HILLIARD LYONS

COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

Pharmaceuticals
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Key Metrics

LLY - NYSE (as of 01/31/18)		$81.45
2 Year Price Target		$104.00
52-Week Range		$76.71 - $89.07
Shares Outstanding (mm)		1,057
Market Cap. ($mm)		$89,684
1-Mo. Average Daily Volume (000s)		1,242
Institutional Ownership		78.9%
Debt / Total Capital		-
ROE (TTM)		-1.5%
Book Value / Share		$11.69
Price / Book Value		7.0x
Indicated Dividend / Yield	$2.25	2.8%
TTM Operating Margin		21.6%

Non-GAAP EPS FY 12/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	$0.98	$1.05	$1.08		$1.22
2Q	$1.11	$1.19	$1.23		$1.33
3Q	$1.05	$1.30	$1.44		$1.56
4Q	$1.14	$1.06	$1.07		$1.23
Year	$4.28	$4.61	$4.82	$5.14	$5.35
P/E	19.0x		16.9x		15.2x

Figures may not add up due to rounding

Revenue ($billions)

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	$5.23	$5.42	$5.36		$5.58
2Q	$5.82	$5.86	$5.80		$5.92
3Q	$5.66	$5.90	$5.88		$6.01
4Q	$6.16	$5.90	$6.07		$6.30
Year	$22.87	$23.08	$23.11	$23.89	$23.81

Company Description *– Eli Lilly & Company is a multinational biopharmaceutical company focused on developing and marketing innovative medicines in the areas of endocrinology, oncology, neuroscience, pain, and autoimmune diseases. The company also sells several cardiovascular medicines.*

Eli Lilly & Company

LLY – NYSE – Long-term Buy – 1

A Strong Quarter; Investor Fixation on 2018 Diabetes Competition Creates even more Compelling Buying Opportunity

- **4Q17 Results:** LLY reported revenues of $6.16 billion, growth of 6.9% year-over-year. This exceeded our estimate of $5.84 billion and the Street consensus estimate of $5.94 billion. Non-GAAP EPS were $1.14 compared to our estimate of $1.00 and the Street consensus of $1.07. Management raised 2018 non-GAAP EPS guidance as a result of tax reform, but left guidance for other metrics unchanged.
- **Positive Highlights:** The insulin franchise as well as Trulicity and Forteo led the Endocrinology portfolio to exceed our estimates. Cyramza and Alimta boosted the Oncology business over our estimates as well. The gross margin (non-GAAP) contracted 92 basis points year-over-year to 76.5% but still managed to beat our conservative 74.3% estimate.
- **Negative Highlights:** Jardiance and Taltz, key new drugs, missed our estimates. The Animal Health segment disappointed yet again as the companion animal business fell well short of our estimates. Pricing issues caused Basaglar to fall short of our estimates. Operating expenses, both MS&A and R&D, came in above our estimates.
- **Outlook and Estimates:** Our outlook for Lilly remains positive. The market appears to be irrationally focused on new competition in diabetes that we adjusted our model for back in August while still maintaining our bullish rating. Furthermore, we are confident in Lilly's diabetes franchise and remind investors Lilly has multiple pipeline assets that could potentially more than offset this 2018 competitive headwind. Please see the table to the left and page 6 for details regarding estimate changes.
- **Valuation and Rating:** Using both a P/E and DCF valuation methodology (see page 6), we are increasing our two year price target to $104 from $100 and maintaining our Long-term Buy rating.

Note Important Disclosures on pages 9 and 10
Note Analyst Certification on page 9

ADDITIONAL COMMENTARY

Earnings Conference Call and Other Notes

- Tax reform delivered a strong boost to the earnings outlook, as Lilly guided their GAAP and non-GAAP effective tax rate down to 18% and emphasized the ready access to $9 billion in cash worldwide. In addition to paying down debt, management seemed eager to deploy that cash in to early stage oncology acquisitions.
- A significant portion of the Q&A was dedicated to competition in diabetes. Most of the focus was on Ozempic (semaglutide), the new GLP-1 drug (the same mechanism of action as Trulicity) from Novo Nordisk. As we have noted before, we do believe Ozempic presents a problem to the incredible growth and market share gains of Trulicity. However, we do buy management's argument that the class growth of the GLP-1 market (still less than 30% versus the basal insulin market) will enable Trulicity to continue growing. Furthermore, management noted there were minimal switches from Victoza (Novo's earlier generation GLP-1) to Trulicity. Some Q&A time was also spent on the potential of an oral version of semaglutide that could hit the market next year if trials churn out positive results. Whereas management generally acknowledged the competitive threat from Ozempic (the injectable), they seemed to reject the threat of an oral version that could present side effect and fasting requirements. Each situation is different in terms of the patient's involvement in therapeutic choice, but we believe the oral versus subcutaneous option will be substantially driven by the patient. We therefore expect oral semaglutide to carve out a dedicated but small niche among those wanting to avoid injections at all cost, and we believe Novo's attempt to position it earlier in the treatment line will be a longer term proposition. We note we had already adjusted our model after semaglutide safety data came in better than expected and are a bit surprised by the delayed reaction of the market. In our opinion, based on Q&A and the price action yesterday, we believe the market is focusing far too much on these competitive threats while ignoring Lilly's pipeline, including what could be a great counter punch from a GIP/ GLP-1 co-agonist. A DACRA molecule for diabetes is also in Phase 2 trials.
- Speaking of the pipeline, management and sell-side analysts seem to be addressing tanezumab, the non-opioid pain killer, more frequently in recent conferences. We remind investors we believe this drug has significant potential, yet it doesn't appear to be factored into estimates based on what we see from data providers. Additionally, although it is essentially a me-too drug of JNJ's Tremfya, the potential for mirikizumab to break into the ulcerative colitis (Tremfya is currently approved in psoriasis) first should not be dismissed by investors.
- Some time was spent on Elanco's poor performance. We encourage investors to review our 3Q17 earnings report for more discussion on the strategic review of the unit.

Revenue Review				
Drug/ Category *(in millions)*	**Our Estimate**	**4Q17 Results**	**4Q17 Y/Y Growth**	**2017 Y/Y Growth**
Neuroscience	437	497	-23.5%	-20.2%
Humalog	724	782	-4.6%	3.5%
Humulin	358	363	2.1%	-2.2%
Forteo	451	513	21.5%	16.6%
Tradjenta	134	130	22.6%	23.2%
Jardiance	155	143	88.2%	121.6%
Trulicity	554	649	92.6%	119.3%
Basaglar	176	154	289.4%	401.9%
Other Endocrinology	149	177	-25.1%	-13.7%
Taltz	183	173	181.4%	394.3%
Olumiant	24	23	N/A	N/A
Alimta	490	525	-3.0%	-9.7%
Cyramza	192	205	15.6%	23.5%
Lartruvo	60	59	395.8%	1605.9%
Verzenio	5	21	N/A	N/A
Other Oncology	165	201	12.5%	-5.6%
Cialis	617	597	-11.7%	-6.0%
Other Cardiovascular	90	101	-47.8%	-27.3%
Other Pharmaceutical	40	57	44.8%	20.4%
Animal Health	832	791	-5.6%	-2.3%
Total Revenue	**5,837**	**6,161**	**6.9%**	**7.8%**

Source: Company Reports, Hilliard Lyons Estimates

Performance Review

- Revenue growth of 6.9% exceeded our estimate and the Street consensus. Volume growth of 6% in the Pharmaceutical segment was driven mostly by new products, with 4% volume growth in the U.S. Japan was the best performing region in terms of volume growth at 10% but was held back by a 5% currency headwind. A currency tailwind of 8% pushed Europe to be the best performing region at 17% growth.
- The **Neuroscience** portfolio continues to dwindle but beat our estimate. The portfolio will lose all remaining exclusivities this year.
- Within **Endocrinology**, Trulicity continues to outpace our estimates as a rapidly growing class and market share gains delivered solid outperformance. Humalog beat our estimate while Humulin narrowly missed. Humalog is also subject to more competition in 2018 with Sanofi's biosimilar now on the market. Jardiance revenue posted strong growth but fell short of our estimate and its share of New Therapy Starts (NTS Rx) appeared to flat line. Basaglar revenue fell well short of our estimate due to pricing/ rebate issues. Forteo delivered a strong beat but continues to lean on price increases for domestic growth. On the other hand, Forteo international growth of 8% was driven at least partially by volume.
- The **Immunology** portfolio continued to expand from its small base. While not material to the bottom line yet, Olumiant (baricitinib) delivered strong 42% sequential growth and barely missed our estimate.

As a reminder to investors, Olumiant has been on the European market since February 2016 and was approved in Japan at the beginning of July 2016. The FDA accepted Lilly's recently resubmitted Olumiant application after safety issues slowed the regulatory process last year. Taltz growth was solid but fell short of our estimates. However, we remain confident in Taltz's prospects, especially as Lilly increases marketing outside of the dermatology office with the new psoriatic arthritis indication.

- Within the **Oncology** portfolio, Alimta exceeded our estimate as European revenues stabilized. The European market is fracturing for the drug as it lost exclusivity in some countries but not others. The domestic market was a positive for Alimta this quarter, marking the first year-over-year increase in the U.S. since 1Q16. This is possibly an encouraging sign of solid uptake of the Alimta combination with Merck's Keytruda in non-small cell lung cancer (NSCLC). Management noted last quarter that their market share is starting to flatten in first-line (1L) NSCLC, and they are actually starting to see an increase in 2L as immunotherapies take over 1L. Cyramza posted a solid beat thanks to domestic strength. Lartruvo fell just shy of our expectations but continues to perform well. The company noted a recently issued medical billing code should remove any remaining barriers to uptake for the first new drug for soft tissue sarcoma in 40 years.
- **Cialis** revenue fell short of our estimate, as the U.S. market continues to shrink due to a competitor going generic. Generic entry for Cialis is expected in September of this year. Effient witnessed a substantial decline (56% year-over-year) due to generic entry in the U.S. last quarter.
- **Animal Health** was a disappointment once again, as the Companion Animal (CA) segment declined a whopping 14% after adjusting for the Vetmedica acquisition, although distributor buying patterns contributed to some of that weakness. Competitive pressure in parasiticides continues to be a problem, although recent approvals of Credelio in the U.S. and Japan should help stop the bleeding, in our opinion. Galliprant continues to perform well and a recent European approval should aid that growth. The livestock segment declined 6% as the U.S. cattle market is presenting problems from both competition and market access. We continue to believe the livestock segment will turn it around from both a competitive standpoint and as the market access pressures provide easier comps going forward.
- The GAAP gross margin decreased 92 basis points from 4Q16 to 73.6%, which actually beat our estimate of 70.1%. The decrease was driven by foreign exchange rates and product mix, partially offset by manufacturing efficiencies and price increases. Excluding the currency headwind, the gross margin actually increased 130 basis points.
- Core operating expenses came in higher than we anticipated. MS&A expenses were $1.78 billion versus our estimate of $1.71 billion, and R&D expenses were $1.47 billion versus our estimate of $1.32 billion. MS&A expenses continue to be impacted by conflicting factors of support for new products with savings from products off or nearly off patent. R&D expenses showed modest growth, but we had expected a decline given the implications of next year's guidance.
- The GAAP pretax profit of $0.28 billion was slightly ahead of our estimate of $0.25 billion, primarily due to the top line and gross margin beat. After adjustments and a non-GAAP effective tax rate of 20.4% (versus our estimate of 21.4%), non-GAAP EPS were $1.14 versus our estimate of $1.00 and the Street consensus estimate of $1.07. GAAP numbers were substantially impacted by a $1.9 billion charge related to tax reform.

News Review

Key news items since our last quarterly update on October 25, 2017:

- Lilly received FDA and European Commission approval for Taltz for the treatment of psoriatic arthritis. The FDA also accepted Lilly's application for galcanezumab for the prevention of migraines.
- Lilly announced Cyramza's failure in the RAINFALL trial (first-line gastric cancer) for the endpoint of overall survival.

- Lilly initiated clinical trials for their Automated Insulin Delivery (AID) system. The system is one of two platforms in development. This trial initiation was also accompanied by news of multiple diabetes research collaborations with software companies.
- The company issued 2018 guidance as well as 2020 margin goals. Please see our 2018 guidance report for more detail. Lilly also increased the dividend 8% to a quarterly rate of $0.5625.

CATALYST CALENDAR

	Date	Event	Drug(s)	Indication(s)	Phase	Details
2018	March	18F-AV-1451 Autopsy Study	Flortaucipir F 18	Tau diagnostic (AD)	3	Trial Completion
	March	Biliary tract cancer study	merestinib+chemo or Cyramza+chemo	Biliary tract cancer - 1L	2	Trial Primary Completion
	April	FDA decision (PDUFA date)	Verzenio (abemaciclib)+NSAI	Breast cancer - 1L		MONARCH 3 trial
	April	AID study	Automated insulin delivery system	Type 1 diabetes	1	Trial Completion
	May	Tanezumab dosing study	tanezumab	Osteoarthritic pain	3	Trial Completion
	May	LY3298176 study	LY3298176 (GIP/ GLP-1)	Type 2 diabetes	2	Trial Completion
	May	COAST-W	Taltz	Axial spondyloarthritis (r) - 2L	3	Trial Primary Completion
	June	COAST-X	Taltz	Axial spondyloarthritis (nr) - 1L	3	Trial Primary Completion
	June	Prexasertib study	prexasertib	SCLC - 2L	2	Trial Completion
	June	FDA decision (PDUFA date)	Olumiant (baricitinib)	Rheumatoid arthritis		Four separate Phase 3 trials
	Mid-year	RANGE - OS Data	Cyramza+docetaxel	Urothelial carcinoma - 2L	3	Trial Primary Completion
	1H18	Galcanezumab studies	galcanezumab	Cluster headache	3	Trial Data
	July	REWIND	Trulicity	Type 2 diabetes - CV outcomes	3	Trial Completion
	August	monarcHER	Verzenio+Herceptin + or - fulvestrant	Breast cancer - 3L (HR+, HER2+)	2	Trial Primary Completion
	August	COAST-V	Taltz vs. Humira	Axial spondyloarthritis (r) - 1L	3	Trial Completion
	September	PRONTO-T1D & -T2D	LY900014 (ultra rapid insulin)	Type 1 & 2 diabetes	3	Trial Primary Completion
	September	DACRA-042 (KBP-042) study	DACRA-042	Type 2 diabetes	2	Trial Completion
	September	Loss of exclusivity	Cialis			US
	October	FDA decision (PDUFA date)	galcanezumab	Migraine prevention	3	EVOLVE-1, -2 & REGAIN trials
	October	RELAY	Cyramza+Tarceva	EGFR+ NSCLC - 1L	3	Trial Primary Completion
	December	LY3023414 study	LY3023414 (PI3K/mTOR)+Verzenio	Pancreatic ductal adenocarcinoma - 2L	2	Trial Primary Completion
2019	January	TANGO	tanezumab	Chronic lower back pain	3	Trial Completion
	February	Tanezumab study	tanezumab	Osteoarthritic pain	3	Trial Completion
	February	BREEZE-AD-1 & -2	Olumiant (baricitinib)	Atopic dermatitis	3	Trial Completion
	February	Mirikizumab study	mirikizumab	Psoriasis	2	Trial Completion
	March	CAROLINA	Tradjenta	Type 2 diabetes - CV outcomes	3	Trial Completion
	April	LY3023414 study	LY3023414 (PI3K/mTOR)+Xtandi	Prostate cancer - 2L	2	Trial Primary Completion
	June	NAVIGATE-AD	LY3202626 (BACE inhibitor)	Alzheimer's Disease	2	Trial Completion
	August	Loss of exclusivity	Forteo			US, Japan
	September	AMARANTH	lanabecestat	Alzheimer's Disease	2/3	Trial Completion
	September	DAYBREAK-ALZ	lanabecestat	Alzheimer's Disease	3	Trial Primary Completion
	September	RAjuvenate	LY3337641 (BTK inhibitor)	Rheumatoid arthritis	2	Trial Completion
	December	Lartruvo study	Lartruvo+chemo	Pancreatic cancer - 1L	1/2	Trial Primary Completion
	December	ANNOUNCE-2	Lartruvo+chemo	Soft tissue sarcoma - 2L	1/2	Trial Primary Completion

Sources: Company reports, Hilliard Lyons Research, clinicaltrials.gov

Please note all dates listed in the table are estimates and subject to change. Furthermore, the timing of clinical trial data disclosure is uncertain. Please contact us for the dates of medical meetings that may be of relevance to Lilly, which are not included in the table above.

Not included in the table are Phase 3 trial initiations, regulatory submissions, and regulatory decisions outside the U.S. In 2018, the company expects to start Phase 3 trials for Olumiant in psoriatic arthritis and possibly lupus, mirikizumab in both psoriasis and ulcerative colitis, and Jardiance in chronic kidney disease. Lilly believes applications will be submitted for lasmiditan in acute migraine, Jardiance + Tradjenta + metformin in Type 2 diabetes, and nasal glucagon in hypoglycemia. Finally, Lilly expects regulatory action for galcanezumab in migraine prevention (EU, Japan), Verzenio in 1L and 2L breast cancer (EU, Japan), and fruquintinib in 3L colorectal cancer (China).

ESTIMATES UPDATE

We are increasing our FY18 revenue estimate to $23.11 billion versus our prior estimate of $23.08 billion. We are also increasing our non-GAAP EPS estimate to $4.82 from $4.61. For FY19, we actually decreased our revenue estimate slightly to $23.81 billion from $23.89 billion but increased our operating EPS to $5.35 from $5.14. Below are the material changes:

- We lowered Jardiance estimates once again as we continue to worry not about Jardiance but the growth of the entire SGLT-2 class. We also lowered Basaglar estimates as the strong early uptake of this biosimilar could be slowing earlier than we anticipated. Despite the looming competition, we increased Trulicity estimates as we continue to stress to investors that we believe the drug still has solid growth ahead, just not quite what we once expected.
- We modestly lowered our Olumiant and Taltz estimates in the short-term but long-term estimates were basically unchanged.
- Changes to our Oncology and Cardiovascular portfolio estimates were modest. We increased estimates for the pipeline as we gain more clarity on certain Phase 2 assets.
- Once again, we lowered Animal Health estimates as we are growing weary of the companion animal segment's inability to stem losses. Management cadence on the livestock business led us to lower estimates for that business as well.
- We maintained our FY18 gross margin estimate while tweaking FY19 estimates slightly lower as we continue to adjust our model for the timing of future product launches. We increased operating expense forecasts slightly for FY18 but left longer-term estimates largely unchanged.
- The largest change in our model was due to tax reform, dropping the effective rate approximately 350 basis points in concordance with management guidance.

VALUATION & RATING

LLY closed yesterday trading at 16.9X our next 12 months non-GAAP EPS estimate, which is the lowest forward P/E for the stock in nearly four years. Furthermore, this low P/E is based on a rough 2018 in which more neuroscience drugs lose exclusivity and generic entry for Cialis looms; we believe the future beyond 2018 is much brighter and investors should therefore look to a very low 15.2X multiple on our 2019 estimates. Based on our expectations for the company's growth profile and a risk profile that we view as low relative to the industry, we believe this is a P/E set for expansion. Our two year price target is derived through two methodologies: 50% discounted free cash flow and 50% forward P/E. Our forward P/E portion is derived through a proprietary method that assesses the biopharmaceutical industry on the basis of risk and growth. Risk is measured by product concentration while growth is determined through a combination of our estimates and market assumptions about the long-term growth of peers. For LLY, this results in a 22.5X multiple applied to FY19 GAAP EPS estimates for a $104 price target. We note our use of GAAP estimates given weaker earnings quality, although we do project earnings quality to increase over the next few years. Our discounted free cash flow assumptions include an unchanged WACC of 7.8%. However, we note this could change as the company has not released its balance sheet or cash flow statement for the quarter yet. Our terminal growth rate estimate is 2.0%, and we added back net cash. The DCF model also results in a $104 price target. Thus, we assign shares a price target of $104, up from $100. We maintain our Long-term Buy rating.

SUITABILITY

Eli Lilly & Co. is a large and well-established biopharmaceutical company with a diversified portfolio and robust pipeline. We feel the company's balance sheet and cash flow is solid. Based on these considerations, we assign LLY shares a suitability rating of 1.

RISKS & CONSIDERATIONS

- **Competition and innovation** – The biopharmaceutical business requires complex operations with many unique and uncertain aspects. A competitor or new company could produce new therapies that could displace Lilly drugs.
- **Regulatory** – The biopharmaceutical industry is subject to an intense regulatory environment throughout a product life cycle. Regulatory actions against the company or an individual product may harm financial results.
- **Legal** – Product lawsuits are extremely common in the biopharmaceutical sector. An unfavorable court decision could hamper the ability to market a product or subject the company to earlier generic competition.

Prices of other stocks mentioned: Johnson & Johnson (JNJ - $138.19)
Novo Nordisk (NVO - $55.50)
Sanofi (SNY - $43.93)
Merck & Co. (MRK - $59.25)

Revenue Build

In millions	2015 A	2016 A	2017 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	2018 E	2019 E	2020 E	2021 E	2022 E
Strattera	784	855	618	86	89	89	91	355	315	282	252	225
Other Neuroscience	2,151	1,866	1,553	292	285	279	300	1,156	957	834	723	600
Humalog	2,842	2,769	2,865	694	640	656	746	2,736	2,660	2,626	2,615	2,604
Humulin	1,307	1,366	1,335	318	361	329	349	1,356	1,369	1,374	1,378	1,383
Forteo	1,348	1,500	1,749	355	456	451	485	1,746	1,622	1,357	1,290	1,225
Tradjenta	357	437	538	126	154	162	137	580	611	641	667	687
Jardiance	60	202	448	157	185	206	227	775	1,108	1,274	1,363	1,445
Trulicity	249	926	2,030	635	649	665	681	2,630	2,893	3,114	3,320	3,401
Basaglar	11	86	432	164	177	190	202	733	856	922	950	978
Other Endocrinology	862	798	688	123	121	168	172	584	576	573	566	561
Taltz	0	113	559	200	222	247	269	936	1,254	1,501	1,676	1,801
Olumiant	0	0	46	30	38	47	60	175	418	726	1,010	1,200
Alimta	2,493	2,283	2,063	449	504	486	492	1,932	1,866	1,796	1,509	828
Cyramza	384	614	758	202	212	217	228	858	915	963	989	1,015
Lartruvo	0	12	203	63	67	71	75	276	340	401	450	474
Verzenio	0	0	21	20	35	50	65	170	485	820	1,140	1,430
Other Oncology	633	813	767	167	173	177	186	703	673	654	610	572
Galcanezumab			0	0	5	10	17	32	198	339	448	531
Lasmiditan			0	0	0	0	5	5	80	203	301	361
Cialis	2,311	2,472	2,323	427	498	441	310	1,676	793	533	457	393
Other Cardiovascular	757	754	548	76	88	84	85	332	288	269	247	226
Other Pharmaceutical*	228	200	241	60	53	59	55	227	242	539	1,224	1,879
Animal Health	3,181	3,158	3,086	721	783	796	831	3,131	3,291	3,488	3,652	3,823
Total	**19,959**	**21,222**	**22,871**	**5,363**	**5,796**	**5,879**	**6,067**	**23,105**	**23,809**	**25,230**	**26,837**	**27,643**
% of Total												
Neuroscience	14.7%	12.8%	9.5%	7.0%	6.5%	6.3%	6.4%	6.5%	5.3%	4.4%	3.6%	3.0%
Endocrinology	35.3%	38.1%	44.1%	48.0%	47.3%	48.1%	49.4%	48.2%	49.1%	47.1%	45.3%	44.4%
Immunology	0.0%	0.5%	2.6%	4.3%	4.5%	5.0%	5.4%	4.8%	7.0%	8.8%	10.0%	10.9%
Oncology	17.6%	17.4%	15.6%	16.8%	17.1%	17.0%	17.2%	17.0%	18.0%	18.4%	17.5%	15.6%
Pain			0.0%	0.0%	0.1%	0.2%	0.4%	0.2%	1.2%	2.1%	2.8%	3.2%
Cardiovascular	15.4%	15.2%	12.6%	9.4%	10.1%	8.9%	6.5%	8.7%	4.5%	3.2%	2.6%	2.2%
Other Pharmaceutical*	1.1%	0.9%	1.1%	1.1%	0.9%	1.0%	0.9%	1.0%	1.0%	2.1%	4.6%	6.8%
Animal Health	15.9%	14.9%	13.5%	13.4%	13.5%	13.5%	13.7%	13.6%	13.8%	13.8%	13.6%	13.8%

** Includes our estimate of risk-adjusted revenues from the pipeline*

Source: Company Reports and Hilliard Lyons Estimates

Eli Lilly & Co.												LLY: Long-term Buy
In billions (except share data)	2015 A	2016 A	2017 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	2018 E	2019 E	2020 E	2021 E	2022 E
Fiscal Period End	12/31/2015	12/31/2016	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
Income Statement												
Net Revenue	**19.96**	**21.22**	**22.87**	**5.36**	**5.80**	**5.88**	**6.07**	**23.11**	**23.81**	**25.23**	**26.84**	**27.64**
Gross Margin %	*74.8%*	*73.4%*	*73.5%*	*73.4%*	*73.1%*	*74.1%*	*71.8%*	*73.1%*	*74.2%*	*75.8%*	*76.4%*	*76.5%*
Core Operating Expenses	11.33	11.70	11.87	2.68	2.81	2.67	3.15	11.31	11.65	12.00	12.38	12.72
GAAP Core Operating Income	**3.59**	**3.87**	**4.93**	**1.25**	**1.42**	**1.69**	**1.20**	**5.57**	**6.01**	**7.13**	**8.13**	**8.44**
GAAP Operating Margin %	*18.0%*	*18.2%*	*21.6%*	*23.4%*	*24.6%*	*28.7%*	*19.8%*	*24.1%*	*25.3%*	*28.2%*	*30.3%*	*30.5%*
Non-Core Expenses	0.80	0.50	2.73	0.01	0.01	0.00	0.00	0.02	0.13	0.12	0.12	0.12
Non-GAAP Adjustments	1.83	1.30	3.49	0.14	0.15	0.15	0.16	0.61	0.92	0.71	0.81	0.76
Non-GAAP Pre-Tax Profit	**4.62**	**4.67**	**5.69**	**1.39**	**1.57**	**1.84**	**1.36**	**6.16**	**6.80**	**7.72**	**8.82**	**9.08**
Margin %	*23.2%*	*22.0%*	*24.9%*	*25.9%*	*27.0%*	*31.4%*	*22.4%*	*26.7%*	*28.6%*	*30.6%*	*32.9%*	*32.8%*
Non-GAAP Effective Tax Rate	*12.7%*	*20.1%*	*20.6%*	*18.4%*	*17.5%*	*18.0%*	*18.0%*	*18.0%*	*17.9%*	*17.8%*	*17.7%*	*17.6%*
Non-GAAP Net Income	**3.66**	**3.74**	**4.52**	**1.13**	**1.29**	**1.51**	**1.12**	**5.05**	**5.59**	**6.34**	**7.26**	**7.48**
Diluted Shares Outstanding	1.07	1.06	1.06	1.05	1.05	1.05	1.05	1.05	1.04	1.04	1.04	1.03
GAAP Diluted EPS	$2.26	$2.58	-$0.20	$0.96	$1.11	$1.32	$0.94	$4.34	$4.62	$5.53	$6.36	$6.64
Non-GAAP Diluted EPS	**$3.43**	**$3.52**	**$4.28**	**$1.08**	**$1.23**	**$1.44**	**$1.07**	**$4.82**	**$5.35**	**$6.10**	**$7.00**	**$7.24**
***Balance Sheet**												
Cash and Equivalents	3.7	4.6	1.4	1.3	0.8	1.5	1.6	1.6	4.1	7.6	11.3	15.3
Other Current Assets	8.9	10.5	12.9	11.7	12.3	12.1	12.8	12.8	12.6	12.6	13.0	13.1
Total Current Assets	**12.6**	**15.1**	**14.3**	**13.0**	**13.1**	**13.7**	**14.4**	**14.4**	**16.8**	**20.2**	**24.3**	**28.4**
Net PP&E	8.1	8.3	8.8	8.9	9.0	9.1	9.2	9.2	9.6	10.0	10.6	11.2
Other Assets	14.9	15.5	16.8	16.6	16.4	16.2	16.2	16.2	15.4	14.6	13.8	13.0
Total Assets	**35.6**	**38.8**	**39.8**	**38.4**	**38.5**	**39.0**	**39.8**	**39.8**	**41.7**	**44.8**	**48.7**	**52.6**
Current Liabilities	8.2	11.0	12.1	11.4	10.9	11.3	11.7	11.7	11.7	12.0	13.8	12.4
Non-Current Liabilities	12.7	13.7	15.4	14.4	14.4	14.0	14.0	14.0	13.8	13.8	12.3	13.9
Total Liabilities	**21.0**	**24.7**	**27.5**	**25.7**	**25.3**	**25.3**	**25.7**	**25.7**	**25.5**	**25.8**	**26.1**	**26.3**
Total Shareholders' Equity	**14.6**	**14.1**	**12.4**	**12.7**	**13.2**	**13.7**	**14.2**	**14.2**	**16.2**	**19.0**	**22.6**	**26.3**
***Cash Flow Statement**												
Cash Flow from Operations	2.96	4.85	1.01	1.97	1.40	2.01	1.12	6.50	7.20	7.97	8.43	8.70
Cash Flow from Investing	0.03	(3.14)	(5.86)	(0.41)	(0.41)	(0.41)	(0.41)	(1.64)	(1.51)	(1.57)	(1.64)	(1.67)
Cash Flow from Financing	(3.11)	(0.56)	(0.28)	(1.68)	(1.48)	(0.87)	(0.67)	(4.70)	(3.13)	(2.94)	(3.06)	(3.07)
Free Cash Flow to Equity	**(3.78)**	**4.03**	**0.80**	**0.59**	**0.21**	**1.43**	**0.73**	**2.96**	**5.49**	**6.50**	**6.89**	**7.23**

**2017 figures still estimates as 10-K is not yet available*
Source: Company Reports and Hilliard Lyons estimates

Additional information is available upon request.

Analyst Certification

I, Kurt A. Kemper, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
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Definitions of Suitabilities:
1. A large cap, core holding with a solid history.
2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.
4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

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