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# Fourth Quarter and Full-Year Results 2018

February 6, 2019

# SAFE HARBOR PROVISION

This contains management’s current intentions and expectations for the future, all of which are forward- looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words “estimate”, “seek”, “intend”, “expect”, “believe”, “target”, “anticipate”, “plan” and similar expressions are intended to identify forward-looking statements. Actual results may differ materially due to various factors.

There are significant risks and uncertainties in animal health research and product development. There can be no guarantees that pipeline products will receive the necessary regulatory approvals or that they will prove to be commercially successful. The company’s results may also be affected by such factors as the timing of launches of new products; market uptake of recently launched products; competitive developments affecting current products; unexpected safety or other concerns associated with the company’s products; issues with product supply stemming from manufacturing difficulties or disruptions; regulatory changes or other developments; litigation involving current or future products; unauthorized disclosure of trade secrets or other confidential data stored in the company’s information systems and networks; changes in tax law and regulations, including the impact of tax reform legislation enacted in December 2017 and related guidance; changes in inflation, interest rates, and foreign currency exchange rates; asset impairments and restructuring charges; changes in accounting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC); acquisitions and business development transactions and related integration costs; and the impact of exchange rates and 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 Prospectus related to its initial public offering filed with the SEC on September 21, 2018. You should not place undue reliance on forward-looking statements, which speak only as of the date of this release. Except as is required by law, the company expressly disclaims any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this release.

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

# 2018 KEY MESSAGES



## Delivering Top Line Results

Core sales growth of 8%  
Targeted growth categories ~60% of total sales

## Margin Expansion

Adjusted EBIT margin +400 bps  
Adjusted operating income +35%

## Launching with Excellence

Fourth consecutive year with 3 approvals  
Interceptor Plus reaches Blockbuster status

## Meeting Expectations

Strategy is delivering  
Confirm 2019 Guidance

# FOURTH QUARTER KEY EVENTS

Elanco™

## Drive Growth of Portfolio

- Q4 Core Revenue: \$775 million, +9% at constant currency
- Targeted Growth Categories are 60% of sales and leading our growth
- Interceptor Plus achieved Blockbuster status

## Drive Productivity - Expand Margins

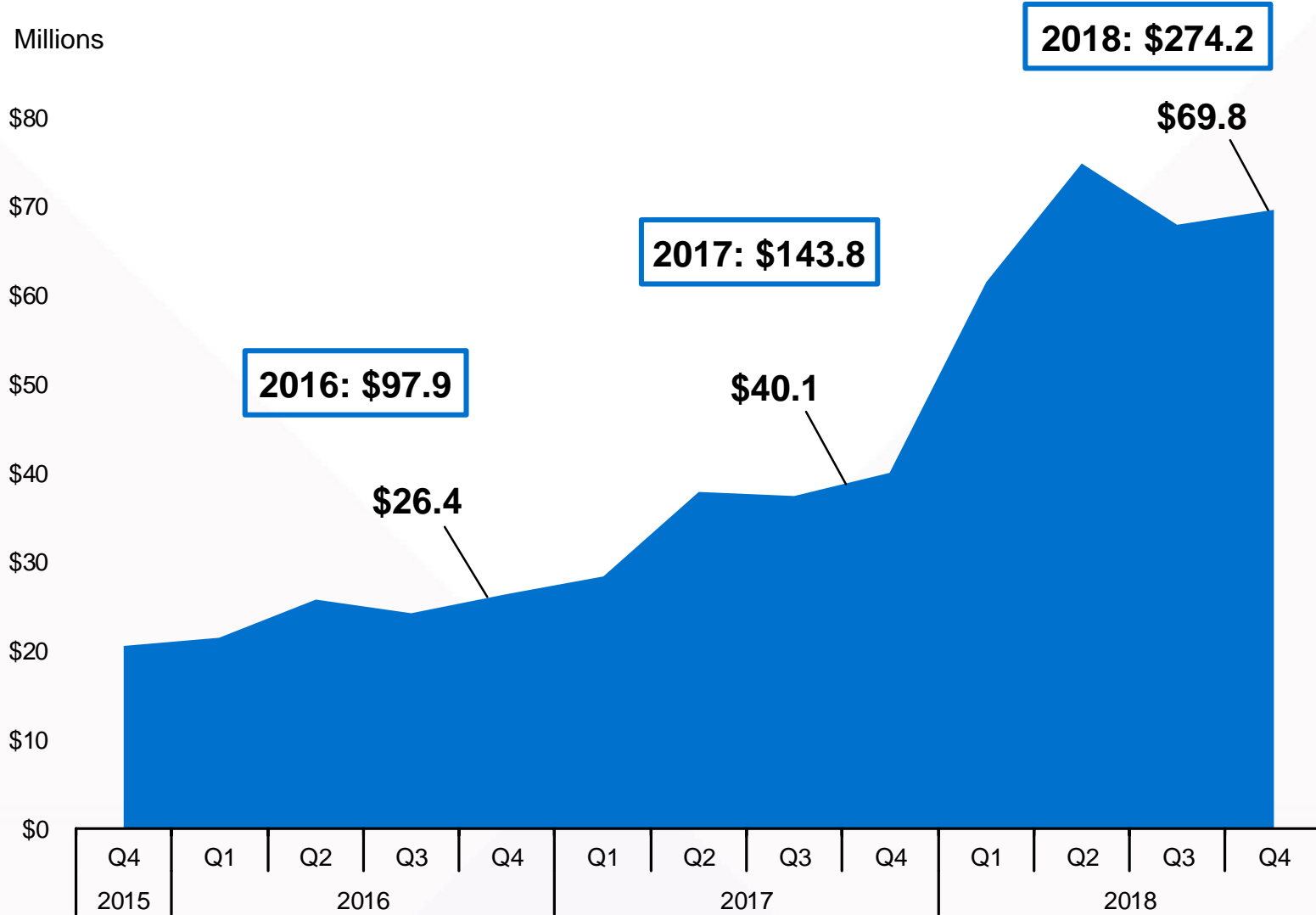
- Completed sale of Cali, Colombia site
- Announced International restructuring
- 4 sites exited in 2018
- Narrowed CMOs by 18, ending year with 100
- Rationalized 15% of SKUs in 2018



## Deliver Innovation

- 11 newly launched products grew 74% YOY to \$69.8 million
- Fourth straight year of 3 product approvals
- Regulatory path forward for Invixa in Norway
- Launched Credelio for Cats in Europe

# UPDATE ON PRODUCT LAUNCH PROGRESS



## New Products Include:

### COMPANION ANIMAL

- Interceptor<sup>®</sup> Plus
- Osumnia<sup>®</sup>
- Galliprant<sup>®</sup>
- Credelio<sup>™</sup>

### FOOD ANIMAL





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

**2018 Full-Year +91%**

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

# STRONG MOMENTUM IN TARGETED CATEGORIES



	Q4 2018	FY 2018
 Companion Animal Disease Prevention	45%	22%
 Companion Animal Therapeutics	(4)%	7%
 Food Animal Future Protein & Health	13%	10%
<b>Targeted Growth Categories</b>	<b>20%</b>	<b>14%</b>
 Food Animal Ruminants & Swine	(6)%	(0)%
<b>Core Elanco</b>	<b>9%</b>	<b>8%</b>
Strategic Exits	(5)%	(35)%
<b>Total Elanco</b>	<b>8%</b>	<b>6%</b>

Note: Percentages exclude the impact of foreign currency. For presentation of results including impact of foreign currency, see slide 10

# 2018 INCOME STATEMENT - REPORTED



Millions; except per share data	Q4 2018	Change	FY 2018	Change
Total Revenue	\$799.3	6%	\$3,066.8	6%
Gross Profit	386.8	11%	1,493.0	7%
Total Operating Expense*	246.2	(5)%	981.8	(5)%
Total Operating Income	140.6	55%	511.2	41%
Income Taxes	(18.6)	NM	27.6	(65)%
<b>Net Income</b>	<b>\$16.4</b>	<b>NM</b>	<b>\$86.5</b>	<b>NM</b>
<b>EPS basic and diluted</b>	<b>\$0.04</b>	<b>NM</b>	<b>\$0.28</b>	<b>NM</b>

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

## "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



## Q4 QTD

## Q4 YTD

Millions; except per share data

	2018 Adjusted	2017 Adjusted	Change	2018 Adjusted	2017 Adjusted	Change
Total Revenue	\$799.3	\$754.3	6%	\$3,066.8	\$2,889.0	6%
Gross Profit	386.8	359.7	8%	1,531.6	1,437.8	7%
Total Operating Expense*	246.2	258.8	(5)%	981.8	1,031.5	(5)%
Total Operating Income	140.6	100.9	39%	549.8	406.3	35%
Effective Tax Rate	16.2%	**	**	16.8%	**	**
<b>Net income</b>	<b>\$105.4</b>	<b>\$42.5</b>	<b>148%</b>	<b>\$431.8</b>	<b>\$250.5</b>	<b>72%</b>
<b>EPS basic and diluted</b>	<b>\$0.29</b>	<b>\$0.12</b>	<b>142%</b>	<b>\$1.18</b>	<b>\$0.69</b>	<b>71%</b>

Refer to slide 16 or 18, respectively for the reconciliation between GAAP and Non-GAAP.

\*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	Q4 2018						FY 2018					
	Revenue	Price	FX Rate	Volume	Total	CER*	Revenue	Price	FX Rate	Volume	Total	CER*
CA Disease Prevention	\$200.7	6%	(2)%	39%	43%	45%	\$804.6	8%	0%	14%	22%	22%
CA Therapeutics	72.0	5%	(2)%	(9)%	(6)%	(4)%	283.1	7%	1%	0%	9%	7%
FA Future Protein & Health	209.1	5%	(4)%	7%	8%	13%	711.2	4%	(0)%	6%	10%	10%
FA Ruminants and Swine	292.9	(5)%	(2)%	(1)%	(8)%	(6)%	1,174.0	(1)%	(0)%	1%	(0)%	(0)%
<b>Core Revenue</b>	<b>\$774.7</b>	<b>1%</b>	<b>(3)%</b>	<b>8%</b>	<b>6%</b>	<b>9%</b>	<b>\$2,972.9</b>	<b>3%</b>	<b>0%</b>	<b>5%</b>	<b>8%</b>	<b>8%</b>
Strategic Exits	24.6	0%	(1)%	(5)%	(6)%	(5)%	93.9	(0)%	0%	(34)%	(35)%	(35)%
<b>Total Elanco</b>	<b>\$799.3</b>	<b>1%</b>	<b>(2)%</b>	<b>8%</b>	<b>6%</b>	<b>8%</b>	<b>\$3,066.8</b>	<b>3%</b>	<b>0%</b>	<b>3%</b>	<b>6%</b>	<b>6%</b>

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

# REVENUE BY GEOGRAPHY



Millions	Q4 2018						FY 2018					
	Global		US		International		Global		US		International	
	Revenue	Change	Revenue	Change	Revenue	Change	Revenue	Change	Revenue	Change	Revenue	Change
<b>Core Revenue</b>	<b>\$774.7</b>	<b>9%</b>	<b>\$360.6</b>	<b>22%</b>	<b>\$414.1</b>	<b>(0)%</b>	<b>\$2,972.9</b>	<b>8%</b>	<b>\$1,416.4</b>	<b>14%</b>	<b>\$1,556.5</b>	<b>3%</b>
Strategic Exits	24.6	(5)%	14.0	(36)%	10.6	147%	93.9	(35)%	66.8	(48)%	27.1	72%
<b>Total Elanco</b>	<b>\$799.3</b>	<b>8%</b>	<b>\$374.6</b>	<b>18%</b>	<b>\$424.7</b>	<b>1%</b>	<b>\$3,066.8</b>	<b>6%</b>	<b>\$1,483.2</b>	<b>8%</b>	<b>\$1,583.6</b>	<b>4%</b>

Note: Percentages exclude impact of foreign currency.

## 2019 Guidance

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Total Revenue	\$3.10 - \$3.16 billion
Core Revenue (excluding Strategic Exits)	\$3.04 - \$3.10 billion
Strategic Exits	Approx. \$0.06 billion
Earnings per Share (GAAP)	\$0.36 - \$0.48
Earnings per Share (non-GAAP)	\$1.02 - \$1.12

### FX rates for current guidance:

- Euro at 1.17
- Pound at 1.30
- Real at 4.14
- Yen at 111.39
- Australian Dollar at 0.73

# 2019 GUIDANCE - GAAP TO ADJUSTED EPS



	<u>Full Year 2019 Guidance</u>		
<b>GAAP EPS</b>	<b>\$0.36</b>	<b>to</b>	<b>\$0.48</b>
Amortization of intangible assets			0.53
Expenses associated with establishing stand-alone capabilities	0.28	to	0.26
Subtotal	\$1.17	to	\$1.27
Tax impact of adjustments			(0.15)
<b>Adjusted EPS</b>	<b>\$1.02</b>	<b>to</b>	<b>\$1.12</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.



**Elanco**

TM

**Food and Companionship**  
*Enriching Life*

# SUPPLEMENTAL SLIDES



# Q4 RECONCILIATION OF GAAP to NON-GAAP



	Q4 2018			Q4 2017		
	GAAP Reported	Adjusted Items	Non-GAAP	GAAP Reported	Adjusted Items	Non-GAAP
Millions; except per share data						
Cost of sales	\$412.5	-	\$412.5	\$405.0	\$10.4	\$394.6
Amortization of intangible assets	50.1	50.1	-	60.2	60.2	-
Asset impairments, restructuring and other special charges	46.0	46.0	-	185.8	185.8	-
Other-net, (income) expense	25.7	31.9	(6.2)	(0.1)	(0.1)	-
Income (loss) before taxes	(2.2)	128.0	125.8	(155.4)	256.3	100.9
Provision for taxes	(18.6)	(39.0)	20.4	6.1	(52.3)	58.4
<b>Net income (loss)</b>	<b>\$16.4</b>	<b>\$89.0</b>	<b>\$105.4</b>	<b>\$(161.5)</b>	<b>\$204.0</b>	<b>\$42.5</b>
<b>Adjusted EPS</b>	<b>\$0.04</b>	<b>\$0.25</b>	<b>\$0.29</b>	<b>\$(0.44)</b>	<b>\$0.56</b>	<b>\$0.12</b>

See slide 17 for details on items included in the adjustments for each line.

# Q4 INCOME STATEMENT NOTES



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

- Expenses primarily related to severance and asset impairment charges taken as a part of the company's productivity agenda (\$33.7 million): in-process research and development write-offs (\$2.0 million) and independent company stand-up and other related activities (\$17.3 million): partially offset by the gain on the sale of our Cali, Columbia facility (\$1.5 million) and a favorable contract termination related to the suspension of commercial activities for Imrestor (\$5.5 million).
- Other-net, (income) expense excludes expenses resulting from an increases in the Aratana contingent consideration (\$30.2 million) and expenses related to the integration activities (\$1.7 million).
- Income tax represents the income tax expense associated with the adjusted items.

## 2017 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

- Cost of goods sold excludes charges entirely associated with the incremental purchase accounting charges related to inventory valuation due to inventory that was subsequently sold.
- Expenses primarily related to severance, curtailment loss and special termination benefits (\$99.8 million) associated with the U.S. voluntary early retirement program: integration costs (\$15.2 million) associated with our acquired businesses; facility exist costs (\$7.6 million); asset impairment costs (\$66.8 million) primarily related to intangible asset impairments for acquired IPR&D assets; and partially offset by a gain on the disposal of a site (\$3.6 million) previously closed as part of our acquisition and integration of Novartis AH.
- Other-net, (income) expense excludes contingent consideration related to Aratana (\$0.1 million)
- Income tax represents the income tax expense associated with the adjusted items. 2017 include expense (33.1 million) related to the U.S. tax reform.

# YTD RECONCILIATION OF GAAP TO NON-GAAP



	YTD 2018			YTD 2017		
	GAAP Reported	Adjusted Items	Non-GAAP	GAAP Reported	Adjusted Items	Non-GAAP
Millions; except per share data						
Cost of sales	\$1,573.8	38.6	\$1,535.2	\$1,493.9	\$42.7	\$1,451.2
Amortization of intangible assets	197.4	197.4	-	221.2	221.2	-
Asset impairments, restructuring and other special charges	128.8	128.8	-	375.1	375.1	-
Other-net, (income) expense	41.3	40.4	0.9	(0.1)	(4.7)	4.6
Income (loss) before taxes	114.1	405.2	519.3	(232.6)	634.3	401.7
Provision for taxes	27.6	(59.9)	87.5	78.1	(73.1)	151.2
<b>Net income (loss)</b>	<b>\$86.5</b>	<b>\$345.3</b>	<b>\$431.8</b>	<b>\$(310.7)</b>	<b>\$561.2</b>	<b>\$250.5</b>
<b>Adjusted EPS</b>	<b>\$0.24</b>	<b>\$0.94</b>	<b>\$1.18</b>	<b>\$(0.85)</b>	<b>\$1.54</b>	<b>\$0.69</b>

See slide 19 for details on items included in the adjustments for each line.

# FULL YEAR INCOME STATEMENT NOTES



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

- Impairments, restructuring and other special charges excludes charges primarily associated with inventory adjustments related to the suspension of commercial activities for Imrestor (\$34.7 million), as well as the closure of the Larchwood, IA facility (\$3.9 million).
- Restructuring expenses associated with the suspension of Imrestor commercial activities: severance, company stand up cost: facility closures (\$47.7 million): asset impairments (\$82.6 million): partially offset by a gain on the sale of our Cali, Columbia facility (\$1.5 million).
- Other-net, (income) expense excludes costs resulting from an increase in the Aratana contingent consideration (\$38.7 million) and expenses related to on going integration activities (\$1.7 million).
- Income tax represents the income tax expense associated with the adjusted items.

## 2017 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

- Cost of goods sold excludes charges entirely associated with the incremental purchase accounting charges related to inventory valuation due to inventory that was subsequently sold.
- Expenses primarily related to severance, curtailment loss: special termination benefits (\$162.0 million) associated with the U.S. voluntary early retirement program: integration costs (\$90.3 million) associated with acquired businesses; facility exist costs (\$31.8 million): asset impairment costs (\$110.6 million) primarily related to intangible asset impairments for marketed product and for acquired IPR&D assets; partially offset by a gain on the disposal of two sites (\$19.6 million) previously closed as part of our acquisition and integration of Novartis AH.
- Other-net, (income) expense excludes contingent consideration related to Aratana (\$4.7 million)
- Income tax represents the income tax expense associated with the adjusted items. 2017 include expense (33.1 million) related to the U.S. tax reform.

# RECONCILIATION OF GAAP REPORTED to NON-GAAP EPS



	Q4		Full-Year	
	2018	2017	2018	2017
<b>As Reported EPS</b>	\$0.04	\$(0.55)	\$0.28	\$(1.06)
Cost of sales	—	0.03	0.10	0.12
Amortization of intangible assets	0.14	0.16	0.54	0.60
Asset impairments, restructuring and other special charges	0.13	0.51	0.35	1.03
Other-net, (income) expense	0.09	—	0.11	(0.01)
Total Adjustments to EPS	\$0.25	\$0.56	\$0.94	\$1.54
Impact of adjusted weighted shares outstanding: basic and diluted	—	0.11	(0.04)	0.21
<b>Adjusted EPS</b>	<b>\$0.29</b>	<b>\$0.12</b>	<b>\$1.18</b>	<b>\$0.69</b>

# NET INCOME (LOSS) TO EBITDA AND Adjusted EBITDA



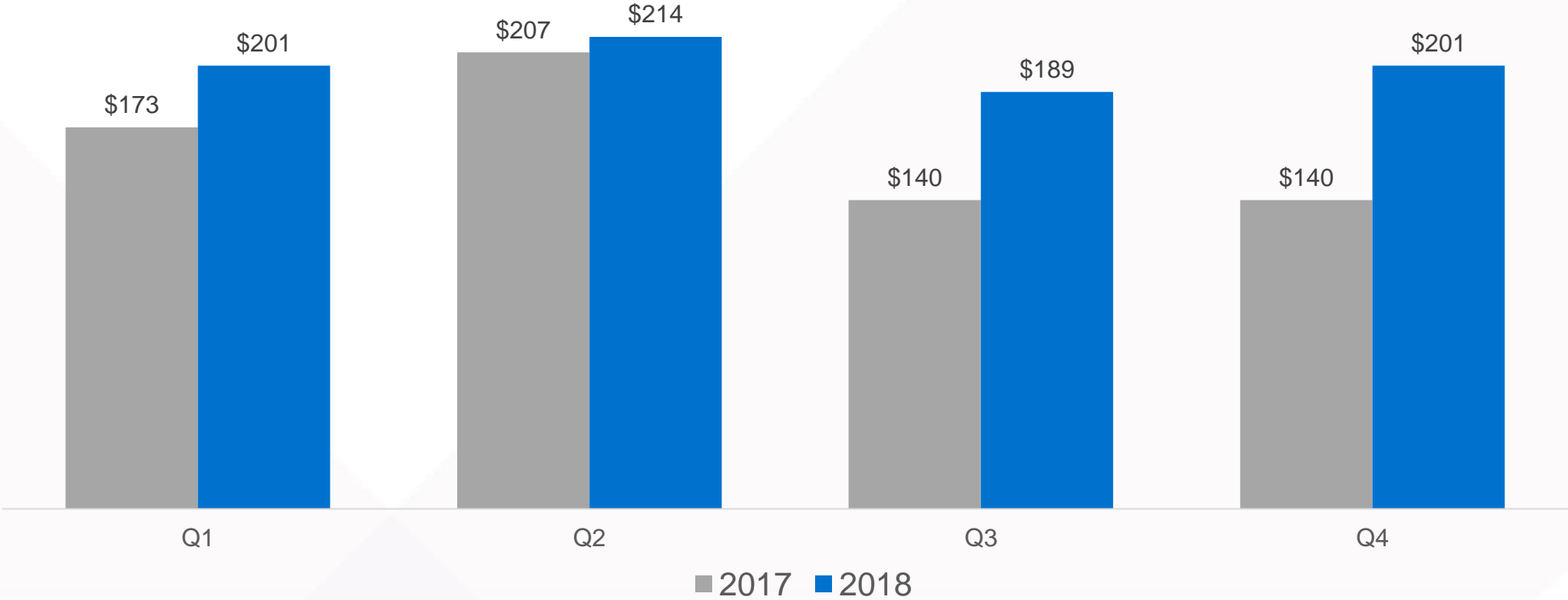
(dollars in millions)

	Q4		Full-Year	
	2018	2017	2018	2017
<b>Reported net income (loss)</b>	\$16.4	\$(161.5)	\$86.5	\$(310.7)
Net interest expense	21.0	—	29.6	—
Income tax (benefit) expense	(18.6)	6.1	27.6	78.1
Depreciation and amortization	73.7*	87.1	296.0*	318.4
<b>EBITDA</b>	<b>\$92.5*</b>	<b>\$(68.3)</b>	<b>\$439.7*</b>	<b>\$85.8</b>
Non-GAAP adjustments:				
Cost of sales	—	10.4	38.6	42.7
Asset impairment, restructuring and other special charges	46.0	185.8	128.8	375.1
Other-net, (income) expense	31.9	(0.1)	40.4	(4.7)
<b>Adjusted EBITDA</b>	<b>\$170.4*</b>	<b>\$127.8</b>	<b>\$647.5*</b>	<b>\$498.9</b>

\* Depreciation and amortization, EBITDA and Adjusted EBITDA were updated to include \$3.7M of additional depreciation expense.

Note: EBITDA - EBIT further adjusted for depreciation and amortization.

# Q4 2018 CA PREVENTION SALES INCREASED 43%



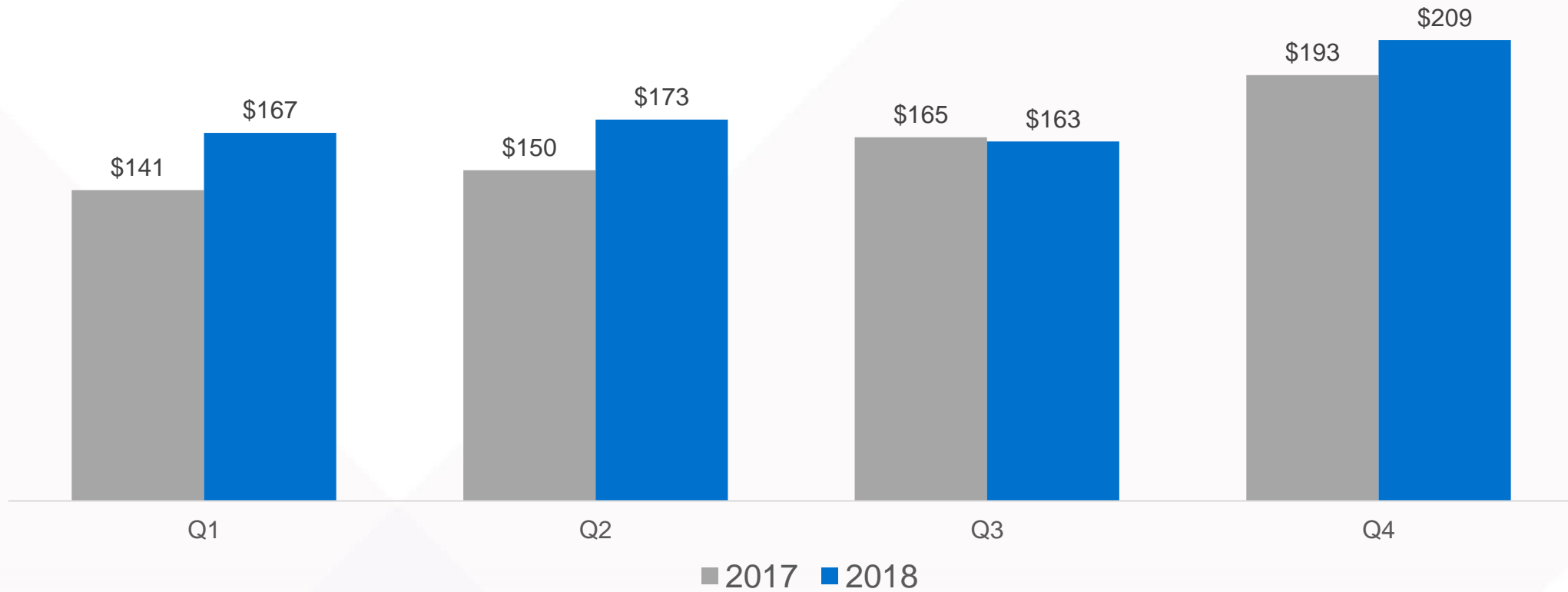
Note: Amounts and growth rates in reported dollars

# Q4 2018 CA THERAPEUTICS SALES DECREASED 6%



Note: Amounts and growth rates in reported dollars

# Q4 2018 FUTURE PROTEIN & HEALTH SALES INCREASED 8%



Note: Amounts and growth rates in reported dollars

# Q4 2018 RUMINANTS & SWINE SALES DECREASED 8%



Note: Amounts and growth rates in reported dollars