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Eli Lilly (LLY.N)

Full coverage of obesity portfolio among all major PBMs reduces friction points for commercial patients

CITI'S TAKE

This morning's announcement that all three major PBMs will cover Lilly's full obesity medicine portfolio (Zepbound: weekly injectable GLP-1/GIP; Foundayo: daily oral GLP-1) is a meaningful step forward. Payer coverage continues to be the primary barrier to GLP-1 access and is the leading cause of discontinuations per our KOL conversations. With a more streamlined process coming soon for commercial insurance patients, more extensive coverage lowers hurdles and further adds to the volume inflection that is expected from broad Medicare Part D access (starting 7/1; $50/mo). Together with cash pay options via LillyDirect, commercial pricing as low as $25/mo aims to reduce friction points. Indeed, the addition of Foundayo to CVS Caremark commercial template coverage (6/1) is expected to further bolster its early launch momentum, and resumption of Zepbound coverage (10/1) is an incremental positive for Lilly's overall incretins franchise growth (2026e BBG cons: +55% y/y). Maintain Buy and $1,500 TP.

Buy	
Price (27 May 26 16:00)	US$1,082.92
Target price	US$1,500.00
Expected share price return	38.5%
Expected dividend yield	0.6%
Expected total return	39.2%
Market Cap	US$1,019,831M

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Valuation

We set our DCF derived valuation at $1,500. We project free cash flows for an explicit forecast period to 2030 and thereafter apply terminal growth assumptions. We employ a CAPM-derived WACC of 6% and assume a 2.6% terminal growth rate.

Risks

Key downside risks include: 1) validated or ficticious adverse events associated with Mounjaro/Zepbound impacting adoption; 2) proposed US rebate reform being passed through congress which would reduce barriers to entry for competition; 3) tirzepatide portfolio facing formulary step-edits through generic semaglutide from 2032E.

Key upside risks include: 1) adoption of Alzheimer's drug donanemab above our modest expectations; 2) positive evolution of pipeline including remternetug, orforglipron, retatrutide, and more; and 3) lower than expected impact of IRA price negotiation on Verzenio and Trulicity.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, the stock could materially undershoot or overshoot our target price.