UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2024
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _________ to _______

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 and zip code of principal executive offices)

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

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

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 (or for such shorter period that the registrant was required to file such reports), 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 ☒	Accelerated filer ☐
Non-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 ☒

The number of shares of common stock outstanding as of November 4, 2024 was 494,352,808.

ELANCO ANIMAL HEALTH INCORPORATED
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2024
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FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

This Quarterly Report on Form 10-Q (Form 10-Q) includes forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include, without limitation, statements concerning the impact on Elanco Animal Health Incorporated and its subsidiaries (collectively, Elanco, the Company, we, us or our) caused by the integration of business acquisitions, expected synergies and cost savings, product launches, global macroeconomic conditions, expectations relating to liquidity and sources of capital, our expected compliance with debt covenants, cost savings, expenses and reserves relating to restructuring actions, our industry and our operations, performance and financial condition, and including, in particular, statements relating to our business, growth strategies, distribution 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 risk 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:

- operating in a highly competitive industry;
- the success of our research and development (R&D) and licensing efforts;
- the impact of disruptive innovations and advances in veterinary medical practices, animal health technologies and alternatives to animal-derived protein;
- competition from generic products that may be viewed as more cost-effective;
- changes in regulatory restrictions on the use of antibiotics in farm animals;
- an outbreak of infectious disease carried by farm animals;
- risks related to the evaluation of animals;
- consolidation of our customers and distributors;
- the impact of increased or decreased sales into our distribution channels resulting in fluctuations in our revenues;
- our dependence on the success of our top products;
- our ability to complete acquisitions and divestitures and to successfully integrate the businesses we acquire;
- our ability to implement our business strategies or achieve targeted cost efficiencies and gross margin improvements;
- manufacturing problems and capacity imbalances, including at our contract manufacturers;
- fluctuations in inventory levels in our distribution channels;
- risks related to the use of artificial intelligence (AI) in our business;
- our dependence on sophisticated information technology systems and infrastructure, including the use of third-party, cloud-based technologies, and the impact of outages or breaches of the information technology systems and infrastructure we rely on;
- the impact of weather conditions, including those related to climate change, and the availability of natural resources;
- demand, supply and operational challenges associated with the effects of a human disease outbreak, epidemic, pandemic or other widespread public health concern;
- the loss of key personnel or highly skilled employees;
- adverse effects of labor disputes, strikes and/or work stoppages;
- the effect of our substantial indebtedness on our business, including restrictions in our debt agreements that limit our operating flexibility and changes in our credit ratings that lead to higher borrowing expenses and may restrict access to credit;
- changes in interest rates that may adversely affect our earnings and cash flows;
- risks related to the write-down of goodwill or identifiable intangible assets;
- the lack of availability or significant increases in the cost of raw materials;
- risks related to our presence in foreign markets;
- risks related to foreign currency exchange rate fluctuations;
- risks related to underfunded pension plan liabilities;

- our current plan not to pay dividends and restrictions on our ability to pay dividends;
- the potential impact that actions by activist shareholders could have on the pursuit of our business strategies;
- risks related to tax expense or exposure;
- actions by regulatory bodies, including as a result of their interpretation of studies on product safety;
- the possible slowing or cessation of acceptance and/or adoption of our farm animal sustainability initiatives;
- the impact of increased regulation or decreased governmental financial support related to the raising, processing or consumption of farm animals;
- risks related to the modification of foreign trade policy;
- the impact of litigation, regulatory investigations and other legal matters, including the risk to our reputation and the risk that our insurance policies may be insufficient to protect us from the impact of such matters;
- challenges to our intellectual property rights or our alleged violation of rights of others;
- misuse, off-label or counterfeiting use of our products;
- unanticipated safety, quality or efficacy concerns and the impact of identified concerns associated with our products;
- insufficient insurance coverage against hazards and claims;
- compliance with privacy laws and security of information; and
- risks related to environmental, health and safety laws and regulations.

See Item 1A, "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the United States (U.S.) Securities and Exchange Commission (SEC) (2023 Form 10-K), and Part II of this 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. 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.

PART I

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Revenue	$ 1,030	$ 1,068	$ 3,419	$ 3,382
Costs, expenses and other:				
Cost of sales	492	487	1,502	1,415
Research and development	87	86	263	248
Marketing, selling and administrative	323	313	1,014	993
Amortization of intangible assets	133	140	397	410
Asset impairment, restructuring and other special charges	17	16	143	91
Goodwill impairment	—	1,042	—	1,042
Gain on divestiture	(640)	—	(640)	—
Interest expense, net of capitalized interest	58	72	189	210
Other expense, net	1	9	12	41
	471	2,165	2,880	4,450
Income (loss) before income taxes	559	(1,097)	539	(1,068)
Income tax expense (benefit)	195	(1)	193	22
Net income (loss)	$ 364	$ (1,096)	$ 346	$ (1,090)
Earnings (loss) per share:				
Basic	$ 0.74	$ (2.22)	$ 0.70	$ (2.21)
Diluted	$ 0.73	$ (2.22)	$ 0.70	$ (2.21)
Weighted-average shares outstanding:				
Basic	494.3	492.7	493.9	492.1
Diluted	497.7	492.7	496.9	492.1

See accompanying notes to condensed consolidated financial statements.

Elanco Animal Health Incorporated
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income (loss)	$ 364	$ (1,096)	$ 346	$ (1,090)
Other comprehensive income (loss):				
Cash flow hedges, net of taxes	(81)	—	(58)	(19)
Foreign currency translation, net of taxes	283	(197)	(10)	(65)
Defined benefit plans, net of taxes	1	(4)	(5)	(6)
Other comprehensive income (loss), net of taxes	203	(201)	(73)	(90)
Comprehensive income (loss)	$ 567	$ (1,297)	$ 273	$ (1,180)

See accompanying notes to condensed consolidated financial statements.

Elanco Animal Health Incorporated
Condensed Consolidated Balance Sheets
(in millions, except share data)

	September 30, 2024	December 31, 2023
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	$ 490	$ 352
Accounts receivable, net	840	842
Other receivables	64	168
Inventories	1,632	1,735
Prepaid expenses and other	340	310
Total current assets	3,366	3,407
Noncurrent Assets		
Goodwill	4,625	5,094
Other intangibles, net	4,011	4,494
Other noncurrent assets	302	341
Property and equipment, net	979	1,026
Total assets	$ 13,283	$ 14,362
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 259	$ 270
Sales rebates and discounts	333	367
Current portion of long-term debt	44	38
Other current liabilities	685	566
Total current liabilities	1,321	1,241
Noncurrent Liabilities		
Long-term debt	4,313	5,736
Deferred taxes	539	567
Other noncurrent liabilities	587	595
Total liabilities	6,760	8,139
Commitments and Contingencies		
Equity		
Common stock, no par value, 5,000,000,000 shares authorized, 494,333,072 and 492,845,216 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	—	—
Additional paid-in capital	8,804	8,777
Accumulated deficit	(1,942)	(2,288)
Accumulated other comprehensive loss	(339)	(266)
Total equity	6,523	6,223
Total liabilities and equity	$ 13,283	$ 14,362

See accompanying notes to condensed consolidated financial statements.

Elanco Animal Health Incorporated
Condensed Consolidated Statements of Equity (Unaudited)
(in millions)

	Common Stock				Accumulated Other Comprehensive Loss				
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Cash Flow Hedges	Foreign Currency Translation	Defined Benefit Plans	Total	Total Equity
December 31, 2022	474.2	$ —	$ 8,738	$ (1,057)	$ 182	$ (672)	$ 98	$ (392)	$ 7,289
Net income	—	—	—	103	—	—	—	—	103
Other comprehensive income (loss), net of tax	—	—	—	—	(48)	130	—	82	82
Stock-based compensation activity, net	1.0	—	6	—	—	—	—	—	6
Conversion of tangible equity units (TEUs) into common stock	17.2	—	—	—	—	—	—	—	—
March 31, 2023	492.4	—	8,744	(954)	134	(542)	98	(310)	7,480
Net loss	—	—	—	(97)	—	—	—	—	(97)
Other comprehensive income (loss), net of tax	—	—	—	—	29	2	(2)	29	29
Stock-based compensation activity, net	0.2	—	8	—	—	—	—	—	8
June 30, 2023	492.6	—	8,752	(1,051)	163	(540)	96	(281)	7,420
Net loss	—	—	—	(1,096)	—	—	—	—	(1,096)
Other comprehensive income (loss), net of tax	—	—	—	—	—	(197)	(4)	(201)	(201)
Stock-based compensation activity, net	0.1	—	11	—	—	—	—	—	11
September 30, 2023	492.7	$ —	$ 8,763	$ (2,147)	$ 163	$ (737)	$ 92	$ (482)	$ 6,134
December 31, 2023	492.8	$ —	$ 8,777	$ (2,288)	$ 57	$ (379)	$ 56	$ (266)	$ 6,223
Net income	—	—	—	32	—	—	—	—	32
Other comprehensive (loss) income, net of tax	—	—	—	—	32	(227)	(4)	(199)	(199)
Stock-based compensation activity, net	1.2	—	—	—	—	—	—	—	—
March 31, 2024	494.0	—	8,777	(2,256)	89	(606)	52	(465)	6,056
Net loss	—	—	—	(50)	—	—	—	—	(50)
Other comprehensive loss, net of tax	—	—	—	—	(9)	(66)	(2)	(77)	(77)
Stock-based compensation activity, net	0.2	—	13	—	—	—	—	—	13
June 30, 2024	494.2	—	8,790	(2,306)	80	(672)	50	(542)	5,942
Net income	—	—	—	364	—	—	—	—	364
Other comprehensive income (loss), net of tax	—	—	—	—	(81)	283	1	203	203
Stock-based compensation activity, net	0.1	—	14	—	—	—	—	—	14
September 30, 2024	494.3	$ —	$ 8,804	$ (1,942)	$ (1)	$ (389)	$ 51	$ (339)	$ 6,523

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	**2023**
Cash Flows from Operating Activities		
Net income (loss)	$ 346	$ (1,090)
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation and amortization	498	523
Goodwill impairment	—	1,042
Stock-based compensation expense	40	31
Asset impairment and write-down charges	76	5
Gain on divestiture	(640)	—
Proceeds from interest rate swap settlements	5	57
Changes in operating assets and liabilities, net of acquisitions and divestitures	93	(446)
Other non-cash operating activities, net	(54)	(8)
Net Cash Provided by Operating Activities	364	114
Cash Flows from Investing Activities		
Net purchases of property and equipment and software	(100)	(99)
Cash paid for acquisitions	(5)	(19)
Proceeds from business divestitures	1,294	—
Proceeds from previous sale of Shawnee and Speke facilities (see Note 4)	66	—
Purchases of intangible assets	(8)	(14)
Other investing activities, net	1	(2)
Net Cash Provided by (Used for) Investing Activities	1,248	(134)
Cash Flows from Financing Activities		
Proceeds from Revolving Credit Facility	50	350
Repayments of Revolving Credit Facility	(250)	(53)
Proceeds from Securitization Facility	170	250
Repayments of Securitization Facility	(170)	(97)
Proceeds from issuance of long-term debt	350	—
Repayments of long-term borrowings	(1,587)	(388)
Other financing activities, net	(23)	(6)
Net Cash (Used for) Provided by Financing Activities	(1,460)	56
Effect of exchange rate changes on cash and cash equivalents	(14)	(12)
Net increase in cash and cash equivalents	138	24
Cash and cash equivalents – beginning of period	352	345
Cash and cash equivalents – end of period	$ 490	$ 369

See accompanying notes to condensed consolidated financial statements.

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

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with the SEC requirements for interim reporting. As permitted under those rules, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the U.S. (GAAP) have been condensed or omitted. The information included in this Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes for the year ended December 31, 2023, included in our 2023 Form 10-K. In addition, results for interim periods should not be considered indicative of results for any other interim period or for the full year ending December 31, 2024, or any other future period.

In our opinion, the financial statements reflect all adjustments (including those that are normal and recurring) that are necessary for 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 of prior year information have been made to conform to the current year's presentation.

The significant accounting policies set forth in Note 2 to the consolidated financial statements in our 2023 Form 10-K and the footnotes herein appropriately represent, in all material respects, the current status of our accounting policies.

Note 2. New Financial Accounting Pronouncements

The following table provides a brief description of accounting standards applicable to us that we have not yet adopted:

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*	ASU 2023-07 is intended to improve disclosure requirements related to reportable segments, primarily through enhanced disclosures about significant segment expenses that are regularly provided to the chief operating decision maker (CODM) for purposes of assessing a segment's profit or loss and deciding how to allocate resources. This new standard applies to all public entities, including entities, like us, with a single reportable segment.	This new standard is effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. Adoption requires retrospective application.	We are currently assessing the impact ASU 2023-07 will have on our consolidated financial statements, including our footnote disclosures.
ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*	ASU 2023-09 is intended to enhance the transparency and decision usefulness of income tax disclosures by enhancing information about how an entity's operations and related tax risks and its tax planning and operational opportunities affect its tax rate and prospects for future cash flows.	The guidance is effective for fiscal years beginning after December 31, 2024, with early adoption permitted. Adoption allows for prospective application, with retrospective application permitted.	We are currently assessing the impact ASU 2023-09 will have on our consolidated financial statements, including our Income Taxes footnote disclosure.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses	In November 2024, the FASB issued ASU 2024-03, which is intended to provide more detailed information about specified categories of expenses (purchases of inventory, employee compensation, depreciation and amortization) included in certain expense captions presented on the face of our consolidated income statements.	This new standard is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. The amendments may be applied either (1) prospectively to financial statements issued for periods after the effective date of this ASU or (2) retrospectively to all prior periods presented in the consolidated financial statements.	We are currently assessing the impact ASU 2024-03 will have on our consolidated financial statements, including our footnote disclosures.

Note 3. Revenue

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 obligations, which is generally once the goods have been shipped and the customer has assumed title. For contract manufacturing organization (CMO) arrangements, we recognize revenue over time or at a point in time depending on our evaluation of when the customer obtains control of the promised goods or services.

Provisions for sales rebates and discounts are recorded as a reduction to revenue in the period the related sales are recognized and are based on specific agreements. In determining the appropriate accrual amount, we consider our historical experience with similar incentive programs, current sales data and estimates of inventory levels at our channel distributors. The following table summarizes the activity in our global sales rebates and discounts liability:

	Nine Months Ended September 30,	
	2024	2023
Beginning balance	$ 367	$ 324
Reduction of revenue	620	558
Payments	(656)	(522)
Foreign currency translation adjustments	2	(4)
Ending balance	$ 333	$ 356

Adjustments to revenue recognized due to changes in estimates for products shipped in previous periods were not material for either the nine months ended September 30, 2024 or 2023. Actual global product returns were approximately 1% of net revenue for the nine months ended September 30, 2024 and 2023.

Disaggregation of Revenue

The following table summarizes our revenue disaggregated by product category:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Pet Health	$ 486	$ 495	$ 1,704	$ 1,688
Farm Animal:				
Cattle	253	242	754	700
Poultry	188	184	583	545
Swine	88	93	262	284
Aqua	1	42	81	132
Total Farm Animal	530	561	1,680	1,661
Contract Manufacturing [(1)]	14	12	35	33
Revenue	$ 1,030	$ 1,068	$ 3,419	$ 3,382

[(1)] Represents revenue from arrangements in which we manufacture products on behalf of a third party.

The following table summarizes our revenue disaggregated by geographic area:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
United States	$ 487	$ 479	$ 1,561	$ 1,522
International	543	589	1,858	1,860
Revenue	$ 1,030	$ 1,068	$ 3,419	$ 3,382

We have a single customer that accounted for approximately 11% and 10% of revenue for the nine months ended September 30, 2024 and 2023, respectively. Product sales with this customer resulted in accounts receivable of $91 million and $78 million at September 30, 2024 and December 31, 2023, respectively.

Note 4. Acquisitions, Divestitures and Other Arrangements

Acquisitions

During 2023, we completed the acquisitions of certain U.S. marketed products, pipeline products, inventory and an assembled workforce from NutriQuest, LLC (NutriQuest) and certain assets including inventory and distribution rights for certain marketed products from NutriQuest Nutricao Animal Ltda (NutriQuest Brazil). Each of these transactions was accounted for as a business combination under the acquisition method of accounting. The acquisition method requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The determination of estimated fair value requires management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets, where applicable, has been recorded as goodwill.

NutriQuest

On January 3, 2023, we acquired NutriQuest for total purchase consideration of $59 million. NutriQuest is a provider of swine, poultry and cattle nutritional health products to animal producers. The acquisition helped us expand our existing nutritional health offerings and further our efforts to explore innovative antibiotic alternatives. The composition of the purchase price was as follows:

Up-front cash consideration	$ 16
Deferred cash consideration paid January 4, 2024	5
Fair value of contingent consideration	38
Total purchase consideration	$ 59

Contingent consideration for this acquisition includes up to $85 million of cash consideration payable if specific development, sales and geographic expansion milestones are achieved, as outlined in the asset purchase agreement. The initial fair value of this contingent consideration liability of $38 million was estimated at the acquisition date using a Monte Carlo simulation model, which represented a Level 3 measurement under the fair value hierarchy (see Note 10. Fair Value for further information).

The following table summarizes the fair values of assets acquired as of the acquisition date:

Inventories	$	3
Intangible assets:		
Marketed products		29
Acquired in-process research and development (IPR&D)		9
Other intangible assets		15
Total identifiable assets		56
Goodwill		3
Total consideration transferred	$	59

Other intangible assets consist of customer relationships and trade names. The acquired definite-lived intangible assets are being amortized over a weighted-average estimated useful life of approximately 12 years on a straight-line basis.

NutriQuest Brazil

On August 1, 2023, we acquired NutriQuest Brazil for total purchase consideration of $19 million. The composition of the purchase price included cash paid on the closing date of $3 million, with additional consideration payable through 2026 valued at approximately $16 million, a portion of which is contingent upon the continuation of certain terms and conditions set forth in the asset purchase agreement.

The following table summarizes the fair values of assets acquired as of the acquisition date:

Inventories	$	3
Definite-lived intangible assets		15
Total identifiable assets		18
Goodwill		1
Total consideration transferred	$	19

The acquired definite-lived intangible assets are being amortized over a weighted-average estimated useful life of approximately nine years on a straight-line basis.

Divestitures

Aqua Business

On July 9, 2024, we closed the sale of our aqua business to Intervet International B.V., a Dutch subsidiary of Merck Animal Health, for $1,294 million in cash, the vast majority of which was utilized to repay outstanding term loan debt following the close of the transaction (see Note 8. Debt for further information). Our aqua business included products across both warm-water and cold-water species and generated revenues of $81 million in 2024, through the divestiture date, and $132 million during the nine months ended September 30, 2023. Given that we operate our business as a single reporting unit, we are unable to reasonably determine stand-alone costs and related earnings or loss before income taxes attributable to our aqua business. We also determined that the sale did not qualify for reporting as a discontinued operation, as it did not represent a strategic shift that will have a major effect on our operations and/or financial results. Assets sold included inventories, real property and equipment, including our manufacturing sites in Canada and Vietnam, and certain intellectual property, technology and other intangible assets, including marketed products. Additionally, approximately 280 commercial and manufacturing employees were transferred to Merck Animal Health as part of this divestiture.

As of the disposal date, the carrying amounts of the following major assets were derecognized from our condensed consolidated balance sheet:

Inventories	$	43
Goodwill		458
Other intangibles, net		51
Property and equipment, net		68
Other assets		14
Total assets	$	634

Upon close, based on the aggregate carrying value of our aqua business disposal group of $634 million and $20 million in costs to sell, we recorded a pre-tax gain on divestiture of $640 million. Income tax expense of $171 million related to the taxable gain was also recognized during the three months ended September 30, 2024. In determining the amount of goodwill to include in our aqua business disposal group, a portion of our single reporting unit's goodwill was allocated to it on a relative fair value basis by comparing the fair value of the disposal group to the estimated fair value of our single reporting unit as a whole. We estimated the fair value of our single reporting unit using the income approach, which is a valuation technique that provides an estimate of fair value based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Significant management judgment was required in estimating the fair value of our single reporting unit, including, but not limited to, estimates and assumptions regarding future cash flows of our single reporting unit, revenue growth and other profitability measures, such as gross margin and earnings before interest, taxes, depreciation and amortization (EBITDA) margin, and the determination of an appropriate discount rate. We consider this valuation approach to be a Level 3 measurement under the fair value hierarchy.

Shawnee and Speke

In August 2021 and February 2022, we completed the sales of our Shawnee, Kansas and Speke, U.K. sites, respectively, to TriRx Pharmaceuticals (TriRx). Based on the original terms of the sales agreements, we anticipated receiving cash consideration from TriRx over a three-year period, and we received cash proceeds of $13 million from TriRx in 2022. In May 2023, we entered into amendments to the agreements (the amended agreement), which effectively restructured the payment schedule related to the remaining amount owed. At December 31, 2023, our remaining net receivable balance from TriRx under the amended agreement was $69 million. In February 2024, we received $66 million, in addition to accrued interest.

In September 2024, TriRx Speke Ltd, an affiliate of TriRx, entered into trading administration, a formal insolvency process in the U.K. designed to help companies facing severe financial challenges regain stability. As a result of the site entering into trading administration, we impaired the remaining $12 million value of a contract asset related to a favorable supply agreement with TriRx. This impairment charge was included within asset impairment, restructuring and other special charges within our condensed consolidated statements of operations for the three and nine months ended September 30, 2024.

Note 5. Asset Impairment, Restructuring and Other Special Charges

In recent years, we have incurred substantial costs associated with restructuring programs and cost-reduction initiatives designed to achieve a flexible and competitive cost structure. Restructuring activities have primarily included charges associated with product, facility and business rationalizations and workforce reductions. We have also incurred costs associated with executing acquisition, divestiture and other significant transactions and related integration and/or separation activities. Components of asset impairment, restructuring and other special charges were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Restructuring charges[1]	$ 2	$ —	$ 45	$ —
Acquisition and divestiture-related charges[2]	—	11	17	86
Non-cash and other items:				
Asset impairments[3]	15	5	76	5
Other	—	—	5	—
Total expense	$ 17	$ 16	$ 143	$ 91

(1) Restructuring charges in 2024 primarily related to expected cash-based severance costs associated with a restructuring program approved and announced in February 2024 intended to reallocate resources by shifting international resources from farm animal to pet health. This restructuring program also resulted in changes in how we operate in and sell into the Argentina market, among others.

(2) Acquisition and divestiture-related charges in 2024 consisted of transaction costs directly related to the recent divestiture of our aqua business (see Note 4. Acquisitions, Divestitures and Other Arrangements for further information). Acquisition and divestiture-related charges in 2023 primarily represented costs associated with the implementation of new systems, programs and processes due to the integration of Bayer Animal Health.

(3) Asset impairments in 2024 principally included the write-off of our IL-4R IPR&D asset ($53 million) during the second quarter and $15 million of asset impairments in the third quarter tied to the financial difficulties of our contract manufacturing supply partner, TriRx, the largest of which was a $12 million impairment of a contract asset related to a favorable supply agreement (see Note 4. Acquisitions, Divestitures and Other Arrangements for further information). Asset impairments in 2023 primarily related to the write-down of certain indefinite-lived intangible assets due to increases in the relevant discount rates.

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

Balance at December 31, 2023	$	7
Charges		45
Cash paid		(27)
Non-cash items and other		(2)
Balance at September 30, 2024	$	23

Timing of when the restructuring reserve obligations are expected to be paid can vary due to certain country-specific negotiations and regulations. Of the total reserve, $14 million was included within other current liabilities on our condensed consolidated balance sheet at September 30, 2024, with the remainder included within other noncurrent liabilities.

Note 6. Inventories

Inventories are stated at the lower of cost and net realizable value. We value a majority of our inventories using the first-in, first-out (FIFO) method, although we use the last-in, first-out (LIFO) method for a portion of our inventories.

Inventories consisted of the following:

	September 30, 2024		December 31, 2023	
Finished products	$	811	$	857
Work in process		779		814
Raw materials and supplies		105		128
Total		1,695		1,799
Decrease to LIFO cost		(63)		(64)
Inventories	$	1,632	$	1,735

Note 7. Equity

Tangible Equity Unit (TEU) Offering

In January 2020, we issued 11 million in TEUs at the stated amount of $50 per unit. The TEU prepaid stock purchase contracts were converted into shares of our common stock on February 1, 2023. Holders of our TEUs received 1.5625 shares of our common stock based on the maximum settlement rate for the applicable market value being below $32.00. In total, we issued approximately 17 million shares to holders in connection with the settlement.

Note 8. Debt

Long-term debt consisted of the following:

	September 30, 2024		December 31, 2023	
Incremental Term Facility due 2025 (1)	$	—	$	175
Incremental Term Facility due 2028		371		489
Incremental Term Facility due 2029		188		247
Incremental Term Facility due 2031 (1)		350		—
Term Loan B due 2027		2,603		3,838
Revolving Credit Facility (2)		—		200
Securitization Facility (3)		125		125
4.900% Senior Notes due 2028 (4)		750		750
Unamortized debt issuance costs		(30)		(50)
		4,357		5,774
Less current portion of long-term debt		44		38
Total long-term debt	$	4,313	$	5,736

(1) On August 13, 2024, we entered into an incremental assumption agreement with Farm Credit Mid-America, PCA (Farm Credit). Utilizing a portion of the proceeds from this new facility, we repaid our Incremental Term Facility due 2025 in full. See below for further details.

(2) On July 3, 2024, we amended our Revolving Credit Facility, which extended its maturity through July 2029. Our Revolving Credit Facility provides up to $750 million in borrowing capacity and bears interest at Term SOFR plus a spread dependent on our Net Total Leverage Ratio, as defined within the amended agreement, which was 2.10% as of September 30, 2024.

(3) Our Securitization Facility is secured and collateralized by our U.S. Net Eligible Receivables Balance, has a maximum borrowing capacity of $300 million, bears interest at Term SOFR plus 1.25% and matures in July 2026.

(4) Subsequent to issuance in August 2018, our 4.900% Senior Notes due 2028 have been subject to interest rate increases related to credit rating agency downgrades. As of September 30, 2024, these notes bear interest at a rate of 6.650%.

2024 Financing

On August 13, 2024, we entered into an incremental assumption agreement with Farm Credit, supplementing and amending our existing credit agreement dated August 1, 2020, related to our senior secured credit facility. The incremental assumption agreement provides for an incremental term facility (the Incremental Term Facility due 2031) with an aggregate principal amount of $350 million, maturing on August 13, 2031. The Incremental Term Facility due 2031 bears interest at Term SOFR, including a spread adjustment, plus 175 basis points and will be payable in quarterly installments of principal and interest with a final balloon payment due on August 13, 2031. The proceeds were used to repay the remaining outstanding balance on our Incremental Term Facility due 2025 and for general corporate purposes. Accordingly, as of September 30, 2024, all obligations and commitments related to the Incremental Term Facility due 2025 were satisfied in full. The terms of the Incremental Term Facility due 2031, including pledged collateral and financing maintenance covenants, are generally consistent with the terms of our existing Term Loan B due 2027.

2024 Term Loan Repayments

As discussed in Note 4. Acquisitions, Divestitures and Other Arrangements, we sold our aqua business to a subsidiary of Merck Animal Health on July 9, 2024, for $1,294 million in cash. Utilizing the vast majority of these proceeds, as well as a portion of the proceeds from our Incremental Term Facility due 2031 and available cash on hand, we have repaid $1,587 million of previously outstanding term loan debt across our Term Loan B due 2027 and our Incremental Term Facilities during the nine months ended September 30, 2024. In conjunction with these principal repayments, we recognized charges of $12 million for the write-off of previously deferred financing costs, which are included in interest expense, net of capitalized interest in the condensed consolidated statements of operations for the three and nine months ended September 30, 2024.

As of September 30, 2024, approximately 81% of our long-term indebtedness bears interest at a fixed rate, including variable-rate debt converted to fixed-rate through the use of interest rate swaps (see Note 9. Financial Instruments for additional information). We were in compliance with all of our debt covenants as of September 30, 2024.

Note 9. Financial Instruments

To manage our exposure to market risks, such as changes in foreign currency exchange rates and interest rates, we have entered into various derivative transactions. We formally assess, designate and document, as a hedge of an underlying exposure, each qualifying derivative instrument that will be accounted for as an accounting hedge at inception. We also assess at least quarterly thereafter whether the financial instruments used in the hedging transaction are effective at offsetting changes in either the fair values or cash flows of the underlying exposures. Derivative cash flows are principally classified in the operating activities section of the condensed consolidated statements of cash flows, consistent with the underlying hedged item. Further, we do not offset derivative assets and liabilities on the condensed consolidated balance sheets.

Derivatives not designated as hedges

We may enter into foreign currency exchange forward or option contracts to reduce the effects of fluctuating foreign currency exchange rates. Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures and are recorded at fair value with gains or losses recognized in other expense, net in the condensed consolidated statements of operations. Forward contracts generally have maturities not exceeding 12 months. As of September 30, 2024 and December 31, 2023, we had outstanding foreign currency exchange contracts with aggregate notional amounts of $726 million and $891 million, respectively.

The amounts of net gains on derivative instruments not designated as hedging instruments, recorded in other expense, net were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Foreign exchange forward contracts [1]	$ 9	$ 1	$ 3	$ 2

[1] These amounts were substantially offset in other expense, net by the effect of changing exchange rates on the underlying foreign currency exposures.

Derivatives designated as hedges - Net investment hedges

In September 2023, we entered into a series of cross-currency fixed interest rate swaps to help mitigate the impact of foreign currency fluctuations on our operations in Switzerland with a combined 1,000 million CHF notional amount with tenors in 2026 and 2027. These instruments were determined to be, and were designated as, effective economic hedges of net investments in our CHF denominated net assets. The fair values of these instruments were estimated based on quoted market values of similar hedges and are classified as Level 2 in the fair value hierarchy (see Note 10. Fair Value for further information). Gains or losses related to these instruments due to spot rate fluctuations are recorded as cumulative translation adjustments as a component of other comprehensive income (loss). Gains and losses will remain in accumulated other comprehensive income (loss) until either the sale or substantial liquidation of the hedged subsidiary. (Losses) gains on net investment hedges, net of tax, recorded in other comprehensive income (loss), were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cross-currency fixed interest rate swaps	$ (53)	$ 9	$ (1)	$ 9

During the nine months ended September 30, 2024, and 2023 these instruments also generated $23 million and $1 million of interest income, respectively, which was included as a contra interest expense, net of capitalized interest in our condensed consolidated statements of operations.

Derivatives designated as hedges - Interest rate swaps

To manage our exposure to variable interest rate risk, we utilize interest rate swap contracts to effectively convert our variable-rate debt into fixed-rate debt. We recognize any differences between the variable interest rate payments and the fixed interest rate settlements with the swap counterparties as an adjustment to interest expense, net of capitalized interest over the life of the swaps. We have designated our interest rate swaps as cash flow hedges and record them at fair value on the condensed consolidated balance sheets. Changes in the fair value of the hedges are recognized in other comprehensive income (loss) and reclassified into earnings through interest expense, net of capitalized interest at the time earnings are affected by the hedged transaction. Fair value is estimated based on quoted market values of similar hedges and is classified as Level 2 in the fair value hierarchy.

We had outstanding interest rate swaps with aggregate notional amounts of $2,800 million and $3,800 million as of September 30, 2024 and December 31, 2023, respectively. Following the sale of our aqua business and the associated debt pay down (see Note 4. Acquisitions, Divestitures and Other Arrangements and Note 8. Debt for further information), in July 2024 we settled $1,000 million of existing interest rate swaps. We received cash proceeds of approximately $5 million upon these settlements, which was recorded in accumulated other comprehensive loss and will be amortized to interest expense, net of capitalized interest in future periods. As of September 30, 2024, all of our outstanding interest rate swap instruments had scheduled maturities in 2026.

Additionally, on August 21, 2024, we entered into new forward-starting interest rate swap agreements with a combined notional amount of $850 million, which will become effective on August 1, 2026, and mature in line with the applicable Incremental Term Facility maturities, which range between 2028 and 2031.

The amounts of (losses) gains on our interest rate swap contracts, net of tax, recorded in other comprehensive income (loss) were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest rate swaps	$ (54)	$ 34	$ 30	$ 75

The amounts of gains reclassified from accumulated other comprehensive loss and recognized into earnings through interest expense, net of capitalized interest were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest rate swaps	$ 27	$ 34	$ 88	$ 94

Over the next 12 months, we expect to reclassify a gain of $35 million from accumulated other comprehensive loss into interest expense, net of capitalized interest related to our current and previously settled interest rate swaps.

As of September 30, 2024, when factoring in the impact from our interest rate swaps, the weighted-average effective interest rate on our outstanding indebtedness was 6.42% (excluding the expected future reclassifications to interest expense, net of capitalized interest related to past interest rate swap settlements).

Note 10. Fair Value

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a framework that utilizes the inputs market participants use to determine the fair value of an asset or liability and establishes a fair value hierarchy to prioritize those inputs. Level 1 fair value measurements are based on quoted prices in active markets for identical assets or liabilities. We determine our Level 2 fair value measurements based on a market approach using quoted market values or significant other observable inputs for identical or comparable assets or liabilities. Our Level 3 fair value measurements are based on unobservable inputs based on little or no market activity.

The following table summarizes the fair value information at September 30, 2024 and December 31, 2023, for assets and liabilities measured at fair value on a recurring basis in the respective balance sheet line items, as well as long-term debt, for which fair value is disclosed on a recurring basis:

		Fair Value Measurements Using			
Financial statement line item	**Carrying Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value**
September 30, 2024					
Recurring fair value measurements					
Prepaid expenses and other - derivative instruments	$ 28	$ —	$ 28	$ —	$ 28
Other current liabilities - derivative instruments	(22)	—	(22)	—	(22)
Other current liabilities - contingent consideration	(20)	—	—	(20)	(20)
Other noncurrent liabilities - derivative instruments	(131)	—	(131)	—	(131)
Other noncurrent liabilities - contingent consideration	(16)	—	—	(16)	(16)
Financial instruments not carried at fair value					
Long-term debt, including current portion	(4,387)	—	(4,413)	—	(4,413)
December 31, 2023					
Recurring fair value measurements					
Prepaid expenses and other - derivative instruments	$ 65	$ —	$ 65	$ —	$ 65
Other current liabilities - derivative instruments	(63)	—	(63)	—	(63)
Other current liabilities - contingent consideration	(9)	—	—	(9)	(9)
Other noncurrent liabilities - derivative instruments	(132)	—	(132)	—	(132)
Other noncurrent liabilities - contingent consideration	(31)	—	—	(31)	(31)
Financial instruments not carried at fair value					
Long-term debt, including current portion	(5,824)	—	(5,825)	—	(5,825)

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities at the time of purchase of three months or less. The carrying values of cash and cash equivalents, accounts and other receivables, accounts payable and other current liabilities are reasonable estimates of their fair values due to the short-term nature of these assets and liabilities. We also had investments without readily determinable fair values and equity method investments, which were classified as other noncurrent assets on our condensed consolidated balance sheets totaling $25 million and $26 million as of September 30, 2024 and December 31, 2023, respectively. These investments are not recorded at fair value on a recurring basis, and as such, are not included in the fair value table above.

The fair values of contingent consideration liabilities related to our acquisition of NutriQuest were estimated using the Monte Carlo simulation model, consisting of Level 3 inputs not observable in the market, including estimates relating to revenue forecasts, discount rates and volatility.

Note 11. Goodwill

The following table summarizes the changes in the carrying amount of goodwill:

December 31, 2023 (gross)	$	6,136
Accumulated impairment		(1,042)
December 31, 2023 (net)		5,094
Divestiture [(1)]		(458)
Foreign currency translation adjustments		(11)
September 30, 2024 (net)	$	4,625

(1) We derecognized $458 million of goodwill during the three months ended September 30, 2024, in connection with the divestiture of our aqua business. See Note 4. Acquisitions, Divestitures and Other Arrangements for further information.

As previously disclosed, there was a sharp increase in long-term treasury rates during the third quarter of 2023, and as a result, we assessed our long-lived assets, including goodwill, for impairment. Due principally to an increased discount rate assumption, which was driven by the sharp increase in long-term treasury rates, our quantitative goodwill impairment test resulted in a $1,042 million pre-tax impairment charge. No impairments to the carrying value of goodwill have been recorded during the three or nine months ended September 30, 2024.

Note 12. Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Income tax expense (benefit)	$ 195	$ (1)	$ 193	$ 22
Effective tax rate	34.8 %	0.2 %	35.8 %	(2.0)%

For the three months ended September 30, 2024, we recognized income tax expense of $195 million, while for the nine months ended September 30, 2024, we recognized income tax expense of $193 million. Of the total income tax expense for the three and nine months ended September 30, 2024, $171 million related to the income tax expense associated with the taxable gain on the divestiture of our aqua business. The taxable gain on divestiture exceeded the reported gain of $640 million primarily due to the derecognition of non-deductible goodwill.

Our effective tax rate of 34.8% for the three months ended September 30, 2024, differed from the statutory income tax rate primarily due to the tax impact from the aforementioned gain on divestiture, the jurisdictional earnings mix of projected income in higher tax jurisdictions and losses for which no tax benefit was recognized. Our effective tax rate of 35.8% for the nine months ended September 30, 2024, differed from the statutory income tax rate primarily due to the tax impact from the gain on divestiture of our aqua business, partially offset by the release of a valuation allowance attributable to the sale of our aqua business and the recognition of certain state tax credits.

For the three and nine months ended September 30, 2023, we recognized an income tax benefit of $1 million and income tax expense of $22 million, respectively. Our effective tax rates of 0.2% and (2.0)%, respectively, differed from the statutory income tax rates primarily due to the recognition of the $1,042 million goodwill impairment charge, which was non-deductible in most of the impacted jurisdictions.

We were included in Eli Lilly and Company's (Lilly's) U.S. tax examinations by the Internal Revenue Service through the full separation date of March 11, 2019. Pursuant to the tax matters agreement we executed with Lilly in connection with our initial public offering (IPO), the potential liabilities or potential refunds attributable to pre-IPO periods in which Elanco was included in a Lilly consolidated or combined tax return remain with Lilly. The U.S. examination of tax years 2016 to 2018 began in 2019 and remains ongoing. Final resolution of certain matters is dependent upon several factors, including the potential for formal administrative proceedings.

Note 13. Commitments and Contingencies

Legal Matters

We are party to various legal actions that arise in the normal course of business. The most significant matters are described below. Under GAAP, loss contingency provisions are recorded when we deem it probable that we will incur a loss and we are able to formulate a reasonable estimate of that loss.

Seresto Class Action Lawsuits

Claims seeking actual damages, injunctive relief and/or restitution for allegedly deceptive marketing have been made against Elanco Animal Health Inc. and Bayer HealthCare LLC, along with other Elanco and Bayer entities, arising out of the use of *Seresto*™, a non-prescription flea and tick collar for cats and dogs. During 2021, putative class action lawsuits were filed in federal courts in the U.S. alleging that the *Seresto* collars contain pesticides that can cause serious injury and death to cats and/or dogs wearing the product. In August 2021, the lawsuits were consolidated by the Judicial Panel on Multidistrict Litigation, and the cases were transferred to the Northern District of Illinois. In June 2023, the parties agreed on the monetary terms of a potential settlement of the consolidated class action lawsuits, and as a result, a charge of $15 million was recorded within Other expense, net in our condensed consolidated statements of operations for the nine months ended September 30, 2023. As of December 31, 2023, the parties had agreed on the non-monetary terms of a potential settlement, in addition to the monetary terms agreed to in June 2023. In January 2024, the court preliminarily approved the settlement. The court set a hearing to consider final approval of the settlement in December 2024. If at that time all conditions of the settlement are met, and the settlement is approved, we anticipate the settlement amount will be payable in the first quarter of 2025. As such, the $15 million provision was included within other current liabilities on our condensed consolidated balance sheet as of September 30, 2024.

Additional Legal Matters

For the legal matters discussed below, we either believe loss is not probable or are unable to estimate the possible loss or range of loss, if any. The process of resolving these matters is inherently uncertain and may develop over an extended period of time; therefore, at this time, the ultimate resolutions cannot be predicted. As of September 30, 2024 and December 31, 2023, we had no material liabilities established related to the legal matters discussed below.

On October 7, 2024, a putative securities class action lawsuit captioned *Joseph Barpar v. Elanco Animal Health Inc., et al.* (*Barpar*) was filed in the United States District Court for the District of Maryland against Elanco and two of its executives. *Barpar* alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and specifically alleges that Elanco and the two executives made materially false and/or misleading statements and/or failed to disclose certain facts about the safety of and labeling for our *Zenrelia*® product, as well as the approval and launch timelines for *Zenrelia* and our *Credelio Quattro*™ product. The plaintiff purports to represent purchasers of Elanco securities between November 7, 2023 and June 26, 2024. On November 1, 2024, a shareholder derivative action captioned Lawrence Hollin v. Lawrence E. Kurzius, et al. was filed in the United States District Court for the District of Maryland against current members of Elanco's board and senior management, alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and state law claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unjust enrichment and waste of corporate assets, based on allegations substantially similar to the allegations in the putative class action complaint in *Barpar*. We intend to vigorously defend our positions in connection with both actions. The process of resolving these matters is inherently uncertain and may develop over an extended period of time; therefore, at this time, the ultimate resolution cannot be predicted.

On May 20, 2020, a shareholder class action lawsuit captioned *Hunter v. Elanco Animal Health Inc., et al.* (*Hunter*) was filed in the United States District Court for the Southern District of Indiana against Elanco and certain executives. On September 3, 2020, the court appointed a lead plaintiff, and on November 9, 2020, the lead plaintiff filed an amended complaint adding additional claims against Elanco, certain executives and other individuals. The lawsuit alleged, in part, that Elanco and certain of its executives made materially false and/or misleading statements and/or failed to disclose certain facts about Elanco’s supply chain, inventory, revenue and projections. The lawsuit sought unspecified monetary damages and purports to represent purchasers of Elanco securities between September 30, 2018 and May 6, 2020, and purchasers of Elanco common stock issued in connection with Elanco's acquisition of Aratana Therapeutics, Inc. On January 13, 2021, we filed a motion to dismiss, and on August 17, 2022, the court issued an order granting our motion to dismiss the case without prejudice. On October 14, 2022, the plaintiffs filed a motion for leave to amend the complaint. On December 7, 2022, we filed an opposition to the plaintiffs' motion, and on September 27, 2023, the court denied the plaintiffs' motion for leave, issuing final judgment in favor of Elanco. On October 25, 2023, the plaintiffs filed a notice of appeal to the United States Court of Appeals for the Seventh Circuit. We continue to believe the claims made in the case are meritless, and we intend to continue to vigorously defend our position.

On October 16, 2020, a shareholder class action lawsuit captioned *Safron Capital Corporation v. Elanco Animal Health Inc., et al.* was filed in the Marion Superior Court of Indiana against Elanco, certain executives and other individuals and entities. On December 23, 2020, the plaintiffs filed an amended complaint adding an additional plaintiff. The lawsuit alleges, in part, that Elanco and certain of its executives made materially false and/or misleading statements and/or failed to disclose certain facts about Elanco’s relationships with third-party distributors and revenue attributable to those distributors within the registration statement on Form S-3 dated January 21, 2020, and accompanying prospectus filed in connection with Elanco’s public offering which closed on or about January 27, 2020. The lawsuit seeks unspecified monetary damages and purports to represent purchasers of Elanco common stock or TEUs issued in connection with the public offering. From February 2021 to August 2022, this case was stayed in deference to *Hunter*. On October 24, 2022, we filed a motion to dismiss. On December 23, 2022, the plaintiffs filed their opposition to the motion to dismiss. Prior to the ruling on the motion to dismiss, on June 8, 2023, the plaintiffs filed a motion for leave to file a second amended complaint, which is now the operative complaint. We filed a motion to dismiss the second amended complaint on August 7, 2023, to which the plaintiffs filed their opposition on October 13, 2023. On April 17, 2024, our motion to dismiss was granted. The dismissal is without prejudice to plaintiffs' right to re-file a claim, and it is possible the plaintiffs will attempt to file a third amended complaint. We continue to believe the claims made in the case are meritless, and we intend to vigorously defend our position.

In the third quarter of 2019, Tevra Brands, LLC (Tevra) filed a complaint in the U.S. District Court of the Northern District of California, alleging that Bayer Animal Health (acquired by us in August 2020) had been involved in unlawful, exclusive dealing and tying of its flea and tick products *Advantage*, *Advantix* and *Seresto* and maintained a monopoly in the market. The complaint was amended in March 2020 and then dismissed in September 2020 with leave to amend. A second amended complaint was filed in March 2021 and realleged claims of unlawful exclusive dealing related to *Advantage* and *Advantix* and monopoly maintenance. A motion to dismiss the second amended complaint was denied in January 2022. Tevra's demands included both actual and treble damages. On April 16, 2024, the court granted our motion for summary judgment to exclude all damages subsequent to our acquisition of Bayer Animal Health in August 2020. A jury trial was held in July 2024, and on August 1, 2024, the jury returned a verdict in favor of Bayer Animal Health. In August 2024, the plaintiff filed an appeal to this decision. We continue to believe the claims made in the case are meritless and will continue to vigorously defend our position.

Regulatory Matters

On July 1, 2021, we received a subpoena from the SEC relating to our channel inventory and sales practices prior to mid-2020. We have engaged in discussions with the SEC about a possible resolution or settlement of potential disclosure claims, and in late July 2024 we reached an agreement in principle on terms of a potential settlement of disclosure claims, without admitting or denying the underlying allegations. We previously accrued a liability of $15 million, which was included within other current liabilities on our condensed consolidated balance sheet as of September 30, 2024. The agreement remains subject to SEC approval and, therefore, it remains uncertain whether a definitive agreement will be reached and the terms of any such agreement.

Other Commitments

As of September 30, 2024, we had a lease commitment that has not yet commenced for our new corporate headquarters in Indianapolis, Indiana. Total minimum lease payments are estimated to be approximately $378 million over a term of 25 years, excluding extensions. Final lease payments may vary depending on the actual cost of certain construction activities. Lease commencement is expected in 2025.

The land for our new corporate headquarters is located in a Tax Increment Finance District, and the project is, in part, funded through Tax Incremental Financing (TIF) through an incentive agreement between the City of Indianapolis and us. The agreement provides for an estimated total incentive of $64 million to be funded by the City of Indianapolis in connection with the future tax increment revenue generated from the developed property. In December 2021, as part of a funding and development agreement entered into between the developer and us, we made a commitment to use the expected TIF proceeds towards the cost of developing and constructing the headquarters. In exchange, the developer reimbursed us up to the $64 million commitment in 2021. During 2022, we refunded approximately $15 million of the TIF proceeds to the developer. As a result, it is our expectation that our future lease payments will be reduced. The remaining accrued incentive was included in other noncurrent liabilities on our condensed consolidated balance sheets and will be amortized over the lease term beginning on the commencement date and offset future rent expense.

Note 14. Earnings Per Share

We compute basic earnings per share by dividing net income available to common shareholders by the actual weighted-average number of common shares outstanding for the reporting period. Elanco has variable common stock equivalents relating to certain equity awards in stock-based compensation arrangements. We also had variable common stock equivalents related to the TEU prepaid stock purchase contracts in the first quarter of 2023 through the settlement date of February 1, 2023 (see Note 7. Equity for further discussion). Diluted earnings per share reflects the potential dilution that could have occurred if holders of the unvested equity awards converted their holdings into common stock and that could have occurred if holders of unsettled TEUs had converted their holdings into common stock prior to the February 1, 2023, settlement date. The weighted-average number of potentially dilutive shares outstanding was calculated using the treasury stock method. Potential common shares that would have had the effect of increasing diluted earnings per share were considered to be anti-dilutive and as such, these shares were not included in the calculation of diluted earnings per share.

Basic and diluted weighted-average shares outstanding were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Basic weighted-average common shares outstanding [1]	494.3	492.7	493.9	492.1
Assumed conversion of dilutive common stock equivalents [2]	3.4	—	3.0	—
Diluted weighted-average shares outstanding	497.7	492.7	496.9	492.1

(1) The TEU prepaid stock purchase contracts were convertible into a minimum of 14.3 million shares or a maximum of 17.2 million shares. The minimum 14.3 million shares were included in the calculation of basic weighted-average shares from January 22, 2020 to February 1, 2023. The 17.2 million shares that were ultimately issued have been included in the calculation of basic weighted-average shares outstanding subsequent to the settlement date of February 1, 2023.

(2) For the three months ended September 30, 2024 and 2023, approximately 0.9 million and 2.7 million, respectively, of potential common shares were excluded from the calculation of diluted weighted-average shares outstanding because their effect was anti-dilutive. For the nine months ended September 30, 2024 and 2023, approximately 0.7 million and 2.7 million, respectively, of potential common shares were excluded from the calculation of diluted weighted-average shares outstanding because their effect was anti-dilutive.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management's discussion and analysis of financial condition and results of operations (MD&A) 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 condensed consolidated financial statements and accompanying footnotes in Item 1 of Part I of this Form 10-Q. Certain statements in this Item 2 of Part I of this Form 10-Q constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" of this Form 10-Q, in Item 1A, "Risk Factors" of Part II of this Form 10-Q and in Item 1A, "Risk Factors" of Part I of our 2023 Form 10-K, may cause our actual results, financial position and cash generated from operations to differ materially from these forward-looking statements. Further, due to the seasonality of our pet health sales, interim results are not necessarily an appropriate base from which to project annual results.

Business Overview

Elanco is a global leader in animal health, dedicated to innovating and delivering products and services to prevent and treat disease in farm animals and pets. Our diverse, durable product portfolio is sold in more than 90 countries and serves animals across many species, primarily: dogs and cats (collectively, pet health) and cattle, poultry, swine, sheep and, prior to the divestiture in July 2024 (see Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for further information), aqua (collectively, farm animal). With a heritage dating back to 1954, we consistently innovate to improve the health of animals and to benefit our customers while fostering an inclusive, cause-driven culture for our employees. We operate our business in a single segment, directed at advancing the well-being of animals, people and the planet, enabling us to realize our vision of Food and Companionship Enriching Life.

Our diverse product portfolio of approximately 200 brands helps make us a trusted partner to pet owners, veterinarians and farm animal producers. Our products are generally sold worldwide to third-party distributors and independent retailers and directly to farm animal producers and veterinarians. In recent years, we have expanded our omnichannel presence in both the veterinary clinic and in retail markets, including e-commerce.

Product Development and Regulatory Update

A key element of our targeted value creation strategy is to drive revenue growth through portfolio development and product innovation. We continue to pursue the development of new chemical and biological molecules, as well as additional registrations and indications for current products. Our future growth and success depend on both our pipeline of new products, including new products we develop internally, develop with partners or that we obtain through licenses or acquisitions, and the life cycle management of our existing products. We believe we are an industry leader in animal health R&D, with a track record of successful product innovation, business development and commercialization.

Bovaer: In May 2024, the U.S Food and Drug Administration (FDA) completed its comprehensive, multi-year review of *Bovaer®* (3-NOP), a first-in-class methane-reducing feed ingredient for use in lactating dairy cattle. Producers began feeding the product to cattle in the U.S. during the third quarter of 2024.

Zenrelia: Final FDA approval for *Zenrelia®*, a JAK inhibitor targeting control of pruritus and atopic dermatitis in dogs, was received in September 2024. Launch of the product followed shortly after final approval, with the first sales of *Zenrelia* occurring in late September. We have also received approval for *Zenrelia* in Brazil, which launched in September 2024, and in Canada and Japan. Additional reviews are ongoing in other key markets, including Europe, United Kingdom and Australia.

Credelio Quattro: In October 2024, we received final approval from the FDA for *Credelio Quattro™*, a monthly chewable tablet for dogs that protects against fleas, ticks, heartworms, roundworms, hookworms and three different species of tapeworms. We expect product launch in the first quarter of 2025.

Experior: In October 2024, we received multiple combination clearance approvals from the FDA for our *Experior®* product to be used in combination with other farm animal products, allowing for broader use in heifers, which represent nearly 40% of the fed cattle population in the U.S.

Other Key Trends and Factors Affecting Our Results of Operations

Aqua Business Divestiture: On July 9, 2024, we closed the sale of our aqua business to a subsidiary of Merck Animal Health, for $1,294 million in cash proceeds, which was paid at closing. We utilized a vast majority of these proceeds to repay previously outstanding term loan debt, thereby reducing our leverage and expected future interest expense. Our aqua business included products across both warm-water and cold-water species and generated revenues of $81 million in 2024, through the divestiture date, and $132 million during the nine months ended September 30, 2023. Strategically, this divestiture allows us to prioritize our investments in larger markets with greater long-term earnings potential.

Assets sold included inventories, real property and equipment, including our manufacturing sites in Canada and Vietnam, and certain intellectual property, technology and other intangible assets, including marketed products. Along with these assets, approximately 280 commercial and manufacturing employees were transferred to Merck Animal Health as part of this divestiture. We recorded a pre-tax gain on divestiture of $640 million during the third quarter of 2024. Income tax expense associated with this gain on divestiture was $171 million, a majority of which will be payable in 2025. See Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for further information.

Restructuring Activities: In February 2024, our Board of Directors authorized a restructuring plan (the restructuring plan) to improve operational efficiencies and better align our organizational structure with current business needs, top strategic priorities and key growth opportunities. Specifically, the restructuring plan was intended to reallocate resources by shifting international resources from farm animal to pet health as we plan for the global launches of certain blockbuster potential products. Further, the restructuring plan impacted how we operate in and sell into the Argentina market, among others, reducing our foreign currency exposure in those markets.

During the nine months ended September 30, 2024, we incurred $45 million of charges associated with the restructuring plan, the majority relating to expected cash-based severance costs. The restructuring plan is expected to result in annualized net savings of $30 to $35 million. See Note 5. Asset Impairment, Restructuring and Other Special Charges to the condensed consolidated financial statements for further information.

Supplier Administration: In September 2024, one of our contract manufacturing supply partners, TriRx Speke Ltd (TriRx Speke), entered into trading administration, a formal insolvency process in the U.K. designed to help companies facing severe financial challenges regain stability. Since this time we have been making up-front prepayments to support the operational costs of the site to minimize supply disruption, resulting in increased costs for us that we expect to continue for the foreseeable future. While we are not anticipating significant supply disruption throughout the remainder of 2024, we are currently exploring options with parties involved to maintain continued product supply. Further, as a result of the site entering into trading administration, we impaired the remaining $12 million value of a contract asset related to a favorable supply agreement with TriRx Speke. See Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for further information.

Macroeconomic Factors: Our operations are exposed to and are impacted by various global macroeconomic factors. We face continuing market and operating challenges across the globe due to, among other factors, the Russia-Ukraine conflict, conditions related to supply chain disruption, higher interest rates, foreign currency exchange rate volatility and inflationary pressures. Continued evolution of these conditions has led to economic slowdowns in certain countries and/or regions and volatility in consumer behavior. We anticipate global macroeconomic pressures to continue throughout 2024.

Seasonality: While many of our products are sold consistently throughout the year, we do experience seasonality in our pet health business due to increased demand for certain parasiticide product offerings in the first half of the year. For example, based upon historical results, approximately 75% and 60% of total annual revenue contributed by our higher-margin parasiticide products *Seresto* and *Advantage Family*, respectively, typically occurs during the first half of the year, which is reflective of the flea and tick season in the Northern Hemisphere.

Results of Operations

The following discussion and analysis of our results of operations should be read along with our condensed consolidated financial statements and the notes thereto. Our results of operations for the periods presented below may not be comparable with prior periods or with our results of operations in the future due to many factors, including but not limited to the factors identified above.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Revenue	$ 1,030	$ 1,068	(4)%	$ 3,419	$ 3,382	1 %
Costs, expenses and other:						
Cost of sales	492	487	1 %	1,502	1,415	6 %
% of revenue	48 %	46 %		44 %	42 %	
Research and development	87	86	1 %	263	248	6 %
% of revenue	8 %	8 %		8 %	7 %	
Marketing, selling and administrative	323	313	3 %	1,014	993	2 %
% of revenue	31 %	29 %		30 %	29 %	
Amortization of intangible assets	133	140	(5)%	397	410	(3)%
Asset impairment, restructuring and other special charges	17	16	6 %	143	91	57 %
Goodwill impairment	—	1,042	NM	—	1,042	NM
Gain on divestiture	(640)	—	NM	(640)	—	NM
Interest expense, net of capitalized interest	58	72	(19)%	189	210	(10)%
Other expense, net	1	9	(89)%	12	41	(71)%
Income (loss) before income taxes	559	(1,097)	NM	539	(1,068)	NM
Income tax expense (benefit)	195	(1)	NM	193	22	NM
Net income (loss)	$ 364	$ (1,096)	NM	$ 346	$ (1,090)	NM

Certain amounts and percentages may reflect rounding adjustments.

NM - Not meaningful

Revenue

Our products are sold in more than 90 countries, and as a result, a significant portion of our revenue is recorded in currencies other than the U.S. Dollar. Because of this, our revenue is influenced by changes in foreign currency exchange rates. During the nine months ended September 30, 2024 and 2023, approximately 53% of our revenue was denominated in foreign currencies.

Further, increases or decreases in inventory levels in our distribution channels can positively or negatively impact our quarterly revenue results, leading to variations in revenue. This can be a result of various factors, such as end customer demand, new customer contracts, heightened and generic competition, the need for certain inventory levels, our ability to renew distribution contracts with expected terms, our ability to implement commercial strategies, regulatory restrictions, unexpected customer behavior, proactive measures taken by us in response to shifting market dynamics, payment terms we extend, which are subject to internal policies, blackout shipping periods due to system downtime, implementations and integrations and procedures and environmental factors beyond our control.

Our revenue by product category for the three and nine months ended September 30, 2024 and 2023, was as follows:

	Three Months Ended September 30,					
	Revenue		% of Total Revenue			
(Dollars in millions)	**2024**	**2023**	**2024**	**2023**	**$ Change**	**% Change**
Pet Health	$ 486	$ 495	47 %	46 %	$ (9)	(2)%
Farm Animal	530	561	52 %	53 %	(31)	(6)%
Contract Manufacturing [(1)]	14	12	1 %	1 %	2	17 %
Total	$ 1,030	$ 1,068	100 %	100 %	$ (38)	(4)%

(Dollars in millions)	Nine Months Ended September 30, Revenue 2024	2023	% of Total Revenue 2024	2023	$ Change	% Change
Pet Health	$ 1,704	$ 1,688	50 %	50 %	$ 16	1 %
Farm Animal	1,680	1,661	49 %	49 %	19	1 %
Contract Manufacturing [(1)]	35	33	1 %	1 %	2	6 %
Total	$ 3,419	$ 3,382	100 %	100 %	$ 37	1 %

Note: Numbers may not add due to rounding.

(1) Represents revenue from arrangements in which we manufacture products on behalf of a third party.

The effects of price, foreign currency exchange rates, volume and the impact of our divestiture of our aqua business on changes in revenue for the three and nine months ended September 30, 2024, compared to the three and nine months ended September 30, 2023, were as follows:

Three months ended September 30, 2024

(Dollars in millions)	Revenue	Price	FX Rate	Volume	Divestiture	Total
Pet Health	$ 486	2%	—%	(4)%	—%	(2)%
Farm Animal	530	3%	(1)%	—%	(8)%	(6)%
Contract Manufacturing	14	6%	(1)%	12%	—%	17%
Total	$ 1,030	2%	(1)%	(1)%	(4)%	(4)%

Nine months ended September 30, 2024

(Dollars in millions)	Revenue	Price	FX Rate	Volume	Divestiture	Total
Pet Health	$ 1,704	3%	—%	(2)%	—%	1%
Farm Animal	1,680	2%	(1)%	3%	(3)%	1%
Contract Manufacturing	35	2%	(1)%	5%	—%	6%
Total	$ 3,419	3%	(1)%	—%	(1)%	1%

Note: Numbers may not add due to rounding

Pet health revenue decreased $9 million, or 2%, for the three months ended September 30, 2024, compared to the same period in 2023, driven by lower volumes, partially offset by a 2% increase in pricing. Lower volumes were primarily attributable to continued competitive pressure on certain products in the U.S. veterinary channel, competitive pressure in Australia and supply volatility for vaccines in the U.S. These volume declines were partially offset by increased revenue from new products and improved demand for retail parasiticide products in the U.S. and Europe.

Pet health revenue increased $16 million, or 1%, for the nine months ended September 30, 2024, compared to the same period in 2023, driven by a 3% increase in pricing, partially offset by lower volumes. Volumes during the nine months ended September 30, 2024 were lower due to competitive pressure on certain products in the U.S. veterinary channel and purchasing patterns of certain over-the-counter (OTC) products by U.S. retailers. These decreases were partially offset by revenue from new products and improved demand for retail parasiticide products in certain European markets, including Spain.

Farm animal revenue decreased $31 million, or 6%, for the three months ended September 30, 2024, compared to the same period in 2023, driven by the divestiture of our aqua business on July 9, 2024, partially offset by a 3% increase in pricing. Excluding the impact from our aqua business divestiture, volumes for the three months ended September 30, 2024, were flat compared to the same period in 2023. Strength in U.S. cattle, led by *Experior* and *Rumensin*, and increased revenue from poultry products in the U.S. and Europe were offset by lower demand for sheep products in Australia, volume declines associated with our previous strategic decisions to change how we operate in and sell into certain international markets, including Argentina, and the impact from the European recall of Kexxtone, which occurred during the second quarter of 2024.

Farm animal revenue increased $19 million, or 1%, for the nine months ended September 30, 2024, compared to the same period in 2023, driven by a 2% increase in pricing and higher volumes of non-aqua products, partially offset by the impact of the divestiture of our aqua business. Higher volumes of our non-aqua products were primarily driven by strength in U.S. cattle, led by *Experior* and *Rumensin*, and strength in poultry sales globally, partially offset by weakness in global swine markets, volume declines associated with our previous strategic decisions to change how we operate in and sell into certain international markets, including Argentina, and the impact from the European recall of Kexxtone, which occurred during the second quarter of 2024.

Cost of Sales

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2024	2023	% Change	2024	2023	% Change
Cost of sales	$ 492	$ 487	1 %	$ 1,502	$ 1,415	6 %
% of revenue	48 %	46 %		44 %	42 %	

Cost of sales increased $5 million for the three months ended September 30, 2024, compared to the three months ended September 30, 2023, while cost of sales as a percentage of revenue increased to 48%, compared to 46% for the prior year period. Gross margin was unfavorably impacted during the three months ended September 30, 2024, compared to the prior year, by a combination of inflation, unfavorable manufacturing performance and product mix associated with the divestiture of our aqua business. These factors were partially offset by increased pricing.

Cost of sales increased $87 million for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023, and cost of sales as a percentage of revenue increased to 44%, compared to 42% for the prior year period. These increases were due to a combination of inflation, planned reduced throughput at certain manufacturing sites and product mix, partially offset by increased pricing.

Research and Development

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2024	2023	% Change	2024	2023	% Change
Research and development	$ 87	$ 86	1 %	$ 263	$ 248	6 %
% of revenue	8 %	8 %		8 %	7 %	

Research and development expenses increased $1 million and $15 million for the three and nine months ended September 30, 2024, respectively, as compared to the same periods in the prior year, primarily driven by higher employee-related expenses and timing of project costs.

Marketing, Selling and Administrative

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2024	2023	% Change	2024	2023	% Change
Marketing, selling and administrative	$ 323	$ 313	3 %	$ 1,014	$ 993	2 %
% of revenue	31 %	29 %		30 %	29 %	

Marketing, selling and administrative expenses increased $10 million and $21 million for the three and nine months ended September 30, 2024, respectively, as compared to the same periods in the prior year. The increase for the three months ended September 30, 2024, was primarily driven by higher employee related expenses and investments supporting the U.S. pet health business. The increase for the nine months ended September 30, 2024, also included increases in marketing and promotional spend supporting our global pet health business, partially offset by cost savings associated with the completion of our ERP system integration in the second quarter of 2023.

Amortization of Intangible Assets

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2024	2023	% Change	2024	2023	% Change
Amortization of intangible assets	$ 133	$ 140	(5)%	$ 397	$ 410	(3)%

Amortization of intangible assets decreased $7 million and $13 million, for the three and nine months ended September 30, 2024, respectively, as compared to the same periods in the prior year. These decreases were partially driven by changes in foreign currency exchange rates, as well as the elimination of amortization related to our aqua business intangible assets, which met the criteria to be classified as held for sale on February 1, 2024, at which date amortization of these finite-lived intangible assets ceased. See Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for further information.

Asset Impairment, Restructuring and Other Special Charges

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2024	2023	% Change	2024	2023	% Change
Asset impairment, restructuring and other special charges	$ 17	$ 16	6 %	$ 143	$ 91	57 %

Amounts recorded to asset impairment, restructuring and other special charges during the three months ended September 30, 2024, primarily reflected $15 million of asset impairments tied to the financial difficulties of our contract manufacturing supply partner, TriRx, the largest of which was a $12 million impairment of a contract asset related to a favorable supply agreement. Asset impairment, restructuring and other special charges for the nine months ended September 30, 2024, also included a $53 million impairment charge related to the write-off of a pet health IPR&D asset, $45 million of costs associated with our restructuring plan announced in February 2024 and $17 million of transaction costs associated with the divestiture of our aqua business.

Amounts recorded during the three and nine months ended September 30, 2023, primarily represented costs associated with the implementation of new systems, programs and processes due to the integration of Bayer Animal Health. For additional information regarding our asset impairment, restructuring and other special charges, see Note 5. Asset Impairment, Restructuring and Other Special Charges to the condensed consolidated financial statements.

Gain on Divestiture

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Gain on divestiture	$ (640)	$ —	NM	$ (640)	$ —	NM

As discussed above, we recorded a pre-tax gain on the divestiture of our aqua business during the three months ended September 30, 2024, of $640 million. See Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for further information.

Goodwill Impairment

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Goodwill impairment	$ —	$ 1,042	NM	$ —	$ 1,042	NM

As previously disclosed, there was a sharp increase in long-term treasury rates during the third quarter of 2023, and as a result, we assessed our long-lived assets, including goodwill for impairment. Due principally to an increased discount rate assumption, which was driven by the sharp increase in long-term treasury rates, our quantitative goodwill impairment test resulted in a $1,042 million pre-tax impairment charge. See Note 11. Goodwill to the condensed consolidated financial statements for further information.

Interest Expense, Net of Capitalized Interest

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Interest expense, net of capitalized interest	$ 58	$ 72	(19)%	$ 189	$ 210	(10)%

Interest expense, net of capitalized interest decreased $14 million and $21 million, respectively, for the three and nine months ended September 30, 2024, as compared to the same periods in the prior year, primarily due to lower average outstanding debt balances given debt repayment activity in the current year (see Note 8. Debt to the condensed consolidated financial statements for further information). These decreases were partially offset by a $12 million non-cash charge during the three months ended September 30, 2024, related to the write-off of previously deferred financing costs given our early debt repayments.

Other expense, net

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Other expense, net	$ 1	$ 9	(89)%	$ 12	$ 41	(71)%

Other expense, net for the three and nine months ended September 30, 2024, primarily consisted of foreign currency exchange losses and mark-to-market adjustments. Other expense, net for the three months ended September 30, 2023 principally related to foreign currency exchange losses and an increase in the contingent consideration liability related to the NutriQuest acquisition. Other expense, net during the nine months ended September 30, 2023, also included a settlement provision of $15 million related to the *Seresto* class action lawsuits recorded during the second quarter of 2023 (see Note 13. Commitments and Contingencies to the condensed consolidated financial statements for further information).

Income tax expense (benefit)

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Income tax expense (benefit)	$ 195	$ (1)	NM	$ 193	$ 22	NM
Effective tax rate	34.8 %	0.2 %		35.8 %	(2.0)%	

We recognized income tax expense of $195 million for the three months ended September 30, 2024, and an income tax benefit of $1 million for the three months ended September 30, 2023. Of the total income tax expense for the three months ended September 30, 2024, $171 million related to the income tax expense associated with the taxable gain on the divestiture of our aqua business. Our effective tax rate of 34.8% for the three months ended September 30, 2024, differed from the statutory income tax rate primarily due to the recognition of the gain on the divestiture of our aqua business, which exceeded the reported gain of $640 million primarily due to the derecognition of non-deductible goodwill. Our effective tax rate was also impacted by the jurisdictional earnings mix of projected income in higher tax jurisdictions and losses for which no tax benefit was recognized. Our effective tax rate of 0.2% for the three months ended September 30, 2023, differed from the statutory income tax rate primarily due to the recognition of the aforementioned $1,042 million goodwill impairment charge, which was non-deductible in most of the impacted jurisdictions.

We recognized income tax expense of $193 million and $22 million for the nine months ended September 30, 2024 and 2023, respectively. Our effective tax rate of 35.8% for the nine months ended September 30, 2024, differed from the statutory income tax rate primarily due to the income tax expense impact of the gain on divestiture, partially offset by the release of a valuation allowance attributable to the sale of our aqua business and the recognition of certain state tax credits. Our effective tax rate of (2.0)% for the nine months ended September 30, 2023, differed from the statutory income tax rates primarily due to the recognition of the $1,042 million goodwill impairment charge, which was non-deductible in most of the impacted jurisdictions.

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 internationally, 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, the income taxes associated with transferring cash to the U.S. We intend to indefinitely reinvest substantially all foreign earnings for continued use in our foreign operations. As our business evolves, 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.

We believe our primary sources of liquidity are sufficient to fund our short-term and long-term existing and planned capital requirements, which include working capital obligations, funding existing marketed and pipeline products, capital expenditures, business development in our targeted areas, short-term and long-term debt obligations, such as principal and interest payments, as well as interest rate swaps, operating lease payments, purchase obligations and costs associated with mergers, acquisitions, divestitures and business integrations and/or restructuring activities. As of September 30, 2024, we had cash and cash equivalents of $490 million and unused borrowing capacity on our Revolving Credit Facility of approximately $750 million. In addition, our Securitization Facility provides additional borrowing capacity in the event our borrowing capacity on this facility, which is correlated to our U.S. Net Eligible Receivables Balances, exceeds our outstanding borrowings on the facility. As of September 30, 2024, we had $93 million in undrawn borrowing capacity on our Securitization Facility. We also have the ability to access capital markets to obtain debt financing for longer-term funding, if required. Further, we believe we have sufficient cash flow and liquidity to remain in compliance with our debt covenants.

We made $1,587 million of term loan debt repayments during the nine months ended September 30, 2024, utilizing a majority of the proceeds from the sale of our aqua business as well as a portion of the proceeds from our new $350 million Incremental Term Facility due 2031 and available cash on hand. We also repaid $200 million during the nine months ended September 30, 2024, on our Revolving Credit Facility. Combined, these net repayments of $1,437 million have significantly reduced our leverage and anticipated future interest expense.

Our ability to meet future funding requirements may be impacted by macroeconomic, business and financial volatility. As market conditions 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 "Item 1A. Risk Factors - We have substantial indebtedness" in Part I of our 2023 Form 10-K.

Cash Flows

The following table provides a summary of cash flows from operating, investing and financing activities for the nine months ended September 30, 2024 and 2023:

(in millions) Net cash provided by (used for):	2024	2023	$ Change
Operating activities	$ 364	$ 114	$ 250
Investing activities	1,248	(134)	1,382
Financing activities	(1,460)	56	(1,516)
Effect of exchange-rate changes on cash and cash equivalents	(14)	(12)	(2)
Net increase in cash and cash equivalents	$ 138	$ 24	$ 114

Operating activities

Cash provided by operating activities was $364 million for the nine months ended September 30, 2024, compared to cash provided by operating activities of $114 million for the nine months ended September 30, 2023. The increase in cash provided by operating activities was driven by year-over-year improvements in changes in operating assets and liabilities.

Investing activities

Cash provided by investing activities was $1,248 million for the nine months ended September 30, 2024, compared to cash used for investing activities of $134 million for the nine months ended September 30, 2023. Cash provided by investing activities during the nine months ended September 30, 2024, was driven by the cash proceeds of $1,294 million from the sale of our aqua business in July 2024, and to a lesser extent, the collection of a $66 million receivable related to the previous divestiture of our Shawnee and Speke locations (see Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for additional information). These proceeds were partially offset by net purchases of property and equipment and software. Cash used for investing activities during the nine months ended September 30, 2023, primarily related to net purchases of property and equipment and software, $19 million paid for our acquisition of NutriQuest and $14 million for the purchase of intangible assets.

Financing activities

Cash used for financing activities was $1,460 million for the nine months ended September 30, 2024, compared to cash provided by financing activities of $56 million for the nine months ended September 30, 2023. Cash used for financing activities during the nine months ended September 30, 2024, included $1,587 million in gross repayments of term loan debt and net repayments on our Revolving Credit Facility of $200 million. These repayments were partially offset by proceeds of $350 million from the issuance of our Incremental Term Facility due 2031 in August 2024. Cash provided by financing activities of $56 million during the nine months ended September 30, 2023, primarily reflected net proceeds from our Revolving Credit Facility and Securitization Facility, largely offset by the repayment of indebtedness outstanding under our previously outstanding 4.272% Senior Notes due 2023.

Description of Indebtedness

For a complete description of our existing debt and available credit facilities as of September 30, 2024 and December 31, 2023, see Note 8. Debt within Item 8, “Financial Statements and Supplementary Data,” of Part II of our 2023 Form 10-K. New developments are discussed in Note 8. Debt of this Form 10-Q.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Certain of our accounting policies are considered critical because these policies are the most important to the depiction of our financial statements and require significant, difficult or complex judgments, often requiring the use of estimates about the effects of matters that are inherently uncertain. Actual results that differ from our estimates could have an unfavorable effect on our financial position and results of operations. We apply estimation methodologies consistently from year to year. Such policies are summarized in Item 7, "Management's Discussion & Analysis of Results of Financial Condition and Results of Operations," of our 2023 Form 10-K. There were no significant changes or developments in the application of our critical accounting policies during the nine months ended September 30, 2024.

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 currency exchange rates. We are exposed to foreign currency exchange risk as the functional currency financial statements of non-U.S. subsidiaries are translated to U.S. dollars. We are also subject to foreign currency transaction gains and losses to the extent revenue and expense transactions are not denominated in the functional currency of a subsidiary. We are primarily exposed to foreign currency exchange risk with respect to net assets denominated in the Euro, British pound, Swiss franc, Brazilian real, Australian dollar, Japanese yen, Canadian dollar and Chinese yuan.

Additionally, we generally identify hyperinflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. We have applied hyperinflationary accounting for our Argentina and Turkey subsidiaries since 2018 and 2022, respectively, and as a result, have changed their functional currencies to the U.S. dollar. During the nine months ended September 30, 2024, revenue in Argentina and Turkey each represented less than 1% of our consolidated revenue, and assets held in Argentina and Turkey as of September 30, 2024, each represented less than 1% of our consolidated assets.

In February 2024 our Board of Directors authorized a restructuring plan that, among other strategic decisions, has resulted in a change in how we operate in and sell into the Argentina market, which has reduced our foreign currency exposure with respect to the Argentine peso. In spite of this, and while the application of hyperinflationary accounting for our subsidiaries in Argentina and Turkey did not have a material impact on our business during the nine months ended September 30, 2024, we may in the future incur further currency devaluations, which could have a material adverse impact on our results of operations.

Interest Risk

At September 30, 2024, we held interest rate swap agreements with a notional value of $2,800 million that had the economic effect of modifying this amount of our variable-rate debt to fixed-rate. We also held forward-starting interest rate swap agreements with a combined notional amount of $850 million, which will become effective in 2026. When including variable-rate converted to fixed-rate through the use of interest rate swaps, as of September 30, 2024, approximately 81% of our long-term indebtedness bears interest at a fixed rate.

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 Jeffrey N. Simmons, president and chief executive officer, and Todd S. Young, executive vice president and chief financial officer, evaluated our disclosure controls and procedures as of September 30, 2024, and concluded they were effective.

(b) *Changes in Internal Controls*. During the third quarter of 2024, 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

ITEM 1. LEGAL PROCEEDINGS

See Note 13. Commitments and Contingencies to the condensed consolidated financial statements for a summary of our legal proceedings. This item should be read in conjunction with "Legal Proceedings" in Part I, Item 3 of our 2023 Form 10-K.

ITEM 1A. RISK FACTORS

Our risk factors are documented in Item 1A of Part I of our 2023 Form 10-K. Other than the revisions set forth below, there have been no material changes from the risk factors previously disclosed in the 2023 Form 10-K.

The following risk factors have been changed from the risk factors that were previously disclosed:

Manufacturing problems and capacity imbalances have caused, and may in the future cause, product launch delays, inventory shortages, recalls and/or unanticipated costs.

In order to sell our products, we must be able to produce and ship sufficient quantities to our customers. We own and operate 16 internal manufacturing sites across 9 countries and also employ a network of approximately 140 third-party CMOs. Many of our products involve complex manufacturing processes, are highly regulated and can rely on inputs that are sole sourced from certain manufacturing sites. Shifting or adding manufacturing capacity can be a lengthy process requiring significant capital expenditures, process modifications and regulatory approvals. Due to this, unplanned plant shutdowns, manufacturing or quality assurance difficulties, failure or refusal of a supplier or CMO to supply contracted quantities or difficulties in predicting or variability in demand for our products have caused, and may in the future cause, interruption or higher costs in the supply of certain products, product shortages or pauses or discontinuations of product sales in one or more markets. Further, minor deviations in our manufacturing or logistical processes, such as temperature excursions or improper package sealing, could result, and have in the past resulted in, delays, inventory shortages, unanticipated costs, product recalls, product liability and/or regulatory action. In addition, a number of factors could cause production interruptions, including:

- the failure of us or any of our vendors or suppliers, including logistical service providers, to comply with applicable regulations and quality assurance guidelines;
- mislabeling;
- construction delays;
- equipment malfunctions;
- shortages of materials;
- labor problems;
- delays in receiving required governmental authorizations or regulatory approvals;
- natural disasters and/or adverse weather conditions;
- power outages;
- criminal and terrorist activities;
- changes in manufacturing production sites and limits to manufacturing capacity due to regulatory requirements, changes in types of products produced, shipping distributions or physical limitations; and
- the outbreak of any highly contagious diseases.

These interruptions could result in launch delays, inventory shortages, recalls, unanticipated costs or issues with our agreements under which we supply third parties, which may materially adversely affect our business, financial condition and results of operations. Further, global transportation and logistics challenges, cost inflation and tight labor markets have caused, and in the future may cause, delays in and/or increased costs related to the distribution of our products, the construction or acquisition of manufacturing capacity, procurement activity and supplier or contract manufacturer arrangements.

For example, in September 2024 one of our contract manufacturing supply partners, TriRx Speke Ltd (TriRx Speke), entered into trading administration, a formal insolvency process in the U.K. designed to help companies facing severe financial challenges regain stability. Since this time we have been making up-front prepayments to support the operational costs of the site to minimize supply disruption, resulting in increased costs for us that we expect to continue for the foreseeable future. While we are not anticipating significant supply disruption throughout the remainder of 2024, we are currently exploring options with parties involved to maintain continued product supply.

In addition, volatility in the overall demand for animal health products in different markets and distribution channels has had, and may continue to have, a number of impacts on our business, including increased costs and disruptions in the supply of our products. Our manufacturing network may be unable to meet the demand for our products, or we may have excess capacity if demand for our products changes. Throughout 2023 we experienced increasing levels of inventory on-hand, in part due to volatility in demand across different markets and distribution channels. In addition to the negative impact on our cash flows, if we are not able to more effectively manage the purchase and production of our inventories to match the timing of customer demand, we may face increased costs for warehousing and the potential for our inventories to become unusable or obsolete.

We have also in the past invested in, and will continue to invest in, improvements to our existing manufacturing facilities and may also invest in new manufacturing plants in the future. These types of projects are subject to risks of delay or cost overruns inherent in any large construction project and require licensing by or approvals from various regulatory authorities. The unpredictability of a product's regulatory or commercial success or failure, the lead time necessary to construct highly technical and complex manufacturing sites and shifting customer demand (including as a result of market conditions or entry of branded or generic competition) increase the potential for capacity imbalances. In addition, construction of sites is expensive, and our ability to recover costs will depend on the market acceptance and success of the products produced at the new sites, which is uncertain. Significant cost overruns or delays in completing these projects could have an adverse effect on our financial condition and results of operations.

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

During the three months ended September 30, 2024, no director or officer of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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 SEC.

Exhibit Number	Description
10.1	Amendment No. 2, dated as of July 3, 2024, to the Credit Agreement, dated as of August 1, 2020, by and among Elanco Animal Health Incorporated, as borrower, Elanco US Inc., as co-borrower, the subsidiary loan parties party thereto, the lenders and issuing banks party thereto from time to time, Goldman Sachs Bank USA, as term facility agent, collateral agent, and security trustee, and JPMorgan Chase Bank, N.A., as revolving facility agent (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the SEC on July 3, 2024).
10.2	Incremental Assumption Agreement dated August 13, 2024, by and among Elanco Animal Health Incorporated, Elanco US Inc., the subsidiary loan parties party thereto, Farm Credit Mid-America, PCA, as incremental term lender, and Goldman Sachs Bank USA, as the term facility agent (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the SEC on August 13, 2024).
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 (Inline XBRL).
104	Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101).

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:	November 7, 2024	/s/ Jeffrey N. Simmons
		Jeffrey N. Simmons President and Chief Executive Officer (Principal Executive Officer)
Date:	November 7, 2024	/s/ Todd S. Young
		Todd S. Young Executive Vice President, Chief Financial Officer (Principal Financial Officer)

EXHIBIT 31.1

CERTIFICATIONS

I, Jeffrey N. Simmons, certify that:

1. I have reviewed this report on Form 10-Q of Elanco Animal Health Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2024

By: /s/ Jeffrey N. Simmons

Jeffrey N. Simmons
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Todd S. Young, certify that:

1. I have reviewed this report on Form 10-Q of Elanco Animal Health Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

By: /s/ Todd S. Young

Todd S. Young
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

CERTIFICATION OF THE

CHIEF EXECUTIVE OFFICER AND

CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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 September 30, 2024 (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: November 7, 2024

/s/ Jeffrey N. Simmons
Jeffrey N. Simmons
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2024

/s/ Todd S. Young
Todd S. Young
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)