

Eli Lilly: Valuation Lessons from ERS's ProfitMap.ai

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On 8/30/2024, Eli Lilly's (LLY) market cap was \$864 billion, price \$960, and \$39 billion TTM revenues. Its P/S was 22. Advisors using ERS's **ProfitMap.ai** could have quickly and easily seen "what must happen" for LLY's price to rise.

What ProfitMap.ai Reveals

Figure 1 displays Eli Lilly's 5-year revenue growth at **31.87%** and net income growth at **10.87%**. This valuation raises critical questions. The 10-year industry average P/S ratio for drug manufacturers is **0.45**, in contrast to Lilly's 22.2. The average P/S and P/E ratios are available on another tab on **ProfitMap.ai**.

Figure 2: The "Future Return by P/S Ratio" tab allows advisors to test various scenarios by adjusting inputs like revenue growth rates and future P/S ratios. Advisors can examine impact of these factors on the stock's price.

Key Scenarios Explored

- 1) **Scenario 1: Revenue Growth 30% Annually for Five Years:** If revenue grows by 30% annually, reaching **\$144.5 billion**, and the P/S ratio contracts to **4**, the stock price would fall **33%** to \$642. However, if their P/S ratio declines to **1.11** (which is still more than 100% higher than the average drug company), the stock price would decline **81%** to approximately \$178.
- 2) **Scenario 2: Revenue Growth 25% Above Projection (37.5% Growth):** Faster revenue growth improves outcomes slightly, but risks remain. At a future P/S ratio of **4**, the price drops **11%** to \$850. If the P/S ratio contracts to **2**, the stock price would still decline **55.7%**.
- 3) **Scenario 3: Revenue Growth 25% Below Projection (22.5% Growth):** Slower growth amplifies losses. With a 22.5% revenue growth rate and a P/S of **4**, the stock price falls by **50%** to \$477. A P/S of **2** leads to a **75% loss**.

Why This Data Matters

These scenarios underscore the dangers of investing in stocks with very high P/S ratios. Even with strong revenue growth, contracting P/S ratios—common as growth slows or the market normalizes—will lead to substantial losses.

ProfitMap.ai doesn't make forecasts; instead, it empowers advisors to test their assumptions against historical norms and realistic expectations. The tool provides clarity by simulating outcomes, providing advisors with objective data to help them avoid, reduce and prevent significant losses on investments which are unsupported by historic valuation precedents.

Data Validity and AI Verification

ProfitMap.ai's logic and formulas have been verified using multiple AI platforms. **ProfitMap.ai** is user-friendly, enabling you to test countless "what-if" scenarios to assess both upside potential and downside risk.

Final Takeaway

Eli Lilly is a premier company with robust growth and profitability, but its current valuation poses significant risks. Overpaying for even the best companies will result in severe losses when market conditions change. **ProfitMap.ai** helps advisors see beyond the hype and make decisions grounded in data, ensuring smarter, safer, and more profitable outcomes.

Contact us today to explore how **ProfitMap.ai** can transform your investment approach.

Figure 1: Recent Financials of Eli Lilly as of 8/30/2024

Name: Eli Lilly and Co	Price: \$960.02	Shares O/S: 900.4
Date: 2024-08-30	Market Cap: \$864,427	1-Yr Ann. Rev. Growth: 31.87%
Sector: Healthcare	Revenue: \$38,923	3-Yr Ann. Rev. Growth: 13.35%
Industry: Drug Manufacturers - General	Net Income: \$7,342	5-Yr Ann. Rev. Growth: 10.87%
Get Historic Ratings 25 Years ▾	Tangible Equity: \$1,158	Current Profit Margin: 18.86%
	P/S Ratio: 22.21	3-Yr Avg. Profit Margin: 19.72%
	P/E Ratio: 117.73	5-Yr Avg. Profit Margin: 22.90%
	5-Yr Rev. Variance: 3.25%	10-Yr Rev. Variance: 4.29%
	5-Yr Liabs. Variance: 4.29%	10-Yr Liabs. Variance: 4.63%
	5-Yr Tan. Eq. Variance: 82.36%	10-Yr Tan. Eq. Variance: 217.31%
	5-Yr N.I. Variance: 11.67%	10-Yr N.I. Variance: 14.38%

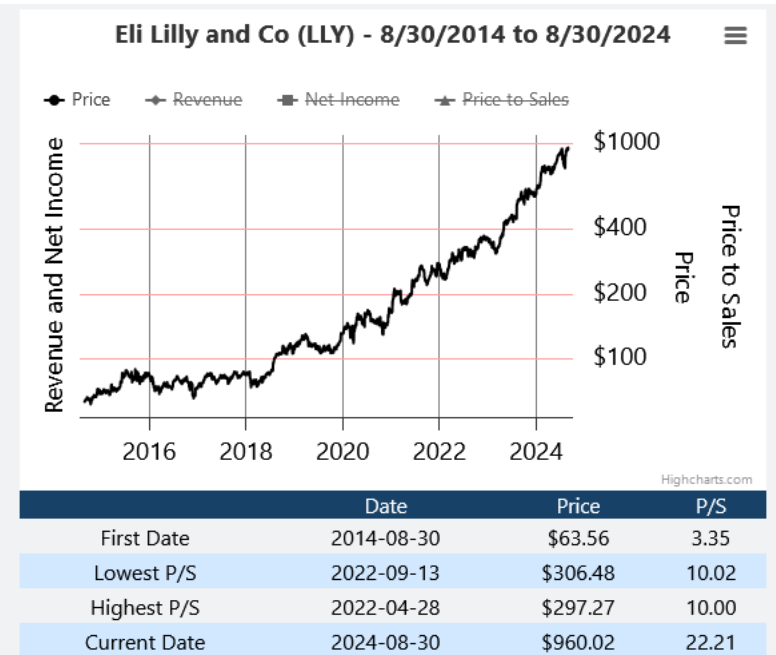


Figure 2: “Future Return by P/S Ratio”

Assumptions

The fields below have been pre-filled with the current rates of growth, *but you can change them* to see what would happen under different circumstances.

Years Later:

Annual Revenue Growth (%):

Projected Future P/S Ratio:

Calculate

Results

Current Financials

Current P/S Ratio	Current Revenue	Current Market Cap	Current Price
22.21	\$38,923	\$864,427	\$960.02

Revenue Growth As Projected

	Future P/S Ratio	Revenue Growth	Future Revenue	Future Market Cap	Future Price	Gain (Loss)
Probable P/S	1.11	30.00%	\$144,518	\$160,011	\$177.79	-81.5%
-75% Below Projected P/S	1.00	30.00%	\$144,518	\$144,518	\$160.58	-83.3%
-50% Below Projected P/S	2.00	30.00%	\$144,518	\$289,037	\$321.15	-66.5%
-25% Below Projected P/S	3.00	30.00%	\$144,518	\$433,555	\$481.73	-49.8%
Projected P/S	4.00	30.00%	\$144,518	\$578,073	\$642.30	-33.1%
25% Above Projected P/S	5.00	30.00%	\$144,518	\$722,592	\$802.88	-16.4%
50% Above Projected P/S	6.00	30.00%	\$144,518	\$867,110	\$963.46	0.4%

Revenue Growth 25% Above Projected

	Future P/S Ratio	Revenue Growth	Future Revenue	Future Market Cap	Future Price	Gain (Loss)
Probable P/S	1.11	37.50%	\$191,302	\$211,810	\$235.34	-75.5%
-75% Below Projected P/S	1.00	37.50%	\$191,302	\$191,302	\$212.56	-77.9%
-50% Below Projected P/S	2.00	37.50%	\$191,302	\$382,604	\$425.12	-55.7%
-25% Below Projected P/S	3.00	37.50%	\$191,302	\$573,906	\$637.67	-33.6%
Projected P/S	4.00	37.50%	\$191,302	\$765,209	\$850.23	-11.4%
25% Above Projected P/S	5.00	37.50%	\$191,302	\$956,511	\$1,062.79	10.7%
50% Above Projected P/S	6.00	37.50%	\$191,302	\$1,147,813	\$1,275.35	32.8%

Revenue Growth 25% Below Projected

	Future P/S Ratio	Revenue Growth	Future Revenue	Future Market Cap	Future Price	Gain (Loss)
Probable P/S	1.11	22.50%	\$107,371	\$118,881	\$132.09	-86.2%
-75% Below Projected P/S	1.00	22.50%	\$107,371	\$107,371	\$119.30	-87.6%
-50% Below Projected P/S	2.00	22.50%	\$107,371	\$214,742	\$238.60	-75.1%
-25% Below Projected P/S	3.00	22.50%	\$107,371	\$322,113	\$357.90	-62.7%
Projected P/S	4.00	22.50%	\$107,371	\$429,484	\$477.20	-50.3%
25% Above Projected P/S	5.00	22.50%	\$107,371	\$536,855	\$596.51	-37.9%
50% Above Projected P/S	6.00	22.50%	\$107,371	\$644,226	\$715.81	-25.4%