



Eli Lilly (LLY)

Updated November 4th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$819	5 Year CAGR Estimate:	13.1%	Market Cap:	\$248 B
Fair Value Price:	\$398	5 Year Growth Estimate:	30.0%	Ex-Dividend Date:	08/15/24
% Fair Value:	206%	5 Year Valuation Multiple Estimate:	-13.4%	Dividend Payment Date:	09/10/24
Dividend Yield:	0.6%	5 Year Price Target	\$1,478	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Eli Lilly develops, manufactures, and sells pharmaceuticals around the world, and has about 35,000 employees globally. Eli Lilly should produce at least \$45 billion of revenue in 2024.

On December 8th, 2023, Eli Lilly raised its quarterly dividend 15.0% to \$1.30, marking the company's tenth consecutive year of dividend growth.

On October 30th, 2024, Eli Lilly reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue grew 20.5% to \$11.4 billion, but this was \$680 million less than expected. Adjusted earnings-per-share of \$1.18 compared very favorably to adjusted earnings-per-share of \$0.10 in the prior year, but this was \$0.29 below estimates.

Volumes companywide were up 15% for the quarter and pricing added 6%, with currency acting as a 1% headwind to results. U.S. revenue grew 42% to \$7.84 billion, as volume was up 27% and higher prices added 15%. International revenues fell 12% to \$3.63 billion as volumes fell 10%. Pricing was unchanged. Revenue for *Mounjaro*, which helps patients with weight management and is the company's top gross product, totaled \$3.11 billion, compared to \$1.41 billion a year ago. Demand remains incredibly high for the product. *Zepbound*, which is also used to treat patients with obesity, had revenue of \$1.26 billion for the quarter. This product launched in November of 2023 and has generated revenue of nearly \$3.02 billion year-to-date. *Trulicity*, which helps the patient's body release its own insulin, declined 22% to \$1.3 billion. The company noted that there are still supply constraints for the product. *Verzenio*, which treats breast cancer, grew 32% to \$1.37 billion due to high demand, especially outside of the U.S. *Taltz*, which treats plaque psoriasis and certain forms of arthritis, increased 18% to \$880 million due to higher realized prices. *Jardiance*, which helps control type 2 diabetes, decreased 2% to \$686 million due to lower realized prices. Eli Lilly's treatment for Alzheimer's, called *Kisunla*, was approved by the U.S. FDA last quarter and was recently granted approval in Japan.

Eli Lilly provided an updated outlook for 2024 as well. Adjusted earnings-per-share are now expected to be in a range of \$13.02 to \$13.52 for the year, compared to \$16.10 to \$16.60, \$13.05 to \$13.55, and \$12.20 to \$12.70 previously. This would be a 159% increase from last year at the midpoint. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.78	\$3.43	\$3.52	\$4.28	\$5.55	\$6.04	\$7.93	\$8.16	\$7.94	\$6.32	\$13.27	\$49.27
DPS	\$1.96	\$2.00	\$2.04	\$2.08	\$2.25	\$2.58	\$2.96	\$3.40	\$3.92	\$4.52	\$5.20	\$10.46
Shares¹	1,111	1,105	1,101	1,100	1,060	935	911	910	905	903	905	895

Eli Lilly managed to grow earnings during the last recession, a rare feat in the market. The company's growth over the last decade is 9.6%, though much of that growth has occurred over the last five years. Given the strength of Eli Lilly's key pharmaceuticals and positive clinical data, we now expect earnings-per-share to grow at a rate of 30% per year, up from 25%, through 2029 due to the strong growth rates that the company is projected to achieve.

¹ In millions of shares

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Eli Lilly increased its dividend just 6 times from 2008 through 2019. From 2009 to 2014, the dividend remained unchanged. Many companies in the pharmaceutical sector have a more impressive and longer dividend growth history than Eli Lilly, so those hoping for more growth could be disappointed. The company did increase its dividend 15% in late 2023. This was the sixth consecutive double-digit increase. For now, we expect that dividends will grow at 15% per year. On August 16th, 2022, the Inflation Reduction Act of 2022 was signed into law. The law will, in part, require the federal government to negotiate prices for drugs covered under Medicare starting in 2026. This could reduce the profits pharmaceutical companies could collect, but these costs could be shifted to employer sponsored plans, reducing the negative impact on businesses. As such, we maintain our expected growth rates, but will monitor the situation as we get closer to the implementation of the law.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.2	22.9	21.7	19.1	19.0	21.8	21.2	33.9	46.1	92.2	61.7	30.0
Avg. Yld.	3.2%	2.5%	2.7%	2.5%	2.4%	2.2%	2.0%	1.2%	1.1%	0.8%	0.6%	0.7%

Shares of Eli Lilly have decreased \$65, or 7.4%, since our August 13th, 2024 report. Based off earnings estimates for the year, shares trade with a price-to-earnings ratio of 61.7. We are reaffirming our target price-to-earnings ratio to 30.0, from 25.0, given that the market expects Eli Lilly to see tremendous growth in the coming years. If shares were to revert to this target valuation by 2029, then multiple contraction would reduce annual returns by 13.4% over this time frame. Even though the company's dividend remained at the same level for a long period of time, shares of Eli Lilly have often traded with an above average dividend yield. The yield today is well below the average of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

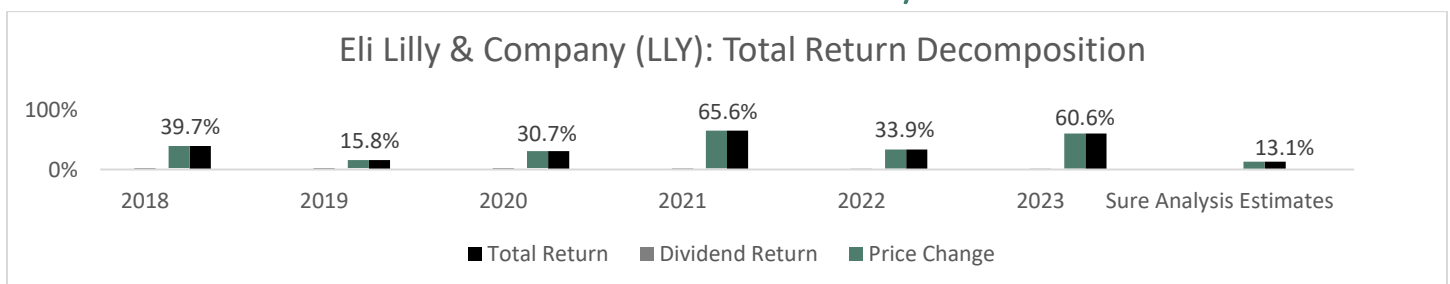
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	71%	58%	58%	49%	41%	43%	37%	42%	49%	72%	39%	21%

Eli Lilly's primary competitive advantage is the strength of newer pharmaceuticals in its portfolio. These products have shown very high rates of growth and should do so over the next few years. Another advantage is Eli Lilly's willingness to spend capital to improve its pipeline through acquisitions and research and development. Eli Lilly allocated 27% of sales into R&D in 2023 in order to augment their pipeline.

Final Thoughts & Recommendation

Eli Lilly is expected to return 13.1% annually through 2029, down from our previous estimate of 16.1%. Our projection stems from a 30% earnings growth rate and 0.6% starting yield that are partially offset by a low double-digit headwind from multiple compression. Eli Lilly continues to see growth in most of its important products, with the weight management products performing especially well. The company has now received approval for its Alzheimer's product in the U.S. and Japan, which should be a tailwind to future results. Shares are still trading well ahead of our target P/E, but the business is expected to perform well in the medium-term. Shares continue to earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	19616	19959	21222	19974	21493	22320	24540	28318	28541	34124
Gross Profit	14683	14922	15512	15526	16812	17598	19057	21006	21912	27042
Gross Margin	74.9%	74.8%	73.1%	77.7%	78.2%	78.8%	77.7%	74.2%	76.8%	79.2%
SG&A Exp.	6621	6533	6528	6429	5975	6214	6121	6432	6440	6941
D&A Exp.	1379	1428	1497	1567	1609	1233	1324	1548	1523	1527
Operating Profit	3329	3592	3674	4001	5785	5790	6850	7548	8280	10787
Op. Margin	17.0%	18.0%	17.3%	20.0%	26.9%	25.9%	27.9%	26.7%	29.0%	31.6%
Net Profit	2391	2408	2738	(204)	3232	8318	6194	5582	6245	5240
Net Margin	12.2%	12.1%	12.9%	-1.0%	15.0%	37.3%	25.2%	19.7%	21.9%	15.4%
Free Cash Flow	2893	1338	3759	3452	2506	3483	4471	5388	4600	(3152)
Income Tax	610	382	636	2391	530	628	1036	574	562	1314

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	36308	35569	38806	44981	43908	39286	46633	48806	49490	64006
Cash & Equivalents	3872	3666	4582	6536	7321	2338	3657	3819	2067	2819
Acc. Receivable	3235	3513	4029	4546	4594	4547	5875	6673	6896	9091
Inventories	2740	3446	3562	4458	3098	3191	3980	3886	4310	5773
Goodwill & Int.	4642	9075	8331	8399	2435	10297	11217	11584	11280	11846
Total Liabilities	20920	20979	24725	33313	32999	36587	40808	39651	38714	53143
Accounts Payable	1128	1338	1349	1411	1207	1405	1607	1671	1931	2599
Long-Term Debt	8022	7979	10305	13647	10299	15317	16595	16885	16239	25225
Total Equity	15373	14571	14008	11592	9829	2607	5642	8979	10650	10772
LTD/E Ratio	0.52	0.55	0.74	1.18	1.05	5.88	2.94	1.88	1.52	2.34

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.7%	6.7%	7.4%	-0.5%	7.3%	20.0%	14.4%	11.7%	11.7%	9.2%
Return on Equity	14.5%	16.1%	19.2%	-1.6%	30.2%	134%	150%	76.4%	76.4%	48.4%
ROIC	10.3%	10.5%	11.7%	-0.8%	13.9%	42.4%	30.6%	23.0%	23.0%	16.6%
Shares Out.	1,111	1,105	1,101	1,100	1,060	935	911	910	905	904
Revenue/Share	18.26	18.73	19.99	18.99	20.79	23.85	26.89	31.06	31.06	37.78
FCF/Share	2.69	1.26	3.54	3.28	2.42	3.72	4.90	5.91	5.91	(3.49)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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