BLUEGRASS CAPITAL RESEARCH

Clayton Hord | *Analyst*
Healthcare | *Pharmaceuticals*
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Eli Lilly and Company

Prescribing Growth

Eli Lilly and Company is a dominant player in the pharmaceuticals industry globally. Through strong product performance from breakthrough drugs like Mounjaro and Zepbound, as well as the continued investments in innovation, manufacturing, and strategic acquisitions, Eli Lilly and Company not only ensures long-term growth, but also a leading position in a continuously evolving industry. Therefore, we initiate LLY with a BUY rating and with a 12-month price target of $1,063.

Thesis Point 1

Eli Lilly and Company is recognized for its core specialty in therapeutic areas, such as diabetes, oncology, immunology, and neuroscience. A diverse pipeline of drugs such as Ebglyss, Jaypirca, Kisunla, Mounjaro, Omvoh, Verzenio and Zepbound have set Eli Lilly up for success by providing the company with a 38% revenue increase year after year. On top of that, Eli Lilly and Company witnessed a 77% revenue increase in Europe, as well as growth in other countries like China and Japan from Mounjaro. A Cardiometabolic Health Product drug that has contributed $5.2 billion in international sales making it the market leader for type 2 diabetes incretin prescriptions. Zepbound, another Cardiometabolic Health Product focused on weight loss, contributed $3.4 billion in sales and leads the anti-obesity market.
In the second quarter earnings report, Eli Lilly and Company's GLP-1 market share in the United States grew to roughly 57%. Meaning, Lilly's Zepbound and Mounjaro now lead Novo Nordisk's Ozempic. Zepbound alone saw a growth rate of 140% between Q1 and Q2. Novo Nordisk on the other hand reported that the growth for its GLP-1 drugs have begun to slow compared to previous quarters. Despite having less market share outside of the US, Eli Lilly has cut the cost of out-of-pocket expenses for its GLP-1s thus making their GLP-1s more attractive. Due to attractive pricing, Eli Lilly has quickly eaten away the market share of its competitors both inside the US as well as globally.

Thesis Point 2

The pharmaceutical industry and Eli Lilly's closest competitors are continuously evolving. With that, CEO David Ricks emphasized in the last earnings call that the company will continue to expand to meet demand and fulfill the investments of $23 billion that are geared towards manufacturing facilities. Eli Lilly and Company has recently acquired SiteOne Therapeutics, a biotech company that specializes in developing non-opioid pain medications. As well as, Verve Therapeutics, which focuses on gene editing medicines for cardiovascular diseases. These acquisitions are beneficial in helping the company expand upon their pain and cardiovascular disease pipeline. Beyond the product pipeline these acquisition deals are crucial, since not only does Lilly retain the drugs produced by the company, more importantly, Eli Lilly retains the patents, which are intangible assets the company holds to protect manufacturing processes, formulations, devices. In the most recent earnings call CFO, Lucas Montarce noted that due to such a favorable product mix the company reported a gross profit margin of 83.2%. Eli Lilly's strategic focus on expansion and portfolio diversification lays a solid foundation for sustainable growth.

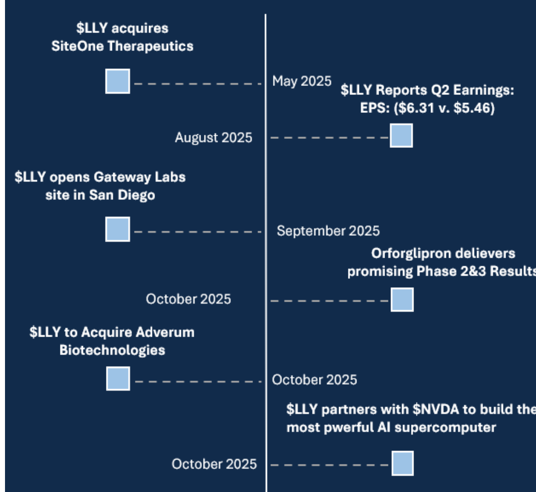
Company Overview

Founded in 1876, and headquartered in Indianapolis, Indiana. Eli Lilly and Company is currently known as one of the leading pharmaceutical companies in the industry rivaling Novo Nordisk, Pfizer, and Johnson and Johnson to name a few. Eli Lilly and Company discovers, develops, manufactures, and markets products under the Healthcare sector and Pharmaceuticals subsector. The company continues to focus on discovering or acquiring, developing, and commercializing innovative medicines in the United States, China, Europe and other countries across the world.

TICKER:	**$LLY**
RATING:	**BUY**
PRICE:	**$815.10**
PRICE TARGET:	**$1,063**
MARKET CAP:	**$776.19bn**
52-W RANGE:	**$623.78 - $935.62**
P/E:	**53.57x**
IMPLIED UPSIDE:	**30.44%**

1 Year Price History

Recent Events Timeline



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Risk 1

Research and Development in the Pharmaceuticals industry is capital-intensive and characterized by significant uncertainty. The Research and Development process involves development, licensing and strategic acquisition of pharmaceutical products. This process seems straightforward, however it brings a lot of uncertainty, due to the high failure rate across all stages. Some promising revolutionary products may fail to gain regulatory approval, or be successful due to intense competition from industry peers, such as Novo Nordisk, and Johnson and Johnson. The acquisition process is the most challenging for any company, due to how valuable the intellectual property is. As mentioned before, Eli Lilly aims to continue acquiring companies to inherit their drugs as well as patents. However, the biggest risk here is, many products can seem like great investments that will deliver promising results, however, some of those products lose their intellectual value or are displaced from competition. With Eli Lilly being aggressive with the acquisition stage, the company is at risk of high capital expenditure without the anticipated return on investment.

Risk 2

Eli Lilly is a dominant player in the GLP-1 (Glucagon-Like Peptide-1) market and has gained a lot of attention from its GLP-1s in the weight loss and type-2 diabetes sectors. Thus, making both divisions key earnings drivers and fuel for investor optimism. Just recently, however, on October 16, 2025, President Trump announced publicly that the price for GLP-1's should be much lower, roughly $150/month. Although most believe the statement was directed at Novo Nordisk's Ozempic, Eli Lilly could face pricing pressures as a result. This is because the market price for Zepbound is around $399/month for 2.5milligram dose, and $549/month for a 5mg dose. Pricing mandates could cause Lilly to lower profit expectations in the coming quarters, due to profit margins and revenue being eroded and compressed from a potential price cut in the GLP-1 space. Thus, creating a negative impact on near-term earnings.

Risk 3

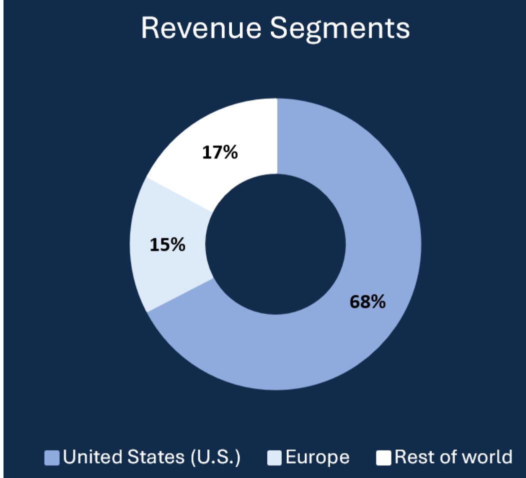
Eli Lilly and Company's global operations expose the company to a broad range of geopolitical and macroeconomic risks. In a recent earnings call, the company noted that revenue in Europe alone grew by 77%, revealing how much growth depends on international operations. Aside from Europe, Eli Lilly operates out of Asia and other emerging markets, where rising instability could impact supply chain and demand dynamics. Therefore, trade and global disputes, import and export licensing requirements could impact the company materially. On top of that, prolonged economic stagnation, inflation, and military conflicts could all impede manufacturing facilities, distribution networks, accessibility, and consumer spending within the regions. As a result, profit margins, revenue growth, and operations of Eli Lilly and Company could be negatively impacted for an indefinite period of time.

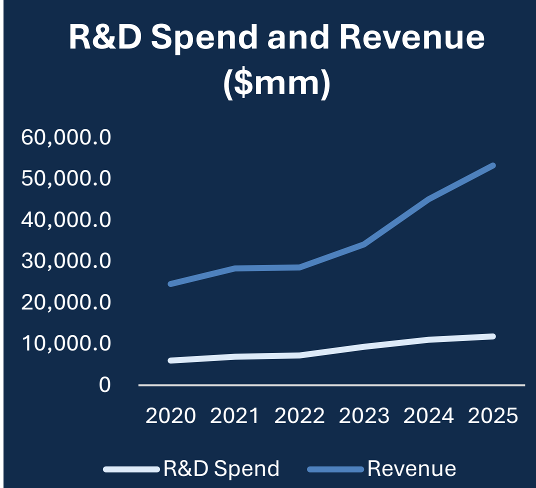
Catalyst 1

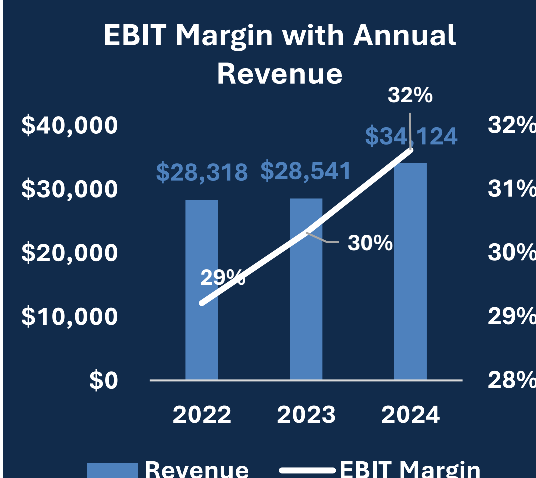
Orforglipron is a once daily oral GLP-1 that can be taken anytime during the day. The drug aims to treat type 2 diabetes as well as weight loss for adults. In recent Phase 3 clinical trials Orforglipron demonstrated superior glycemic control. Thus, providing promising results for the company. Senior Vice President of Product Development, Jeff Emmick stated, "Orforglipron has now demonstrated superiority over two active competitors." He goes on to say, "Together these results reinforce Orfotglipron's potential to become a new standard of care for people living with type 2 diabetes." Should a breakthrough drug like Orforglipron get approved by regulatory bodies, Eli Lilly will be even more dominant in the GLP-1 space, since this drug will be the first GLP-1 that consumers can take orally without the food and water restrictions that are required from other oral GLP-1s like Rybelsus.

Catalyst 2

On Friday, October 24, 2025, Eli Lilly said it would participate in the acquisition of gene therapy developer Adverum Biotechnologies. A clinical stage company that aspires to develop promising cures to restore vision and prevent blindness. Advernum's leading product candidate, Ixo-vec, is a drug designed to be a one-time treatment to assist in approving vision outcomes as well as reducing patient burden associated with more current anti-VEGF therapy drugs. The deal is currently valued at $261.7 million, but could provide a unique expansion opportunity for Lilly, since the deal will assist Eli Lilly & Company in strengthening its therapy pipeline by adding eye disease to its portfolio of therapy treatments.







Catalyst 3

Eli Lilly and Company recently announced the opening of a new Lilly Gateway Labs (LGL) site in San Diego, California. The opening of this site allows Lilly to expand its network of shared innovation hubs. This site holds lab space, infrastructure, and opportunities for collaboration amongst 15 early-stage biotech startups. On top of that, the site will also be able to house around 250 employees. As a recent press release puts it, the model of Lilly Gateway Labs not only offers wet lab facilities, scientific engagement, and guidance, but is designed to accelerate progress towards highly sought after milestones by blending infrastructure and key expertise together. Chief Scientific Officer, Daniel Skovronsky recently mentioned, "The future of medicine depends on combining the strengths of academia, biotech, and large pharma to solve some of most difficult diseases facing patients." This implies that the company feels that the opening of the site will help the company with long-term pipeline sustainability, Research and Development, and staying ahead of the competition.

Valuation

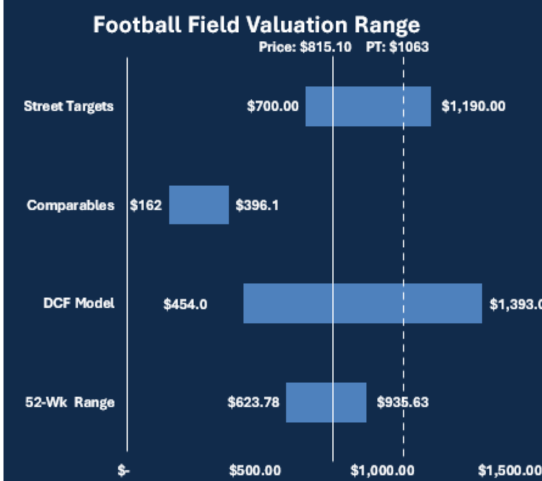
DCF Analysis ($mm)	FY2024 12/31/2024	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Revenue	45,043	60,000	69,886	81,186	93,966	108,275	124,144
Revenue Growth	*32%*	*33%*	*16%*	*16%*	*16%*	*15%*	*15%*
United States (U.S.)	30,375	38,000	45,600	54,150	63,626	73,966	85,060
Europe	6,921	14,200	16,330	18,861	21,879	25,489	29,822
Rest of world	7,747	7,800	7,956	8,175	8,461	8,820	9,262
EBIT	17,502	25,000	27,954	33,083	38,996	45,746	53,382
EBIT Margin	*39%*	*42%*	*40%*	*41%*	*42%*	*42%*	*43%*
Tax Expense	2,090	3,000	3,355	4,301	5,459	6,862	8,541
Effective Tax Rate	*12%*	*12%*	*12%*	*13%*	*14%*	*15%*	*16%*
NOPAT	15,411.30	22,000.00	24,599.87	28,782.45	33,536.50	38,884.25	44,840.79
D&A	1,767	1,750	2,795	3,146	3,524	3,925	4,345
Capex	5,058	6,000	7,687	8,525	9,397	10,286	11,173
Changes in NWC	3,741	3,500	699	812	940	1,083	1,241
UFCF	8,380	14,250	19,009	22,592	26,724	31,440	36,771
PV of FCF		14,137	17,838	19,273	20,725	22,166	23,568

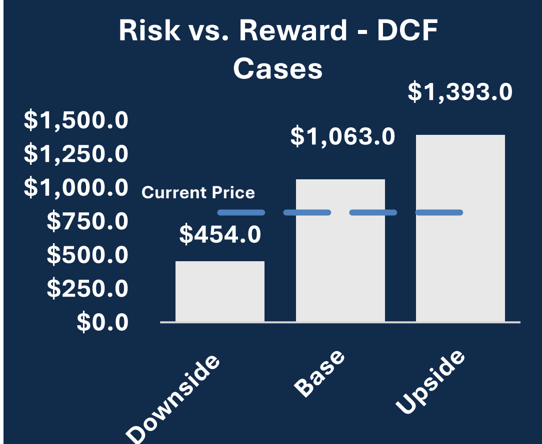
Our base case DCF projection assumes a 27.0x EV/EBITDA exit multiple with EBIT Margin stabilizing around 30%, roughly in-line with historical levels. These projections assume steady growth within all three geographical segments, derived from the acquisition of key companies, drugs, and patents. We also assume Lilly will continue to expand its presence in current markets as well as international markets where it does not have any exposure.

Conclusion

We are optimistic with Eli Lilly and Company: Lilly continues to be a dominant player in the pharmaceuticals industry, consistently demonstrating exceptional growth. The company has maintained 38% annual revenue growth on average driven by products like Zepbound and Mounjaro. The company's business model of enhancing affordability and patient access has allowed the company to build a competitive edge against competitors like Novo Nordisk and Johnson and Johnson. Going beyond the current product success. The company's model of strategic acquisitions and continuous expansion has not only helped establish large market share and shelf space but also diversifies and improves its already remarkable pipeline. This is reflected in the company's financials with a notable 83.2% gross profit margin, underscoring the company's efficiency and financial strength. **We therefore Initiate $LLY with a BUY rating, and a 12-month PT of $1,063.**

Terminal Value	
EV/EBITDA Exit Multiple	25.0x
Terminal Value	$1,443,173
PV of Terminal Value	$986,692
PV of Projection Period	$117,708
PV of Terminal Value	$986,692
Implied TEV	$1,104,400
(-) Debt	$39,981
(+) Cash	$3,546
Implied Equity Value	$1,067,965
Diluted Shares Outstanding	946
Implied Share Price	$1,128.38
Upside/Downside	38.4%





Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	45,043	60,000	69,886	81,186	93,966	20.2%
EBITDA	19,268	26,750	30,750	36,229	42,520	21.9%
EBIT	17,502	25,000	27,954	33,083	38,996	22.2%
NOPAT	15,411	22,000	24,600	28,782	33,536	21.5%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	42.8%	44.6%	44.0%	44.6%	45.3%	44.2%
EBIT Margin	38.9%	41.7%	40.0%	40.8%	41.5%	40.6%
Revenue Growth	32.0%	33.2%	16.5%	16.2%	15.7%	22.7%
EBIT Growth	62.2%	42.8%	11.8%	18.3%	17.9%	30.6%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	92.1x	54.1x	40.6x	34.1x	28.9x	50.0x
EV/Sales	17.9x	13.5x	11.6x	10.0x	8.6x	12.3x
EV/EBITDA	41.9x	30.2x	26.3x	22.3x	19.0x	27.9x
FCF Yield	1.1%	1.8%	2.5%	2.9%	3.5%	2.4%

Comparable Companies
$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Bristol-Myers Squibb Company (NYSE:BMY	$87,157	$124,251	17.2x	$47,704	$19,115
Merck & Co., Inc. (NYSE:MRK)	$217,382	$244,229	13.4x	$63,616	$28,330
Pfizer Inc. (NYSE:PFE)	$139,296	$188,408	13.0x	$63,833	$24,506
AbbVie Inc. (NYSE:ABBV)	$401,963	$466,126	108.3x	$58,328	$28,074
Eli Lily and Company	$736,233	$772,324	53.6x	$53,258	$24,775

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margir	EBIT Margin	1 Yr Rev Growth Rate LF
Bristol-Myers Squibb Company (NYSE:BMY	6.5x	73.9%	40.1%	26.5%	2.6%
Merck & Co., Inc. (NYSE:MRK)	8.6x	77.4%	44.5%	37.6%	1.8%
Pfizer Inc. (NYSE:PFE)	7.7x	73.8%	38.4%	27.8%	13.5%
AbbVie Inc. (NYSE:ABBV)	16.6x	71.2%	48.1%	34.0%	6.1%
Eli Lily and Company	31.2x	82.6%	46.5%	43.0%	25.9%

High	31.17x	82.6%	48.1%	43.0%	25.9%
75th Percentile	16.60x	77.4%	46.5%	37.6%	13.5%
Average	14.12x	75.8%	43.5%	33.8%	10.0%
Median	8.62x	73.9%	0.0%	34.0%	6.1%
25th Percentile	7.69x	73.8%	40.1%	27.8%	2.6%
Low	6.50x	71.2%	38.4%	26.5%	1.8%

Eli Lily and Company		
Implied Enterprise Value (25th Percentile)	$	190,477
Implied Enterprise Value (Median)	**$**	**213,583**
Implied Enterprise Value (75th Percentile)	$	411,353
Implied Share Price (25th Percentile)	$	162.76
Implied Share Price (Median)	**$**	**187.17**
Implied Share Price (75th Percentile)	$	396.13

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.00
Risk Free Rate	4.39%
Cost of Equity	8.29%
Weighted Average Cost of Debt	4.50%
Tax Rate	12.00%
Cost of Debt	0.20%
Total Equity	$771,457
Total Debt	$36,435
Equity/Total Capitalization	95.07%
Debt/Total Capitalization	4.93%
WACC	8.49%

Downside Case: Our downside case assumes growth begins to flatten in Europe and other international markets, due to macroeconomic headwinds that could impact the company materially, such as an increase in tariffs. We could also see growth slow in all segments due to a price cut in GLP-1s taking away LLY's competitive advantage when it comes to pricing against its competitors in the GLP-1 space as well as compressed profit margins. In these instances we expect a downside price target of $454 deriving from an EV/EBITDA multiple of 23x.

Upside Case: Our upside case assumes Eli Lilly and Company continues to be successful in acquiring patents, companies, and drugs. Thus, helping the company expand its portfolio of pharmaceutical companies as well as innovative drug assets. We expect prospective therapy drugs, such as Orforglipron to continue to deliver promising results from clinical trials and eventually get approved by the FDA and EMA. With those circumstances, and continued growth in all geographic segments we believe Eli Lilly and Company will support an EV/EBITDA multiple of 25x. Our Price Target for LLY stands at $1,063, implying approximately 30% upside from the current share price.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.