

**COMPANY UPDATE / ESTIMATE CHANGE /  
PRICE TARGET CHANGE**
**Key Metrics**

LLY - NYSE (as of 09/12/17)	\$82.17
2 Year Price Target	\$96.00
52-Week Range	\$64.25 - \$86.71
Shares Outstanding (mm)	1,057
Market Cap. (\$mm)	\$90,468
1-Mb. Average Daily Volume (000s)	930
Institutional Ownership	77.7%
Debt / Total Capital	42.3%
ROE (TTM)	16.8%
Book Value / Share	\$13.34
Price / Book Value	6.2x
Indicated Dividend / Yield	\$2.08 2.5%
TTM Operating Margin	20.3%

**Non-GAAP EPS FY 12/31**

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.83		\$0.98A	\$1.06	\$1.06
2Q	\$0.86		\$1.11A	\$1.20	\$1.20
3Q	\$0.88	\$1.04	\$1.04	\$1.18	\$1.18
4Q	\$0.95	\$1.00	\$1.00	\$1.06	\$1.06
Year	\$3.52	\$4.13	\$4.13	\$4.51	\$4.51
P/E	23.3x		19.9x		18.2x

Figures may not add up due to rounding

**Revenue (\$billions)**

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$4.87		\$5.23A	\$5.46	\$5.46
2Q	\$5.40		\$5.82A	\$5.91	\$5.91
3Q	\$5.19	\$5.54	\$5.54	\$5.84	\$5.84
4Q	\$5.76	\$5.85	\$5.85	\$5.96	\$5.96
Year	\$21.22	\$22.44	\$22.44	\$23.16	\$23.16

**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.

**Pharmaceuticals**

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**Eli Lilly & Company**

LLY – NYSE – Long-term Buy – 1

**Model Update after ESMO; Raising Price Target**

- **ESMO:** Lilly presented strong data for abemaciclib from the MONARCH-3 trial at the European Society for Medical Oncology Annual Congress. As a reminder to investors, while cross-trial comparisons are difficult to make, this provided physicians and investors alike the best opportunity to compare abemaciclib to the other CDK4/6 inhibitors: Ibrance from Pfizer and Kisqali from Novartis. Please see our ESMO report for more detail and discussion.
- **Estimates Update:** As a result of the strong data in patients with more challenging disease, we think abemaciclib can take some market share from competitors in this niche. Slightly offsetting this improved optimism is what appears to be an increased risk of venous thromboembolism. Our increased abemaciclib estimates only affect FY19 forecasts and beyond (see pages 3 and 4).
- **Valuation and Rating:** LLY closed yesterday at 19.1X our next 12 months non-GAAP EPS estimate. 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 either our estimates or market assumptions about long-term growth. For LLY, this results in a 22.5X multiple applied to FY18/FY19 GAAP EPS estimates for a \$93 price target. Our discounted free cash flow assumptions include a WACC of 7.7%. Our terminal growth rate estimate is 2.0%, and we added back net cash. The DCF model results in a \$98 price target. Thus, we assign shares a two year price target of \$96, an increase from our previous price target of \$94. We maintain our Long-term Buy rating.

**Note Important Disclosures on pages 5 and 6  
Note Analyst Certification on page 5**



Revenue Build											
<i>In millions</i>	<u>2015 A</u>	<u>2016 A</u>	<u>1Q17 A</u>	<u>2Q17 A</u>	<u>3Q17 E</u>	<u>4Q17 E</u>	<u>2017 E</u>	<u>2018 E</u>	<u>2019 E</u>	<u>2020 E</u>	<u>2021 E</u>
Strattera	784	855	196	187	107	97	587	366	323	288	257
Other Neuroscience	2,151	1,866	383	400	316	332	1,431	1,163	1,006	875	756
Humalog	2,842	2,769	708	678	635	724	2,746	2,653	2,581	2,525	2,471
Humulin	1,307	1,366	315	358	329	358	1,359	1,372	1,384	1,388	1,392
Forteo	1,348	1,500	348	447	410	437	1,641	1,693	1,578	1,356	1,301
Tradjenta	357	437	113	142	132	131	518	549	583	618	649
Jardiance	60	202	74	103	143	183	504	1,018	1,358	1,494	1,583
Trulicity	249	926	373	480	512	538	1,904	2,317	2,641	2,852	3,037
Basaglar	11	86	46	87	112	137	381	687	820	908	974
Other Endocrinology	862	798	147	197	157	155	655	557	539	519	502
Taltz	0	113	97	139	171	203	609	1,039	1,299	1,475	1,600
Olumiant	0	0	2	5	10	16	33	150	487	1,127	1,480
Alimta	2,493	2,283	490	533	531	506	2,060	1,940	1,834	1,764	1,300
Cyramza	384	614	171	186	185	184	726	812	864	922	946
Lartruvo	0	12	42	47	51	55	196	260	324	385	434
Abemaciclib	0	0	0	0	0	5	5	150	485	820	1,140
Other Oncology	633	813	184	189	194	166	734	707	666	634	604
Cialis	2,311	2,472	534	627	566	616	2,343	1,708	807	542	464
Other Cardiovascular	757	754	164	185	132	100	581	330	296	273	249
Other Pharmaceutical*	228	200	74	50	45	40	209	320	857	1,457	1,951
Animal Health	3,181	3,158	769	785	803	864	3,221	3,373	3,618	3,835	4,016
<b>Total</b>	<b><u>19,959</u></b>	<b><u>21,222</u></b>	<b><u>5,228</u></b>	<b><u>5,824</u></b>	<b><u>5,542</u></b>	<b><u>5,846</u></b>	<b><u>22,441</u></b>	<b><u>23,165</u></b>	<b><u>24,350</u></b>	<b><u>26,057</u></b>	<b><u>27,108</u></b>
<b>% of Total</b>											
Neuroscience	14.7%	12.8%	11.1%	10.1%	7.6%	7.3%	9.0%	6.6%	5.5%	4.5%	3.7%
Endocrinology	35.3%	38.1%	40.6%	42.8%	43.8%	45.5%	43.3%	46.8%	47.2%	44.7%	43.9%
Immunology	0.0%	0.5%	1.9%	2.5%	3.3%	3.7%	2.9%	5.1%	7.3%	10.0%	11.4%
Oncology	17.6%	17.4%	17.0%	16.4%	17.3%	15.7%	16.6%	16.7%	17.1%	17.4%	16.3%
Cardiovascular	15.4%	15.2%	13.3%	13.9%	12.6%	12.2%	13.0%	8.8%	4.5%	3.1%	2.6%
Other Pharmaceutical*	1.1%	0.9%	1.4%	0.9%	0.8%	0.7%	0.9%	1.4%	3.5%	5.6%	7.2%
Animal Health	15.9%	14.9%	14.7%	13.5%	14.5%	14.8%	14.4%	14.6%	14.9%	14.7%	14.8%

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

Source: Company Reports and Hilliard Lyons Estimates

Eli Lilly & Co.	LLY: Long-term Buy										
	2015 A 12/31/2015	2016 A 12/31/2016	1Q17 A 3/31/2017	2Q17 A 6/30/2017	3Q17 E 9/30/2017	4Q17 E 12/31/2017	2017 E 12/31/2017	2018 E 12/31/2018	2019 E 12/31/2019	2020 E 12/31/2020	2021 E 12/31/2021
<i>In billions (except share data)</i>											
<i>Fiscal Period End</i>											
<b>Income Statement</b>											
Net Revenue	19.96	21.22	5.23	5.82	5.54	5.85	22.44	23.16	24.35	26.06	27.11
Gross Margin %	74.8%	73.4%	74.6%	73.4%	70.8%	71.6%	72.5%	72.2%	73.4%	74.9%	75.6%
Core Operating Expenses	11.3	11.7	2.8	3.0	2.7	3.0	11.5	11.4	11.9	12.5	13.0
<b>GAAP Core Operating Income</b>	<b>3.6</b>	<b>3.9</b>	<b>1.1</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>4.7</b>	<b>5.4</b>	<b>6.0</b>	<b>7.0</b>	<b>7.5</b>
GAAP Operating Margin %	18.0%	18.2%	21.4%	22.6%	21.2%	19.5%	21.1%	23.1%	24.6%	26.7%	27.7%
Non-Core Expenses	0.8	0.5	1.1	0.1	0.2	(0.0)	1.3	0.1	0.1	0.1	0.1
Non-GAAP Adjustments	1.8	1.3	1.3	0.2	0.4	0.2	2.1	0.9	0.8	0.7	0.5
<b>Non-GAAP Pre-Tax Profit</b>	<b>4.6</b>	<b>4.7</b>	<b>1.3</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>5.6</b>	<b>6.1</b>	<b>6.7</b>	<b>7.5</b>	<b>7.8</b>
Margin %	23.2%	22.0%	25.2%	25.8%	25.0%	23.0%	24.8%	26.3%	27.5%	28.7%	29.0%
<b>Non-GAAP Effective Tax Rate</b>	<b>12.7%</b>	<b>20.1%</b>	<b>21.2%</b>	<b>21.7%</b>	<b>21.3%</b>	<b>22.3%</b>	<b>21.6%</b>	<b>22.3%</b>	<b>22.3%</b>	<b>22.4%</b>	<b>22.4%</b>
<b>Non-GAAP Net Income</b>	<b>3.7</b>	<b>3.7</b>	<b>1.0</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>4.4</b>	<b>4.7</b>	<b>5.2</b>	<b>5.8</b>	<b>6.1</b>
Diluted Shares Outstanding	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0
GAAP Diluted EPS	\$2.26	\$2.58	-\$0.10	\$0.95	\$0.77	\$0.90	\$2.52	\$3.86	\$4.34	\$5.09	\$5.51
<b>Non-GAAP Diluted EPS</b>	<b>\$3.43</b>	<b>\$3.52</b>	<b>\$0.98</b>	<b>\$1.11</b>	<b>\$1.04</b>	<b>\$1.00</b>	<b>\$4.13</b>	<b>\$4.51</b>	<b>\$4.97</b>	<b>\$5.59</b>	<b>\$5.88</b>
<b>*Balance Sheet</b>											
Cash and Equivalents	3.7	4.6	2.6	3.1	3.7	3.9	3.9	4.9	7.2	10.1	13.2
Other Current Assets	8.9	10.5	10.4	12.7	11.4	11.8	11.8	11.7	11.6	11.8	11.9
<b>Total Current Assets</b>	<b>12.6</b>	<b>15.1</b>	<b>13.0</b>	<b>15.7</b>	<b>15.2</b>	<b>15.7</b>	<b>15.7</b>	<b>16.7</b>	<b>18.8</b>	<b>21.9</b>	<b>25.1</b>
Net PP&E	8.1	8.3	8.4	8.6	8.5	8.4	8.4	8.0	7.7	7.5	7.4
Other Assets	14.9	15.5	16.2	16.6	16.6	16.6	16.6	16.6	16.6	16.6	16.6
<b>Total Assets</b>	<b>35.6</b>	<b>38.8</b>	<b>37.6</b>	<b>40.9</b>	<b>40.3</b>	<b>40.8</b>	<b>40.8</b>	<b>41.3</b>	<b>43.1</b>	<b>46.0</b>	<b>49.1</b>
Current Liabilities	8.2	11.0	10.4	11.3	10.9	11.2	11.2	10.8	11.0	11.3	11.5
Non-Current Liabilities	12.7	13.7	13.1	15.5	14.7	14.7	14.7	14.3	14.1	14.1	14.1
<b>Total Liabilities</b>	<b>21.0</b>	<b>24.7</b>	<b>23.5</b>	<b>26.8</b>	<b>25.6</b>	<b>25.8</b>	<b>25.8</b>	<b>25.1</b>	<b>25.1</b>	<b>25.4</b>	<b>25.6</b>
<b>Total Shareholders' Equity</b>	<b>14.6</b>	<b>14.1</b>	<b>14.1</b>	<b>14.2</b>	<b>14.8</b>	<b>14.9</b>	<b>14.9</b>	<b>16.2</b>	<b>18.1</b>	<b>20.6</b>	<b>23.5</b>
<b>*Cash Flow Statement</b>											
Cash Flow from Operations	3.0	4.9	0.3	1.7	2.0	1.3	3.4	6.0	6.6	7.2	7.4
Cash Flow from Investing	0.0	(3.1)	(1.4)	(2.2)	(0.5)	(0.3)	(4.5)	(1.4)	(1.4)	(1.5)	(1.6)
Cash Flow from Financing	(3.1)	(0.6)	(0.9)	1.1	(0.8)	(0.8)	(1.4)	(3.5)	(3.0)	(2.7)	(2.8)
<b>Free Cash Flow to Equity</b>	<b>-3.8</b>	<b>4.0</b>	<b>-2.1</b>	<b>2.5</b>	<b>1.5</b>	<b>1.0</b>	<b>2.8</b>	<b>3.7</b>	<b>5.0</b>	<b>5.8</b>	<b>6.0</b>

\*2017 Balance Sheet and Cash Flow numbers are still estimates, as the company has not released a 10-Q yet

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.

**Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**Investment Ratings:**

**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.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price set back in the next 12 months.

**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	40	32%	10%	90%
Hold/Neutral	77	62%	8%	92%
Sell	8	6%	0%	100%

As of 6 September 2017

**Other Disclosures**

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