

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019  
COMMISSION FILE NUMBER 001-38661

Elanco Animal Health Incorporated

(Exact name of Registrant as specified in its charter)

INDIANA  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

Yes  No

The number of shares of common stock outstanding as of November 6, 2019 were 373,004,001

**Elanco Animal Health Incorporated**  
**Form 10-Q**  
**For the Quarter Ended September 30, 2019**  
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## Forward-Looking Statements

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

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

- heightened competition, including from innovation or generics;
- the impact of disruptive innovations and advances in veterinary medical practices, animal health technologies and alternatives to animal-derived protein;
- changes in regulatory restrictions on the use of antibiotics in food animals;
- our ability to implement our business strategies or achieve targeted cost efficiencies and gross margin improvements;
- consolidation of our customers and distributors;
- an outbreak of infectious disease carried by food animals;
- the success of our research and development (R&D) and licensing efforts;
- our ability to complete acquisitions and successfully integrate the businesses we acquire, including the animal health business of Bayer Aktiengesellschaft (Bayer);
- our ability to obtain financing for the acquisition of the Bayer animal health business on favorable terms;
- misuse, off-label or counterfeiting use of our products;
- unanticipated safety, quality or efficacy concerns associated with our products;
- the impact of weather conditions and the availability of natural resources;
- disruption in our supply chain due to manufacturing issues experienced by our contract manufacturers;
- the impact of increased or decreased sales to our channel distributors resulting in higher or lower inventory levels held by them in advance of or trailing actual customer demand, which could lead to variations in quarterly revenue results;
- risks related to our presence in emerging markets;
- changes in United States (U.S.) foreign trade policy, imposition of tariffs or trade disputes;
- the impact of global macroeconomic conditions; and
- the effect on our business resulting from our separation from Eli Lilly & Co. (Lilly), including the various costs associated with transition to a stand alone entity.

See "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (SEC) and Item 1A, "Risk Factors," of Part II of this Quarterly Report on Form 10-Q and of Part II of our Quarterly Reports on Form 10-Q for the quarterly periods ended June 30, 2019 and March 31, 2019, for a further description of these and other factors. Although we have attempted to identify important risk factors, there may be other risk factors not presently known to us or that we presently believe are not material that could cause actual results and developments to differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report. If any of these risks materialize, or if any of the above assumptions underlying forward-looking statements prove incorrect, actual results and developments may differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report. For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this quarterly report. Any forward-looking statement made by us in this quarterly report speaks only as of the date hereof. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to

predict all of them. We undertake no obligation to publicly update or to revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should be viewed as historical data.

## PART I. Financial Information

### Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 771.3	\$ 761.1	\$ 2,284.0	\$ 2,267.5
Costs, expenses and other:				
Cost of sales	360.4	369.8	1,060.2	1,161.3
Research and development	69.9	58.9	202.8	185.5
Marketing, selling and administrative	192.3	179.0	574.3	550.1
Amortization of intangible assets	50.7	48.7	149.0	147.3
Asset impairment, restructuring and other special charges (Note 7)	77.2	12.4	133.9	82.8
Interest expense, net of capitalized interest	18.7	8.6	60.2	8.6
Other—net, expense	14.6	4.9	21.1	15.6
	<u>783.8</u>	<u>682.3</u>	<u>2,201.5</u>	<u>2,151.2</u>
Income (loss) before income taxes	(12.5)	78.8	82.5	116.3
Income tax (benefit) expense	(22.5)	18.6	5.1	46.2
Net income	<u>\$ 10.0</u>	<u>\$ 60.2</u>	<u>\$ 77.4</u>	<u>\$ 70.1</u>
Earnings per share:				
Basic	\$ 0.03	\$ 0.20	\$ 0.21	\$ 0.24
Diluted	\$ 0.03	\$ 0.20	\$ 0.21	\$ 0.24
Weighted average shares outstanding:				
Basic	371.6	301.2	367.7	296.0
Diluted	373.2	301.2	368.7	296.0

See notes to unaudited condensed consolidated and combined financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 10.0	\$ 60.2	\$ 77.4	\$ 70.1
Other comprehensive income (loss):				
Foreign currency translation	(58.9)	85.1	(53.7)	(20.6)
Defined benefit pension and retiree health benefit plans, net of taxes	21.2	9.4	23.4	10.8
Other comprehensive income (loss), net of tax	(37.7)	94.5	(30.3)	(9.8)
Comprehensive income (loss)	\$ (27.7)	\$ 154.7	\$ 47.1	\$ 60.3

See notes to unaudited condensed consolidated and combined financial statements.

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

	September 30, 2019 (Unaudited)	December 31, 2018
<b>Assets</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 309.2	\$ 474.8
Accounts receivable, net of allowances of \$6.3 (2019) and \$8.4 (2018)	758.3	651.8
Other receivables	65.1	57.6
Inventories (Note 8)	1,068.7	1,004.1
Prepaid expenses and other	98.0	113.9
Restricted cash (Note 17)	11.1	202.7
<b>Total current assets</b>	<b>2,310.4</b>	<b>2,504.9</b>
<i>Noncurrent Assets</i>		
Goodwill	2,946.4	2,958.0
Other intangibles, net	2,435.0	2,453.0
Other noncurrent assets	220.2	118.4
Property and equipment, net of accumulated depreciation of \$909.3 (2019) and \$878.6 (2018)	911.7	922.4
<b>Total assets</b>	<b>\$ 8,823.7</b>	<b>\$ 8,956.7</b>
<b>Liabilities and Equity</b>		
<i>Current Liabilities</i>		
Accounts payable	\$ 206.1	\$ 205.2
Employee compensation	88.8	98.9
Sales rebates and discounts	182.2	169.9
Current portion of long-term debt (Note 9)	24.5	29.0
Other current liabilities	181.5	199.0
Payable to Lilly (Note 17)	58.4	268.7
<b>Total current liabilities</b>	<b>741.5</b>	<b>970.7</b>
<i>Noncurrent Liabilities</i>		
Long-term debt (Note 9)	2,335.6	2,443.3
Accrued retirement benefits (Note 15)	81.4	109.1
Deferred taxes (Note 12)	81.1	114.6
Other noncurrent liabilities	96.4	121.5
<b>Total liabilities</b>	<b>3,336.0</b>	<b>3,759.2</b>
<i>Commitments and Contingencies (Note 13)</i>		
	—	—
<i>Equity</i>		
Common stock, no par value, 5,000,000,000 shares authorized, 372,999,206 and 365,643,911 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	—	—
Additional paid-in capital	5,646.4	5,403.3
Retained earnings	93.8	16.4
Accumulated other comprehensive loss	(252.5)	(222.2)
<b>Total equity</b>	<b>5,487.7</b>	<b>5,197.5</b>
<b>Total liabilities and equity</b>	<b>\$ 8,823.7</b>	<b>\$ 8,956.7</b>

See notes to unaudited condensed consolidated and combined financial statements.

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

	Common Stock			Net Parent Company Investment	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			Total Equity
	Shares	Amount	Additional Paid-in Capital			Foreign Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Total	
<b>December 31, 2018</b>	<b>365.6</b>	<b>\$ —</b>	<b>\$ 5,403.3</b>	<b>\$ —</b>	<b>\$ 16.4</b>	<b>\$ (218.2)</b>	<b>\$ (4.0)</b>	<b>\$ (222.2)</b>	<b>\$ 5,197.5</b>
Net income	—	—	—	—	31.5	—	—	—	31.5
Other comprehensive income (loss), net of tax	—	—	—	—	—	(30.2)	2.0	(28.2)	(28.2)
Separation activities <sup>(1)</sup>	—	—	(7.0)	—	—	—	—	—	(7.0)
Stock compensation	—	—	2.4	—	—	—	—	—	2.4
Issuance of stock under employee stock plans, net	0.1	—	—	—	—	—	—	—	—
<b>March 31, 2019</b>	<b>365.7</b>	<b>\$ —</b>	<b>\$ 5,398.7</b>	<b>\$ —</b>	<b>\$ 47.9</b>	<b>\$ (248.4)</b>	<b>\$ (2.0)</b>	<b>\$ (250.4)</b>	<b>\$ 5,196.2</b>
Net income	—	—	—	—	35.9	—	—	—	35.9
Other comprehensive income, net of tax	—	—	—	—	—	35.4	0.2	35.6	35.6
Separation activities <sup>(1)</sup>	—	—	(18.4)	—	—	—	—	—	(18.4)
Stock compensation	—	—	14.3	—	—	—	—	—	14.3
Other	—	—	1.9	—	—	—	—	—	1.9
<b>June 30, 2019</b>	<b>365.7</b>	<b>\$ —</b>	<b>\$ 5,396.5</b>	<b>\$ —</b>	<b>\$ 83.8</b>	<b>\$ (213.0)</b>	<b>\$ (1.8)</b>	<b>\$ (214.8)</b>	<b>\$ 5,265.5</b>
Net income	—	—	—	—	10.0	—	—	—	10.0
Other comprehensive income (loss), net of tax	—	—	—	—	—	(58.9)	21.2	(37.7)	(37.7)
Separation activities <sup>(1)</sup>	—	—	(3.0)	—	—	—	—	—	(3.0)
Stock compensation	—	—	11.3	—	—	—	—	—	11.3
Issuances of stock in connection with Aratana acquisition: <sup>(2)</sup>									
Issuance to Aratana shareholders for acquisition	7.2	—	238.0	—	—	—	—	—	238.0
Accelerated vesting of equity awards	0.1	—	3.6	—	—	—	—	—	3.6
<b>September 30, 2019</b>	<b>373.0</b>	<b>\$ —</b>	<b>\$ 5,646.4</b>	<b>\$ —</b>	<b>\$ 93.8</b>	<b>\$ (271.9)</b>	<b>\$ 19.4</b>	<b>\$ (252.5)</b>	<b>\$ 5,487.7</b>

(1) See Note 17: Related Party Agreements and Transactions for further discussion.

(2) See Note 6: Acquisitions for further discussion.

See notes to unaudited condensed consolidated and combined financial statements.

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

	Common Stock			Net Parent Company Investment	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			Total Equity
	Shares	Amount	Additional Paid-in Capital			Foreign Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Total	
December 31, 2017	293.3	\$ —	\$ —	\$ 8,036.9	\$ —	\$ (227.2)	\$ (29.4)	\$ (256.6)	\$ 7,780.3
Adoption of Accounting Standards Update 2016-16	—	—	—	(0.3)	—	—	—	—	(0.3)
Net income	—	—	—	72.7	—	—	—	—	72.7
Other comprehensive income (loss), net of tax	—	—	—	—	—	119.2	(0.6)	118.6	118.6
Transfers (to)/from Lilly, net <sup>(1)</sup>	—	—	—	(69.2)	—	—	—	—	(69.2)
March 31, 2018	293.3	\$ —	\$ —	\$ 8,040.1	\$ —	\$ (108.0)	\$ (30.0)	\$ (138.0)	\$ 7,902.1
Net income (loss)	—	—	—	(62.8)	—	—	—	—	(62.8)
Other comprehensive income (loss), net of tax	—	—	—	—	—	(224.9)	2.0	(222.9)	(222.9)
Dividends declared	—	—	—	—	—	—	—	—	—
Transfers (to)/from Lilly, net <sup>(1)</sup>	—	—	—	(40.3)	—	—	—	—	(40.3)
June 30, 2018	293.3	\$ —	\$ —	\$ 7,937.0	\$ —	\$ (332.9)	\$ (28.0)	\$ (360.9)	\$ 7,576.1
Net income	—	—	—	60.2	—	—	—	—	60.2
Other comprehensive income, net of tax	—	—	—	—	—	85.1	9.4	94.5	94.5
Transfers (to)/from Lilly, net <sup>(1)</sup>	—	—	—	(116.8)	—	—	—	—	(116.8)
Separation activities <sup>(1)</sup>	—	—	—	2.2	—	56.1	—	56.1	58.3
Issuance of common stock	72.3	—	1,659.7	—	—	—	—	—	1,659.7
Consideration to Lilly in connection with the Separation	—	—	(4,194.9)	—	—	—	—	—	(4,194.9)
Reclassification of net parent company investment	—	—	7,882.6	(7,882.6)	—	—	—	—	—
September 30, 2018	365.6	\$ —	\$ 5,347.4	\$ —	\$ —	\$ (191.7)	\$ (18.6)	\$ (210.3)	\$ 5,137.1

(1) See Note 17: Related Party Agreements and Transactions for further discussion.

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

	Nine Months Ended September 30,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 77.4	\$ 70.1
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and amortization	231.1	222.3
Change in deferred income taxes	14.9	12.6
Stock-based compensation expense	36.7	20.2
Asset impairment charges	24.7	102.5
Changes in operating assets and liabilities	(267.0)	(83.4)
Other non-cash operating activities, net	(20.0)	3.5
<b>Net Cash Provided by Operating Activities</b>	<b>97.8</b>	<b>347.8</b>
<b>Cash Flows from Investing Activities</b>		
Net purchases of property and equipment	(86.0)	(74.3)
Cash paid for acquisitions, net of cash acquired	(32.8)	—
Other investing activities, net	(41.7)	(4.6)
<b>Net Cash Used for Investing Activities</b>	<b>(160.5)</b>	<b>(78.9)</b>
<b>Cash Flows from Financing Activities</b>		
Repayments of borrowings (Note 9)	(115.0)	—
Proceeds from issuance of long-term debt (Note 9)	—	2,477.7
Proceeds from issuance of common stock (Note 1)	—	1,659.7
Consideration paid to Lilly in connection with the Separation (Note 1)	(191.6)	(3,559.1)
Other net financing transactions with Lilly	6.3	(247.4)
Other financing activities, net	1.7	(3.7)
<b>Net Cash Provided by (Used for) Financing Activities</b>	<b>(298.6)</b>	<b>327.2</b>
Effect of exchange rate changes on cash and cash equivalents	4.1	15.4
Net increase (decrease) in cash, cash equivalents and restricted cash	(357.2)	611.5
Cash, cash equivalents and restricted cash at January 1	677.5	323.4
<b>Cash, cash equivalents and restricted cash at September 30, 2019</b>	<b>\$ 320.3</b>	<b>\$ 934.9</b>

	September 30,	
	2019	2018
Cash and cash equivalents	\$ 309.2	\$ 300.0
Restricted cash (Note 17)	11.1	634.9
<b>Cash, cash equivalents and restricted cash at September 30, 2019</b>	<b>\$ 320.3</b>	<b>\$ 934.9</b>

See notes to unaudited condensed consolidated and combined financial statements.

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

**Note 1. Nature of Business and Organization**

***Nature of Business***

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

***Organization***

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

On September 24, 2018, Elanco Parent completed an initial public offering resulting in the issuance of 72.3 million shares of its common stock (including shares issued pursuant to the underwriters' option to purchase additional shares), which represented 19.8% of the outstanding shares, at \$24 per share (IPO) resulting in total net proceeds, after underwriting discounts and commissions, of \$1.7 billion. In connection with the completion of the IPO, through a series of equity and other transactions, Lilly transferred to Elanco Parent the animal health businesses that form its business going forward. In exchange Elanco Parent has paid to Lilly approximately \$4.2 billion, which includes the net proceeds from the IPO, the net proceeds from the debt offering completed by Elanco Parent in August 2018 and the term loan facility entered into by Elanco Parent in September 2018 (see Note 9: Debt). These transactions are collectively referred to herein as the Separation.

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

**Note 2. Basis of Presentation**

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

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

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

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

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

the time the intercompany transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected in the combined statements of cash flows as a financing activity and in the condensed consolidated and combined statement of equity as net parent company investment.

Prior to Separation, these combined financial statements include an allocation of expenses related to certain Lilly corporate functions, including executive oversight, treasury, legal, finance, human resources, tax, internal audit, financial reporting, information technology and investor relations, prior to IPO. These expenses have been allocated to us based on direct usage or benefit where specifically identifiable, with the remainder allocated primarily on a pro rata basis of revenue, headcount and other measures. We consider the expenses methodology and results to be reasonable for all periods presented. However, the allocations may not be indicative of the actual expense that would have been incurred had we operated as an independent, publicly traded company for the periods presented. It is impractical to estimate what the standalone costs of Elanco would have been in the historical periods. After the Separation, a Transitional Services Agreement (TSA) between Lilly and Elanco went into effect. Under the terms of the TSA, we will be able to use these Lilly services for a fixed term established on a service-by-service basis. We are paying Lilly mutually agreed upon fees for the Lilly services provided under the TSA. Our consolidated and combined financial statements reflect the charges for Lilly services after the IPO. See Note 17: Related Party Agreements and Transactions for additional details.

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

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

Prior to Separation, the equity balance in the combined financial statements represents the excess of total assets over liabilities, including intercompany balances between Elanco and Lilly (net parent company investment) and accumulated other comprehensive income/(loss). Net parent company investment is primarily impacted by contributions from Lilly which are the result of treasury activities and net funding provided by or distributed to Lilly. See Note 17: Related Party Agreements and Transactions for further information.

### **Note 3. Impact of Separation**

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

We will also continue to have certain ongoing relationships with Lilly as described in Note 17: Related Party Agreements and Transactions.

#### Note 4. Implementation of New Financial Accounting Pronouncements

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

Standard	Description	Effect on the financial statements or other significant matters
Accounting Standards Update 2016-02, <i>Leases</i>	This standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities, including leases classified as operating leases under previous GAAP, on the balance sheet and requiring additional disclosures about leasing arrangements.	We adopted the standard on January 1, 2019 using the modified retrospective approach, applied at the beginning of the period of adoption, and we elected the package of transition practical expedients. Upon adoption of the standard, we recorded \$84.9 million of right-of-use assets and \$85.3 million of operating lease liabilities on our consolidated balance sheet. Adoption of this standard did not have a material impact on our consolidated statement of operations for the nine months ended September 30, 2019. See Note 11: Leases for further information.

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

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
Accounting Standards Update 2016-13, <i>Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	This standard modifies the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses.	This standard is effective January 1, 2020, with early adoption permitted. We intend to adopt this standard on that date.	While we are continuing to evaluate the effect of this standard, we currently do not anticipate that this standard will have a material impact on our condensed consolidated financial statements.
Accounting Standards Update 2018-15, <i>Intangibles - Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract</i>	This guidance aligns the requirements for capitalizing implementation costs incurred in a cloud-based hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	This standard is effective January 1, 2020, with early adoption permitted. We intend to adopt this standard on that date.	We are currently evaluating the effect of this standard on our condensed consolidated financial statements.

## Note 5. Revenue

### Product Sales

We recognize revenue primarily from product sales to customers. Revenue from sales of products is recognized at the point where the customer obtains control of the goods and we satisfy our performance obligation, which generally is at the time we ship the product to the customer. Payment terms differ by jurisdiction and customer, but payment terms in most of our major jurisdictions typically range from 30 to 120 days from date of shipment. Revenue for our product sales has not been adjusted for the effects of a financing component as we expect, at contract inception, that the period between when we transfer control of the product and when we receive payment will be one year or less. Any exceptions are either not material or we collect interest for payments made after the due date. Provisions for rebates and discounts, and returns are established in the same period the related sales are recognized. We generally ship product shortly after orders are received; therefore, we generally only have a few days of orders received but not yet shipped at the end of any reporting period. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation. We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are imposed on our sales of product and collected from a customer.

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

#### Sales Rebates and Discounts - Background and Uncertainties

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

Our sales rebates and discounts are based on specific agreements and the majority relate to sales in the U.S. As of September 30, 2019 and 2018, the liability for sales rebates and discounts in the U.S. represents approximately 71% and 70%, respectively, of our total liability with the next largest country representing approximately 6% and 8%, respectively, of our total liability.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	\$ 132.1	\$ 99.1	\$ 118.5	\$ 114.8
Reduction of revenue	75.9	53.5	222.2	154.2
Payments	(78.9)	(49.1)	(211.6)	(165.5)
Ending balance	<u>\$ 129.1</u>	<u>\$ 103.5</u>	<u>\$ 129.1</u>	<u>\$ 103.5</u>

Adjustments to revenue recognized as a result of changes in estimates for the judgments described above during the three and nine months ended September 30, 2019 and 2018 for product shipped in previous periods were not material.

#### Sales Returns - Background and Uncertainties

- We estimate a reserve for future product returns related to product sales using an expected value approach. This estimate is based on several factors, including: local returns policies and practices; returns as a percentage of revenue; an understanding of the reasons for past returns; estimated shelf life by product; and estimate of the amount of time between shipment and return. Adjustments to the returns reserve have been and may in the future be required based on revised estimates to our assumptions, which would have an impact on our consolidated results of operations. We record the return amounts as a deduction to arrive at our net product sales.

Actual product returns were less than 0.1% and approximately 0.1% of net revenue for the three and nine months ended September 30, 2019 and 0.2% and 0.3% for the three and nine months ended September 30, 2018, respectively, and have not fluctuated significantly as a percentage of revenue.

#### Disaggregation of Revenue

The following table summarizes our revenue disaggregated by product category:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Companion Animal Disease Prevention	\$ 207.6	\$ 188.6	\$ 616.9	\$ 603.9
Companion Animal Therapeutics	87.6	80.5	252.4	211.1
Food Animal Future Protein & Health	191.5	162.8	534.5	502.1
Food Animal Ruminants & Swine	266.2	301.5	811.8	881.1
Strategic Exits <sup>(1)</sup>	18.4	27.7	68.4	69.3
Revenue	\$ 771.3	\$ 761.1	\$ 2,284.0	\$ 2,267.5

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

#### Note 6. Acquisitions

##### 2019 Acquisitions

During the three months ended September 30, 2019, we completed the acquisitions of all outstanding shares of Aratana Therapeutics, Inc. (Aratana) and Prevtect Microbia Inc. (Pretect). These transactions were accounted for as business combinations under the acquisition method of accounting. Under this method, the assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date in our condensed consolidated financial statements. The determination of estimated fair value required 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. The results of operations of these acquisitions are included in our condensed consolidated financial statements from the dates of acquisition.

##### Aratana Therapeutics, Inc.

On July 18, 2019, we acquired Aratana, a pet therapeutics company focused on innovative therapies for dogs and cats, in a stock transaction. Aratana is the creator of the canine osteoarthritis medicine, Galliprant<sup>®</sup>, the rights to which we acquired in 2016. The acquisition enhances our presence in the areas of appetite stimulants in dogs, pain relief in dogs and cats, and treatments of other conditions in the U.S. and internationally. In connection with the acquisition, we issued approximately 7.2 million shares with a value of \$238.0 million to Aratana shareholders, based on our stock price on the last trading day immediately prior to the closing date. The purchase consideration also included up to \$12 million in contingent value rights, which represent the rights of Aratana shareholders to receive a contingent payment of \$0.25 per share in cash upon the achievement of a specified milestone as outlined in the merger agreement. We calculated an immaterial fair value for the contingent value rights using the Monte Carlo simulation model.

Contingent consideration liabilities we previously recorded for future royalty and milestone payments in relation to the 2016 acquisition of Galliprant were settled upon the closing of our acquisition of Aratana. The liabilities were valued at \$84.7 million as of the acquisition date using the Monte Carlo simulation model. The resulting \$7.5 million

loss upon settlement was recorded in Other - net, expense in the condensed consolidated and combined statement of operations for the three and nine months ended September 30, 2019.

The following table summarizes the preliminary amounts recognized for assets acquired and liabilities assumed as of the acquisition date:

Estimated Fair Value at July 18, 2019	
Cash and cash equivalents	\$ 26.4
Inventories	10.4
Acquired in-process research and development	36.3
Marketed products <sup>(1)</sup>	37.1
Other intangible assets <sup>(1)</sup>	13.5
Other assets and liabilities - net	25.4
Total identifiable net assets	149.1
Goodwill <sup>(2)</sup>	4.2
Settlement of existing contingent consideration liabilities	84.7
Total consideration transferred	\$ 238.0

(1) These intangible assets, which are being amortized on a straight-line basis over their estimated useful lives, are expected to have a weighted average useful life of approximately 12.5 years.

(2) The goodwill recognized from this acquisition is attributable primarily to expected synergies from combining the operations of Aratana with our legacy business. The majority of goodwill associated with this acquisition is not deductible for tax purposes.

The accounting for this acquisition is substantially complete, with the exception of the finalization of the valuation of inventory and intangible assets as well as minor working capital adjustments. The final determination of these amounts will be completed as soon as possible but no later than one year from the acquisition date.

We issued 0.1 million shares and recorded \$3.6 million of stock-based compensation expense for the vesting of Aratana equity awards that was accelerated upon the closing of the acquisition during the three months ended September 30, 2019.

Our condensed consolidated statement of operations for the three months ended September 30, 2019 included revenues of \$3.8 million from Aratana.

Had Aratana been acquired on January 1, 2018, the unaudited pro forma combined revenues of Elanco and Aratana would have been \$2.3 billion for both the nine months ended September 30, 2019 and September 30, 2018, and income before income taxes would have been \$66.9 million and \$98.9 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.

#### **Prevtec Microbia Inc.**

On July 31, 2019, we acquired Prevtec in a cash transaction for approximately \$60.3 million, inclusive of certain post-closing adjustments. Prevtec is a Canadian biotechnology company specializing in the development of vaccines intended to help prevent bacterial diseases in food animals. The acquisition allows us to expand on our previous distribution arrangement for Coliprotec<sup>®</sup> and is consistent with our efforts to explore innovative antibiotic alternatives.

The purchase consideration included up to \$16.3 million in additional cash consideration, contingent upon the achievement of specific sales milestones by December 31, 2021. We have recorded a \$4.7 million liability on the condensed consolidated balance sheet as of the acquisition date based on the fair value of the contingent consideration as calculated using the Monte Carlo simulation model.

The following table summarizes the preliminary amounts recognized for assets acquired and liabilities assumed as of the acquisition date:

Estimated Fair Value at July 31, 2019	
Cash and cash equivalents	\$ 0.9
Property and equipment	0.5
Acquired in-process research and development	2.8
Marketed products <sup>(1)</sup>	59.1
Other intangible assets	1.1
Other assets and liabilities - net	(9.8)
Total identifiable net assets	54.6
Goodwill <sup>(2)</sup>	10.4
Total consideration transferred	\$ 65.0

(1) These intangible assets, which are being amortized on a straight-line basis over their estimated useful lives, are expected to have a weighted average useful life of 10 years.

(2) The goodwill recognized from this acquisition is attributable primarily to expected synergies from combining the operations of Prevtac with our legacy business and future unidentified projects and products. The goodwill associated with this acquisition is not deductible for tax purposes.

The accounting for this acquisition is substantially complete, with the exception of the finalization of the valuation of intangible assets as well as minor working capital adjustments. The final determination of these amounts will be completed as soon as possible but no later than one year from the acquisition date.

### **Pending Acquisition**

#### **Bayer Animal Health Business**

On August 19, 2019, we entered into a Share and Asset Purchase Agreement (Purchase Agreement) with Bayer Aktiengesellschaft (Bayer), a German corporation, to acquire Bayer's animal health business. Bayer's animal health business is a provider of products intended to improve the health and well-being of pets and farm animals. This acquisition is expected to expand our Companion Animal product category, advancing our planned intentional portfolio mix transformation and creating a better balance between our Food Animal and Companion Animal product categories. Pursuant to the Purchase Agreement and subject to the satisfaction of certain customary closing conditions, including the receipt of antitrust approvals and the absence of any law or order enjoining or otherwise prohibiting the transaction in specified jurisdictions, we will purchase Bayer's animal health business for \$5.3 billion in cash and approximately \$2.3 billion of our common stock, subject to certain customary adjustments. The transaction will close no earlier than July 1, 2020, per the terms of the Purchase Agreement. See Note 13: Contingencies for discussion regarding certain commitments related to this transaction.

**Note 7. Asset Impairment, Restructuring and Other Special Charges**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Cash expense (income):</b>				
Severance and other costs	\$ 10.4	\$ (0.2)	\$ 9.6	\$ (2.8)
Integration and acquisition costs	46.1	4.9	99.6	10.5
Facility exit costs	—	1.5	—	11.2
<b>Total cash expense</b>	<b>56.5</b>	<b>6.2</b>	<b>109.2</b>	<b>18.9</b>
<b>Non-cash expense:</b>				
Asset impairment	10.2	6.2	14.2	63.9
Asset write-down	10.5	—	10.5	—
<b>Total non-cash expense</b>	<b>20.7</b>	<b>6.2</b>	<b>24.7</b>	<b>63.9</b>
<b>Total expense</b>	<b>\$ 77.2</b>	<b>\$ 12.4</b>	<b>\$ 133.9</b>	<b>\$ 82.8</b>

**Restructuring**

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

During September 2019, we initiated a restructuring program to reduce costs and support margin expansion. As a part of the restructuring program, the Company will eliminate certain positions across multiple locations and functions, including exiting research and development operations in Prince Edward Island, Canada, ceasing certain manufacturing operations in Wusi, China, and streamlining operations in Speke, England. The restructuring charge consisted of severance costs and non-cash asset write-down expenses. We expect to substantially complete the restructuring activities by September 2020.

**Integration and acquisition costs**

Integration and acquisition costs primarily represent charges and costs related to our integration efforts as a result of our acquired businesses, external costs directly related to acquiring businesses, including expenses for banking, legal, accounting, and other similar services, and costs to stand our organization up to be an independent company.

**Facility exit costs**

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

**Asset impairment**

Asset impairment recognized during the three and nine months ended September 30, 2019 resulted from the adjustment to fair value of property and equipment and intangible assets that were subject to product rationalization.

**Asset write-down**

Asset write-down expenses recognized during the three and nine months ended September 30, 2019 resulted from the adjustments recorded to write assets classified as held for sale down to their current fair value.

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

	Facility exit costs	Severance	Total
Balance at December 31, 2017	\$ 34.9	\$ 43.1	\$ 78.0
Charges	11.2	(2.8)	8.4
Separation adjustment	(5.9)	—	(5.9)
Cash paid	(10.9)	(22.6)	(33.5)
Balance at September 30, 2018	\$ 29.3	\$ 17.7	\$ 47.0
Balance at December 31, 2018	\$ 9.3	\$ 35.1	\$ 44.4
Charges	20.7	20.0	40.7
Reserve adjustments	—	(10.2)	(10.2)
Cash paid	(2.0)	(18.8)	(20.8)
Balance at September 30, 2019	\$ 28.0	\$ 26.1	\$ 54.1

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

#### Note 8. Inventories

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

Inventories consisted of the following:

	September 30, 2019	December 31, 2018
Finished products	\$ 435.1	\$ 400.7
Work in process	588.1	570.4
Raw materials and supplies	84.6	80.4
Total (approximates replacement cost)	1,107.8	1,051.5
Decrease to LIFO cost	(39.1)	(47.4)
Inventories	\$ 1,068.7	\$ 1,004.1

#### Note 9. Debt

Long-term debt consisted of the following:

	September 30, 2019	December 31, 2018
Term credit facility	\$ 377.5	\$ 492.5
3.912% Senior Notes due 2021	500.0	500.0
4.272% Senior Notes due 2023	750.0	750.0
4.900% Senior Notes due 2028	750.0	750.0
Other obligations	0.3	0.5
Unamortized debt issuance costs	(17.7)	(20.7)
Total debt	2,360.1	2,472.3
Less current portion of long-term debt	24.5	29.0
Total long-term debt	\$ 2,335.6	\$ 2,443.3

**Note 10. Financial Instruments and Fair Value**

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

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

As of September 30, 2019 and December 31, 2018, we had \$17.9 million and \$15.3 million, respectively, of equity method investments included in other noncurrent assets in our condensed consolidated balance sheet.

The following table summarizes the fair value information at September 30, 2019 and December 31, 2018 for long-term debt as well as for contingent consideration liabilities and the net investment hedge asset (liability) measured at fair value on a recurring basis in the respective balance sheet line items:

Financial statement line item	Carrying Amount	Fair Value Measurements Using			Fair Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>September 30, 2019</b>					
Other noncurrent liabilities - contingent consideration	\$ (4.7)	\$ —	\$ —	\$ (4.7)	\$ (4.7)
Other noncurrent assets/(liabilities) - cross currency interest rate contracts designated as net investment hedges	22.8	—	22.8	—	22.8
Long-term debt - senior notes	(2,000.0)	—	(2,120.0)	—	(2,120.0)
<b>December 31, 2018</b>					
Other current liabilities - contingent consideration	\$ (5.1)	\$ —	\$ —	\$ (5.1)	\$ (5.1)
Other noncurrent liabilities - contingent consideration	(69.0)	—	—	(69.0)	(69.0)
Other noncurrent assets/(liabilities) - cross currency interest rate contracts designated as net investment hedges	(7.4)	—	(7.4)	—	(7.4)
Long-term debt - senior notes	(2,000.0)	—	(2,005.0)	—	(2,005.0)

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.

Contingent consideration liabilities as of September 30, 2019 related to contingent consideration associated with the acquisition of Prevtec during the period. Based on the terms of the purchase agreement, we will pay up to \$16.3 million contingent upon the achievement of specific Coliprotec sales milestones by December 31, 2021. The fair value was estimated using the Monte Carlo simulation model and Level 3 inputs, including historical revenue, discount rate, asset volatility, and revenue volatility. See Note 6: Acquisitions for further discussion.

Contingent consideration liabilities as of December 31, 2018 related to Galliprant for which the fair value was estimated using a discounted cash flow analysis and Level 3 inputs, including projections representative of a market participant view for the probability of achieving potential future payments to Aratana and an estimated discount rate. The amount to be paid as of December 31, 2018 was dependent upon certain development, success-based regulatory, and sales-based milestones. These liabilities were settled upon the closing of our acquisition of Aratana on July 18, 2019. See Note 6: Acquisitions for further discussion.

The Senior Notes are comprised of \$500.0 million of 3.912% Senior Notes due August 27, 2021, \$750.0 million of 4.272% Senior Notes due August 28, 2023, and \$750.0 million of 4.900% Senior Notes due August 28, 2028.

We have a term credit facility of \$377.5 million and \$492.5 million, respectively, recorded at amortized cost in our condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018. We consider the carrying value of the term credit facility to be representative of its fair value as of September 30, 2019 and December 31, 2018. The fair value of this term credit facility is estimated based on quoted market prices of similar liabilities and is classified as Level 2.

In October 2018, we entered into a five-year cross-currency fixed interest rate swap with a 750 million Swiss franc (CHF) notional amount, which is designated as a net investment hedge (NIH) against CHF denominated assets for which the fair value was estimated based on quoted market values of similar hedges and is classified as Level 2. The NIH is expected to generate approximately \$25 million in cash and an offset to interest expense on an annual basis. During the three and nine months ended September 30, 2019, our interest expense was offset by \$6.2 million and \$18.4 million, respectively, as a result of the NIH. Over the life of the derivative, gains or losses due to spot rate fluctuations are recorded in cumulative translation adjustment. During the three months ended September 30, 2019, we recorded a gain of \$18.5 million, net of tax, on the NIH, which is included in the change in the cumulative translation adjustment in other comprehensive income. There is a potential for significant 2023 settlement exposure as the U.S. dollar fluctuates against the Swiss franc. The risk management objective is to manage foreign currency risk relating to net investments in certain CHF denominated assets. Changes in fair value of the derivative instruments are recognized as a component of accumulated other comprehensive loss to offset the changes in the values of the net investments being hedged.

#### **Note 11. Leases**

We determine if an arrangement is a lease at inception. We have operating leases for corporate offices, research and development facilities, vehicles, and equipment. Our leases have remaining lease terms of one to 12 years, some of which have options to extend or terminate the leases. Finance leases are included in property and equipment, current portion of long-term debt, and long-term debt in our condensed consolidated balance sheet. Finance leases are not material to our condensed consolidated statements of operations, condensed consolidated balance sheet, or condensed consolidated statement of cash flows. Beginning January 1, 2019, operating leases are included in noncurrent assets, other current liabilities, and other noncurrent liabilities in our consolidated balance sheet.

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

Operating lease expense for right-of-use assets is recognized on a straight-line basis over the lease term. Variable lease payments, which represent lease payments that vary due to changes in facts or circumstances occurring after the commencement date other than the passage of time, are expensed in the period in which the obligation for these payments was incurred.

We elected not to apply the recognition requirements of ASC 842, *Leases*, to short-term leases, which are deemed to be leases with a lease term of 12 months or less. Instead, we recognize lease payments in the condensed consolidated statements of operations on a straight-line basis over the lease term and variable payments in the period in which the obligation for these payments are incurred. We elected this policy for all classes

of underlying assets. We elected not to apply the practical expedient related to the separation of lease and non-lease components or the practical expedient which allows entities to use hindsight when determining lease term.

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

	Three months ended September 30, 2019	Nine months ended September 30, 2019
<b>Lease cost</b>		
Operating lease cost	\$ 6.7	\$ 19.0
Short-term lease cost	0.1	0.5
Variable lease cost	0.5	1.6
<b>Total lease cost</b>	<b>\$ 7.3</b>	<b>\$ 21.1</b>
<b>Other information</b>		
Operating cash outflows from operating leases		\$ 17.9
Right-of-use assets obtained in exchange for new operating lease liabilities		2.0
Weighted-average remaining lease term - operating leases		4.9 years
Weighted-average discount rate - operating leases		4.2 %

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

	Balance Sheet Classification	September 30, 2019
Right-of-use assets	Other noncurrent assets	\$ 81.7
Current operating lease liabilities	Other current liabilities	24.1
Non-current operating lease liabilities	Other noncurrent liabilities	57.6

As of September 30, 2019, the annual minimum lease payments of our operating lease liabilities were as follows:

Year 1	\$ 25.3
Year 2	20.1
Year 3	11.5
Year 4	9.0
Year 5	7.0
After Year 5	14.9
<b>Total lease payments</b>	<b>87.8</b>
<b>Less imputed interest</b>	<b>(6.1)</b>
<b>Total</b>	<b>\$ 81.7</b>

**Note 12. Income Taxes**

Provision for Taxes on Income	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(Benefit) Provision for Taxes on Income	\$ (22.5)	\$ 18.6	\$ 5.1	\$ 46.2
Effective Tax Rate	179.7 %	23.6 %	6.2 %	39.7 %

During the periods presented in the condensed consolidated and combined financial statements for the three and nine months ended September 30, 2018, our operations were generally included in the tax grouping of other Lilly entities within the respective entity's tax jurisdiction; however, in certain jurisdictions, we filed separate tax returns. Our income taxes for the three and nine month periods ended September 30, 2019 reflect the results on a stand-alone basis independent of Lilly, except for the period during which we were included in a combined tax return until full separation. In the jurisdictions in which we were included in a combined tax return, our income taxes were determined based on the tax matters agreement between us and Lilly. Prior to the Separation, the income tax expense included in these financial statements has been calculated using the separate return basis as if Elanco filed separate tax returns.

In 2017, the U.S. enacted the Tax Cuts and Jobs Act (2017 Tax Act), which significantly revised U.S. tax law. Guidance related to the 2017 Tax Act, including Notices, Proposed Regulations, and Final Regulations, has been issued, and we expect additional guidance will be issued in 2019. This additional guidance could materially impact our assumptions and estimates used to record our U.S. federal and state income tax expense resulting from the 2017 Tax Act.

We are included in 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 the 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. Certain matters of Lilly's U.S. examination of tax years 2013 - 2015 effectively settled during the three months ended June 30, 2019 and the resulting adjustments will not require any cash tax payments by Elanco. The examination for tax year 2015 remains ongoing, but Lilly anticipates the remaining matters will be effectively settled in the fourth quarter of 2019. Lilly's U.S. examination of tax years 2016-2018 is expected to begin in the fourth quarter of 2019.

For the three and nine months ended September 30, 2019, we recognized an income tax benefit of \$22.5 million and incurred \$5.1 million of income tax expense, respectively. For the three and nine months ended September 30, 2019, our effective tax rate differs from the statutory income tax rate primarily due to a discrete tax benefit from the resolution of a Brazil tax audit in addition to the impact of lower pre-tax earnings largely due to restructuring charges. Tax reserves had been established in the 2015 acquisition of Novartis Animal Health (Novartis) and were partially covered by an indemnity. The favorable resolution of the Brazil tax audit resulted in an income tax benefit of approximately \$14 million in the third quarter of 2019.

For the three and nine months ended September 30, 2018, we incurred \$18.6 million and \$46.2 million, respectively, of income tax expense. For the three and nine months ended September 30, 2018, our effective tax rate differs from the statutory income tax rate primarily due to no benefits being recorded for losses incurred in the U.S. for asset impairments and contractual commitment charges associated with the suspension of commercial activities of Imrestor<sup>®</sup> due to full valuation allowances recorded in the United States.

**Note 13. Contingencies****Legal matters**

We are party to various legal actions in the normal course of business. In determining whether a pending matter is significant for financial reporting and disclosure purposes, we consider both quantitative and qualitative factors in order to assess materiality. We record a liability for claims to the extent that we can formulate a reasonable estimate of their costs and there is a reasonable probability of incurring significant costs or expenses. At September 30, 2019 and December 31, 2018, we had no liabilities established related to litigation as there were no significant claims

which were probable and estimable. We have not historically had any significant litigation expense and are not currently subject to a significant claim.

#### ***Bayer Animal Health acquisition financing***

In connection with our pending acquisition of the animal health business of Bayer as discussed in Note 6: Acquisitions, in August 2019, we entered into a commitment letter that provides for financing consisting of up to \$750 million in a revolving facility, \$3.0 billion in a term facility, and \$2.75 billion in a senior secured bridge facility. The revolving facility, term facility, and bridge facility are subject to customary terms, conditions, and financial covenants. If drawn upon, the proceeds will be used to fund a portion of the cash to be paid in the pending acquisition of the animal health business of Bayer and the payment of related fees and expenses. The revolving facility will mature five years after the closing date of the acquisition and the term facility and bridge facility will mature seven years after the closing date of the acquisition. In connection with the financing commitment letter, we will incur fixed commitment fees of \$40.4 million that will become due and payable upon the closing of the pending acquisition or the termination of the Purchase Agreement with Bayer. These fees have not been recorded on the condensed consolidated balance sheet as of September 30, 2019.

#### **Note 14. Geographic Information**

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

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

We have a single customer that accounted for 15.9% and 11.1% of revenue for the three months ended September 30, 2019 and 2018, respectively, and for 13.4% and 11.5% of revenue for the nine months ended September 30, 2019 and 2018, respectively. The product sales resulted in accounts receivable with this customer of \$124.5 million and \$96.4 million as of September 30, 2019 and December 31, 2018, respectively.

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

Selected geographic area information was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue—to unaffiliated customers <sup>(1)</sup>				
United States	\$ 388.2	\$ 382.2	\$ 1,167.1	\$ 1,108.6
International	383.1	378.9	1,116.9	1,158.9
Revenue	\$ 771.3	\$ 761.1	\$ 2,284.0	\$ 2,267.5

	September 30, 2019	December 31, 2018
Long-lived assets <sup>(2)</sup>		
United States	\$ 637.2	\$ 602.6
United Kingdom	181.8	187.5
Other foreign countries	208.6	195.8
Long-lived assets	\$ 1,027.6	\$ 985.9

<sup>(1)</sup> Revenue is attributed to the countries based on the location of the customer.

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

## Note 15. Retirement Benefits

### Pension plan amendment

In September 2019, we signed agreements under which certain defined pension benefits in Switzerland will transfer from the current Lilly pension fund as of December 31, 2019 to a new Elanco pension fund effective January 1, 2020. This resulted in a plan amendment during the period. The plan amendment decreased our pension benefit obligation by approximately \$21 million, consisting primarily of a decrease in prior service costs of approximately \$75 million, partially offset by a loss of approximately \$54 million driven by changes in certain assumptions. The net impact to accumulated other comprehensive income was a gain of approximately \$21 million, which will be amortized over the average remaining service period of employees expected to receive benefits under the plans.

## Note 16. Earnings Per Share

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

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

We compute basic earnings per share by dividing net earnings available to common shareholders by the actual weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if holders of unvested restricted stock units and stock options converted their holdings into common stock. For the three and nine months ended September 30, 2019, weighted average number of common shares outstanding used to calculate basic earnings per share includes the impact of approximately 7.3 million shares that were issued during the period in connection with the acquisition of Aratana. See Note 6: Acquisitions for further discussion.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and as such, these shares are not included in the calculation of diluted earnings per share. For both

the three and nine months ended September 30, 2019, approximately 0.1 million shares of potential common shares were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive.

**Note 17. Related Party Agreements and Transactions**

***Transactions with Lilly Subsequent to Separation and Related to the Separation***

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

	September 30, 2019	December 31, 2018
TSA	\$ (18.1)	\$ (28.0)
Other activities	(29.2)	(38.0)
Local country asset purchases	(11.1)	(202.7)
Total receivable from/(payable to) Lilly	<u>\$ (58.4)</u>	<u>\$ (268.7)</u>

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

***Transitional Services Agreement (TSA)***

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

***Separation Activities***

Subsequent to our IPO, there continue to be transactions between us and Lilly related primarily to the completion of the local country asset purchases and finalization of assets and liabilities associated with the legal separation from Lilly, combined income tax returns and the impact of the tax matters agreement, historical Lilly retirement benefits, and centralized cash management. The net impact of these activities of \$3.0 million and \$28.4 million for the three and nine months ended September 30, 2019, respectively, has been reflected as Separation Activities within shareholders' equity. The most significant of these activities includes the finalization of the local country valuation of business and the resulting impact on deferred tax assets and the impact of combined tax returns.

***Other Activities***

We continue to share certain services and back office functions with Lilly, which in certain instances result in Lilly paying costs for Elanco (e.g., utilities, local country operating costs, etc.) that are then passed through to Elanco for reimbursement. These amounts are included in cash flows from operating activities in our condensed consolidated and combined statements of cash flows. In addition, we operate through a single treasury settlement process and prior to the local country asset purchases (as described below) continued to transact through Lilly's processes in certain instances. As a result of these activities, there were certain amounts of financing that occurred between Lilly and Elanco during the nine month period ended September 30, 2019. These amounts are included in cash flows from financing activities in our condensed consolidated and combined statements of cash flows.

***Local Country Asset Purchases***

The legal transfer of certain of our net assets did not occur prior to the Separation due to certain regulatory requirements in each of these countries. The related assets, liabilities, and results of operations have been reported in our condensed consolidated and combined financial statements, as we are responsible for the business activities conducted by Lilly on our behalf and are subject to the risks and entitled to the benefits generated by these

operations and assets under the terms of the MSA. We held restricted cash, and the associated payable to Lilly, at the date of Separation to fund the acquisition of these assets. As of September 30, 2019, the majority of these assets have been legally acquired and the remainder are expected to be purchased during 2019. Restricted cash and Payable to Lilly of \$11.1 million are recorded in the condensed consolidated balance sheet for the remainder of the assets expected to be purchased by the end of 2019.

#### ***Transactions with Lilly Prior to Separation***

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

##### Transfers to/from Lilly, net

As discussed in Note 2: Basis of Presentation, net parent company investment is primarily impacted by contributions from Lilly which are the result of treasury activity and net funding provided by or distributed to Lilly. For the three and nine months ended September 30, 2018, net transfers to Lilly were \$116.8 million and \$226.3 million, respectively. Activities that impacted the net transfers (to)/from Lilly include corporate overhead and other allocations, income taxes, retirement benefits, and centralized cash management.

##### Corporate overhead and other allocations

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cost of sales	\$ —	\$ 7.0	\$ —	\$ 21.8
Research and development	—	0.7	—	2.2
Marketing, selling and administrative	—	26.4	—	81.2
Total	\$ —	\$ 34.1	\$ —	\$ 105.2

We provide Lilly certain services related to manufacturing support. Allocations of manufacturing support from us to Lilly were \$1.3 million and \$3.7 million for the for the three and nine months ended September 30, 2018, respectively which reduced cost of sales in the unaudited condensed consolidated and combined statements of operations.

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

##### Stock-based Compensation

Prior to full separation, our employees participated in Lilly stock-based compensation plans, the costs of which were allocated to us and recorded in cost of sales, research and development, and marketing, selling and administrative expenses in the unaudited condensed consolidated and combined statements of operations. The costs of such plans related to our employees were \$5.1 million for the nine months ended September 30, 2019. The costs of such plans related to our employees were \$6.9 million and \$20.2 million for the three and nine months ended September 30, 2018, respectively.

##### Retirement Benefits

Prior to full separation, our employees participated in defined benefit pension and other post retirement plans sponsored by Lilly, the costs and benefits of which were recorded in the unaudited condensed consolidated and combined statement of operations in cost of sales, research and development, and marketing, selling and

administrative expenses. For the three and nine months ended September 30, 2018, the benefit of such plans related to our employees was \$1.6 million and \$0.3 million, respectively.

Centralized Cash Management

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

Debt

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

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

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

The management's discussion and analysis of financial condition and results of operations is intended to assist the reader in understanding and assessing significant changes and trends related to our results of operations and financial position. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated and combined financial statements and accompanying footnotes in Item 1 of Part I of this Quarterly Report on Form 10-Q. Certain statements in this Item 2 of Part I of this Quarterly Report on Form 10-Q constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements," Item 1A, "Risk Factors," of Part II of this Quarterly Report on Form 10-Q and of Part II of our Quarterly Reports on Form 10-Q for the quarterly periods ended June 30, 2019 and March 31, 2019, and Item 1A, "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018, may cause our actual results, financial position, and cash generated from operations to differ materially from these forward-looking statements.

#### Overview

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

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

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

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

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

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

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

*Food Animal Future Protein & Health (FA Future Protein & Health):* Our portfolio in this category, which includes vaccines, nutritional enzymes and animal-only antibiotics, serves the growing demand for protein and includes innovative products in poultry and aquaculture production,

where demand for animal health products is outpacing overall industry growth. We are focused on developing functional nutritional health products that promote food animal health, including enzymes, probiotics and prebiotics. We are a leader in providing vaccines as alternatives to antibiotics to promote animal health based on share of revenue.

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

For the three months ended September 30, 2019 and 2018, our revenue was \$771.3 million and \$761.1 million, respectively. For the three months ended September 30, 2019 and 2018, our net income was \$10.0 million and \$60.2 million, respectively.

For the nine months ended September 30, 2019 and 2018, our revenue was \$2,284.0 million and \$2,267.5 million, respectively. For the nine months ended September 30, 2019 and 2018, our net income was \$77.4 million and \$70.1 million, respectively.

Increases or decreases in inventory levels at our channel distributors can positively or negatively impact our quarterly and annual revenue results, leading to variations in quarterly revenues. 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, payment terms we extend, which are subject to internal policies, and procedures and environmental factors beyond our control, including weather conditions.

## **Key Trends and Conditions Affecting Our Results of Operations**

### ***Industry Trends***

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

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

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

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

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

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

## **Factors Affecting Our Results of Operations**

### ***Product Development and New Product Launches***

A key element of our targeted value creation strategy is to drive growth through portfolio development and product innovation, primarily in our three targeted growth categories of CA Disease Prevention, CA Therapeutics and FA Future Protein & Health. Since 2015, we've launched or acquired 14 new products, five of which were launched in 2017 and 2018. Revenue from these products contributed \$325.0 million to revenue for the nine months ended September 30, 2019. We continue to pursue the development of new chemical and biological molecules through our approach to innovation. Our future growth and success depends on both our pipeline of new products, including

new products that we may develop through joint ventures and products that we are able to obtain through license or acquisition, and the expansion of the use of our existing products. We believe we are an industry leader in animal health R&D, with a track record of product innovation, business development and commercialization.

#### ***Productivity***

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

#### ***Foreign Exchange Rates***

Significant portions of our revenue and costs are exposed to changes in foreign exchange rates. Our products are sold in more than 90 countries and, as a result, our revenue is influenced by changes in foreign exchange rates. During the nine months ended September 30, 2019 and 2018, approximately 43% and 51%, respectively, of our revenue was denominated in foreign currencies. As we operate in multiple foreign currencies, including the Euro, British pound, Swiss franc, Brazilian real, Australian dollar, Japanese yen, Canadian dollar, Chinese yuan, and other currencies, changes in those currencies relative to the U.S. dollar impact our revenue, cost of sales and expenses, and consequently, net income. These fluctuations may also affect the ability to buy and sell our products between markets impacted by significant exchange rate variances. Currency movements decreased revenue by 2% during the nine months ended September 30, 2019. Currency movements had limited impact on revenue during the nine months ended September 30, 2018.

#### ***Our Relationship with Lilly and Additional Standalone Costs***

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

Our historical results reflect an allocation of costs for certain Lilly corporate costs for periods prior to the IPO, including, among others, executive oversight, treasury, legal, finance, human resources, tax, internal audit, financial reporting, information technology and investor relations. These allocations are not necessarily indicative of the expenses we may incur as a standalone public company. Although we entered into certain agreements with Lilly in connection with the IPO and the Separation, the amount and composition of our expenses may vary from historical levels since the fees charged for the services under these agreements may be higher or lower than the costs reflected in the historical allocations. The total allocations included in our results for the three months ended September 30, 2019 and September 30, 2018 were \$0.0 million and \$34.1 million, respectively. The total allocations included in our results for the nine months ended September 30, 2019 and September 30, 2018 were \$0.0 million and \$105.2 million, respectively. See Note 17: Related Party Agreements and Transactions in our unaudited condensed consolidated and combined financial statements.

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

Lilly utilizes a centralized treasury management system, of which we were a part until our IPO. For periods prior to the IPO, our condensed consolidated and combined financial statements reflect cash held only in bank accounts in our legal name and no allocation of combined cash positions. Our unaudited condensed consolidated and combined financial statements do not reflect an allocation of Lilly's debt or any associated interest expense. In connection with the IPO, we incurred \$2.5 billion of long-term borrowings. Our historical results reflect \$29.6 million of interest expense during the year ended December 31, 2018 due to the timing of the borrowings, in comparison to \$18.7 million and \$60.2 million for the three and nine months ended September 30, 2019, respectively. We have estimated

interest expense of approximately \$85 million on an annual basis based on our borrowings as of September 30, 2019.

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

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

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

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

***Asset Impairment, Restructuring and Other Special Charges***

Our results have been impacted by asset impairment, restructuring and other special charges, including integration of acquired businesses, during the nine months ended September 30, 2019 and 2018. These charges primarily include severance costs resulting from actions taken to reduce our cost structure, asset impairment charges related to product rationalization and site closures, and charges and costs related to our integration efforts as a result of our acquired businesses, external costs directly related to acquiring businesses, including expenses for banking, legal, accounting, and other similar services, and costs to stand our organization up to be an independent company.

For more information on these charges, see Note 7: Asset Impairment, Restructuring and Other Special Charges in our condensed consolidated and combined financial statements.

**Results of Operations**

The following discussion and analysis of our results of operations should be read along with our condensed consolidated and combined financial statements and the notes thereto.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Revenue	\$ 771.3	\$ 761.1	1 %	\$ 2,284.0	\$ 2,267.5	1 %
Costs, expenses and other:						
Cost of sales	360.4	369.8	(3) %	1,060.2	1,161.3	(9) %
% of revenue	47 %	49 %	(2) %	46 %	51 %	(5) %
Research and development	69.9	58.9	19 %	202.8	185.5	9 %
% of revenue	9 %	8 %	1 %	9 %	9 %	— %
Marketing, selling and administrative	192.3	179.0	7 %	574.3	550.1	4 %
% of revenue	25 %	24 %	1 %	25 %	24 %	1 %
Amortization of intangible assets	50.7	48.7	4 %	149.0	147.3	1 %
% of revenue	7 %	6 %	— %	7 %	6 %	— %
Asset impairment, restructuring and other special charges	77.2	12.4	523 %	133.9	82.8	62 %
Interest expense, net of capitalized interest	18.7	8.6	117 %	60.2	8.6	600 %
Other - net, expense	14.6	4.9	NM	21.1	15.6	NM
Income (loss) before taxes	(12.5)	78.8	NM	82.5	116.3	NM
% of revenue	(2) %	10 %	(12) %	4 %	5 %	4 %
Income tax (benefit) expense	(22.5)	18.6	(221) %	5.1	46.2	(89) %
Net income	\$ 10.0	\$ 60.2	NM	\$ 77.4	\$ 70.1	NM

Certain amounts and percentages may reflect rounding adjustments.

NM - Not meaningful

## Revenue

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
CA Disease Prevention	\$ 207.6	\$ 188.6	10 %	\$ 616.9	\$ 603.9	2 %
CA Therapeutics	87.6	80.5	9 %	252.4	211.1	20 %
FA Future Protein & Health	191.5	162.8	18 %	534.5	502.1	6 %
FA Ruminants & Swine	266.2	301.5	(12) %	811.8	881.1	(8) %
Subtotal	752.9	733.4	3 %	2,215.6	2,198.2	1 %
Strategic Exits <sup>(1)</sup>	18.4	27.7	(34) %	68.4	69.3	(1) %
Total	\$ 771.3	\$ 761.1	1 %	\$ 2,284.0	\$ 2,267.5	1 %

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

## Total revenue

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Total revenue increased \$10.2 million or 1% for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, reflecting a 4% increase in price, partially offset by a 1% decrease in volume and a 1% unfavorable impact from foreign exchange rates.

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

- an increase in revenue of \$20.6 million or 11% from CA Disease Prevention products, excluding the impact of foreign exchange rates;
- an increase in revenue of \$8.0 million or 10% from CA Therapeutics products, excluding the impact of foreign exchange rates;
- an increase in revenue of \$32.4 million or 20% from FA Future Protein & Health products, excluding the impact of foreign exchange rates; and

partially offset by:

- a decrease in revenue of \$33.3 million or 11% from FA Ruminants & Swine products, excluding the impact of foreign exchange rates;
- a decrease in revenue of \$9.2 million or 33% from Strategic Exits, excluding the impact of foreign exchange rates.
- a decrease in revenue of \$8.3 million due to the negative impact of foreign exchange rates.

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

- CA Disease Prevention revenue increased by \$19.0 million or 10% for the quarter, driven by both increased volume and price, partially offset by an unfavorable impact from foreign exchange rates. The revenue increase was primarily driven by continued increases in sales of Interceptor Plus<sup>®</sup> and Credelio<sup>®</sup>, vaccines, and initial stocking for a new customer agreement.
- CA Therapeutics revenue increased by \$7.1 million or 9% for the quarter, driven by increased volume and to a lesser extent price, partially offset by the unfavorable impact of foreign exchange rates. The revenue increase was driven by increased demand for products across the therapeutics portfolio, primarily Galliprant, initial stocking for a new customer agreement, and sales of Entyce<sup>®</sup> and Nocita<sup>®</sup> resulting from the third quarter acquisition of Aratana.

- FA Future Protein & Health revenue increased by \$28.7 million or 18% for the quarter, driven by both increased volume and price, partially offset by an unfavorable impact from foreign exchange rates. Growth was driven primarily by the aqua and poultry portfolios. In addition, third quarter revenue was positively impacted by one-time items including the sale of the remaining inventory of a product that is being phased out in China as well as purchasing patterns in the prior year that created a favorable comparison for poultry products.
- FA Ruminants & Swine revenue decreased by \$35.3 million or 12% for the quarter, driven by a decline in volume and to a lesser extent an unfavorable impact from foreign exchange rates, partially offset by an increase in price. The decline in revenue was driven by softness in swine products due to African Swine Fever across Asia, a disruption in global supply of certain third-party produced injectable cattle products, reduced U.S. producer use of Paylean, changes in distributor purchasing for Rumensin as anticipated, and the impact from the Australian drought, partially offset by revenue generated from Posilac sales as a result of the revised commercial agreement entered into in the third quarter of 2019.
- Strategic Exits revenue decreased by \$9.3 million to \$18.4 million and represented 2% of total revenue.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Total revenue increased \$16.5 million or 1% for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018, reflecting a 1% increase due to higher volumes and an increase of 2% due to price, offset by a 2% unfavorable foreign exchange rate.

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

- an increase in revenue of \$21.0 million or 3% from CA Disease Prevention products, excluding the impact of foreign exchange rates;
- an increase in revenue of \$47.1 million or 22% from CA Therapeutics products, excluding the impact of foreign exchange rates;
- an increase in revenue of \$54.0 million or 11% from FA Future Protein & Health products, excluding the impact of foreign exchange rates; and

partially offset by:

- a decrease in revenue of \$53.2 million or 6% from FA Ruminants & Swine products, excluding the impact of foreign exchange rates;
- a decrease in revenue of \$0.8 million or 1% from Strategic Exits, excluding the impact of foreign exchange rates; and
- a decrease in revenue of \$51.6 million due to the negative impact of foreign exchange rates.

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

- CA Disease Prevention revenue increased by \$13.0 million or 2%, primarily driven by an increase in price and volume, partially offset by an unfavorable impact from foreign exchange rates. Continued growth in Credelio and Interceptor Plus and an increase in revenue due to initial stocking for a new customer agreement were partially offset by declines in sales of certain older generation parasiticides and vaccines.
- CA Therapeutics revenue increased by \$41.3 million or 20%, driven by increased volume and to a lesser extent price, partially offset by the impact of foreign exchange rates. The revenue increase was driven by increased demand for products across the therapeutics portfolio, primarily Galliprant, initial stocking for a new customer agreement, and sales of Entyce and Nocita, as a result of the acquisition of Aratana.
- FA Future Protein & Health revenue increased by \$32.4 million or 6%, driven by both increased volume and price, partially offset by an unfavorable impact from foreign exchange rates. Growth was driven by the aqua portfolio. In addition, third quarter revenue was positively impacted by one-time items including the sale of the remaining inventory of a product that is being phased out in China as well as purchasing patterns in the prior year that created a favorable comparison for poultry products.

- FA Ruminants & Swine revenue decreased by \$69.3 million or 8% driven by a decline in volume and to a lesser extent the unfavorable impact of foreign exchange rates, partially offset by a minor increase in price. The decline in revenue was driven by softness in swine products due to African Swine Fever across Asia, a disruption in global supply of certain third-party produced injectable cattle products, reduced U.S. producer use of Paylean, changes in distributor purchasing for Rumensin as anticipated, and the impact from the Australian drought. These decreases were partially offset by revenue generated from Posilac sales as a result of the revised commercial agreement entered into in the third quarter of 2019 and favorable purchasing patterns for certain cattle products, primarily Optaflexx.
- Strategic Exits revenue decreased by \$0.9 million to \$68.4 million and represented 3% of total revenue.

### **Costs and Expenses and Other**

#### *Cost of sales*

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Cost of sales decreased \$9.4 million in the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 due primarily to manufacturing productivity improvements.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Cost of sales decreased \$101.1 million in the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 due primarily to manufacturing productivity improvements and charges recorded during the nine months ended September 30, 2018 for inventory adjustments related to the suspension of commercial activities of Imrestor and the closure of the Larchwood, Iowa facility, partially offset by unfavorable product mix and logistics costs.

#### *Research and development*

Three months ended September 30, 2019 vs. three months ended September 30, 2018

R&D expenses increased \$11.0 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, primarily due to additional costs from acquired businesses during the period, increased costs from R&D infrastructure investments, and project spend as a result of pipeline progression.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

R&D expenses increased \$17.3 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 primarily due to additional costs from acquired businesses during the year, increased costs from R&D infrastructure investments, project spend as a result of pipeline progression, and increased costs as a result of operating as a standalone company during the nine months ended September 30, 2019.

#### *Marketing, selling and administrative*

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Marketing, selling and administrative expenses increased \$13.3 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 due to additional costs from acquired businesses during the year, primarily Aratana, increased marketing efforts for our companion animal portfolio, and increased expenses as a result of operating as a standalone company.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Marketing, selling and administrative expenses increased \$24.2 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 due primarily to additional costs from acquired businesses during the year, primarily Aratana, increased marketing efforts for our companion animal portfolio, and increased expenses as a result of operating as a standalone company, partially offset by slightly lower selling costs and lower costs due to continued productivity initiatives and cost control measures across the business.

#### *Amortization of intangible assets*

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Amortization of intangible assets increased \$2.0 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, primarily due to the addition of amortization of intangible assets recorded from the acquisitions of Aratana and Prevtec during the three months ended September 30, 2019.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Amortization of intangible assets increased \$1.7 million for the nine months ended September 30, 2019 as

compared to the nine months ended September 30, 2018 primarily due to the addition of amortization of intangible assets recorded from the acquisitions of Aratana and Prevtect during the three months ended September 30, 2019.

*Asset impairment, restructuring and other special charges*

For additional information regarding our asset impairment, restructuring and other special charges, see Note 7: Asset Impairment, Restructuring and Other Special Charges to our condensed consolidated and combined financial statements.

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Asset impairment, restructuring and other special charges increased \$64.8 million to \$77.2 million for the three months ended September 30, 2019 from \$12.4 million for the three months ended September 30, 2018 primarily due to higher transaction costs directly related to business acquisitions and higher integration costs associated with the implementation of new systems, programs, and processes due to the Separation from Lilly as well as severance costs, exit costs, impairment charges, and write-down charges recorded during the three months ended September 30, 2019, as more fully described in Note 7.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Asset impairment, restructuring and other special charges increased \$51.1 million to \$133.9 million for the nine months ended September 30, 2019 from \$82.8 million for the nine months ended September 30, 2018 primarily due to higher transaction costs directly related to business acquisitions and higher integration costs associated with the implementation of new systems, programs, and processes due to the Separation from Lilly as well as severance costs, exit costs, impairment charges, and write-down charges recorded during the nine months ended September 30, 2019, as more fully described in Note 7.

*Interest expense, net of capitalized interest*

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Interest expense, net of capitalized interest, increased \$10.1 million from \$8.6 million for the three months ended September 30, 2018 to \$18.7 million for the three months ended September 30, 2019. A full quarter of interest expense was recorded during the three months ended September 30, 2019, while less than one month of interest expense was recorded during the three months ended September 30, 2018 based on the timing of the issuance of debt.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Interest expense, net of capitalized interest, increased \$51.6 million from \$8.6 million for the nine months ended September 30, 2018 to \$60.2 million for the nine months ended September 30, 2019 due to the timing of the issuance of debt during the three months ended September 30, 2018.

*Other - net, expense*

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Other - net, expense increased \$9.7 million from \$4.9 million for the three months ended September 30, 2018 to \$14.6 million for the three months ended September 30, 2019. Other - net, expense during the three months ended September 30, 2019 is primarily comprised of \$8.3 million of expense recorded due to the release of a tax indemnity related to the 2015 acquisition of Novartis and the \$7.5 million increase in the value of contingent consideration liabilities recorded for Galliprant that were settled upon the closing of our acquisition of Aratana during the quarter.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Other - net, expense increased \$5.5 million from \$15.6 million for the nine months ended September 30, 2018 to \$21.1 million for the three months ended September 30, 2019. Other - net, expense during the three months ended September 30, 2019 is primarily comprised of \$8.3 million of expense recorded due to the release of a tax indemnity related to the 2015 acquisition of Novartis and \$13.0 million of adjustments to the contingent consideration liabilities recorded for Galliprant during the nine months ended September 30, 2019.

*Income tax expense*

Three months ended September 30, 2019 vs. three months ended September 30, 2018

Income tax expense decreased \$41.1 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. The decrease is primarily attributable to lower pre-tax earnings largely due to restructuring charges, in addition to the release of tax reserves related to final resolution of the Brazilian tax

matter.

Nine months ended September 30, 2019 vs. nine months ended September 30, 2018

Income tax expense decreased \$41.1 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. The decrease is primarily attributable to lower pre-tax earnings largely due to restructuring charges, in addition to the release of tax reserves related to final resolution of the Brazilian tax matter.

See Note 12: Income Taxes to our condensed consolidated and combined financial statements.

### Liquidity and Capital Resources

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

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

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

### Cash Flows

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

	Nine Months Ended September 30,		% Change
	2019	2018	
Net cash provided by (used for):			
Operating activities	\$ 97.8	\$ 347.8	(72) %
Investing activities	(160.5)	(78.9)	103 %
Financing activities	(298.6)	327.2	(191) %
Effect of exchange-rate changes on cash and cash equivalents	4.1	15.4	(73) %
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ (357.2)	\$ 611.5	(158) %

### Operating activities

Our cash provided by operating activities decreased by \$250.0 million, from \$347.8 million for the nine months ended September 30, 2018 to \$97.8 million for the nine months ended September 30, 2019. The decrease in operating cash flows was primarily attributable to increases in accounts receivable, inventories and other assets during the period as well as a decrease in other liabilities. We have extended our payment terms in the past in certain customer situations and may need to continue this practice going forward as a result of competitive pressures and the need for certain inventory levels at our channel distributors to avoid supply disruptions. Further extensions of customer payment terms could result in additional uses of our cash flow. The impact of these items was partially offset by an increase in net income.

### Investing activities

Our cash used for investing activities increased by \$81.6 million, to \$160.5 million for the nine months ended September 30, 2019 compared to \$78.9 million for the nine months ended September 30, 2018. The change was primarily driven by cash paid for the acquisition of Prevtex during the nine months ended September 30, 2019 and

an increase in cash used for other investing activities, net, primarily due to an increase in purchases of software from 2018 to 2019.

#### *Financing activities*

Our cash used for financing activities was \$298.6 million for the nine months ended September 30, 2019 as compared to cash provided by financing activities of \$327.2 million for the nine months ended September 30, 2018. Cash provided by financing activities during the nine months ended September 30, 2018 reflected the impact of our IPO and the issuance of long-term debt in connection with our Separation from Lilly during the period. \$4.2 billion of cash was generated from those transactions, which was partially offset by \$3.6 billion of payments to Lilly in connection with local country asset purchases and other financing activities related to the Separation. During the nine months ended September 30, 2019, we have made \$115.0 million of payments on our term credit facility as well as \$191.6 million of payments to Lilly in connection with local country asset purchases and other financing activities related to the Separation.

#### *Description of Indebtedness*

For a complete description of our outstanding debt as of September 30, 2019 and December 31, 2018, see Note 9 to our condensed consolidated and combined financial statements.

#### *Off Balance Sheet Arrangements*

In connection with our pending acquisition of the animal health business of Bayer as discussed in Note 6: Acquisitions, in August 2019, we entered into a commitment letter that provides for financing consisting of up to \$750 million in a revolving facility, \$3.0 billion in a term facility, and \$2.75 billion in a senior secured bridge facility. The revolving facility, term facility, and bridge facility are subject to customary terms, conditions, and financial covenants. If drawn upon, the proceeds will be used to fund a portion of the cash to be paid in the pending acquisition of the animal health business of Bayer and the payment of related fees and expenses. The revolving facility will mature five years after the closing date of the acquisition and the term facility and bridge facility will mature seven years after the closing date of the acquisition. In connection with the commitment letter, we will incur fixed commitment fees of \$40.4 million that will become due and payable upon the closing of the pending acquisition or the termination of the acquisition agreement with Bayer. These fees have not been recorded on the condensed consolidated balance sheet as of September 30, 2019.

#### *Critical Accounting Policies*

The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. There are certain of our accounting policies that are considered critical, as these policies are the most important to the depiction of our financial statements and require significant, difficult or complex judgments, often employing the use of estimates about the effects of matters that are inherently uncertain. Such policies are summarized in Item 7, "Management's Discussion & Analysis of Results of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes in the application of our critical accounting policies during the nine months ended September 30, 2019, aside from our adoption of ASC 842, *Leases*, on January 1, 2019. See Note 11: Leases in our condensed consolidated and combined financial statements for further information.

## **Contractual Obligations**

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

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Foreign Exchange Risk**

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

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

We estimate that a hypothetical 10% adverse movement in all foreign currency exchange rates related to the translation of the results of our foreign operations would decrease our net income by approximately \$4.6 million for the nine months ended September 30, 2019.

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

#### **Interest Risk**

We are exposed to interest rate risk on the long-term debt we incurred in connection with our IPO. Prior to our IPO, we did not have any interest rate exposure. We have cash flow risk associated with our \$377.5 million of borrowings under the Term Credit Facility that pay interest based on variable rates. We actively monitor our exposure and may enter into financial instruments to fix the interest rate based on our assessment of the risk.

#### **Recently Issued Accounting Pronouncements**

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

#### **Item 4. Controls and Procedures**

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

Our management, with the participation of Jeff Simmons, president and chief executive officer, and Todd Young, executive vice president and chief financial officer, evaluated our disclosure controls and procedures as of September 30, 2019. Based on this evaluation, the chief executive officer and the chief financial officer concluded that the disclosure controls and procedures are effective.

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

## PART II. Other Information

### **Item 1. Legal Proceedings**

(none)

### **Item 1A. Risk Factors**

Other than the revisions set forth below, there have been no material changes from the risk factors disclosed in Part I of our Annual Report on Form 10-K for the year ended December 31, 2018 and Item 1A, "Risk Factors," of Part II of our Quarterly Reports on Form 10-Q for the quarterly periods ended June 30, 2019 and March 31, 2019.

#### ***Generic products may be viewed as more cost-effective than our products.***

We face competition from products produced by other companies, including generic alternatives to our products. We depend on patents and regulatory data exclusivity periods to provide us with exclusive marketing rights for some of our products. Patents for individual products expire at different times based on the date of the patent filing (or sometimes the date of patent grant) and the legal term of patents in the jurisdictions where such patents are obtained. The extent of protection afforded by our patents varies from jurisdiction to jurisdiction and is limited by the scope of the claimed subject matter of our patents, the term of the patent and the availability and enforcement of legal remedies in the applicable jurisdiction. In 2018, approximately 72% of our revenue was from products that did not have patent protection, including revenue from some of our top products such as Rumensin, Maxiban, Denagard and Tylan Premix®. Other products are protected by patents that expire over the next several years. For example, certain patents related to Trifexis expire as early as 2020 in the U.S., 2021 in Japan and 2025 in European territories. As the patents for a brand name product expire, competitors may begin to introduce generic or other alternatives, and as a result, we may face competition from lower-priced alternatives to many of our products. For example, we have experienced significant competitive headwinds from generic ractopamine in the U.S. In the third quarter of 2013, a large established animal health company received U.S. approval for generic ractopamine. U.S. revenue from Optaflexx, our ractopamine beef product, has declined at a compound annual growth rate of 24% from 2015 to 2018 as a result of generic competition and international regulatory restrictions. In the third quarter of 2019, an established animal health company received U.S. approval for generic monensin in cattle and goats for certain indications. U.S. revenue from Rumensin may decline as a result of the generic competition. We may face similar competition in the future for existing products that do not benefit from exclusivity or for existing products with material patents expiring in the future. See "Business of Elanco - Intellectual Property."

Generic competitors are becoming more aggressive in terms of launching products before patent rights expire, and, because of attractive pricing, sales of generic products are an increasing percentage of overall animal health sales in certain regions. Although the impact of generic competition in the animal health industry to date has not typically mirrored that seen in human health, product pricing and the impact of generic competition in the future may more closely mirror human health as a result of changes in industry dynamics, such as channel expansion, consolidation, an increase in the availability and use of pet insurance and the potential for generic competition by established animal health businesses. If animal health customers increase their use of new or existing generic products, our business, financial condition and results of operations could be materially adversely affected.

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

In June 2016, voters in the UK approved an advisory referendum to withdraw from the EU, commonly referred to as Brexit. On March 29, 2017, the UK Prime Minister formally notified the European Council of the UK's intention to withdraw from the EU under Article 50 of the Treaty of Lisbon. The notice began a two-year negotiation period to establish the withdrawal terms. The EU has extended the end date of the negotiation period to January 31, 2020. The referendum and notice created political, regulatory and economic uncertainty, particularly in the UK and the EU, and this uncertainty may persist for years if the withdrawal becomes effective without clarification as to whether the UK will continue to be party to the EU Free Trade Agreements (FTA) at the end of the negotiation period.

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

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

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

If no agreement is reached at the end of the extended negotiation period on January 31, 2020 and the UK's separation becomes effective, unless the remaining EU members unanimously agree to an additional extension, the uncertainty surrounding the terms of the UK's withdrawal and its consequences could adversely impact consumer and investor confidence, and could affect sales or regulation of our products. Any of these effects, among others, could materially adversely affect our business, financial condition and results of operations.

#### **Risks Related to Pending Acquisition of Bayer Animal Health Business**

***The proposed acquisition of the animal health business of Bayer (Bayer Acquisition) may not be completed on the anticipated terms and there are uncertainties and risks to consummating the Bayer Acquisition.***

On August 19, 2019, we entered into a Purchase Agreement to purchase the animal health business of Bayer (Acquired Business) for \$5.3 billion in cash and approximately \$2.3 billion of our common stock, subject to certain customary adjustments. Our obligation to consummate the Bayer Acquisition is subject to satisfaction or waiver, to the extent permitted under applicable law, of a number of conditions. Among other conditions, the Bayer Acquisition is subject to antitrust approvals in certain jurisdictions. We cannot provide any assurance that all required antitrust clearances will be obtained and what conditions will be imposed. There can be no assurance as to the cost, scope or impact of the actions that may be required, including divestiture actions, to obtain antitrust approval. If we are required to or otherwise decide to take such actions in order to close the Bayer Acquisition, it could be detrimental to the combined organization following the consummation of the acquisition. Furthermore, these actions could have the effect of delaying or preventing completion of the proposed Bayer Acquisition or imposing additional costs on or limiting the revenues or cash of the combined organization following the consummation of the acquisition.

Even if the parties receive antitrust approvals, the applicable domestic or international regulatory authorities could take action under the antitrust laws to prevent or rescind the Bayer Acquisition, require the divestiture of assets or seek other remedies. Additionally, state attorneys general could seek to block or challenge the Bayer Acquisition as they deem necessary or desirable in the public interest at any time, including after completion of the transaction. In addition, in some circumstances, a third party could initiate a private action under antitrust laws challenging or seeking to enjoin the merger, before or after it is completed. We may not prevail and may incur significant costs in defending or settling any action under the antitrust laws.

#### ***We may be unable to integrate the Acquired Business successfully and realize the anticipated benefits of the Bayer Acquisition.***

If the Bayer Acquisition is completed, the successful integration of the Acquired Business and operations into those of our own and our ability to realize the expected synergies and benefits of the transaction are subject to a number of risks and uncertainties, many of which are outside of our control. We will also be required to devote significant management attention and resources to integrating business practices, cultures and operations of each business. The risks and uncertainties relating to integrating the two businesses include, among other things:

- the challenge of integrating complex organizations, systems, operating procedures, compliance programs, technology, networks and other assets of the Acquired Business;
- the difficulties harmonizing differences in the business cultures of our company and the Acquired Business;
- the inability to successfully combine our respective businesses in a manner that permits us to achieve the cost savings, synergies and other anticipated benefits from the Bayer Acquisition;
- the inability to minimize the diversion of management attention from ongoing business concerns during the process of integrating the Acquired Business into our businesses;
- the inability to resolve potential conflicts that may arise relating to customer, supplier and other important relationships of our business and the Acquired Business;

- difficulties in retaining key management and other key employees; and
- the challenge of managing the expanded operations of a significantly larger and more complex company and coordinating geographically separate organizations.

We will incur substantial expenses to consummate the proposed Bayer Acquisition but may not realize the anticipated cost synergies and other benefits. In addition, even if we are able to integrate the Acquired Business successfully, the anticipated benefits of the pending Bayer Acquisition may not be realized fully, or at all, or may take longer to realize than expected. Given the size and significance of the Bayer Acquisition, we may encounter difficulties in the integration of the operations of the Acquired Business and may fail to realize the full benefits and synergies of the Bayer Acquisition, which could adversely impact our business, results of operation and financial condition.

***The Acquired Business may have liabilities that are not known to us.***

The Acquired Business may have liabilities that we failed, or were unable, to discover in the course of performing our due diligence investigations of the Acquired Business. We cannot assure you that the indemnification available to us under the Acquisition Agreement in respect of the Bayer Acquisition in connection with such agreement will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with the business of the Acquired Business or property that we will assume upon consummation of the Bayer Acquisition. We may learn additional information about the Acquired Business that materially adversely affects us, such as unknown or contingent liabilities and liabilities related to compliance with applicable laws. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

***Acquisition accounting adjustments could adversely affect our financial results.***

We will account for the completion of the Bayer Acquisition using the acquisition method of accounting. We will allocate the total estimated purchase price to net tangible assets, amortizable intangible assets and indefinite-lived intangible assets, and based on their fair values as of the date of completion of the Bayer Acquisition record the excess, if any, of the purchase price over those fair values as goodwill. Differences between preliminary estimates and the final acquisition accounting may occur, and these differences could have a material impact on the consolidated financial statements and the combined company's future results of operations and financial position.

***Failure to complete the Bayer Acquisition could impact our stock price and our future business and financial results.***

If the Bayer Acquisition is not completed, our ongoing business and financial results may be adversely affected and we will be subject to a number of risks, including the following:

- depending on the reasons for the failure to complete the Bayer Acquisition, we could be liable to Bayer for monetary or other damages in connection with the termination or breach of the Purchase Agreement;
- we have dedicated significant time and resources, financial and otherwise, in planning for the Bayer Acquisition and the associated integration, of which we would lose the benefit if the Bayer Acquisition is not completed;
- we are responsible for certain transaction costs relating to the Bayer Acquisition, whether or not the Bayer Acquisition is completed;
- while the Purchase Agreement is in force, we are subject to certain restrictions on the conduct of our business, including taking any action that is reasonably likely to prevent, materially delay or materially impair the consummation of the Bayer Acquisition, which restrictions may adversely affect our ability to execute certain of our business strategies; and
- matters relating to the Bayer Acquisition (including integration planning) may require substantial commitments of time and resources by our management, whether or not the Bayer Acquisition is completed, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

In addition, if the Bayer Acquisition is not completed, we may experience negative reactions from the financial markets and from our customers and employees. We also may be subject to litigation related to any failure to complete the Bayer Acquisition or to enforcement proceedings commenced against us to perform our obligations under the acquisition agreement. If the Bayer Acquisition is not completed, these risks may materialize and may adversely affect our business, financial results and financial condition, as well as the price of our common stock.

***While the Bayer Acquisition is pending, we and Bayer will be subject to business uncertainties that could adversely affect our respective businesses.***

Our success following the Bayer Acquisition will depend in part upon the ability of us and Bayer to maintain our respective business relationships. Uncertainty about the effect of the Bayer Acquisition on customers, suppliers, employees and other constituencies may have a material adverse effect on us and the Acquired Business. Customers, suppliers and others who deal with us or Bayer may delay or defer business decisions, decide to terminate, modify or renegotiate their relationships or take other actions as a result of the Bayer Acquisition that could negatively affect the revenues, earnings and cash flows of our company or the Acquired Business. If we are unable to maintain these business and operational relationships, our financial position, results of operations or cash flows could be materially affected.

***Our debt following the completion of the Bayer Acquisition will be significant and could adversely affect our business and our ability to meet our obligations.***

In connection with the Bayer Acquisition, we expect to enter into new credit facilities, which would include \$3.0 billion of term loans and a \$750 million revolving credit facility. We have also obtained commitments for \$2.75 billion of bridge loans which we may replace with proceeds from debt or equity financings.

This significant amount of debt and other cash needs could have important consequences to us, including:

- requiring a substantial portion of our cash flow from operations to make payments on this debt, thereby limiting the cash we have available to fund future growth opportunities, such as research and development, capital expenditures and acquisitions;
- restrictive covenants in our debt arrangements which could limit our operations and borrowing;
- the risk of a future credit ratings downgrade of our debt increasing future debt costs and limiting the future availability of debt financing;
- increasing our vulnerability to general adverse economic and industry conditions and limiting our flexibility in planning for, or reacting to, changes in our business and industry, due to the need to use our cash to service our outstanding debt;
- placing us at a competitive disadvantage relative to our competitors that are not as highly leveraged with debt and that may therefore be more able to invest in their business or use their available cash to pursue other opportunities, including acquisitions; and
- limiting our ability to borrow additional funds as needed or take advantage of business opportunities as they arise.

In addition, our actual cash requirements in the future may be greater than expected. Our cash flow from operations may not be sufficient to repay all of our outstanding debt as it becomes due, and we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to refinance our debt.

***The issuance of our common stock to Bayer under the Purchase Agreement will be dilutive to our shareholders.***

Following the closing of the Bayer Acquisition, Bayer will own our common stock valued at \$2.3 billion based on trading prices before the closing, subject to a minimum and maximum number of shares as provided in the Purchase Agreement. The shares are subject to only limited lock-up obligations and following the expiration of such lock-up obligations (the latest of which expire 12 months after the closing of the Bayer Acquisition), Bayer is free to sell the shares received at closing. In addition, under the Purchase Agreement, we agreed to provide Bayer with customary shelf registration rights.

The market price of shares of our common stock may drop significantly as a result of the resale of shares issuable to Bayer at the closing, or when the lock-up restrictions on resale by Bayer lapse. In addition, this concentration of share ownership may adversely affect the trading price of our common stock because investors may perceive disadvantages in owning shares in a company with significant shareholders.

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

Upon closing the pending acquisition of Bayer's animal health business, we will issue shares of our common stock to Bayer with a value of approximately \$2.3 billion in a private placement exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

**Item 3. Defaults Upon Senior Securities**

(none)

**Item 4. Mine Safety Disclosures**

(none)

**Item 5. Other Information**

(none)

**Item 6. Exhibits**

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

<u>Exhibit Number</u>	<u>Description</u>
2.1	Share and Asset Purchase Agreement, dated as of August 20, 2019, between Bayer Aktiengesellschaft and Elanco Animal Health Incorporated (filed with Form 8-K on August 20, 2019 as Exhibit 2.1)
3.1	<a href="#">Amended and Restated Bylaws of Elanco Animal Health Incorporated, effective August 8, 2019 (filed with Form 8-K on August 9, 2019 as Exhibit 3.1)</a>
31.1	<a href="#">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).</a>
31.2	<a href="#">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).</a>
32	<a href="#">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).</a>
101	Interactive Data Files.

**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 8, 2019

/s/ Jeffrey N. Simmons

Jeffrey N. Simmons  
President and Chief Executive Officer

Date: November 8, 2019

/s/ Todd S. Young

Todd S. Young  
Executive Vice President, Chief Financial Officer

ELANCO ANIMAL HEALTH  
INCORPORATED

AMENDED AND RESTATED BYLAWS

Adopted as of

August 8, 2019

(Effective August 8, 2019)



ELANCO ANIMAL HEALTH INCORPORATED

AMENDED AND RESTATED BYLAWS

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AMENDED AND RESTATED BYLAWS  
of  
ELANCO ANIMAL HEALTH INCORPORATED  
(An Indiana Corporation)

ARTICLE I

The Shareholders

SECTION 1.1. Annual Meetings. The annual meeting of the shareholders of the Corporation for the election of directors and for the transaction of such other business as properly may come before the meeting shall be held on such date and at such time as shall be designated by resolution of the Board of Directors from time to time. Failure to hold an annual meeting of the shareholders at such designated time shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Corporation. The Chairman or the Board of Directors may postpone, reschedule or cancel any annual meeting previously called by the Board of Directors.

SECTION 1.2. Special Meetings. Special meetings of the shareholders may be called at any time only by the Board of Directors or the Chairman of the Board of Directors. The Chairman or the Board of Directors may postpone, reschedule or cancel any special meeting previously called by the Board of Directors or the Chairman.

SECTION 1.3. Time, Place, and Conduct of Meetings. Subject to Section 1.1, each meeting of the shareholders shall be held at such time of day and at such place or no place, solely by means of remote communication, as may be fixed by the Board of Directors, either within or without the State of Indiana, as shall be determined by the Board of Directors. Each adjourned meeting of the shareholders shall be held at such time and place as may be provided in the motion for adjournment. The chairman of each meeting shall have sole authority to decide questions relating to the conduct of that meeting.

SECTION 1.4. Notice of Meetings. The Secretary shall cause a written or printed notice of the place, day and hour and the purpose or purposes of each meeting of the shareholders to be delivered or mailed (which may include by facsimile or other form of electronic communication) at least ten (10) but not more than sixty (60) days prior to the meeting, to each shareholder of record entitled to vote at the meeting, at the shareholder's address as the same appears on the records maintained by the Corporation. Notice of any such shareholders meeting may be waived by any shareholder by delivering a written waiver to the Secretary before or after such meeting. Attendance at any meeting in person or by proxy when the instrument of proxy sets forth in reasonable detail the purpose or purposes for which the meeting is called, shall constitute a waiver of notice thereof. Notice of any adjourned meeting of the shareholders of the Corporation shall not be required to be given unless otherwise required by statute.

SECTION 1.5. Quorum. At any meeting of the shareholders, a majority of the outstanding shares entitled to vote on a matter at such meeting, represented in person or by proxy, shall constitute a quorum for action on that matter. In the absence of a quorum, the chairman of the meeting or the holders of a majority of the shares entitled to vote present in person or by proxy or if no shareholder entitled to vote is present in person or by proxy any officer entitled to preside at or act as Secretary of such meeting, may adjourn such meeting from time to time, until a quorum shall be present. At any such adjourned meeting at which a quorum may be present, any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 1.6. Voting. Except as otherwise provided by statute or by the Articles of Incorporation of the Corporation (as amended, restated or otherwise modified from time to time, the



"Articles of Incorporation"), at each meeting of the shareholders each holder of shares entitled to vote shall have the right to one vote for each share standing in the shareholder's name on the books of the Corporation on the record date fixed for the meeting under Section 1.8. Each shareholder entitled to vote shall be entitled to vote in person or by proxy executed in writing (which shall include facsimile) or transmitted by electronic submission by the shareholder or a duly authorized attorney in fact. Unless otherwise specified in the Articles of Incorporation or by applicable statute, the vote of shareholders approving any matter, other than the election of directors, shall require that the votes cast in favor of the matter exceed the votes cast opposing the matter at a meeting at which a quorum is present. In the event that more than one group of shares is entitled to vote as a separate voting group, the vote of each group shall be considered and decided separately. Directors shall be elected by a plurality of the votes properly cast, as set forth in Article 13 of the Articles of Incorporation.

SECTION 1.7. Voting Lists. The Secretary shall make or cause to be made, after a record date for a meeting of shareholders has been fixed under Section 1.8 and at least five (5) days before such meeting, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of each such shareholder and the number of shares so entitled to vote held by each. The Corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be on file at the principal office of the Corporation and subject to inspection on written demand by any shareholder entitled to vote at the meeting; provided that (i) the shareholder's demand is made in good faith for a proper purpose; (ii) the shareholder describes with reasonable particularity the shareholder's purpose; and (iii) the list is directly connected with the shareholder's purpose. Such list shall be produced and kept open at the time and place of the meeting and subject to the inspection of any such shareholder during the holding of such meeting or any adjournment. Except as otherwise required by law, such list shall be the only evidence as to who are the shareholders entitled to vote at any meeting of the shareholders. In the event that more than one group of shares is entitled to vote as a separate voting group at the meeting, there shall be a separate listing of the shareholders of each group.

SECTION 1.8. Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders, not more than seventy (70) days prior to the date on which the particular action requiring this determination of shareholders is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, the determination shall, to the extent permitted by law, apply to any adjournment thereof.

SECTION 1.9. Notice of Shareholder Business.

(a) At an annual meeting of the shareholders, the only items of business that shall be conducted are those which are proper subjects for action by the shareholders under Indiana law and which have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a shareholder in accordance with this Section 1.9. Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the "Exchange Act"), and included in the notice of meeting given by or at the direction of the Board of Directors, the foregoing clause (iii) shall be the exclusive means by which a shareholder may propose business to be brought before the meeting. For any item of business (other than nomination of a person for election as a director which is



subject to Section 1.10) to be properly brought before an annual meeting by a shareholder, the shareholder proposing the item of business (a "proposing shareholder") must (A) be a record owner of shares of the Corporation's common stock both at the time of giving the notice provided for in this Section 1.9 and at the time of the meeting, (B) be entitled to vote at the meeting, (C) have the legal right and authority to make the proposal for consideration at the meeting, (D) have given a notice which is timely as required by subsection (b) and in proper form as required by subsection (c), and (E) appear at the meeting in person or by a designated representative to present the item of business.

(b) To be timely, a proposing shareholder's notice must be delivered to or mailed and received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the date that is no less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days in advance of the anniversary date of the Corporation's last annual meeting of shareholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the anniversary date of the Corporation's last annual meeting of shareholders, notice by the proposing shareholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting or, if later, ten (10) calendar days following the date on which public disclosure of the date of the meeting is first made. For purposes of this Section 1.9 and Section 1.10, "public disclosure" means disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14, or 15(d) of the Exchange Act. No adjournment or postponement of an annual meeting or announcement thereof shall commence a new time period for the giving of a timely notice as described above.

(c) To be in proper form, a proposing shareholder's notice to the Secretary shall set forth (i) the name and record address of the proposing shareholder(s); (ii) the class and number of the Corporation's shares which are beneficially owned by the proposing shareholder(s) and Shareholder Associated Persons (as defined below); (iii) a brief description of any derivative instrument (as defined in IND. CODE §23-1-20-6.5 as in effect on August 8, 2019) or other agreement, arrangement, or understanding (including any swaps, warrants, short positions, profits interests, options, hedging transactions, or borrowed or loaned shares) with respect to the Corporation's shares, engaged in, directly or indirectly by the proposing shareholder(s) and Shareholder Associated Persons, where the purpose or effect of such instrument, agreement, arrangement or understanding is to increase or decrease such shareholders' or Shareholder Associated Persons' ability to share in the profits derived from any increase in the value of the Corporation's shares, mitigate economic exposure to changes in value of the shares, and/or increase or decrease the voting power of such shareholder(s) or Shareholder Associated Person(s); and (iv) as to each item of business being proposed (A) a brief description of the business to be brought before the annual meeting; (B) the reasons for conducting such business at the annual meeting; (C) the text of the proposal or business (including the text of any resolutions or amendments to the Articles of Incorporation or these Bylaws proposed for consideration); (D) any material interest of the proposing shareholder(s) and Shareholder Associated Persons in such business; (E) a brief description of all agreements, arrangements or understandings between or among the proposing shareholder(s) and Shareholder Associated Person(s) or between or among any proposing shareholder or Shareholder Associated Person and any other person or entity in connection with such business; (F) a representation whether the proposing shareholder or Shareholder Associated Person intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding shares required to approve the proposal and/or otherwise to solicit proxies from shareholders in support of the proposal; and (G) any other information relating to each such person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with the solicitation of proxies by each such person with respect to the proposed business to be brought by each such person before the annual meeting pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated



thereunder. For purposes of this Section 1.9 and Section 1.10, the term “beneficial ownership” shall have the meaning specified in IND. CODE §23-1-20-3.5 as in effect on August 8, 2019, and the term “Shareholder Associated Person” of any shareholder means (i) any person controlling, directly or indirectly, or acting in concert with, such shareholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such shareholder and on whose behalf the proposal or nomination, as applicable, is made, and (iii) any person controlling, controlled by or under common control with, or acting in concert with, any such person referred to in the preceding clauses (i) and (ii).

(d) A proposing shareholder shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in the notice shall be true, correct and complete in all material respects (i) as of the record date for the meeting and (ii) as of the date that is ten (10) business days prior to the meeting or any adjournment thereof. Such updates shall be delivered to or mailed and received by the Secretary at the principal executive offices of the Corporation (A) in the case of the update required under subsection (i), not later than five (5) business days after the record date, and (B) in the case of the update required under subsection (ii), not later than seven (7) business days prior to the meeting or any adjournment thereof.

(e) No business shall be conducted at any annual meeting of shareholders except in accordance with the procedures set forth in this Section 1.9. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 1.9, and if the chairman should so determine, he or she shall so declare to the meeting any such business not properly brought before the meeting shall not be transacted, notwithstanding that proxies may have been solicited in respect of such business.

(f) The requirements of this Section 1.9 shall apply to any item of business to be brought before a meeting of shareholders (other than the election of directors and any proposal properly made pursuant to Rule 14a-8 of the Exchange Act) regardless of whether the business is presented to shareholders directly at the meeting or by means of an independently financed proxy solicitation. The requirements of this Section 1.9 are included to provide the Corporation notice of a shareholder’s intention to bring business before a meeting and shall not be construed as imposing upon any shareholder the requirement to seek approval from the Corporation as a condition precedent to bringing any such business before a meeting. Notwithstanding the foregoing provisions of this Section 1.9, a shareholder shall also comply with all applicable requirements of the Exchange Act with respect to business to be brought before a meeting of shareholders that is subject to this Section 1.9; provided, however, that any references in these Bylaws to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit the requirements applicable to business to be brought before a meeting of shareholders pursuant to these Bylaws.

(g) At any special meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors or the Chairman of the Board of Directors.

#### SECTION 1.10. Notice of Shareholder Nominees.

(a) Only persons who are nominated by or at the direction of the Board of Directors or by shareholders in accordance with the procedures set forth in this Section 1.10 shall be eligible for election as Directors, except as may be otherwise provided in the Articles of Incorporation with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of directors in certain circumstances. Nominations of persons for election to the Board of Directors in accordance with this Section 1.10 may be made (i) at or prior to a meeting of shareholders by or at the direction of the Board of Directors or by any nominating committee or person appointed by or at the direction of the



Board of Directors, and (ii) at an annual meeting of shareholders or a special meeting of shareholders (but only if the election of Directors is a matter specified in the notice of special meeting) by any shareholder entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 1.10 (a "nominating shareholder"). Such nominations shall be made pursuant to a notice which is timely as required by subsection (b) and in proper form as required by subsection (c) and any person proposed to be nominated (a "proposed nominee") must be eligible for election as required by subsection (e).

(b) To be timely, a nominating shareholder's notice, if it relates to an annual meeting of shareholders, must be delivered to or mailed and received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the date that is not less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days in advance of the anniversary date of the Corporation's last annual meeting of shareholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the anniversary date of the Corporation's last annual meeting of shareholders, notice by the nominating shareholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting or, if later, ten (10) calendar days following the date on which public disclosure of the date of the meeting is first made. No adjournment or postponement of an annual meeting or announcement thereof shall commence a new time period for the giving of a timely notice as described above. If the nominating shareholder notice of a proposed nominee relates to a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting, it must be delivered to or mailed and received by the Secretary of the Corporation at the principal executive offices of the Corporation not less than ninety (90) calendar days in advance of the date of the special meeting, or, if later, the tenth (10th) calendar day after public disclosure of the date of the special meeting is made.

(c) To be in proper form for purposes of this Section 1.10, a nominating shareholder's notice shall set forth: (i) the name and record address of the nominating shareholder(s) and their Shareholder Associated Person(s) (ii) the class and number of the Corporation's shares which are beneficially owned by the nominating shareholder(s) and the Shareholder Associated Person(s), (iii) a brief description of any derivative instrument (as defined in Section 1.9(c)(iii)) or any other agreement, arrangement, or understanding engaged in, directly or indirectly, by the nominating shareholder(s) and the Shareholder Associated Person(s) with respect to the Corporation's shares, (iv) as to each proposed nominee, (A) the proposed nominee's name, age, business address and residence address; (B) the proposed nominee's principal occupation or employment; (C) the class and number of the Corporation's shares which are beneficially owned by the proposed nominee; (D) a brief description of any derivative instrument (as defined in Section 1.9(c)(iii)) or any other agreement, arrangement, or understanding engaged in, directly or indirectly, by the proposed nominee with respect to the Corporation's shares; (E) a brief description of all material agreements, arrangements, understandings or relationships, including all direct or indirect compensatory arrangements, between or among the proposed nominee, the nominating shareholder(s) or any of the Shareholder Associated Person(s); (F) a representation whether the nominating shareholder or any of the Shareholder Associated Person(s) intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding shares required to elect the proposed nominee and/or otherwise to solicit proxies from shareholders in support of the nomination; and (G) any other information relating to the proposed nominee that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Section 14 of the Exchange Act (including without limitation the proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected).

(d) A nominating shareholder shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in the notice shall be true, correct and

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complete in all material respects (i) as of the record date for the meeting and (ii) as of the date that is ten (10) business days prior to the meeting or any adjournment thereof. Such updates shall be delivered to or mailed and received by the Secretary at the principal executive offices of the Corporation (A) in the case of the update required under subsection (i), not later than five (5) business days after the record date, and (B) in the case of the update required under subsection (ii), not later than seven (7) business days prior to the meeting or any adjournment thereof.

(e) To be eligible as a director of the Corporation, a proposed nominee must deliver (in accordance with the time periods prescribed for delivery of notice under paragraph (b) of this Section 1.10) to the Secretary at the principal executive offices of the Corporation a written questionnaire with respect to the background and qualification of the proposed nominee, including without limitation as to the independence of the proposed nominee (which questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in the form provided by the Secretary upon written request) that the proposed nominee (i) is not and will not become a party to (A) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the Corporation, will act or vote on any issue or question (a "voting commitment") that has not been disclosed to the Corporation or (B) any voting commitment that could limit or interfere with such person's ability to comply, if elected as a director of the Corporation, with such person's fiduciary duties under applicable law, (ii) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, and (iii) agrees, if elected, to serve as a member of the Board of Directors for the entire term and would be in compliance, if elected as a director of the Corporation, and will comply with all applicable codes of conduct, corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation and other guidelines and policies applicable to members of the Board of Directors.

(f) The Corporation may require any proposed nominee to furnish such other information (i) as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation under applicable listing rules or (ii) that could be material to a reasonable shareholder's understanding of the independence or lack of independence of such proposed nominee.

(g) The chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not so declared in accordance with the procedures prescribed by these Bylaws, and if the chairman should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded, notwithstanding that proxies in respect of such nomination may have been received by the Corporation. The requirements of this Section 1.10 are included to provide the Corporation notice of a shareholder's intention to nominate a proposed nominee and shall not be construed as imposing upon any shareholder the requirement to seek approval from the Corporation as a condition precedent to nominating any such proposed nominee for a meeting of shareholders. Notwithstanding the foregoing provisions of this Section 1.10, a shareholder shall also comply with all applicable requirements of the Exchange Act with respect to the nomination of any director that is subject to this Section 1.10; provided, however, that any references in these Bylaws to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit the requirements applicable to nominations to be considered pursuant to these Bylaws. Nothing in this Section 1.10 shall be deemed to affect any rights of the holders of any series of preferred stock of the Corporation to elect directors pursuant to any applicable provisions of the Articles of Incorporation.



## ARTICLE II

### Board of Directors

SECTION 2.1. General Powers. The property, affairs and business of the Corporation shall be managed under the direction of the Board of Directors. In addition to the powers and authorities by these Bylaws expressly conferred upon them, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these Bylaws required to be exercised or done by the shareholders.

SECTION 2.2. Number and Qualifications. The number of directors which shall constitute the Board of Directors shall be nine (9), which number may be either increased or diminished by resolution adopted by not less than a majority of the directors then in office; provided that the number may not be diminished below five (5), and no reduction in number shall have the effect of shortening the term of any incumbent director. In the event that the holders of shares of preferred stock become entitled to elect a certain number of directors, the number of directors and the minimum number of directors shall be increased by such number. Neither ownership of stock of the Corporation nor residence in the State of Indiana shall be required as a qualification for a director.

SECTION 2.3. Classes of Directors and Terms. The classes of directors and terms shall be divided into three classes as nearly equal in number as possible. Except as provided in Article 9 of the Articles of Incorporation fixing one, two and three year terms for the initial classified board, each class of directors shall be elected for a term of three (3) years. In the event of vacancy, either by death, resignation, or removal of a director, or by reason of an increase in the number of directors, each replacement or new director shall serve for the balance of the term of the class of the director he or she succeeds or, in the event of an increase in the number of directors, of the class to which he or she is assigned. All directors elected for a term shall continue in office until the election and qualification of their respective successors, their death, their resignation in accordance with Section 2.7, their removal in accordance with Section 2.8, or if there has been a reduction in the number of directors until the end of their respective terms. The classes and terms of the directors shall not be governed by IND. CODE §23-1-33-6(c).

SECTION 2.4. Election of Directors. Subject to the rights of the holders of preferred stock to elect any directors voting separately as a class or series, at each meeting of shareholders, the directors to be elected at the meeting shall be chosen by the plurality of the votes cast by the holders of shares entitled to vote in the election at the meeting, provided a quorum is present. For purposes of this Section 2.4, a "plurality of the votes cast" shall mean that the individuals with the highest number of votes are elected as directors up to the maximum number of directors to be elected.

The election of directors by the shareholders shall be by written ballot if directed by the chairman of the meeting or if the number of nominees exceeds the number of directors to be elected.

Any vacancy on the Board of Directors shall be filled by the affirmative vote of a majority of the remaining directors.

If the holders of preferred stock are entitled to elect any directors voting separately as a class or series, those directors shall be elected by a plurality of the votes cast by the holders of shares of preferred stock entitled to vote in the election at the meeting, provided a quorum of the holders of shares of preferred stock is present.



## SECTION 2.5. Meetings of Directors.

(a) Annual Meeting. Unless otherwise provided by resolution of the Board of Directors, the annual meeting of the Board of Directors shall be held at the place of and immediately following the annual meeting of shareholders, for the purpose of organization, the election of officers and the transaction of such other business as properly may come before the meeting. No notice of the meeting need be given, except in the case an amendment to the Bylaws is to be considered.

(b) Regular Meetings. The Board of Directors by resolution may provide for the holding of regular meetings and may fix the times and places (within or outside the State of Indiana) at which those meetings shall be held. Notice of regular meetings need not be given except when an amendment to the Bylaws is to be considered. Whenever the time or place of regular meetings shall be fixed or changed, notice of this action shall be mailed promptly to each director not present when the action was taken, addressed to the director at his or her residence or usual place of business.

(c) Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board and shall be called by the Secretary at the request of a majority of the directors then in office. Except as otherwise required by statute, notice of each special meeting shall be mailed to each director at his or her residence or usual place of business at least three (3) days before the day on which the meeting is to be held, or shall be sent to the director at such place by facsimile transmission or other form of electronic communication or personally delivered, not later than twelve (12) hours in advance of when the meeting is to be held. The notice shall state the time and place (which may be within or outside the State of Indiana) of the meeting but, unless otherwise required by statute, the Articles of Incorporation or the Bylaws, need not state the purposes thereof.

Notice of any meeting need not be given to any director, however, who shall attend the meeting, or who shall waive notice thereof, before, at the time of, or after the meeting, in a writing signed by the director and delivered to the Corporation. No notice need be given of any meeting at which every member of the Board of Directors shall be present.

SECTION 2.6. Quorum and Manner of Acting. A majority of the actual number of directors established pursuant to Section 2.2, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies on the Board of Directors under Section 2.4 or voting on a conflict of interest transaction under Section 2.12. The act of a majority of the directors present at a meeting at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by statute, by the Articles of Incorporation, or by the Bylaws. Any or all directors may participate in a meeting of the Board of Directors or any committee thereof by means of a conference telephone or similar communications equipment by which all persons participating in the meeting may simultaneously hear each other, and participation in this manner shall constitute presence in person at the meeting. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum shall be present. No notice of any adjourned meeting need be given.

SECTION 2.7. Resignations. Any director may resign at any time by giving written notice of resignation to the Board of Directors, the Chairman of the Board, the Chief Executive Officer, or the Secretary. Unless otherwise specified in the written notice, the resignation shall take effect upon receipt thereof and unless otherwise specified in it, the acceptance of the resignation shall not be necessary to make it effective.

SECTION 2.8. Removal of Directors. Any director, other than a director elected by holders of preferred stock voting as a class, may be removed from office at any time but only for cause and only



upon the affirmative vote of at least sixty-six and two-thirds percent (66 2/3%) of the votes entitled to be cast by holders of all of the outstanding shares of Voting Stock (as defined in Article 9(e) of the Articles of Incorporation), voting together as a single class.

SECTION 2.9. Action without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if taken by all members of the Board of Directors or such committee, as the case may be, evidenced by a written consent signed by all such members and effective on the date, either prior or subsequent to the date of the consent, specified in the written consent, or if no effective date is specified in the written consent, the date on which the consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 2.10. Chairman of the Board of Directors. The Chairman of the Board shall preside at all meetings of the shareholders and of the Board of Directors, if present, and shall have such powers and perform such duties as are assigned to him or her by the Bylaws and by the Board of Directors. At any time in which the Chairman of the Board is unable to discharge the powers and duties of the office, then until such time as the Board shall appoint a new Chairman or determines that the Chairman is able to resume office, temporary authority to perform such duties and exercise such powers shall be granted to the Chief Executive Officer, or if he or she is unable to perform such duties and exercise such powers, to the Board's presiding or lead director (if one shall have been previously selected).

SECTION 2.11. Committees. The Board of Directors may designate from among its members one or more committees. Such committees shall have those powers of the Board of Directors which may by law be delegated to such committees and are specified by resolution of the Board of Directors or by committee charters approved by the Board of Directors.

SECTION 2.12. Transactions with Corporation. No transactions with the Corporation in which one or more of its directors has a direct or indirect interest shall be either void or voidable solely because of such interest if any one of the following is true:

(a) the material facts of the transaction and the director's interest are disclosed or known to the Board of Directors or committee which authorizes, approves, or ratifies the transaction by the affirmative vote or consent of a majority of the directors (or committee members) who have no direct or indirect interest in the transaction and, in any event, of at least two directors (or committee members);

(b) the material facts of the transaction and the director's interest are disclosed or known to the shareholders entitled to vote and they authorize, approve or ratify such transaction by vote; or

(c) the transaction is fair to the Corporation.

If a majority of the directors or committee members who have no direct or indirect interest in the transaction vote to authorize, approve, or ratify the transaction, a quorum is present for purposes of taking action under subsection (a) of this section. The presence of, or a vote cast by, a director with a direct or indirect interest in the transaction does not affect the validity of any actions taken under subsection (a) of this section.

SECTION 2.13. Compensation of Directors. The Board of Directors is empowered and authorized to fix and determine the compensation of directors and additional compensation for such additional services any of such directors may perform for the Corporation.

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## ARTICLE III

### Officers

SECTION 3.1. Chief Executive Officer. The Board of Directors shall appoint a Chief Executive Officer to serve at the pleasure of the Board of Directors. The Chief Executive Officer shall have general supervisory responsibility over the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He or she shall be the primary executive officer of the Corporation and shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these Bylaws, the Board of Directors or the Chief Executive Officer. In the absence or disability of the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the stockholders and the Board of Directors. The Chief Executive Officer shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

SECTION 3.2. Chief Financial Officer. The Board of Directors shall appoint a Chief Financial Officer of the Corporation to serve at the pleasure of the Board of Directors. The Chief Financial Officer shall, subject to the control of the Board of Directors, have the responsibility for maintaining the financial records of the Corporation. He or she shall render from time to time an account of the financial condition of the Corporation. The Chief Financial Officer shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws.

SECTION 3.3. Secretary and Assistant Secretaries. The Board of Directors shall appoint a Secretary of the Corporation to serve at the pleasure of the Board of Directors. The Secretary of the Corporation shall (a) keep minutes of all meetings of the shareholders and of the Board of Directors, (b) authenticate records of the Corporation, (c) give, or cause to be given, notice of all meetings of the shareholders and special meetings of the Board of Directors, and (d) in general, have such powers and perform such other duties as may be assigned to him or her by these Bylaws, as may from time to time be assigned to him or her by the Board of Directors or the Chief Executive Officer and as may be incident to the office of Secretary of the Corporation. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the shareholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then the Board of Directors may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest to the affixing by such officer's signature. The Secretary shall see that all books, reports, statements certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

SECTION 3.4. Treasurer. The Treasurer, if any, shall perform such duties and shall have such powers as may from time to time be assigned by the Board of Directors or the Chief Executive Officer. In addition, the Treasurer shall perform such duties and have such powers as are incident to the office of treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the Corporation, to deposit funds of the Corporation in depositories selected in accordance with these Bylaws, to disburse such funds as authorized by the Board of Directors or the Chief Executive Officer, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the Corporation.



SECTION 3.5. Other Officers. At any meeting of the Board of Directors, the Board of Directors may elect a President (who may or may not be the Chief Executive Officer), Vice Presidents (who may be designated as Executive Vice Presidents, Senior Vice Presidents or have other similar titles), Assistant Treasurers, Assistant Secretaries or such other officers of the Corporation as the Board of Directors may deem necessary, to serve at the pleasure of the Board of Directors. Other officers elected by the Board of Directors shall have such powers and perform such duties as may be assigned to such officers by or pursuant to authorization of the Board of Directors or by the Chief Executive Officer. Any two (2) or more offices may be held by the same person. The Board of Directors may delegate to any officer the power to appoint any such officers or agents and to prescribe their respective terms of office, powers and duties.

SECTION 3.6. Term of Office. Each officer shall hold office until his or her successor shall have been duly elected and shall have qualified or until his or her death or until he or she shall resign, but, subject to the requirements of the Articles of Incorporation, any officer may be removed in the manner provided in Section 3.8 of these Bylaws.

SECTION 3.7. Resignation. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board, the Chief Executive Officer or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof and unless otherwise specified in it, the acceptance of the resignation shall not be necessary to make it effective.

SECTION 3.8. Removal. Officers of the Corporation may be removed or suspended, either for or without cause, at any meeting of the Board of Directors called for the purpose, by the vote of a majority of the actual number of directors elected and qualified. The officers and agents elected or appointed in accordance with the provisions of Sections 3.1-3.5 may be removed or suspended, either for or without cause, at any meeting of the Board of Directors at which a quorum be present, by the vote of a majority of the directors present at such meeting, by any officer upon whom such power of removal or suspension shall have been conferred by the Board of Directors, or by any officer to whom the power to appoint such officer has been delegated by the Board of Directors pursuant to Section 3.5. Any removal or suspension shall be without prejudice to the contract rights, if any, of the person so removed or suspended.

SECTION 3.9. Vacancies. A vacancy in any office by reason of death, resignation, removal, disqualification or any other cause, may be filled by the Board of Directors or by an officer authorized under these Bylaws to appoint a person to serve in such office.

## ARTICLE IV

### Execution of Instruments and Deposit of Corporate Funds

SECTION 4.1. Execution of Instruments Generally. All deeds, contracts, and other instruments requiring execution by the Corporation may be signed by the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the Treasurer, the Secretary or any Assistant Treasurer or Assistant Secretary of the Corporation. Authority to sign any deed, contract, or other instrument requiring execution by the Corporation may be conferred by the Board of Directors upon any person or persons whether or not such person or persons be officers of the Corporation. Such person or persons may delegate, from time to time, by instrument in writing, all or any part of such authority to any other person or persons if authorized so to do by the Board of Directors.



SECTION 4.2. Notes, Checks, Other Instruments. All notes, drafts, acceptances, checks, endorsements, and all evidences of indebtedness of the Corporation whatsoever, shall be signed by such officer or officers or such agent or agents of the Corporation and in such manner as the Board of Directors from time to time may determine. Endorsements for deposit to the credit of the Corporation in any of its duly authorized depositories shall be made in such manner as the Board of Directors from time to time may determine.

SECTION 4.3. Proxies. Proxies, powers of attorney, or consents to vote with respect to shares or units of other corporations or other entities owned by or standing in the name of the Corporation may be executed and delivered from time to time on behalf of the Corporation by the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or by any other person or persons thereunto authorized by the Board of Directors. Persons with authority to execute proxies, powers of attorney, or consents under this Section 4.3 may delegate that authority unless prohibited by the Board of Directors.

## ARTICLE V

### Shares

SECTION 5.1. Certificates for Shares. Shares in the Corporation may be issued in book-entry form or evidenced by certificates. However, every holder of shares in the Corporation shall be entitled upon request to have a certificate evidencing the shares owned by the shareholder, signed in the name of the Corporation by the Chairman of the Board, the Chief Executive Officer, President or a Vice President and the Secretary or an Assistant Secretary, certifying the number of shares owned by the shareholder in the Corporation. The signatures of such officers, the signature of the transfer agent and registrar, and the Seal of the Corporation may be facsimiles. In case any officer or employee who shall have signed, or whose facsimile signature or signatures shall have been used on, any certificate shall cease to be an officer or employee of the Corporation before the certificate shall have been issued and delivered by the Corporation, the certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed the certificate or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or employee of the Corporation; and the issuance and delivery by the Corporation of any such certificate shall constitute an adoption thereof. Every certificate shall state on its face (or in the case of book-entry shares, the statements evidencing ownership of such shares shall state) the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom it is issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon written request and without charge, a summary of the designations, relative rights, preferences and limitations applicable to each class and the variations in rights, preferences and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series). Every certificate (or book-entry statement) shall state whether such shares have been fully paid and are non-assessable. If any such shares are not fully paid, the certificate (or book-entry statement) shall be legibly stamped to indicate the percentum which has been paid up, and as further payments are made thereon, the certificate shall be stamped (or book-entry statement updated) accordingly. Subject to the foregoing provisions, certificates representing shares in the Corporation shall be in such form as shall be approved by the Board of Directors. There shall be entered upon the stock books of the Corporation at the time of the issuance or transfer of each share the number of the certificates representing such share (if any), the name of the person owning the shares represented thereby, the class of such share and the date of the issuance or transfer thereof.

SECTION 5.2. Transfer of Shares. Transfer of shares of the Corporation shall be made on the books of the Corporation by the holder of record thereof, or by the shareholder's attorney thereunto duly

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authorized in writing and filed with the Secretary of the Corporation or any of its transfer agents, and on surrender of the certificate or certificates (if any) representing such shares. The Corporation and its transfer agents and registrars shall be entitled to treat the holder of record of any share or shares the absolute owner thereof for all purposes, and accordingly shall not be bound to recognize any legal, equitable or other claim to or interest in such share or shares on the part of any other person whether or not it or they shall have express or other notice thereof, except as otherwise expressly provided by the statutes of the State of Indiana. Shareholders shall notify the Corporation in writing of any changes in their addresses from time to time.

SECTION 5.3. Regulations. Subject to the provisions of this Article V, the Board of Directors may make such rules and regulations as it may deem expedient concerning the issuance, transfer and regulation of certificates for shares or book-entry shares of the Corporation.

SECTION 5.4. Transfer Agents and Registrars. The Board of Directors may appoint one or more transfer agents, one or more registrars, and one or more agents to act in the dual capacity of transfer agent and registrar with respect to the certificates representing shares and the book-entry shares of the Corporation.

SECTION 5.5. Lost or Destroyed Certificates. The holders of any shares of the Corporation shall immediately notify the Corporation or one of its transfer agents and registrars of any loss or destruction of the certificate representing the same. The Corporation may issue a new certificate in the place of any certificate theretofore issued by it alleged to have been lost or destroyed upon such terms and under such regulations as may be adopted by the Board of Directors or the Secretary, and the Board of Directors or Secretary may require the owner of the lost or destroyed certificate or the owner's legal representatives to give the Corporation a bond in such form and for such amount as the Board of Directors or Secretary may direct, and with such surety or sureties as may be satisfactory to the Board of Directors or the Secretary to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against it or any such transfer agent or registrar on account of the alleged loss or destruction of any such certificate or the issuance of such new certificate. A new certificate may be issued without requiring any bond when, in the judgment of the Board of Directors or the Secretary, it is proper so to do.

## ARTICLE VI

### Indemnification

#### SECTION 6.1. Right to Indemnification.

(a) The Corporation shall, to the fullest extent permitted by applicable law now or hereafter in effect, indemnify any person who is or was a director, officer or employee of the Corporation ("Eligible Person") and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such Eligible Person is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, member, manager, trustee, employee, fiduciary or agent of another corporation, partnership, joint venture, limited liability company, trust or other enterprise (including, without limitation, any employee benefit plan) (a "Covered Entity"), against all expenses (including attorneys' fees), judgments, fines or penalties (including excise taxes assessed with respect to an employee benefit plan) and amounts paid in settlement actually and reasonably incurred by such Eligible Person in connection with such Proceeding.



(b) Notwithstanding Section 6.1(a), the Corporation shall not be obligated to indemnify an Eligible Person with respect to a Proceeding (or part thereof) commenced by such Eligible Person, except with respect to (i) a judicial adjudication or arbitration commenced by the Eligible Person under Section 6.5(e) or (f), as to which the rights to indemnification are provided pursuant Section 6.5(h), or (ii) a Proceeding (or part thereof) that was authorized or consented to by the Board of Directors of the Corporation.

(c) In the event a Proceeding arises out of an Eligible Person's service to a Covered Entity, the indemnification provided by the Corporation under this Article VI shall be secondary to and not *pari passu* with any indemnification provided by the Covered Entity. However, the Corporation may provide indemnification to the Eligible Person in the first instance, in which case the Corporation shall be subrogated to the extent of such payment to the rights of the Eligible Person with respect to the indemnification provided by the Covered Entity and any insurance coverage maintained by the Covered Entity on behalf of the Eligible Person.

(d) Any right of an Eligible Person to indemnification shall be a contract right and shall include the right to receive, prior to the conclusion of any Proceeding, advancement of any expenses incurred by the Eligible Person in connection with such Proceeding in accordance with Section 6.4.

SECTION 6.2. Insurance, Contracts and Funding. The Corporation may purchase and maintain insurance to protect itself and any Eligible Person against any expense, judgments, fines and amounts paid in settlement as specified in Section 6.1 or incurred by any Eligible Person in connection with any Proceeding referred to in such section, to the fullest extent permitted by applicable law now or hereafter in effect. The Corporation may enter into agreements with any director, officer, employee or agent of the Corporation or any director, officer, employee, fiduciary or agent of any Covered Entity supplemental to or in furtherance of the provisions of this Article VI and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification and advancement of expenses as provided in this Article VI.

SECTION 6.3. Non-Exclusive Rights; Applicability to Certain Proceedings. The rights provided in this Article VI shall not be exclusive of any other rights to which any Eligible Person may otherwise be entitled, and the provisions of this Article VI shall inure to the benefit of the heirs and legal representatives of any Eligible Person and shall be applicable to Proceedings commenced or continuing after the adoption of this Article VI, whether arising from acts or omissions occurring before or after such adoption.

#### SECTION 6.4. Advancement of Expenses.

(a) Except as provided under Sections 6.4(b) and (c) below, all reasonable expenses incurred by or on behalf of an Eligible Person in connection with any Proceeding shall be advanced to the Eligible Person by the Corporation within sixty (60) days after the receipt by the Corporation of a statement or statements from the Eligible Person complying with this section and Section 6.5 requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding, unless a determination has been made pursuant to Section 6.5 that such Eligible Person is not entitled to indemnification. Any such statement or statements shall reasonably evidence the expenses incurred by the Eligible Person and shall include (i) a written representation that, in connection with the matters giving rise to the Proceeding, the Eligible Person was acting in good faith and in what he or she believed to be the best interests of the Corporation or at least not opposed to the best interests of the Corporation, and (ii) a written affirmation or undertaking to repay advances if it is ultimately determined that the Eligible Person is not entitled to indemnification under this Article VI.



(b) Notwithstanding Section 6.4(a), advancement of expenses shall not be mandatory, but shall be permissive at the discretion of the Corporation, for expenses incurred after the Eligible Person's conviction by a trial court of competent jurisdiction of, or plea of guilty or nolo contendere or its equivalent to, a crime arising from the circumstances giving rise to the Proceeding.

(c) Notwithstanding Section 6.4(a), advancement of expenses shall not be mandatory, but shall be permissive at the discretion of the Corporation, for expenses incurred by or on behalf of Eligible Persons for judicial adjudications or arbitrations under Section 6.5(e) or (f).

SECTION 6.5. Procedures; Presumptions and Effect of Certain Proceedings; Remedies. In furtherance, but not in limitation, of the foregoing provisions, the following procedures, presumptions and remedies shall apply with respect to and the right to indemnification and advancement of expenses under this Article VI.

(a) To obtain indemnification under this Article VI, an Eligible Person shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Eligible Person and reasonably necessary to determine whether and to what extent the Eligible Person is entitled to indemnification (the "Supporting Documentation"). The determination of the Eligible Person's entitlement to indemnification shall be made not later than sixty (60) days after receipt by the Corporation of the written request together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such request, advise the Board in writing of the Eligible Person's request.

(b) An Eligible Person's entitlement to indemnification under this Article VI shall be determined in one of the following methods, such method to be selected by the Board of Directors, regardless of whether there are any Disinterested Directors (as hereinafter defined): (i) by a majority vote of the Disinterested Directors, if they constitute a quorum of the Board; (ii) if a quorum of the Board consisting of Disinterested Directors is not obtainable, by a committee designated by the Board consisting of two (2) or more Disinterested Directors, (iii) by a written opinion of Special Counsel (as hereinafter defined) if a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, a majority of such Disinterested Directors so directs; (iii) by the shareholders of the Corporation (but only if a majority of the Disinterested Directors, if they constitute a quorum of the Board, presents the issue of entitlement to the shareholders for their determination); or (iv) as provided in subsection (d).

(c) In the event the determination of entitlement is to be made by Special Counsel, a majority of the Disinterested Directors shall select the Special Counsel, but only Special Counsel to which the Eligible Person does not reasonably object.

(d) In any event, if the person or persons empowered under subsection (b) to determine entitlement shall not have been appointed or shall not have made a determination within sixty (60) days (120 days in the case of a determination to be made by shareholders) after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Eligible Person shall be deemed to be, and shall be, entitled to indemnification and advancement of expenses unless (i) the Eligible Person misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (ii) such indemnification is prohibited by law. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, adversely affect the right of an Eligible Person to indemnification or create a presumption that the Eligible Person did not act in good faith and in a manner which the Eligible Person reasonably believed to be in or not opposed to the best interests of the



Corporation and, with respect to any criminal proceeding, that the Eligible Person had reasonable cause to believe that his or her conduct was unlawful.

(e) In the event that a determination is made that the Eligible Person is not entitled to indemnification (i) the Eligible Person shall be entitled to seek an adjudication of his or her entitlement to such indemnification either, at the Eligible Person's sole option, in (A) an appropriate court of the State of Indiana or any other court of competent jurisdiction or (B) an arbitration to be conducted in Indianapolis, Indiana, by a single arbitrator pursuant to the rules of the American Arbitration Association; and (ii) in any such judicial proceeding or arbitration the Eligible Person shall not be prejudiced by reason of the prior determination pursuant to this Section 6.5.

(f) If a determination shall have been made or deemed to have been made that the Eligible Person is entitled to indemnification, the Corporation shall be obligated to pay the amounts incurred by the Eligible Person within ten (10) days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (i) the Eligible Person misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (ii) such indemnification is prohibited by law. In the event that (A) any advancement of expenses is not timely made pursuant to Section 6.4 or (B) payment of indemnification is not made within ten (10) days after a determination of entitlement to indemnification has been made, the Eligible Person shall be entitled to seek judicial enforcement of the Corporation's obligation, to pay to the Eligible Person such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the State of Indiana or any other court of competent jurisdiction, contesting the right of the Eligible Person to receive indemnification hereunder due to the occurrence of an event described in clause (i) or (ii) of this subsection (f) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(g) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 6.5 that the procedures and presumptions of this Article VI are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by the provisions of this Article VI.

(h) In the event that the Eligible Person seeks a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of this Article VI, the Eligible Person shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation, against, any expenses actually and reasonably incurred by the Eligible Person in connection with such adjudication or arbitration if the Eligible Person prevails in such adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Eligible Person is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Eligible Person in connection with such judicial adjudication or arbitration shall be prorated accordingly.

#### SECTION 6.6. Certain Definitions. For purposes of this Article VI:

(a) "Disinterested Director" means a Director who is not or was not a party to the Proceeding in respect of which indemnification is sought by the Eligible Person.

(b) "Special Counsel" means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent any other party to the Proceeding giving rise to a claim for indemnification under this Article VI. In addition, any person who, under applicable standards of professional conduct, would have a conflict of interest in representing either the Corporation or the



Eligible Person in an action to determine the Eligible Person's rights under this Article VI may not act as Special Counsel.

SECTION 6.7. Indemnification of Agents. Notwithstanding any other provisions of this Article VI, the Corporation may, consistent with the provisions of applicable law, indemnify any person other than a director, officer or employee of the Corporation who is or was an agent of the Corporation and who is or was involved in any manner (including, without limitation, as party or a witness) or is threatened to be made so involved in any threatened, pending or completed Proceeding by reasons of the fact that such person is or was an agent of the Corporation or, at the request of the Corporation, a director, officer, partner, member, manager, employee, fiduciary or agent of a Covered Entity against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. The Corporation may also advance expenses incurred by such person in connection with any such Proceeding, consistent with the provisions of applicable law.

SECTION 6.8. Effect of Amendment or Repeal. Neither the amendment or repeal of, nor the adoption of a provision inconsistent with, any provision of this Article VI shall adversely affect the rights of any Eligible Person under this Article VI with respect to any Proceeding commenced or threatened prior to such amendment, repeal or adoption of an inconsistent provision without the written consent of such Eligible Person.

SECTION 6.9. Severability. If any of this Article VI shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Article VI (including, without limitation, all portions of any Section of this Article VI containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Article VI (including, without limitation, all portions of any Section of this Article VI containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

## ARTICLE VII

### Miscellaneous

SECTION 7.1. Corporate Seal. The Seal of the Corporation shall consist of a circular disk around the circumference of which shall appear the words:

"ELANCO ANIMAL HEALTH INCORPORATED, GREENFIELD, INDIANA".

SECTION 7.2. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January in each year and shall end on the thirty-first day of the following December.

SECTION 7.3. Exclusive Forum. Unless the Corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, a state court located within Hancock County, Indiana or Marion County, Indiana or, if no such state court has jurisdiction, the federal district court for the Southern District of Indiana, shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee or shareholder of the Corporation (iii) any action asserting a claim against the Corporation or any director or officer or other employee of the corporation arising pursuant to any provision of the Indiana Business Corporation Law, as amended from time to



time, or the Articles of Incorporation or these Bylaws (as either may be amended from time to time), (iv) any action to interpret, apply, enforce or determine the validity of the Articles of Incorporation or these Bylaws or (v) any action asserting a claim governed by the internal affairs doctrine.

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

Date: November 8, 2019

/s/ Jeff Simmons

Jeff Simmons  
President, and Chief Executive Officer

Date: November 8, 2019

/s/ Todd Young

Todd Young  
Executive Vice President and Chief Financial Officer