Eli Lilly & Company (LLY)

$143.44 (As of 02/04/20)

Price Target (6-12 Months): **$151.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/31/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: D | Momentum: D	

Summary

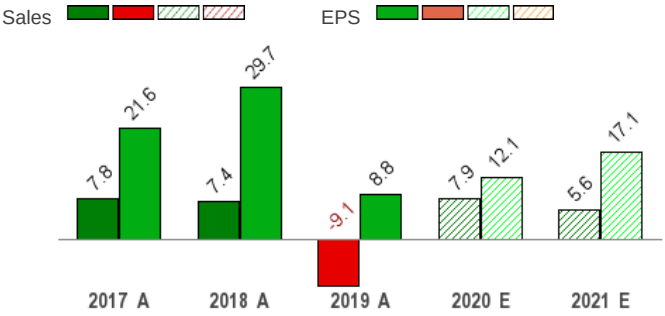
Lilly beat estimates for earnings and sales in the fourth quarter. Lilly boasts a strong presence across a wide range of therapeutic areas. In 2020, Lilly's revenue growth is expected to be driven by higher demand for newer drugs including Trulicity, Jardiance, Taltz, Verzenio, Basaglar, Emgality as well as newly launched Baqsimi and Reyvow. Lilly is making significant pipeline progress with several positive late-stage data readouts scheduled for 2020. Lilly is also regularly adding promising new pipeline assets through business development deals. However, generic competition for several drugs including the expected generic entry of Forteo, rising pricing pressure in the United States and price cuts in some international markets are some top-line headwinds expected in 2020. The stock has outperformed the industry in the past one year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$144.07 - $101.36**
20 Day Average Volume (sh)	**3,811,772**
Market Cap	**$137.7 B**
YTD Price Change	**9.1%**
Beta	**0.21**
Dividend / Div Yld	**$2.96 / 1.8%**
Industry	**Large Cap Pharmaceuticals**
Zacks Industry Rank	**Top 44% (113 out of 255)**
Last EPS Surprise	**13.8%**
Last Sales Surprise	**0.7%**
EPS F1 Est- 4 week change	**-0.1%**
Expected Report Date	**05/05/2020**
Earnings ESP	**0.0%**
P/E TTM	**23.8**
P/E F1	**21.2**
PEG F1	**2.0**
P/S TTM	**6.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					25,441 E
2020	5,488 E	6,036 E	5,943 E	6,632 E	24,092 E
2019	5,092 A	5,637 A	5,477 A	6,114 A	22,320 A

EPS Estimates

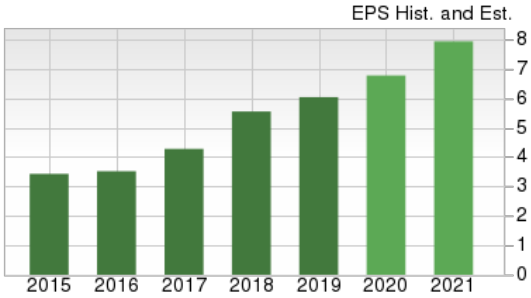
	Q1	Q2	Q3	Q4	Annual*
2021					$7.93 E
2020	$1.51 E	$1.71 E	$1.77 E	$1.80 E	$6.77 E
2019	$1.33 A	$1.50 A	$1.48 A	$1.73 A	$6.04 A

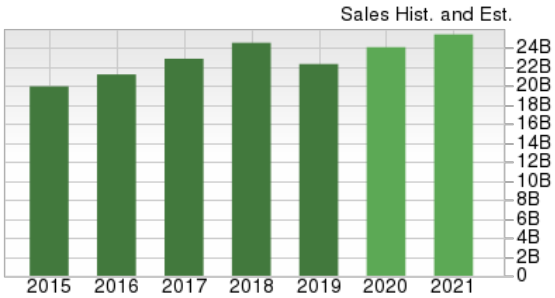
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

Indianapolis, IN based Eli Lilly and Company is a global healthcare company. Its pharmaceutical product categories are neuroscience (Zyprexa, Cymbalta, Emgality), diabetes (Humalog, Humulin, Trulicity and others), oncology (Alimta, Cyramza, Verzenio), immunology (Taltz and Olumiant) and cardiovascular (Cialis and Effient).





Over the past few years, Lilly has been actively seeking acquisitions and in-licensing deals to boost its product portfolio and pipeline. The $6.5 billion purchase of ImClone Systems in November 2008 brought with it blockbuster cancer compound, Erbitux. The January 2007 acquisition of ICOS Corporation gave Lilly full control over erectile dysfunction drug, Cialis. Its other acquisitions include Hypnion, Inc. (a neuroscience drug discovery company focused on sleep disorders), CoLucid Pharmaceuticals (which added lasmiditan for acute migraine) and ARMO BioSciences (which added cancer therapy pegilodecakin). The February 2019 acquisition of Loxo Oncology broadened the scope of Lilly's oncology portfolio into precision medicines.

Lilly has collaboration agreements with several companies including Merck KGaA (Erbitux), Pfizer (tanezumab), Daiichi Sankyo (Effient), Boehringer Ingelheim (diabetes), among others.

Lilly divested its Elanco animal health unit as an independent publicly traded company - Elanco Animal Health Incorporated - via an initial public offering (IPO) of a minority stake in 2018. Elanco Animal Health started trading with the ticker symbol ELAN on NYSE from Sep 20. Lilly divested the remaining 80.2% stake in the new company through a “tax-efficient transaction” in March 2019.

Lilly’s 2019 revenues increased 4% to $22.3 billion. Among the key drugs, Trulicity accounted for 18% of Lilly’s 2019 revenues, Humalog accounted for around 13%, Alimta accounted for 9% and Taltz accounted for 6% of the top line.

Reasons To Buy:

In 2020, Lilly's sales should be driven by higher demand for newer drugs including Trulicity, Taltz, Basaglar, Emgality and also newly launched Baqsimi and Reyvow.

- **Shares Outperforming Industry:** Lilly's share price has risen 20.3% in the past one year, outperforming the industry's 10.5% rise.

- **Key Products Target a Wide Range of Therapeutic Areas:** Lilly boasts of a wide range of products that serve a vast number of therapeutic areas. The company focuses primarily on central nervous system disorders, metabolic diseases, autoimmune diseases, cardiovascular diseases and cancer, which are all high growth areas and represent significant commercial potential.

- **Diabetes Business Going Strong:** Lilly has a strong portfolio of medicines to treat diabetes that includes drugs like Tradjenta, Jardiance, Trulicity, Synjardy, Synjardy XR, Glyxambi (a fixed dose combination of Jardiance/metformin), Basalgar and Humalog U-200 KwikPen. With the inclusion of the cardiovascular indication in Jardiance's label in 2017, there has been a surge in sales. Lilly is also developing an automated insulin delivery system (phase II) to automate insulin dosing in type I diabetes in order to make diabetes management easier. It also launched Insulin Lispro, a lower priced version of Humalog in the United States in May 2019 and will launch lower-priced versions of Humalog Mix75/25 and KwikPen and Humalog Junior KwikPen by mid-April.

- **Working on Building Its Pipeline:** Lilly has been working on building its pipeline and has a wide range of compounds in different stages of development. Lilly believes it has the potential to launch 20 new products in a 10-year time frame from 2014 through 2023. The company is also looking to launch an average of two new indications or line extensions for approved products every year during this time period.

  Lilly's key areas of focus are diabetes, oncology, immunology and neurodegeneration. Notable pipeline agents include tanezumab (osteoarthritis pain – under review in United States), mirikizumab (psoriasis – phase III, ulcerative colitis – phase III and Crohn's disease – phase III), Ultra-rapid Lispro/ultra-rapid acting insulin (type I and type II diabetes – under review in the U.S. and EU) and an oral RET inhibitor, selpercatinib (RET-altered lung and thyroid cancers - under review in United States and Europe; naive RET fusion-positive NSCLC and RET-mutant medullary thyroid cancer - phase III). A novel diabetes candidate in Lilly's pipeline is tirzepatide, a dual GIP and GLP-1 receptor agonist (GIP/GLP-1 RA), which showed impressive blood sugar reductions and weight loss in type II diabetes patients in October. Phase III studies began in late 2018. The company also plans to initiate a cardiovascular outcome study for tirzepatide in 2020. Tirzepatide is also in phase III studies for obesity and phase II in NASH.

  New drugs, Olumiant (in Europe) for rheumatoid arthritis, Verzenio (abemaciclib) for metastatic breast cancer, and Emgality (galcanezumab), its CGRP antibody, for the preventive treatment of migraine are off to strong starts. In July 2019, Lilly gained FDA approval for Baqsimi, its glucagon nasal powder to treat severe hypoglycemia in diabetes patients. Baqsim is the first and only nasally administered glucagon to be approved by the FDA. In October 2019, the FDA granted approval to Lilly's Reyvow (lasmiditan) oral tablets to treat acute migraine, thus boosting its portfolio of pain medicines. In 2020, Lilly expects to launch two medicines, selpercatinib and Ultra-rapid Lispro.

  Meanwhile, relatively newer drugs are also being evaluated for additional indications/label expansions. These include Taltz (ixekizumab) (approved for axial spondyloarthritis in August 2019 and launched for psoriatic arthritis in 2017/2018), Cyramza (under review in United States for first-line EGFR mutation positive NSCLC), and Verzenio (phase III for adjuvant breast cancer). Meanwhile, two phase III EMPEROR studies (outcomes studies) of Jardiance for chronic heart failure and a phase III study for chronic kidney disease are also ongoing. Olumiant is under review in Europe and Japan for atopic dermatitis and will be filed for the same in the United States later in 2020. It is also being studied in phase III studies for systemic lupus erythematosus and alopecia areata.

- **Committed to Dividend and Cost Savings:** Even though quite a few of Lilly's drugs are facing generic competition, the company returned to annual dividend hikes in December 2016 and regularly returns excess cash through share repurchases. Cash distribution to shareholders, through dividends and share buybacks, was around $2.6 billion in 2017, $1.7 billion in 2018 and $7 billion in 2019.

  Lilly is actively pursuing in-licensing deals and acquisitions to drive near-to-medium term growth. The company is also resorting to cost cutting and headcount reduction to drive the bottom line. Lilly is regularly investing the savings in new drugs and overall growth of the company.

- **Emerging Markets and Japan to Drive Long-Term Growth:** Lilly is looking toward Japan and emerging markets to drive growth in the coming years. Cyramza and Verzenio are bringing in robust sales in Japan given high unmet need. The company also launched Trulicity, Taltz, Jardiance and Olumiant in Japan, which are driving sales growth in the country.

Reasons To Sell:

> Generic competition for several drugs including the expected generic entry of Forteo, rising pricing pressure in the United States and price cuts in some international markets are some top-line headwinds expected in 2020.

- **Generic Threat to Key Products:** We are concerned about the patent expiration faced by several products in Lilly's portfolio. Products like Zyprexa, Cymbalta, Evista, and Gemzar are all facing declining sales due to generic competition. In 2017, Lilly lost patent protection for key drugs like Strattera, Axiron and Effient in the United States, which resulted in generic competition and consequent loss of sales. Lilly lost exclusivity for Cialis in September 2018 and generic versions entered the market in the same month resulting in rapid erosion of sales. Lilly lost exclusivity for Forteo in August 2019, making way for generic competition. Alimta sales outside the United States are being hurt due to loss of exclusivity in several countries. The drug's U.S. sales are also being affected by the entry of immuno-oncology agents in the market. The compound patent for Alimta expired in the United States in January 2017 and in major European countries and Japan in December 2015. Many generic manufacturers are looking for approval of generic versions of Alimta prior to the expiration of the vitamin regimen patent (expiring in 2021 plus pediatric exclusivity expiring in May 2022). Generic competition for Alimta following the loss of effective patent protection will cause a rapid decline in revenues from the product.

- **Pipeline Setbacks:** Lilly has had its share of development and regulatory setbacks. In October 2015, Lilly announced the termination of the development of its late-stage CETP inhibitor, evacetrapib. Lilly's decision was based on the recommendation of an independent data monitoring committee, which suggested that chances of meeting the primary endpoint were low.

  In November 2016, Lilly's key candidate solanezumab failed to meet the primary endpoint in a late-stage study that was conducted in patients with mild dementia due to AD. Lilly decided to drop the development of solanezumab. In June 2018, Lilly discontinued two late-stage studies on Alzheimer's disease lanabecestat on recommendation of the independent data monitoring committee (IDMC).

  In early 2018, Lartruvo, which had won conditional approval in 2016, failed to improve survival in patients with advanced soft tissue sarcoma in a late-stage confirmatory study, ANNOUNCE. With ANNOUNCE failing to confirm clinical benefit, Lilly stopped promoting Lartruvo, which is sharply hurting sales of the drug.

- **Intense Competition:** In addition to generic threats, Lilly's products already face intense competition in the market from both large pharma companies as well as small and mid-sized companies. Competition for Lilly's diabetes care products has increased with the entry of Novo Nordisk's Victoza. Novo Nordisk's Ozempic/semaglutide, which was launched in 2018, is posing strong competition to Lilly's key growth driver, Trulicity. In fact, Lilly is seeing pricing pressure across all its diabetes products, which creates uncertainty around the franchise's long-term growth prospects. A number of competitors are entering the diabetes space. For example, with the approval of Merck/Pfizer's, Steglatro and its combinations, competition in the SGLT2 inhibitors class has increased.

  Meanwhile, cancer drugs like Alimta and Cyramza are being impacted by competition from immuno-oncology agents in the United States. Meanwhile, Sanofi's biosimilar version of Humalog - Admelog – can create pricing pressure on Lilly's branded drug and erode its market share. Admelog was launched in 2018.

- **Global Pricing Pressure:** Global efforts toward health care cost containment are creating pricing pressure on drugs and market access. While many of the company's drugs face pricing pressures in the United States, in many markets outside the U.S., government-mandated pricing actions have led to lowering of generic and patented drug prices. All these factors are creating pressure on sales and profits of pharma companies. Also, changes in the U.S. healthcare system as part of the health care reforms could further create pricing pressure.

  This pricing pressure is expected to continue and hurt the top line in the future quarters.

Last Earnings Report

Lilly Q4 Earnings and Sales Top Estimates

Quarter Ending	12/2019
Report Date	**Jan 30, 2020**
Sales Surprise	**0.69%**
EPS Surprise	**13.82%**
Quarterly EPS	**1.73**
Annual EPS (TTM)	**6.04**

Lilly reported fourth-quarter 2019 adjusted earnings per share of $1.73, which comprehensively beat the Zacks Consensus Estimate of $1.52. Earnings rose 31% year over year as higher R&D costs were offset by higher revenues, lower tax rate and reduction in shares outstanding due to buybacks.

Revenues in Detail

Revenues of $6.11 billion beat the Zacks Consensus Estimate of $6.07 billion. Sales grew 8% year over year, backed by strong volume trends for its newer drugs, namely Trulicity, Taltz, Jardiance, Basaglar, Emgality and Verzenio, which compensated for lower sales of older products like Cialis and Forteo and the impact of Lartruvo's product withdrawal.

Foreign exchange hurt sales growth by 1% in the quarter. Lower realized prices had a negative impact of 1% on sales due to rebates and legislated increases in Medicare Part D cost sharing in the United States and price cuts in some international markets. Volumes rose 10%. Excluding Cialis' loss of exclusivity and the impact of Lartruvo, volume grew nearly 15%.

New pharma products (products launched since 2014) generated $2.8 billion in revenues and contributed 14% of revenue growth and represented nearly 46% total revenues, up from 44% in the previous quarter. The loss of exclusivity hurt volumes by 400 basis points, primarily attributed to Cialis.

U.S. revenues rose 7% to $3.52 billion while ex-U.S. revenues rose 10% to $2.6 billion.

Among the established products, Forteo sales declined 18% to $360.2 million. Alimta declined 5% to $530.7 million. Humalog sales dropped 1% to $763.4 million. Humulin sales rose 3% to $348.0 million.

Cialis sales declined 44% to $197.8 million as U.S. sales were hurt by entry of generic products. Outside U.S. sales were hurt by currency headwinds, which offset the impact of higher realized prices.

Among the new products, Trulicity generated revenues of $1.21 billion, up 31% year over year driven by higher demand in the United States and higher volumes in ex-U.S. markets, which offset the impact of lower realized prices and changes in segment mix. The prices were lower mainly in the United States due to higher contracted rebates, changes in segment mix and increased coverage gap funding requirements in Medicare Part D.

Cyramza revenues were $245.1 million, up 11% year over year driven by higher sales in both U.S. and international markets.

Jardiance sales rose 39% to $268.0 million, driven by increased demand trends within the SGLT2 class of diabetes medicines in the United States and increased volume outside the United States, which offset the negative impact of currency.

Basaglar recorded revenues of $307.2 million, up 32% year over year. In the United States, sales rose 34%, benefiting from higher demand and the impact of higher realized prices. Outside U.S. sales growth of 28% was driven by increased volume, partially offset by lower realized prices and currency headwinds.

Taltz brought in sales of $420.1 million, up 37% year over year as U.S. sales gained from higher demand, which offset the impact of lower realized prices due to unfavorable segment mix. Ex-U.S. sales were driven by increased volume from launches in new countries.

Olumiant generated sales of $127.8 million in the quarter compared with $114.6 million in the previous quarter backed by increased demand in international markets. In the United States, Olumiant recorded sales of $13.0 million compared with $12.1 million in the previous quarter. Revenues outside the United States were $114.9 million compared with $102.5 million in the previous quarter.

Verzenio generated sales of $179.1 million in the quarter, up from $157.2 million in the previous quarter driven by increased demand in the United States.

Emgality generated revenues of $66.3 million in the quarter compared with $47.7 million in the previous quarter. In the United States, Emgality sales were $63.1 million compared with $45.8 million in the previous quarter. Emgality sales outside the United States were $3.2 million in the fourth quarter.

Emgality captured 47% share of the market for new prescriptions in the United States, compared with 46% from the end of third quarter.

Gross Margin & Operating Income

Adjusted gross margin of 79.9% in the quarter was down 70 basis points due to unfavorable effect of foreign exchange rates on international inventories sold, unfavorable product mix and negative impact of price on revenues.

Operating income rose 10% year over year to $1.61 billion. Operating margin was 26.3% in the quarter, up 40 bps year over year.

Total operating expenses (including research and development and marketing, selling and administrative expenses) rose 6% in the quarter. Marketing, selling and administrative expenses were flat due to cost control, partially offset by increased investment behind recent launches. R&D expense rose 14% in the quarter due to higher development expenses for late-stage assets.

Adjusted effective tax rate was 12.6%, lower than 15.6% in the year-ago quarter.

2019 Results

Full-year 2019 sales rose 4% to $22.32 billion, beating the Zacks Consensus Estimate of $22.29 billion by a slight margin. However, sales were within the guided range of $22.0 billion - $22.5 billion.

Adjusted earnings of $6.04 per share beat the Zacks Consensus Estimate of $5.80 and came ahead of the guided range of $5.75 to $5.85. Earnings rose 11% year over year.

2020 Guidance

Lilly re-affirmed its 2020 adjusted earnings guidance in the range of $6.70-$6.80 per share, which it had issued in December last year. The earnings guidance represents growth in the range of 11%-13%. However, the company slightly raised its 2020 revenue guidance from a range of $23.6 billion-$24.1 billion to $23.7 billion-$24.2 billion to include Qbrexza, which will be added from the pending Dermira acquisition. Lilly expects new products to help it achieve the sales growth target as the headwind from Cialis LOE and Lartruvo will abate in 2020.

Gross margin guidance was maintained at approximately 81%. Adjusted tax rate is expected to be approximately 15%. Adjusted operating margin is expected to be 31% in 2020 (maintained).

Marketing, selling and administrative expense is expected to be in the range of $6.2 to $6.4 billion compared with $6.1 billion to $6.3 billion previously. Research and development expense is still expected to be in the range of $5.6 billion to $5.9 billion.

Going forward, Lilly's revenue growth is expected to be driven by higher demand for its newer drugs including Trulicity, Jardiance, Taltz, Verzenio, Basaglar, Emgality as well as newly launched glucagon nasal powder, Baqsimi and potential launch of newly approved oral tablets to treat acute migraine, Reyvow. However, generic competition for several drugs including the expected generic entry of Forteo, rising pricing pressure in the United States due to rebates and legislated increases in Medicare Part D cost sharing, and price cuts in some international markets like China, Japan and Europe are some top-line headwinds expected in 2020. In the United States, prices are expected to decline in a low-single digit range.

Recent News

Launches Reyvow Tablets – Jan 31

Lilly announced launch of Reyvow (lasmiditan) C-V 50 mg and 100 mg tablets to treat acute migraine, with or without aura, in adults. Reyvow, which was approved by the FDA in October 2019, is now available for prescription and will be available in pharmacies in the next few days. Reyvow will be available in 50 mg, 100 mg and 200 mg doses for patients.

CHMP Nod to Ultra-Rapid-Acting Lispro – Jan 31

Lilly announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) has given a positive opinion recommending approval of its ultra-rapid-acting lispro (URLi), a new fast-acting formulation of insulin lispro to improve glycemic control in adults with type 1 and type 2 diabetes. URLi is also under review in the United States.

Phase III BREEZE-AD5 Study on Olumiant in Eczema Succeeds – Jan 30

Lilly & Incyte's phase III study evaluating Olumiant, in patients with moderate-to-severe atopic dermatitis (AD), met the primary endpoint. Top-line data from the BREEZE-AD5 study showed that 16-week treatment with 2mg dose of Olumiant met the primary endpoint of at least 75% improvement in skin inflammation, measured by Eczema Area and Severity Index ("EASI"), from baseline. BREEZE-AD5, conducted in North America, evaluated 1-mg and 2-mg doses of Olumiant as a monotherapy in AD patients.

The higher dose of the drug also met a key secondary endpoint of another measure of skin inflammation defined by clear or almost clear skin and at least 2 points improvement in the validated Investigator's Global Assessment for AD. This marks the fifth successful completion of a late-stage study evaluating Olumiant in AD patients.

Detailed data from the study will be presented at future scientific conferences and published in peer-reviewed journals. The company completed successfully four other phase III AD studies – BREEZE-AD1, BREEZE-AD2, BREEZE-AD4 and BREEZE-AD7.

Olumiant is under review in Europe as a treatment for patients with moderate-to-severe atopic dermatitis. Lilly also plans to submit regulatory application in the United States for the atopic dermatitis indication this year. The data from the BREEZE-AD5 study will support the U.S. filing.

FDA's Priority Review to Selpercatinib NDA – Jan 29

Lilly announced that the FDA has granted priority review status to its new drug application (NDA) for selpercatinib seeking approval of selpercatinib for RET-altered lung and thyroid cancers based on data from the LIBRETTO-001 phase I/II study. With the FDA granting priority review to the NDA, a decision is expected in the third quarter of this year.

FDA's Approval to Triple Combo Diabetes Pill – Jan 27

Lilly announced that the FDA has granted approval to it and partner, Boehringer Ingelheim's Trijardy XR, a triple-combination tablet for adults with type II diabetes. Trijardy XR, a once daily therapy provides three type II diabetes medicines, Jardiance, Tradjenta and metformin hydrochloride extended release, in one pill. Trijardy XR will be available in four different dosages.

Phase III BREEZE-AD4 Study on Olumiant in Eczema Succeeds – Jan 27

Lilly & Incyte's phase III study evaluating Olumiant in patients with moderate-to-severe atopic dermatitis (AD) met the primary endpoint of at least 75% improvement of skin inflammation. The primary endpoint of the studies was defined by the proportion of participants achieving at least 75% or greater change from baseline in their Eczema Area and Severity Index (EASI) at week 16.

The BREEZE-AD4 study, which was conducted outside the United States, evaluated Olumiant (1-mg, 2-mg and 4-mg doses) in combination with topical corticosteroids (TCS) in patients with moderate-to-severe AD who failed conventional systemic treatments like cyclosporine. In the study, the 4-mg dose of baricitinib plus TCS met the primary endpoint.

To Launch Cheaper Versions of Humalog KwikPen Insulins — Jan 14

Lilly announced plans to launch lower-priced versions of two of its insulin products, Humalog Mix75/25 KwikPen and Humalog Junior KwikPen. The list price of these low-priced insulin injections will be 50% lower than the current list price of the branded options. The lower-priced version of Humalog Mix75/25 will be known as Insulin Lispro Protamine and Insulin Lispro Injectable Suspension Mix75/25 KwikPen (100 units/mL) while that of Humalog Junior KwikPen will be known as Insulin Lispro Injection Junior KwikPen. The cheaper KwikPens pack of five will cost $265.20 and is expected to be available from mid-April.

Data from Phase III Lung Cancer Study on Tyvyt + Alimta — Jan 13

Lilly and partner Innovent Biologics announced interim data from the phase III ORIENT-11 study in China, which evaluated Tyvyt (sintilimab injection) plus Lilly's Alimta and platinum as first-line therapy in non-squamous NSCLC. The study met the predefined primary endpoint of progression-free survival (PFS) in an interim analysis conducted by the Independent Data Monitoring Committee (IDMC). The data showed that Tyvyt plus Alimta and platinum led to a statistically significant improvement in PFS compared with placebo plus Alimta and platinum,

Tyvyt was jointly developed in China by Innovent and Lilly and is marketed in the country for relapsed or refractory classic Hodgkin's lymphoma after at least second-line system chemotherapy,

Offers to Buy Dermira — Jan 12

Lilly announced a definitive deal to buy dermatology company, Dermira for $18.75 per share in cash or approximately $1.1 billion. The deal will

add Dermira's promising interleukin inhibitor for atopic dermatitis/eczema, lebrikizumab, thereby expanding Lilly's immunology pipeline.

Lebrikizumab, a monoclonal antibody that targets IL-13, is being developed in phase III studies for moderate-to-severe atopic dermatitis in adolescent and adult patients, aged 12 years and older. It also enjoys Fast Track designation from the FDA granted last month. The deal will also add Dermira's marketed medicated cloth, Qbrexza for the topical treatment of primary axillary hyperhidrosis to Lilly's immunology portfolio, which includes drugs like Taltz for psoriasis and Olumiant for rheumatoid arthritis. The transaction is expected to be closed by the end of the first quarter of 2020.

Valuation

Lilly's shares are up 9.2% in the year-to-date period and 20.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 0.5% and 0.4% in the year-to-date period. Over the past year, stocks in the sub-industry and sector are up 10.5% and 1%, respectively.

The S&P 500 Index is up 0.9% in the year-to-date period and 18.1% in the past year.

The stock is currently trading at 20.88X forward 12-month earnings per share which compares to 15.14X for the Zacks sub-industry, 20.81X for the Zacks sector and 18.6X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 26.36X and as low as 14.86X, with a 5-year median of 19.53X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $151 price target reflects 22.0X forward 12-month earnings per share.

The table below shows summary valuation data for LLY.

Valuation Multiples - LLY

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.88	15.14	20.81	18.6
	5-Year High	26.36	18.1	21.25	19.34
	5-Year Low	14.86	13.94	15.84	15.18
	5-Year Median	19.53	15.53	18.9	17.46
P/S F12M	Current	5.72	4.67	2.79	3.45
	5-Year High	5.72	4.84	3.82	3.45
	5-Year Low	3.33	3.93	2.44	2.54
	5-Year Median	4.15	4.43	2.95	3
P/B TTM	Current	39.78	6.78	4.49	4.44
	5-Year High	48.95	7.26	5.03	4.54
	5-Year Low	4.66	3.78	3.43	2.85
	5-Year Median	6.35	5.18	4.29	3.62

As of 2/4/2020

Industry Analysis **Zacks Industry Rank:** Top 44% (113 out of 255)

Top Peers

Bristol-Myers Squibb Company **(BMY)**	Outperform
AbbVie Inc. **(ABBV)**	Neutral
AstraZeneca PLC **(AZN)**	Neutral
GlaxoSmithKline plc **(GSK)**	Neutral
Merck & Co., Inc. **(MRK)**	Neutral
Novo Nordisk A/S **(NVO)**	Neutral
Novartis AG **(NVS)**	Neutral
Sanofi **(SNY)**	Neutral

Industry Comparison Industry: Large Cap Pharmaceuticals

Industry Peers

	LLY Neutral	X Industry	S&P 500	AZN Neutral	BMY Outperform	NVO Neutral
VGM Score	D	-	-	B	A	B
Market Cap	137.72 B	132.83 B	24.31 B	127.93 B	104.75 B	145.85 B
# of Analysts	5	3	13	5	3	3
Dividend Yield	1.80%	2.56%	1.78%	1.80%	2.80%	1.03%
Value Score	C	-	-	C	B	C
Cash/Price	0.01	0.05	0.04	0.04	0.32	0.02
EV/EBITDA	27.79	14.67	13.98	19.64	14.62	17.60
PEG Ratio	2.00	2.01	2.01	1.44	0.79	2.27
Price/Book (P/B)	39.78	5.90	3.29	9.36	5.90	18.49
Price/Cash Flow (P/CF)	20.67	12.73	13.58	15.18	14.67	22.39
P/E (F1)	21.19	15.96	18.82	23.33	10.64	21.82
Price/Sales (P/S)	6.17	4.33	2.66	5.30	4.33	8.09
Earnings Yield	4.72%	6.26%	5.30%	4.29%	9.39%	4.58%
Debt/Equity	4.09	0.55	0.71	1.29	1.37	0.06
Cash Flow ($/share)	6.94	4.27	6.92	3.21	4.38	2.75
Growth Score	D	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	16.64%	8.74%	10.80%	-2.47%	20.32%	9.01%
Proj. EPS Growth (F1/F0)	12.15%	6.77%	7.40%	15.60%	39.17%	15.71%
Curr. Cash Flow Growth	20.58%	10.27%	10.22%	-3.77%	24.21%	7.15%
Hist. Cash Flow Growth (3-5 yrs)	4.33%	6.17%	8.55%	-5.68%	13.59%	5.65%
Current Ratio	1.17	1.22	1.21	0.92	3.83	1.00
Debt/Capital	80.34%	35.53%	42.91%	56.26%	57.87%	5.24%
Net Margin	37.27%	20.26%	11.79%	8.42%	23.53%	32.44%
Return on Equity	188.01%	38.63%	17.24%	38.63%	45.49%	75.48%
Sales/Assets	0.58	0.53	0.55	0.40	0.53	1.03
Proj. Sales Growth (F1/F0)	7.94%	6.46%	4.10%	9.84%	73.03%	8.18%
Momentum Score	D	-	-	A	C	D
Daily Price Chg	1.73%	0.99%	1.49%	0.52%	1.12%	1.03%
1 Week Price Chg	0.41%	-0.77%	-2.60%	-1.18%	-1.89%	-0.41%
4 Week Price Chg	8.25%	1.31%	0.51%	-2.62%	0.56%	8.15%
12 Week Price Chg	26.75%	6.97%	4.44%	3.57%	10.10%	7.88%
52 Week Price Chg	19.11%	14.31%	14.65%	31.78%	28.19%	26.21%
20 Day Average Volume	3,811,772	2,607,037	1,935,862	2,518,288	14,458,755	1,325,499
(F1) EPS Est 1 week change	-0.14%	0.00%	0.00%	0.00%	0.00%	-0.35%
(F1) EPS Est 4 week change	-0.14%	-0.21%	0.00%	0.38%	-0.69%	-0.47%
(F1) EPS Est 12 week change	4.94%	0.46%	-0.10%	1.95%	11.68%	-2.76%
(Q1) EPS Est Mthly Chg	NA%	-4.85%	0.00%	NA	0.00%	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	D
VGM Score	D

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