

Eli Lilly: 45 to 1

A Data-Science Valuation Brief

Investors could buy Eli Lilly, or they could buy all 4 of Pfizer, Novartis, Bristol Myers and Merck:

For Eli Lilly:

Their market value is \$724 billion,
Their revenues were \$34.1 billion, and
Their net income was \$5.2 billion.
Lilly's P/E is 139, and its P/S is 21.2.

Pfizer, Novartis, Bristol-Myers and Merck combined:

Their market value is \$781 billion, 8% more than Lilly,
Their revenues were \$215 billion, 629% more than Lilly, and
Their net incomes were \$25.4 billion, 484% more than Lilly.
Their average P/E is 30.7, and their P/S is 3.6.

Alternatively, investors could buy 100% of the forty-five (45) companies listed below.

The 45 companies below have:

A total market cap of \$755 billion, 4.3% more than Lilly,
Revenues of \$742 billion, 2,176% more revenues than Lilly, and
Earnings of \$59.3 billion, 1,140% greater earnings than Lilly.

A.O. Smith, Albemarle, Archer-Daniels Midland, BJ's Wholesale, Bunge Global, Casey's General, CF Industries, Cincinnati Financial, Devon Energy, Dick's Sporting Goods, EMCOR Group, Expeditors International, HF Sinclair, Host Hotels & Resorts, Incyte, Interactive Brokers, Jabil, LPL Financial, M&T Bank, Molina Healthcare, NVR, Ovintiv, Owens-Corning, Packaging Corp of America, Penske, PulteGroup, Ralph Lauren, Reliance, Skyworks Solutions, Snap-on, Steel Dynamics, T. Rowe Price, Textron, The Hartford Financial, The Mosaic, Toll Brothers, TopBuild, Tractor Supply, Twilio, United Airlines, United States Steel, United Therapeutics, Universal Health, Williams-Sonoma and WR Berkley.

Currently, Eli Lilly's price to sales ratio is 21. In the last 9,919 trading days (40 years), Lilly had a P/S of 3.6 or less on 3,715 days (37.4%). In the future, Lilly will again have a P/S ratio substantially less than 4. **What does imply for Lilly's price?**

Currently, Eli Lilly's price to earnings ratio is 139. In the last 9,919 trading days (40 years), Lilly had a P/E of 30.7 or less on 5,269 days (53.1%). In the future, Lilly will again have a P/E ratio substantially less than 30. **What does imply for Lilly's price?**

Answers: The Profit Map™ informs us:

1. To produce a **15% price gain per year** for 5 years, LLY's price must rise to **\$1,532.94**.
2. If LLY's revenues grow at **25%** per year, in 5 years they'll grow to **\$104.1 billion**. What is the statistical probability that LLY's revenues will grow from \$34 billion to \$104.1 billion in 5 years? How many companies in the past 30 years have had revenues of \$34 billion and grew at 25% per year for 5 years?
3. To produce a **15% gain per year** for investors in 5 years, LLY's market cap must rise to **\$1.5 trillion**. What is the statistical probability that LLY will reach a market cap of **\$1.5 trillion**? What do historical precedents tell us about the statistical probability for companies with revenues of \$104.1 billion having a market cap of \$1.5 trillion?

4. If LLY's revenues grow at **25%** per year for 5 years, to produce a **15% gain per year** for 5 years, LLY's P/S ratio must be **13.99**. In the past 30 years, how many companies with revenues of \$104.1 billion had a P/S ratio of 13.99? *Currently, there are 32 companies with revenues over \$104 billion. 88% of them have a P/S ratio under 5. Only Microsoft has a P/S of 13.3.*
5. If LLY's revenues grow at **25%** per year for 5 years, their profit margin is **25%** 5 years from now, and their market cap is \$1.5 trillion, LLY's P/E ratio will then be **138.20**. In the past 30 years, how many companies with revenues of \$104.1 billion and a profit margin of **25%** had a **P/E ratio of 138.2**? What percentage of those companies' stock prices rose? What percentage fell? By how much, and over what time periods? Currently there are 5 companies with a market cap over \$1.5 trillion. **Their average P/E ratio is 43.7.**

The **Profit Map™** allows investors to calculate *the actual future price* of any stock based on **their assumptions** of the growth of its revenues, its profit margins, its future price to earnings and its future price to sales ratios.

No investor can **know** what these four variable factors will be in the future. However, the **Profit Map™** provides users will data to assist them in making realistic assumptions, and provides immediate calculations for the potential profits or losses based on their assumptions.

Conclusion: All growth stocks eventually experience both P/E compression and P/S compression. Therefore, we caution investors of the potential impact of valuation ratio compression on Eli Lilly's stock.

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Neither ERS nor its subsidiaries hold any position, long or short, in any mentioned security.

"Investment losses are not accidents of nature.

To avoid and prevent losses, first, we must identify their causes."

– Raymond M. Mullaney, CEO, Equity Risk Sciences, Inc.

"You must never delude yourself into thinking you're investing when you're speculating."

– Benjamin Graham, "The Intelligent Investor," 1949