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# 2019 Earnings Second Quarter

August 13, 2019

# SAFE HARBOR PROVISION



This presentation contains forward-looking statements that are based on management's current expectations, but actual results may differ materially due to various factors. The company's results may be affected by factors including, but not limited to, 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 business strategies or achieve targeted cost efficiencies and gross margin improvements; consolidation of our customers and distributors; an outbreak of infection disease carried by food an 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 concern 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; and the impact of global macroeconomic conditions.

For additional information about the factors that could cause actual results to differ materially from forward-looking statements, please see the company's latest Forms 10-K and subsequent form 10-Qs filed with the Securities and Exchange Commission.

**The company undertakes no duty to update forward-looking statements**

## Delivering Top Line Results

Core sales grew of 3%, constant currency  
Targeted growth categories grew 9%, constant currency

## Margin Expansion

Adjusted Gross Margin +540 bps to 54.6%  
Adjusted EBITDA grew 29%

## Important Investments

Acquisition of Prevtex Microbia  
R&D Collaboration with AgBiome

## Delivery & Execution

Delivering on IPP strategy, stand-up activities on track  
Narrowing 2019 Guidance range for Revenue & EPS

# KEY EVENTS SINCE LAST EARNINGS CALL

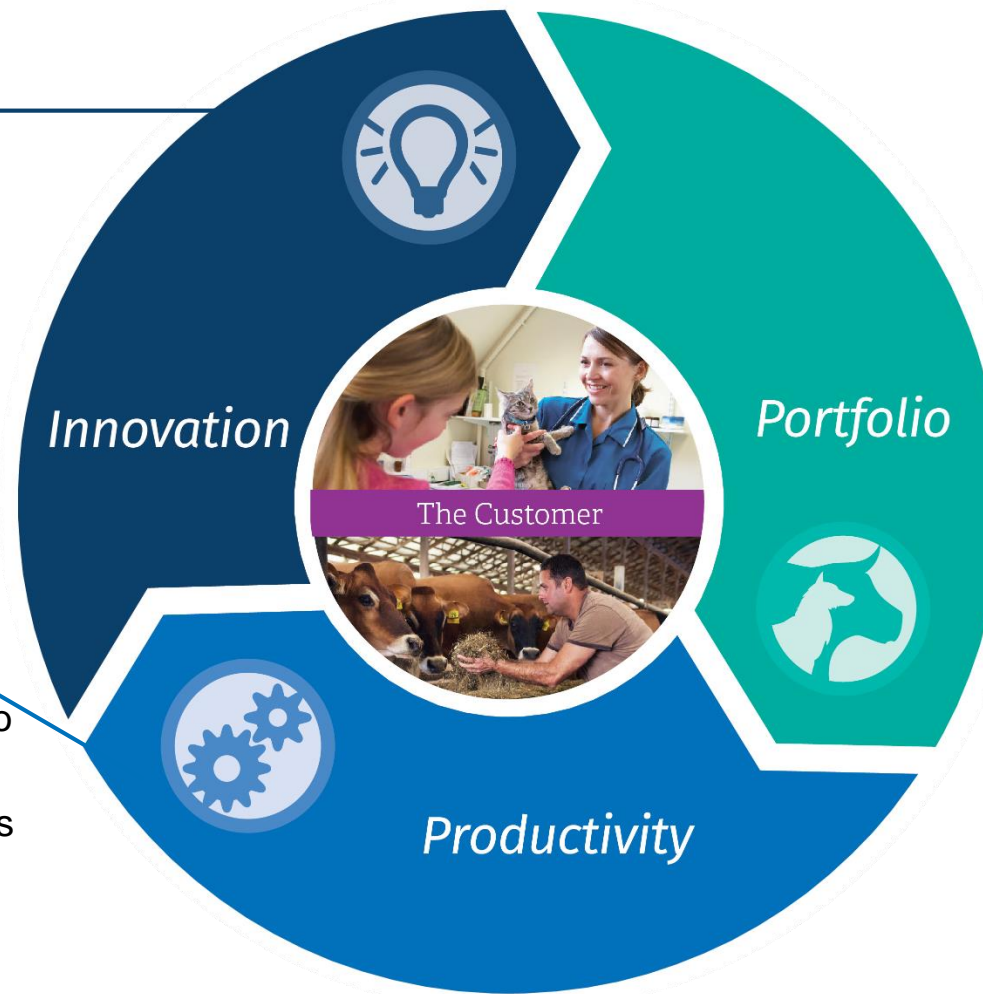
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## Deliver Innovation

- 11 newly launched products grew 45% at constant currency; 14% of total revenue
- Credelio® and Galliprant® approved for dogs in Brazil
- AgBiome R&D Collaboration
- Aratana and Prevtect pipeline assets integrated in R&D portfolio

## Unlock Value

- 100% of Productivity initiatives underway to deliver cost savings through 2020
- Executing transition of go-to-market models internationally – 13 markets complete
- Progressing independent company stand-up, exiting many TSA's ahead of schedule
- Completed \$50 million prepayment on term loan







## Drive Growth of Portfolio

- Q2 Core Revenue: \$754 million, +3% at constant currency
- Targeted Growth Categories +9% at constant currency; 62% of total revenue
- Integration of Aratana products; launch of specialty field force
- Acquisition of Prevtect, strengthening alternatives to antibiotics portfolio for swine

# STRONG MOMENTUM IN TARGETED GROWTH CATEGORIES



	Q2 2019	YTD 2019
 Companion Animal Disease Prevention	6%	0%
 Companion Animal Therapeutics	26%	30%
 Food Animal Future Protein & Health	7%	6%
<b>Targeted Growth Categories</b>	<b>9%</b>	<b>7%</b>
 Food Animal Ruminants & Swine	(6)%	(3)%
<b>Core Elanco</b>	<b>3%</b>	<b>3%</b>
Strategic Exits	51%	20%
<b>Total Elanco</b>	<b>4%</b>	<b>3%</b>

Note: Percentages exclude the impact of foreign currency. For presentation of results including impact of foreign currency, see slide 9.

# Q2 INCOME STATEMENT - REPORTED



Millions; except per share data

	Q2 2019	Change	YTD 2019	Change
Revenue	\$781.6	1%	\$1,512.7	0%
Gross Margin	54.5%	1050bps	53.7%	620bps
Total Operating Expense*	269.7	7%	514.9	3%
Operating Income	155.9	70%	298.0	37%
Interest Expense	20.7	NM	41.5	NM
Effective Tax Rate	28.5%	NM	29.0%	NM
<b>Net Income</b>	<b>\$35.9</b>	<b>NM</b>	<b>\$67.4</b>	<b>NM</b>
<b>EPS basic and diluted</b>	<b>\$0.10</b>	<b>NM</b>	<b>\$0.18</b>	<b>NM</b>

\*Includes research and development expense as well as marketing, selling and administrative expense

NM – not meaningful

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## "REPORTED" RESULTS

Include all financial results as reported in accordance with Generally Accepted Accounting Principles (GAAP)

## "ADJUSTED" MEASURES

Start with **"REPORTED" RESULTS**

Include adjustments for items such as:

- Asset impairment, restructuring and other special charges
- Acquired in-process R&D charges and other income and expenses from business development activities
- Amortization of intangible assets

# CERTAIN INCOME STATEMENT ITEMS AS ADJUSTED



	Q2 2019			YTD 2019		
Millions; except per share data	2019 Adjusted	2018 Adjusted	Change	2019 Adjusted	2018 Adjusted	Change
Revenue	\$781.6	\$770.2	1%	\$1,512.7	\$1,506.4	0%
Gross Margin	54.6%	49.2%	540bps	53.8%	50.1%	370bps
Total Operating Expense*	269.7	252.5	7%	514.9	497.7	3%
Operating Income	157.1	126.4	24%	298.6	257.4	16%
Interest Expense	20.7	—	NM	41.5	—	NM
Effective Tax Rate	23.4%	**	**	22.4%	**	**
<b>Net income</b>	<b>\$101.6</b>	<b>\$98.8</b>	<b>3%</b>	<b>\$194.5</b>	<b>219.0</b>	<b>NM</b>
<b>EPS diluted</b>	<b>\$0.28</b>	<b>\$0.27</b>	<b>1%</b>	<b>\$0.53</b>	<b>\$0.75</b>	<b>NM</b>

Refer to slide 16-19 for the reconciliation between GAAP and Non-GAAP and definition of margin calculation.

\*Includes research and development expense as well as marketing, selling and administrative expense

\*\*For periods prior to IPO, effective tax rate was computed on a separate company basis, and therefore may not be indicative of actual results.

# EFFECT OF PRICE/RATE/VOLUME ON REVENUE



Millions	Q2 2019						YTD 2019					
	Revenue	Price	FX Rate	Volume	Total	CER* Growth	Revenue	Price	FX Rate	Volume	Total	CER* Growth
CA Disease Prevention	223.4	3%	(1)%	3%	4%	6%	409.3	0%	(2)%	0%	(1)%	0%
CA Therapeutics	83.4	5%	(4)%	21%	22%	26%	164.8	6%	(4)%	24%	26%	30%
FA Future Protein & Health	175.8	3%	(5)%	4%	2%	7%	343.0	3%	(5)%	3%	1%	6%
FA Ruminants and Swine	271.5	0%	(2)%	(6)%	(9)%	(6)%	545.6	0%	(2)%	(3)%	(6)%	(3)%
<b>Core Revenue</b>	<b>\$754.1</b>	<b>2%</b>	<b>(3)%</b>	<b>1%</b>	<b>0%</b>	<b>3%</b>	<b>\$1,462.7</b>	<b>1%</b>	<b>(3)%</b>	<b>2%</b>	<b>(0)%</b>	<b>3%</b>
Strategic Exits	27.5	0%	0%	51%	51%	51%	50.0	0%	(0)%	20%	20%	20%
<b>Total Elanco</b>	<b>\$781.6</b>	<b>2%</b>	<b>(3)%</b>	<b>2%</b>	<b>1%</b>	<b>4%</b>	<b>\$1,512.7</b>	<b>1%</b>	<b>(3)%</b>	<b>2%</b>	<b>0%</b>	<b>3%</b>

Note: Numbers may not add due to rounding  
 \*CER = Constant exchange rate

# REVENUE BY GEOGRAPHY



Millions	Q2 2019						YTD 2019					
	Global		US		International		Global		US		International	
	Revenue	Change	Revenue	Change	Revenue	Change	Revenue	Change	Revenue	Change	Revenue	Change
<b>Core Revenue</b>	<b>\$754.1</b>	<b>3%</b>	<b>\$375.9</b>	<b>6%</b>	<b>\$378.2</b>	<b>1%</b>	<b>\$1,462.7</b>	<b>3%</b>	<b>\$746.2</b>	<b>7%</b>	<b>\$716.6</b>	<b>(1)%</b>
Strategic Exits	27.5	51%	19.1	52%	8.4	48%	50.0	20%	32.7	9%	17.2	49%
<b>Total Elanco</b>	<b>\$781.6</b>	<b>4%</b>	<b>\$395.0</b>	<b>8%</b>	<b>\$386.6</b>	<b>1%</b>	<b>\$1,512.7</b>	<b>3%</b>	<b>\$778.9</b>	<b>7%</b>	<b>\$733.8</b>	<b>(0)%</b>

Note: Numbers may not add due to rounding  
Growth rates excluding the impact of foreign exchange rates.

# 2019 FULL YEAR FINANCIAL GUIDANCE



	<b>Prior Guidance</b>	<b>Updated Guidance</b>
Total Revenue	\$3.08 - \$3.14 billion	\$3.08 - \$3.12 billion
Core Revenue (excluding Strategic Exits)	\$3.02 - \$3.08 billion	\$3.00 - \$3.04 billion
Strategic Exits	Approx. \$0.06 billion	Approx. \$0.08 billion
Earnings per Share (GAAP)	\$0.36 - \$0.48	\$0.36 - \$0.44
Earnings per Share (non-GAAP)	\$1.02 - \$1.12	\$1.04 - \$1.10

**Updated FX assumptions (% of sales):**

- Euro at 1.12 (13%)
- Pound at 1.25 (5%)
- Real at 3.74 (2%)
- Yen at 107.73 (2%)
- Australian Dollar at 1.42 (3%)

# 2019 GUIDANCE - GAAP TO ADJUSTED EPS



	<u>Full Year 2019 Guidance</u>		
<b>GAAP EPS</b>	<b>\$0.36</b>	<b>to</b>	<b>\$0.44</b>
Amortization of intangible assets			0.53
Expenses associated with establishing stand-alone capabilities	0.30	to	0.28
Subtotal	\$1.19	to	\$1.25
Tax impact of adjustments			(0.15)
<b>Adjusted EPS</b>	<b>\$1.04</b>	<b>to</b>	<b>\$1.10</b>

Note: We use non-GAAP financial measures, such as core revenue and adjusted EPS to assess and analyze our operational results and trends. We believe these non-GAAP financial measures are also useful to investors because they provide greater transparency regarding our operating performance. These non-GAAP measures are not, and should not be viewed as, substitutes for U.S. GAAP reported measures. We caution investors to use U.S. GAAP measures as the primary means of evaluating our performance, value and prospects for the future, and non-GAAP measures as supplemental measures.



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*Enriching Life*

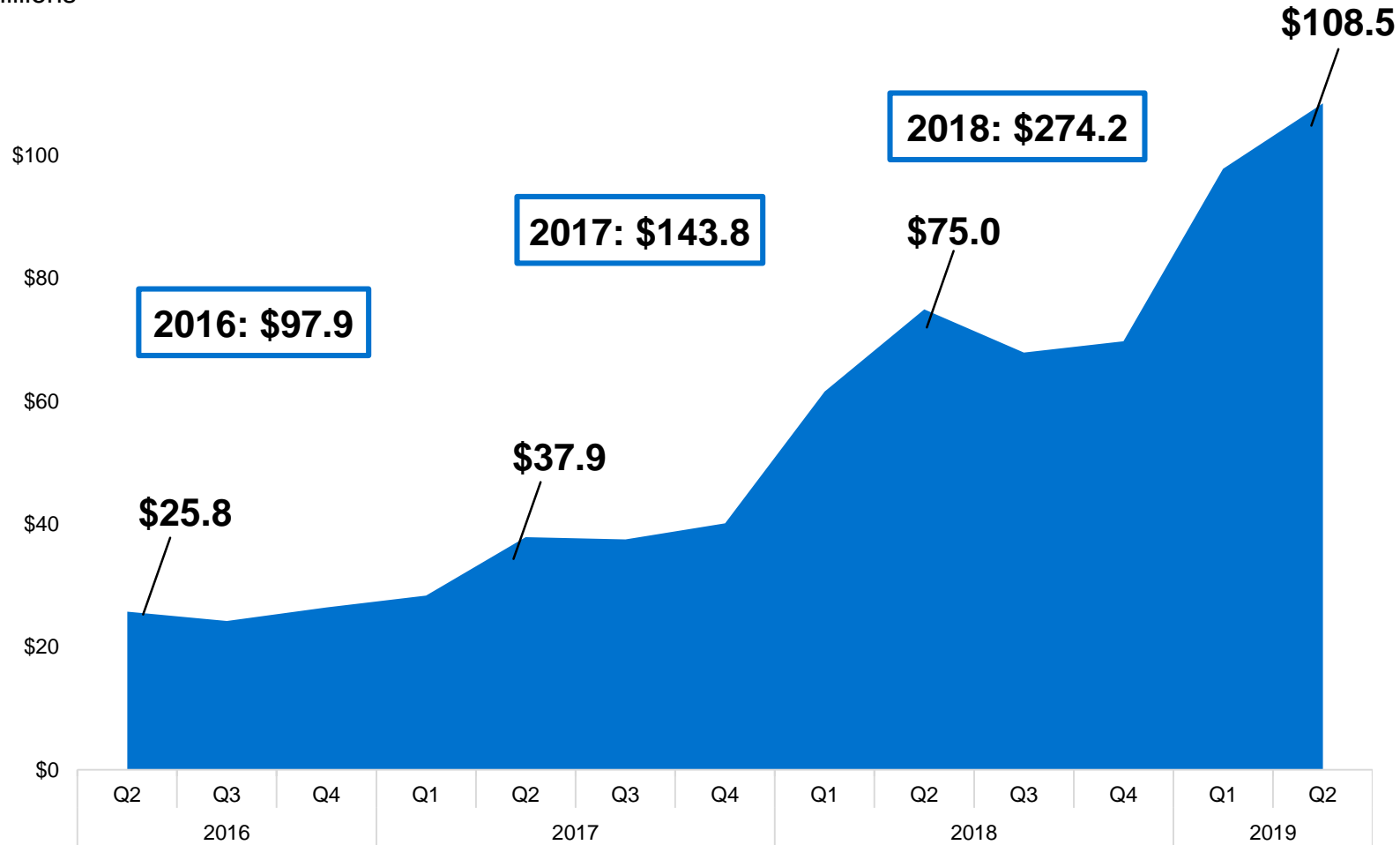
# SUPPLEMENTAL SLIDES



# UPDATE ON PRODUCT LAUNCH PROGRESS



Millions



## New Products Include:

### COMPANION ANIMAL

- Interceptor<sup>®</sup> Plus
- Osumia<sup>®</sup>
- Galliprant<sup>®</sup>
- Credelio<sup>®</sup>

### FOOD ANIMAL

- Imrestor<sup>®\*</sup>
- Invixa<sup>™</sup>
- Kavault<sup>®</sup>
- Inteprity<sup>®</sup>
- Clynav<sup>™</sup>
- Prevacent<sup>®</sup> PRRS
- Correlink<sup>™</sup>

**2019 Q2 +45%**

\*Marketing of this product has been suspended while additional indications are pursued

# Q2 RECONCILIATION OF GAAP to NON-GAAP



Millions; except per share data	Q2 2019			Q2 2018		
	GAAP Reported	Adjusted Items	Non-GAAP	GAAP Reported	Adjusted Items	Non-GAAP
Gross Profit	\$425.6	\$1.2	\$426.8	\$338.7	\$40.2	\$378.9
<b>Operating Income</b>	<b>\$155.9</b>	<b>\$1.2</b>	<b>\$157.1</b>	<b>\$86.2</b>	\$40.2	<b>\$126.4</b>
Amortization of intangible assets	49.3	49.3	—	49.4	49.4	—
Asset impairments, restructuring and other special charges	31.8	31.8	—	68.0	68.0	—
Other-net expense	3.9	—	3.9	8.8	8.5	0.3
<b>Income before taxes</b>	<b>\$50.2</b>	<b>\$82.3</b>	<b>\$132.5</b>	<b>\$(40.0)</b>	<b>\$166.1</b>	<b>\$126.1</b>
Provision for taxes	14.3	(16.6)	30.9	22.8	(4.5)	27.3
<b>Net income</b>	<b>\$35.9</b>	<b>\$65.7</b>	<b>\$101.6</b>	<b>\$(62.8)</b>	<b>161.6</b>	<b>\$98.8</b>
<b>Adjusted EPS*</b>	<b>\$0.10</b>	<b>\$0.18</b>	<b>\$0.28</b>	<b>\$(0.17)</b>	<b>\$0.44</b>	<b>\$0.27</b>

Note: Year on Year comparisons are impacted by interest expense in the current year and a more favorable effective tax rate in 2018 as a part of Lilly.

\*As reported GAAP EPS of \$(0.21) for Q2 2018 was calculated using a weighted average shares of 293.3; however, in order to provide a more meaningful representation of comparative results, the table utilized a weighted average shares of 365.6 to get GAAP EPS of \$(0.17).

See slide 17 for details on items included in the adjustments for each line and for definitions of margin calculations.

# Q2 2019 INCOME STATEMENT NOTES



## Q2 2019 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

- Net inventory adjustments related to the suspension of commercial activities for Imrestor® (\$1.2 million).
- Charges associated with integration efforts and external costs related to the acquisition of businesses and charges primarily related to independent stand-up costs and other related activities (\$33.1 million) and severance (\$2.0 million), partially offset by a favorable adjustment from reversals for severance programs (\$3.3 million).

## Q2 2018 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

- Charges primarily associated with inventory adjustments related to the suspension of commercial activities of Imrestor® (\$35.6 million) and the closure of the Larchwood, Iowa facility (\$4.6 million).
- Charges associated with integration efforts (\$6.0 million), facility exit costs (\$7.0 million), and impairment charges recorded for the disposition of the Larchwood, Iowa facility and suspension of commercial activities for Imrestor® (\$57.7 million), partially offset by favorable adjustments to severance (\$2.7 million).
- Expenses resulting from an increase in the Aratana contingent consideration.

## FOR ALL PERIODS:

- Income tax represents the income tax expense associated with the adjusted items.
- Adjusted Gross Margin is adjusted Gross Profit divided by Revenue.
- Adjusted Operating Margin is adjusted Operating Income divided by Revenue.

# YTD RECONCILIATION OF GAAP to NON-GAAP



Millions; except per share data	YTD 2019			YTD 2018		
	GAAP Reported	Adjusted Items	Non-GAAP	GAAP Reported	Adjusted Items	Non-GAAP
Gross Profit	\$812.9	\$0.6	\$813.5	\$791.5	\$40.2	\$751.3
<b>Operating Income</b>	<b>\$298.0</b>	<b>\$0.6</b>	<b>\$298.6</b>	<b>\$217.2</b>	<b>\$40.2</b>	<b>\$257.4</b>
Amortization of intangible assets	98.3	98.3	—	98.6	98.6	—
Asset impairments, restructuring and other special charges	56.7	56.7	—	70.4	70.4	—
Other-net expense	6.5	—	6.5	10.7	8.5	2.2
<b>Income before taxes</b>	<b>\$95.0</b>	<b>155.6</b>	<b>\$250.6</b>	<b>\$37.5</b>	<b>\$217.7</b>	<b>\$255.2</b>
Provision for taxes	27.6	(28.5)	56.1	27.6	(8.6)	36.2
<b>Net income</b>	<b>\$67.4</b>	<b>\$127.1</b>	<b>\$194.5</b>	<b>\$9.9</b>	<b>\$209.1</b>	<b>\$219.0</b>
<b>Adjusted EPS*</b>	<b>\$0.18</b>	<b>\$0.35</b>	<b>\$0.53</b>	<b>\$0.03</b>	<b>\$0.57</b>	<b>\$0.60</b>

Note: Year on Year comparisons are impacted by interest expense in the current year and a more favorable effective tax rate in 2018 as a part of Lilly.

\*As reported GAAP EPS of \$0.03 for YTD 2018 was calculated using a weighted average shares of 293.3; however, in order to provide a more meaningful representation of comparative results, the table utilized a weighted average shares of 365.6 which also resulted in GAAP EPS of \$0.03.

See slide 19 for details on items included in the adjustments for each line and for definitions of margin calculations.

# YTD 2019 INCOME STATEMENT NOTES



## YTD 2019 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

- Net inventory adjustments related to the suspension of commercial activities for Imrestor® (\$0.6 million).
- Charges related to severance (\$2.0 million), charges associated with integration efforts and external costs related to the acquisition of businesses, independent stand-up costs and other related activities (\$54.0 million), and the impairment of intangible assets (\$4.0 million), partially offset by a favorable adjustment from reversals for severance programs (\$3.3 million).

## YTD 2018 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

- Charges primarily associated with inventory adjustments related to the suspension of commercial activities of Imrestor® (\$35.6 million) and the closure of the Larchwood, Iowa facility (\$4.6 million).
- Charges associated with integration efforts (\$8.4 million), facility exit costs (\$7.0 million), and impairment charges recorded for the disposition of the Larchwood, Iowa facility and suspension of commercial activities for Imrestor® (\$57.7 million), partially offset by favorable adjustments to severance (\$2.7 million).
- Expenses resulting from an increase in the Aratana contingent consideration.

## FOR ALL PERIODS:

- Income tax represents the income tax expense associated with the adjusted items.
- Adjusted Gross Margin is adjusted Gross Profit divided by Revenue.
- Adjusted Operating Margin is adjusted Operating Income divided by Revenue.

# RECONCILIATION OF GAAP REPORTED TO NON-GAAP EPS



	Q2		YTD	
	2019	2018	2019	2018
<b>As Reported EPS</b>	\$0.10	\$(0.21)	\$0.18	\$0.03
Cost of Sales	0.00	0.11	0.00	\$0.11
Amortization of intangible assets	0.13	0.14	0.27	0.27
Asset impairments, restructuring and other special charges	0.09	0.19	0.16	0.19
Other-net expense	—	0.02	—	0.02
<b>Subtotal</b>	<b>\$0.22</b>	<b>\$0.45</b>	<b>\$0.43</b>	<b>\$0.60</b>
Tax impact of Adjustments	(0.04)	(0.01)	(0.08)	(0.02)
<b>Total Adjustments to EPS</b>	<b>\$0.18</b>	<b>\$0.44</b>	<b>\$0.35</b>	<b>\$0.57</b>
Impact of Adjusted weighted shares outstanding: Basic and diluted*		0.04		—
<b>Adjusted EPS</b>	<b>\$0.28</b>	<b>\$0.27</b>	<b>\$0.53</b>	<b>\$0.60</b>

# NET INCOME TO EBITDA AND ADJUSTED EBITDA

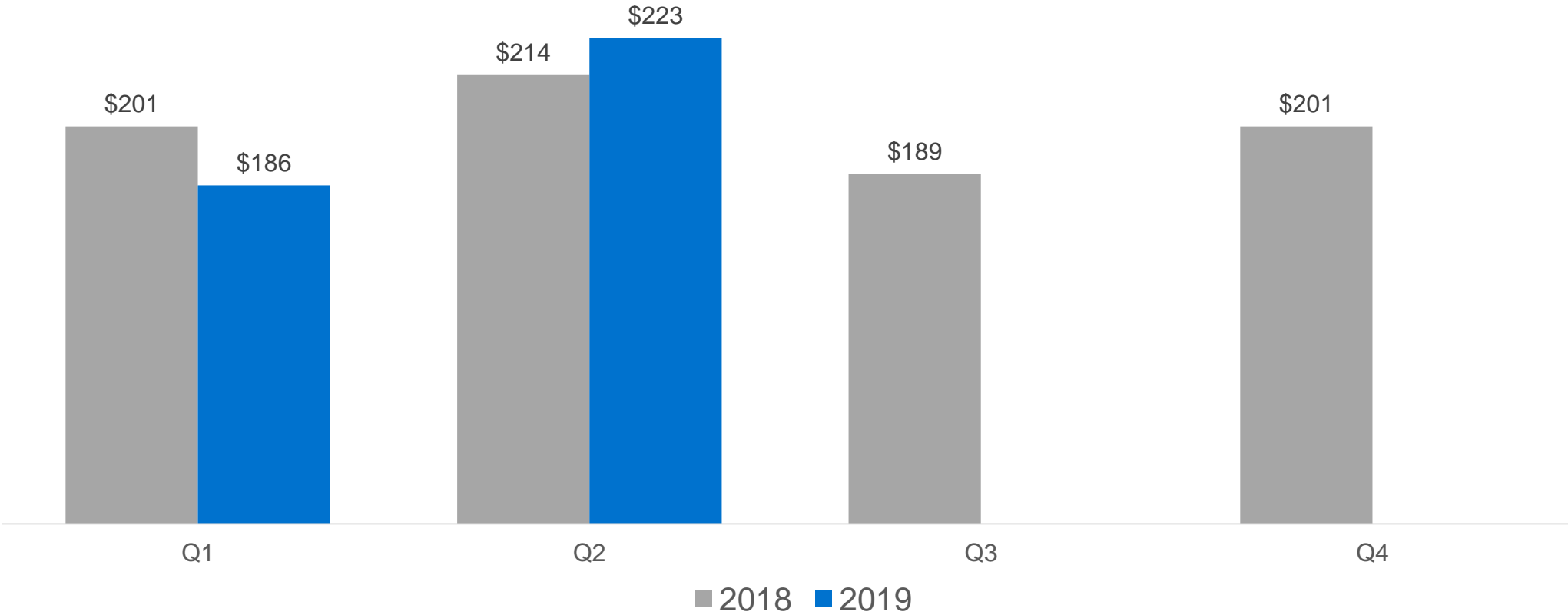


(dollars in millions)

	Q2		YTD	
	2019	2018	2019	2018
<b>Reported net income</b>	\$35.9	\$(62.8)	\$67.4	\$9.9
Net interest expense	20.7	—	41.5	—
Income tax expense	14.3	22.8	27.6	27.6
Depreciation and amortization	77.2	71.9	152.4	149.6
<b>EBITDA</b>	<b>\$148.1</b>	<b>\$31.9</b>	<b>\$288.9</b>	<b>\$187.1</b>
Non-GAAP adjustments:				
Cost of sales	1.2	40.2	\$0.6	40.2
Asset impairment, restructuring and other special charges	31.8	68.0	56.7	70.4
<b>Adjusted EBITDA</b>	<b>\$181.1</b>	<b>140.1</b>	<b>\$346.2</b>	<b>\$297.7</b>
<i>Adjusted EBITDA Margin</i>	23.2%	18.2%	22.9%	19.8%

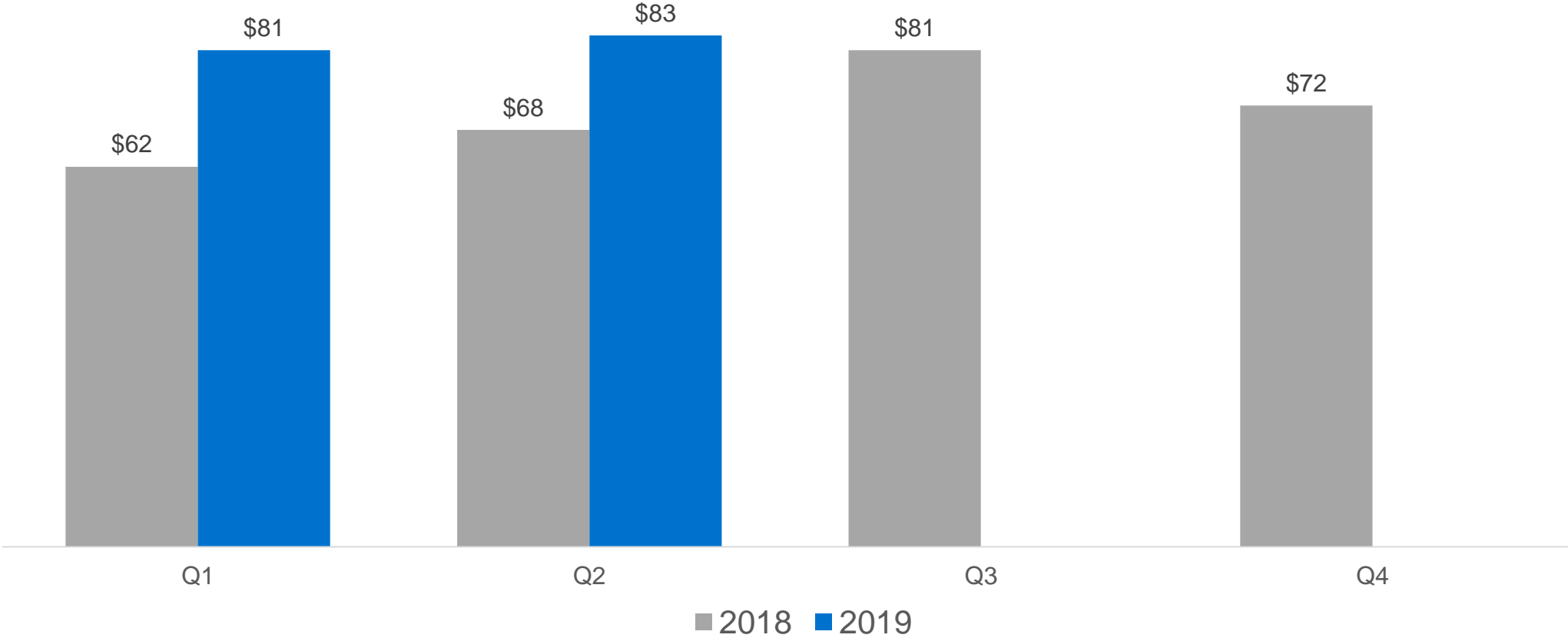
NOTE: Depreciation and amortization, EBITDA and Adjusted EBITDA as shown on the Q1 earnings slides were overstated by \$7.9M due to an error. For the first quarter of 2019, EBITDA and Adjusted EBITDA should have been \$140.8 and \$165.1, respectively. The values shown for Q2 and YTD above are correct.

# Q2 2019 CA PREVENTION SALES INCREASED 4%



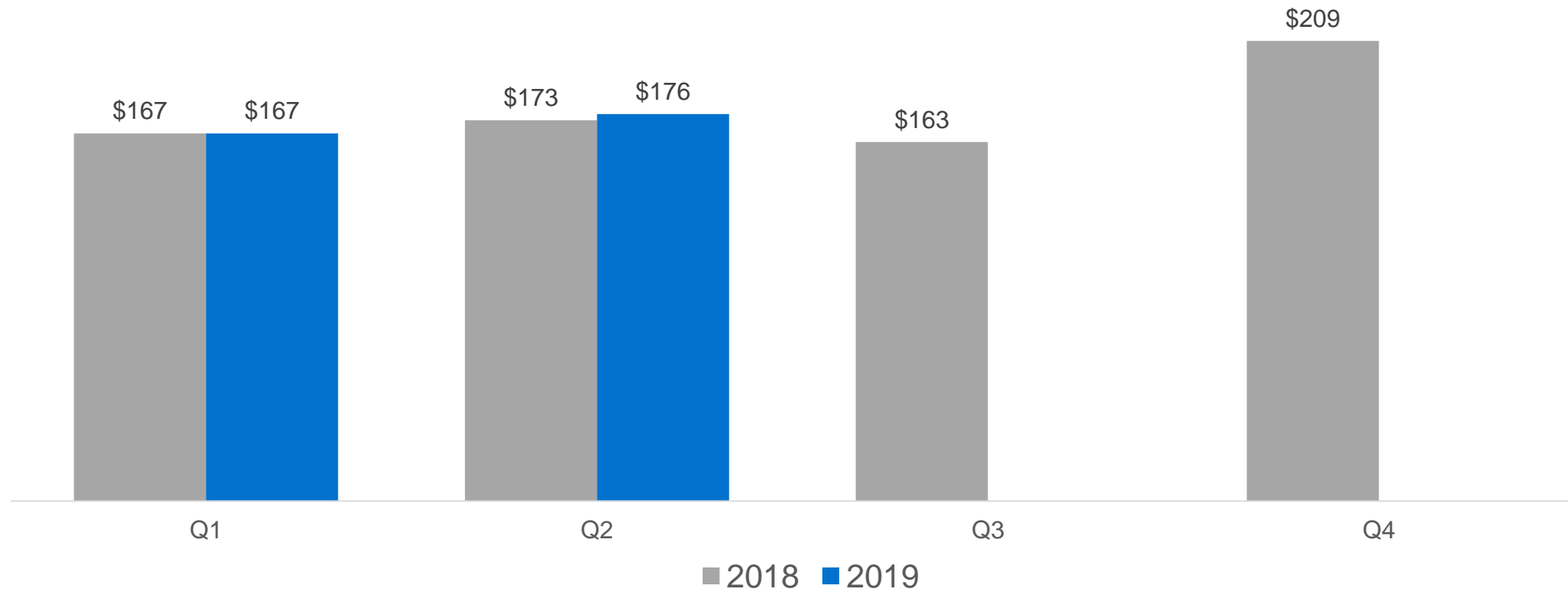
Note: Amounts and growth rates in reported dollars

# Q2 2019 CA THERAPEUTICS SALES INCREASED 22%



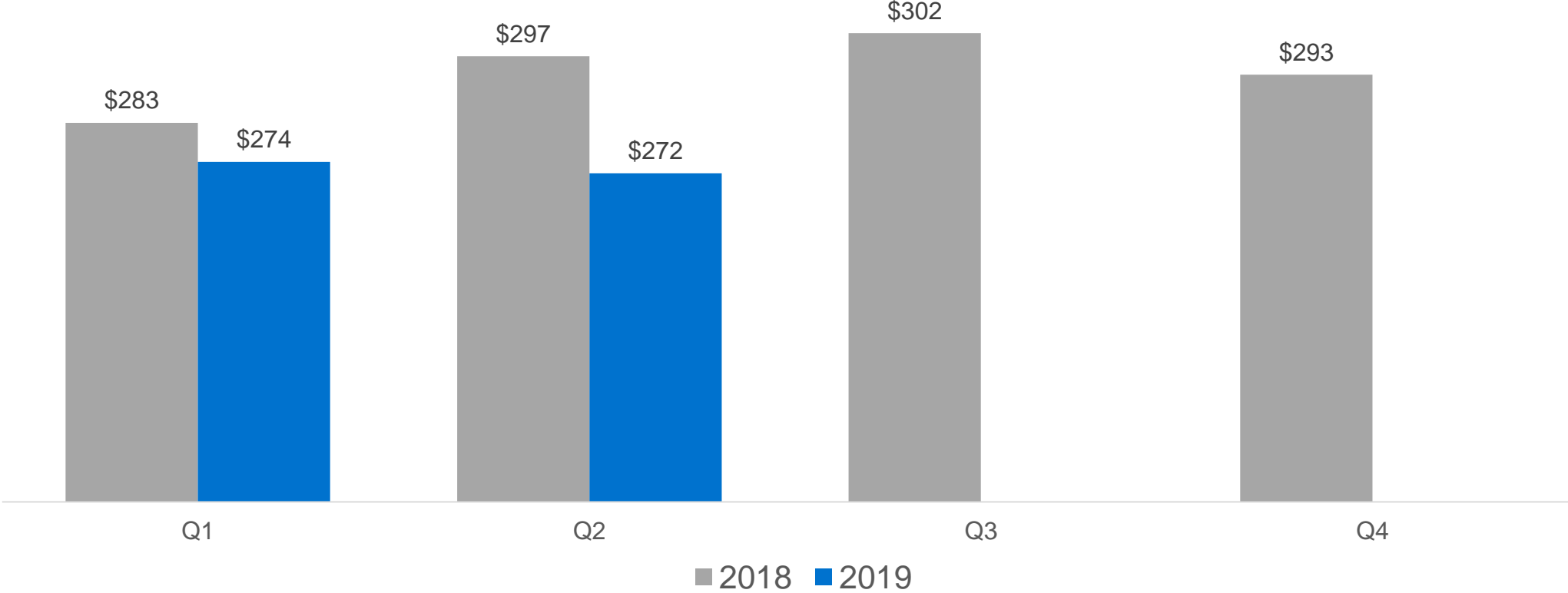
Note: Amounts and growth rates in reported dollars

# Q2 2019 FUTURE PROTEIN & HEALTH SALES INCREASED 2%



Note: Amounts and growth rates in reported dollars

# Q2 2019 RUMINANTS & SWINE SALES DECREASED 9%



Note: Amounts and growth rates in reported dollars