

US EQUITY RESEARCH

3 June 2025

Eli Lilly and Co

Strong 1Q25 performance overshadowed by lowered profit guidance

Company Overview

Eli Lilly and Company is an American-based pharmaceutical company operating in the human therapeutics segment. The company discovers, develops, manufactures, and markets various human therapeutics, and is well known for its diabetes, oncology, immunology, and neuroscience products. The company mainly focuses on the US market (c.64% of FY24 sales). As of 30 May 2025, Eli Lilly is globally the largest pharmaceutical company by market capitalisation.

Investment Overview

Strong product sales drive revenue growth, but elevated R&D expenses impact profitability. In 1Q25, adjusted EPS rose 29% y/y to USD3.34, surpassing consensus estimates of USD3.25, while revenue increased 45% y/y to USD12.7bn, exceeding expectations of USD12.6bn. This growth was primarily driven by the diabetes and obesity treatments Mounjaro and Zepbound, which generated USD3.8bn and USD2.3bn in sales, respectively. However, the quarter included USD1.7bn in acquired in-process R&D (IPR&D) expenses, which, along with net investment losses, compressed operating margins. Despite these challenges, the company maintained strong free cash flow, supporting ongoing investments in manufacturing expansion and pipeline development.

Lowered profit guidance reflects increased R&D spending and investment losses, despite strong revenue outlook. The company reaffirmed its FY25 revenue guidance of USD58–USD61bn but reduced its adjusted EPS forecast to USD20.78–USD22.28 from the previous range of USD22.50–USD24.00. Management attributed this revision to anticipated net losses on equity investments and higher IPR&D charges. They emphasized continued confidence in the growth trajectory of Mounjaro and Zepbound, citing plans to expand manufacturing capacity by 60% in the first half of the year to meet rising demand. Additionally, the company is progressing with regulatory submissions for new indications of its Alzheimer's treatment, Donanemab, which could contribute to future revenue streams. Capital allocation priorities remain focused on reinvesting in growth initiatives, including R&D and capacity expansion, while maintaining a commitment to shareholder returns through dividends.

Share price driver: Clinical readout of oral GLP-1 Orforglipron for diabetes and weight loss. Globally, c.800m adults are deemed overweight or obese. In May 2022 and November 2023, Lilly launched Mounjaro and Zepbound respectively. These two drugs skyrocketed to popularity, together making up 25% of Lilly's 4Q23 revenues. Currently, weight loss drugs are all administered through injections. Lilly is developing its oral GLP-1 drug Orforglipron for weight loss and diabetes which saw clinical readout from its phase 3 trial results in April 2025, sending its stock up by 13.8% at market open the day results were announced. Other trials on Orforglipron are due to read out later this year, with approval application expected to be submitted by the end of 2025. These read outs and approval progress are likely to boost Lilly's share price.

We have a BUY rating on Eli Lilly, with TP of USD900. Our TP is based on 41.7x 25F PE, which is 0.6SD higher than its five-year average due to strong share price catalysts as mentioned from products targeting huge potential markets.

Risks

Patent cliff for key products. The patent of one of Lilly's key product, Trulicity, will see patent expiry in 2027. The product is used to treat diabetes and contributed 21% of group sales in 2023. We expect drug sales to come under pressure after 2027.

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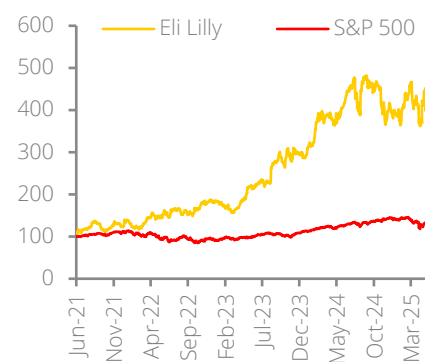
Key Financial Data

Bloomberg Ticker	LLY US
Sector	Health Care
Share Price (USD)	737.67
DBS Rating	BUY
12-mth Target Price (USD)	900.00
Market Cap (USD\$b)	699.1
Volume (m shares)	6.1
Free float (%)	89.7
Dividend yield (%)	0.8
Net Debt to Equity (%)	219.8
Fwd. P/E (x)	34.0
P/Book (x)	49.2
ROE (%)	93.5

Closing Price as of 30 May 2025

Source: Bloomberg, DBS

Indexed Share Price vs Composite Index Performance (indexed)



Source: Bloomberg

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Financial Summary (USD MN)

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Sales	28,541	34,124	45,043	59,553	71,253
% y/y	0.8	19.6	32.0	33.0	19.6
Gross Profit	22,486	27,548	37,178	49,176	59,096
% y/y	2.6	22.5	35.0	32.6	20.1
EBITDA	9,335	8,309	15,968	26,102	34,528
% y/y	2.6	(11.0)	92.4	64.6	32.2
Net Profit (Loss)	7,186	5,712	11,746	19,571	26,798
% y/y	6.7	(20.5)	105.6	66.6	36.9
FCF	5,230	792.5	3,760	17,028	22,637
% y/y	(12.1)	(84.8)	374.5	352.9	48.5
CAPEX	1,854	3,448	5,058	4,848	4,764
% y/y	41.6	85.9	46.7	(4.1)	(3.8)
EBITDA Margin (%)	33.2	25.1	35.4	43.8	48.4
Net Margin (%)	25.2	16.7	26.1	32.9	37.6
ROA (%)	14.6	10.1	16.5	22.7	25.9
ROE (%)	72.1	52.8	93.5	96.7	78.4
Tax Rate (%)	10.3	20.1	16.9	16.8	16.1

Source: Visible Alpha

Valuation Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
P/E	46.1	92.2	59.4	34	24.7
P/B	31.1	48.9	49.2	25.6	15.4
Dividend Yield	1.1	0.8	0.7	0.8	0.9
EV/EBITDA (x)	38.1	63.3	45	26.7	20.2
FCF Yield %	1.6	0.2	0.5	2.6	3.4

Source: Visible Alpha

Credit & Cashflow Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Debt / Equity	150.7	232.2	235.7	122.7	72.2
Net Debt / Equity	1.3	2.1	2.1	0.8	0.2
Debt / Assets	32.8	39.4	42.7	33.2	26.5
Net Debt / Assets	0.3	0.3	0.4	0.2	0.1
EBITDA / Int Exp	28.1	17	20.4	30.8	39.1
Debt / EBITDA	0.1	0.3	0.2	0.1	0.1
ST Debt / Total Debt (%)	1.7	2.9	2.1	1.2	0.9
[Cash + CFO] / ST Debt	6.5	1	2.4	6.8	12
Receivables Days	109.5	121.3	107.6	97.3	93.9
Days Payable	24.7	27.8	26.2	23.9	23.6
Inventory Days	55.1	61.7	61.5	53.3	50.5

Source: Visible Alpha

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Target Price & Ratings History



Source: DBS

Analysts: Nico CHEN
Mark KONG

#	Date of Report	Closing Price	12-m Target Price	Rating
1	13 Aug'24	908.05	1060.00	BUY
2	15 Oct'24	913.32	1115.00	BUY
3	23 Jan'25	753.98	900.00	BUY
4	17 Feb'25	844.27	1010.00	BUY

DBS Group Research recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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