibitor.

The company has also grown in part through the acquisition of other organizations or clinical programs. On January 13, Lilly announced an agreement to acquire Scorpion Therapeutics' PI3K alpha inhibitor program STX-478. STX-478 is a once-daily oral, mutant-selective PI3K alpha inhibitor currently being evaluated in a Phase 1/2 clinical trial for breast cancer and other advanced solid tumors. Management noted that STX-478 could potentially address 30%-40% of people with hormone-positive breast cancer, building on Lilly's advancements against this disease. Under the terms of the acquisition agreement, Lilly agreed to pay up to $2.5 billion in cash, inclusive of an upfront payment and subsequent payments upon achievement of certain regulatory and sales milestones. Additionally, as part of the transaction, Scorpion spun out a new entity to hold its employees and non-PI3K alpha pipeline assets.

Lilly has also made notable efforts to expand its manufacturing footprint. On February 26, Lilly announced plans to bolster its domestic medicine production across therapeutic areas by building four new pharmaceutical manufacturing sites in the U.S. This brings the company's total U.S. capital expansion commitments to more than $50 billion since 2020. Three of the future U.S. sites announced today will focus on manufacturing active pharmaceutical ingredients (API), reshoring critical capabilities of small molecule chemical synthesis and further strengthening Lilly's supply chain. The fourth location will extend the company's global parenteral manufacturing network for future injectable therapies. Lilly's plans represent the largest pharmaceutical manufacturing investment in U.S. history.

EARNINGS & GROWTH ANALYSIS

Lilly reported 1Q25 results on May 1, 2025. Adjusted EPS rose to $3.34 from $2.58 in 1Q24, missing the consensus by $0.12. GAAP net income was $2.76 billion, or $3.06 per share, up from $2.24 billion, or $2.48 per share, a year earlier. Revenue rose 45% on a reported basis to $12.73 billion, reflecting a 53% increase in volume but partially offset by a 6% decrease from lower realized prices and a 2% unfavorable impact from foreign exchange rates. By measures of profitability, the adjusted 1Q gross margin rose 160 basis points to 82.5%.

Key Products revenue, which includes Ebglyss, Jaypirca, Kisunla, Mounjaro, Omvoh, Verzenio, and Zepbound, grew by $4.09 billion to $7.52 billion in the first quarter, led by Mounjaro and Zepbound. Among the selected products that the company highlighted in its earnings report, Mounjaro revenues rose 113% during the quarter to $3.84 billion, Verzenio revenues rose 10% to $1.16 billion, and Zepbound revenues rose to $2.31 billion from $517 million during the first quarter.

Along with the 1Q25 results, management updated its guidance for 2025. The company now expects adjusted EPS to be $20.78-$22.28, representing growth of 60%-72% from its 2024 results but lowered from its earlier estimate of $22.50-$24.00. Management noted that this revised earnings guidance reflected the inclusion of $1.72 per share of acquired IPR&D charges through 1Q25 primarily related to the acquisition of Scorpion Therapeutics, Inc.'s PI3KÃ inhibitor program STX-478. The company also reiterated its expectation that it will generate sales of $58.0 billion-$61.0 billion, representing growth of 29%-35%, or 32% at the midpoint, from 2024. Management noted that this guidance is based on the existing tariff and trade environment as of May 1, 2025, and does not reflect any policy shifts, including pharmaceutical sector tariffs, that could impact business.

Based on the impact of the company's acquired IPR&D charges in the first quarter and its revised 2025 earnings guidance, but offset in part by the continued performance of Mounjaro and Zepbound, we are lowering our 2025 adjusted EPS estimate to $21.85 from $22.85, implying earnings growth of about 68% for the year. We expect earnings to continue to increase in 2026 as the company further expands the reach of its existing products and as it brings new products to market. With this in mind, we are raising our 2026 adjusted EPS estimate to $29.10 from $27.50, implying growth of 33% from our 2025 estimate. Our five-year earnings growth rate estimate is 20%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Lilly is Medium, the middle peg on our five-point scale.

As of March 31, 2025, the company had cash, cash equivalents, and short-term investments of $3.22 billion, down from $3.42 billion at the end of 2024. The company also had total debt of $39.52 billion, up from $33.64 billion at the end of 2024.

Eli Lilly pays a dividend. In December 2024, the company announced a 15% increase in its quarterly payout, to $1.50 per share. This marks the seventh consecutive year that the company has increased its dividend by 15%. The annualized dividend of $6.00 yields about 0.8%. Our dividend estimates are $6.00 for 2025 and $6.90 for 2026.

The company also has a share repurchase program. In December 2024, management announced a new $15 billion share repurchase program, succeeding the prior program of $5 billion, which was completed in 4Q24. During the first quarter of 2025, the company repurchased roughly 1.36 million shares of its common stock for approximately $1.20 billion. As of March 31, 2025, the company had $13.8 billion remaining on its repurchase authorization.

MANAGEMENT & RISKS

David A. Ricks serves as the company's chair and CEO, having occupied both roles since 2017. Mr. Ricks has worked at the company for more than 25 years, serving in roles across the functions of marketing, sales, drug development, and international operations. Lucas Montarce serves as executive vice president and CFO and is a member of the company's Executive Committee, having succeeded former CFO Anat Ashkenazi in September 2024. Since joining Lilly in 2001, Mr. Montarce has held a range of finance leadership roles, including serving as group vice president, corporate controller, and chief financial officer of Lilly Research Laboratories; vice president, finance and chief financial officer of Lilly International; and vice president, finance and global chief financial officer of Elanco Health. He most recently served in the role of Lilly president and general manager for the Spain, Portugal,

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Analyst's Notes ...Continued

and Greece hub.

Among other updates to the company's management structure, Lilly announced several transitions in its executive leadership on May 8, 2025 designed to help drive the next wave of growth in the company's U.S. and cardiometabolic health businesses. As such, Ilya Yuffa, who has served as executive vice president and president, Lilly International, will become executive vice president and president, Lilly USA and Global Customer Capabilities. In this capacity, Mr. Yuffa will lead the U.S. business, including sales, marketing, and commercial capabilities for all marketed products, and will be responsible for the commercialization of upcoming product launches in the U.S. Additionally, Patrik Jonsson, who has served as executive vice president and president, Lilly Cardiometabolic Health, and president, Lilly USA, will become executive vice president and president, Lilly International and will lead all markets outside the U.S. Furthermore, Kenneth Custer, Ph.D., who has served as general manager of Lilly Canada, will be promoted to executive vice president and president, Lilly Cardiometabolic Health and will join Lilly's executive committee. A 16-year Lilly veteran, Dr. Custer began his career at Lilly in sales and marketing before transitioning to Lilly Research Laboratories (LRL), where he led the early development of key immunology and diabetes programs, including tirzepatide. He held roles of increasing responsibility within LRL, serving as senior vice president of Portfolio Strategy and head of Business Development.

Drug development is inherently risky: pipeline products may not progress for clinical or commercial reasons, and setbacks may impact the share price. Acquisitions may also dilute earnings and fail to generate projected synergies. In addition, patent expirations and the loss of market exclusivity typically lead to generic competition.

COMPANY DESCRIPTION

Eli Lilly, based in Indianapolis, develops and manufactures therapies to treat pain, diabetes, cancer, and neurodegenerative diseases. The shares are a component of the S&P 500 Index.

VALUATION

LLY shares trade at 34-times our revised 2025 EPS estimate, slightly above the average multiple for our coverage universe of large-cap pharmaceutical stocks but below the stock's five-year historical average. We believe that this premium to its peers is warranted, based on contributions from newer products, which are showing robust volume growth, new launches, and continued pipeline progress. Looking ahead, we expect the launch of additional drugs and expanded indications for existing drugs to drive further growth in product volume. Our revised target price is $950.

On May 8, BUY-rated LLY closed at $751.45, down $25.27.

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About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer