

Eli Lilly and Co

S&P Recommendation **HOLD** ★★☆☆☆

Price
\$37.37 (as of Dec 2, 2011)

12-Mo. Target Price
\$40.00

Investment Style
Large-Cap Blend

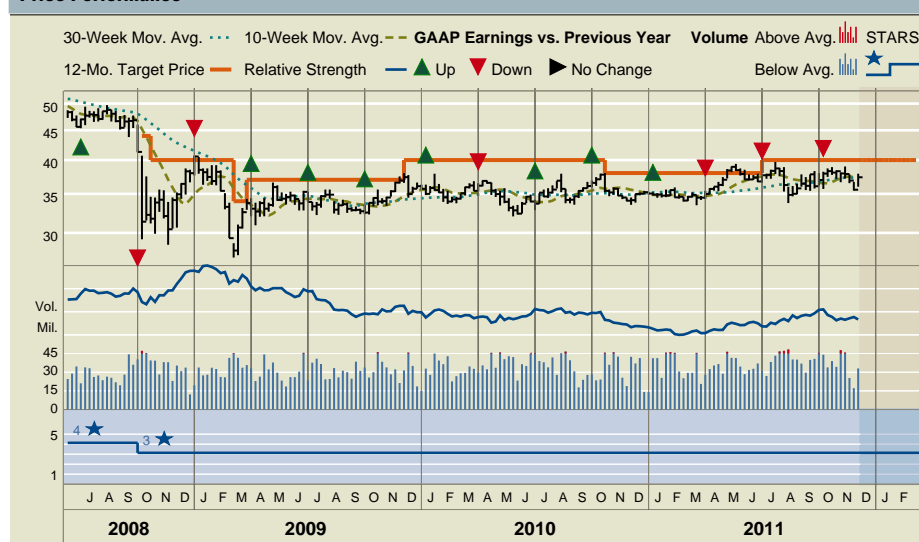
GICS Sector Health Care
Sub-Industry Pharmaceuticals

Summary This leading producer of prescription drugs offers a wide range of treatments for neurological disorders, diabetes, cancer and other conditions, and also sells animal health products.

Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	\$39.78–33.46	S&P Oper. EPS 2011 E	4.35	Market Capitalization(B)	\$43.266	Beta	0.71
Trailing 12-Month EPS	\$4.18	S&P Oper. EPS 2012E	3.63	Yield (%)	5.24	S&P 3-Yr. Proj. EPS CAGR(%)	-5
Trailing 12-Month P/E	8.9	P/E on S&P Oper. EPS 2011 E	8.6	Dividend Rate/Share	\$1.96	S&P Credit Rating	AA-
\$10K Invested 5 Yrs Ago	\$8,884	Common Shares Outstg. (M)	1,157.8	Institutional Ownership (%)	74		

Price Performance



Qualitative Risk Assessment

LOW **MEDIUM** **HIGH**

Our risk assessment reflects generic challenges to the company's branded patents, and drug development and regulatory risks. However, this is largely offset by our view of LLY's diverse drug portfolio, strong growth trends in Japan and emerging markets, and a robust pipeline.

Quantitative Evaluations

S&P Quality Ranking **B**

D C B- B B+ A- A A+

Relative Strength Rank **MODERATE**

LOWEST = 1 HIGHEST = 99

Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2011	5,839	6,253	6,148	--	--
2010	5,486	5,749	5,655	6,187	23,076
2009	5,047	5,293	5,562	5,934	21,836
2008	4,808	5,150	5,210	5,211	20,378
2007	4,226	4,631	4,587	5,190	18,634
2006	3,715	3,867	3,864	4,245	15,691

Earnings Per Share (\$)	2011	2010	2009	2008	2007	2006
2011	0.95	1.07	1.11	E0.80	E4.35	
2010	1.13	1.22	1.18	1.05	4.58	
2009	1.20	1.06	0.86	0.83	3.94	
2008	0.97	0.88	-0.43	-3.31	-1.89	
2007	0.47	0.61	0.85	0.78	2.71	
2006	0.77	0.76	0.80	0.12	2.45	

Fiscal year ended Dec. 31. Next earnings report expected: Late January. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Dividend Data (Dates: mm/dd Payment Date: mm/dd/yy)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.490	12/13	02/11	02/15	03/10/11
0.490	04/18	05/11	05/13	06/10/11
0.490	06/20	08/11	08/15	09/09/11
0.490	10/17	11/10	11/15	12/09/11

Dividends have been paid since 1885. Source: Company reports.

Analysis prepared by Equity Analyst **Herman Saftlas** on Nov 15, 2011, when the stock traded at **\$37.58**.

Highlights

- We expect 2012 revenues to decline about 5% from the \$24 billion that we forecast for 2011. The shortfall should primarily reflect an estimated 55% drop in sales of Zyprexa antipsychotic, which lost U.S. patent protection in October 2011. We also expect lower sales of other off-patent drugs such as Gemzar. On the plus side, we project further growth in other lines such as Cymbalta antidepressant and Alimta oncology agent. Sales of animal health products should also rise, helped by acquisitions. We also see continued strength in sales in Japan and emerging markets.
- We see 2012 gross margins narrowing modestly from the 78.5% indicated for 2011, largely reflecting sales mix pressure from a sharp drop in high-profit Zyprexa sales. Austerity pricing in Europe is another negative, in our opinion. On the plus side, we think the SG&A cost ratio is likely to decline, and interest costs should be lower.
- After a projected effective tax rate of about 22%, versus the 20% indicated for 2011, we estimate operating EPS of \$3.63 in 2012, down from \$4.35 that we forecast for 2011.

Investment Rationale/Risk

- We believe LLY is executing well on its strategy to counter the recent patent expiration on Zyprexa and impending expirations on other drugs that in the aggregate are expected to reduce annual sales by about \$7 billion from 2010 through 2014. To rejuvenate sales, LLY plans to bolster growth engines in Japan, emerging markets, animal health, and drug franchises in oncology and diabetes. As of October 2011, LLY had 13 compounds in Phase 3 trials or under regulatory review. Key promising new products, in our opinion, include Effient blood thinning agent, Axiron testosterone treatment and Tradjenta for Type 2 diabetes.
- Risks to our recommendation and target price include greater-than-expected competitive pressures, as well as failure to develop and commercialize new drugs.
- Our 12-month target price of \$40 applies a peer multiple of 11X to our 2012 EPS estimate. Our DCF model, which assumes decelerating cash flow growth over the next 10 years, a WACC of 9.7%, and perpetuity growth of 2%, also indicates intrinsic value of \$40. The dividend recently yielded 5.2%.

Eli Lilly and Co**Business Summary** November 15, 2011

CORPORATE OVERVIEW. Eli Lilly and Co. is a leading maker of prescription drugs, offering a wide range of treatments for neurological disorders, diabetes, cancer and other conditions. Animal health products are also sold. Foreign drug sales accounted for about 41% of total revenues in 2010.

LLY's largest selling drug is Zyprexa, a treatment for schizophrenia and bipolar disorder that offers clinical advantages over older antipsychotic drugs. Sales of Zyprexa totaled \$5.0 billion in 2010, up from \$4.9 billion in 2009. However, Zyprexa lost U.S. patent protection in October 2011. LLY also offers Symbyax, a combination of Zyprexa and Prozac, to treat bipolar depression.

In August 2004, the company launched Cymbalta, a potent antidepressant. Cymbalta works on two body chemicals involved in depression -- serotonin and norepinephrine -- while most conventional antidepressants affect only serotonin. Sales of Cymbalta climbed to \$3.5 billion in 2010, from \$3.1 billion in 2009, reflecting greater market penetration and expanded indications.

Endocrinology products (sales of \$5.9 billion in 2010) include Humulin, a human insulin produced through recombinant DNA technology; Humalog, a rapid-acting injectable human insulin analog; Iletin, an animal-source insulin; Actos, an oral agent for Type 2 diabetes that is manufactured by Takeda Chemical Industries of Japan and co-marketed by Lilly and Takeda; and Byetta, a treatment for Type 2 diabetes. Lilly shares in the profits from Byetta with Amylin Pharmaceuticals, co-developer of the drug. This group also includes Evista (\$1.0 billion) and Forteo (\$830 million) treatments for osteoporosis; and Humatrope, a recombinant human growth hormone.

Other important drugs are Alimta, a treatment for lung cancer (sales of \$2.2 billion); Gemzar, another oncology drug now off-patent (\$1.1 billion); Cialis, a treatment for erectile dysfunction (\$1.7 billion); and animal health products (\$1.4 billion) that include cattle feed additives, antibiotics and related items.

IMPACT OF MAJOR DEVELOPMENTS. In January 2011, LLY formed an alliance with German drugmaker Boehringer Ingelheim to develop new oral diabetes drugs currently in mid- and late stage development. We see this deal expanding LLY's already robust position in diabetes treatments, with multi-billion sales potential seen for drugs developed by this alliance. In November 2007, LLY acquired ImClone Systems for \$6.5 billion in cash. ImClone's principal drug is Erbitux, a major anticancer therapy. In January 2007, LLY acquired ICOS Corp. for \$2.3 billion in cash. That deal gave LLY full ownership of Cialis.

MARKET PROFILE. The dollar value of the global drug market is projected to grow in the mid-single digits in 2011, from \$856 billion in 2010, based on data from IMS Health. The key driver should be emerging markets, whose aggregate sales (17 countries) should advance 15%-17% in 2011. Growth in developing markets is being spurred by rising standards of living and rising government spending on health care. However, IMS forecasts much slower growth for developed nations, with combined growth for five major European markets projected at 1%-3% for 2011, while pharmaceutical sales in the U.S. are estimated to increase 3%-5%.

PIPELINE. R&D spending totaled \$4.4 billion in 2010, equal to 18.9% of sales, one of the highest R&D-to-sales ratios in the drug industry. As of October 2011, Lilly had a pipeline of some 64 New Chemical Entities (NMEs) or New Biotech Entities (NBEs). Of that total, 35 compounds were in Phase II or Phase III or under regulatory review. Compounds comprise new treatments for psychosis, depression, cancer, diabetes and other conditions. Some of the more promising compounds, in our opinion, are Livalo cholesterol regulator, and Axiron testosterone treatment. Lilly is developing many of its new drugs through R&D alliances with Takeda, Boehringer Ingelheim and others.

FINANCIAL TRENDS. During 2010, the company generated close to \$7 billion of operating cash flow, easily covering capital expenditures of \$700 million and dividends of \$2.2 billion. As of the end of September 2011, Lilly had cash and equivalents of \$6.6 billion, and long-term debt of \$5.5 billion. In mid-October 2011, LLY narrowed its 2011 non-GAAP EPS guidance to \$4.30-\$4.35, from \$4.25-\$4.35.

Corporate Information**Investor Contact**

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SVP & Cntrl

E. O'Farrell

SVP & Treas

T.W. Grein

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K. N. Horn

J. C. Lechleiter

E. R. Marram

D. R. Oberhelman

F. G. Prendergast

K. P. Seifert

Domicile

Indiana

Auditor

ERNST & YOUNG

Founded

1876

Employees

38,350

Stockholders

36,700

Eli Lilly and Co

Quantitative Evaluations

S&P Fair Value Rank	NR	1	2	3	4	5
		LOWEST				HIGHEST
Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).						

Fair Value Calculation NA

Investability Quotient Percentile	98
	LOWEST = 1 HIGHEST = 100
LLY scored higher than 98% of all companies for which an S&P Report is available.	

Volatility	LOW	AVERAGE	HIGH
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Technical Evaluation NEUTRAL Since November, 2011, the technical indicators for LLY have been NEUTRAL.

Insider Activity	UNFAVORABLE	NEUTRAL	FAVORABLE
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Expanded Ratio Analysis

	2010	2009	2008	2007
Price/Sales	1.68	1.80	2.16	3.13
Price/EBITDA	4.79	5.12	6.75	10.29
Price/Pretax Income	5.94	7.32	NM	15.02
P/E Ratio	7.64	9.06	NM	19.72
Avg. Diluted Shares Outstg (M)	1,105.8	1,098.4	1,094.5	1,090.8

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	5.68	7.36	10.06	9.09
Net Income	17.11	NM	-65.41	-71.17

Ratio Analysis (Annual Avg.)

	2010	2009	2008	2007
Net Margin (%)	21.97	10.54	12.89	15.11
% LT Debt to Capitalization	35.22	38.46	32.80	32.44

Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Tangible Book Value	7.44	5.30	2.45	10.64	9.70	9.55	9.51	8.69	7.37	6.32
Cash Flow	5.79	5.12	-1.05	3.49	3.06	2.41	2.21	2.87	2.85	2.91
Earnings	4.58	3.94	-1.89	2.71	2.45	1.83	1.66	2.37	2.50	2.58
S&P Core Earnings	4.53	4.03	-1.38	2.78	2.90	1.85	1.42	2.09	1.96	2.17
Dividends	1.96	1.96	1.88	1.70	1.60	1.52	1.42	1.34	1.24	1.12
Payout Ratio	43%	50%	NM	63%	65%	83%	86%	57%	50%	43%
Prices:High	38.08	40.78	57.52	61.00	59.24	60.98	76.95	73.89	81.09	95.00
Prices:Low	32.02	27.21	28.62	49.09	50.19	49.47	50.34	52.77	43.75	70.01
P/E Ratio:High	8	10	NM	23	24	33	46	31	32	37
P/E Ratio:Low	7	7	NM	18	20	27	30	22	17	27

Income Statement Analysis (Million \$)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenue	23,076	21,836	20,378	18,634	15,691	14,645	13,858	12,583	11,078	11,543
Operating Income	8,092	7,668	6,525	5,658	4,927	4,375	4,256	4,050	3,821	4,185
Depreciation	1,328	1,298	925	855	802	726	598	548	493	455
Interest Expense	134	261	277	324	Nil	105	274	61.0	79.7	147
Pretax Income	6,525	5,358	-1,308	3,877	3,418	2,718	2,942	3,262	3,458	3,552
Effective Tax Rate	NA	19.2%	NM	23.8%	22.1%	26.3%	38.5%	21.5%	21.7%	20.9%
Net Income	5,070	4,329	-2,072	2,953	2,663	2,002	1,810	2,561	2,708	2,809
S&P Core Earnings	5,016	4,421	-1,523	3,028	3,153	2,016	1,558	2,261	2,128	2,359

Balance Sheet & Other Financial Data (Million \$)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Cash	6,727	4,498	5,926	4,831	3,109	3,007	5,365	2,756	1,946	2,702
Current Assets	14,840	12,487	12,453	12,257	9,694	10,796	12,836	8,759	7,804	6,939
Total Assets	31,001	27,461	29,213	26,788	21,955	24,581	24,867	21,678	19,042	16,434
Current Liabilities	7,101	6,568	13,110	5,268	5,086	5,716	7,594	5,551	5,064	5,203
Long Term Debt	6,746	6,609	4,616	4,594	3,494	5,764	4,492	4,688	4,358	3,132
Common Equity	12,420	9,524	6,735	13,664	11,081	11,000	10,920	9,765	8,274	7,104
Total Capital	19,155	16,141	11,771	18,545	14,638	17,459	16,032	14,453	12,632	10,236
Capital Expenditures	694	765	947	1,082	1,078	1,298	1,898	1,707	1,131	884
Cash Flow	6,398	5,627	-1,147	3,808	3,465	2,728	2,408	3,109	3,201	3,264
Current Ratio	2.1	1.9	1.0	2.3	1.9	1.9	1.7	1.6	1.5	1.3
% Long Term Debt of Capitalization	35.2	Nil	39.2	24.8	23.9	33.0	28.0	32.4	34.5	30.6
% Net Income of Revenue	22.0	19.8	NM	15.9	17.0	13.7	13.1	20.4	24.4	24.3
% Return on Assets	NA	NA	NM	12.1	11.4	8.1	7.8	12.6	15.3	18.1
% Return on Equity	NA	NA	NM	24.0	24.2	18.1	17.5	28.4	35.2	42.7

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Eli Lilly and Co

Sub-Industry Outlook

Our fundamental outlook for the pharmaceuticals sub-industry for the next 12 months is neutral. Although 2011 third quarter industry profits were generally favorable, helped by foreign exchange tailwinds, we think the sub-industry still faces challenging prospects in 2012, in light of a patent cliff that began in the fourth quarter of 2011 with U.S. patent expirations on Lipitor and Zyprexa. We also see results being hurt by ongoing negative effects from U.S. health care reform and austerity pricing in Europe.

While we think recent health care reform legislation will negatively affect industry profitability over the next few years, we see eventual benefits accruing from significant expansion of the market, with new coverage potentially being provided to 32 million currently uninsured Americans. We favor the shares of firms with well defined growth prospects and generous dividend yields, as we believe they should perform relatively well over the coming quarters.

Long-term industry fundamentals, in our opinion, are still favorable. Pharmaceuticals remains one of the widest-margin U.S. industries, with prospects enhanced by demographic growth in the elderly (which account for about 33% of industry sales) and new drugs stemming from discoveries in genomics and biotechnology. We also see longer-range benefits from cost restructurings and merger synergies. We expect FDA approvals of new molecular entities in 2011 to be much higher than the 15 approved in 2010.

Year to date to November 18, the S&P Pharmaceuticals Index was up 6.1%, versus a decline of 3.5% for the S&P 1500 Composite Index. We expect prospects for the generic/specialty drug sector to remain favorable. We see a large number of major drugs losing patent protection over the next

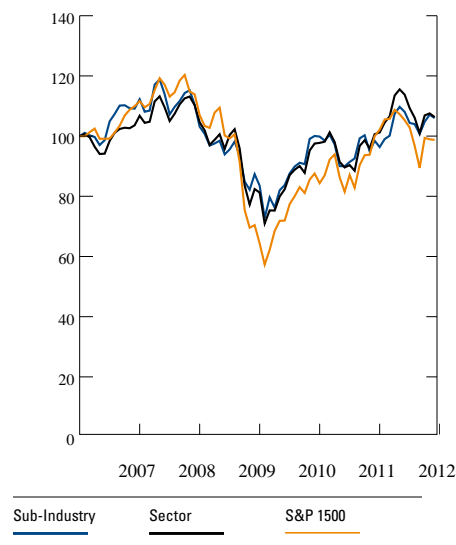
few years, providing significant opportunities for this group. We also look for generics to benefit from the new health care reform legislation. We favor companies with rich generic pipelines, especially those with first-to-file generics with the potential for 180 days of marketing exclusivity, and competence in litigating complex patent issues.

--Herman B. Saftlas

Stock Performance

GICS Sector: Health Care
Sub-Industry: Pharmaceuticals

Based on S&P 1500 Indexes
Month-end Price Performance as of 11/30/11



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Sub-Industry : Pharmaceuticals Peer Group*: Ethical Pharmaceuticals - Major

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
Lilly (Eli)	LLY	43,266	37.37	39.78/33.46	0.71	5.2	9	NA	B	98	22.0	35.2
AstraZeneca ADS	AZN	60,116	45.20	52.54/40.89	0.61	6.0	6	47.00	NR	86	24.2	28.0
Forest Labs	FRX	7,985	29.89	40.52/28.56	0.68	Nil	7	NA	B	85	23.8	NA
GlaxoSmithKline plc ADS	GSK	109,809	44.18	45.68/36.28	0.62	5.0	21	44.00	NR	93	6.5	58.3
Merck & Co	MRK	108,140	35.48	37.65/29.47	0.66	4.7	26	37.90	B	97	2.1	20.3
Novartis AG ADS	NVS	129,425	53.51	64.82/51.60	0.53	3.7	13	59.70	NR	93	19.0	15.5
Novo-Nordisk A/S ADS	NVO	63,371	112.46	132.88/94.58	0.53	1.2	21	96.30	NR	91	23.7	1.4
Pfizer, Inc	PFE	152,894	19.89	21.45/16.59	0.73	4.0	14	22.10	B	59	12.2	29.4
Sanofi ADS	SNY	92,583	34.49	40.75/30.98	0.89	3.8	14	35.20	NR	87	17.9	11.1

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Eli Lilly and Co

S&P Analyst Research Notes and other Company News

November 8, 2011

10:52 am ET ... S&P REITERATES HOLD OPINION ON SHARES OF LILLY (LLY 38.69***): LLY and Amylin Pharmaceuticals (AMLN 9.44, Hold) agree to dissolve their diabetes partnership and settle related litigation. Under the terms, AMLN wins rights to Byetta and Bydureon type 2 diabetes drugs, with LLY receiving a \$250M upfront payment and future revenue sharing payments of up to \$1.2B. We view this as a positive for LLY, since it reduces Bydureon R&D risk, provides steady cash flow, and allows LLY to partner diabetes deals with other firms. However, we would not add to positions in LLY, as it manages through a major patent cliff. We keep our target price of \$40. /H. Saftlas

November 8, 2011

11:00 am ET ... S&P MAINTAINS HOLD OPINION ON SHARES OF AMYLIN PHARMACEUTICALS (AMLN 9.21***): AMLN and Eli Lilly (LLY 38.7, Hold) terminate exenatide (Byetta/Bydureon) diabetes alliance, granting AMLN full rights and ending current litigation. AMLN will pay \$250M cash upfront and repay \$1.2B note (accruing 9.5% annual interest) from future sales. AMLN will seek a new ex-U.S. partner. We see potential for AMLN to benefit from full control and commitment to exenatide franchise, but see higher risk in added leverage, diabetes market competition, and reliance on securing Bydureon's U.S. approval in '12. On revised NPV analysis, we cut our target price by \$3 to \$11. /S.Silver

October 25, 2011

LLY announces the withdrawal of its Xigris product in all markets following results of the Prowess-Shock study, which showed the study did not meet the primary endpoint of a statistically significant reduction in 28-day all-cause mortality in patients with septic shock. Says it plans to take Q4 charge for asset impairments and contractual commitments related to Xigris; now expects '11 EPS (reported), incl'dg charges, to be in the range of \$3.84-\$3.89.

October 20, 2011

LLY posts \$1.13 vs. \$1.21 Q3 non-GAAP EPS as increased marketing, selling and administrative expenses offset 9% revenue rise. S&P Capital IQ consensus forecast was \$1.13. Narrows its '11 non-GAAP EPS guidance to a range of \$4.30-\$4.35.

October 20, 2011

11:45 am ET ... S&P MAINTAINS HOLD OPINION ON SHARES OF ELI LILLY (LLY 38.31***): Q2 non-GAAP EPS of \$1.13, vs. \$1.21, is \$0.06 above our estimate on higher revenues. Sales rose 9%, with demand and favorable forex each contributing roughly half of the benefit. While we are encouraged by six drugs posting double-digit sales increases and LLY's citing of 66 new medicines in its pipeline, including 10 in Phase III study, we remain wary of the impact of patent expirations on LLY's business, with anti-psychotic drug Zyprexa set to expire later this month. We maintain our \$40 target price, based on P/E and DCF assumptions. The dividend yields 5.1%. /H. Saftlas, S.Silver

October 20, 2011

Eli Lilly & Co. announced a change in guard at its Indian operations. The current Managing Director, Mr. Sandeep Gupta, is moving on to pursue another career opportunity after spending over five years in the role. Mr. Melt van der Spuy, a citizen of South Africa with varied experience in multiple geographies was named to succeed as the new Chairman and Managing Director, effective November 1. Mr. Melt joined Lilly 18 years ago as a sales representative in South Africa.

July 21, 2011

12:19 pm ET ... S&P REITERATES HOLD OPINION ON SHARES OF ELI LILLY (LLY 38.96***): Q2 non-GAAP EPS of \$1.18, vs. \$1.24, topped our estimate by \$0.02. Sales climbed 9%, with 4% from FX. Seven key drugs posted double-digit sales increases, including a 12% gain for Zyprexa. Despite a fairly robust pipeline (consisting of 70 projects), and foreign expansion, including a planned doubling of the Japanese business, we think investors will remain cautious on LLY, given impending patent expirations on Zyprexa (Oct. '11) and Cymbalta (in '13). We reiterate our target price of \$40, based on forward P/E and DCF assumptions. The dividend presently yields 5.1%. /H. Saftlas

July 5, 2011

Eli Lilly & Co. announced that Fionnuala Walsh, Ph.D., will join the executive committee of the company on July 1, 2011. Walsh will continue in her current role

as Lilly's senior vice president of global quality, reporting to John Lechleiter, Ph.D., chairman, president, and CEO, and working to ensure Lilly continues to maintain high quality standards across its worldwide operations. Her presence on the company's most senior governance committee is expected to further underscore Lilly's ongoing commitment to quality. In January 2003, Walsh was named executive director of quality for U.S. drug product and Lilly Technology Center operations. In July 2005, she was named vice president of global quality operations, and, in June 2007, she was named senior vice president of global quality.

June 30, 2011

12:07 pm ET ... S&P REITERATES HOLD OPINION ON SHARES OF ELI LILLY (LLY 37.41***): LLY outlines a long-term strategy to counter a heavy patent cliff that is expected reduce sales by \$7B over the 5 years through '14. Key positives include cost reductions; expansion in Japan, emerging markets, and animal health segments; and new drugs from an impressive R&D pipeline. However, while LLY projects minimum annual sales of \$20B and net income of \$3B over '11-'14, we note this is still well below sales of \$23B and net income of \$5.1B last year. We raise our target price by \$2 to \$40, on a peer P/E of 10.9X to our '12 \$3.65 EPS estimate. The dividend yields 5.3%. /H. Saftlas

June 9, 2011

10:26 am ET ... S&P MAINTAINS HOLD OPINION ON SHARES OF AMYLIN PHARMACEUTICALS (AMLN 12.77***): A U.S. District Judge denies AMLN's motion for a preliminary injunction to prevent Eli Lilly (LLY 37.5, Hold) from using the same sales force to promote their partnered Byetta/Bydureon and a competing diabetes drug, which AMLN claims violates a collaboration agreement. AMLN says the court ruling did not rule on the claim's merits and that it will vigorously pursue the litigation. We expect AMLN shares to remain volatile amid the legal proceedings, and anticipated near-term European approval of Bydureon. We view the shares as fairly valued, and would not add to positions. /S.Silver

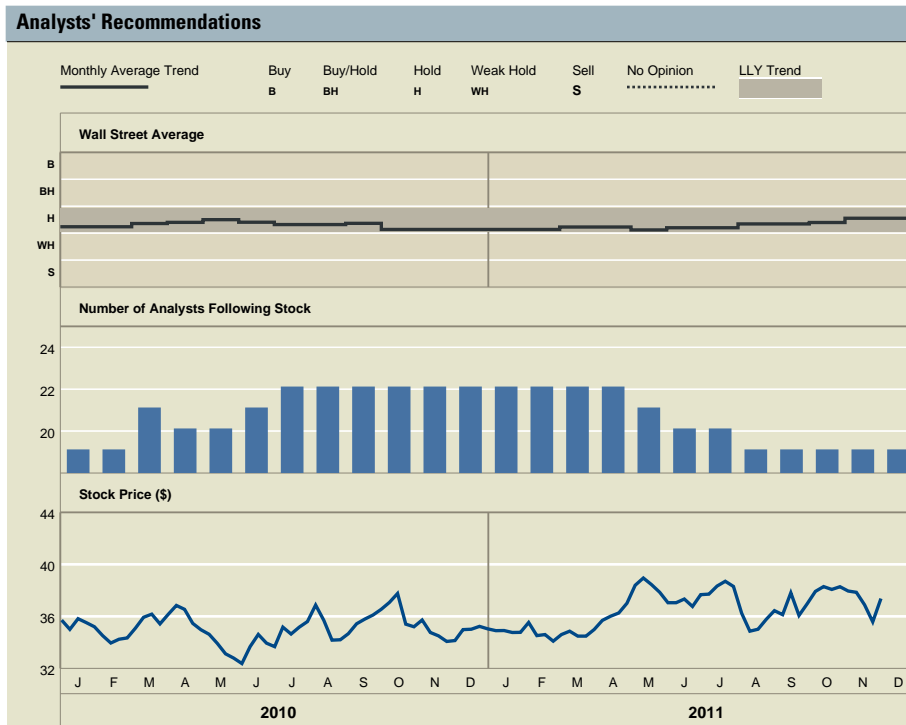
May 31, 2011

Eli Lilly & Co. has recruited Liam English to oversee its PR across Europe, Australia and Canada. Liam English has spent the past three-and-a-half years as deputy director of comms and head of media relations at HM Treasury and the Cabinet Office. He joins the company as an associate director for the Australian, Canada and Europe region. English will report to Stuart Hurst, senior director, European government affairs and comms advocacy ACE, and Jeffrey Winton, vice-president, global comms. In the role, which English starts this week, he will be supported by another recent appointment, policy and comms manager Femke Beumer.

April 18, 2011

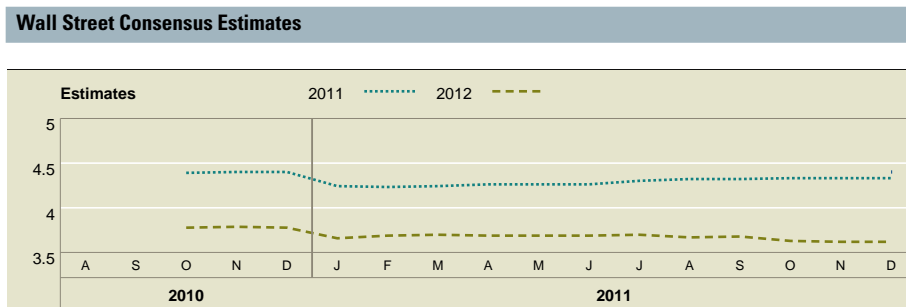
LLY posts \$1.24 vs. \$1.18 Q1 non-GAAP EPS on 6% revenue rise. Street was looking for an EPS of \$1.16. Reaffirms \$4.15-\$4.30 '11 non-GAAP EPS guidance. Separately, co. receives a complete response letter from FDA for its New Drug Application (NDA) for liprotamase, a treatment of exocrine pancreatic insufficiency (EPI). Complete response letter communicated the need for LLY to conduct an additional clinical trial prior to a re-submission.

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Of the total 26 companies following LLY, 19 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	3	16	3	2
Buy/Hold	1	5	1	0
Hold	11	58	11	12
Weak Hold	2	11	2	3
Sell	2	11	2	2
No Opinion	0	0	0	1
Total	19	100	19	20



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2012	3.62	3.95	3.05	19	10.3
2011	4.34	4.41	4.30	19	8.6
2012 vs. 2011	▼ -17%	▼ -10%	▼ -29%	0%	▲ 20%
Q4'12	1.01	1.08	0.93	5	37.0
Q4'11	0.80	0.82	0.76	15	46.7
Q4'12 vs. Q4'11	▲ 26%	▲ 32%	▲ 22%	▼ -67%	▼ -21%

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Wall Street Consensus Opinion

HOLD

Companies Offering Coverage

- Argus Research Company
- Atlantic Equities LLP
- BMO Capital Markets, U.S. Equity Research
- Barclays Capital
- BofA Merrill Lynch
- Caris & Company
- Citigroup Inc
- Cowen and Company, LLC
- Credit Suisse
- Daiwa Securities Capital Markets Co. Ltd.
- Daiwa Securities America Inc.
- Deutsche Bank
- First Global Stockbroking (P) Ltd.
- Goldman Sachs
- Hilliard Lyons
- JP Morgan
- Jefferies & Company, Inc.
- Leerink Swann LLC
- Morgan Stanley
- Morningstar Inc.
- Sanford C. Bernstein & Co., Inc.
- Soleil Securities Group, Inc.
- Stifel, Nicolaus & Co., Inc.
- Ticonderoga Securities LLC
- UBS Investment Bank
- Wells Fargo Securities, LLC

Wall Street Consensus vs. Performance

For fiscal year 2011, analysts estimate that LLY will earn \$4.34. For the 3rd quarter of fiscal year 2011, LLY announced earnings per share of \$1.11, representing 26% of the total annual estimate. For fiscal year 2012, analysts estimate that LLY's earnings per share will decline by 17% to \$3.62.

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Glossary

S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

S&P EPS Estimates

Standard & Poor's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P EPS estimates reflect either forecasts of S&P equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to Standard & Poor's Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Core Earnings

Standard & Poor's Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the Standard & Poor's definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment

is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves

as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

S&P's IQ Rationale:

Lilly (Eli)

	Raw Score	Max Value
Proprietary S&P Measures	36	115
Technical Indicators	28	40
Liquidity/Volatility Measures	16	20
Quantitative Measures	58	75
IQ Total	138	250

Volatility

Rates the volatility of the stock's price over the past year.

Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

S&P Equity Research Services

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Abbreviations Used in S&P Equity Research Reports

CAGR- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

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In contrast to the qualitative STARS recommendations covered in this report, which are determined and assigned by S&P equity analysts, S&P's quantitative evaluations are derived from S&P's proprietary Fair Value quantitative model. In particular, the Fair Value Ranking methodology is a relative ranking methodology, whereas the STARS methodology is not. Because the Fair Value model and the STARS methodology reflect different criteria, assumptions and analytical methods, quantitative evaluations may at times differ from (or even contradict) an equity analyst's STARS recommendations. As a quantitative model, Fair Value relies on history and consensus estimates and does not introduce an element of subjectivity as can be the case with equity analysts in assigning STARS recommendations.

S&P Global STARS Distribution

In North America: As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services North America recommended 42.2% of issuers with buy recommendations, 54.2% with hold recommendations and 3.6% with sell recommendations.

In Europe: As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services Europe recommended 34.4% of issuers with buy recommendations, 49.4% with hold recommendations and 16.2% with sell recommendations.

In Asia: As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services Asia recommended 48.4% of issuers with buy recommendations, 45.7% with hold recommendations and 5.9% with sell recommendations.

Globally: As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services globally recommended 41.5% of issuers with buy recommendations, 52.6% with hold recommendations and 5.9% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★★★★☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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S&P Global Quantitative Recommendations Distribution

In Europe: As of September 30, 2011, Standard & Poor's Quantitative Services Europe recommended 49.0% of issuers with buy recommendations, 18.0% with hold recommendations and 31.0% with sell recommendations.

In Asia: As of September 30, 2011, Standard & Poor's Quantitative Services Asia recommended 48.4% of issuers with buy recommendations, 21.0% with hold recommendations and 30.0% with sell recommendations.

Globally: As of September 30, 2011, Standard & Poor's Quantitative Services globally recommended 45.0% of issuers with buy recommendations, 20.0% with hold recommendations and 34.0% with sell recommendations.

Additional information is available upon request.

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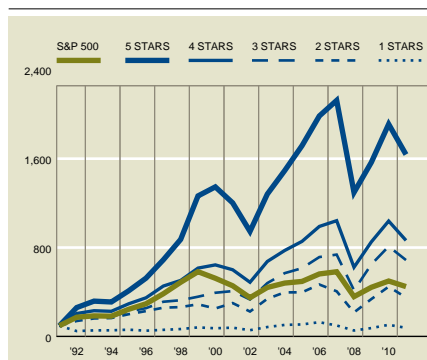
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U.S. STARS Cumulative Model Performance
Hypothetical Growth Due to Price Appreciation of \$100
For the Period 12/31/1986 through 11/30/2011



The performance above represents only the results of Standard & Poor's model portfolios. Model performance has inherent limitations. Standard & Poor's maintains the models and calculates the model performance shown, but does not manage actual assets. The U.S. STARS model performance chart is only an illustration of Standard & Poor's (S&P) research; it shows how U.S. common stocks, ADRs (American Depositary Receipts) and ADSs (American Depositary Shares), collectively "equities", that received particular STARS rankings performed. STARS categories are models only; they are not collective investment funds. The STARS performance does not show how any actual portfolio has performed. STARS model performance does not represent the results of actual trading of investor assets. Thus, the model performance shown does not reflect the impact that material economic and market factors might have had on decision-making if actual investor money had been managed. Performance is calculated using a time-weighted rate of return. While model performance for some or all STARS categories performed better than the S&P 500 for the period shown, the performance during any shorter period may not have, and there is no assurance that they will perform better than the S&P 500 in the future. STARS does not take into account any particular investment objective, financial situation or need and is not intended as an investment recommendation or strategy. Investments based on the STARS methodology may lose money. High returns are not necessarily the norm and there is no assurance that they can be sustained. Past model performance of STARS is no guarantee of future performance.

For model performance calculation purposes, the equities within each STARS category at December 31, 1986 were equally weighted. Thereafter, additions to the composition of the equities in each STARS category are made at the average value of the STARS category at the preceding month end with no rebalancing. Deletions are

made at the closing price of the day that the deletion is made. Performance was calculated from inception through March 31, 2003 on a monthly basis. Thereafter, performance is calculated daily. Equities in each STARS category will change over time, and some or all of the equities that received STARS rankings during the time period shown may not have maintained their STARS ranking during the entire period.

The model performance does not consider taxes and brokerage commissions, nor does it reflect the deduction of any advisory or other fees charged by advisors or other parties that investors will incur when their accounts are managed in accordance with the models. The imposition of these fees and charges would cause actual performance to be lower than the performance shown. For example, if a model returned 10 percent on a \$100,000 investment for a 12-month period (or \$10,000) and an annual asset-based fee of 1.5 percent were imposed at the end of the period (or \$1,650), the net return would be 8.35 percent (or \$8,350) for the year. Over 3 years, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.1%, a total fee of \$5,375 and a cumulative net return of 27.2% (or \$27,200). Fees deducted on a frequency other than annual would result in a different cumulative net return in the preceding example.

The Standard & Poor's 500 index is the benchmark for U.S. STARS. The S&P 500 index is calculated in U.S. dollars and does not take into account the reinvestment of dividends. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. The S&P 500 index includes a different number of constituents and has different risk characteristics than the STARS equities. Some of the STARS equities may have been included in the S&P 500 index for some (but not necessarily all) of the period covered in the chart, and some such equities may not have been included at all. The S&P 500 excludes ADRs and ADSs. The methodology for calculating the return of the S&P 500 index differs from the methodology of calculating the return for STARS. Past performance of the S&P 500 index is no guarantee of future performance.

An investment based upon the models should only be made after consulting with a financial advisor and with an understanding of the risks associated with any investment in securities, including, but not limited to, market risk, currency risk, political and credit risks, the risk of economic recession and the risk that issuers of securities or general stock market conditions may worsen, over time. Foreign investing involves certain risks, including currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, less liquidity and the potential for market volatility and political instability. As with any investment, investment returns and principal value will fluctuate, so that when redeemed, an investor's shares may be worth more or less than their original cost.

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