

**DOW JONES
INDUSTRIALS**

10,405.83



68.78

NASDAQ 2,190.86

7.13

**BLOOMBERG
INDIANA INDEX**

330.50



0.28

S&P 500 1,102.35

6.40

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Outlook triggers Lilly stock sell-off

Investors doubt company can compensate for patent expirations

By John Russell

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Can Eli Lilly and Co. keep its sales and profits from plunging off the edge of a cliff in two years? Wall Street apparently doesn't think so.

Investors dumped 21.2 million shares of the Indianapolis drug maker's stock Monday, the highest amount in more than two years, after the company suggested that earnings could dip after its biggest products lose patent protection starting in 2011.

That sell-off pushed the stock price down 4 percent, to \$35.02 a

share, even as the broader markets rose slightly.

Lilly executives took pains to say the company's pipeline is full and could produce two new medicines a year, beginning in 2013. But investors have heard similar reassurances before and seemed to be running out of patience.

And some said that even if Lilly achieves its goal, the new medicines will not make up for a wave of drugs whose patents will expire before then.

"Although Lilly had a growing midstage pipeline, these assets



TOM STRICKLAND / Bloomberg News 2007 photo

NO SALE: At a conference, Lilly CEO John Lechleiter ruled out a merger or acquisition, saying Lilly can compete while remaining independent.

remain several years away from the market," said Chris Schott, a drug industry analyst at JP Morgan in New York, in a research note. He predicted that Lilly's

profits will fall by a "meaningful" degree from 2012 to 2015.

Lilly has been struggling to develop new medicines lately, launching just one in the past

four years — the blood thinner Effient, and that is off to a slow start.

The company's late-stage pipeline includes new medicines for cancer, Alzheimer's disease and diabetes. The company also hopes to launch a long-acting version of Byetta for diabetes.

Analysts are not sold that Lilly can suddenly begin to launch new products after such a long dry spell, or that new products will make a big difference.

"Effient's launch has been relatively unimpressive," Seamus Fernandez, a drug analyst at Leerink Swann in Boston, said in a research note. He added he remains cautious on prospects for

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» Company said it has cut about 25% of its sales force this year.

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speedy government approval of long-acting Byetta.

In recent years, Lilly has been stung by one disappointment after another in its laboratories. Late-stage, experimental drugs for brain cancer, multiple sclerosis, osteoporosis and other ailments have failed to live up to expectations and ended up on the scrap heap.

Now, Lilly's top-selling drugs, including the antipsychotic Zyprexa, antidepressant Cymbalta and cancer drug Gemzar, will lose patent protection in a wave from 2011 to 2014, allowing competitors to offer low-cost generic alternatives. Lilly must quickly find a way to replace those products, which account for more than 60 percent of revenues.

John Lechleiter, president and chief executive of Lilly, said the company has cut costs, become more productive, speeded up its business model and invested heavily in research and development.

In September, the company said it would cut 5,500 jobs, or 13.6 percent of its worldwide work force, by the end of 2011. On Thursday, the company said it has cut about 25 percent of its sales force this year.

Lechleiter again ruled out a large-scale merger or acquisition as a solution, saying Lilly could compete while remaining independent.

"We're betting on our scientists and our scientific leaders and the deep insights and advanced technologies increasingly at their disposal," he told analysts during the company's annual investor conference in New York City.

The company said it has 62 compounds in development, including 25 in midstage and late-stage clinical testing. Dr. Steven Paul, Lilly's top research executive, said the company now has "the strongest pipeline in our history."

The company said it moved into ninth place worldwide for pharmaceutical sales in the 12 months that ended in June, according to data from IMS Health.

The company said it expects annual revenue of at least \$20 billion in the years 2012 to 2014 and beyond. Wall Street has been expecting company revenue in 2011 of about \$22.9 billion, Reuters reported. Lilly had revenue of \$20.4 billion last year.

Lilly expects to earn \$4.65 to \$4.85 per share next year, excluding the potential impact of health-care reform. That range represents growth of 6 percent to 13 percent, compared with the company's profit guidance for this year. Analysts were expecting earnings of \$4.74 per share for 2010.

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