

Summary of the financial reports for Eli Lilly from 2010-2016

By David Belk

First, some definitions:

-Sales/revenue: For these reports I try to stick to the revenues from pharmaceutical sales only whenever possible. Many of these companies have other product lines such as medical devices, over-the counter (OTC) health aids or nutritional products. When possible, I separate out the revenues from those product sales, though.

-Profit: Net income after taxes. Many companies will add or subtract money from taxes or other revenue/fees from discontinued items to their net income after taxes. In such cases I'll use net income attributable to that company for profit.

-Research includes research and development and purchased in-process research.

-Marketing is usually listed as Selling, informational, and administrative. It includes more than just the money spent on direct to consumer advertising. The marketing budget also includes money spent on pharmaceutical representatives that visit your doctor, free drug samples left at doctors' offices, payments to doctors who give "educational" talks on behalf of pharmaceutical companies, etc...

There are other administrative expenses that are not directly related to marketing lumped into this budget. This might even include such expenses as litigation costs to fight lawsuits against these companies. Still, the pharmaceutical companies could list their marketing budget as a separate expense if they wanted the way Bristol-Myers Squibb lists their advertising budget separately, so it's their choice not to. Anyway, much of what Pharmaceutical companies call research is really just marketing so all figures should be taken with a grain of salt.

-Rebates/Chargebacks: Rebates are payments that go mostly to pharmacy benefit managers (PBMs) in the U.S. These rebates are incentives for the PBMs "prefer" certain medications when deciding which medications to cover. Chargebacks are normally refunds given to medication suppliers to balance the rebates given to the PBMs. Both rebates and chargebacks are normally deducted from the total pharmaceutical revenue of a company initially, and not listed as an expense.

-Revisions: When a figure is revised in a subsequent report it's often because that company divested one or more products by either selling that line to another company or splitting off a new company. When companies do this, they often retroactively deduct the revenues and expenses related to that division from the finances of previous years, but not the profits. This makes year over year comparisons for these companies challenging. For the most part, I only use original data, and not revised data for these reports.

Eli Lilly is one of the few pharmaceutical companies that actually spent more on research than they made in total profits. One reason for this was that Eli Lilly invested a considerable amount on “acquired in-process research”. Eli Lilly spent over \$6.5 billion on in-process research. This includes the purchase of ImClone in 2008 for \$4.8 billion.

In-process research is when a small pharmaceutical company (perhaps one that has yet to market any drugs) is bought by a larger pharmaceutical company. This usually occurs when a drug the smaller company has developed is starting to show promise. Buying “in-process research” often saves the larger company money in the long run because there’s less risk in taking over the development of a drug that’s shown promise in it’s initial trials. This allows big pharmaceutical companies to cherry pick the new medications they wish to invest in and not waste money on as many dead end trials.

Here are the composite numbers for Eli Lilly from 2010-2016:

Total Revenue (Sales):	\$154 Billion
Total Profit:	\$26 Billion
Total Spent on Research:	\$37 Billion
Total Spent on Marketing:	\$49 Billion
Total Spent in Taxes:	\$6.6 Billion
US Revenue:	\$82 Billion
Revenue from All Other Countries:	\$72 Billion

**Proportional Allocation of Revenue
2010-2016**



Figure 1: The proportion of Eli Lilly’s total revenue that was allocated toward research, marketing, taxes and profits.

Proportion of Eli Lilly's Pharmaceutical Sales Revenue from US vs. All Other Countries

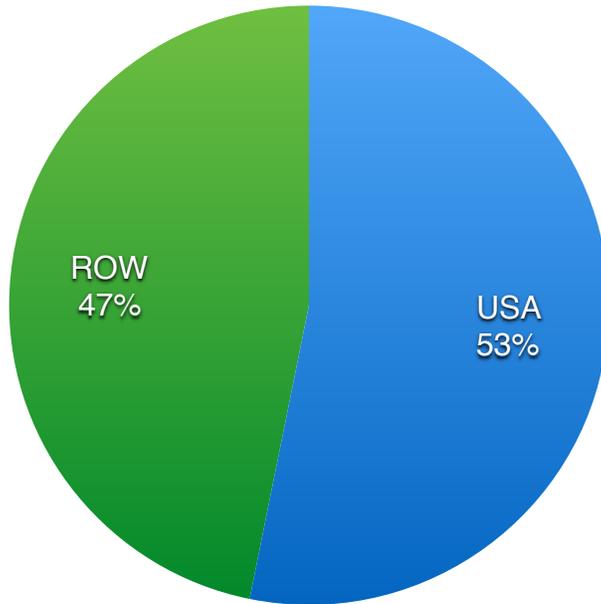


Figure 2: 53% of Eli Lilly's pharmaceutical revenue since 2010 came from sales in the U.S.

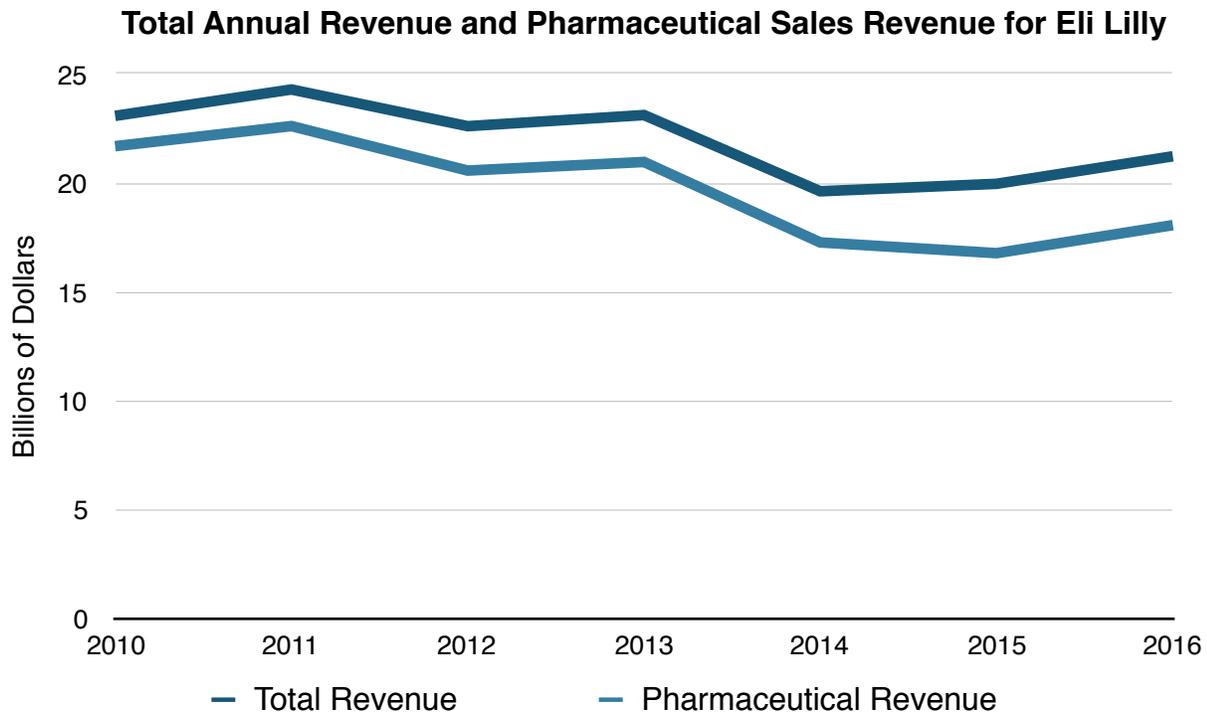


Figure 3: About 15% of Eli Lilly's total revenue each year comes from the sales of animal health products. Annual total and pharmaceutical revenues for Eli Lilly have declined significantly since 2011.

Pharmaceutical Revenue in the U.S. and Other Countries vs. Pharmaceutical Rebates in the U.S.

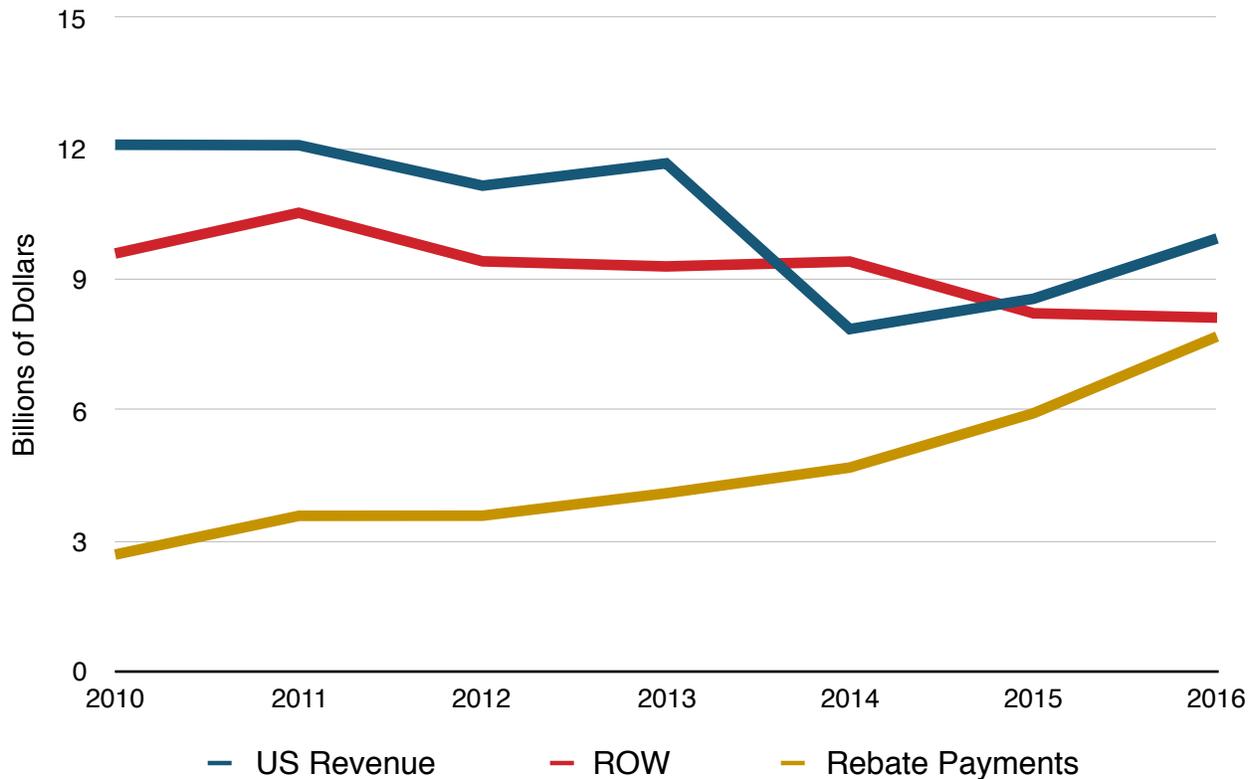


Figure 4: Rebates definitely boost sales for pharmaceutical companies. Eli Lilly has nearly tripled the rebates they’ve given to PBMs and medical providers in the U.S. since 2010 (yellow line). These rebate increases have clearly led to a proportional increase in revenues from U.S. sales (blue line) relative to their sales in the rest of the world (red line), especially since 2014.

Total Executive pay for Eli Lilly was \$42.7 million in 2016 with \$18.4 million going to their CEO John C. Lechleiter.

<http://insiders.morningstar.com/trading/executive-compensation.action?t=LLY>

http://truecostofhealthcare.net/pharmaceutical_financial_index/