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# 2019 Earnings First Quarter

May 9, 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; 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

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 10-Q filed with the Securities and Exchange Commission.

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

## Fully Independent Elanco

### Tracking to Our Expectations

Portfolio balances performance across categories  
Sales trends in line with expectations

### Margin Expansion

Adjusted Gross Margin +180 bps to 52.9%  
Adjusted EBITDA grew 12%

### New Products Growing





Newly launched products grew 59% and are 13% of total sales  
Geographic and presentation expansion

### Important Investments

Augmenting pipeline and portfolio with strategic investments

# STRONG MOMENTUM IN TARGETED CATEGORIES



	Q1 2019	Year on Year 6 Months*
 Companion Animal Disease Prevention	(6)%	16%
 Companion Animal Therapeutics	34%	19%
 Food Animal Future Protein & Health	5%	15%
<b>Targeted Growth Categories</b>	<b>4%</b>	<b>16%</b>
 Food Animal Ruminants & Swine	(0)%	(4)%
<b>Core Elanco</b>	<b>2%</b>	<b>7%</b>
Strategic Exits	(4)%	(13)%
<b>Total Elanco</b>	<b>2%</b>	<b>7%</b>

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

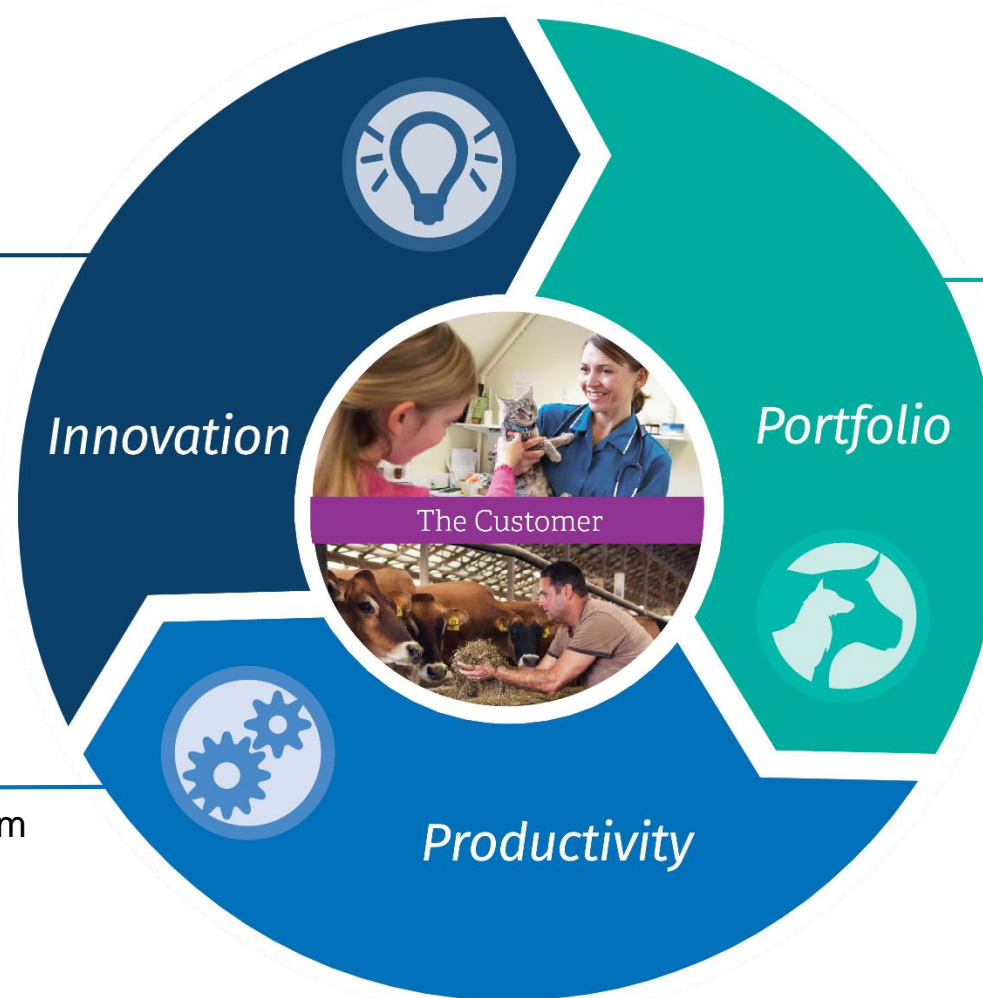
\* Oct. 2018 – Mar. 2019 growth over Oct. 2017 – Mar. 2018

## Deliver Innovation

- 11 newly launched products grew 59% YOY to \$98 million
- Galliprant for dogs in EU launched
- Correlink in Brazil approved

## Unlock Value

- Insourcing manufacturing of chewie platform
- New, lower-cost API source for Credelio
- Technical improvements in our poultry vaccines formulation process
- Executing transition of go-to-market models internationally - 10 markets complete



## Drive Growth of Portfolio

- Q1 Core Revenue: \$709 million, +2% at constant currency
- Targeted Growth Categories +4% at constant currency; 59% of total sales
- Galliprant backorders cleared
- Credelio additional dosages for dogs and cats

Strategic Investments:  
Aratana and VetDC

# Q1 INCOME STATEMENT - REPORTED



Millions; except per share data

	Q1 2019	Change
Revenue	\$731.1	(1)%
Gross Margin	53.0%	190bps
Total Operating Expense*	245.2	0%
Operating Income	142.1	8%
Interest Expense	20.8	NM
Effective Tax Rate	29.7%	NM
<b>Net Income</b>	<b>\$31.5</b>	<b>NM</b>
<b>EPS basic and diluted</b>	<b>\$0.09</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



## Q1 2019

Millions; except per share data

	2019 Adjusted	2018 Adjusted	Change
Revenue	\$731.1	\$736.2	(1)%
Gross Margin	52.9%	51.1%	180bps
Total Operating Expense*	245.2	245.2	0%
Operating Income	141.5	131.0	8%
Interest Expense	20.8	—	NM
Effective Tax Rate	21.2%	**	**
<b>Net income</b>	<b>\$92.9</b>	<b>\$120.2</b>	<b>NM</b>
<b>EPS basic and diluted</b>	<b>\$0.25</b>	<b>\$0.33</b>	<b>NM</b>

Refer to slide 16-17 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

Q1 2019

	Revenue	Price	FX Rate	Volume	Total	CER*
CA Disease Prevention	185.9	(3)%	(2)%	(3)%	(8)%	(6)%
CA Therapeutics	81.4	6%	(4)%	28%	31%	34%
FA Future Protein & Health	167.2	3%	(5)%	2%	0%	5%
FA Ruminants and Swine	274.1	(1)%	(2)%	0%	(3)%	(0)%
<b>Core Revenue</b>	<b>\$708.6</b>	<b>0%</b>	<b>(3)%</b>	<b>2%</b>	<b>(1)%</b>	<b>2%</b>
Strategic Exits	22.5	0%	(0)%	(4)%	(4)%	(4)%
<b>Total Elanco</b>	<b>\$731.1</b>	<b>0%</b>	<b>(3)%</b>	<b>2%</b>	<b>(1)%</b>	<b>2%</b>

Note: Numbers may not add due to rounding

\*CER = Constant exchange rate

# REVENUE BY GEOGRAPHY



## Q1 2019

Millions	Global		US		International	
	Revenue	Change	Revenue	Change	Revenue	Change
<b>Core Revenue</b>	<b>\$708.6</b>	<b>2%</b>	<b>\$370.3</b>	<b>8%</b>	<b>\$338.4</b>	<b>(3)%</b>
Strategic Exits	22.5	(4)%	13.6	(22)%	8.8	51%
<b>Total Elanco</b>	<b>\$731.1</b>	<b>2%</b>	<b>\$383.9</b>	<b>7%</b>	<b>\$347.2</b>	<b>(2)%</b>

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

# 2019 FULL YEAR FINANCIAL GUIDANCE



	<b>December Guidance</b>	<b>May Guidance</b>
Total Revenue	\$3.10 - \$3.16 billion	\$3.08 - \$3.14 billion
Core Revenue (excluding Strategic Exits)	\$3.04 - \$3.10 billion	\$3.02 - \$3.08 billion
Strategic Exits	Approx. \$0.06 billion	Approx. \$0.06 billion
Earnings per Share (GAAP)	\$0.36 - \$0.48	\$0.36 - \$0.48
Earnings per Share (non-GAAP)	\$1.02 - \$1.12	\$1.02 - \$1.12

**Updated FX assumptions:**

- Euro at 1.11
- Pound at 1.29
- Real at 3.99
- Yen at 111.83
- Australian Dollar at 0.70

# MAINTAIN 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*

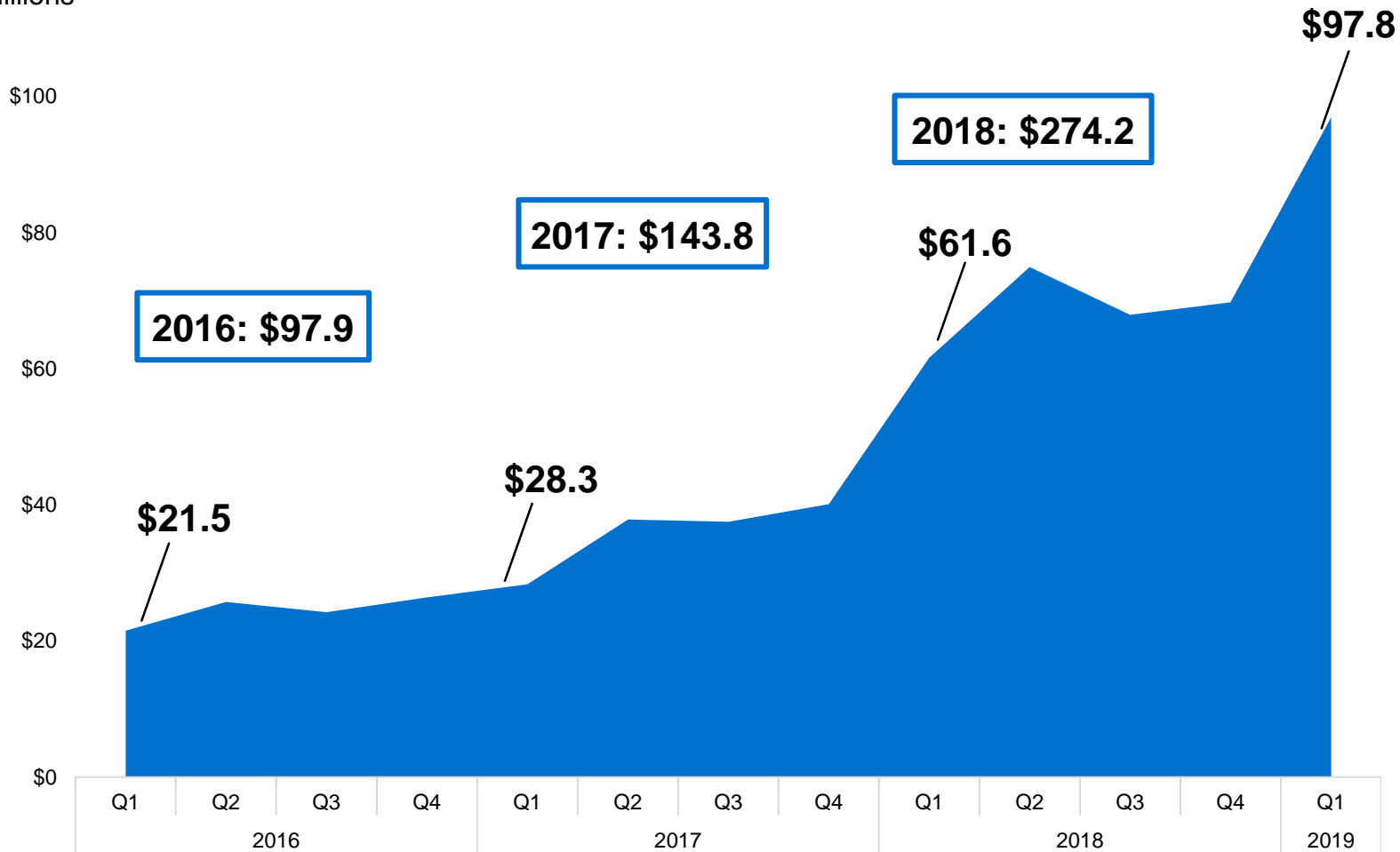
# SUPPLEMENTAL SLIDES



# UPDATE ON PRODUCT LAUNCH PROGRESS



Millions



## 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>

**2019 Q1 +59%**

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

# Q1 RECONCILIATION OF GAAP to NON-GAAP



	Q1 2019			Q1 2018		
	GAAP Reported	Adjusted Items	Non-GAAP	GAAP Reported	Adjusted Items	Non-GAAP
Millions; except per share data						
Gross Profit	\$387.3	\$(0.6)	\$386.7	\$376.2	—	\$376.2
<b>Operating Income</b>	<b>\$142.2</b>	<b>\$(0.6)</b>	<b>\$141.5</b>	<b>\$131.0</b>	—	<b>\$131.1</b>
Amortization of intangible assets	49.0	49.0	—	49.2	49.2	—
Asset impairments, restructuring and other special charges	24.9	24.9	—	2.4	2.4	—
<b>Income before taxes</b>	<b>\$44.8</b>	<b>\$73.3</b>	<b>\$118.1</b>	<b>\$77.5</b>	<b>\$51.6</b>	<b>\$129.1</b>
Provision for taxes	13.3	(11.9)	25.2	4.8	(4.1)	8.9
<b>Net income</b>	<b>\$31.5</b>	<b>\$61.4</b>	<b>\$92.9</b>	<b>\$72.7</b>	<b>47.5</b>	<b>\$120.2</b>
<b>Adjusted EPS*</b>	<b>\$0.09</b>	<b>\$0.17</b>	<b>\$0.25</b>	<b>\$0.20</b>	<b>\$0.13</b>	<b>\$0.33</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 \$0.25 for Q1 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 \$0.20.

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

# Q1 INCOME STATEMENT NOTES



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

- Inventory adjustments related to the suspension of commercial activities for Imrestor (-\$0.6 million).
- Expenses associated with the impairment of intangible assets (\$4.0 million) as well as charges primarily related to independent stand-up costs and other related activities (\$20.9 million).
- Income tax represents the income tax expense associated with the adjusted items.

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

- 2018 excludes charges associated with restructuring charges (\$2.4 million) primarily related to integration and other activities.
- Income tax represents the income tax expense associated with the adjusted items.

## MARGIN DEFINITIONS:

- 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



Q1

	2019	2018
<b>As Reported EPS</b>	\$0.09	\$0.25
Cost of Sales	(0.00)	—
Amortization of intangible assets	0.13	0.13
Asset impairments, restructuring and other special charges	0.07	0.01
<b>Subtotal</b>	<b>\$0.20</b>	<b>\$0.14</b>
Tax impact of Adjustments	(0.03)	(0.01)
<b>Total Adjustments to EPS</b>	<b>\$0.17</b>	<b>\$0.13</b>
Impact of Adjusted weighted shares outstanding: Basic and diluted*		(0.05)
<b>Adjusted EPS</b>	<b>\$0.25</b>	<b>\$0.33</b>

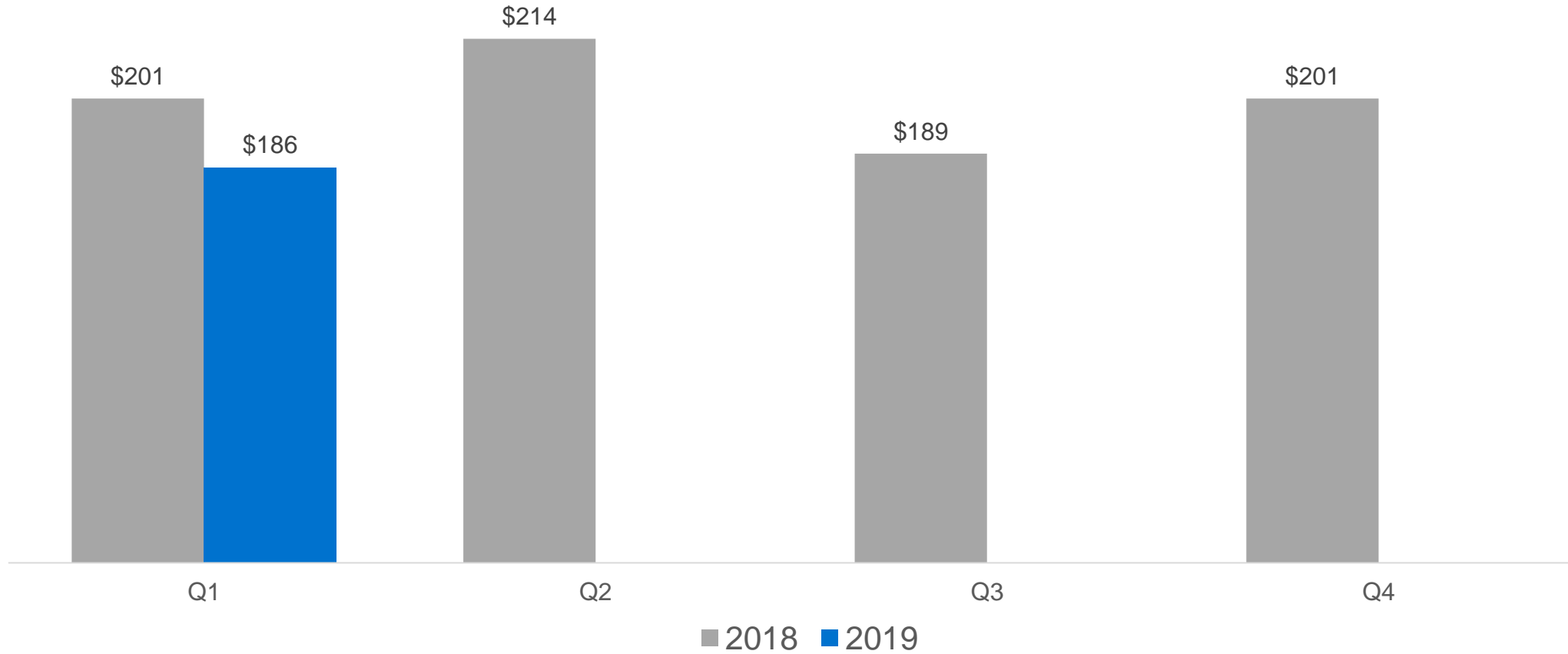
# NET INCOME TO EBITDA AND Adjusted EBITDA



(dollars in millions)

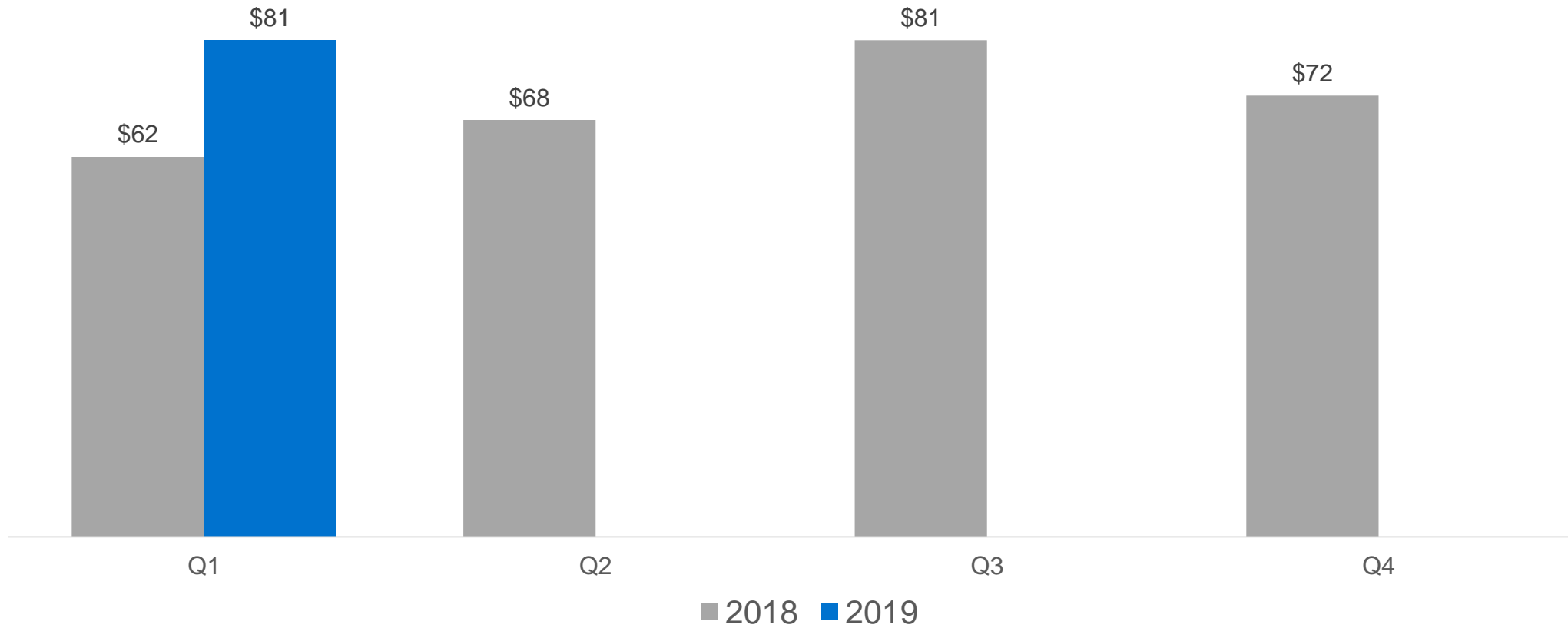
	Q1	
	2019	2018
<b>Reported net income</b>	\$31.5	\$72.7
Net interest expense	20.8	—
Income tax expense	13.3	4.8
Depreciation and amortization	83.1	74.3
<b>EBITDA</b>	\$148.7	\$151.8
Non-GAAP adjustments:		
Cost of sales	\$(0.6)	—
Asset impairment, restructuring and other special charges	24.9	2.4
<b>Adjusted EBITDA</b>	<b>\$173.0</b>	<b>154.2</b>

# Q1 2019 CA PREVENTION SALES DECREASED 8%



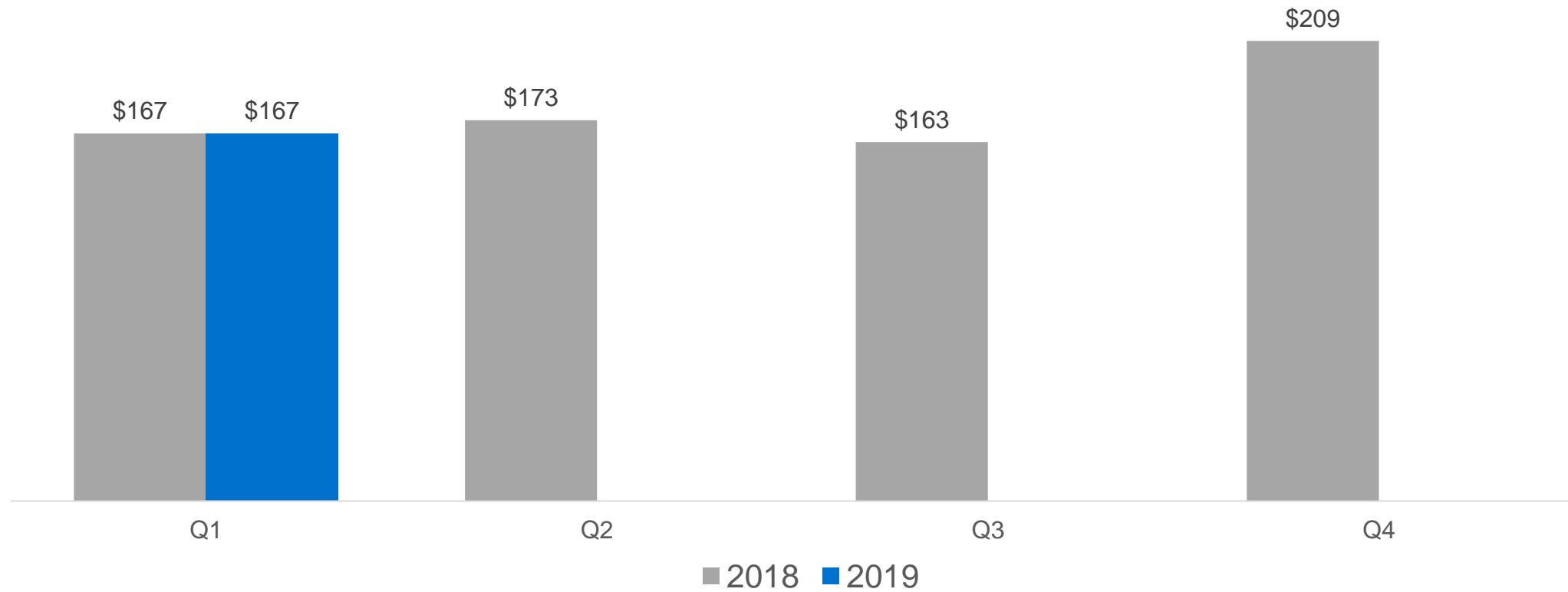
Note: Amounts and growth rates in reported dollars

# Q1 2019 CA THERAPEUTICS SALES INCREASED 31%



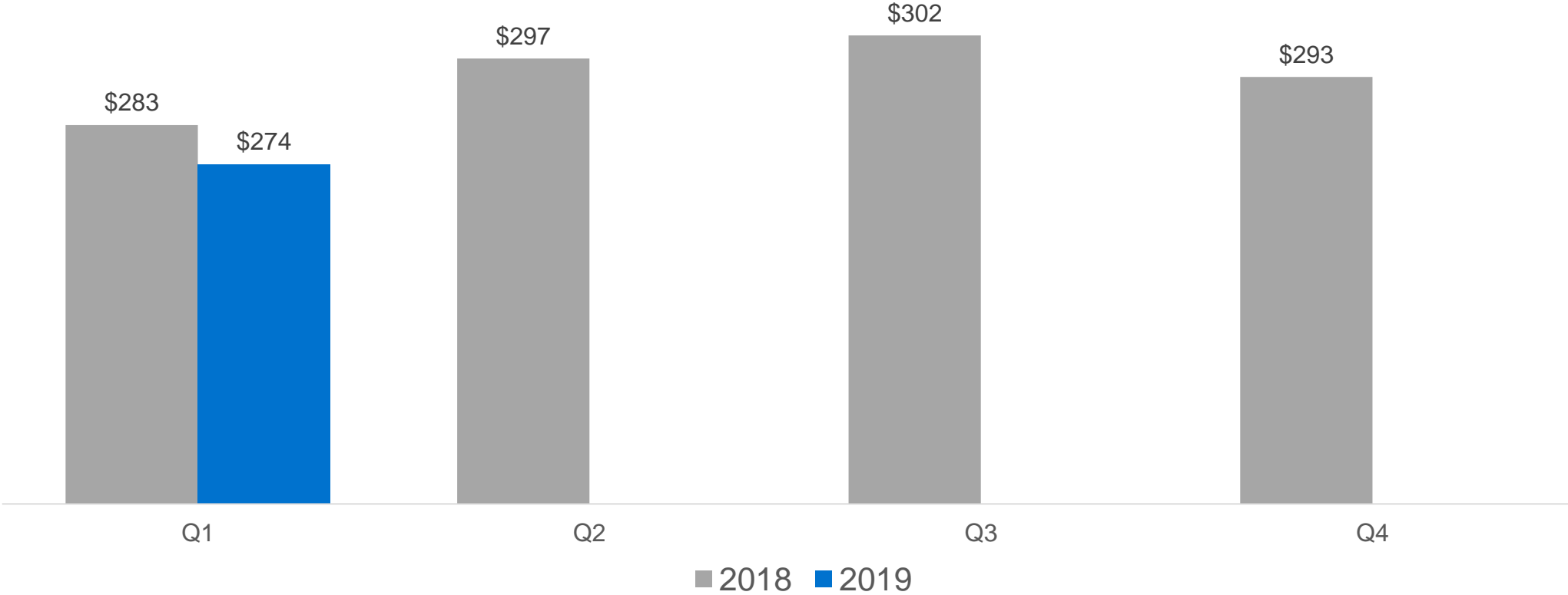
Note: Amounts and growth rates in reported dollars

# Q1 2019 FUTURE PROTEIN & HEALTH SALES WERE FLAT



Note: Amounts and growth rates in reported dollars

# Q1 2019 RUMINANTS & SWINE SALES DECREASED 3%



Note: Amounts and growth rates in reported dollars