

Americas Investing Report



Eli Lilly and Company
(LLY) Market cap. US\$289.8 Bn





Company Description & Key Segments Overview

Eli Lilly is a leading pharmaceutical company that develops diabetes, oncology, immunology, and neuroscience medicines. Its top-selling drugs include Trulicity (treatment of type 2 diabetes and reducing the risk of adverse cardiovascular events in patients with type 2 diabetes and cardiovascular risk factors); Humalog (an injectable human insulin analog); Alimta (treatment for various cancers); Taltz (treatment for moderated-to-severe plaque psoriasis); Humulin (injectable human insulin); and Jardiance (treatment for type 2 diabetes and reducing the risk of cardiovascular death with patients with type 2 diabetes and heart diseases) among others.

The company operates in a single business segment, Human pharmaceutical products. Lilly's revenue is generated from its products. Currently, its largest product is Trulicity, which accounts for roughly 25% of total revenue, followed by Humalog for nearly 10%. Both products are treatment for diabetes. Taltz and COVID-19 antibodies each account for nearly 10% of total revenue.

The remaining revenues are generated from Alimta, Jardiance, Verzenio, Olumiant, Cyramza, Basaglar, Cialis, Forteo, Humulin, Cymbalta, Emgality, Erbitux, Zyprexa, Tyvyt, Trajenta and other products.

Lilly, based in Indianapolis, Indiana, sells its products in approximately 120 countries, with the US market accounting for about 60% of revenue. Europe accounts for more than 15% of revenue, Japan accounts for roughly 10%, and China accounts for about 5%. The remaining sales are generated from other foreign countries (about 10%).





Investment Thesis

Eli Lilly has one of the best growth profiles in pharma—by some analyst estimates earnings per share could double over the next four years. That has a lot to do with tirzepatide, currently sold as Mounjaro for Type 2 diabetes. The drug is also expected to be approved for obesity in 2023. In recent trials Lilly's drug has appeared incredibly effective. At the highest dosage, the average patient dropped from 231 pounds to 179 pounds over 72 weeks. That is an incredible result and superior to Novo Nordisk's Wegovy.

The drug got FDA approval as a type 2 diabetes treatment in May. Lilly had planned to apply for a weight-loss indication around late 2023 but on its latest earnings call, executives said they would talk to the FDA about whether an expedited submission might be considered, combining data from the diabetes trials with the just-reported obesity study. Needless to say, enactment of the Inflation Reduction Act with adoption of out of pocket co-pay caps for Medicare patients will provide significant further upside potential to Lilly's diabetes revenues going forward.

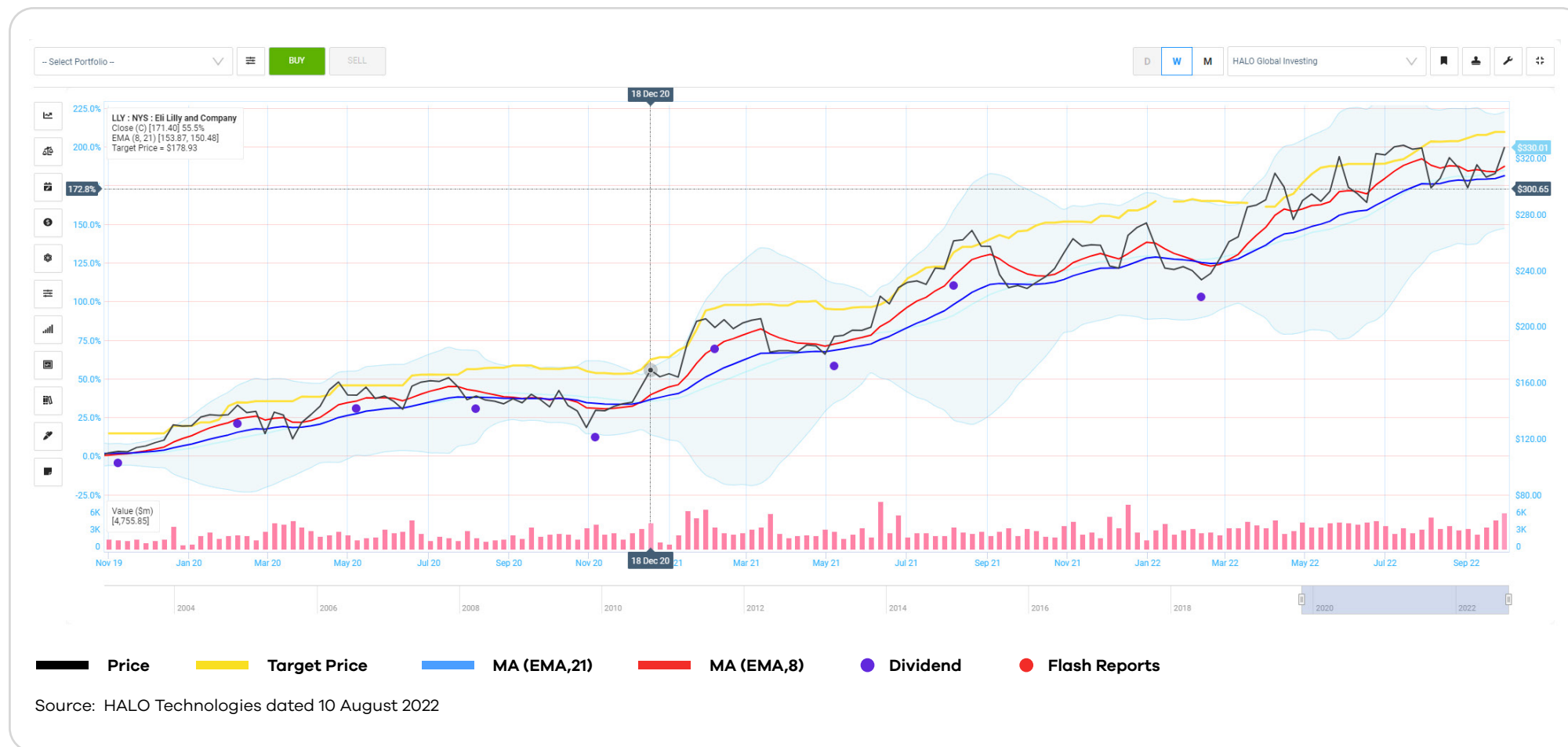
Currently, Lilly is firing on almost all cylinders: Verzenio (for advanced or metastatic breast cancers) market share has accelerated following recent guideline updates in the adjuvant setting (suggesting broad use rather than solely Ki-67 high), as previously mentioned, tirzepatide (Mounjaro) has demonstrated best in class diabetes and obesity data, and in Alzheimer's disease, donanemab likely has the higher probability of the three current candidates to receive full approval given its potent beta lowering monoclonal mechanism.

From an investment perspective however, it is the commercial potential of tirzepatide in obesity that dominates. The total addressable market for obesity is huge.

Consider the obesity numbers: Adult obesity rates have doubled in the past 20 years to over 40% in the US and could reach 50% by 2040. The CDC estimates over 300k deaths are caused by obesity annually. The WHO in 2016 estimated 39% of adults globally are overweight (BMI>25kg/m²) and 13% are obese (BMI >30kg/m²). The proportion of people with severe and morbid obesity (BMI >35kg/m² and BMI >40kg/m² respectively) is rising at a faster rate than obesity. Costs related to obesity are expected to rise 50% from 2017 to US\$1.2trn in 2025. One out of every eight deaths in the US are caused by an illness directly related to obesity-hypertension (high blood pressure), high cholesterol, Type 2 Diabetes, and coronary heart disease.



Company Performance and Financials





Downside Risks

- Major pipeline setbacks, failure to cut expenses to offset the impact of patent expirations, and inefficient uses of cash.

ANALYST VIEW

● 17 Buys ● 5 Holds ● 1 Sell

Average target price US\$337.00

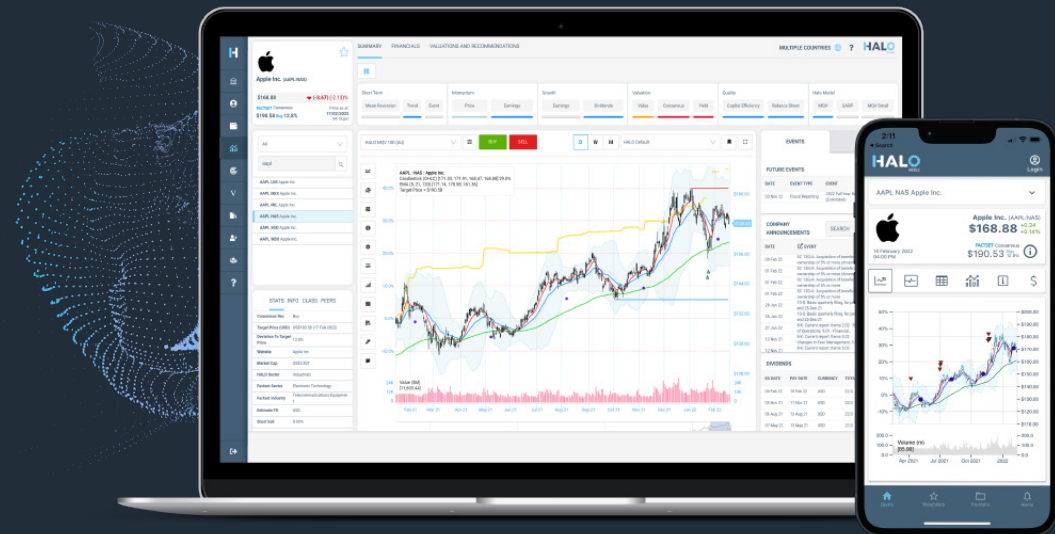


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