

INVESTOR'S EDGE

Lilly poised to capitalize on obesity drug

The company also has other likely blockbuster drugs in its pipeline.

"The first wealth is health." — Ralph Waldo Emerson



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Guest columnist

In her book, "Dopamine Nation," Anna Lembke, M.D., points out that our society has created an overabundance of rewarding dopamine producing stimuli. Whether it be food, gambling, texting, social media, or streaming Netflix, people are spending more time alone and living a more sedentary lifestyle.

The result has led to a serious negative impact to our bodies and physical health.

According to a Harvard University study, two out of three adults in the United States are overweight and one out of three are obese. In fact, obesity rates in the United States have more than doubled since 1980, and no major country has seen a decline in obesity rates in nearly 50 years.

While the best medicine for combating obesity remains diet and exercise, pharmaceutical companies are working to produce medications aimed at achieving sustainable weight loss. In fact, the market for reducing obesity worldwide could reach \$75 billion by 2030.

Eli Lilly (ticker symbol: LLY) is a blue-chip pharmaceutical company that will undoubtedly capitalize on this opportunity. Not only is Lilly a future leader in developing treatments for the obesity epidemic, it is also a diversified pharmaceutical company with a healthy pipeline of likely blockbuster drugs.

Lilly is the largest pharmaceutical company in the world, recently surpassing Johnson & Johnson for the top spot, and sports a \$430 billion market value.

The company's portfolio of therapies focuses on treating an array of ailments including pain, cancer, diabetes, and neurodegenerative diseases. In fact, Lilly allocates over 20% of its sales towards research and development – well above the industry average. This focus has helped build Lilly's impressive drug pipeline.

Lilly has been prominent in the news lately for two reasons. The first relates to its treatments for obesity.

Earlier this spring, Lilly's drug Mounjaro, a widely popular injectable treatment for Type II diabetes, reported favorable weight loss results. Those taking Mounjaro saw more than a 15% drop in weight over the 36-week trial, and many also reported a reduction in addictive behaviors such as binge eating, smoking, drinking, and gambling.

The FDA is expected to approve Mounjaro for weight loss before the end of this year. Lilly's end goal is to distribute Mounjaro in a convenient once-daily pill taken to combat obesity.

As the late Billy Fucillo would say: "This will be huge!"

The second reason is just as important.

Last month, the company's revolutionary Alzheimer's treatment, Donanemab, demonstrated a 35% slower decline in memory functions during late-stage clin

ical trials. This is a major breakthrough in the treatment of Alzheimer's and potentially other similar diseases.

Lilly is in the process of applying for FDA approval. With the possibility to fundamentally change the prognosis and treatment of neurodegenerative diseases, Donanemab has even been termed by some analysts as "the biggest drug ever."

Lilly continues to execute on past successes including Taltz in plaque psoriasis and Verzenio in cancer. These drugs were launched in 2016 and 2017 and quickly gained blockbuster status, i.e. annual sales in excess of \$1 billion.

Lilly bought \$1.5 billion worth of its own stock last year and has retired approximately 16% of shares over the past decade through buybacks. However, as the share price reaches near all-time highs, management is now more focused on returning value to shareholders through dividends.

While the current yield stands at only 1.0%, Lilly boosted their dividend by 15% this past December and has raised it for nine consecutive years. With a payout ratio of less than 38% of earnings, there is ample room for further increases.

There are always risks with any investment, and Lilly is no exception. While

Mounjaro holds immense potential as a weight-loss drug, there is competition.

You probably have seen the catchy commercial for Ozempic, a similar diabetes/weight loss treatment from Denmark-based Novo Nordisk. This is a viable alternative and could create pricing pressure for Lilly.

Furthermore, Lilly has been a strong performer and trades at a premium to its peer group. It is worth noting that it trades above its peer group due to its superior execution and a stronger pipeline.

Lilly was founded in 1876 by Colonel Eli Lilly, whose motto was "Take what you find here and make it better and better."

It is my assessment that over the next decade, Lilly's drugs will make life better and better for those afflicted by Alzheimer's, obesity, cancer, Parkinson's and other disorders. Buy and hold investors here should be nicely rewarded.

Have a wonderful July 4th weekend!

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