
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

**Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019
COMMISSION FILE NUMBER 001-38661

Elanco Animal Health Incorporated

(Exact name of Registrant as specified in its charter)

INDIANA
(State or other jurisdiction of
incorporation or organization)

82-5497352
(I.R.S. Employer
Identification No.)

2500 INNOVATION WAY, GREENFIELD, INDIANA 46140
(Address of principal executive offices)

Registrant's telephone number, including area code (877) 352-6261

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of a "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	ELAN	New York Stock Exchange

The number of shares of common stock outstanding as of May 10, 2019 were 365,707,234

Elanco Animal Health Incorporated
Form 10-Q
For the Quarter Ended March 31, 2019
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Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the federal securities laws. This quarterly report contains forward-looking statements, including, without limitation, statements concerning our estimated "stand up" costs, our estimated interest expense, our industry and our operations, performance and financial condition, including in particular, statements relating to our business, growth strategies, product development efforts and future expenses.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national, or global political, economic, business, competitive, market, and regulatory conditions, including but not limited to the following:

- heightened competition, including from innovation or generics;
- the impact of disruptive innovations and advances in veterinary medical practices, animal health technologies and alternatives to animal-derived protein;
- changes in regulatory restrictions on the use of antibiotics in food animals;
- impact of generic products;
- our ability to implement our business strategies or achieve targeted cost efficiencies and gross margin improvements;
- consolidation of our customers and distributors;
- an outbreak of infectious disease carried by food animals;
- the success of our R&D and licensing efforts;
- our ability to complete acquisitions and successfully integrate the businesses we acquire;
- misuse or off-label use of our products;
- unanticipated safety, quality or efficacy concerns associated with our products;
- the impact of weather conditions and the availability of natural resources;
- risks related to our presence in emerging markets;
- changes in U.S. foreign trade policy, imposition of tariffs or trade disputes;
- the impact of global macroeconomic conditions; and
- the effect on our business of the transactions involving the separation of our business from that of Eli Lilly & Co. (Lilly) and the distribution of Lilly's interest in us to its shareholders through an exchange offer consummated on March 11, 2019.

See "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (SEC) and Item 1A, "Risk Factors," of Part II of this Quarterly Report on Form 10-Q, for a further description of these and other factors. Although we have attempted to identify important risk factors, there may be other risk factors not presently known to us or that we presently believe are not material that could cause actual results and developments to differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report. If any of these risks materialize, or if any of the above assumptions underlying forward-looking statements prove incorrect, actual results and developments may differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report. For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this quarterly report. Any forward-looking statement made by us in this quarterly report speaks only as of the date hereof. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or to revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should be viewed as historical data.

PART I. Financial Information

Item 1. Financial Statements

Elanco Animal Health Incorporated
Unaudited Condensed Consolidated and Combined Statements of Operations
(Dollars and shares in millions, except per-share data)

	Three Months Ended March 31,	
	2019	2018
Revenue	\$ 731.1	\$ 736.2
Costs, expenses and other:		
Cost of sales	343.8	360.0
Research and development	64.1	65.2
Marketing, selling and administrative	181.1	180.0
Amortization of intangible assets	49.0	49.2
Asset impairments, restructuring and other special charges (Note 6)	24.9	2.4
Interest expense, net of capitalized interest	20.8	—
Other—net, expense	2.6	1.9
	686.3	658.7
Income before income taxes	44.8	77.5
Income tax expense	13.3	4.8
Net income	\$ 31.5	\$ 72.7
Earnings per share:		
Basic	\$ 0.09	\$ 0.25
Diluted	\$ 0.09	\$ 0.25
Weighted average shares outstanding:		
Basic	365.7	293.3
Diluted	366.0	293.3

See notes to unaudited condensed consolidated and combined financial statements.

Elanco Animal Health Incorporated
Unaudited Condensed Consolidated and Combined Statements of Comprehensive Income
(Dollars in millions)

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 31.5	\$ 72.7
Other comprehensive income (loss):		
Foreign currency translation	(30.2)	119.2
Defined benefit pension and retiree health benefit plans, net of taxes	2.0	(0.6)
Other comprehensive income (loss), net of tax	(28.2)	118.6
Comprehensive income	<u>\$ 3.3</u>	<u>\$ 191.3</u>

See notes to unaudited condensed consolidated and combined financial statements.

Elanco Animal Health Incorporated
Condensed Consolidated Balance Sheets
(Dollars in millions)

	March 31, 2019	December 31, 2018
	(Unaudited)	
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 272.1	\$ 474.8
Accounts receivable, net of allowances of \$8.3 (2019) and \$8.4 (2018)	684.1	651.8
Other receivables	107.8	57.6
Inventories (Note 7)	1,035.5	1,004.1
Prepaid expenses and other	114.8	113.9
Receivable from Lilly (Note 15)	35.5	—
Restricted cash (Note 15)	28.5	202.7
Total current assets	2,278.3	2,504.9
<i>Noncurrent Assets</i>		
Goodwill	2,933.1	2,958.0
Other intangibles, net	2,386.5	2,453.0
Other noncurrent assets	219.3	118.4
Property and equipment, net of accumulated depreciation \$909.3 (2019) and \$878.6 (2018)	930.2	922.4
Total assets	\$ 8,747.4	\$ 8,956.7
Liabilities and Equity		
<i>Current Liabilities</i>		
Accounts payable	\$ 252.1	\$ 205.2
Employee compensation	64.2	98.9
Sales rebates and discounts	171.7	169.9
Current portion of long-term debt (Note 8)	29.0	29.0
Other current liabilities	191.2	199.0
Payable to Lilly (Note 15)	—	268.7
Total current liabilities	708.2	970.7
<i>Noncurrent Liabilities</i>		
Long-term debt (Note 8)	2,436.6	2,443.3
Accrued retirement benefits	106.2	109.1
Deferred taxes (Note 11)	131.8	114.6
Other noncurrent liabilities	168.4	121.5
Total liabilities	3,551.2	3,759.2
<i>Commitments and Contingencies (Note 12)</i>		
	—	—
<i>Equity</i>		
Common stock, no par value, 5,000,000,000 shares authorized, 365,702,757 and 365,643,911 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	—	—
Additional paid-in capital	5,398.7	5,403.3
Retained earnings	47.9	16.4
Accumulated other comprehensive loss	(250.4)	(222.2)
Total equity	5,196.2	5,197.5
Total liabilities and equity	\$ 8,747.4	\$ 8,956.7

See notes to unaudited condensed consolidated and combined financial statements.

Elanco Animal Health Incorporated
Unaudited Condensed Consolidated and Combined Statements of Equity
(Dollars and shares in millions)

	Common Stock				Accumulated Other Comprehensive Income (Loss)					Total Equity
	Shares	Amount	Additional Paid-in Capital	Net Parent Company Investment	Retained Earnings	Foreign Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Total		
December 31, 2017	293.3	\$ —	\$ —	\$ 8,036.9	\$ —	\$ (227.2)	\$ (29.4)	\$ (256.6)	\$ 7,780.3	
Adoption of Accounting Standards Update 2016-16	—	—	—	(0.3)	—	—	—	—	(0.3)	
Net income	—	—	—	72.7	—	—	—	—	72.7	
Other comprehensive income (loss), net of tax	—	—	—	—	—	119.2	(0.6)	118.6	118.6	
Transfers (to)/from Lilly, net ⁽¹⁾	—	—	—	(69.2)	—	—	—	—	(69.2)	
March 31, 2018	<u>293.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,040.1</u>	<u>\$ —</u>	<u>\$ (108.0)</u>	<u>\$ (30.0)</u>	<u>\$ (138.0)</u>	<u>\$ 7,902.1</u>	
December 31, 2018	365.6	\$ —	\$ 5,403.3	\$ —	\$ 16.4	\$ (218.2)	\$ (4.0)	\$ (222.2)	\$ 5,197.5	
Net income	—	—	—	—	31.5	—	—	—	31.5	
Other comprehensive income (loss), net of tax	—	—	—	—	—	(30.2)	2.0	(28.2)	(28.2)	
Net capital contributions from/(distributions to) Lilly ⁽¹⁾	—	—	(7.0)	—	—	—	—	—	(7.0)	
Stock compensation	—	—	2.4	—	—	—	—	—	2.4	
Issuance of stock under employee stock plans, net	0.1	—	—	—	—	—	—	—	—	
March 31, 2019	<u>365.7</u>	<u>\$ —</u>	<u>\$ 5,398.7</u>	<u>\$ —</u>	<u>\$ 47.9</u>	<u>\$ (248.4)</u>	<u>\$ (2.0)</u>	<u>\$ (250.4)</u>	<u>\$ 5,196.2</u>	

(1) See Note 15: Related Party Agreements and Transactions for further discussion.

See notes to unaudited condensed consolidated and combined financial statements.

Elanco Animal Health Incorporated
Unaudited Condensed Consolidated and Combined Statements of Cash Flows
(Dollars in millions)

	Three Months Ended March 31,	
	2019	2018
Cash Flows from Operating Activities		
Net income	\$ 31.5	\$ 72.7
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and amortization	83.1	74.3
Change in deferred income taxes	16.3	(2.4)
Stock-based compensation expense	7.7	6.9
Asset impairment charges	4.0	—
Other changes in operating assets and liabilities	(127.6)	(105.9)
Other non-cash operating activities, net	(9.4)	1.4
Net Cash Provided by Operating Activities	5.6	47.0
Cash Flows from Investing Activities		
Net purchases of property and equipment	(28.0)	(32.7)
Other investing activities, net	(0.5)	(1.7)
Net Cash Used for Investing Activities	(28.5)	(34.4)
Cash Flows from Financing Activities		
Repayments of borrowings (Note 8)	(7.5)	—
Consideration paid to Lilly in connection with the Separation (Note 1)	(175.1)	—
Other net financing transactions with Lilly	(156.4)	(76.1)
Other financing activities, net	(0.5)	(0.4)
Net Cash Used for Financing Activities	(339.5)	(76.5)
Effect of exchange rate changes on cash and cash equivalents	(14.5)	3.9
Net decrease in cash, cash equivalents and restricted cash	(376.9)	(60.0)
Cash, cash equivalents and restricted cash at January 1	677.5	323.4
Cash, cash equivalents and restricted cash at March 31	\$ 300.6	\$ 263.4

	March 31,	
	2019	2018
Cash and cash equivalents	\$ 272.1	\$ 263.4
Restricted cash (Note 15)	28.5	—
Cash, cash equivalents and restricted cash at March 31	\$ 300.6	\$ 263.4

See notes to unaudited condensed consolidated and combined financial statements.

Elanco Animal Health Incorporated
Notes to Unaudited Condensed Consolidated and Combined Financial Statements
(Tables present dollars in millions, except per-share data)

Note 1. Nature of Business and Organization

Nature of Business

Elanco Animal Health Incorporated (Elanco Parent) and its subsidiaries (collectively, Elanco, the Company, we, us or our) was formed as a wholly-owned subsidiary of Eli Lilly and Company (Lilly). Elanco is a global animal health company that innovates, develops, manufactures and markets products for companion and food animals. We offer a diverse portfolio of more than 125 brands to veterinarians and food animal producers in more than 90 countries.

Organization

Elanco Parent was formed in 2018, as a wholly-owned subsidiary of Lilly, to serve as the ultimate parent company of substantially all of the animal health businesses of Lilly.

On September 24, 2018, Elanco Parent completed an initial public offering resulting in the issuance of 72.3 million shares of its common stock (including shares issued pursuant to the underwriters' option to purchase additional shares), which represented 19.8% of the outstanding shares, at \$24 per share (IPO) for a total net proceeds, after underwriting discounts and commissions, of \$1.7 billion. In connection with the completion of the IPO, through a series of equity and other transactions, Lilly transferred to Elanco Parent the animal health businesses that form its business going forward. In exchange Elanco Parent has paid, or will pay, to Lilly approximately \$4.2 billion, which includes the net proceeds from the IPO, the net proceeds from the debt offering completed by Elanco Parent in August 2018 and the term loan facility entered into by Elanco Parent in September 2018 (see Note 8). These transactions are collectively referred to herein as the Separation.

On February 8, 2019, Lilly announced an exchange offer whereby Lilly shareholders could exchange all or a portion of Lilly common stock for shares of Elanco common stock owned by Lilly. The disposition of Elanco shares was completed on March 11, 2019 and resulted in the full separation of Elanco and disposal of Lilly's entire ownership and voting interest in Elanco.

Note 2. Basis of Presentation

We have prepared the accompanying unaudited condensed consolidated and combined financial statements in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States (GAAP). In our opinion, the financial statements reflect all adjustments (including those that are normal and recurring) that are necessary for a fair presentation of the results of operations for the periods shown. In preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior periods in the unaudited condensed consolidated and combined financial statements and accompanying notes to conform with current presentation.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our combined financial statements and accompanying notes for the year ended December 31, 2018 included in our Annual Report on Form 10-K filed with the SEC on February 20, 2019.

For the periods after Separation, the financial statements are prepared on a consolidated basis and reflect the results of operations, comprehensive income, financial position, equity and cash flows resulting from our operations as an independent company. For periods prior to the Separation, our financial statements are combined, have been prepared on a standalone basis, and are derived from Lilly's consolidated financial statements and accounting records. The consolidated and combined financial statements reflect the financial position, results of operations and cash flows related to the animal health businesses that were transferred to Elanco Parent and are prepared in conformity with GAAP.

The combined financial statements include the attribution of certain assets and liabilities that historically have been held at the Lilly corporate level but which are specifically identifiable or attributable to the businesses that have been transferred to Elanco Parent. All intercompany transactions and accounts within Elanco have been eliminated. All transactions between us and Lilly are considered to be effectively settled in the combined financial statements at the time the intercompany transaction is recorded. The total net effect of the settlement of these intercompany transactions

is reflected in the combined statements of cash flows as a financing activity and in the condensed consolidated and combined statement of equity as net parent company investment.

Prior to Separation, these combined financial statements include an allocation of expenses related to certain Lilly corporate functions, including executive oversight, treasury, legal, finance, human resources, tax, internal audit, financial reporting, information technology and investor relations, prior to IPO. These expenses have been allocated to us based on direct usage or benefit where specifically identifiable, with the remainder allocated primarily on a pro rata basis of revenue, headcount and other measures. We consider the expenses methodology and results to be reasonable for all periods presented. However, the allocations may not be indicative of the actual expense that would have been incurred had we operated as an independent, publicly traded company for the periods presented. It is impractical to estimate what the standalone costs of Elanco would have been in the historical periods. After the Separation, a Transitional Services Agreement (TSA) between Lilly and Elanco went into effect. Under the terms of the TSA, we will be able to use these Lilly services for a fixed term established on a service-by-service basis. We are paying Lilly mutually agreed upon fees for the Lilly services provided under the TSA. Our consolidated and combined financial statements reflect the charges for Lilly services after the IPO. See Note 15 for additional details.

The income tax amounts in the combined financial statements have been calculated based on a separate return methodology and presented as if our operations were separate taxpayers in the respective jurisdictions. We file income tax returns in the United States (U.S.) federal jurisdiction and various state, local and non-U.S. jurisdictions. Certain of these income tax returns are filed on a consolidated or combined basis with Eli Lilly and Company and/or its subsidiaries.

Prior to Separation, Lilly maintained various benefit and combined stock-based compensation plans at a corporate level and other benefit plans at a country level. Our employees participated in such programs and the portion of the cost of those plans related to our employees is included in our financial statements. However, the condensed balance sheets do not include any equity issued related to stock-based compensation plans or any net benefit plan obligations unless the benefit plan covers only our dedicated employees or where the legal obligation associated with the benefit plan transferred to Elanco. Upon Lilly's full divestiture of Elanco in March 2019, all Lilly share-based awards held by our employees were converted into awards that will be settled in Elanco shares.

Prior to Separation, the equity balance in the combined financial statements represents the excess of total assets over liabilities, including intercompany balances between Elanco and Lilly (net parent company investment) and accumulated other comprehensive income/(loss). Net parent company investment is primarily impacted by contributions from Lilly which are the result of treasury activities and net funding provided by or distributed to Lilly. See Note 15 for further information.

Note 3. Impact of Separation

In connection with the Separation, we issued \$2.0 billion aggregate principal amount of senior notes in a private placement, and we also entered into a \$750.0 million senior unsecured revolving credit facility and \$500.0 million senior unsecured term credit facility. In connection with the Separation, we entered into various agreements with Lilly, including a master separation agreement, a tax matters agreement and a transitional services agreement.

We will continue to have certain ongoing relationships with Lilly as described in Note 15.

Note 4. Implementation of New Financial Accounting Pronouncements

The following table provides a brief description of the accounting standard that was effective January 1, 2019 and was adopted on that date:

Standard	Description	Effect on the financial statements or other significant matters
Accounting Standards Update 2016-02, <i>Leases</i>	This standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities, including leases classified as operating leases under previous GAAP, on the balance sheet and requiring additional disclosures about leasing arrangements.	We adopted the standard on January 1, 2019 using the modified retrospective approach, applied at the beginning of the period of adoption, and we elected the package of transition practical expedients. Upon adoption of the standard, we recorded \$84.9 million of right-of-use assets and \$85.3 million of operating lease liabilities on our consolidated balance sheet. Adoption of this standard did not have a material impact on our consolidated statement of operations for the three months ended March 31, 2019. See Note 10: Leases for further information.

The following table provides a brief description of the accounting standards that have not yet been adopted and could have a material effect on the consolidated financial statements:

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
Accounting Standards Update 2016-13, <i>Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	This standard modifies the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses.	This standard is effective January 1, 2020, with early adoption permitted. We intend to adopt this standard on that date.	We are currently evaluating the effect of this standard on our financial statements.
Accounting Standards Update 2018-15, <i>Intangibles - Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract</i>	This guidance aligns the requirements for capitalizing implementation costs incurred in a cloud-based hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	This standard is effective January 1, 2020, with early adoption permitted. We intend to adopt this standard on that date.	We are currently evaluating the effect of this standard on our financial statements.

Note 5. Revenue

Product Sales

We recognize revenue primarily from product sales to customers. Revenue from sales of products is recognized at the point where the customer obtains control of the goods and we satisfy our performance obligation, which generally is at the time we ship the product to the customer. Payment terms differ by jurisdiction and customer, but payment

terms in most of our major jurisdictions typically range from 30 to 100 days from date of shipment. Revenue for our product sales has not been adjusted for the effects of a financing component as we expect, at contract inception, that the period between when we transfer control of the product and when we receive payment will be one year or less. Any exceptions are either not material or we collect interest for payments made after the due date. Provisions for rebates and discounts, and returns are established in the same period the related sales are recognized. We generally ship product shortly after orders are received; therefore, we generally only have a few days of orders received but not yet shipped at the end of any reporting period. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation. We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are imposed on our sales of product and collected from a customer.

Significant judgments must be made in determining the transaction price for sales of products related to anticipated rebates and discounts, and returns. The following describe the most significant of these judgments:

Sales Rebates and Discounts - Background and Uncertainties

- Most of our products are sold to wholesale distributors. We initially invoice our customers contractual list prices. Contracts with direct and indirect customers may provide for various rebates and discounts that may differ in each contract. As a consequence, to determine the appropriate transaction price for our product sales at the time we recognize a sale to a direct customer, we must estimate any rebates or discounts that ultimately will be due to the direct customer and other customers in the distribution chain under the terms of our contracts. Judgments are required in making these estimates.
- The rebate and discount amounts are recorded as a deduction to arrive at our net product sales. We estimate these accruals using an expected value approach.
- In determining the appropriate accrual amount, we consider our historical experience with similar incentives programs and current sales data to estimate the impact of such programs on revenue and continually monitor the impact of this experience and adjust as necessary. Although we accrue a liability for rebates related to these programs at the time the sale is recorded, the rebate related to that sale is typically paid up to six months after the rebate or incentive period expires. Because of this time lag, in any particular period rebate adjustments may incorporate revisions of accruals for several periods.

Our sales rebates and discounts are based on specific agreements and the majority relate to sales in the U.S. As of March 31, 2019 and 2018, liability for sales rebates and discounts in the U.S. represents approximately 72% and 69%, respectively, of our total liability with the next largest country representing approximately 8% and 7%, respectively, of our total liability.

The following table summarizes the activity in the sales rebates and discounts liability in the U.S.:

	Three Months Ended March 31,	
	2019	2018
Beginning balance	\$ 118.5	\$ 114.8
Reduction of revenue	65.7	44.5
Payments	(64.2)	(68.2)
Ending balance	\$ 120.0	\$ 91.1

Adjustments to revenue recognized as a result of changes in estimates for the judgments described above during the three months ended March 31, 2019 and 2018 for product shipped in previous periods were not material.

Sales Returns - Background and Uncertainties

- We estimate a reserve for future product returns related to product sales using an expected value approach. This estimate is based on several factors, including: local returns policies and practices; returns as a percentage of revenue; an understanding of the reasons for past returns; estimated shelf life by product; and estimate of the amount of time between shipment and return. Adjustments to the returns reserve have been and may in the future be required based on revised estimates to our assumptions, which would have an impact on our consolidated results of operations. We record the return amounts as a deduction to arrive at our net product sales.
- Actual product returns were approximately 0.3% and 0.2% of net revenue for the three months ended March 31, 2019 and 2018, respectively, and have not fluctuated significantly as a percentage of revenue.

Disaggregation of Revenue

The following table summarizes our revenue disaggregated by product category:

	Three Months Ended March 31,	
	2019	2018
Companion Animal Disease Prevention	\$ 185.9	\$ 201.3
Companion Animal Therapeutics	81.4	62.3
Food Animal Future Protein & Health	167.2	166.7
Food Animal Ruminants & Swine	274.1	282.5
Strategic Exits ⁽¹⁾	22.5	23.4
Revenue	\$ 731.1	\$ 736.2

(1) Represents revenue from business activities we have either exited or made a strategic decision to exit.

Note 6. Asset Impairment, Restructuring and Other Special Charges

Our total charges related to asset impairment, restructuring and other special charges, including integration of acquired businesses, in the unaudited condensed consolidated and combined statements of operations consisted of the following:

	Three Months Ended March 31,	
	2019	2018
Cash expense:		
Severance and other	\$ 0.5	\$ 0.1
Integration	20.4	2.8
Facility exit costs	—	(0.5)
Total cash expense	20.9	2.4
Non-cash expense:		
Asset impairment	4.0	—
Total non-cash expense	4.0	—
Total expense	\$ 24.9	\$ 2.4

Restructuring

We historically participated in Lilly's cost-reduction initiatives, which resulted in restructuring charges in the period prior to our IPO. The restructuring costs include severance and other costs incurred as a result of actions taken to reduce our cost structure.

Integration

Integration and other costs primarily represent costs related to our integration efforts as a result of our acquired businesses and costs to stand our organization up to be an independent company.

Facility exit costs

Facility exit costs primarily represent contract termination costs and reserves for costs related to facilities which we have exited.

Asset impairment

Asset impairment recognized during the three months ended March 31, 2019 resulted from the adjustment to fair value of intangible assets that were subject to product rationalization.

The following table summarizes the activity in our reserves established in connection with these restructuring activities:

	Facility exit costs	Severance	Total
Balance at December 31, 2017	\$ 34.9	\$ 43.1	\$ 78.0
Charges	—	0.1	0.1
Reserve adjustments	(0.2)	—	(0.2)
Cash paid	(6.7)	(13.6)	(20.3)
Balance at March 31, 2018	\$ 28.0	\$ 29.6	\$ 57.6
Balance at December 31, 2018	\$ 9.3	\$ 35.1	\$ 44.4
Charges	—	0.5	0.5
Cash paid	(0.3)	(7.3)	(7.6)
Balance at March 31, 2019	\$ 9.0	\$ 28.3	\$ 37.3

Substantially all of the reserves are expected to be paid in the next twelve months. We believe that the reserves are adequate.

Note 7. Inventories

We state all inventories at the lower of cost or net realizable value. We use the last-in, first-out (LIFO) method for a portion of our inventories located in the continental U.S. Other inventories are valued by the first-in, first-out (FIFO) method. FIFO cost approximates current replacement cost.

Inventories consisted of the following:

	March 31, 2019	December 31, 2018
Finished products	\$ 415.5	\$ 400.7
Work in process	580.5	570.4
Raw materials and supplies	83.7	80.4
Total (approximates replacement cost)	1,079.7	1,051.5
Decrease to LIFO cost	(44.2)	(47.4)
Inventories	\$ 1,035.5	\$ 1,004.1

Note 8. Debt

Long-term debt consisted of the following:

	March 31, 2019	December 31, 2018
Term credit facility	\$ 485.0	\$ 492.5
3.912% Senior Notes due 2021	500.0	500.0
4.272% Senior Notes due 2023	750.0	750.0
4.900% Senior Notes due 2028	750.0	750.0
Other obligations	0.3	0.5
Unamortized debt issuance costs	(19.7)	(20.7)
Total debt	2,465.6	2,472.3
Less current portion of long-term debt	29.0	29.0
Total long-term debt	\$ 2,436.6	\$ 2,443.3

Note 9. Financial Instruments and Fair Value

Financial instruments that are potentially subject to credit risk consist principally of trade receivables. Collateral is generally not required. The risk associated with this concentration is mitigated by our ongoing credit-review procedures and insurance.

A large portion of our cash is held by a few major financial institutions. We monitor the exposure with these institutions and do not expect any of these institutions to fail to meet their obligations. All highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalents. The cost of these investments approximates fair value. We also consider the carrying value of restricted cash balances to be representative of its fair value.

As of March 31, 2019 and December 31, 2018, we had \$15.7 million and \$15.3 million, respectively, of equity method investments included in other noncurrent assets in our condensed consolidated balance sheet.

The following table summarizes the fair value information at March 31, 2019 and December 31, 2018 for contingent consideration liabilities and net investment hedge liability measured at fair value on a recurring basis in the respective balance sheet line items:

Financial statement line item	Carrying Amount	Fair Value Measurements Using			Fair Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
March 31, 2019					
Other current liabilities-contingent consideration	\$ (9.2)	\$ —	\$ —	\$ (9.2)	\$ (9.2)
Other noncurrent liabilities-contingent consideration	(67.7)	—	—	(67.7)	(67.7)
Other noncurrent assets/(liabilities) - cross currency interest rate contracts designated as net investment hedges	8.0	—	8.0	—	8.0
December 31, 2018					
Other current liabilities-contingent consideration	\$ (5.1)	\$ —	\$ —	\$ (5.1)	\$ (5.1)
Other noncurrent liabilities-contingent consideration	(69.0)	—	—	(69.0)	(69.0)
Other noncurrent assets/(liabilities) - cross currency interest rate contracts designated as net investment hedges	(7.4)	—	(7.4)	—	(7.4)

We determine our Level 2 fair value measurements based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analysis.

Contingent consideration liabilities relate to *Galliprant* for which the fair value was estimated using a discounted cash flow analysis and Level 3 inputs, including projections representative of a market participant view for the probability of achieving potential future payments to Aratana Therapeutics, Inc. and an estimated discount rate. The amount to be paid is dependent upon certain development, success-based regulatory, and sales-based milestones. In addition, the amount of royalties to be paid is calculated as a percentage of net sales dependent upon the timing and geography and will, therefore, vary directly with increases and decreases in net sales of *Galliprant*. There is no cap on the amount that may be paid pursuant to this arrangement.

We have long term debt of \$2.5 billion that is recorded at amortized cost in our condensed consolidated balance sheet as of March 31, 2019 and December 31, 2018. We consider the carrying value of the long term debt to be representative of its fair value as of March 31, 2019 and December 31, 2018. The fair value of this long term debt is estimated based on quoted market prices of similar liabilities and is classified as Level 2.

In October 2018, we entered into a cross-currency fixed interest rate swap, 5-year, 750 million Swiss Franc (CHF), which is designated as a net investment hedge (NIH) against CHF denominated assets for which the fair value was estimated based on quoted market values of similar hedges and is classified as Level 2. The NIH is expected to generate approximately \$25 million in cash and an offset to interest expense on an annual basis. During the three months ended March 31, 2019, our interest expense was offset by \$6.1 million as a result of the NIH. Over the life of the derivative, gains or losses due to spot rate fluctuations are recorded in cumulative translation adjustment. During the three months ended March 31, 2019, we recorded a \$12.2 million gain, net of tax, on the NIH, which is included in the change in the cumulative translation adjustment in other comprehensive income. There is a potential for significant 2023 settlement exposure as the U.S. dollar fluctuates against the Swiss Franc. The risk management objective is to manage foreign currency risk relating to net investments in certain CHF denominated assets. Changes in fair value of the derivative instruments are recognized in a component of Accumulated Other Comprehensive Loss to offset the changes in the values of the net investments being hedged.

Note 10. Leases

We determine if an arrangement is a lease at inception. We have operating leases for corporate offices, research and development facilities, vehicles, and equipment. Our leases have remaining lease terms of one to 10 years, some of which have options to extend or terminate the leases. Finance leases are included in property and equipment, current portion of long-term debt, and long-term debt in our condensed consolidated balance sheets. Finance leases are not material to our condensed consolidated statements of operations, condensed consolidated balance sheets, or condensed consolidated statements of cash flows. Beginning January 1, 2019, operating leases are included in noncurrent assets, other current liabilities, and other noncurrent liabilities in our consolidated balance sheets.

Right-of-use assets included in noncurrent assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and operating lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate if it is readily determinable. The right-of-use asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain and there is a significant economic incentive to exercise that option.

Operating lease expense for right-of-use assets is recognized on a straight-line basis over the lease term. Variable lease payments, which represent lease payments that vary due to changes in facts or circumstances occurring after the commencement date other than the passage of time, are expensed in the period in which the obligation for these payments was incurred. Variable lease expense recognized in the three months ended March 31, 2019 was not material.

We elected not to apply the recognition requirements of ASC 842, *Leases*, to short-term leases, which are deemed to be leases with a lease term of 12 months or less. Instead, we recognized lease payments in the condensed consolidated statements of operations on a straight-line basis over the lease term and variable payments in the period in which the obligation for these payments was incurred. We elected this policy for all classes of underlying assets. Short-term lease expense recognized in the three months ended March 31, 2019 was not material. We elected not to apply the practical expedient related to the separation of lease and non-lease components or the practical expedient which allows entities to use hindsight when determining lease term.

The impact of operating leases to our condensed consolidated financial statements was as follows:

	Three months ended March 31, 2019	
Lease cost		
Operating lease cost	\$	5.7
Short-term lease cost		0.2
Variable lease cost		0.5
Other information		
Operating cash flows from operating leases		6.6
Right-of-use assets obtained in exchange for new operating lease liabilities		0.1
Weighted-average remaining lease term - operating leases		5 years
Weighted-average discount rate - operating leases		4.2%

Supplemental balance sheet information related to our operating leases is as follows:

	Balance Sheet Classification	March 31, 2019
Right-of-use assets	Other noncurrent assets	\$80.7
Current operating lease liabilities	Other current liabilities	21.8
Non-current operating lease liabilities	Other noncurrent liabilities	59.4

As of March 31, 2019, the annual minimum lease payments of our operating lease liabilities were as follows:

Year 1	\$	24.6
Year 2		19.6
Year 3		12.7
Year 4		9.5
Year 5		7.7
After Year 5		16.7
Total lease payments		90.8
Less imputed interest		(9.6)
Total	\$	81.2

Note 11. Income Taxes

Provision for Taxes on Income	Three Months Ended March 31,	
	2019	2018
Provision for Taxes on Income	\$ 13.3	\$ 4.8
Effective Tax Rate	29.7%	6.2%

During the periods presented in the consolidated and combined financial statements, our operations were generally included in the tax grouping of other Lilly entities within the respective entity's tax jurisdiction; however, in certain jurisdictions, we filed separate tax returns. Prior to the Separation, the income tax expense included in these financial statements has been calculated using the separate return basis as if Elanco filed separate tax returns.

In December 2017, the President of the U.S. signed into law the Tax Cuts and Jobs Act (2017 Tax Act). The 2017 Tax Act includes significant changes to the U.S. corporate income tax system, such as the reduction in the corporate income tax rate from 35 percent to 21 percent, transition to a territorial tax system, changes to business related exclusions, deductions and credits, and modifications to international tax provisions, including a one-time repatriation transition tax (also known as the 'Toll Tax') on unremitted foreign earnings.

We finalized our accounting for the tax effects of the 2017 Tax Act during 2018. We expect that further guidance will continue to be issued in 2019 which may impact our interpretations of the 2017 Tax Act and could materially affect the estimates used. The 2017 Tax Act also includes a new U.S. minimum tax, global intangible low-taxed income (GILTI), on the earnings of our foreign subsidiaries. We have elected to account for the tax related to GILTI as a period cost in the year the tax is incurred. Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

For the three months ended March 31, 2019, we incurred \$13.3 million of income tax expense. The effective rate for the three months ended March 31, 2019, of 29.7% was different from the statutory income tax rate primarily due to a one-time foreign exchange gain on the transfer of assets upon separation in addition to the impact of state income taxes.

For the three months ended March 31, 2018, we incurred \$4.8 million of income tax expense. The effective tax rate for the three months ended March 31, 2018 of 6.2% was different from the statutory income tax rate primarily due to the benefit of releasing certain valuation allowances. These valuation allowances related to net operating losses generated in prior periods of Elanco's separate company financial statements. As of the separation, those net operating losses remained with, and were utilized by, Lilly.

Note 12. Contingencies

We are party to various legal actions in the normal course of business. In determining whether a pending matter is significant for financial reporting and disclosure purposes, we consider both quantitative and qualitative factors in order to assess materiality. We record a liability for claims to the extent that we can formulate a reasonable estimate of their costs and there is a reasonable probability of incurring significant costs or expenses. At March 31, 2019 and December 31, 2018, we had no liabilities established related to litigation as there were no significant claims which were probable and estimable. We have not historically had any significant litigation expense and are not currently subject to a significant claim.

Note 13. Geographic Information

We operate as a single operating segment engaged in the development, manufacturing, marketing and sales of animal health products worldwide for both food animals and companion animals. Consistent with our operational structure, our President and Chief Executive Officer (CEO), as the chief operating decision maker, makes resource allocation and business process decisions globally across our consolidated business. Strategic decisions are managed globally with global functional leaders responsible for determining significant cost/investments and with regional leaders responsible for overseeing the execution of the global strategy. Our global research and development organization is responsible for development of new products. Our manufacturing organization is responsible for the manufacturing and supply of products and for the optimization of our supply chain. Regional leaders are responsible for the distribution and sale of our products and for local direct costs. The business is also supported by global corporate staff functions. Managing and allocating resources at the global corporate level enables our CEO to assess the overall level of resources available and how to best deploy these resources across functions, product types, regional commercial organizations and research and development projects in line with our overarching long-term corporate-wide strategic goals, rather than on a product or geographic basis. Consistent with this decision-making process, our CEO uses consolidated, single-segment financial information for purposes of evaluating performance, allocating resources, setting incentive compensation targets, as well as forecasting future period financial results.

Our products include Rumensin[®], Optaflexx[®], Denagard[®], Tylan[®], Maxiban[®] and other products for livestock and poultry, as well as Trifexis[®], Interceptor[®], Comfortis[®], Galliprant[®] and other products for companion animals.

We have a single customer that accounted for 12.3% and 11.3% of revenue for the three months ended March 31, 2019 and 2018 , respectively, and that represented accounts receivable of \$83.5 million and \$96.4 million as of March 31, 2019 and December 31, 2018 , respectively.

We are exposed to the risk of changes in social, political and economic conditions inherent in foreign operations and our results of operations and the value of our foreign assets are affected by fluctuations in foreign currency exchange rates.

Selected geographic area information was as follows:

	Three Months Ended March 31,	
	2019	2018
Revenue—to unaffiliated customers ⁽¹⁾		
United States	\$ 383.9	\$ 360.0
International	347.2	376.2
Revenue	\$ 731.1	\$ 736.2

	March 31, 2019	December 31, 2018
Long-lived assets ⁽²⁾		
United States	\$ 619.0	\$ 602.6
United Kingdom	192.3	187.5
Other foreign countries	195.6	195.8
Long-lived assets	\$ 1,006.9	\$ 985.9

⁽¹⁾ Revenue is attributed to the countries based on the location of the customer.

⁽²⁾ Long-lived assets consist of property and equipment, net, and certain noncurrent assets.

Note 14. Earnings Per Share

As discussed in Note 1, Elanco Parent was formed for the purpose of facilitating the IPO. Lilly held all shares of Elanco Parent from the time of formation until the IPO.

Prior to IPO, there were an aggregate of 293,290,000 shares of our common stock held by Lilly (which represents the 100 shares held by Lilly prior to giving effect to the 2,932,900 -for-1 stock split that occurred on September 19, 2018). In connection with the completion of the IPO, an additional 72,335,000 shares were issued. Earnings per share was calculated based on the assumption that the shares held by Lilly were outstanding for all periods prior to IPO.

We compute basic earnings per share by dividing net earnings available to common shareholders by the actual weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if holders of unvested restricted stock units and stock options converted their holdings into common stock.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and as such, these shares are not included in the calculation of diluted earnings per share. For the three months ended March 31, 2019 , approximately 0.2 million of potential common shares were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive.

Note 15. Related Party Agreements and Transactions

Transactions with Lilly Subsequent to Separation and Related to the Separation

Amounts due from/(due to) Lilly in connection with the Separation and agreed upon services were as follows:

	March 31, 2019	December 31, 2018
TSA	\$ (30.2)	\$ (28.0)
Other activities	94.2	(38.0)
Local country asset purchases	(28.5)	(202.7)
Total receivable from/(payable to) Lilly	<u>\$ 35.5</u>	<u>\$ (268.7)</u>

As described in Note 1, we completed an IPO in September 2018 and Lilly fully divested of all ownership of Elanco in March 2019. In connection with the Separation, we entered into various agreements with Lilly related to the form of our separation and certain ongoing activities that will continue for a period of time. These included, among others, a master separation agreement (MSA), a transitional services agreement (TSA) and a tax matters agreement. In addition, there was a portion of our operations for which the legal transfer of our net assets did not occur prior to the Separation due to certain regulatory requirements in each of these countries.

Transitional Services Agreement (TSA)

Historically, Lilly has provided us significant shared services and resources related to corporate functions such as executive oversight, treasury, legal, finance, human resources, tax, internal audit, financial reporting, information technology and investor relations, which we refer to collectively as the "Lilly Services." Under the terms of the TSA, we will be able to use Lilly Services for a fixed term established on a service-by-service basis. We will pay Lilly mutually agreed-upon fees for the Lilly Services provided under the TSA, which will be based on Lilly's cost (including third-party costs) of providing the Lilly Services through March 31, 2021, and subject to a mark-up of 7% thereafter, with additional inflation-based escalation beginning January 1, 2022. The fees under the TSA became payable for all periods beginning after October 1, 2018.

Other Activities

We continue to share certain services and back office functions with Lilly, which in certain instances result in Lilly paying costs for Elanco (e.g., utilities, local country operating costs, etc.) that are then passed through to Elanco for reimbursement. These amounts are included in cash flows from operating activities in our condensed consolidated and combined statements of cash flows. In addition, we operate through a single treasury settlement process and prior to the local country asset purchases (as described below) continued to transact through Lilly's processes in certain instances. As a result of these activities, there were certain amounts of financing that occurred between Lilly and Elanco during the three-month period ended March 31, 2019. These amounts are included in cash flows from financing activities in our condensed consolidated and combined statements of cash flows.

Local Country Asset Purchases

The legal transfer of certain of our net assets did not occur prior to the Separation due to certain regulatory requirements in each of these countries. The related assets, liabilities, and results of operations have been reported in our condensed consolidated and combined financial statements, as we are responsible for the business activities conducted by Lilly on our behalf and are subject to the risks and entitled to the benefits generated by these operations and assets under the terms of the MSA. We held restricted cash, and the associated payable to Lilly, at the date of Separation to fund the acquisition of these assets. As of March 31, 2019, the majority of these assets have been legally acquired and the remainder are expected to be purchased during 2019.

Transactions with Lilly Prior to Separation

Prior to IPO, we did not operate as a standalone business and had various relationships with Lilly whereby Lilly provided services to us. The impact on our historical combined financial statements includes the following:

Transfers to/from Lilly, net

As discussed in Note 2: Basis of Presentation, net parent company investment is primarily impacted by contributions from Lilly which are the result of treasury activity and net funding provided by or distributed to Lilly. For the three months ended March 31, 2018, net transfers (to)/from Lilly were \$(69.2) million. Activities that impacted the net transfers (to)/from Lilly include corporate overhead and other allocations, income taxes, retirement benefits, and centralized cash management.

Net capital contributions from/(distributions to) Lilly

For the three months ended March 31, 2019, net capital contributions from/(distributions to) Lilly were \$ (7.0) million.

Activities that impacted net capital contributions from/(distributions to) Lilly include income taxes, retirement benefits, and centralized cash management, prior to full separation.

Corporate overhead and other allocations

Prior to full separation, Lilly provided us certain services, including executive oversight, treasury, legal, finance, human resources, tax, internal audit, financial reporting, information technology and investor relations. We provide Lilly certain services related to manufacturing support. Our financial statements reflected an allocation of these costs. When specific identification is not practicable, the remainder have been allocated primarily on a proportional cost method on a basis of revenue or headcount.

The allocations of services from Lilly to us were reflected as follows in the consolidated and combined statements of operations:

	Three Months Ended March 31,	
	2019	2018
Cost of sales	\$ —	\$ 7.5
Research and development	—	0.8
Marketing, selling and administrative	—	27.3
Total	\$ —	\$ 35.6

We provide Lilly certain services related to manufacturing support. Allocations of manufacturing support from us to Lilly were \$1.2 million for the three months ended March 31, 2018, which reduced the cost of sales in the unaudited condensed consolidated and combined statements of operations.

The financial information herein may not necessarily reflect our consolidated financial position, results of operations and cash flows in the future or what they would have been if we had been a separate, standalone entity during the periods presented. Management believes that the methods used to allocate expenses are reasonable.

Stock-based Compensation

Prior to full separation, our employees participated in Lilly stock-based compensation plans, the costs of which were allocated to us and recorded in cost of sales, research and development, and marketing, selling and administrative expenses in the unaudited condensed consolidated and combined statements of operations. The costs of such plans related to our employees were \$5.1 million and \$6.9 million for the three months ended March 31, 2019 and 2018, respectively.

Retirement Benefits

Prior to full separation, our employees participated in defined benefit pension and other post retirement plans sponsored by Lilly, the costs and benefits of which were recorded in the unaudited condensed consolidated and combined statement of operations in cost of sales, research and development, and marketing, selling and administrative expenses. For the three months ended March 31, 2018, the benefit of such plans related to our employees was \$ 0.6 million.

Centralized Cash Management

Lilly uses a centralized approach to cash management and financing of operations. Until Separation, the majority of our business was party to Lilly's cash pooling arrangements to maximize Lilly's availability of cash for general operating and investing purposes. Under these cash pooling arrangements, cash balances were swept regularly from our accounts. Cash transfers to and from Lilly's cash concentration accounts and the resulting balances at the end of each reporting period were reflected in net parent company investment in the condensed consolidated and combined statements of equity.

Debt

Lilly's third-party debt and the related interest expense were not allocated to us for any of the periods presented as we were not the legal obligor of the debt and Lilly borrowings were not directly attributable to our business.

Other Related Party Transactions

We sell certain products to and receive certain goods and services from a customer/vendor, whose chairman and Chief Executive Officer is a member of Lilly's Board of Directors, which represented related party transactions prior to the full separation. These product sales resulted in revenue of \$4.2 million and \$5.5 million for the three months ended March 31, 2019 and 2018, respectively. The product sales resulted in accounts receivable of \$1.2 million and \$2.5 million at March 31, 2019 and December 31, 2018, respectively. The purchase of goods and services resulted in cost of sales and operating expenses of \$1.5 million and \$0.8 million for the three months ended March 31, 2019 and 2018, respectively. The purchase of goods and services resulted in accounts payable of \$0.9 million and \$0.7 million at March 31, 2019 and December 31, 2018, respectively.

Note 16. Subsequent Events

Aratana Acquisition

On April 26, 2019, we entered into an agreement (the Merger Agreement) to acquire Aratana Therapeutics, Inc. (Aratana). Aratana is a pet therapeutics company focused on innovative therapies for dogs and cats, and creator of the canine osteoarthritis medicine, Galliprant®, the rights to which we acquired in 2016. Subject to the terms and conditions set forth in the Merger Agreement, upon the consummation of the merger, each share of Aratana common stock will be converted into the right to receive 0.1481 shares of Elanco's common stock plus one contingent value right, which shall represent the right to receive a contingent payment of \$0.25 in cash upon the achievement of a specified milestone as outlined in the Merger Agreement. Based on the closing price of a share of Elanco common stock on April 24, 2019, the date on which the exchange ratio was set, the stock portion of the merger consideration represented approximately \$234 million. The maximum aggregate contingent payment is approximately \$12 million. The transaction is expected to close in the middle of 2019, subject to customary closing conditions, including the registration of shares of Elanco common stock issuable in the merger, receipt of regulatory approvals, and approval by the stockholders of Aratana.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (Tables present dollars in millions, except per-share data)

The management's discussion and analysis of financial condition and results of operations is intended to assist the reader in understanding and assessing significant changes and trends related to our results of operations and financial position. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated and combined financial statements and accompanying footnotes in Item 1 of Part I of this Quarterly Report on Form 10-Q. Certain statements in this Item 2 of Part I of this Quarterly Report on Form 10-Q constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and Item 1A, "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018, may cause our actual results, financial position, and cash generated from operations to differ materially from these forward-looking statements.

Overview

Founded in 1954 as part of Eli Lilly and Company, Elanco is a premier animal health company that innovates, develops, manufactures and markets products for companion and food animals. Headquartered in Greenfield, Indiana, we are the fourth largest animal health company in the world, with revenue of \$3,066.8 million for the year ended December 31, 2018. Globally, we are #1 in medicinal feed additives, #2 in poultry and #3 in cattle, measured by 2017 revenue, according to Vetnosis.

We have one of the broadest portfolios of pet parasiticides in the companion animal sector. We offer a diverse portfolio of more than 125 brands that make us a trusted partner to veterinarians and food animal producers in more than 90 countries.

On September 24, 2018, we completed our initial public offering (IPO), pursuant to which we issued and sold 19.8% of our total outstanding shares. On September 20, 2018, our common stock began trading on the New York Stock Exchange (NYSE) under the symbol "ELAN." On September 24, 2018, immediately preceding the completion of the IPO, Lilly transferred to us substantially all of its animal health businesses in exchange for (i) all of the net proceeds (approximately \$1,659.7 million) we received from the sale of our common stock in the IPO, including the net proceeds we received as a result of the exercise in full of the underwriters' option to purchase additional shares, (ii) all of the net proceeds (approximately \$2,000 million) we received from the issuance of our senior notes and (iii) all of the net proceeds (\$498.6 million) we received from the entry into our term loan facility. In addition, immediately prior to the completion of the IPO, we entered into certain agreements with Lilly that provide a framework for our ongoing relationship with them.

On February 8, 2019, Lilly announced an exchange offer whereby Lilly shareholders could exchange all or a portion of Lilly common stock for shares of Elanco common stock owned by Lilly. On that date, we filed a Registration Statement on Form S-4 with the SEC in connection with that exchange offer. The disposition of Elanco shares was completed on March 11, 2019 and resulted in the full separation of Elanco and disposal of Lilly's entire ownership and voting interest in Elanco.

We operate our business in a single segment directed at fulfilling our vision of enriching the lives of people through food, making protein more accessible and affordable and through pet companionship, helping pets live longer, healthier lives. We advance our vision by offering products in four primary categories:

Companion Animal Disease Prevention (CA Disease Prevention) : We have one of the broadest parasiticide portfolios in the companion animal sector based on indications, species and formulations, with products that protect pets from worms, fleas and ticks. Combining our parasiticide portfolio with our vaccines presence, we are a leader in the United States (U.S.) in the disease prevention category based on share of revenue.

Companion Animal Therapeutics (CA Therapeutics) : We have a broad pain and osteoarthritis portfolio across species, modes of action, indications and disease stages. Pet owners are increasingly treating osteoarthritis in their pets, and our *Galliprant* product is one of the fastest growing osteoarthritis treatments in the U.S. We also have treatments for otitis (ear infections), as well as cardiovascular and dermatology indications.

Food Animal Future Protein & Health (FA Future Protein & Health) : Our portfolio in this category, which includes vaccines, nutritional enzymes and animal only antibiotics, serves the growing demand for protein and includes innovative products in poultry and aquaculture production, where demand for animal health products is outpacing overall industry growth. We are focused on

developing functional nutritional health products that promote food animal health, including enzymes, probiotics and prebiotics. We are a leader in providing vaccines as alternatives to antibiotics to promote animal health based on share of revenue.

Food Animal Ruminants & Swine (FA Ruminants & Swine) : We have developed a range of food animal products used extensively in ruminant (e.g., cattle, sheep and goats) and swine production.

For the three months ended March 31, 2019 and 2018 , our revenue was \$731.1 million and \$736.2 million , respectively. For the three months ended March 31, 2019 and 2018 , our net income was \$31.5 million and \$72.7 million , respectively.

Key Trends and Conditions Affecting Our Results of Operations

Industry Trends

The animal health industry, which focuses on both food animals and companion animals, is a growing industry that benefits billions of people worldwide.

As demand for animal protein grows, food animal health is becoming increasingly important. Factors influencing growth in demand for food animal medicines and vaccines include:

- one in three people need improved nutrition;
- increased global demand for protein, particularly poultry and aquaculture;
- natural resource constraints, such as scarcity of arable land, fresh water and increased competition for cultivated land, driving the need for more efficient food production;
- loss of productivity due to food animal disease and death;
- increased focus on food safety and food security; and
- human population growth, increased standards of living, particularly in many emerging markets, and increased urbanization.

Growth in food animal nutritional health products (enzymes, probiotics and prebiotics) is influenced, among other factors, by demand for antibiotic alternatives that can promote animal health and increase productivity.

Factors influencing growth in demand for companion animal medicines and vaccines include:

- increased pet ownership globally;
- pets living longer; and
- increased pet spending as pets are viewed as members of the family by owners

Factors Affecting Our Results of Operations

Product Development and New Product Launches

A key element of our targeted value creation strategy is to drive growth through portfolio development and product innovation, primarily in our three targeted growth categories of CA Disease Prevention, CA Therapeutics and FA Future Protein & Health. Since 2015, we've launched 11 new products, five of which were launched in 2017 and 2018. Revenue from these product launches contributed \$97.8 million to revenue for the three months ended March 31, 2019 . We continue to pursue the development of new chemical and biological molecules through our approach to innovation. Our future growth and success depends on both our pipeline of new products, including new products that we may develop through joint ventures and products that we are able to obtain through license or acquisition, and the expansion of the use of our existing products. We believe we are an industry leader in animal health research and development (R&D), with a track record of product innovation, business development and commercialization.

Productivity

Our results have benefited from our continued operational and productivity initiatives implemented following recent acquisitions and in response to changing market demand for antibiotics and other headwinds, such as competition with generics and innovation. We implemented a number of initiatives across manufacturing, R&D and marketing, selling and administrative, such as rationalization of stock keeping units, reduction of contract manufacturing organizations, implementation of lean manufacturing principles and procurement initiatives.

Foreign Exchange Rates

Significant portions of our revenue and costs are exposed to changes in foreign exchange rates. Our products are

sold in more than 90 countries and, as a result, our revenue is influenced by changes in foreign exchange rates. During the three months ended March 31, 2019 and 2018, approximately 42% and 47%, respectively, of our revenue was denominated in foreign currencies. As we operate in multiple foreign currencies, including the Euro, British pound, Brazilian real, Australian dollar, Japanese yen, Canadian dollar, Chinese yuan, and other currencies, changes in those currencies relative to the U.S. dollar impact our revenue, cost of goods and expenses, and consequently, net income. These fluctuations may also affect the ability to buy and sell our products between markets impacted by significant exchange rate variances. There has been limited impact on our revenue due to currency movements during the three months ended March 31, 2019 and 2018.

Our Relationship with Lilly and Additional Standalone Costs

During the period prior to the IPO, our business operated solely as part of a division of Lilly. Our combined financial statements have been derived from Lilly's consolidated financial statements and accounting records. Our combined financial statements reflect the financial position, results of operations and cash flows of the business that was transferred at the time of the Separation and do not purport to reflect what the results of operations, comprehensive income/(loss), financial position, equity or cash flows would have been had we operated as an independent, publicly traded company during the periods presented prior to the IPO.

Our historical results reflect an allocation of costs for certain Lilly corporate costs for periods prior to the IPO, including, among others, executive oversight, treasury, legal, finance, human resources, tax, internal audit, financial reporting, information technology and investor relations. These allocations are not necessarily indicative of the expenses we may incur as a standalone public company. Although we entered into certain agreements with Lilly in connection with the IPO and the Separation, the amount and composition of our expenses may vary from historical levels since the fees charged for the services under these agreements may be higher or lower than the costs reflected in the historical allocations. The total allocations included in our results for the three months ended March 31, 2019 and 2018, were \$0.0 million and \$35.6 million, respectively. See Note 15: Related Party Agreements and Transactions in our unaudited condensed consolidated and combined financial statements.

We are currently investing in expanding our own administrative functions, including, but not limited to, information technology, facilities management, distribution, human resources and manufacturing, to replace services previously provided by Lilly. Because of initial stand up costs and overlaps with services previously provided by Lilly, we have incurred and expect to continue to incur certain temporary, duplicative expenses in connection with the Separation. We have also incurred and expect to continue to incur costs related to the build out of processes and systems to support finance and global supply and logistics, among others. We currently estimate these costs taken together to be in a range from \$240 million to \$290 million, net of potential real estate dispositions, of which a portion will be capitalized and the remainder will be expensed.

Lilly utilizes a centralized treasury management system, of which we were a part until our IPO. For periods prior to the IPO, our consolidated and combined financial statements reflect cash held only in bank accounts in our legal name and no allocation of combined cash positions. Our unaudited condensed consolidated and combined financial statements do not reflect an allocation of Lilly's debt or any associated interest expense. In connection with the IPO, we incurred \$2.5 billion of long-term borrowings. Our historical results reflect \$29.6 million of interest expense during the year ended December 31, 2018 due to the timing of the borrowings, in comparison to \$20.8 million for the three months ended March 31, 2019. We have estimated interest expense of approximately \$85 million on an annual basis.

For the periods prior to the IPO, our consolidated and combined financial statements reflect income tax expense (benefit) computed on a separate company basis, as if operating as a standalone entity or a separate consolidated group in each material jurisdiction in which we operate. Our consolidated and combined financial statements for the periods prior to the IPO also reflect certain deferred tax assets and liabilities and income taxes payable based on this approach that did not transfer to us upon the separation, as the underlying tax attributes were used by Lilly or retained by Lilly. As a result of potential changes to our business model and the fact that certain deferred tax assets and liabilities and income taxes payable did not transfer to us, income tax expense (benefit) included in the consolidated and combined financial statements may not be indicative of our future expected tax rate.

Our historical results prior to IPO also do not reflect the impact of costs we have incurred and expect to continue to incur as a consequence of becoming a standalone company, including incremental costs associated with being a publicly traded company.

We are seeking to institute competitive compensation policies and programs as a standalone public company, the expense for which may differ from the compensation expense allocated by Lilly in our consolidated and combined financial statements.

As a result of the IPO, we became subject to the reporting requirements of the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act. We have additional procedures and practices to establish or expand as a standalone public company. As a result, we will continue to incur additional costs as a standalone public company, including internal audit, external audit, investor relations, stock administration, stock exchange fees and regulatory compliance costs.

Asset Impairment, Restructuring and Other Special Charges

Our results have been impacted by asset impairment, restructuring and other special charges, including integration of acquired businesses, during the three months ended March 31, 2019 and 2018. These charges primarily include severance costs resulting from actions taken to reduce our cost structure, asset impairment charges related to product rationalization, site closures, and integration costs related to acquired businesses as well as for the implementation of new systems, programs, and processes due to the Separation from Lilly. For more information on these charges, see Note 6: Asset Impairment, Restructuring and Other Special Charges in our consolidated and combined financial statements.

Results of Operations

The following discussion and analysis of our results of operations should be read along with our condensed consolidated and combined financial statements and the notes thereto, which reflect the results of operations of the business transferred to us from Lilly.

	Three Months Ended March 31,		% Change
	2019	2018	
Revenue	\$ 731.1	\$ 736.2	(1)%
Costs, expenses and other:			
Cost of sales	343.8	360.0	(5)%
% of revenue	47%	49%	(2)%
Research and development	64.1	65.2	(2)%
% of revenue	9%	9%	— %
Marketing, selling and administrative	181.1	180.0	1 %
% of revenue	25%	24%	1 %
Amortization of intangible assets	49.0	49.2	— %
% of revenue	7%	7%	— %
Asset impairment, restructuring and other special charges	24.9	2.4	938 %
Interest expense, net of capitalized interest	20.8	—	100 %
Other - (income) expense	2.6	1.9	NM
Income before taxes	44.8	77.5	NM
% of revenue	6%	11%	(5)%
Income tax expense	13.3	4.8	177 %
Net income	\$ 31.5	\$ 72.7	NM

Certain amounts and percentages may reflect rounding adjustments.

Revenue

On a global basis, our revenue within our product categories was as follows:

	Three Months Ended March 31,		% Change
	2019	2018	
CA Disease Prevention	\$ 185.9	\$ 201.3	(8)%
CA Therapeutics	81.4	62.3	31 %
FA Future Protein & Health	167.2	166.7	— %
FA Ruminants & Swine	274.1	282.5	(3)%
Subtotal	708.6	712.8	(1)%
Strategic Exits ⁽¹⁾	22.5	23.4	(4)%
Total	\$ 731.1	\$ 736.2	(1)%

(1) Represents revenue from business activities we have either exited or made a strategic decision to exit.

Total revenue

Three months ended March 31, 2019 vs. three months ended March 31, 2018

Total revenue decreased \$5.1 million or 1% for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018, reflecting a 2% increase due to higher volumes which were more than offset by a 3% unfavorable foreign exchange rate impact and zero impact due to prices.

In summary, the total revenue decrease was due primarily to:

- an increase in revenue of \$21.4 million or 34% from CA Therapeutics products, excluding the impact of foreign exchange rates;
- an increase in revenue of \$9.0 million or 5% from FA Future Protein & Health products, excluding the impact foreign exchange rates; and

more than offset by:

- a decrease in revenue of \$12.2 million or 6% from CA Disease Prevention products, excluding the impact of foreign exchange rates;
- a decrease in revenue of \$1.3 million from FA Ruminants & Swine products, excluding the impact of foreign exchange rates;
- a decrease in revenue of \$0.9 million from Strategic Exits, excluding the impact of foreign exchange rates; and
- a decrease in revenue of \$21.2 million due to the negative impact of foreign exchange rates.

The detailed change in revenue by product category was as follows:

- CA Disease Prevention revenue decreased by \$15.4 million or 8% , primarily driven by lower volume and price, as well as unfavorable impact from foreign exchange rates. Declines in older generation parasiticide products and Companion Animal vaccines were partially offset by continued growth in Credelio, Interceptor Plus and certain over-the-counter parasiticide products.
- CA Therapeutics revenue increased by \$19.1 million or 31% , driven by increased volume and to a lesser extent price, partially offset by the impact of foreign exchange rates. The revenue increase was primarily driven by the sales of Galliprant and Atopica. In the quarter, backorders of Galliprant in the channel were resolved and the product was launched in several European markets.
- FA Future Protein & Health revenue was flat for the quarter, driven by both increased volume and price, fully offset by an unfavorable impact from foreign exchange rate. Growth was driven by the aqua portfolio and poultry vaccines, offset by timing of international purchasing

patterns for poultry animal-only antibiotics.

- FA Ruminants & Swine revenue decreased by \$8.4 million or 3% with flat volume negatively impacted by foreign exchange rates and decreased price. Excluding the impact of foreign exchange rates, the increase in revenue for our U.S. business and decrease in revenue for international business largely offset each other. The U.S. ruminants business primarily benefitted from the replenishment of the channel for Micotil[®] after the stock outage in 2018 as well as purchasing patterns for Rumensin. The international business saw softness in swine antibiotics, particularly in Asia, primarily driven by the impact of African Swine Fever, continued implementation of antimicrobial policies across the region and production rationalizations aligned with our productivity agenda.
- Strategic Exits revenue decreased by \$0.9 million or 4% and represented 3% of total revenue.

Costs and Expenses and Other

Cost of sales

Three months ended March 31, 2019 vs. three months ended March 31, 2018

Cost of sales decreased \$16.2 million in the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 due primarily to manufacturing productivity improvements, partially offset by the impact of foreign exchange rates, unfavorable product mix, and higher affiliate losses and logistics costs.

Research and development

Three months ended March 31, 2019 vs. three months ended March 31, 2018

R&D expenses decreased \$1.1 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 primarily driven by normal project spend fluctuations and external innovation milestone payments in the first quarter of 2018 that created a favorable comparison.

Marketing, selling and administrative

Three months ended March 31, 2019 vs. three months ended March 31, 2018

Marketing, selling and administrative expenses increased \$1.1 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 due primarily to increased expenses as a result of operating as a public company, which were partially offset by continued productivity initiatives and cost control measures across the business.

Amortization of intangible assets

Three months ended March 31, 2019 vs. three months ended March 31, 2018

Amortization of intangible assets decreased \$0.2 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 due to a number of assets becoming fully amortized during 2018.

Asset impairment, restructuring and other special charges

For additional information regarding our asset impairment, restructuring and other special charges, see Note 6: Asset Impairment, Restructuring and Other Special Charges to our consolidated and combined financial statements.

Three months ended March 31, 2019 vs. three months ended March 31, 2018

Asset impairment, restructuring and other special charges increased \$22.5 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 primarily due to integration costs associated with the implementation of new systems, programs, and processes due to the Separation from Lilly.

Interest expense, net of capitalized interest

Three months ended March 31, 2019 vs. Three months ended March 31, 2018

Interest expense, net of capitalized interest, was \$20.8 million for the three months ended March 31, 2019 due to our issuance of debt in the third quarter of 2018. There was no interest expense in the three months ended March 31, 2018 .

Income tax expense

Three months ended March 31, 2019 vs. three months ended March 31, 2018

Income tax expense increased \$8.5 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 primarily due to the benefit received in the three months ended March 31, 2018 from the release of certain valuation allowances related to net operating losses generated in prior periods of Elanco's separate company financial statements. See Note 11: Income Taxes for further information.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, cash flows from operations and funds available under our Credit Facilities. As a significant portion of our business is conducted outside the U.S., we hold a significant portion of cash outside of the U.S. We monitor and adjust the amount of foreign cash based on projected cash flow requirements. Our ability to use foreign cash to fund cash flow requirements in the U.S. may be impacted by local regulations and, to a lesser extent, following U.S. tax reforms, the income taxes associated with transferring cash to the U.S. As our structure evolves as a standalone company, we may change that strategy, particularly to the extent we identify tax efficient reinvestment alternatives for our foreign earnings or change our cash management strategy.

Our principal liquidity needs going forward include funding existing marketed and pipeline products, capital expenditures, business development in our targeted areas, interest expense and an anticipated dividend. We believe our cash and cash equivalents on hand, our operating cash flows and our existing financing arrangements will be sufficient to support our cash needs for the foreseeable future, including for at least the next 12 months.

Our ability to meet future funding requirements may be impacted by macroeconomic, business and financial volatility. As markets change, we will continue to monitor our liquidity position. However, a challenging economic environment or an economic downturn may impact our liquidity or ability to obtain future financing. See Forward-Looking Statements for further information.

Cash Flows

The following table provides a summary of cash flows from operating, investing and financing activities for the periods presented:

	Three Months Ended March		% Change
	2019	31, 2018	
Net cash provided by (used for):			
Operating activities	\$ 5.6	\$ 47.0	(88)%
Investing activities	(28.5)	(34.4)	(17)%
Financing activities	(339.5)	(76.5)	344 %
Effect of exchange-rate changes on cash and cash equivalents	(14.5)	3.9	(472)%
Net decrease in cash, cash equivalents and restricted cash	\$ (376.9)	\$ (60.0)	528 %

Operating activities

Our cash provided by operating activities decreased by \$ 41.4 million , from \$ 47.0 million for the three months ended March 31, 2018 to \$ 5.6 million for the three months ended March 31, 2019 . The decrease in operating cash flows was primarily attributable to:

- a decrease in net income;
- an increase in accounts receivable; and
- a decrease in accounts payable.

The impact of the above items was partially offset by an increase in the amount due to Lilly for certain services and back office functions that are shared by Elanco and Lilly (see Note 15 for further discussion).

Investing activities

Our cash used for investing activities decreased \$5.9 million, to \$ (28.5) million for the three months ended March 31, 2019 compared to \$ (34.4) million for the three months ended March 31, 2018 . The change was primarily driven by a decrease in capital expenditures from 2018 to 2019.

Financing activities

Our cash used for financing activities increased \$ 263.0 million , from \$ 76.5 million for the three months ended March 31, 2018 to \$ 339.5 million for the three months ended March 31, 2019 . The increase was primarily attributable to \$174.2 million of restricted cash paid to Lilly in connection with the Separation during the three months ended March 31, 2019 and other financing with Lilly during the period.

As part of our separation from Lilly, for a period of time, we continue to operate through a single treasury settlement process and in certain instances (as described above) continued to transact through Lilly's processes. As a result of these activities, there was a certain amount of financing that occurred between Lilly and Elanco during the three-month period ended March 31, 2019. This resulted in a net financing cash outflow during the period of \$ 156.4 million , which will be repaid to us in the second quarter of 2019.

Description of Indebtedness

For a complete description of our outstanding debt as of March 31, 2019 and December 31, 2018, see Note 8 to our condensed consolidated and combined financial statements.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements that currently have a material effect or that are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. There are certain of our accounting policies that are considered critical, as these policies are the most important to the depiction of our financial statements and require significant, difficult or complex judgments, often employing the use of estimates about the effects of matters that are inherently uncertain. Such policies are summarized in Item 7, "Management's Discussion & Analysis of Results of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes in the application of our critical accounting policies during the three months ended March 31, 2019, aside from our adoption of ASC 842, *Leases* , on January 1, 2019. See Note 10: *Leases* in our condensed consolidated and combined financial statements for further information.

Contractual Obligations

See Contractual Obligations included in Item 7, "Management's Discussion & Analysis of Results of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

We operate on a global basis and are exposed to the risk that our earnings, cash flows and equity could be adversely impacted by fluctuations in foreign exchange rates. We are primarily exposed to foreign exchange risk with respect to net assets denominated in the Euro, Swiss Franc, British pound, Canadian dollar, Australian dollar and Brazilian real. As part of the TSA, Lilly maintains a foreign currency risk management program through a central shared entity, which enters into derivative contracts to hedge foreign currency risk associated with forecasted transactions for the entire company, including historically for our operations. Gains and losses on derivative contracts entered into by Lilly have been allocated to our results to the extent they were to cover exposure related to our business and offset gains and losses on underlying foreign currency exposures. We intend to implement our own foreign currency risk management program by the end of the second quarter of 2019.

We face foreign currency exchange exposures when we enter into transactions arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. We also face currency exposure that arises from translating the results of our global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. We may enter into foreign currency forward or option derivative contracts to reduce the effect of fluctuating currency exchange rates in future periods, but our historical results do not reflect the impact of any such derivatives related to our exposure to foreign currency impacts on translation.

We estimate that a hypothetical 10% adverse movement in all foreign currency exchange rates related to the translation of the results of our foreign operations would decrease our net income by approximately \$11.9 million for the three months ended March 31, 2019.

We also bear foreign exchange risk associated with the future cash settlement of an existing NIH. In October 2018, we entered into a fixed interest rate, 5-year, 750 million Swiss franc NIH against Swiss franc assets. The NIH is expected to generate approximately \$25 million in cash and contra interest expense per year; however, there is potential for significant 2023 settlement exposure on the 750 million Swiss franc notional if the U.S. dollar devalues versus the Swiss franc.

Interest Risk

We are exposed to interest rate risk on the long-term debt we incurred in connection with our IPO. Prior to our IPO, we did not have any interest rate exposure. We have cash flow risk associated with our \$485.0 million of borrowings under the Term Facility that pay interest based on variable rates. We actively monitor our exposure and will enter into financial instrument to fix the interest rate based on our assessment of the risk.

Recently Issued Accounting Pronouncements

For discussion of our new accounting standards, see Note 4: Implementation of New Financial Accounting Pronouncements to our condensed consolidated and combined financial statements.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures* . Under applicable SEC regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the SEC (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of Jeff Simmons, president and chief executive officer, and Todd Young, executive vice president and chief financial officer, evaluated our disclosure controls and procedures as of March 31, 2019 . Based on this evaluation, the chief executive officer and the chief financial officer concluded that the disclosure controls and procedures are effective.

(b) *Changes in Internal Controls* . During the first quarter of 2019 , there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

(none)

Item 1A. Risk Factors

Other than the revisions set forth below, there have been no material changes from the risk factors disclosed in Part I of our Annual Report on Form 10-K for the year ended December 31, 2018.

We have identified the following additional risk factor:

We may not be able to successfully complete favorable transactions or successfully integrate acquired businesses when we pursue acquisitions, divestitures, joint ventures or other significant transactions, such as the acquisition of Aratana.

From time to time, we evaluate potential acquisitions, divestitures or joint ventures, such as the acquisition of Aratana, that would further our strategic objectives. The completion of such transactions is often subject to conditions that may be outside our control, including obtaining the requisite approval of the stockholders of the target company and/or government approval pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Accordingly, we may not be able to complete announced and signed transactions and therefore not realize the anticipated benefits therefrom.

After the closing of an acquisition, including the transaction with Aratana, we will be required to devote significant management attention and resources to integrating the portfolio and operations of the target company. Potential difficulties that we may encounter in the integration process, including as a result of distraction of our management, include the following:

- the inability to combine the businesses of the acquired company with ours in a manner that permits us to achieve the cost savings or other synergies anticipated as a result of the transaction or to achieve such cost savings or other anticipated synergies in a timely manner, which could result in us not realizing some anticipated benefits of the transaction in the time frame anticipated, or at all;
- the inability to realize the anticipated value from various assets of target companies;
- loss of key employees;
- potential unknown liabilities and unforeseen increased expenses, delays or unfavorable conditions in connection with the closing of the transaction and the subsequent integration; and
- performance shortfalls at our or the target company as a result of the diversion of management's attention from ongoing business activities as a result of completing the transaction and integrating the companies' operations.

Future acquisitions could also result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities or amortization expenses related to intangible assets, and increased operating expenses, which could adversely affect our results of operations and financial condition. Furthermore, if we issue equity or debt securities to raise additional funds, our existing shareholders may experience significant dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. Furthermore, if we sell a substantial number of shares of common stock in the public markets, the availability of those shares for sale could adversely affect the market price of our common stock. Such sales, or the perception in the market that holders of a large number of shares intend to sell shares, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

The following risk factor has changed from the risk factor that was previously disclosed:

Significant portions of our operations are conducted in Europe and could be impacted by the withdrawal of the United Kingdom (UK) from the EU, commonly referred to as "Brexit."

In June 2016, voters in the UK approved an advisory referendum to withdraw from the EU, commonly referred to as Brexit. On March 29, 2017, the UK Prime Minister formally notified the European Council of the UK's intention to withdraw from the EU under Article 50 of the Treaty of Lisbon. The notice began a two-year negotiation period to establish the withdrawal terms. In April 2019, the EU extended the end date of the negotiation period to October 31, 2019, although the UK could leave the EU sooner, depending on political developments. The referendum and notice created political, regulatory and economic uncertainty, particularly in the UK and the EU, and this uncertainty may persist for years if the withdrawal becomes effective in October 2019 without clarification as to whether the UK will continue to be party to the EU Free Trade Agreements (FTA) at the end of the negotiation period.

Our business is subject to substantial regulation. If the UK withdraws from the EU without an agreement and mutual recognition of the EU FTAs, we may not be able to market certain products that entered the EU market following marketing authorization by UK authorities in all the nations that are parties to FTAs with the EU unless and until we have obtained all required regulatory approvals in each jurisdiction where we proposed to market those products.

In addition, the uncertainty related to Brexit has caused foreign exchange rate fluctuations in the past, including the strengthening of the U.S. dollar relative to the euro and British pound immediately following the announcement of Brexit. The implementation of, or further developments with respect to, Brexit could further impact foreign exchange rates, which could materially adversely affect our business, financial condition and results of operations.

A withdrawal with no deal in place could significantly disrupt the free movement of goods, services, and people between the UK and the EU, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe and declining gross domestic product in many European markets. The UK's vote to exit the EU could also result in similar referendums or votes in other European countries in which we do business.

If no agreement is reached at the end of the extended negotiation period on October 31, 2019 and the UK's separation becomes effective, unless the remaining EU members unanimously agree to an additional extension, the uncertainty surrounding the terms of the UK's withdrawal and its consequences could adversely impact consumer and investor confidence, and could affect sales or regulation of our products. Any of these effects, among others, could materially adversely affect our business, financial condition and results of operations.

The following risk factor is no longer applicable due to the fact that the exchange offer was completed in March 2019 and was oversubscribed:

If the exchange offer is not fully subscribed, Lilly may continue to control us, which could prevent our shareholders from influencing significant decisions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(none)

Item 3. Defaults Upon Senior Securities

(none)

Item 4. Mine Safety Disclosures

(none)

Item 5. Other Information

(none)

Item 6. Exhibits

The following exhibits are either filed or furnished herewith (as applicable) or, if so indicated, incorporated by reference to the documents indicated in parentheses, which have previously been filed or furnished with the Securities and Exchange Commission.

Exhibit Number	Description
10.1	Elanco Animal Health Incorporated Directors' Deferral Plan (filed herewith).
10.2	Form of Elanco Animal Health Incorporated Restricted Stock Unit Award Agreement for non-employee directors with respect to annual awards (filed herewith).
10.3	Form of Elanco Animal Health Incorporated Restricted Stock Unit Award Agreement for non-employee directors with respect to one-time founder award (filed herewith).
10.4	Elanco Animal Health Incorporated Replacement Restricted Stock Unit Award Agreement (filed herewith).
31.1	Section 302 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Section 302 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	Interactive Data Files.

Index to Exhibits

<u>Exhibit Number</u>	<u>Description</u>
10.1*	Elanco Animal Health Incorporated Directors' Deferral Plan (filed herewith).
10.2*	Form of Elanco Animal Health Incorporated Restricted Stock Unit Award Agreement for non-employee directors with respect to annual awards (filed herewith).
10.3*	Form of Elanco Animal Health Incorporated Restricted Stock Unit Award Agreement for non-employee directors with respect to one-time founder award (filed herewith).
10.4*	Elanco Animal Health Incorporated Replacement Restricted Stock Unit Award Agreement (filed herewith).
31.1*	Sarbanes-Oxley Section 302 certification of Jeff Simmons
31.2*	Sarbanes-Oxley Section 302 certification of Todd Young
32.1*	Section 1350 certification of Jeff Simmons and Todd Young
101	Interactive Data Files.
*	Filed herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ELANCO ANIMAL HEALTH INCORPORATED

(Registrant)

Date: May 14, 2019

/s/ Jeffrey N. Simmons

Jeffrey N. Simmons

President and Chief Executive Officer

Date: May 14, 2019

/s/ Todd S. Young

Todd S. Young

Executive Vice President, Chief Financial Officer

ELANCO ANIMAL HEALTH, INC.

DIRECTORS' DEFERRAL PLAN

Effective September 18, 2018

Preamble

The Directors' Deferral Plan has been established by the Company for the purpose of providing an opportunity for Directors of the Company who are not salaried employees of the Company to voluntarily defer receipt of some or all of their meeting fees and retainer and to share in the long-term growth of the Company by acquiring, on a deferred basis, an ownership interest in the Company. Subject to adjustment as provided in Section 5(f), the aggregate number of shares of Elanco Animal Health, Inc. common stock that may be issued or transferred under this Plan is 375,000. Shares issued under the Plan may be authorized and unissued shares or treasury shares. [The Plan is effective as of September 18, 2018.](#)

The Plan constitutes a plan of unfunded deferred compensation and is [intended](#) to comply with the requirements of Section 409A. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

Section 1. **Definition of Terms**

The following terms used in the Plan shall have the meanings set forth below:

- (a) "Account" means one or more deferred compensation accounts maintained for each Participant under the Plan . [A Participant's Account shall consist of a Deferred Compensation Account and the Deferred Stock Account as described in Section 5 hereof.](#)
 - (b) "Annual Allocation Date" means the date as of which the annual allocation of Shares described in Section 5(c) is credited to the Deferred Stock Account, which shall be as soon as administratively feasible after the Annual Valuation Date, but in no event later than the last Business Day in November of the applicable Plan Year.
 - (c) "Annual Valuation Date" means the Valuation Date in November of each Plan Year, on which the annual allocation of Shares referenced in Section 5(c) is valued.
 - (d) "Beneficiary" means the person or persons who are designated by the Participant or are otherwise entitled to receive benefits under the Plan in the event of the Participant's death, as provided in Section 6(d) hereof.
 - (e) "Board of Directors" means the Board of Directors of the Company.
 - (f) "Business Day" means a day on which the Company's corporate headquarters are open for regular business.
 - (g) "Code" means the Internal Revenue Code of 1986, as amended.
 - (h) "Company" means Elanco Animal Health, Inc., an Indiana corporation.
 - (i) "Deferral Amount" means the amount of a Participant's Monthly Compensation that is elected by a Participant for deferral under the Plan.
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- (j) “Deferred Compensation Account” means the bookkeeping account described in Section 5(a)(i). A sub-account shall be established within the Deferred Compensation Account for each Plan Year in which a Deferred Stock Participant elects to defer compensation into the Deferred Compensation Account in accordance with Section 4(a).
- (k) “Deferred Stock Account” means the bookkeeping account described in Section 5(a)(ii). A sub-account shall be established within the Deferred Stock Account for each Plan Year in which a Deferred Stock Participant elects to defer compensation into the Deferred Stock Account in accordance with Section 4(a) or receives allocations of Shares under Section 5, to hold the Shares allocated during such Plan Year.
- (l) “Deferred Stock Participant” means a Director who is not a salaried employee of the Company or Eli Lilly & Company or any of its affiliates.
- (m) “Director” means a member of the Board of Directors of the Company.
- (n) “Dividend Payment Date” means the date as of which the Company pays a cash dividend on Shares.
- (o) “Dividend Record Date” means the date established by the Board of Directors as the record date for determining shareholders entitled to the dividend with respect to any Dividend Payment Date.
- (p) “Election Form” means the written or electronic form or forms approved by the Plan Administrator and completed by the Participant specifying the Participant’s election to defer Monthly Compensation pursuant to Section 4 and setting forth the Participant’s Beneficiary designation and the terms of distribution of the Participant’s Deferred Compensation Account and/or Deferred Stock Account pursuant to Section 6.
- (q) “Monthly Compensation” means the monthly retainer and the aggregate of all other fees and retainers, including, but not limited to, meeting fees, committee fees and committee chairperson fees to which a Director is entitled for services rendered to the Company as a Director during the month, as established from time to time by resolution of the Board of Directors. For avoidance of doubt, Monthly Compensation does not include stock options granted to Directors or the Shares allocated pursuant to Section 5 of this Plan.
- (r) “Monthly Deferral Participant” means a Director who is not a salaried employee of the Company (or Eli Lilly & Company or any of its affiliates) and who elects to defer all or part of his or her Monthly Compensation pursuant to the Plan in accordance with Section 4 hereof.
- (s) “Participant” means any current or former Director with an outstanding Account balance under the Plan .
- (t) “Plan” means The Directors’ Deferral Plan , as amended and restated herein .
- (u) “Plan Administrator” means the committee of the Board of Directors that is charged with matters relating to the compensation of non-employee directors. Except with respect to Section 5(f) of this Plan, the Plan Administrator may at its discretion delegate any of its responsibilities to one or more individuals provided that such delegation is in accordance with applicable laws.
- (v) “Plan Year” means the calendar year from January 1 through December 31 with respect to which compensation eligible for deferral under the Plan is earned.
- (w) “Section 409A” means section 409A of the Code and the Treasury regulations and other official guidance promulgated thereunder.
- (x) “Separation from Service” means a “separation from service” within the meaning of Section 409A.
- (y) “Share” means a share of common stock of the Company.
- (z) “Unforeseeable Emergency” means a severe financial hardship of a Participant resulting from an illness or accident of such Participant or Beneficiary , such Participant’s spouse or a dependent (as defined in section 152(a) of the Code) of such Participant, loss of such Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of such Participant, each as determined in the manner consistent with Section 409A, and
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any other event or circumstance within the meaning of the term “unforeseeable emergency” under Section 409A.

(aa) “Valuation Date” means for any month, the third Monday of the month, or if Shares are not traded on the New York Stock Exchange on such third Monday, the next day on which Shares are traded on the New York Stock Exchange.

Section 2. **Plan Administrator**

(a) Authority. The Plan Administrator shall have full authority to administer the Plan in accordance with its terms and to exercise all responsibilities and authorities as provided herein, including the discretionary authorities to determine the terms and conditions of deferrals of compensation under the Plan, to determine the terms and conditions of crediting to and distributing from Accounts under the terms of the Plan, and to adopt such rules and regulations for administering the Plan as it may deem necessary or appropriate. The Plan Administrator has the discretionary authority to interpret and construe all provisions of the Plan, to remedy possible ambiguities, inconsistencies, or omissions under the Plan, and to resolve all questions of fact arising under the Plan. The decisions of the Plan Administrator shall be final, binding and conclusive on all parties. No member of the Board of Directors, the Plan Administrator nor any officers of the Company shall have any liability for any action or determination taken under the Plan.

(b) Delegation; Expenses. The appropriate officer(s) of the Company as designated by the Plan Administrator are authorized to act on behalf of the Plan Administrator for the day-to-day administration of the Plan, subject to the authority of the Plan Administrator. Expenses of the administration of the Plan may be borne by the Company or may be deducted from Participants’ Accounts at the sole discretion of the Plan Administrator.

Section 3. **Participation**

The Plan Administrator may require a Participant to comply with such terms and conditions as the Plan Administrator may specify in order for the Participant to participate in the Plan.

Section 4. **Elections to Participate**

(a) Deferral Elections. A Monthly Deferral Participant in the Plan may file an Election Form with the Plan Administrator on or before the date specified in accordance with Section 4(c) hereof. The Election Form shall permit the Monthly Deferral Participant to specify the Deferral Amount, subject to a minimum annual Deferral Amount of five thousand dollars (\$5,000), for the deferral of Monthly Compensation, or such amounts as may be specified by the Plan Administrator in its sole discretion, and whether such Deferral Amount shall be credited in cash to his or her Deferred Compensation Account or in Shares to his or her Deferred Stock Account, pursuant to Section 5(a) hereof. The Election Form shall also set forth the terms of distribution of the Participant’s Account in accordance with Section 6 hereof and the Participant’s Beneficiary designation. All elections to defer compensation under the Plan are irrevocable, and no changes to any Election Form delivered to the Plan Administrator shall be permitted, except as specifically provided under the terms of the Plan.

(b) Maximum Deferrals. A Monthly Deferral Participant may elect a Deferral Amount of up to 100% of the Participant’s Monthly Compensation for a Plan Year. One hundred percent (100%) of any annual allocation of Shares earned pursuant to Section 5(c) will be automatically credited to a Deferred Stock Participant’s Deferred Stock Account.

(c) Timing and Effect of Elections. Unless otherwise specified by the Plan Administrator in accordance with the requirements of Section 409A, deferral elections on an Election Form shall be made:

(i) In the case of Monthly Compensation or an annual Share allocation not qualifying as “performance-based compensation” within the meaning of Section 409A, prior to the beginning of the Plan Year with respect to which the compensation is earned; and

(ii) In the case of Monthly Compensation or a n annual Share allocation which the Plan Administrator has determined qualifies as “performance-based compensation” within

the meaning of Section 409A, no later than June 30th of the applicable Plan Year with respect to which the compensation is earned.

Deferral elections shall apply to **Monthly Compensation and annual Share allocations** with respect to the Plan Year for which the elections are made. Participants will be required to make deferral elections for future Plan Years at such times to be specified by the Plan Administrator in accordance with the foregoing. If a Participant does not file an Election Form with the Plan Administrator on or before the deadline established by the Plan Administrator for deferral elections for a Plan Year, a Participant will be deemed not to have elected to defer Monthly Compensation for such Plan Year, as applicable. Notwithstanding the foregoing, **in the first year in which an individual** who is newly elected or appointed to serve as a Director **becomes eligible to participate in the Plan, such individual** may, not later than thirty (30) days after **the date he or she becomes eligible to participate in the Plan**, elect in accordance with the preceding provisions of this Section 4, to defer the receipt of Monthly Compensation **and set forth the terms of distribution of the individual's Account with respect to services to be performed after** the filing of the election with the Company. Notwithstanding the foregoing, no deferral elections will be permitted under this Section 4 for the 2018 Plan Year.

Section 5. **Accounts and Interest Credits**

(a) **Participant Accounts**. Accounts shall be maintained for each Participant under the Plan as follows:

(i) **Deferred Compensation Account** - The Company shall maintain a Deferred Compensation Account in the name of each Monthly Deferral Participant who elects to have a **Deferral** Amount credited in cash pursuant to Section 4 hereof for a given Plan Year. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. For each month, **Deferral** Amounts allocated to a Deferred Compensation Account shall be credited to the **Deferred Compensation Account** as of the last Business Day of the month.

(ii) **Deferred Stock Account** - The Company shall maintain a Deferred Stock Account for each Deferred Stock Participant and for each Monthly Deferral Participant who elects to have a Deferral Amount credited in Shares. The Deferred Stock Account shall be denominated in Shares and maintained in fractions rounded to six (6) decimal places. Deferral Amounts intended to be allocated to a Deferred Stock Account shall be credited on a monthly basis, as soon as administratively feasible following the Valuation Date for the applicable month, but in no event later than the last Business Day of such month. The annual allocations of Shares for Deferred Stock Participants described in section (c) below shall be credited to the applicable Deferred Stock Account on the Annual Allocation Date. Shares and, if necessary, fractional Shares, shall be credited based upon the closing price of Shares on the New York Stock Exchange on the Valuation Date for that month. Notwithstanding any other provision of the Plan, Shares allocated to a Deferred Stock Account shall be hypothetical and not issued or transferred by the Company until payment is made pursuant to Section 6 hereof.

A Participant's Account shall consist of book entries only and shall not constitute a separate cash or Share fund or other asset held in trust or as security for the Company's obligation to pay the amount of the Account to the Participant. The balance of a Participant's Account shall be adjusted pursuant to this Section 5 and reduced by the amount of **applicable tax withholding, distributions and expenses**. A Participant's Account may include sub-accounts as the Company considers necessary or advisable for purposes of maintaining a proper accounting of amounts credited or debited for a Participant under the Plan. A Participant shall receive or have on-line access to a statement of such Participant's Account no less frequently than once a year following the end of each Plan Year.

(b) Crediting of Deferral Amount. A Participant who has filed an Election Form with the Plan Administrator for the deferral of Monthly Compensation with respect to a Plan Year shall have the Deferral Amount deducted from the applicable compensation and credited to the Participant's appropriate Account under the Plan. The Deferral Amount so credited shall be reduced by applicable tax withholding, distributions and expenses.

(c) Annual Share Allocation. On the Annual Allocation Date of each Plan Year, there shall be allocated to the Deferred Stock Account of each person who (i) is a Deferred Stock Participant on the Annual Valuation Date of that Plan Year or (ii) was a Deferred Stock Participant at any time subsequent to the last Annual Valuation Date, as part of his or her compensation for service on the Board of Directors, the number of Shares specified from time to time by resolution of the Board of Directors. This allocation shall in no event be more than the lesser of (i) 30,000 Shares or (ii) the number of Shares equal in value to \$800,000 minus the director's total cash compensation for the Plan Year (including for this purpose, but not limited to, any cash compensation deferred into this Plan pursuant to an election under Section 4(a) above), as of the Annual Valuation Date.

(d) Interest Credits. The Deferred Compensation Accounts of Participants shall be credited with interest computed each Plan Year or portion thereof at a rate equal to 120% of the long-term applicable federal rate, with monthly compounding (as prescribed under section 1274(d) of the Code), as in effect for the month of December for the immediately preceding Plan Year. Such interest shall accrue on all Deferral Amounts and prior earnings thereon of Deferred Compensation Accounts and be credited daily to such accounts.

(e) Cash Dividends. Cash dividends paid on Shares shall be deemed to have been paid on the Shares allocated to each Participant's Deferred Stock Account as if the allocated Shares were actual Shares issued and outstanding on the Dividend Record Date. An amount equal to the amount of such dividends shall be credited in Shares to each Deferred Stock Account as of the Dividend Payment Date, based upon the applicable closing price for the Shares on such Dividend Payment Date, as determined by the Plan Administrator.

(f) Capital Adjustments. The number of Shares referred to in the Preamble and Section 5 hereof and the number of Shares allocated to each Deferred Stock Account shall be adjusted by the Plan Administrator, in the event of any subdivision or combination of Shares or any stock dividend, stock split, reorganization, recapitalization, or consolidation or merger with the Company as the surviving corporation, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to Shares through a spin-off or other extraordinary distribution.

(g) Vesting of Accounts. A Participant is fully vested in his or her Account at all times.

Section 6. Distribution of Accounts

(a) Distribution upon Separation from Service. A Participant shall specify on an Election Form the manner in which the amounts deferred in the Deferred Compensation Account and the Deferred Stock Account, as applicable, for a Plan Year (and earnings thereon) shall be distributed from the Participant's Account upon the Participant's Separation from Service. All elections are irrevocable, and no changes shall be permitted to any Election Form delivered to the Plan Administrator, except as specifically provided under the terms of the Plan. A Participant may elect, to the extent permitted by the Plan Administrator and set forth on the Election Form, that such portion of the Account be distributed upon a Participant's Separation from Service either in:

(i) Lump Sum payment in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs; or

(ii) Annual Installment payments over a period of two (2) to ten (10) years commencing in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs, with subsequent installment payments to be made in each January within the applicable period.

If a Participant fails to make a timely payment election on the Election Form for a Plan Year, the amounts deferred in the Deferred Compensation Account and the Deferred Stock Account, as applicable, for such Plan Year (and earnings thereon) shall be distributed in a lump sum in accordance with Section 6(a)(i) hereof. Notwithstanding the foregoing or anything to the contrary in this Plan, amounts deferred, allocated, or credited in or with respect to the 2018 Plan Year shall be distributed in a lump sum under Section 6(a)(i) above, and no Participant election shall be permitted with respect to such amounts.

(b) Form of Distributions. All distributions of a Participant's Deferred Compensation Account under the Plan shall be made in cash. Except as provided in Section 6(f), all distributions of a Participant's Deferred Stock Account shall be paid in Shares, at which time the Shares shall be issued or transferred from the books of the Company to the Participant. All Shares to be issued or transferred hereunder may be newly issued or treasury shares. Fractional Shares shall not be issued or transferred to a Participant, provided that in the case of a final payment under the Plan with respect to a Participant, any fraction remaining in the Participant's Deferred Stock Account shall be rounded up to the next whole Share and that number of whole Shares shall be issued or transferred. The value of the Deferred Stock Account is calculated with reference to the closing price of Shares on the last trading day of the prior Plan Year.

(c) Distribution of Account. The Company shall distribute amounts from the Participant's Deferred Compensation Account and the Deferred Stock Account in the manner and on the date(s) applicable under this Section 6. If the payment option described in Section 6(a)(i) hereof is applicable, the amount of the lump sum shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the payment. If the payment option described in Section 6(a)(ii) hereof is applicable, the amount of each installment shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the installment payment divided by the number of installment payments that have not yet been made.

(d) Distribution upon Death. Notwithstanding any election made by a Participant or any other provision of this Section 6 to the contrary, if a Participant dies before full distribution of his or her Account balance, any remaining balance shall be distributed to the Participant's Beneficiary in a lump sum within 90 days following the date of the Participant's death. The amount of such lump sum distribution shall be calculated using the valuation of the Participant's Account as of the date preceding the date of distribution. Any payment required to be made to a Participant under the Plan that cannot be made due to the Participant's death shall be made to the Participant's Beneficiary, subject to applicable law. Each Participant shall have the right to designate one or more Beneficiaries, and to change a Beneficiary designation, from time to time by filing a written notice with the Plan Administrator. In the event that a Beneficiary does not survive the Participant and no successor Beneficiary is selected, or in the event no valid Beneficiary designation has been made, the Participant's Beneficiary shall be the Participant's estate.

(e) Unforeseeable Emergency. Upon the written request of a Participant, the Plan Administrator may permit the Participant to withdraw some or all of the Participant's Account for the purpose of enabling the Participant to meet the immediate needs created by an Unforeseeable Emergency. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but in any case, the amounts distributed with respect to an Unforeseeable Emergency shall not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets, to the extent that the liquidation of such assets would not itself cause severe financial hardship, or by cessation of deferrals under the Plan.

(f) Payment of Cash in Lieu of Shares. If at any time the Plan Administrator determines that payment of Shares to a Participant (or a Participant's Beneficiary) or the ownership or subsequent

disposition of such Shares by such Participant or Beneficiary may violate or conflict with any applicable law or regulation, as determined by the Plan Administrator in its sole discretion, the Plan Administrator shall pay all or a portion of the Participant's Deferred Stock Account in cash.

(g) Withholding Taxes. All distributions of a Participant's Account under the Plan shall be subject to income tax and other withholdings that the Plan Administrator deems necessary or appropriate, and the Plan Administrator may reduce the amount credited to any Participant's Account to the extent it deems necessary to satisfy tax withholding requirements. Participants or Beneficiaries receiving distributions under the Plan shall bear all taxes on amounts paid under the Plan to the extent that taxes are not withheld thereon, irrespective of whether withholding is required.

Section 7. **Administrative Matters**

(a) Claims Procedure. Any person making a claim for benefits hereunder shall submit the claim in writing to the Plan Administrator. If the Plan Administrator denies the claim in whole or in part, it shall issue to the claimant a written notice explaining the reason for the denial and identifying any additional information or documentation that might enable the claimant to perfect the claim. The claimant may, within sixty (60) days of receiving a written notice of denial, submit a written request for reconsideration to the Plan Administrator, together with a written explanation of the basis of the request. The Plan Administrator shall consider any such request and shall provide the claimant with a written decision together with a written explanation thereof. No legal action may be commenced or maintained against the Plan more than one year after the Plan Administrator wholly or partially denies, or is deemed to have wholly or partially denied, a claim for Plan benefits. All interpretations, determinations, and decisions of the Plan Administrator in respect of any claim shall be final, binding and conclusive.

(b) Incapacity. If the Plan Administrator determines that any person entitled to benefits under the Plan is unable to care for his or her affairs because of illness, accident or other physical and mental incapacity, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid consistent with the terms described herein for the benefit of such person to such person's spouse, parent, brother, sister, adult child or other party deemed by the Plan Administrator in its sole discretion to ensure proper care for such person.

(c) Inability to Locate. If the Plan Administrator is unable to locate a person to whom a payment is due under the Plan for a period of twelve (12) months, commencing with the first day of the month as of which the payment becomes payable, the total amount payable to such person shall be forfeited.

(d) Liability. Any decision made or action taken by the Board of Directors, the Plan Administrator, or any employee of the Company or any of its subsidiaries, arising out of or in connection with the construction, administration, interpretation, or effect of the Plan, shall be absolutely discretionary, and shall be conclusive and binding on all parties. Neither the Plan Administrator nor a member of the Board of Directors and no employee of the Company or any of its subsidiaries shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of the Plan have been delegated or, except in circumstances involving bad faith, for anything done or omitted to be done.

(e) Notices. No notice, election or communication in connection with the Plan made or submitted by any Participant, claimant or other person shall be effective unless duly executed and filed with the Plan Administrator (including any of its representatives, agents, or delegates) in the form and manner required by the Plan Administrator.

(f) Waiver. No term, condition, or provision of the Plan shall be deemed waived unless the purported waiver is in writing signed by the Plan Administrator. No waiver signed by the Plan Administrator shall be deemed a continuing waiver unless so specifically stated in the writing, and any such waiver shall operate only for the stated period and only as to the specific term, condition, or provision waived, and shall apply only to the individual or individuals seeking the waiver.

Section 8. **Unfunded Status**

All Accounts and all rights of Participants to benefits under the Plan are unfunded obligations of the Company. Plan benefits shall be paid from the general assets of the Company, and Participants shall have the status of an unsecured general creditor of the Company with respect to all interests under the Plan. The Plan is a plan of unfunded deferred compensation. Notwithstanding the foregoing, the Company may, but shall not be required to, establish a trust or other funding vehicle under the Plan that does not affect the Plan's status as a Plan of unfunded deferred compensation.

Section 9. **Nontransferability; Successors**

No interest of any person in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person .

The obligations of the Company under the Plan will be binding upon the Company's successors, transferees and assigns.

Section 10. **Limitation of Rights**

Nothing in the Plan shall confer upon any Participant the right to continue to serve as a Director of the Company, or the right to serve the Company in an employment capacity. Nothing in the Plan shall be interpreted as creating a right of a Participant to receive any compensation or benefit from the Company. A Participant shall have no rights as a shareholder of the Company with respect to any Shares until the Shares are issued or transferred to the Participant on the books of the Company.

Section 11. **Enforceability and Governing Law**

To the extent not preempted by federal law, the Plan shall be construed, administered and enforced in accordance with the laws of the State of Indiana, regardless of the law that might otherwise govern under applicable principles or provisions of choice or conflict of law doctrines. To the extent that any provision of the Plan or portion thereof shall be found to be invalid or unenforceable, such provision or portion of the Plan shall be considered deleted herefrom and the remainder of such provision and the Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein. In addition, the remainder of the Plan shall be unaffected and shall continue in full force and effect.

Section 12. **Forum Selection**

To the fullest extent permitted by law, any action brought in whole or in part relating to the Plan the lawfulness of any Plan provision, the administration of the Plan, or the performance or non-performance of the Plan's administrators and fiduciaries, shall be filed in one of the following jurisdictions: (i) the jurisdiction in which the Plan is principally administered, which is currently the United States District Court for the Southern District of Indiana; or (ii) in the case of a putative class action, the jurisdiction in which the largest number of putative class members resides (or if that jurisdiction cannot be determined, the jurisdiction in which the largest number of class members is reasonably believed to reside).

If any action is filed in a jurisdiction other than one of those described above, then the Plan, all parties to such action that are related to the Plan (such as a Plan fiduciary, administrator or party in interest) and all alleged Plan Participants and Beneficiaries shall take all necessary steps to have the action removed to, transferred to or re-filed in a jurisdiction described above. Such steps may include, but are not limited to, (i) a joint motion to transfer the action; or (ii) a joint motion to dismiss the action without prejudice to its re-filing in a jurisdiction described above, with any applicable time limits or statutes of limitations applied as if the suit or class action allegation had originally been filed or asserted in a jurisdiction described above at the same time that it was filed or asserted in a jurisdiction not described therein.

This forum selection provision is waived, with respect to an action, if no party invokes it within 120 days of the filing of an action. This provision does not relieve any claimant from any obligation existing under the Plan or by law to exhaust administrative remedies before initiating litigation.

Section 13. **Scrivener's Errors**

The Plan shall be applied and interpreted without regard to any scrivener's error in this instrument. The determination whether a scrivener's error has occurred shall be made by the Plan Administrator in the exercise of the Plan Administrator's best judgment and sole discretion, based on the Plan Administrator's understanding of the intent of the Company as settlor of the Plan, and taking into account such evidence, written or oral, as the Plan Administrator deems appropriate or helpful. The Plan Administrator is authorized to correct any scrivener's errors the Plan Administrator discovers in this instrument, retroactively or prospectively.

Section 14. **Rules of Construction**

For purposes of the Plan, unless the contrary is clearly indicated by the context:

- (a) the use of the masculine gender in this Plan shall also include within its meaning the feminine gender and vice versa;
- (b) the use of the singular shall also include within its meaning the plural and vice versa;
- (c) the word "include" shall mean to include, but not to be limited to;
- (d) any reference to a statute or section of a statute shall further be a reference to any successor or amended statute or section, and any regulations or other guidance of general applicability issued thereunder;
- (e) the title of an officer, employee, or entity used in this Plan means the respective officer, employee, or entity of Elanco Animal Health, Inc., and means any successor title to such position as such title may be changed from time to time;
- (f) references to the Plan Administrator, or other named fiduciary, officer or employee of the Company, or other person or entity with responsibility or authority under the Plan shall include delegates (if any) of such entity or person, with respect to such entity's or person's delegated responsibilities; and
- (g) the captions and headings of each article, section, paragraph, and other provision of the Plan are for convenience and reference only and are not to be considered in interpreting the terms and conditions of the Plan.

Section 15. **Effective Date; Amendment and Termination**

The Plan was approved by the Company's shareholders on September 17, 2018 and is effective for deferrals on and after September 18, 2018 and for each Plan Year thereafter until terminated by the Board of Directors. The Board of Directors may amend or terminate the Plan at any time and in any manner; provided that no amendment or termination shall reduce the amount credited to a Participant's Account at the time of any such amendment or termination, and no amendment shall be effective that shall cause the Plan to fail to meet the requirements of Section 409A. Upon termination of the Plan [in accordance with the requirements of Section 409A](#), (i) all future deferrals of compensation will cease, (ii) all Accounts will continue to receive interest credits (or be invested) as permitted under the Plan, and (iii) all Accounts will be distributed in accordance with the Participant's elections under the provisions of the Plan, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements [of Section 409A](#).

Elanco Animal Health, Inc.
Directors' Deferral Plan

Form of Annual Deferred Stock Award Agreement

This annual deferred stock award has been granted on [_____] (“Grant Date”) by Elanco Animal Health, Inc., an Indiana corporation (“Elanco” or the “Company”), to the Director who has received this agreement.

Number of Shares: [_____]

Vesting Date: 100% on Grant Date

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Section 1. **Grant of Annual Deferred Stock Award**

Elanco has granted to the Director who has received this Award Agreement an annual deferred share allocation award (the "Deferred Stock Award") with respect to the number of shares of Elanco Common Stock (the "Shares") set forth on page 1 of this document, pursuant to and subject to the terms and conditions set forth in the Elanco Animal Health, Inc. Directors' Deferral Plan, as may be amended from time to time (the "Plan"), and to the terms and conditions set forth in this document (the "Award Agreement"). This Deferred Stock Award represents a grant of Shares as contemplated under Section 5(c) of the Plan. In the event of any conflict between the terms of the Plan and this Award Agreement, the terms of the Plan shall govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

Section 2. **Vesting and Deferral**

The Deferred Stock Award shall be fully vested on the Grant Date and settlement of the Shares subject to the Deferred Stock Award shall be deferred automatically pursuant to Section 5(c) of the Plan and credited to the Director's Deferred Stock Account maintained by the Company.

Section 3. **Distribution**

- a. Except as otherwise set forth in the Plan, the Deferred Stock Award shall be distributed in a single lump sum on the earlier of the Director's Separation from Service and the Director's death in accordance within the payment periods specified in the Plan.
- b. Except as otherwise provided in Section 6(b) and Section 6(f) of the Plan, the Deferred Stock Award shall be distributed in whole Shares.

Section 4. **Rights of the Director**

- a. Except as otherwise set forth in Section 4(b) below, the Director shall have no rights as a shareholder of the Company with respect to any Shares subject to the Deferred Stock Award until the Shares are actually issued or transferred to the Director and held of record by the Director on the books of the Company.
- b. If cash dividends are paid on Company Shares, dividend equivalents, in the form of Shares, shall be credited to the Director in accordance with the provisions of Section 5(e) of the Plan.
- c. Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Director to receive payments of cash or Shares pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company.

Section 5. **Taxes**

The Director acknowledges that the Director will consult with his or her personal tax advisor regarding any income tax, social security contributions, payroll taxes or other tax-related items ("Taxes") that arise in connection with the Deferred Stock Award, including, for the avoidance of doubt, the receipt of any dividends and/or dividend equivalent rights. The Director is relying solely on such advisor and is not relying in any part on any statement or representation of the Company or any of its agents. The Company shall not be responsible for withholding any applicable Taxes, unless required by applicable law. The Company may take such action as it deems appropriate to ensure that all Taxes, which are the Director's sole and absolute responsibility, are withheld or collected from the Director, if and to the extent required by applicable law. In this regard, the Company will have the power and the right to require the Director to remit to the Company, the amount necessary to satisfy any Taxes that are legally required to be paid by the Director in connection with the Deferred Stock Award. Notwithstanding the foregoing, unless otherwise determined by the Board of Directors, any obligation to withhold Taxes from the Director shall be satisfied by the Company by withholding from the Shares to be issued upon settlement of the Deferred Stock Award or any dividend equivalent right a number of Shares having a fair market value on the date that the withholding obligations for the Taxes is determined equal to the amount of the Taxes required to be withheld, calculated at rates, including rates of up to the maximum individual tax rate for the tax jurisdiction applicable to the Director, that would not result in adverse accounting consequences, as determined by the Company in its sole

discretion. The Company may refuse to settle the Deferred Stock Award if the Director fails to comply with his or her obligations for Taxes described in this Section 5.

Section 6. Capitalization Adjustments

In the event of a capitalization event described in Section 5(f) of the Plan, the Shares subject to the Deferred Stock Award shall be subject to adjustment as provided in Section 5(f) of the Plan.

Section 7. Section 409A Compliance

To the extent applicable, it is intended that this Deferred Stock Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Deferred Stock Award shall be interpreted and applied by the Board of Directors in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A. Notwithstanding any provision of the Plan to the contrary, the Board may, but shall not be obligated to, adopt such amendments to the Plan and the Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, in each case, without the consent of the Director, that the Board of Directors determines are necessary or appropriate to ensure that the Deferred Stock Award complies with the requirements of Section 409A and related U.S. Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section 409A or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A if compliance is not practical. Nothing in the Plan or in the Award Agreement shall provide a basis for any person to take any action against the Company or any affiliate based on matters covered by Section 409A, including the tax treatment of the Deferred Stock Awards, and neither the Company nor any affiliate will have any liability under any circumstances to the Director or any other party if the Deferred Stock Award that is intended to be compliant with Section 409A is not compliant or for any action taken by the Board of Directors with respect thereto.

Section 8. Miscellaneous Provisions

- a. The Director may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States, which may affect the Director's ability to directly or indirectly, for the Director or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of Shares under the Plan during such times as the Director is considered to have "inside information" regarding the Company (as determined under the laws or regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Director acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Director should consult with his or her personal legal advisor on this matter.
 - b. If the Director has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.
 - c. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan. The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.
 - d. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Director's participation in the Plan or the Director's acquisition or sale of the underlying Shares. The Director should consult with his or her own personal tax, legal and financial advisors regarding the Director's participation in the Plan before taking any action related to the Plan.
 - e. The Company may, in its sole discretion, deliver any documents related to the Deferred Stock Award by electronic means or request the Director's consent to participate in the Plan by electronic means.
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The Director hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or a third party vendor designated by the Company.

- f. Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Director at the Director's last address reflected on the Company's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Director is no longer a member of the Board of Directors, shall be deemed to have been duly given by the Company when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.
- g. The Deferred Stock Award and all rights of the Director under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Director agrees to be bound by the terms of the Plan and this Award Agreement. The Director acknowledges having read and understood the Plan and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board of Directors do not (and shall not be deemed to) create any rights in the Director unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board of Directors so conferred by appropriate action of the Board of Directors under the Plan after the date hereof.
- h. This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 15 of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Director hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.
- i. This Award Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.
- j. The Company reserves the right to impose other requirements on the Director's participation in the Plan, on the Deferred Stock Award and on any Shares acquired under the Deferred Stock Award, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Director to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in Indianapolis, Indiana, by its proper officer.

ELANCO ANIMAL HEALTH, INC.



By:

Jeffrey N. Simmons
President, Chief Executive Officer and Director

2018 Elanco Stock Plan

Form of Restricted Stock Unit Award Agreement for Directors

This restricted stock unit award has been granted on [____], 2019 (“Grant Date”) by Elanco Animal Health, Inc., an Indiana corporation (“Elanco” or the “Company”), to the Director who has received this agreement.

Number of Shares:

Vesting Date: 100% on [____], 2022

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Section 1. **Grant of Restricted Stock Unit Award**

Elanco has granted to the Director an award of restricted stock units (the "Restricted Stock Units" or the "Award") with respect to the number of shares of Elanco Common Stock (the "Shares") referenced on page 1 of this document, pursuant to and subject to the terms and conditions set forth in the 2018 Elanco Stock Plan (the "Plan") and to the terms and conditions set forth in this Restricted Stock Unit Award Agreement (the "Award Agreement"). In the event of any conflict between the terms of the Plan and this Award Agreement, the terms of the Plan shall govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

Section 2. **Vesting and Deferral**

The Award shall vest as to 100% of the Shares subject to the Award at the close of business in Greenfield, Indiana, U.S.A. on [____], 2022 (the "Vesting Date"), provided the Director actively provides Service through the Vesting Date. In the event that the Director's Service terminates prior to the Vesting Date for any reason or in any circumstance, the unvested Award shall be forfeited. Delivery of the Shares issuable upon the Vesting Date shall be automatically deferred and such Shares shall be notionally credited to the Director's Deferred Stock Account under the Elanco Animal Health, Inc. Director Deferral Plan (the "Deferral Plan"). For this purpose, the term "Deferred Stock Account" shall have the meaning set forth in the Deferral Plan, except that the sub-account established thereunder for Plan Year (as such term is defined in the Deferral Plan) 2019 shall reflect the Shares mandatorily deferred pursuant to this Award Agreement, as well as amounts the Director has otherwise elected to defer into the Deferred Stock Account for Plan Year 2019.

Section 3. **Distribution of Deferred Award**

- a. Distribution of the Award shall be made in accordance with the applicable provisions of Section 6 of the Deferral Plan. Accordingly, except as otherwise permitted by the Deferral Plan, the vested Award shall be distributed on the earlier of the Director's "separation from service" (as defined in Section 409A of the Code) and the Director's death, pursuant to the payment provisions of the Deferral Plan. In accordance with the applicable provisions of the Deferral Plan, the Director may designate a beneficiary who shall be entitled to receive distribution of the vested Award in the event of the Director's death.
- b. In accordance with the provisions of Section 6(a) of the Deferral Plan, the Director may elect to receive distribution of his or her vested Award upon the Director's separation from service in either a single lump sum or in between two (2) and ten (10) annual installments, provided that such election is made on or before the thirtieth (30th) day after the Grant Date. In the absence of such election duly made by the Director within such period following the Grant Date, the vested Award will be distributed in a single lump sum.
- c. Except as otherwise provided in Section 6(b) and Section 6(f) of the Deferral Plan, the Award shall be distributed in whole Shares.

Section 4. **Rights of the Director**

- a. Except as otherwise set forth in Section 4(b) below, the Director shall have no rights as a shareholder of the Company with respect to any Shares subject to the Award until the Shares are actually issued or transferred to the Director and held of record by the Director on the books of the Company.
 - b. Pursuant to Section 12.4 of the Plan, the Award shall include Dividend Equivalent Rights. In this regard, if cash dividends are paid on Company Shares between the Grant Date and the date the Award is settled pursuant to Section 3 above, Dividend Equivalent Rights, in the form of Shares, shall be credited to the Director's Deferred Stock Account in accordance with the provisions of Section 5(e) of the Deferral Plan. Such Shares relating to Dividend Equivalent Rights will be distributed at the same time and in the same form as the Award.
 - c. Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Director to receive payment of Shares (or cash) pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company. The Award is an unfunded deferred compensation award.
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Section 5. **Change in Control**

In no event will the Award vest or become nonforfeitable prior to the first anniversary of the Grant Date, except as permitted by Section 409A of the Code. Accordingly, unless a Change in Control constitutes a "change in control event" within the meaning of the Treasury Regulations under Section 409A of the Code, the provisions of Section 13.2(a) of the Plan shall apply to this Award only to the extent that a Change in Control occurs on or after the first anniversary of the Grant Date. To the extent that the Award vests upon a Change in Control, settlement of the Award shall remain subject to Section 3 above.

Section 6. **Taxes**

The Director acknowledges that the Director will consult with his or her personal tax advisor regarding any Tax-Related Items that arise in connection with the Award, including, for the avoidance of doubt, the receipt of any dividends and/or Dividend Equivalent Rights. The Director is relying solely on such advisor and is not relying in any part on any statement or representation of the Company or any of its agents. The Company shall not be responsible for withholding any applicable Tax-Related Items, unless required by applicable law. The Company may take such action as it deems appropriate to ensure that all Tax-Related Items, which are the Director's sole and absolute responsibility, are withheld or collected from the Director, if and to the extent required by applicable law. In this regard, unless otherwise determined by the Board, any obligation to withhold Tax-Related Items shall be satisfied by the Company withholding from the Shares to be issued upon distribution of the Award (including any Dividend Equivalent Right) a number of Shares having a fair market value on the date that the Tax-Related Items withholding are determined sufficient to satisfy the amount of Tax-Related Items required to be withheld. Notwithstanding the foregoing, if an obligation to withhold Tax-Related Items arises prior to the distribution of the Award, the Company will have the power and the right to require the Director to remit to the Company, the amount necessary to satisfy such Tax-Related Items. The Company may refuse to settle the Award if the Director fails to comply with his or her obligations for Tax-Related Items described in this Section 6.

Section 7. **Adjustments**

In the event of an adjustment event described in Section 13.1 of the Plan, the Award (including any Dividend Equivalent Rights) shall be subject to adjustment as provided in Section 13.1 of the Plan.

Section 8. **Section 409A Compliance**

It is intended that this Award comply with the requirements of Section 409A of the Code and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and administered by the Board in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A. Notwithstanding any provision of the Plan to the contrary, the Board may, but shall not be obligated to, adopt such amendments to the Plan and the Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, in each case, without the consent of the Director, that the Board determines are necessary or appropriate to ensure that the Award complies with the requirements of Section 409A and thereby avoid the application of any penalty taxes under such Section 409A or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A if compliance is not practical. Nothing in the Plan or in the Award Agreement shall provide a basis for any person to take any action against the Company or any affiliate based on matters covered by Section 409A, including the tax treatment of the Award, and neither the Company nor any affiliate will have any liability under any circumstances to the Director or any other party if the Award that is intended to be compliant with Section 409A is not compliant or for any action taken by the Board with respect thereto.

Section 9. **Miscellaneous Provisions**

- a. The Director may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States, which may affect the Director's ability to directly or indirectly, for the Director or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of Shares acquired under the Plan during such times as the Director is considered to have "inside information" regarding the Company (as determined under the laws or regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in
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addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Director acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Director should consult with his or her personal legal advisor on this matter.

- b. If the Director has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.
 - c. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan. The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.
 - d. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Director's participation in the Plan or the Director's acquisition or sale of the underlying Shares. The Director should consult with his or her own personal tax, legal and financial advisors regarding the Director's participation in the Plan before taking any action related to the Plan.
 - e. The Company may, in its sole discretion, deliver any documents related to the Award by electronic means or request the Director's consent to participate in the Plan by electronic means. The Director hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or a third party vendor designated by the Company.
 - f. Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Director at the Director's last address reflected on the Company's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Director is no longer a member of the Board, shall be deemed to have been duly given by the Company when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.
 - g. The Award and all rights of the Director under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Director agrees to be bound by the terms of the Plan and this Award Agreement. The Director acknowledges having read and understood the Plan and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board do not (and shall not be deemed to) create any rights in the Director unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board so conferred by appropriate action of the Board under the Plan after the date hereof.
 - h. This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 3.3(j) of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Director hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.
 - i. This Award Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.
 - j. The Company reserves the right to impose other requirements on the Director's participation in the Plan, on the Award and on any Shares acquired under the Award, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Director
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to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

- k. The validity and construction of this Award shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Performance Award, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Marion County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in Indianapolis, Indiana, by its proper officer.

ELANCO ANIMAL HEALTH, INC.

By: _____

Jeffrey N. Simmons

President, Chief Executive Officer and Director

Accepted by: _____

Print name:

Date:

Elanco Animal Health Incorporated Replacement Restricted Stock Unit Award Agreement

This Replacement Restricted Stock Unit Award has been granted on March 12, 2019 (“Grant Date”) by Elanco Animal Health Incorporated, an Indiana corporation (“Elanco” or the “Company”), to the Eligible Individual who has received this Replacement Restricted Stock Unit Award Agreement (the “Grantee”).

Number of Shares: Log into UBS account at
<http://equity.elancoirect.com>

Grantee:

Vesting Date(s): [insert vest date from individual grant]

(except as otherwise provided in this Restricted Stock Unit Award Agreement)

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Section 1. Grant of Replacement Restricted Stock Units

Elanco, an Indiana corporation ("Elanco" or the "Company"), has granted to the Eligible Individual who has received this Replacement Restricted Stock Unit Award Agreement (the "Grantee") an award of restricted stock units (the "Restricted Stock Units" or the "Award") with respect to the number of shares of Elanco Common Stock (the "Shares") referenced on page 1 of this document, pursuant to and subject to the terms and conditions set forth in the 2018 Elanco Stock Plan (the "Plan") and to the terms and conditions set forth in this Restricted Stock Unit Award Agreement, including any appendices, exhibits and addenda hereto (the "Award Agreement"). The Award is granted as a replacement for the restricted stock unit or SVA award granted by Eli Lilly & Company ("Lilly") to the Grantee over Lilly shares of common stock that will be forfeited upon the completion of the spin-off of the Company from Lilly. Unless otherwise stated in the Plan where the terms in this Award Agreement may govern in the event of any conflict between the terms of the Plan and this Award Agreement, in the event of any such conflict, the terms of the Plan shall otherwise govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

Section 2. Vesting

- a. The Award shall vest as to all or a portion of the Award at the close of business in Greenfield, Indiana, U.S.A. on the earliest of the following dates (each, a "Vesting Date"):
 - i. the Vesting Date(s) set forth on page 1 of this document;
 - ii. a Qualifying Termination, as defined below.
 - b. In the event the Grantee's Service is terminated due to the Grantee's death, any unvested portion of the Award will accelerate and vest in full.
 - c. In the event the Grantee's Service is terminated due the Grantee's retirement, prior to a Vesting Date set forth in Section 2(a)(i) above, the Award will continue to vest on the Vesting Date(s) set forth in Section 2(a)(i) above. The Grantee's Service will be considered terminated due to retirement if the Grantee is a retired employee under the Lilly Company Retirement Plan (as in effect on the Grant Date) .
 - d. In the event the Grantee's Service is terminated due to a Qualifying Termination for a reason other than death, a pro-rata portion of the Award will accelerate and vest based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to the Qualifying Termination to (y) the total number of months from the Grant Date to the next scheduled Vesting Date set forth on page 1 of this document.
 - e. In the event the Grantee's Service is terminated prior to a Vesting Date for any reason or in any circumstance other than those specified in Section 2(a), 2(b), 2(c) or 2(d) above, any unvested portion of the Award shall be forfeited.
 - f. For purposes of this Award Agreement, a "Qualifying Termination" means any one of the following:
 - i. the date the Grantee's Service is terminated due to the Grantee's death;
 - ii. the date the Grantee's Service is terminated by reason of Disability;
 - iii. the date the Grantee's Service is terminated due to a closing of a plant site or other corporate location;
 - iv. the date the Grantee's Service is terminated due to the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions; or
 - v. the date the Grantee's Service is terminated as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States.
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The Committee, in its sole discretion, shall determine whether and when a Qualifying Termination has occurred and/or if a leave of absence or transfer of employment between the Company and an Affiliate or between Affiliates constitutes a termination of Service. Such determination shall be final and binding on the Grantee.

Section 3. **Change in Control**

The provisions of Section 13.2 of the Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 3 shall be the consummation of a merger, share exchange, or consolidation of the Company, as defined in Section 2.6(c) of the Plan (a "Transaction").
- b. In the event that the Award is not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction, then immediately prior to the Transaction, the Award shall vest automatically in full.
- c. In the event that the Award is converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to any applicable Vesting Date, the Award shall vest automatically in full.

For purposes of this provision, "Covered Termination" shall mean a Qualifying Termination, Grantee's termination without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to them in the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Employees or the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Select Employees (both as amended from time to time) or any successor plan or arrangement thereto, as applicable.

- d. If the Grantee is entitled to receive stock of the acquiring entity or successor to the Company as a result of the application of this Section 3, then references to Shares in this Award Agreement shall be read to mean stock of the successor or surviving corporation, or a parent or subsidiary thereof, as and when applicable.

Section 4. **Settlement**

- a. Except as provided below, the Award shall be paid to the Grantee as soon as practicable, and in no event later than sixty days, following the applicable Vesting Date, or, if earlier, a vesting event contemplated under Section 3 above.
 - b. If the Award is considered an item of non-qualified deferred compensation subject to Section 409A of the Code ("NQ Deferred Compensation") and the settlement date or period is on or by reference to the date of the termination of the Grantee's Service, (i) the Award shall not be paid unless and until the Grantee experiences a "separation from service" within the meaning of Section 409A of the Code (a "Section 409A Separation") and (ii) if the Grantee is a "specified employee" within the meaning of Section 409A of the Code as of the date of the Grantee's Section 409A Separation, the vested portion of the Award shall instead be paid on the earliest of (1) the Vesting Dates set forth in Section 2(a)(i) with respect to the portion of the Award that was scheduled to vest on such Vesting Dates, (2) the first day following the six (6) month anniversary of the Grantee's Section 409A Separation, (3) the date of a Section 409A CIC, and (4) the date of the Grantee's death. If the Award is considered NQ Deferred Compensation and the vesting event is a Transaction that does not constitute a "change in control event" within the meaning of Section 409A of the Code (a "Section 409A CIC"), the Award shall instead be settled on the earliest of (A) the Vesting Dates set forth in Section 2(a)(i) with respect to the portion of the Award that was scheduled to vest on such Vesting Dates, (B) the date of a Section 409A CIC, and (C) the date of the Grantee's death.
 - c. At such time, the Company shall issue or transfer Shares or the cash equivalent, as contemplated under Section 4(d) below, to the Grantee. In the event the Grantee is entitled to a fractional Share, the fraction may be paid in cash or rounded, in the Committee's discretion.
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- d. At any time prior to the applicable Vesting Date or until the Award is paid in accordance with this Section 4, the Committee may, if it so elects, determine to pay part or all of the Award in cash in lieu of issuing or transferring Shares. The amount of cash shall be based on the Fair Market Value of the Shares on the applicable Vesting Date.
- e. In the event of the death of the Grantee, the payments described above shall be made to the successor of the Grantee.

Section 5. Rights of the Grantee

- a. No Shareholder Rights . The Restricted Stock Units do not entitle the Grantee to any rights of a shareholder of the Company until such time as the Restricted Stock Units vest and Shares are issued or transferred to the Grantee.
- b. No Trust; Grantee's Rights Unsecured . Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Grantee to receive payments of cash or Shares pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company.

Section 6. Prohibition Against Transfer

The right of a Grantee to receive payments of Shares and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of the Grantee or to a successor of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award Agreement. A Grantee may not assign, sell, pledge, or otherwise transfer Shares or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

Section 7. Responsibility for Taxes

- a. Regardless of any action the Company and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax Related Items"), the Grantee acknowledges that the ultimate liability for all Tax Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Grantee further acknowledges that the Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Award, including the grant of the Restricted Stock Units, the vesting of the Restricted Stock Units and the lapse of restrictions, the transfer and issuance of any Shares, the receipt of any cash payment pursuant to the Award, the receipt of any dividends and the sale of any Shares acquired pursuant to this Award; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Related Items in more than one jurisdiction.
 - b. Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax Related Items .
 - c. If the Restricted Stock Units are paid to the Grantee in cash in lieu of Shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligation for Tax Related Items by withholding from the cash amount paid to the Grantee pursuant to the Award or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.
 - d. If the Restricted Stock Units are paid to the Grantee in Shares and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to (i) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or
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the Employer, (ii) arrange for the sale of Shares to be issued upon settlement of the Award (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to the Company or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, and/or (iii) withhold in Shares otherwise issuable to the Grantee pursuant to this Award.

- e. If the Restricted Stock Units are paid to the Grantee in Shares and the Grantee is subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Company will withhold in Shares otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by applicable law or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax Related Items may be satisfied by one or a combination of the methods set forth in Section 7(d)(i) and (ii) above.
- f. Depending on the withholding method, the Company and/or the Employer may withhold or account for Tax Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case the Grantee may receive a refund of any over-withheld amount in cash as soon as practicable and without interest and will not be entitled to the equivalent amount in Shares. If the obligation for Tax Related Items is satisfied by withholding Shares, for tax purposes, the Grantee will be deemed to have been issued the full number of Shares to which he or she is entitled pursuant to this Award, notwithstanding that a number of Shares are withheld to satisfy the obligation for Tax Related Items.
- g. The Company may require the Grantee to pay the Company and/or the Employer any amount of Tax Related Items that the Company and/or the Employer may be required to withhold or account for as a result of any aspect of this Award that cannot be satisfied by the means previously described. The Company may refuse to deliver Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax Related Items as described in this Section 7.

Section 8. Section 409A Compliance

To the extent applicable, it is intended that this Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A.

Section 9. Nature of Grant

In accepting the grant, Grantee acknowledges, understands and agrees that:

- a. the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, as provided in the Plan;
 - b. the Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu thereof, even if Restricted Stock Units have been granted in the past;
 - c. all decisions with respect to future awards of Restricted Stock Units or other awards, if any, will be at the sole discretion of the Committee;
 - d. the Grantee's participation in the Plan is voluntary;
 - e. the Award and any Shares subject to the Award are not intended to replace any pension rights or compensation;
 - f. the Award and any Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar mandatory payments;
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- g. unless otherwise agreed with the Company, the Award and any Shares subject to the Award, and the income and value of same, are not granted as consideration for, or in connection with, the service the Grantee may provide as a director of an Affiliate;
- h. neither the Award nor any provision of this Award Agreement, the Plan or the policies adopted pursuant to the Plan, confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of the Company or any subsidiary of the Company, the Award shall not be interpreted to form an employment contract or relationship with the Company or any Affiliate;
- i. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- j. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to the Company or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of Grantee's employment agreement, if any);
- k. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company or an Affiliate and the Grantee's right, if any, to vest in and be paid any portion of the Award after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence);
- l. unless otherwise provided in the Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and
- m. neither the Company, the Employer nor any Affiliate shall be liable for any foreign exchange rate fluctuation between the Grantee's local currency and the United States Dollar that may affect the value of the Award or any amounts due to the Grantee pursuant to the settlement of the Award or the subsequent sale of any Shares acquired upon settlement.

Section 10. **Data Privacy**

- a. Data Collection and Usage. *The Company and the Employer may collect, process and use certain personal information about the Grantee, and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Grantee's consent. Where required under Applicable Law, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure are the Applicable Laws.*
 - b. Stock Plan Administration Service Providers. *The Company transfers Data to UBS Financial Services Inc. and/or its affiliated companies ("UBS"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan.*
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In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. The Grantee may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.

- c. *International Data Transfers*. *The Company and its service providers are based in the United States. The Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company's legal basis, where required, for the transfer of Data is the Grantee's consent.*
- d. *Data Retention*. *The Company will hold and use the Data only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.*
- e. *Data Subject Rights*. *The Grantee understands that data subject rights regarding the processing of Data vary depending on applicable law and that, depending on where the Grantee is based and subject to the conditions set out in such applicable law, the Grantee may have, without limitation, the right to (i) inquire whether and what kind of Data the Company holds about the Grantee and how it is processed, and to access or request copies of such Data, (ii) request the correction or supplementation of Data about the Grantee that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, (iv) request the Company to restrict the processing of the Grantee's Data in certain situations where the Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Data for legitimate interests, and to (vi) request portability of the Grantee's Data that the Grantee has actively or passively provided to the Company or the Employer (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Grantee's employment and is carried out by automated means. In case of concerns, the Grantee understands that he or she may also have the right to lodge a complaint with the competent local data protection authority. Further, to receive clarification of, or to exercise any of, the Grantee's rights, the Grantee understands that he or she should contact his or her local human resources representative.*
- f. *Voluntariness and Consequences of Consent Denial or Withdrawal*. *Participation in the Plan is voluntary and the Grantee is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke the Grantee's consent, the Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant this Award or other awards to the Grantee or administer or maintain such awards.*
- g. *Declaration of Consent*. *By accepting the Award and indicating consent via the Company's online acceptance procedure, the Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.*

Section 11. **Additional Terms and Conditions**

- a. *Country-Specific Conditions*. *The Award shall be subject to any special terms and conditions set forth in any Appendix to this Award Agreement for the Grantee's country. Moreover, if the Grantee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Award Agreement.*
 - b. *Insider Trading / Market Abuse Laws*. *The Grantee may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States*
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and the Grantee's country of residence, which may affect the Grantee's ability to directly or indirectly, for the Grantee or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of Shares or rights to acquire Shares (e.g., Restricted Stock Units) under the Plan during such times as the Grantee is considered to have "inside information" regarding the Company (as determined under the laws or regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Grantee acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Grantee should consult with his or her personal legal advisor on this matter.

- c. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Award and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Restricted Stock Unit Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under Applicable Laws or any compensation recovery policy of the Company that reflects the provisions of Applicable Laws.

Section 12. **Governing Law and Choice of Venue**

The validity and construction of this Award Agreement shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Hancock County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

Section 13. **Miscellaneous Provisions**

- a. Notices and Electronic Delivery and Participation. Any notice to be given by the Grantee or successor Grantee shall be in writing, and any notice shall be deemed to have been given or made only upon receipt thereof by the Corporate Secretary of the Company at the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A. Any notice or communication by the Company in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to the Company by the Grantee and, in the case of any successor Grantee, at the address specified in writing to the Company by the successor Grantee. In addition, the Company may, in its sole discretion, decide to deliver any documents related to the Award and participation in the Plan by electronic means or request the Grantee's consent to participate in the Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
 - b. Language. If the Grantee has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.
 - c. Waiver. The waiver by the Company of any provision of this Award Agreement at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Award Agreement at any subsequent time or for any other purpose.
 - d. Severability and Section Headings. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall
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first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan.

The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

- e. **No Advice Regarding Grant** . The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of the underlying Shares. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

Section 14. **Award Subject to Acknowledgement of Acceptance**

Notwithstanding any provisions of this Award Agreement, the Award is subject to acknowledgement of acceptance by the Grantee on or prior to 4:00 PM (EDT) on the 60th day after the Grant Date, through the website of UBS, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award prior to 4:00 PM (EDT) on or prior to the 60th day after the Grant Date, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in Greenfield, Indiana, by its proper officer.

ELANCO ANIMAL HEALTH INCORPORATED



By:
Jeffrey N. Simmons
President, Chief Executive Officer and Director

Appendix to
Elanco Animal Health Incorporated
Replacement Restricted Stock Unit Award Agreement

This Appendix includes special terms and conditions applicable to the Grantee's country. These terms and conditions supplement or replace (as indicated) the terms and conditions set forth in the Award Agreement to which it is attached. If the Grantee is a citizen or resident of a country other than the one in which the Grantee is currently working and/or residing (or is considered as such for local law purposes), or if the Grantee transfers employment or residency to a different country after the Award is granted,

Elanco will, in its discretion, determine the extent to which the terms and conditions herein will apply. This Appendix also includes other information relevant to the Award.

Unless otherwise defined herein, the terms defined in the Plan or the Award Agreement, as applicable, shall have the same meanings in this Appendix.

There are no special terms and conditions or information for the following countries:

Austria	Germany	Korea	Slovenia
Belgium	Indonesia	Netherlands	Sweden
Czech Republic	Ireland	Norway	Thailand
Egypt	Japan	Poland	

However, the Grantee should be aware that he or she may be required to take certain steps to comply with Applicable Laws in the Grantee's country in connection with the Award. For example, exchange control, foreign asset and/or account and/or other tax reporting obligations may apply to the Grantee upon receipt of the Award or the Shares subject to the Award or upon the sale of Shares. *For more information regarding such obligations, the Grantee should refer to the Employee Information Supplement for the Grantee's country, if any. The Grantee should also consult with his or her own personal tax and legal advisors to determine what, if any, obligations exist with respect to the Award and/or the acquisition or sale of Shares. Neither the Company nor the Employer is responsible for any failure on the part of the Grantee to be aware of or comply with Applicable Laws.*

ARGENTINA

Notifications

Securities Law Information. The Award and the Shares to be issued pursuant to the Award are offered as a private transaction and are not listed on any stock exchange in Argentina. This offering is not subject to supervision by any Argentine governmental authority.

AUSTRALIA

Terms and Conditions

Securities Law Information. Additional details regarding the offer of the Award are set out in the Australian Offer Document, a copy of which is attached to this Appendix for Australia as Annex 1.

Notifications

Tax Information. The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Ctch) applies (subject to the conditions in that Act).

Annex 1 to Appendix for Australia

AUSTRALIA - OFFER DOCUMENT

ELANCO ANIMAL HEALTH INCORPORATED

REPLACEMENT RESTRICTED STOCK UNIT AWARD AGREEMENT

The Company is pleased to provide the Grantee with this offer to participate in the Plan. This offer sets out information regarding the grant of Replacement Restricted Stock Unit Awards to Australian resident

employees of the Company and its Affiliates. This offer is provided by the Company to ensure compliance of the Plan with Australian Securities and Investments Commission (“ASIC”) Class Order 14/1000 and relevant provisions of the *Corporations Act 2001*.

In addition to the information set out in the Award Agreement, the Grantee is also being provided with copies of the following documents:

1. Notification regarding Award;
 2. Plan;
 3. Information Summary/Prospectus; and
 4. Employee Information Supplement for Australia
- (collectively, the “Additional Documents”).

The Additional Documents provide further information to help the Grantee make an informed investment decision about participating in the Plan. Neither the Plan nor the Information Summary/Prospectus is a prospectus for the purposes of the *Corporations Act 2001*.

The Grantee should not rely upon any oral statements made in relation to this offer. The Grantee should rely only upon the statements contained in the Award Agreement and the Additional Documents when considering participation in the Plan.

Securities Law Notification

Investment in shares involves a degree of risk. Grantees who elect to participate in the Plan should monitor their participation and consider all risk factors relevant to the acquisition of Shares under the Plan as set out in the Award Agreement and the Additional Documents.

The information contained in this offer is general information only. It is not advice or information that takes into account the Grantee’s objectives, financial situation and needs.

The Grantee should consider obtaining his or her own financial product advice from an independent person who is licensed by ASIC to give advice about participation in the Plan.

Additional Risk Factors for Australian Residents

The Grantee should have regard to risk factors relevant to investment in securities generally and, in particular, to the holding of Common Stock. For example, the price at which the Common Stock is traded on the New York Stock Exchange may increase or decrease due to a number of factors. There is no guarantee that the price of the Common Stock will increase. Factors which may affect the price of Common Stock include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the nature of the markets in which the Company operates and general operational and business risks.

In addition, the Grantee should be aware that the Australian dollar value of any Shares acquired pursuant to the Award will be affected by the U.S. dollar/Australian dollar exchange rate. Participation in the Plan involves certain risks related to fluctuations in this rate of exchange.

Common Stock

Common stock of a U.S. corporation is analogous to ordinary shares of an Australian corporation. Each holder of the Common Stock is entitled to one vote for each Share held.

Dividends may be paid on the Common Stock out of any funds of the Company legally available for dividends at the discretion of the Board.

The Common Stock is traded on the New York Stock Exchange in the United States of America under the symbol “ELAN.”

The Shares are not liable to any further calls for payment of capital or for other assessment by the Company and have no sinking fund provisions, pre-emptive rights, conversion rights or redemption provisions.

Ascertaining the Market Price of Shares

The Grantee may ascertain the current market price of the Common Stock as traded on the New York Stock Exchange at <http://www.nyse.com> under the symbol "ELAN." The Australian dollar equivalent of that price can be obtained at:

<http://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

This is not a prediction of what the market price of the Common Stock will be on any applicable vesting date or when Shares are issued to the Grantee or at any other time or of the applicable exchange rate at such time.

BRAZIL

Terms and Conditions

Nature of Grant. This provision supplements Section 9 of the Award Agreement:

By accepting the Award, the Grantee agrees that (i) he or she is making an investment decision, (ii) the Shares will be issued to the Grantee only if the vesting conditions are met and any necessary Services are rendered between the Grant Date and each applicable Vesting Date, and (iii) the value of the underlying Shares is not fixed and may increase or decrease in value over the vesting period without compensation to the Grantee.

Compliance with Law. By accepting the Award, the Grantee agrees to comply with all applicable Brazilian laws and agrees to report and pay any and all applicable taxes associated with the Award, the sale of the Shares acquired under the Plan.

CANADA

Terms and Conditions

Award Payable Only in Shares. The Award shall be paid in Shares only and do not provide the Grantee with any right to receive a cash payment.

Termination of Service. The following provision replaces Section 9(i) of the Award Agreement:

For purposes of the Award, the Grantee's Service shall be considered terminated as of the date that is the earliest of (i) the date on which the Grantee's Service is terminated, (ii) the date that the Grantee receives notice of termination of the Grantee's Service, or (iii) the date the Grantee is no longer actively providing Service to the Company or any Affiliate, regardless of any notice period or period of pay in lieu of such notice required under applicable employment laws in the jurisdiction where the Grantee is employed or otherwise providing Service (including, but not limited to statutory law, regulatory law and/or common law) or the terms of the Grantee's employment or other service agreement, if any. The Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing Service for purposes of the Award (including whether the Grantee may still be considered to be providing Service while on a leave of absence).

The following terms and conditions apply to employees resident in Quebec:

Language. The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à, la présente convention.

Data Privacy. This provision supplements Section 10 of the Award Agreement:

The Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or non-professional, involved in the administration and operation of the Plan. The Grantee further authorizes the Company and any Affiliate and the Committee to disclose and discuss the Plan with their advisors and to record all relevant information and keep such information in the Grantee's employee file.

Notifications

Securities Law Information. The Grantee is permitted to sell Shares acquired under the Plan through UBS or such other broker designated under the Plan, provided the resale of such Shares takes place outside of Canada through the facilities of a stock exchange on which the Company's Shares are listed. The Company's Shares are currently traded on the New York Stock Exchange ("NYSE") which is located outside of Canada, under the ticker symbol "ELAN", and Shares acquired under the Plan may be sold through this exchange.

CHILE

Notifications

Securities Law Notice. The grant of the Award constitutes a private offering in Chile effective as of the date of the Award Agreement. This offer of the Award is made subject to General Ruling N° 336 of the Chilean Commission for the Financial Market ("CMF"). This offer refers to securities not registered at the Securities Registry or at the Foreign Securities Registry of the CMF, and, therefore, such securities are not subject to oversight of the CMF. Given that the Award is not registered in Chile, the Company is not required to provide public information about the Award or Shares in Chile. Unless the Award and/or the Shares are registered with the CMF, a public offering of such securities cannot be made in Chile.

Esta oferta de los Derechos de Acciones Restringidas constituye una oferta privada de valores en Chile se inicia en la fecha de este documento. Esta oferta de los Derechos de Acciones Restringidas se acoge a las disposiciones de la norma de Carácter General N° 336 de la Comisión para el Mercado Financiero (CMF). Esta oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la CMF, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de los Derechos de Acciones Restringidas no inscritos en Chile no existe la obligación por parte del emisor de entregar en Chile información pública respecto de los mismos. Estos Derechos de Acciones Restringidas no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el registro de valores correspondiente.

COLOMBIA

Terms and Conditions

Nature of Grant. This provision supplements Section 9 of the Award Agreement:

In accepting the Award, the Grantee acknowledges, understands and agrees that, pursuant to Article 128 of the Colombian Labor Code, the Award and any payment the Grantee receives pursuant to the Award do not constitute a component of "salary" and will not be considered as a salary nature payment for any legal purpose. Therefore, the Award and any related benefit will not be included and/or considered for purposes of calculating any labor benefits, such as legal/fringe benefits, vacations, indemnities, payroll taxes, social insurance contributions and/or any other labor-related amount which may be payable.

Notifications

Securities Law Information. The Shares are not and will not be registered with the Colombian registry of publicly traded securities (Registro Nacional de Valores y Emisores) and therefore the Shares may not be offered to the public in Colombia. Nothing in the Award Agreement should be construed as making a public offer of securities in Colombia.

DENMARK

Terms and Conditions

Employer Statement. The Grantee acknowledges that he or she has received the attached Employer Statement, translated into Danish, which includes a description of the terms of the Award as required by the Danish Stock Option Act .

FRANCE

Terms and Conditions

Award Not French-Qualified. The Award is not intended to be “French-qualified,” *i.e.* , it is not intended to qualify for specific tax and/or social security treatment in France.

Language Consent. In accepting the Award, the Grantee confirms having read and understood the documents relating to the Award (the Plan and the Award Agreement including this Appendix), which were provided in English. The Grantee accepts the terms of those documents accordingly.

Consentement Relatif à la Langue Utilisée. En acceptant cette Attribution, le Bénéficiaire confirme avoir lu et compris les documents relatifs à cette Attribution (le Plan le Contrat d'Attribution incluant cette Annexe), qui ont été remis en langue anglaise. Le Bénéficiaire accepte les termes de ces documents en conséquence.

INDIA

Notifications

Exchange Control Information. The Grantee is required to repatriate the proceeds from the sale of Shares and any dividends received in relation to the Shares to India within any time frame prescribed under applicable Indian exchange control laws, as may be amended from time to time. The Grantee must maintain the foreign inward remittance certificate received from the bank where the foreign currency is deposited in the event that the Reserve Bank of India or the Grantee's employer requests proof of repatriation. It is the Grantee's responsibility to comply with applicable exchange control laws in India.

ITALY

Terms and Conditions .

Plan Document Acknowledgment. In accepting the Award, the Grantee acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Award Agreement (including this Appendix) in their entirety and fully understands and accepts all provisions of the Plan and the Award Agreement (including this Appendix) and, in particular, Section 2 (Vesting).

LEBANON

Terms and Conditions

Securities Law Information. The Plan does not constitute the marketing or offering of securities In Lebanon pursuant to Law No. 161 (2011), the Capital Markets Law. Offers under the Plan are being made only to Eligible Individuals.

MALAYSIA

Notifications

Director Notification Information. If the Grantee is a director of a Malaysian Affiliate, he or she is subject to certain notification requirements under the Malaysian Companies Act, 2016. Among these requirements is an obligation to notify the Malaysian Affiliate in writing when the Grantee receives or disposes of an interest (e.g., the Award, Shares) in the Company or a related company. This notification must be made within fourteen (14) days of acquiring or disposing of any interest in the Company or a related company.

MEXICO

Terms and Conditions

Acknowledgement of the Award Agreement. By accepting the Restricted Stock Unit Award, the Grantee acknowledges that he or she has received a copy of the Plan and the Award Agreement, including this Appendix, which he or she has reviewed. The Grantee further acknowledges that he or she accepts all the provisions of the Plan and the Award Agreement, including this Appendix. The Grantee also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in the “Grantee’s Acknowledgement” section of the Award Agreement, which clearly provide as follows:

- (1) The Grantee’s participation in the Plan does not constitute an acquired right;
- (2) The Plan and the Grantee’s participation in it are offered by the Company on a wholly discretionary basis;
- (3) The Grantee’s participation in the Plan is voluntary; and
- (4) The Company and its Affiliates are not responsible for any decrease in the value of any Shares acquired pursuant to the Restricted Stock Unit Awards.

Labor Law Acknowledgement and Policy Statement. By accepting the Award, the Grantee acknowledges that the Company, with registered offices at the Elanco Animal Health Inc. Global Headquarters, Greenfield, Indiana 46140, U.S.A., is solely responsible for the administration of the Plan. The Grantee further acknowledges that his or her participation in the Plan, the grant of Restricted Stock Unit Awards and any acquisition of Shares under the Plan do not constitute an employment relationship between the Grantee and the Company because the Grantee is participating in the Plan on a wholly commercial basis and his or her sole employer is Elanco Salud Animal SA de CV (“Elanco-Mexico”). Based on the foregoing, the Grantee expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between the Grantee and his or her Employer, Elanco-Mexico, and do not form part of the employment conditions and/or benefits provided by Elanco-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of the Grantee’s employment.

The Grantee further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue the Grantee’s participation in the Plan at any time, without any liability to the Grantee.

Finally, the Grantee hereby declares that he or she does not reserve to him- or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

Spanish Translation

[Reconocimiento del Convenio de Concesión. Al aceptar el Premio de Desempeño, el Beneficiario reconoce que ha recibido y revisado una copia del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario reconoce y acepta todas las disposiciones del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario también reconoce que ha leído y aprobado de forma expresa

los términos y condiciones establecidos en la sección: "Naturaleza de la Concesión" del Convenio de Concesión, que claramente establece lo siguiente:

- (1) La participación del Beneficiario en el Plan no constituye un derecho adquirido;
- (2) El Plan y la participación del Beneficiario en el es ofrecido por la Compañía de manera completamente discrecional;
- (3) La participación del Beneficiario en el Plan es voluntaria; y
- (4) La Compañía y sus Afiliadas no son responsables por ninguna disminución en el valor de las Acciones adquiridas de conformidad con el Premio de Desempeño.

Reconocimiento de la legislación Laboral aplicable y Declaración de la Política. Al aceptar el Premio, el Beneficiario reconoce que Company, con domicilio social en the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A . , es la única responsable por la administración del Plan. Además, el Beneficiario reconoce que su participación en el Plan, la concesión de Unidades de Acciones Restringidas y cualquier adquisición de Acciones bajo el Plan no constituyen una relación laboral entre el Beneficiario y Company, en virtud de que el Beneficiario está participando en el Plan en su totalidad sobre una base comercial y su único empleador es Elanco Salud Animal SA de CV ("Elanco-Mexico") . Por lo anterior, el Beneficiario expresamente reconoce que el Plan y los beneficios que puedan derivarse de su participación no establecen ningún derecho entre el Beneficiario y su empleador, Elanco-México, y que no forman parte de las condiciones de trabajo y/o beneficios otorgados por Elanco-México, y cualquier modificación del Plan o la terminación del mismo no constituirá un cambio o modificación de los términos y condiciones en el empleo del Beneficiario.

Además, el Beneficiario comprende que su participación en el Plan es el resultado de una decisión discrecional y unilateral de la Company, por lo que Company se reserva el derecho absoluto de modificar y/o suspender la participación del Beneficiario en el Plan en cualquier momento, sin responsabilidad frente al Beneficiario.

Finalmente, el Beneficiario manifiesta que no se reserva acción o derecho alguno que origine una demanda en contra de Company, por cualquier compensación o daño relacionada con las disposiciones del Plan o de los beneficios otorgados en el mismo, y en consecuencia el Beneficiario libera de la manera más amplia y total de responsabilidad a E Company, sus subsidiarias, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales de cualquier demanda que pudiera surgir.

PHILIPPINES

Terms and Conditions

Compliance with Law. The following provision supplements Section 3.3(h) of the Plan:

The Grantee acknowledges that the Grantee's participation in the Plan is subject to the Company obtaining an exemption from the registration requirements under Section 10.2 of the Philippines Securities Regulation Code. Without limitation to the foregoing, the Grantee understands and agrees that the issuance and delivery of Shares pursuant to the Award will be delayed until the Company obtains such exemption or the Committee has otherwise determined that the issuance of the Shares can be made in compliance with applicable laws and that the Company may settle the Award in cash, in its sole discretion if such requirements have not been met.

Securities Law Notice . The risks of participating in the Plan include (without limitation) the risk of fluctuation in the price of the Shares on the New York Stock Exchange and the risk of currency fluctuations between the U.S. Dollar and your local currency. The value of any Shares the Grantee may acquire under the Plan may decrease below the value of the Shares at vesting and fluctuations in foreign exchange

rates between the Grantee's local currency and the U.S. Dollar may affect the value of any amounts due to you pursuant to the subsequent sale of any Shares acquired upon vesting. The Company is not making any representations, projections or assurances about the value of the Shares now or in the future.

For further information on risk factors impacting the Company's business that may affect the value of the Shares, you may refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov, as well as on the Company's "Investor Relations" website at

<https://investor.elanco.com/investors/investor-resources/faqs/default.aspx>

The Grantee is permitted to sell Shares acquired under the Plan through the designated Plan broker appointed by the Company (or such other broker to whom the Grantee transfers Shares), provided that such sale takes place outside of the Philippines through the facilities of the New York Stock Exchange on which the Shares are listed.

PORTUGAL

Terms and Conditions

Language Acknowledgement. The Grantee hereby expressly declares that he or she has full knowledge of the English language and has read, understood and freely accepted and agreed with the terms and conditions established in the Plan and the Award Agreement.

Conhecimento da Língua. O Contratado, pelo presente instrumento, declara expressamente que tem pleno conhecimento da língua inglesa e que leu, compreendeu e livremente aceitou e concordou com os termos e condições estabelecidas no Plano e no Acordo de Atribuição (Award Agreement em inglês).

RUSSIA

Terms and Conditions

U.S. Transaction. The Grantee understands that accepting the Award and the terms and conditions of the Award Agreement will result in a contract between the Grantee and the Company completed in the United States and that the Award Agreement is governed by U.S. law. The Grantee understands and acknowledges that any Shares issued under the Plan shall be delivered to the Grantee through a brokerage account maintained outside Russia. The Grantee understands that the Grantee may hold Shares in a brokerage account outside Russia; however, in no event will Shares issued to the Grantee and/or share certificates or other instruments be delivered to the Grantee in Russia. The Grantee acknowledges and agrees that the Grantee is not permitted to sell or otherwise transfer the Shares directly to other Russian legal entities or individuals. Finally, the Grantee acknowledges and agrees that the Grantee may sell or otherwise transfer the Shares only outside Russia.

Notifications

Securities Law Information. This Appendix, the Award Agreement, the Plan and all other materials that the Grantee may receive regarding the Plan, do not constitute advertising or an offering of securities in Russia. The issuance of securities pursuant to the Plan has not and will not be registered in Russia; hence, the securities described in any Plan-related documents may not be used for offering or public circulation in Russia.

Exchange Control Information. Under current exchange control regulations in Russia, certain funds received outside of Russia must be repatriated to Russia as soon as the Grantee intends to use those amounts for any purpose, including reinvestment. Such funds must initially be credited to the Grantee through a foreign currency account at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

As an exception to the above-mentioned repatriation rule, (i) cash proceeds from the sale of shares listed on one of the foreign stock exchanges on the list provided for by the Russian Federal law "On the Securities Market" (which currently includes the New York Stock Exchange) can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD (Organization for Economic Co-operation and Development) or FATF (Financial Action Task Force) country, and (ii) cash dividends paid on shares can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD or FATF country. Other exceptions may apply.

SOUTH AFRICA

Terms and Conditions

Securities Law Information. In compliance with South African securities law, the Grantee acknowledges that he or she has been notified that the following documents listed below are available for the Grantee's review at the address listed below:

- (a) The Company's most recent annual financial statement, available at: <https://investor.elanco.com/investors/financials-and-filings/sec-filings/default.aspx>
- (b) The Company's most recent Information Summary/Prospectus, which is viewable within the Recordkeeping Information Document Library on UBS Financial Services Inc. at: <http://equity.elancodirect.com>.

The Grantee acknowledges that he or she may have a copy of the above documents sent to him or her, without fee, on written request to the Secretary of the Company at the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A.

Responsibility for Taxes. This provision supplements Section 7 of the Award Agreement:

By accepting the Award, the Grantee agrees to notify the Employer of the amount of any gain realized when the Award vests and Shares are issued (or the cash equivalent is paid) to the Grantee. If the Grantee fails to advise the Employer of the gain realized when the Award vests and Shares are issued, the Grantee may be liable for a fine.

SPAIN

Terms and Conditions

Vesting. This provision supplements Section 2 of the Award Agreement:

As a condition of the grant of the Award, termination of the Grantee's Service for any reason (including for the reasons listed below but excluding for the reasons specified in Section 2(f) of the Award Agreement) will automatically result in the forfeiture and loss of the Award and the underlying Shares to the extent that the Award has not yet vested as of the date of termination of the Grantee's Service. In particular, and without limitation to the provisions of the Award Agreement and the Plan, the Grantee understands and agrees that the Award will be cancelled without entitlement to the underlying Shares or to any amount as indemnification if the Grantee terminates employment by reason of, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without good cause (*i.e.* , subject to a " *despido improcedente* "), individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause (unless such layoff falls within the meaning of a plant closing or reduction in workforce as described in Section 2(f)), material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985 (unless such layoff falls within the meaning of a medical reassignment as described in Section 2(f)). The Grantee acknowledges that he or she has read and specifically accepts the vesting conditions referred to in Section 2 of the Award Agreement.

Grantee's Acknowledgement. This provision supplements Section 9 of the Award Agreement:

The Grantee understands that the Company has unilaterally, gratuitously and discretionally decided to grant Restricted Stock Unit Awards under the Plan to individuals who may be Employees of the Company or its Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any of its Affiliates on an ongoing basis except to the extent otherwise provided in the Plan and this Award Agreement. Consequently, the Grantee understands that the Restricted Stock Unit Awards are granted on the assumption and condition that the Restricted Stock Unit Awards and any Shares acquired pursuant to the Restricted Stock Unit Awards shall not become a part of any employment contract (either with the Company or any of its Affiliates) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, the Grantee understands that this grant would not be made to the Grantee but for the assumptions and conditions referred to above; thus, the Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of Restricted Stock Unit Awards may be cancelled.

Notifications

Securities Law Information. No “offer of securities to the public,” as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the Award. The Award Agreement has not nor will it be registered with the *Comisión Nacional del Mercado de Valores*, and does not constitute a public offering prospectus.

SWITZERLAND

Notifications

Securities Law Information. The grant of the Restricted Stock Unit Awards and the issuance of Shares is not intended to be publicly offered in or from Switzerland. Because this is a private offering in Switzerland, the Restricted Stock Unit Awards are not subject to registration in Switzerland. Neither this Award Agreement nor any other materials relating to the Restricted Stock Unit Awards (i) constitute a prospectus as such term is understood pursuant to article 652a of the Swiss Code of Obligations, (ii) may be publicly distributed nor otherwise made publicly available in Switzerland, or (iii) have been or will be filed with, approved or supervised by any Swiss regulatory authority, including the Swiss Financial Market Supervisory Authority (“FINMA”).

TAIWAN

Notifications

Securities Law Information. The offer of participation in the Plan is available only for Employees of the Company and its Affiliates. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

TURKEY

Notifications

Securities Law Information. Under Turkish law, the Grantee is not permitted to sell any Shares acquired under the Plan in Turkey. The Shares are currently traded on the New York Stock Exchange in the United States of America, under the ticker symbol of "ELAN" and Shares acquired under the Plan may be sold through this exchange.

UNITED KINGDOM

Terms and Conditions

Settlement. Section 4(d) of the Award Agreement shall not apply to Restricted Stock Unit Awards granted in the United Kingdom.

Responsibility for Taxes. This provision supplements Section 7 of the Award Agreement:

Without limitation to Section 7 of the Award Agreement, the Grantee agrees that he or she is liable for all Tax Related Items and hereby covenants to pay all such Tax Related Items, as and when requested by the Company and/or the Employer or by Her Majesty's Revenue & Customs ("HMRC") (or any other tax authority or any other relevant authority). The Grantee also agrees to indemnify and keep indemnified the Company and/or the Employer against any Tax Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Grantee's behalf.

Notwithstanding the foregoing, if the Grantee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the foregoing provision will not apply. In this case, the amount of any Tax Related Items not collected from or paid by the Grantee may constitute a benefit to the Grantee on which additional income tax and National Insurance contributions ("NICs") may be payable. The Grantee understands that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for paying to the Company and/or the Employer (as appropriate) the amount of any employee NICs due on this additional benefit. Grantee acknowledges that the Company and/or the Employer (as appropriate) may recover such additional NICs at any time thereafter by any of the means referred to in Section 7 of the Award Agreement./

Joint Election. As a condition of Grantee's participation in the Plan and vesting of the Restricted Stock Unit Awards, the Grantee agrees to accept any liability for secondary Class 1 national insurance contributions which may be payable by the Company and/or the Employer in connection with the Restricted Stock Unit Awards and any event giving rise to Tax Related Items (the "Employer NICs"). Without prejudice to the foregoing, by accepting this Award, the Grantee is entering into a joint election with the Company or the Employer if he or she has not already done so, the form of such joint election being formally approved by HMRC (the "Joint Election"), a copy of which is attached to this Appendix for the United Kingdom as Annex 1, and any other required consent or election. The Grantee further agrees to execute such other joint elections as may be required between him or her and any successor to the Company and/or the Employer. The Grantee further agrees that the Company and/or the Employer may collect the Employer NICs from him or her by any of the means set forth in Section 7 of the Award Agreement.

Annex 1 to Appendix for United Kingdom

Important Note on the Joint Election for Transfer of Liability for Employer National Insurance Contributions to the Grantee:

As a condition of the Grantee's participation in the Elanco 2018 Stock Plan, as amended from time to time (the "Plan"), the Grantee is required to enter into a joint election to transfer to the Grantee any liability for employer National Insurance contributions (the "Employer NICs") that may arise in connection with the Restricted Stock Unit Award (the "Award") and in connection with future awards, if any, that may be granted to the Grantee under the Plan (the "Joint Election").

By entering into the Joint Election:

- the Grantee agrees that any liability for Employer NICs that may arise in connection with or pursuant to the vesting of the Award and the acquisition of shares of common stock of Elanco Animal Health Inc. (the "Company") or other taxable events in connection with the Award will be transferred to the Grantee; and
 - the Grantee authorizes the Company and/or the Grantee's employer to recover an amount sufficient to cover this liability by any method set forth in the Award Agreement and/or the Joint Election.
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To enter into the Joint Election and to accept the Award, please select the button next to “Accept” where indicated on the Pending Acceptance screen. Please note that selecting the button next to “Accept” indicates the Grantee’s agreement to be bound by all of the terms of the Joint Election.

Please note that even if the Grantee has indicated his or her acceptance of this Joint Election electronically, the Grantee may still be required to sign a paper copy of this Joint Election (or a substantially similar form) if the Company determines such is necessary to give effect to the Joint Election.

Please read the terms of the Joint Election carefully before accepting the Award Agreement and the Joint Election. The Grantee should print and keep a copy of this Joint Election for his or her records.

Joint Election for Transfer of Liability for

Employer National Insurance Contributions to Employee

Election To Transfer the Employer’s National Insurance Liability to the Employee

This Election is between:

- A. The individual who has obtained authorised access to this Election (the “ **Employee** ”), who is employed by one of the employing companies listed in the attached schedule (the “ **Employer** ”) and who is eligible to receive restricted stock unit awards (the “ **Award** ”) pursuant to the 2018 Elanco Stock Plan (the “ **Plan** ”), and
- B. Elanco Animal Health Inc., an Indiana corporation, with registered offices at Greenfield, Indiana 46140, U.S.A. (the “ **Company** ”), which may grant Restricted Stock Unit Awards under the Plan and is entering into this Election on behalf of the Employer.

1. **Introduction**

- 1.1 This Election relates to all Restricted Stock Unit Awards granted to the Employee under the Plan on or after February 1, 2019 up to the termination date of the Plan.
- 1.2 In this Election the following words and phrases have the following meanings:
 - (a) “ **Chargeable Event** ” means any event giving rise to Relevant Employment Income.
 - (b) “ **ITEPA** ” means the Income Tax (Earnings and Pensions) Act 2003.
 - (c) “ **Relevant Employment Income** ” from Restricted Stock Unit Awards on which Employer's National Insurance Contributions becomes due is defined as:
 - (i) an amount that counts as employment income of the earner under section 426 ITEPA (restricted securities: charge on certain post-acquisition events);
 - (ii) an amount that counts as employment income of the earner under section 438 of ITEPA (convertible securities: charge on certain post-acquisition events); or
 - (iii) any gain that is treated as remuneration derived from the earner's employment by virtue of section 4(4)(a) SSCBA, including without limitation:
 - (A) the acquisition of securities pursuant to the Restricted Stock Unit Awards (within the meaning of section 477(3)(a) of ITEPA);
 - (B) the assignment (if applicable) or release of the Restricted Stock Unit Awards in return for consideration (within the meaning of section 477(3)(b) of ITEPA);
 - (C) the receipt of a benefit in connection with the Restricted Stock Unit Awards, other than a benefit within (i) or (ii) above (within the meaning of section 477(3)(c) of ITEPA).

(d) “SSCBA” means the Social Security Contributions and Benefits Act 1992.

- 1.3 This Election relates to the Employer’s secondary Class 1 National Insurance Contributions (the “Employer’s Liability”) which may arise in respect of Relevant Employment Income in respect of the
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Restricted Stock Unit Awards pursuant to section 4(4)(a) and/or paragraph 3B(1A) of Schedule 1 of the SSCBA.

- 1.4 This Election does not apply in relation to any liability, or any part of any liability, arising as a result of regulations being given retrospective effect by virtue of section 4B(2) of either the SSCBA, or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
- 1.5 This Election does not apply to the extent that it relates to relevant employment income which is employment income of the earner by virtue of Chapter 3A of Part VII of ITEPA (employment income: securities with artificially depressed market value).

2. **The Election**

The Employee and the Company jointly elect that the entire liability of the Employer to pay the Employer's Liability that arises on any Relevant Employment Income is hereby transferred to the Employee. The Employee understands that, by accepting the Award (whether in hard copy or electronically) or by accepting this Election (whether in hard copy or electronically), he or she will become personally liable for the Employer's Liability covered by this Election. This Election is made in accordance with paragraph 3B(1) of Schedule 1 of the SSCBA.

3. **Payment of the Employer's Liability**

3.1 The Employee hereby authorises the Company and/or the Employer to collect the Employer's Liability in respect of any Relevant Employment Income from the Employee at any time after the Chargeable Event:

- (a) by deduction from salary or any other payment payable to the Employee at any time on or after the date of the Chargeable Event; and/or
- (b) directly from the Employee by payment in cash or cleared funds; and/or
- (c) by arranging, on behalf of the Employee, for the sale of some of the securities which the Employee is entitled to receive in respect of the Restricted Stock Unit Awards, the proceeds from which must be delivered to the Employer in sufficient time for payment to be made to Her Majesty's Revenue & Customs ("HMRC") by the due date; and/or
- (d) where the proceeds of the gain are to be paid through a third party, the Employee will authorize that party to withhold an amount from the payment or to sell some of the securities which the Employee is entitled to receive in respect of the Restricted Stock Unit Awards, such amount to be paid in sufficient time to enable the Company and/or the Employer to make payment to HMRC by the due date; and/or

(e) by any other means specified in the applicable Restricted Stock Unit Award agreement entered into between the Employee and the Company.

3.2 The Company hereby reserves for itself and the Employer the right to withhold the transfer of any securities to the Employee in respect of the Awards until full payment of the Employer's Liability is received.

3.3 The Company agrees to procure the remittance by the Employer of the Employer's Liability to HMRC on behalf of the Employee within 14 days after the end of the UK tax month during which the Chargeable Event occurs (or within 17 days after the end of the UK tax month during which the Chargeable Event occurs if payments are made electronically).

4. **Duration of Election**

4.1 The Employee and the Company agree to be bound by the terms of this Election regardless of whether the Employee is transferred abroad or is not employed by the Employer on the date on which the Employer's Liability becomes due.

4.2 Any reference to the Company and/or the Employer shall include that entity's successors in title and assigns as permitted in accordance with the terms of the Plan and relevant award agreement. This Election will continue in effect in respect of any awards which replace the Restricted Stock Unit Awards in circumstances where section 483 of ITEPA applies.

4.3 This Election will continue in effect until the earliest of the following:

- (a) the date on which the Employee and the Company agree in writing that it should cease to have effect;
 - (b) the date on which the Company serves written notice on the Employee terminating its effect;
 - (c) the date on which HMRC withdraws approval of this Election; or
 - (d) the date on which, after due payment of the Employer's Liability in respect of the entirety of the Awards to which this Election relates or could relate, the Election ceases to have effect in accordance with its own terms.
- 4.4 This Election will continue in force regardless of whether the Employee ceases to be an employee of the Employer.

Acceptance by the Employee

The Employee acknowledges that, by clicking on the button next to "Accept" to accept the Restricted Stock Unit Awards Agreement and this Election (or by signing the Restricted Stock Unit Awards Agreement or this Election whether is hard copy or electronically), the Employee agrees to be bound by the terms of this Election.

Acceptance by the Company

The Company acknowledges that, by signing this Election or arranging for the scanned signature of an authorised representative to appear on this Election, the Company agrees to be bound by the terms of this Election.

Signature for and on behalf of the Company

Position

Schedule of Employer Companies

The employing companies to which this Election relates include:

Name	Elanco UK AH Limited
Registered Office:	Lilly House, Priestley Road, Basingstoke, Hants RG24 9NL
Company Registration Number:	11378434
Corporation Tax Reference:	4312717782
PAYE Reference:	475/FB88335

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Elanco Animal Health Incorporated, an Indiana corporation (the "Company"), does hereby certify that, to the best of their knowledge:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2019

/s/ Jeff Simmons

Jeff Simmons
President, and Chief Executive Officer

Date: May 14, 2019

/s/ Todd Young

Todd Young
Executive Vice President and Chief Financial Officer