

Eli Lilly and Company

US CORE HOLDING*

Recommended since 17.11.20

04.08.2022



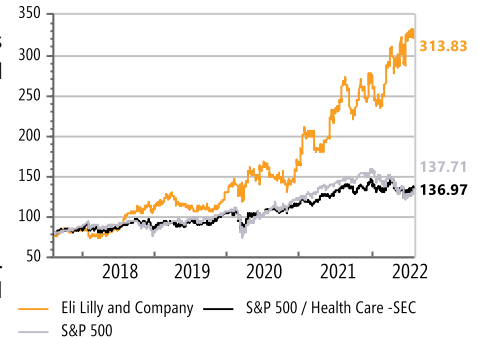
Country	US	Market capitalization (bn)	USD	298.8	Perf. since reco. (%)	
Sector	Health Care	Free float		83.4%	Eli Lilly and Company	122.3
Factset	LLY-US	Closing price	USD	313.83	Sector	19.0
ISIN	US5324571083	ESG Risk score*	32.4	High risk		



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Eli Lilly is an American pharmaceutical group founded in 1876. Since the spin-off of its animal health division (Elanco) in 2018, the Group has been focusing on its pharmaceutical business, specialising in neuroscience, endocrinology, oncology, and immunology.



Source: Factset

Market - competition - positions - barriers to entry

A pure player in the pharmaceutical sector, Eli Lilly is one of the world's ten largest groups. The barriers to entry are innovation, with a high R&D budget (25% of sales), the clinical development process, the complexity of molecules and the regulatory environment.

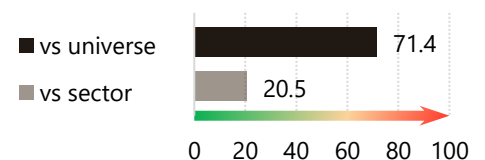
Investment case

- Eli Lilly will benefit over the medium term from a well-established product portfolio, the ramp-up of recent launches and a solid pipeline that offers an opportunity both to renew existing therapies and to expand into new areas. The evolution of its portfolio towards new generation products will allow a significant improvement in margin. The Group should be able to generate revenue and EPS growth of 8% and 12% per year respectively by 2025.
- Patent expiries will be limited (14% of sales) and will be more than offset by recent launches, which will account for more than 50% of sales by 2025 (vs. 33% in 2019). The GLP-1 (type II diabetes) franchise will be a major long-term growth driver, with the ongoing launch of Mounjaro (tirzepatide - GLP-1/GIP combination). In view of the data presented (30%-50% of patients have achieved an HbA1c of less than 5.7%, estimated as a normal blood glucose level) and the first positive results published in obesity, we believe Mounjaro has the potential to change the competitive environment and sustain the growth of the franchise. Verzenio (HR+/HER2- hormone receptor expressing breast cancer) and Taltz (psoriasis) also represent medium-term opportunities. Competing with Pfizer's Ibrance and Novartis' Kiskali, Verzenio is the first drug approved as adjuvant therapy (administration after first-line treatment to prevent the risk of relapse).
- The pipeline includes 45 new molecules in development, 2 under regulatory review for approval, 6 in phase III and 15 in phase II. Donanemab (Alzheimer's disease - antibody targeting amyloid plaques) will be submitted for FDA approval at the end of the year based on phase II data. However, we do not expect sales for this drug until the phase III study is published in mid-2023, which will provide a better perception of its effectiveness. Same therapeutic class as Biogen's Aduhelm, donanemab differs by a shorter treatment duration and a more rapid and radical action on amyloid plaques (disappearance). Donanemab represents \$20/share in our valuation. If clinically successful, this treatment has the potential to transform the group's long-term growth but its risk profile remains high.

ESG - risks and key points

- Lilly's level of ESG risk is high due to its exposure to the US market (57% of sales) and chronic diseases (67%), which may result in more litigation related to side effects. In the past, the Group has been involved in many controversies.
- Laboratories marketing insulin are facing increasing pressure to lower prices. Lilly launched a half-price version of Humalog (the rapid-acting insulin) in April 2020, responding to criticism.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current Price	Value Bordier Scenario
314	330

Our scenario assumes a US risk-free interest rate of 3.5%, sales growth averaging 8% a year out to 2025 before declining to 5% on average/year over the 2026-2032 period; a 650 basis points uplift in the EBITDA margin to 41% by 2027 followed by a stabilisation.

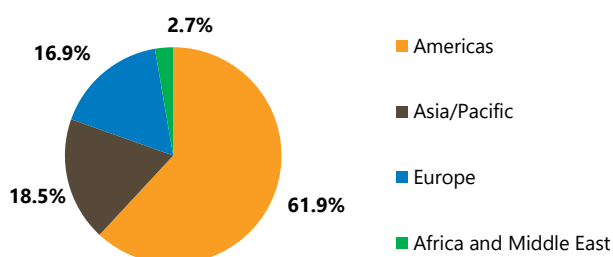
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
Sales revenue	24'540	28'318	29'026	30'913	34'932
Sales growth %	9.9%	15.4%	2.5%	6.5%	13.0%
<i>o/w organic</i>	<i>7.0%</i>	<i>14.0%</i>	<i>2.5%</i>	<i>6.5%</i>	<i>13.0%</i>
EBIT adjusted	7'265	8'457	8'708	9'738	11'527
% of sales	29.6%	29.9%	30.0%	31.5%	33.0%
Net income	6'191	7'437	7'403	8'234	9'798
Adjusted EPS	6.78	8.16	8.12	9.03	10.75
Adjusted EPS growth	12.3%	20.2%	-0.5%	11.2%	19.0%
Capex/Sales	5.7%	4.6%	4.5%	4.5%	4.5%
Free cash-flow	5'112	5'951	6'927	7'509	8'602
FCF/Sales	20.8%	21.0%	23.9%	24.3%	24.6%
Dividend per share	2.96	3.40	3.72	4.16	4.97
Dividend yield	1.8%	1.2%	1.2%	1.3%	1.6%
ROCE - WACC	20.0%	24.4%	23.8%	26.9%	32.3%
ROE (%)	109.7%	82.8%	58.5%	48.9%	44.3%
Net debt/Ebitda	160.9%	148.8%	96.4%	48.0%	2.4%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	Eli Lilly and Company	S&P 500	
		Secteur	Marché
PE (x)***		Health Care	SP 500
2021	33.9	16.8	21.2
2022e	38.6	16.3	18.5
2023e	34.7	16.5	17.1
P/B (x)***			
2021	29.2	5.0	4.5
2022e	23.6	4.6	4.0
2023e	17.7	4.1	3.6
Beta (2Y, daily) vs market: 0.58			

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2017 - CEO Dave Ricks

Key shareholders (if any):

The Lilly Endowment Inc. family foundation holds 11.9% of the capital.

Agenda

04 Aug. 2022: Q2 results

01 Nov. 2022: Q3 results / 13 Dec. 2022: 2023 Guidance

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None.

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainability, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital & b-Transition

Over and above the standard geographical and sectoral approaches to asset management, at B&Cie we believe that the world of tomorrow is shaped by structural trends. We have identified two main structural trends: ongoing digital globalisation of the economy and economic transition, particularly in the energy sector. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", while those in the economic transition space are labelled "b-Transition". A given recommendation may fall under both themes at once, in which case it will carry both labels.

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