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Eli Lilly (LLY.N)

Adding a differentiated precision immunology platform with Merida

CITI'S TAKE

Lilly announced a definitive agreement to acquire Merida Biosciences, a clinical stage precision immunology company, for up to $2.875B in cash (inclusive of an upfront payment and contingent milestones; 4Q26 expected close). We think Lilly's acquisition of Merida expands its immunology toolkit beyond immune modulation and into selective elimination of disease-causing antibodies, an approach we view as both scientifically differentiated and potentially applicable across multiple autoimmune and allergic diseases. The headline asset, MER511, is already in phase 1 for the treatment of Graves' disease and thyroid eye disease with initial evidence of reductions in pathogenic thyroid-stimulating antibodies and a favorable early safety profile, providing a meaningful degree of biological validation. Our read is that Lilly is continuing to build immunology as a long-term growth pillar, with Merida offering exposure to diseases where directly removing pathogenic antibodies could ultimately prove more durable and targeted than broad immunosuppression. Maintain Buy, $1,600 TP.

Buy	
Price (28 Aug 26 16:00)	US$1,174.61
Target price	US$1,600.00
Expected share price return	36.2%
Expected dividend yield	0.6%
Expected total return	36.8%
Market Cap	US$1,105,727M

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliati



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Valuation

We set our DCF derived valuation at $1,600. 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.