

AOL ASSIGNMENT

ELI LILLY & CO.

Overview

Founded in 1876 and based in Indianapolis, Indiana, Eli Lilly is a renowned global pharmaceutical company. Led by Colonel Eli Lilly, it is known for its commitment to innovation and core values. Through strategic mergers and partnerships, it has built a diverse portfolio across therapeutic areas. With a focus on research and development, Eli Lilly maintains a robust pipeline of drug candidates. Its global presence and extensive manufacturing network ensure top-quality operations. Financially strong and socially responsible, Eli Lilly remains dedicated to advancing healthcare worldwide.

Ratios

In this report, I will analyze Liquidity and Financial Leverage ratios, providing insights into a company's short-term financial health and long-term solvency. Liquidity ratios assess the firm's ability to meet immediate obligations, while Financial Leverage ratios reveal its capital structure and capacity to fulfill long-term commitments. The analysis aims to evaluate financial stability, risk management, and growth potential, aiding stakeholders in making informed decisions on investment, lending, and financial strategy.

Liquidity Ratios

	2023	2022
Working Capital	(1,566,200)	896,300
Current Ratio	94.26%	105.22%
Quick Ratio	44.03%	53.14%
Cash Ratio	10.72%	12.90%
Cash Flow Ratio	15.53%	44.26%

Solvency ratios

	2023	2022
Total debt to Capital	70.07%	60.39%
Debt to Book Equity	2.34	1.52
Debt to Market Equity	3.71	3.59
Debt to EBITDA	3.12	1.95
Financial Leverage	5.94	4.65

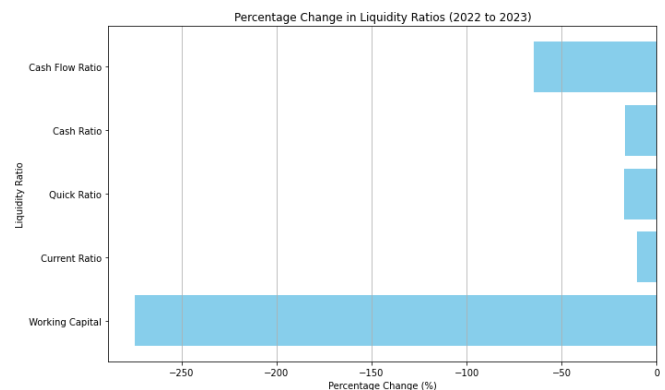
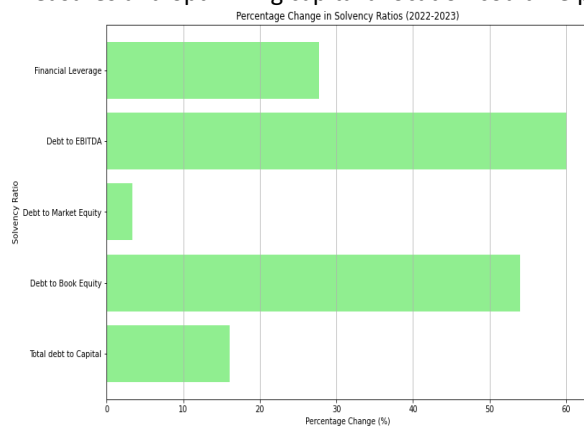
Analysis - When assessing Eli Lilly & Co.'s financial health, it becomes apparent that the company grappled with significant challenges in both liquidity and solvency -

Liquidity Analysis

In 2023, Eli Lilly faced a significant decrease in its working capital, indicating a shortfall of \$1,566,200 compared to the positive working capital of \$896,300 in 2022. Working capital, crucial for day-to-day operations, signals potential challenges in meeting immediate financial obligations. Although the current ratio remained above 100% in 2023, at 94.26%, compared to 105.22% in 2022, the downward trend suggests a weakening liquidity position over time. This erosion of liquidity, despite still having more assets than liabilities in the short term, underscores potential difficulties in meeting immediate financial demands. Additionally, both the quick ratio and cash ratio decreased from 2022 to 2023, dropping from 53.14% to 44.03% and from 12.90% to 10.72%, respectively. These ratios, offering stricter assessments of liquidity by excluding certain less liquid assets, highlight Eli Lilly's struggles in maintaining enough readily available liquid assets and cash equivalents to cover immediate obligations. The substantial drop in the cash flow ratio, from 44.26% in 2022 to 15.53% in 2023, further emphasizes the company's limitations in generating sufficient cash flow to meet financial commitments. This could stem from operational challenges or inefficiencies within the organization. Overall, these figures indicate Eli Lilly's challenges in managing short-term financial needs and generating adequate cash flow. To address these issues, the company may need to focus on enhancing operational efficiency, reducing unnecessary expenses, and exploring avenues to boost cash flow generation. Moreover, strategic measures to strengthen liquidity, such as renegotiating terms with suppliers or exploring financing options, could help alleviate immediate financial pressures and improve the company's financial health in the long run.

Solvency Analysis

In terms of its solvency, Eli Lilly experienced an increase in its debt ratios compared to 2022, indicating a higher level of indebtedness. The total debt-to-capital ratio rose to 70.07% from 60.39% in 2022, suggesting that a larger portion of the company's capital structure was financed through debt. Similarly, the debt-to-book equity ratio increased to 2.34 in 2023 from 1.52 in 2022, indicating that the company's debt relative to its equity had risen. Additionally, the debt-to-market equity ratio climbed to 3.71 in 2023 from 3.59 in 2022, reflecting an increase in debt relative to the market value of the company's equity. This suggests that investors may perceive Eli Lilly as having a higher level of financial risk due to its increased debt burden. Furthermore, the debt to EBITDA ratio surged to 3.12 in 2023 from 1.95 in 2022, indicating that the company's debt load relative to its earnings before interest, taxes, depreciation, and amortization had increased. A higher debt-to-EBITDA ratio may signal financial stress, as it indicates that it would take Eli Lilly longer to pay off its debt using its earnings. Overall, these ratios suggest that Eli Lilly may be lacking in financial flexibility and could face challenges in managing its debt obligations. To address this, the company could consider strategies such as reducing debt levels through debt repayment or refinancing, improving profitability to lower the debt-to-EBITDA ratio, and seeking alternative sources of financing to reduce reliance on debt. Additionally, implementing cost-cutting measures and optimizing capital allocation could help improve the company's financial health.



Conclusion

In summary, Eli Lilly is currently grappling with significant challenges regarding both short-term liquidity and long-term solvency. The decrease in working capital and liquidity ratios indicates potential difficulties in promptly meeting financial obligations, while the rise in debt-related ratios suggests a higher debt burden, posing risks to the company's financial stability. To address these shortcomings, Eli Lilly should prioritize operational efficiency by identifying and eliminating inefficiencies and unnecessary expenses. By doing so, the company can enhance its cash flow, which can be further bolstered by renegotiating supplier terms or seeking additional financing options. Additionally, reducing debt levels through prudent debt management strategies and optimizing the capital structure can enhance financial resilience and sustainability over the long term. By taking proactive steps to address these challenges, Eli Lilly can strengthen its financial footing and remain committed to its mission of advancing global healthcare.

Management Overview

Eli Lilly's leaders are confident in the company's financial strength, and they make sure to convey this assurance to stakeholders. They emphasize that Eli Lilly has the necessary funds not just for day-to-day operations but also for investments in growth, responsible debt management, and rewarding shareholders. This communication aims to reassure everyone involved that the company is well-equipped to handle challenges and seize opportunities effectively. The ongoing investments in new facilities underscore Eli Lilly's commitment to expansion and innovation, reflecting its focus on achieving long-term success. Eli Lilly manages debt and credit carefully, ensuring sustainable growth and minimizing risks for future stability. By sharing dividends and repurchasing shares, it strengthens trust and loyalty among shareholders. Its proactive risk management and transparent accounting practices bolster confidence in its financial performance, setting the stage for continued success.