

04-Mar-2020

Elanco Animal Health, Inc. (ELAN)

Cowen and Company Health Care Conference

CORPORATE PARTICIPANTS

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

OTHER PARTICIPANTS

Kathy Miner

Analyst, Cowen and Company, LLC

MANAGEMENT DISCUSSION SECTION

Kathy Miner

Analyst, Cowen and Company, LLC

Welcome to the Elanco presentation. We're very pleased to have Jeff Simmons, CEO of Elanco, joining us today as you know from the past couple of days. The animal health is a very exciting space. And so, we think Elanco is one of the very exciting ways to participate in this segment.

QUESTION AND ANSWER SECTION

Kathy Miner

Analyst, Cowen and Company, LLC

Q

So, with that, there's going to be – we'll do our Q&A. The company has a breakout session followed, but please raise your hand any questions along the way. So Jeff, start out just you've now been public for almost one-and-a-half years. I think the final...

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

...spin-out was March of last year. Excuse me fully out of Lilly for a year. Relative to your expectations at this time, what's been the most positive benefit of being a standalone company and what's been the most challenging?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah. Thank you. Thanks for the opportunity [ph] with you, (00:00:49) Kathy. Yeah. So, I think without question, I had the opportunity and the luxury of being 10 years as an officer of Lilly setting as one of the five business units

and Lilly, as you know, had animal health kind of separate in some regards. But I will say, there's been some profound differences in 18 months as an independent company. And it really comes down to fit-for-purpose driven-around animal health needs, so faster decision-making.

And I believe that the governance of that, the ability to deal with the risk relative to animal health, which is a cash business not a payor business, so the ability to make decisions. And that translates then quickly to trade-offs along the way. And I think we've represented that with getting out of countries, where you're not making money, but you used to stay in them because that's where Lilly had offices.

So, trimming SKUs, trimming countries where you weren't making money. But then, I think reallocating and adjusting through the year to say, hey, let's move some of those dollars to a Companion Animal launch. And I think the best representation is we delivered our EPS in the middle of the range in the midst of African swine fever, contract manufacture, I think an independent animal health company is more agile, quicker, risk adverse and it's allowed us to deliver more quickly.

On the other side, the challenge I think is obviously you know governance standing up and we put together a board, we really like our board, it's a very growth-oriented board. It's very much cantered on this industry. But I would say that without question standing up ERP systems, creating independence takes time and takes cash as well. So those would be the differences.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

On a related note, where you surprised when Merck announced that it would be keeping its animal health internally and spinning out some other parts of its pharma business?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

You know, I've sat on both sides with that. I think I guess I would, I would convey that I like our position now and the timing of the marketplace, I'm extremely excited about bringing Bayer in. So what you're doing is you're taking two – spins work. Spins and pharma really work. And taking two animal health companies, Bayer Animal Health, now 2% of Bayer Corporate a division of a division under the [ph] Plant Science (00:03:11) Monsanto acquisition. I think uncoupling that and uncoupling us, we believe we like this business model of independent and we also like the standing up of an infrastructure that's fit for animal help from two divisions inside a corporate pharma.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

Okay. Why don't we shift right to, to Bayer now?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

Once Bayer does close, and looks like we're getting closer on that.

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

Yeah.

A

Kathy Miner

Analyst, Cowen and Company, LLC

What are as investors, what are some of the things that we should watch most closely over the short-term to get a sense of how the integration is happening?

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

Yeah. Yeah. So I think first of all I want to convey holistically when you look at this relative to August when we announced it. I've shared on the earnings call. We feel more positive now than then and then we felt very good about it. But as I look just real quickly across the line, antitrust is coming together very nicely. We've announced the transactions that we believe are necessary. So when you put both entities together, last year's revenues about \$4.7 billion combined, we will exit about \$125 million to \$130 million of revenue from the combined company. We've picked up around of \$425 million of revenue and we feel like we're in the final discussions with the European and US authorities. So there was a lot of discussion that that was a significant risk. We believe we're going to convey and move forward on that.

A

As you look at the metrics, Kathy, what we would say is one, this is an expansion and an acceleration of our strategy not a change to the strategy. So look for continuation, look for mid-single-digit top line, double-digit bottom line, look for the margin expansion. If you look at the EBITDA, we've gone up 700 basis points and from 14% to 21% and we've said we're looking to be another 1,000 basis points of EBITDA by 2022. So that's 31% by 2022.

I think the cash flow was also a key one that we've talked about is by the end of 2022, putting together more than \$1 billion of free cash flow. And that relates also to synergies in the neighborhood of \$275 million to \$300 million. I think what's exciting also and why we say we really like this is a couple of things that are additional excitements that we see as one is just the changing of the alternative channel outside of the vet clinic what we see in trends in e-commerce what we see outside the US and International Companion Animals is an exciting part. And then lastly as I think we've said 25 new products launched between now and 2024. 20 coming from Elanco, 5 from Bayer, so a real stream of innovation that will come from the company. So a lot of metrics there but I think everything we said in August and a little bit more.

Kathy Miner

Analyst, Cowen and Company, LLC

When you talk about the new products and the innovation, one of the questions we get is trying to get a comfort level with what some of these new products and what the pipeline might look like and I understand that you can't talk about...

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

Yeah.

A

Kathy Miner

Analyst, Cowen and Company, LLC

Q

...the specific products, but can you give us a little color on how you're going to coordinate [ph] two (00:06:29) a fairly large R&D efforts this isn't like bringing in Aratana this is a significantly larger effort.

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Right.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

How do you go about prioritizing, how do you try to give folks confidence that this is going to be two plus two may equal five here and there's some opportunity?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Right, right. So I think our history as a company is proof I will say the best answer is always. So what's happened in the past to start with, let's pick Novartis as an example I think we've proven as a company that we can be agnostic to where things come from and tradeoffs. So if you look at – we delivered five products out of Novartis that were in late stage development. But by being kind of independent Elanco leaning in, we drove two products and same and across the line Clynav, Imvixa we brought in Osurmia, we brought in Credelio and Interceptor Plus. They all came out of late stage development of Novartis. They're now part of the basket of 14 products that we're launching.

So is it Elanco's, is it Bayer's we'll be able to do that. And I think from an antitrust perspective seen how low the overlap was it's really nothing in the pipeline. What that means is there's a lot of complement, not a lot of overlap and the other thing is in Elanco that spending a little over \$225 million on R&D will now go over \$400 million in R&D dollars. We have scale. We're going to have fluid cash and we're going to be able to make the tradeoffs. So, I think that's important. But on innovation, I cannot emphasize enough that one we are a company in launch mode. We've been launching three products a year since 2015. We will add two more products to that dozen products plus. And we got the two, what I would call, new products and NOCITA and ENTyce from Aratana.

So, Elanco has got 14 products in launch mode. We'll add a Seresto, we'll add a Claro and a few more that will be a heavy launch focus combined with the 25 products by 2024. Elanco will have a constant stream of innovation in spaces that are big, mix between pet and food animal. And, yes, we have differentiated products in the area of dermatology, parasiticides, renal failure, diabetes. And then, of course, on the Food Animal side, antibiotic replacement therapy microbiome.

Q

Jeff, how is R&D productivity measured in animal health? There seems to be no good answer to the question in human health.

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah.

Q

Is it different than animal health?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

We have some of the people that have moved actually from Lilly over that have joined us as a company. And we've looked at a lot of similar metrics. Aaron Schacht, our Head of R&D, actually ran R&D operations for Lilly, for John Lechleiter's era. So, what I would say is, we are looking at some of those metrics. It's a little more difficult when you say multiple species, multiple therapeutic classes and a lot of market creation.

We thought five years ago that food safety was the big market and obesity in dogs. No one was projecting the parasiticide market to be what it is, also derm to be what it is as an example. So, I think it's a little challenging, because of market creation, but I think you've got to look at one, you've got to be bringing differentiated products that you can't bring me too product. Two is, it's got to be going into marketplaces that are existing quite large and big. And then, you've got to look at the end user.

I mean to a protein company or to a pet owner, does this add some element of value? This is a cash market I cannot emphasize enough after 20 years inside of Lilly. This is not a payor market depending upon three governments that create the majority of the revenue line. So it does come back to the value proposition. So, look for I think new products, but NPV and contribution to growth rate going forward is metrics that we're looking at on the R&D side.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

Couple of more questions just now on Bayer. One, you've said on the call recently that the transaction will not close until middle of this year even if you get anti-trust...

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

...prior to that. One, can you tell us is the system integration moving online for a mid-2020?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yes. We feel very good about mid-2020 for close. Antitrust is moving maybe at a little faster pace, but let me be clear. And if that does happen a little sooner that gives us the opportunity to go deeper in the integration planning and to be able to prepare ourselves even more so for the first 100 days. But remember that we're doing two things in the Elanco right now, we kind of call it the three streams one is run a company that's more than 90% of the organization firewalled off, running staying competitive in the marketplace.

Two is, we're standing up from Lilly. Today, we've got over 65% of the TSAs behind us with Lilly. We've got our own workday system HR system standing up and starting cutovers, but the big remaining item with Lilly is the

ERP system. So, we'll be going to SAP HANA and moving over and that will be the rest of this year early into next year. And then, we will – what we've agreed with Bayer is, we will be setting up an independent system with [indiscernible] (00:11:48). they've done this before with BASF and other companies. And so, we are working on the third stream being integrating and what will take till July 1 or mid-year will be the standing up of this independent system. But everything is tracking, we're resourcing, I always pause and say, but it's complicated. We know it's complex and complicated, but we've got the muscle of doing 12 other companies not of this scale. And also Bayer's had four significant separations. So we feel we've got the right teams and the right – with the plans in place.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

So that – when Bayer reported and the numbers that we could see at least since its discontinued op look pretty good. Could you provide us with any other color at all on a product like a Seresto or how that did at the year-end?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah. I can't, I can't, just given some of the limitations. What I would say is a few things. First of all when we came out, we made some very clear – there were months and months of diligence done and observations made as we got into the diligence and what we saw is truly what's playing out in the diligence in a positive way. So what we're seeing is significant growth in the alternative channels. We're seeing significant growth in emerging markets. The launches of Seresto and Advantage in China are also doing extremely well, and their Food Animal business is going to be very complementary and doing well relative to the market maintaining and growing the appropriate share.

And I think a lot of margin opportunity. So that that's what we've seen and I think that that's played out. What you saw in the decline in the past with Bayer, what we've shown is that came from Advantage inside the clinic, and that's changing.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

Does this, and you've talked about the opportunities in some cases with the livestock side and production animal, because Bayer's bringing in some of that. How do – excuse me how does that mesh with the you know your three targeted areas. And then there's Ruminants & Swine. Does this put it different light on that?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah. So let me be clear. When we launched, we had, you know pet therapy, pet prevention and the future protein, poultry, aqua and antibiotic replacement. Look that was, that's over 60% of the Elanco today. That's what we needed to lean in on with this IPO to create growth. And you saw that in the 2019 results where we grew those targeted growth categories by 7%.

What I want to be very clear though is Ruminants & Swine is still the largest segment in total animal health. It is still our largest segment as a company. And what we've done is, we've innovated, we've created some alliances. We've been opportunistic and very targeted. So cattle in the US and Brazil is an example, swine in the US and Asia, Europe were being very targeted and very opportunistic. Bear will catalyze, they bring more dairy. They bring a bigger portfolio for Asia. They bring a bigger beef portfolio. So yes look for significance in materiality to go forward and they bring a pipeline in this area as well. So we see that folding in as a key category going forward.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

But it may not grow at the same rate as the other three?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Well, we aren't going forward yet until we get the company together and have completed our pro forma and our full assessment, but it will catalyze and create more significance for us in Ruminants & Swine.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

Any questions from the audience at this point. All right. So, Jeff, maybe let's go to your, what you mentioned before I guess it's your favorite four letter word right now is [indiscernible] (00:15:26) is that correct? Now we're going to start on that.

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Sure.

Q

It's gotten approved, not surprisingly you've seen the label. How are you, what is your strategy your positioning now it is actually out there?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yeah. It, probably it goes without saying I'm going to focus on what I believe is the company that's going to have the most exciting activity in 2020 and in parasiticides and companion prevention is going to be Elanco. And let me just share a little bit and unfold this. Today first of all we've got the broadest offering to a pet owner when you put Interceptor Plus and Credelio together and we can get into this, but I believe that first of all intestinal worms and one out of five dogs in the study that we share with [ph] IDEXX (00:16:10) it's important those two products have that broadest coverage they are growing significantly they grew significantly in 2019 that momentum is continued in 2020.

We're working with partners in distribution and diagnostics and we like our strategy that we were executing against and we'll continue to execute against as we go forward. I think that's important. When you add on what comes with Bayer middle of the year this is what brings a lot of excitement, because we spend an awful lot of time comparing to one product to another product in a \$5.5 billion market that's growing 6% I look at this as global and I look at it from the standpoint of what we're going to be doing in Asia with Seresto and Advantage. What we're going to be doing with all channels, what we're going to be doing with the vet clinic we believe strongly that what we can do with the Elanco plus Bayer is enable us to access more pet owners to shop where they want to shop, but to redirect them and bridge them back into the clinic.

There's a third of the pet owners in the United States as an example that are not going into that vet clinic and we have the opportunity to reach them and be able to say hey your dogs at this age maybe you have a pain problem, hey you haven't had your annual vaccines and we see this as a very positive thing overall. So when I look at I like

our portfolio, I like our pipeline, I like what Bayer brings from a channel perspective and I like what happens globally. Any time a new innovation comes into the marketplace and we've seen it I've seen it in my 30 years. We've seen the Advantage Frontline come in as topical. We've seen the Elanco bring in Trifexis and Comfortis as the first orals and we've seen the isoxazolines.

You're seeing now the starting of the fourth generation of innovation, what happens? The markets get bigger, pet owners get more options, segments become more clear and innovation crosses borders. And I believe that the exciting thing is we're entering a new and next generation of innovation. And these things are going to happen. And price usually also follows with that as well. So, I didn't get into the specific there, but I think what I just shared shows the context of the opportunity we see. And why the durability of this business is so strong because our cash business across lots of species that rewards innovation.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

What is Credelio and Interceptor Plus' share in the US right now in their individual market?

A

Yeah. I'm not – we haven't specifically talked about that. And what I will say is, we've seen significant growth that has been increasing at an increasing rate the last couple of years. Interceptor Plus is one of the faster growing products. Its international brand is [indiscernible] (00:18:50) as well. And when you look at our warm coverage again, we are the one product out there that gets all five worms, the intestinal worms as well as heartworm. And the tape and the whip, I think, is continuing to be key.

The study we did this summer was the first ever study that we did in collaboration with [ph] IDEXX (00:19:10), 30 metro areas. I think this is important. The demographic of that dog owner is changing. More urban, more mobile, more out, more in parks and what we saw was one out of five dogs in the study had intestinal worms, which says, hey, this is to me the narrative and the understanding of this is going to increase as we see new innovation coming in the market.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

Will you be doing some additional advertising or promotion to make vets and owners like will I start seeing an ads you know telling me to make sure that I'm aware of this for my dog?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Yes. Where all aspects of the share of voice to the pet owner I mean definitely direct...

Kathy Miner

Analyst, Cowen and Company, LLC

Q

...started yet?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

...direct-to-consumer depending on the marketplace. But no, we've not...

Kathy Miner

Analyst, Cowen and Company, LLC

Okay.

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

...right.

A

< <Q – [0DF0Z1-E]Kathy Miner – Cowen and Company, LLC>: But we could expect that, okay. And what can you – are you able to tell us what percent of your parasite was specifically Credelio and Interceptor Plus or your parasites are currently purchased at an alternate site setting now?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

No. They're targeted for inside the clinic...

A

Kathy Miner

Analyst, Cowen and Company, LLC

Okay.

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

So the majority – the mass majority...

A

Kathy Miner

Analyst, Cowen and Company, LLC

They are.

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

...are in the clinic and that is our intention. And you know this is not an or game this is an and.

A

Kathy Miner

Analyst, Cowen and Company, LLC

Right.

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

And we believe without question in all aspects of animal health Companion Animal and Food Animal it starts and ends with a veterinarian, it's absolutely critical. And we're a big believer in that. And what our response to the Bayer has been very clearly hey they help us and enable us to reach pet owners that are either not coming in or we don't have the traffic is going to be key. So, again, a Credelio and Interceptor Plus a vet scripted product is in the clinic, we've got a dedicated sales force to that. We now have a dedicated sales force to the specialty clinics with Aratana and then of course to corporate clinics as well.

A

Kathy Miner

Analyst, Cowen and Company, LLC

Okay.



Some industry experts believe that the high expectations for [ph] Trio (00:21:07) ultimately will not be met, because of brand loyalty and familiarity with existing products and it seems to be what you're saying. Would you agree that maybe some of the very high expectations for the triples will not be achieved?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

I think that I'll take your first point, I do think there's tremendous brand loyalty what this industry has, [ph] Steve (00:21:27), you know this is a little bit of a consumer product good parallel here where there is a lot of loyalty. I always had my dog on, I had analyst that met with me yesterday that said, hey we – my dog is on Advantage, I like Advantage, I continue to use it. Globally orals and collar – topicals and collars still are larger than orals, you can say why? Well my dog's used to it, I'm loyal to a brand. I think that's key. So and I think that's good marketing, good segmentation with different mediums to reach pet owners, which were doing much better in an industry than we were five years ago is going to continue to build that. So and I do think subtle differences matter, I think side effects and palatability matters and ease of use matters.



So do you think in three to five years topicals and collars will still be the dominant product OUS?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

I need to say, OUS, I think globally there's going to be a place I think ease of use and the ability also to do other things with administration. There is a segment that also wants repellency to say I don't want the tick or the flea to have to bite the dog. So a little bit of whether it's a clean dog and the ability to also turn that collar into more value to a pet owners and another other opportunity, lifecycle management as we all know was absolutely critical. We shared Bayer has 30 lifecycle management projects that are kind of in that late stage. If that's good accretive high probable growth also as we look at it going forward. So I think it's a market expansion and I think it's more pet owners that are not using, they're still I think compliance and reaching pet owners that are not in the clinic is going to be key. In conjunction and partnership with the veterinarian.



Kathy Miner

Analyst, Cowen and Company, LLC

Question?



Yeah. I was just wondering why has your underperformed so much compared to Zoetis since you have gone public and what [indiscernible] (00:23:29).

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

What's the US.

A

Kathy Miner

Analyst, Cowen and Company, LLC

The question was why has your stock underperformed since you've gone public?

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

Yeah. So, we opened at \$24, I'll start there in terms of and there's been a lot of volatility in the market since, but I would be very clear to say we are focused on few things very clearly. One is and I'm not going to comment on a stock performance as much as; one, we've delivered six quarters relative to our earnings, our expectations and our consensus. That's been very important.

A

Two, is that we've no question come out as we stood up this company. Bayer was something that we didn't anticipate. But as we did the diligence and as you can see, we believe it absolutely expands and accelerates the value proposition. There was early questions about that. I think those questions now as we talk to our shareholders and prospective shareholders, understand and see the significant value what Bayer can do to the Elanco. Those are the factors.

My focus right now is to make sure to say, hey the opportunity with 700 basis points of margin expansion behind, a 1,000 in front of us, by 2022. The ability to keep a mid-single digit launch 14 products and bring another 20, we're making the number two animal health company, the only major independent beyond the other one that was here with the number one value proposition. We believe clearly we've got the number one value proposition from our current existing base.

I think African Swine Fever also created some noise into our first year coming out as an independent company. But I like where we stand, we've delivered what we've said and we've set ourselves up to expand and accelerate with the Bayer, the Bayer move.

Kathy Miner

Analyst, Cowen and Company, LLC

And there's another question in the back.

Q

[indiscernible] (00:25:16-00:25:20) so over five years ago, I think in conjunction with Novartis Animal Health deal, you mentioned \$200 million of cost savings and we had 20% EBIT margin by 2018, [indiscernible] (00:25:32) on EBITDA margin basis? So, [indiscernible] (00:25:36) going to be different [indiscernible] (00:25:37)

Q

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

Yeah. So, we need to uncouple that. First of all, we announced \$200 million of synergy with Novartis. We achieved and went public over \$300 million of synergy. Novartis, if you look at it through the lens of Eli Lilly, as an acquisition was a solid green light and positive to business case. We delivered the five products that I mentioned,

A

the synergies we mentioned and the growth rates. Two things happened from that December 2015 Boston Investor Conference. They were independent and were on the core Elanco business.

One is we had [ph] BST (00:26:10), which was a significant product that actually is something we divested before the IPO that the dairy market went down and there was a banning of that and that created a significant decline. That was more – that was the major decline relative to the growth rate. The second was NexGard and Bravecto, a couple of products came in ahead of Credelio, a little over a year against those assumptions. Those were the two events, what I would say, is relative to the metrics of the Novartis deal. And we were mid-20s margin at the time, so in the mid-50s and mid-20s, we actually knew Novartis that they were breakeven or worse and then we were going into the teens. We're very transparent about it.

But those two events I mentioned slowed the recovery. To me, it gives me confidence to say, we delivered \$100 million more against the \$200 million synergies. We delivered \$300 million. And we delivered five products in the pipeline. So, Novartis was an extremely – we wouldn't be here today without the Novartis acquisition. It was absolutely instrumental and exceeded our expectations.

Q

[indiscernible] (00:27:17).

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

There's two events that happened. And it was mostly the BST dairy, which again, we made a decision to divest before we started the IPO. Okay. Thank you for that question.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

Other questions? We've got just a couple more minutes left here on a couple of quick things. One is Galliprant in a blockbuster last year?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

In my mind it's growing at blockbuster rates, it's close to that blockbuster number and we'll continue to exceed. It's growing globally. We're continuing a nice lifecycle management plan and we're continuing to move it from in some places where it's second line treatment to first line, as it's the safest osteoarthritis product and the other is we say one out of six dogs have this getting more dog owners to realize hey there is a solution if I have an aging dog that is not as mobile. There is a lot of people just assume that needs to be a given when there is a safe solution for that dog. So expanding the market with awareness is key.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

And is this an area that you would also take the portfolio approach and we might be safe to assume that there will be a some broader line of pain products in the future?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

Absolutely, we've been very clear to say today we've got that the most comprehensive portfolio especially as we bring in NOCITA, Onsior, DERAMAXX, we have a very large portfolio of pain products and our pipeline will complement and continue to expand that and bring the next-generation of innovation as well.

Q

There seems to be some difference of opinion whether the pain opportunity is bigger in dogs or cats do you have an opinion on that?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

I think there's opportunity in both. I think as we know cats is a market I believe I think there's two areas in pets that we don't talk enough about as I shared at the conference in January is one is – really three, one is outside the US and especially emerging market. I mean China has 8% pets in the home, we have 68% here but the trends are coming quickly. Two is alternative channels complementing the clinic. And then I think three is feline, [ph] Steve (00:29:30) I do think that there is a lot of opportunity here in the cat market as well.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

And maybe just in the last moment, can you touch upon latest on any COVID impact either in China or if you are seeing any change in visitor production over the US?

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

We're monitoring as everybody else our focus is of course our employees are safe. We have a supply chain that we feel is very secure only a few CMOs through China. And, of course, we're monitoring and managing by market, by country virtual selling if necessary and doing the appropriate things and again monitoring this situation...

Kathy Miner

Analyst, Cowen and Company, LLC

Q

And demand...

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

...this situation.

Kathy Miner

Analyst, Cowen and Company, LLC

Q

...are you seeing a decrease in either business...

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

A

No. Yes. It's too early to say and I would say there's – we don't want to make a direct correlation at this stage. I think it's too early.

Kathy Miner

Analyst, Cowen and Company, LLC

Okay. All right. With that we are out of time. There's a breakout, which is in [ph] Salon K (00:30:26) which is right behind here down the hall. So, thanks very much.

Jeffrey N. Simmons

President, Chief Executive Officer & Director, Elanco Animal Health, Inc.

Yeah. Thank you, Kathy.

Unverified Participant

Thank you very much.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.