Chugai Pharmaceutical (4519)

Overseas earnings: Implications of Eli Lilly's 3Q FY2026 results

Overweight

4519.T, 4519 JP
Price (29 Oct 26):¥6,653
Price Target (Dec-27):¥11,000

Japan Equity Research
Biotechnology & Pharmaceuticals/ Medical Technologies & Services

Seiji Wakao, Ph.D. [AC]
(81-3) 6736-8612
seiji.wakao@jpmorgan.com

Yugo R. Kamimura, Ph.D.
(81-3) 6736-8635
yugo.kamimura@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Eli Lilly (covered by Chris Schott) announced 3Q FY2026 results on November 29 (local time). Foundayo (orforglipron) sales totaled $184 million (US: $124 million, International: $59 million), below our estimate of $213 million (US: $191 million, International: $22 million) and the Bloomberg consensus of $229 million (US: $146 million, International: $38 million). Foundayo's post-launch sales ramp-up is currently below market expectations. International sales exceeded our estimate, but US sales fell short; it appears our estimate did not sufficiently factor in price declines. However, Eli Lilly made positive comments about Foundayo on the 3Q earnings call held on the same day, which left a favorable impression. Specifically, it said the acquisition of new patients has steadily progressed, with Fundayo's share of patients starting obesity treatment in the US reaching about 40%. In addition, it confirmed the expansion of the overall GLP-1 market driven by oral drugs. Eli Lilly explained that GLP-1 therapies only reach around 10% of patients in the US and around 2% outside the US; we believe there is still considerable room for GLP-1 treatments to grow, including Foundayo. Although Foundayo sales performance through 3Q has not necessarily met market expectations, we expect approval in the US for Type 2 diabetes (decision scheduled in 4Q 2026) and full-scale overseas expansion in 2027 to support sales volume growth.

- **Foundayo's post-launch progress:** In the US, the number of prescriptions for Foundayo and its new patient share continue to rise, with about 40% of patients starting treatment for obesity choosing Foundayo. In 3Q, the number of new patients doubled QoQ. In the US, Eli Lilly expects an approval decision for Type 2 diabetes in 4Q 2026. Outside of the US, Foundayo has already been launched in four countries (UAE, the UK, Saudi Arabia, and Mexico) and applications for approval are under review in more than 40 countries. Eli Lilly is planning a global rollout in major markets in 2027.
- **GLP-1 market expansion:** The overall market for incretin-based therapies in the US continues to grow strongly: in 3Q, prescription volume was up 32% YoY and prescription volume for obesity treatment up 82% YoY. Eli Lilly products accounted for about 60% of total prescriptions for obesity in the US and more than 70% of prescriptions for injectable drugs. More than 500,000 patients have been prescribed Eli Lilly products under the Medicare GLP-1 Bridge Program, which began on July 1, with about 70% of new users selecting Eli Lilly products. The market for incretin-based therapies outside the US expanded 53% YoY on an IQVIA sales basis, with Eli Lilly's share rising approximately 4ppt QoQ to about 58%.
- **ACHIEVE-4 study:** In the ACHIEVE-4 study, orforglipron achieved its primary endpoint of non-inferiority versus insulin glargine in terms of cardiovascular safety. Eli Lilly explained that a pre-specified additional analysis showed a 16% reduction in the risk of MACE-4 and a 57% reduction in all-cause death. However, the statistical significance of these risk reductions has not been disclosed. In combination with existing Phase 3 data, Eli Lilly evaluated these results as supporting the utility of Foundayo as a long-term oral treatment for obesity and Type 2 diabetes.

See page 5 for analyst certification and important disclosures, including non-US analyst disclosures.

- **Outlook for 2027:** Eli Lilly expects the full-year contribution of the Medicare GLP-1 Bridge Program and the launch of Foundayo for the treatment of Type 2 diabetes to drive growth in the US and the growth of Mounjaro and new Foundayo launches to drive growth overseas. Although the net price continues to decline, Eli Lilly expect volume growth to outweigh the impact of price declines.

Below are company comments about Foundayo from the Q&A session.

- **Market penetration in the US and transition to maintenance dose:** In 3Q, total prescriptions for Foundayo in the US exceeded 500,000, and the number of new patients doubled QoQ. Foundayo's market share for new obesity treatment patients is approaching 40%, and it captured about 45% of the increase in prescriptions for oral obesity drugs from 2Q through 3Q. Regarding the high ratio of low-dose prescriptions, Eli Lilly explained that while it takes time to transition to the maintenance dose, approximately 25% of patients have already reached the maintenance dose, which is higher than that for oral Wegovy. About half of GLP-1 prescription volume in the US is for diabetes, and Eli Lilly said that obtaining the indication for Type 2 diabetes would be a major growth opportunity for Foundayo.
- **Room for growth in the GLP-1 market:** The expansion of the use of the Medicare GLP-1 Bridge Program and growth in the overseas self-funded market have exceeded expectations, and this forms the backdrop to an increase of about $10bn in 2026 sales guidance since the start of the year. Eli Lilly explained that GLP-1 treatment has so far reached only about 10% of patients in the U.S. and about 2% outside the US, and that there is still considerable room for long-term growth. Outside the US, demand for self-funded purchases is spreading beyond the wealthy to the middle class. Eli Lilly believes this growth is not merely a pull-forward of future demand but part of a long-term expansion of the GLP-1 market.
- **Treatment continuation rate and Foundayo positioning:** The Zepbound treatment adherence is favorable: among insured patients, Zepbound persistence is trending in line with the 16–18 months previously observed with Trulicity. However, the treatment adherence for oral drugs is generally lower than that for once-weekly injections, and this trend is expected to be the same for Foundayo. Eli Lilly has positioned Foundayo as a drug that is suitable not only for the initial treatment of obesity but also for maintenance therapy. Going forward, the company plans to position Foundayo alongside Zepbound, retatrutide and others, building a broad portfolio that allows patients to initiate, switch and intensify therapy within Lilly's products
- **Competitiveness of oral drugs in the Medicare GLP-1 Bridge Program:** Approximately 75% of the patients in the Medicare GLP-1 Bridge Program selected injectable drugs, with about 70% selecting Eli Lilly products. Eli Lilly explained that if the out-of-pocket cost is low, patients tend to prefer injectable drugs that are already established as standard treatments and posses high efficacy. At the same time, about 80% of the patients who use Foundayo have no prior experience with GLP-1 drugs, which is leading to the creation of new demand. Lilly is optimistic about the continuation of the program and hopes for a transition to regular Part D coverage from 2028 onward. University of Southern California research has shown that expanding access to obesity treatment drugs could result in cumulative savings of more than $20 billion in Medicare healthcare costs over 10 years. The Centers for Medicare and Medicaid Services (CMS) also plans to examine the cost-effectiveness of obesity drugs.
- **Foundayo's overseas expansion and growth outlook for 2027:** Outside the US, Foundayo has already been launched in the UAE, the UK, Saudi Arabia, and Mexico, and market penetration is generally progressing as expected. Eli Lilly confirmed that Foundayo has become a market leader in the UAE, amid competition from Wegovy, and has made a good start in Saudi Arabia. In the UK, full-scale sales promotion activities were restricted until October due to the Medicines and Healthcare products Regulatory

Agency's (MHRA) advance screening requirements for advertising, but there are signs that oral drugs are contributing to overall market growth. In Mexico, progress was slightly higher than expected at six weeks after market launch. Eli Lilly plans to roll out Foundayo in more than 40 countries in 2027 for obesity and Type 2 diabetes, and expects to obtain approval in Europe by the end of 2026. However, because it takes time to obtain insurance reimbursement for Type 2 diabetes, the company intends to prioritize the self-pay obesity market for the time being. Eli Lilly confirmed that demand for self-funded purchases overseas is spreading beyond the wealthy to the middle class. As GLP-1 market penetration is still low, it believes there is scope for significant growth. Regarding pricing, the company emphasized the value of differentiated products and said it would reduce the price gap between the US and other countries to a level that is smaller than that for existing drugs. Furthermore, it said that comments about the expansion of demand among middle-income consumers and pricing strategy applied not only to Foundayo but to its entire incretin-based therapy business. In the US, the ratio of channels with relatively low net prices is expected to rise as access to Medicare/Medicaid increases in 2027. Eli Lilly still expects a decline in net prices but believes that this will be more than offset by sales volume growth.



JPMorgan Securities Japan Co., Ltd.
Seiji Wakao, Ph.D. AC
(81-3) 6736-8612
seiji.wakao@jpmorgan.com

J.P.Morgan

Investment Thesis, Valuation and Risks

Chugai Pharmaceutical (4519) *(Overweight; Price Target: ¥11,000)*

Investment Thesis

We think the stock market's short-term focus is on orforglipron's market penetration speed and peak sales. Long term, we see a focus on whether Chugai can continue to create and launch in-house developed products that have enough potential to justify its relatively high valuation.

Valuation

We calculate our price target through end-December 2027 of ¥11,000 using a DCF model based on our estimates for FY2028–37, and assuming a terminal growth rate of 1.0% and WACC of 7.8%. Our ¥11,000 price target equates to a P/E of 14.8x on our FY2028 EPS estimate of ¥435 and 10.0x on our FY2032 estimate of ¥641. Chugai's past five-year average P/E is 23.8x versus the sector's 16.9x. We forecast EPS CAGRs of +10.2% in FY2028–32 and +2.8% in FY2028–37.

DCF Model

¥mn

	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E	FY37E
Profit before tax	993,800	1,135,000	1,274,700	1,393,600	1,464,500	1,520,000	1,547,200	1,504,800	1,446,700	1,271,900
Depreciation and Amortization	28,600	28,600	28,600	28,600	27,200	27,200	27,200	27,200	27,200	27,200
Impairment Loss	0	0	0	0	0	0	0	0	0	0
Decrease (Increase) in Working Capital	-24,044	-42,077	-36,664	-30,333	-3,204	4,202	9,204	30,806	282,320	542,673
Income Taxes Paid	-278,300	-317,800	-356,900	-390,200	-410,000	-425,600	-433,300	-421,300	-405,000	-356,100
Capital Investment	-53,000	-53,000	-53,000	-27,200	-27,200	-27,200	-27,200	-27,200	-27,200	-27,200
Others	0	0	0	0	0	0	0	0	0	0
FCC	667,056	750,723	856,736	974,467	1,051,296	1,098,602	1,123,104	1,114,306	1,324,020	1,458,473
Discount rate	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	2.0	2.1
Present Value	618,544	645,501	683,083	720,447	720,723	698,382	662,035	609,080	671,078	685,466

Assumptions	
Shares Outstanding (excluding treasury shares,m)	1,645
Tax rate	28.0%
Terminal growth rate	1.0%
Risk-free rate	2.8%
Risk premium	5.2%
β	0.97
Cost of equity	7.8%
Cost of debt	0.0%
WACC	7.8%

Terminal Value	10,017,285
Net Present Value	6,714,339
+ Cash & Deposits at term end	808,336
+ Other adjustment items	553,094
=Enterprise value	18,093,053
-Interest-bearing debt	0
=Equity value	18,093,053
Share Price(¥)	11,000

WACC \ Terminal growth rate	0	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
6.3%	12,200	12,800	13,400	14,200	15,100	16,300	17,700	
6.8%	11,400	11,800	12,300	13,000	13,700	14,600	15,700	
7.3%	10,600	11,000	11,400	11,900	12,500	13,200	14,000	
7.8%	9,900	10,200	10,600	**11,000**	11,500	12,000	12,700	
8.3%	9,300	9,600	9,900	10,200	10,600	11,100	11,600	
8.8%	8,800	9,000	9,300	9,600	9,900	10,300	10,700	
9.3%	8,300	8,500	8,700	9,000	9,200	9,600	9,900	

Source: Company data, J.P. Morgan estimates

Risks to Rating and Price Target

Upside Scenario to Target Price/Rating

- Orforglipron's market penetration speed beats our expectations

Downside Scenario to Target Price/Rating

- Orforglipron's market penetration speed undershoots our expectations