

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 MARCH 31, 2020
OR

Transition Report Pursuant To Section 13 or 15(d) of the
Securities Exchange Act of 1934
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
5.00% Tangible Equity Units	ELAT	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 May 4, 2020 were 398,894,363

Elanco Animal Health Incorporated
Form 10-Q
For the Quarter Ended March 31, 2020
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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 the impact on our business caused by the coronavirus global pandemic, 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;
- the impact on our operations, the supply chain, customer demand, and our liquidity as a result of the coronavirus (COVID-19) global health pandemic;
- 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);
- the impact of the COVID-19 global health pandemic on our ability to complete the acquisition of the animal health business of Bayer and achieve the anticipated revenue, earnings, accretion and other benefits;
- 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 and Company (Lilly), including the various costs associated with transition to a standalone entity, including the ability to stand up our enterprise resource planning (ERP) system and other information technology systems.

See "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission (SEC) and Item 1A, "Risk Factors," of Part II of this Quarterly Report on Form 10-Q, for a further description of these and other factors. Although we have attempted to identify important risk factors, there may be other risk factors not presently known to us or that we presently believe are not material that

could cause actual results and developments to differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report. If any of these risks materialize, or if any of the above assumptions underlying forward-looking statements prove incorrect, actual results and developments may differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report. 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
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars and shares in millions, except per-share data)

	Three Months Ended March 31,	
	2020	2019
Revenue	\$ 657.7	\$ 731.1
Costs, expenses and other:		
Cost of sales	332.7	343.8
Research and development	66.8	64.1
Marketing, selling and administrative	182.0	181.1
Amortization of intangible assets	51.6	49.0
Asset impairment, restructuring and other special charges (Note 7)	74.8	24.9
Interest expense, net of capitalized interest	16.5	20.8
Other—net, expense	1.1	2.6
	<u>725.5</u>	<u>686.3</u>
Income (loss) before income taxes	(67.8)	44.8
Income tax (benefit) expense	(18.7)	13.3
Net income (loss)	<u>\$ (49.1)</u>	<u>\$ 31.5</u>
Earnings (loss) per share:		
Basic	\$ (0.12)	\$ 0.09
Diluted	\$ (0.12)	\$ 0.09
Weighted average shares outstanding:		
Basic	403.9	365.7
Diluted	403.9	366.0

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2020	2019
Net income (loss)	\$ (49.1)	\$ 31.5
Other comprehensive income (loss):		
Unrealized loss on derivatives for cash flow hedges, net of taxes	(39.2)	—
Foreign currency translation	(29.3)	(30.2)
Defined benefit pension and retiree health benefit plans, net of taxes	(0.4)	2.0
Other comprehensive loss, net of tax	(68.9)	(28.2)
Comprehensive income (loss)	<u>\$ (118.0)</u>	<u>\$ 3.3</u>

See notes to condensed consolidated financial statements.

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

	March 31, 2020 (Unaudited)	December 31, 2019
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 1,206.4	\$ 334.0
Accounts receivable, net of allowances of \$7.4 (2020) and \$6.2 (2019)	676.8	816.9
Other receivables	66.9	73.0
Inventories (Note 8)	1,019.0	1,050.7
Prepaid expenses and other	132.1	87.4
Receivable from Lilly (Note 16)	8.7	—
Restricted cash (Note 16)	10.7	11.1
Total current assets	3,120.6	2,373.1
<i>Noncurrent Assets</i>		
Goodwill	3,004.0	2,989.6
Other intangibles, net	2,455.5	2,482.8
Other noncurrent assets	217.0	185.0
Property and equipment, net of accumulated depreciation of \$919.7 (2020) and \$930.5 (2019)	930.1	955.3
Total assets	\$ 9,727.2	\$ 8,985.8
Liabilities and Equity		
<i>Current Liabilities</i>		
Accounts payable	\$ 215.0	\$ 222.6
Employee compensation	56.2	99.6
Sales rebates and discounts	192.7	211.0
Current portion of long-term debt (Note 10)	26.0	24.5
Other current liabilities	217.6	244.4
Payable to Lilly (Note 16)	—	16.4
Total current liabilities	707.5	818.5
<i>Noncurrent Liabilities</i>		
Long-term debt (Note 10)	2,035.6	2,330.5
Accrued retirement benefits	82.1	82.5
Deferred taxes	90.2	100.8
Other noncurrent liabilities	150.3	106.6
Total liabilities	3,065.7	3,438.9
<i>Commitments and Contingencies (Note 13)</i>		
	—	—
<i>Equity</i>		
Preferred stock, no par value, 1,000,000,000 shares authorized; none issued	—	—
Common stock, no par value, 5,000,000,000 shares authorized, 398,825,969 and 373,011,513 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	—	—
Additional paid-in capital	6,870.3	5,636.3
Retained earnings	33.8	84.3
Accumulated other comprehensive loss	(242.6)	(173.7)
Total equity	6,661.5	5,546.9
Total liabilities and equity	\$ 9,727.2	\$ 8,985.8

See notes to condensed consolidated financial statements.

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

	Common Stock				Accumulated Other Comprehensive Income (Loss)					Total Equity
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Cash Flow Hedge Gain (Loss)	Foreign Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Total		
December 31, 2018	365.6	\$ —	\$ 5,403.3	\$ 16.4	\$ —	\$ (218.2)	\$ (4.0)	\$ (222.2)	\$ 5,197.5	
Net income	—	—	—	31.5	—	—	—	—	31.5	
Other comprehensive income (loss), net of tax	—	—	—	—	—	(30.2)	2.0	(28.2)	(28.2)	
Separation activities ⁽¹⁾	—	—	(7.0)	—	—	—	—	—	(7.0)	
Stock compensation	—	—	2.4	—	—	—	—	—	2.4	
Issuance of stock under employee stock plans, net	0.1	—	—	—	—	—	—	—	—	
March 31, 2019	365.7	\$ —	\$ 5,398.7	\$ 47.9	\$ —	\$ (248.4)	\$ (2.0)	\$ (250.4)	\$ 5,196.2	
December 31, 2019	373.0	\$ —	\$ 5,636.3	\$ 84.3	\$ —	\$ (198.4)	\$ 24.7	\$ (173.7)	\$ 5,546.9	
Net loss	—	—	—	(49.1)	—	—	—	—	(49.1)	
Adoption of Accounting Standards Update 2016-13 ⁽²⁾	—	—	—	(1.4)	—	—	—	—	(1.4)	
Other comprehensive loss, net of tax	—	—	—	—	(39.2)	(29.3)	(0.4)	(68.9)	(68.9)	
Separation activities ⁽¹⁾	—	—	15.8	—	—	—	—	—	15.8	
Stock compensation	—	—	11.1	—	—	—	—	—	11.1	
Issuance of stock under employee stock plans, net	0.8	—	(12.8)	—	—	—	—	—	(12.8)	
Issuance of common stock, net of issuance costs ⁽³⁾	25.0	—	767.5	—	—	—	—	—	767.5	
Issuance of tangible equity units, net of issuance costs ⁽³⁾	—	—	452.4	—	—	—	—	—	452.4	
March 31, 2020	398.8	\$ —	\$ 6,870.3	\$ 33.8	\$ (39.2)	\$ (227.7)	\$ 24.3	\$ (242.6)	\$ 6,661.5	

(1) See Note 16: Related Party Agreements and Transactions for further discussion.

(2) See Note 4: Implementation of New Financial Accounting Pronouncements for further discussion.

(3) See Note 9: Equity for further discussion.

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2020	2019
Cash Flows from Operating Activities		
Net income (loss)	\$ (49.1)	\$ 31.5
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation and amortization	81.5	75.2
Change in deferred income taxes	(25.1)	16.3
Stock-based compensation expense	11.1	7.7
Asset impairment charges	—	4.0
Gain on sale of assets	(3.8)	—
Changes in operating assets and liabilities	(9.8)	(117.2)
Other non-cash operating activities, net	(0.5)	(9.4)
Net Cash Provided by (Used for) Operating Activities	4.3	8.1
Cash Flows from Investing Activities		
Net purchases of property and equipment	(12.6)	(28.0)
Proceeds from settlement of net investment hedges (Note 11)	25.2	—
Purchases of software	(31.8)	(2.5)
Other investing activities, net	(0.4)	(0.5)
Net Cash Used for Investing Activities	(19.6)	(31.0)
Cash Flows from Financing Activities		
Repayments of borrowings (Note 10)	(371.4)	(7.5)
Proceeds from issuance of long-term debt (Note 10)	79.2	—
Proceeds from issuance of common stock and tangible equity units (Note 9)	1,219.9	—
Debt issuance costs	(3.1)	—
Consideration paid to Lilly in connection with the Separation (Note 1)	—	(175.1)
Other net financing transactions with Lilly	(15.2)	(156.4)
Other financing activities, net	(12.8)	(0.5)
Net Cash Provided by (Used for) Financing Activities	896.6	(339.5)
Effect of exchange rate changes on cash and cash equivalents	(9.3)	(14.5)
Net increase (decrease) in cash, cash equivalents and restricted cash	872.0	(376.9)
Cash, cash equivalents and restricted cash at January 1	345.1	677.5
Cash, cash equivalents and restricted cash at March 31	\$ 1,217.1	\$ 300.6

	March 31,	
	2020	2019
Cash and cash equivalents	\$ 1,206.4	\$ 272.1
Restricted cash (Note 16)	10.7	28.5
Cash, cash equivalents and restricted cash at March 31	\$ 1,217.1	\$ 300.6

See notes to condensed consolidated financial statements.

Elanco Animal Health Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)
(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 May 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 (IPO) 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 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. In exchange, Elanco Parent has paid to Lilly approximately \$4.2 billion, which included 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 10: 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 along with the disposal of Lilly's entire ownership and voting interest in Elanco.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

We have prepared the accompanying unaudited condensed consolidated 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. The accounts of all wholly owned and controlled subsidiaries are included in the condensed consolidated financial statements and all intercompany balances and transactions have been eliminated.

Certain reclassifications have been made to prior periods in the condensed consolidated financial statements and accompanying notes to conform with 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, 2019 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 28, 2020.

Our income taxes in 2019 and thereafter 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 with Lilly until full separation. The income tax amounts in the 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.

The significant accounting policies set forth in Note 4 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019 appropriately represent, in all material respects, the current status of our accounting policies, except as it relates to the adoption of the standards that were effective January 1, 2020 as described in Note 4: Implementation of New Financial Accounting Pronouncements, and are incorporated herein by reference.

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 transitional services agreement (TSA).

In addition to the agreements referenced above, we entered into several other related party transactions with Lilly before and at the time of the Separation. For additional information regarding our ongoing agreements, as well as certain activities while Lilly was a related party, see Note 16: Related Party Agreements and Transactions.

Note 4. Implementation of New Financial Accounting Pronouncements

The following table provides a brief description of accounting standards that were effective January 1, 2020 and were adopted on that date:

Standard	Description	Effect on the financial statements or other significant matters
<i>Accounting Standards Update 2016-13, 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.	We adopted the standard using the modified retrospective approach. The impact of adoption included the first-time recognition of expected credit losses (i.e., bad debt expense) on current receivables that are not past due, which resulted in a decrease in retained earnings of \$1.4 million. Recognition of this allowance and other impacts of adoption were not material to the consolidated financial statements.
<i>Accounting Standards Update 2018-15, 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.	We implemented the guidance on a prospective basis. The adoption did not have a significant impact on the consolidated financial statements.

The following table provides a brief description of 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 2019-12, <i>Simplifying the Accounting for Income Taxes</i>	The amendments in this update simplify the accounting for income taxes by removing certain exceptions and clarifying certain requirements regarding franchise taxes, goodwill, consolidated tax expenses, and annual effective tax rate calculations.	This standard is effective January 1, 2021, with early adoption permitted. We intend to adopt this standard on that date.	We are currently evaluating the effect of this standard on our consolidated financial statements.
Accounting Standards Update 2020-04, <i>Reference rate reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting</i>	This update provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.	This standard can be applied immediately, but early adoption is only available through December 31, 2022.	We are currently in the process of evaluating the impact of the London Interbank Offered Rate (LIBOR) on our existing contracts, but do not expect that this update will have a material impact on our consolidated financial statements.

Note 5. Revenue

Our sales rebates and discounts are based on specific agreements and the majority relate to sales in the U.S. As of March 31, 2020 and 2019, the liability for sales rebates and discounts in the U.S. represents approximately 71% and 72%, respectively, of our total liability with the next largest country representing approximately 8% 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 March 31,	
	2020	2019
Beginning balance	\$ 150.4	\$ 118.5
Reduction of revenue	60.5	65.7
Payments	(73.3)	(64.2)
Ending balance	\$ 137.6	\$ 120.0

Adjustments to revenue recognized as a result of changes in estimates for the judgments described above during the three months ended March 31, 2020 and 2019 for product shipped in previous periods were not material.

Actual product returns were approximately 1.6% and 0.3% of net revenue for the three months ended March 31, 2020 and 2019, respectively.

Disaggregation of Revenue

The following table summarizes our revenue disaggregated by product category:

	Three Months Ended March 31,	
	2020	2019
Companion Animal Disease Prevention	\$ 140.3	\$ 185.9
Companion Animal Therapeutics	65.8	81.4
Food Animal Future Protein & Health	180.0	167.2
Food Animal Ruminants & Swine	252.6	274.1
Strategic Exits ⁽¹⁾	19.0	22.5
Revenue	<u>\$ 657.7</u>	<u>\$ 731.1</u>

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

Note 6. Acquisitions and Divestitures

2019 Acquisitions

During 2019, we completed the acquisitions of all outstanding shares of Aratana Therapeutics, Inc. (Aratana) and Prevtec Microbia Inc. (Prevtec). 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, for stock and cash-based contingent value rights. Aratana is the creator of the canine osteoarthritis medicine, *Galliprant*[™], 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 that we previously recorded for future royalty and milestone payments in relation to the 2016 acquisition of rights to *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 consolidated and combined statement of operations for the year ended December 31, 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		10.3
Acquired in-process research and development		31.9
Marketed products ⁽¹⁾		36.7
Other intangible assets ⁽¹⁾		13.2
Other assets and liabilities - net		23.2
Total identifiable net assets		141.7
Goodwill ⁽²⁾		11.6
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 intangible assets, tax-related amounts and minor working capital adjustments. No material measurement period adjustments were recorded during the three months ended March 31, 2020. 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 2019.

Had Aratana been acquired on January 1, 2018, the unaudited pro forma combined revenues and income before income taxes of Elanco and Aratana would have been \$735.1 million and \$36.6 million, respectively, for the three months ended March 31, 2019.

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*[™] 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.

A previously existing \$0.7 million receivable owed from Prevtec to Elanco Animal Health UK Limited was settled upon the closing of our acquisition of Prevtec. The resulting immaterial gain upon settlement was recorded in other - net, expense in the consolidated and combined statement of operations for the year ended December 31, 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 31, 2019

Cash and cash equivalents	\$	0.9
Property and equipment		0.5
Acquired in-process research and development		2.8
Marketed products ⁽¹⁾		58.9
Other intangible assets		1.1
Other assets and liabilities - net		(10.3)
Total identifiable net assets		53.9
Goodwill ⁽²⁾		11.1
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 Prevtex 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, tax-related amounts and minor working capital adjustments. No material measurement period adjustments were recorded during the three months ended March 31, 2020. 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, 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 shares of our common stock equal to approximately \$2.3 billion divided by the 20-day volume-weighted average stock price as of the last day of trading before the closing of the acquisition (but subject to a 7.5% symmetrical collar centered on the volume-weighted average price for the 30 trading days ended August 6, 2019 of \$33.60). The transaction will close no earlier than July 1, 2020, per the terms of the Purchase Agreement. See Note 13: Commitments and Contingencies for discussion regarding certain commitments related to this transaction.

Divestitures

In January 2020, we signed agreements to divest the worldwide rights to *Osumia*[™] and the U.S. rights to *Capstar*[™], and in February 2020, we signed an agreement to divest the worldwide rights to *Vecoxan*[™], for an aggregate of \$285 million in all cash transactions. The agreements were signed with the intent to advance our efforts to secure the necessary regulatory clearances for the pending acquisition of the Bayer animal health business. The closing of these transactions is contingent on us entering into consent decrees with certain agencies in connection with the pending acquisition as well as customary closing conditions. The divestitures are expected to close by mid-2020.

The related assets for all three divestitures met the assets held for sale criteria as of March 31, 2020 and the assets for the *Osumnia* and *Capstar* divestitures met the assets held for sale criteria as of December 31, 2019. No adjustments were required to record the assets at the lower of their carrying amounts or fair values less costs to sell on the condensed consolidated balance sheet. Assets and liabilities considered held for sale in connection with the divestitures were included in the respective line items on the consolidated balance sheet as follows:

	March 31, 2020	December 31, 2019
Inventories	\$ 6.2	\$ 10.6
Other intangibles, net	70.6	61.2
Property and equipment, net	0.2	0.2
Total assets held for sale	<u>\$ 77.0</u>	<u>\$ 72.0</u>
Deferred taxes	\$ (0.1)	\$ (1.4)
Total liabilities held for sale	<u>\$ (0.1)</u>	<u>\$ (1.4)</u>

Other intangibles, net classified as held for sale primarily consist of marketed products. We determined that the disposal of these net assets does not qualify for reporting as a discontinued operation because it does not represent a strategic shift that has or will have a major effect on our operations and financial results.

Note 7. Asset Impairment, Restructuring and Other Special Charges

In recent years, we have incurred substantial costs associated with restructuring programs and cost-reduction initiatives designed to achieve a flexible and competitive cost structure. Restructuring activities primarily include charges associated with facility rationalization and workforce reductions. In connection with our recent acquisitions and the pending acquisition of Bayer's animal health business, we have also incurred costs associated with executing transactions and integrating acquired operations, which may include expenditures for banking, legal, accounting, and other similar services. In addition, we have incurred costs to stand up our organization as an independent company. All operating functions can be impacted by these actions; therefore, non-cash expenses associated with our tangible and intangible assets can be incurred as a result of revised fair value projections and/or determinations to no longer utilize certain assets in the business on an ongoing basis.

For finite-lived intangible asset and other long-lived assets, whenever impairment indicators are present, we calculate the undiscounted value of projected cash flows associated with the asset, or group of assets, and compare it to the carrying amount. If the carrying amount is greater, we record an impairment loss for the excess of book value over fair value. Determinations of fair value can result from a complex series of judgments and rely on estimates and assumptions. See Note 2: Basis of Presentation and Summary of Significant Accounting Policies for discussion regarding estimates and assumptions.

Components of asset impairment, restructuring and other special charges are as follows:

	Three Months Ended March 31,	
	2020	2019
Restructuring charges: ⁽¹⁾		
Severance and other costs	\$ 0.4	\$ 0.5
Facility exit costs	0.6	—
Acquisition related charges:		
Transaction and integration costs ⁽²⁾	76.3	20.4
Non-cash and other items:		
Asset impairment ⁽³⁾	—	4.0
Asset write-down ⁽⁴⁾	1.3	—
Gain on sale of fixed assets ⁽⁵⁾	(3.8)	—
Total expense	\$ 74.8	\$ 24.9

⁽¹⁾ For the three months ended March 31, 2020, these charges primarily relate to the announced 2019 program to streamline operations in Speke, England as well as the remaining costs to close the Larchwood, Iowa facility.

⁽²⁾ Transaction costs represent external costs directly related to acquiring businesses and primarily include expenditures for banking, legal, accounting and other similar services. Integration costs represent internal and external incremental costs directly related to integrating acquired businesses, including the pending acquisition of Bayer's animal health business (e.g., expenditures for consulting, system and process integration, and product transfers), as well as stand-up costs related to the implementation of new systems, programs, and processes due to the Separation from Lilly.

⁽³⁾ Asset impairment charges for the three months ended March 31, 2019 related to an adjustment to fair value of intangible assets that were subject to product rationalization.

⁽⁴⁾ Asset write-down expenses for the three months ended March 31, 2020 result from adjustments recorded to write assets classified as held and used down to their current fair value. These charges primarily relate to fixed assets in Wusi, China in connection with the announced 2019 program to streamline operations.

⁽⁵⁾ Represents a gain on the disposal from the sale of an R&D facility in Prince Edward Island, Canada, which was written down during the three months ended September 30, 2019 as part of the announced 2019 program to streamline operations.

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

	Facility exit costs	Severance	Total
Balance at December 31, 2018	\$ 9.3	\$ 35.1	\$ 44.4
Charges	—	0.5	0.5
Cash paid	(0.3)	(7.3)	(7.6)
Balance at March 31, 2019	\$ 9.0	\$ 28.3	\$ 37.3
Balance at December 31, 2019	\$ 5.4	\$ 15.5	\$ 20.9
Charges	0.6	1.0	1.6
Reserve adjustments	—	(0.6)	(0.6)
Cash paid	(1.0)	(9.8)	(10.8)
Balance at March 31, 2020	\$ 5.0	\$ 6.1	\$ 11.1

These reserves are included in other current liabilities on the consolidated balance sheets. Substantially all of the reserves are expected to be paid 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:

	March 31, 2020	December 31, 2019
Finished products	\$ 384.2	\$ 402.9
Work in process	592.1	603.2
Raw materials and supplies	80.7	83.9
Total (approximates replacement cost)	1,057.0	1,090.0
Decrease to LIFO cost	(38.0)	(39.3)
Inventories	<u>\$ 1,019.0</u>	<u>\$ 1,050.7</u>

Note 9. Equity

Common Stock Offering

On January 22, 2020, we entered into an underwriting agreement in which we agreed to sell approximately 22.7 million shares of our common stock at a public offering price of \$32.00 per share. In connection with the offering, we granted the underwriters an option to purchase up to an additional 2.3 million shares, which was exercised in full on January 23, 2020. As a result, we issued and sold a total of approximately 25.0 million shares of our common stock for \$767.5 million, after issuance costs.

Tangible Equity Unit (TEU) Offering

On January 22, 2020, we also completed our offering of 11 million, 5.00% TEUs. Total proceeds, net of issuance costs, were \$528.5 million. Each TEU, which has a stated amount of \$50, is comprised of a prepaid stock purchase contract (prepaid stock) and a senior amortizing note due February 1, 2023. Subsequent to issuance, each TEU may be legally separated into the two components. The prepaid stock is considered a freestanding financial instrument, indexed to Elanco common stock, and meets the conditions for equity classification.

The value allocated to the prepaid stock is reflected net of issuance costs in additional paid-in capital. The value allocated to the senior amortizing notes is reflected in long-term debt on the consolidated balance sheet, with payments expected in the next twelve months reflected in current portion of long-term debt. Issuance costs related to the amortizing notes are reflected as a reduction of the carrying amount and will be amortized through the maturity date using the effective interest rate method.

The proceeds from the issuance were allocated to equity and debt based on the relative fair value of the respective components of each TEU as follows:

	Equity Component	Debt Component	Total
Fair value per unit	<u>\$ 42.80</u>	<u>\$ 7.20</u>	<u>\$ 50.00</u>
Gross proceeds	\$ 470.8	\$ 79.2	\$ 550.0
Less: Issuance costs	18.4	3.1	21.5
Net proceeds	<u>\$ 452.4</u>	<u>\$ 76.1</u>	<u>\$ 528.5</u>

The senior amortizing notes have an aggregate principal amount of \$79.2 million and bear interest at 2.75% per year. On each February 1, May 1, August 1, and November 1 until the maturity date, we will pay equal quarterly cash installments of \$0.6250 per each amortizing note with an initial principal amount of \$7.2007 (except for the first

installment payment of \$0.6528 per amortizing note due on May 1, 2020). Each installment constitutes a payment of interest and partial payment of principal, and in the aggregate will be equivalent to 5.00% per year with respect to the \$50 stated amount per TEU.

Unless settled early at the holder's or our election, each prepaid stock purchase contract will automatically settle on February 1, 2023 (the mandatory settlement date) for a number of shares of common stock per contract based on the average of the volume-weighted average trading prices during the 20 consecutive trading day period beginning on, and including the 21st scheduled trading day immediately preceding February 1, 2023 (applicable market value) with reference to the following settlement rates:

Applicable Market Value	Common Stock Issued
Equal to or greater than \$38.40	1.3021 shares (minimum settlement rate)
Less than \$38.40, but greater than \$32.00	\$50 divided by applicable market value
Less than or equal to \$32.00	1.5625 (maximum settlement rate)

The prepaid stock purchase contracts are mandatorily convertible into a minimum of 14.3 million shares or a maximum of 17.2 million shares of our common stock on the mandatory settlement date (unless redeemed by us or settled earlier at the unit holder's option). The 14.3 million minimum shares are included in the calculation of basic weighted average shares outstanding. The difference between the minimum and maximum shares represents potentially dilutive securities, which are included in the calculation of diluted weighted average shares outstanding on a pro rata basis to the extent that the average applicable market value is higher than \$32.00 but is less than \$38.40 during the period.

Note 10. Debt

Long-term debt consisted of the following:

	March 31, 2020	December 31, 2019
Term credit facility	\$ —	\$ 371.4
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
TEU amortizing notes	79.2	—
Other obligations	0.3	0.4
Unamortized debt issuance costs	(17.9)	(16.8)
Total debt	2,061.6	2,355.0
Less current portion of long-term debt	26.0	24.5
Total long-term debt	\$ 2,035.6	\$ 2,330.5

TEU Amortizing Notes

On January 22, 2020, we issued \$550 million in TEUs. We offered 11 million, 5.00% TEUs at the stated amount of \$50 per unit, comprised of prepaid stock purchase contracts and a senior amortizing note due February 1, 2023 (the mandatory settlement date). Total cash of \$528.5 million was received, comprised of \$452.4 million of prepaid stock purchase contracts and \$76.1 million of senior amortizing notes, net of issuance costs. See Note 9: Equity for further information.

Term Loan Extinguishment

On January 31, 2020, we repaid indebtedness outstanding under our existing term loan facility. We paid \$372.4 million in cash, composed of \$371.4 million of principal and \$1.0 million of accrued interest, resulting in a debt extinguishment loss of \$0.8 million (recognized in interest expense in the condensed consolidated statement of operations for the three months ended March 31, 2020) primarily related to the write-off of deferred debt issuance costs.

New Credit Facility

On February 4, 2020, we successfully priced our senior secured credit facilities, consisting of the following:

- Term loan B facility with an aggregate principal amount of \$4,275.0 million and a maturity of seven years.
- Revolving credit facility providing up to \$750.0 million and a maturity of five years.

The term loan B facility was priced at par at LIBOR plus 175 basis points, and the revolving loan facility is expected to bear interest at LIBOR plus an applicable margin ranging between 1.50% and 2.25% per annum based on our corporate family rating or corporate credit rating.

We intend to use the proceeds from the equity and debt activities to finance the cash portion of the pending acquisition of Bayer's animal health business and to pay related fees and expenses. As a result, we have obtained substantially all of the financing necessary to consummate the acquisition and do not currently intend to pursue any additional financing previously provided under the commitment letter obtained in August 2019 (see Note 13: Commitments and Contingencies). We expect to execute the debt agreements upon closing the acquisition of Bayer's animal health business.

The senior secured credit facilities are expected to include two financial maintenance covenants which are solely for the benefit of lenders under the revolving credit facility and no financial maintenance covenant for the benefit of the term loan B facility. The lenders under the term loan B facility will have no enforcement rights with respect to the financial maintenance covenants for the revolving credit facility.

We expect the first financial maintenance covenant for the revolving credit facility to be a requirement to maintain a certain pro forma net total leverage ratio level (which will not be subject to step-downs) as of the end of each quarter, beginning with the fiscal quarter ending September 30, 2020 (assuming the closing of the acquisition of Bayer's animal health business occurs on July 1, 2020). The required level of this covenant will be based on closing date pro forma net leverage and pro forma adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) equal to 65% of our pro forma adjusted EBITDA for the four fiscal quarters ending March 31, 2020 (assuming the closing of the acquisition of Bayer's animal health business occurs on July 1, 2020).

The second financial maintenance covenant for the revolving credit facility is expected to be a requirement to maintain a ratio of pro forma adjusted EBITDA to cash interest expense of no less than 2.00 to 1.00, tested as of the end of each fiscal quarter, beginning with the fiscal quarter ending September 30, 2020 (assuming the closing of the acquisition of Bayer's animal health business occurs on July 1, 2020).

Note 11. 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.

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 March 31, 2020 and December 31, 2019, we had \$20.0 million and \$18.8 million, respectively, primarily related to equity method investments included in other noncurrent assets on our condensed consolidated balance sheet.

The following table summarizes the fair value information at March 31, 2020 and December 31, 2019 for foreign exchange contract assets (liabilities), contingent consideration liabilities, net investment hedge assets (liabilities) and cash flow hedge assets (liabilities) measured at fair value on a recurring basis in the respective balance sheet line items, as well as long-term debt (including TEU amortizing notes) for which fair value is disclosed on a recurring basis:

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)	
March 31, 2020					
Prepaid expenses and other - foreign exchange contracts not designated as hedging instruments	\$ 28.0	\$ —	\$ 28.0	\$ —	\$ 28.0
Other current liabilities - foreign exchange contracts not designated as hedging instruments	(8.2)	—	(8.2)	—	(8.2)
Other noncurrent liabilities - contingent consideration	(4.7)	—	—	(4.7)	(4.7)
Other noncurrent assets - cross currency interest rate contracts designated as net investment hedges	6.6	—	6.6	—	6.6
Other noncurrent liabilities - forward-starting interest rate contracts designated as cash flow hedges	(50.6)	—	(50.6)	—	(50.6)
Long-term debt - senior notes	(2,000.0)	—	(2,067.3)	—	(2,067.3)
TEU amortizing note ⁽¹⁾	(79.2)	—	(79.2)	—	(79.2)
December 31, 2019					
Prepaid expenses and other - foreign exchange contracts not designated as hedging instruments	\$ 0.8	\$ —	\$ 0.8	\$ —	\$ 0.8
Other current liabilities - foreign exchange contracts not designated as hedging instruments	(1.1)	—	(1.1)	—	(1.1)
Other noncurrent liabilities - contingent consideration	(4.7)	—	—	(4.7)	(4.7)
Other noncurrent assets - cross currency interest rate contracts designated as net investment hedges	2.3	—	2.3	—	2.3
Long-term debt - senior notes	(2,000.0)	—	(2,120.6)	—	(2,120.6)
Long-term debt - term credit facility ⁽¹⁾	(371.4)	—	(371.4)	—	(371.4)

⁽¹⁾ We consider the carrying value to be representative of its fair value.

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 March 31, 2020 and December 31, 2019 related to contingent consideration associated with the acquisitions of Aratana and Prevtec during 2019. For Aratana, we will pay up to

\$12 million in contingent value rights that are dependent on the achievement of a specified milestone as outlined in the merger agreement. For Prevtect, 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 of both contingent consideration liabilities 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 and Divestitures for further discussion.

Derivative Instruments and Hedging Activities

We are exposed to market risks, such as changes in foreign currency exchange rates and interest rates. To manage the volatility related to these exposures, we have entered into various derivative transactions. We formally assess, designate and document, as a hedge of an underlying exposure, each qualifying derivative instrument that will be accounted for as an accounting hedge at inception. Additionally, we assess, both at inception and at least quarterly thereafter, whether the financial instruments used in the hedging transaction are effective at offsetting changes in either the fair values or cash flows of the underlying exposures.

Derivatives Not Designated as Hedges

We may enter into foreign exchange forward or option contracts to reduce the effect of fluctuating currency exchange rates. These derivative financial instruments primarily offset exposures in the British pound, Canadian dollar, Euro, Japanese yen and Swiss franc (CHF). Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures and are recorded at fair value with the gain or loss recognized in other – net, (income) expense. Forward contracts generally have maturities not exceeding 12 months. At March 31, 2020 and December 31, 2019, we had outstanding foreign exchange contracts with aggregate notional amounts of \$898.4 million and \$861.2 million, respectively. During the three months ended March 31, 2020 and 2019, the amount of net gains and losses on derivative instruments not designated as hedging instruments, recorded in other – net, (income) expense were \$(28.0) million and \$8.0 million, respectively. These amounts were substantially offset in other – net, (income) expense by the effect of changing exchange rates on the underlying foreign currency exposures.

Derivatives Designated as Hedges

In October 2018, as a means of mitigating the impact of currency fluctuations on our operations in Switzerland, we entered into a five-year cross-currency fixed interest rate swap with a 750 million CHF notional amount, which is designated as a net investment hedge (NIH) against CHF denominated assets (the fair value of which was estimated based on quoted market values of similar hedges and is classified as Level 2). During the three months ended March 31, 2020 and 2019 our interest expense was offset by \$6.0 million and \$6.1 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 in other comprehensive income. During the three months ended March 31, 2020 and 2019, we recorded a gain, net of tax, of \$23.3 million and \$12.2 million, respectively, on the NIH. In March 2020, approximately 75% of our cross-currency swaps were liquidated for a cash benefit of \$26.7 million (including \$1.5 million in interest). We had an approximately 190 million CHF notional remaining on our NIH as of March 31, 2020. In April 2020, we liquidated our remaining position for a cash benefit of \$8.3 million. Notwithstanding settlement, gains and losses within accumulated other comprehensive income loss will remain in accumulated other comprehensive loss until either the sale or substantial liquidation of the hedged subsidiary.

Separately, in March 2020, as a means of mitigating variability in cash flows associated with the anticipated term loan B issuance, we executed forward-starting interest rate swaps with a \$4.05 billion notional amount, which are designated as cash flow hedges and have settlement dates ranging between 2022 and 2025. These instruments effectively convert floating-rate debt to fixed-rate debt. The cash flow hedges are recorded at fair value on our condensed consolidated balance sheet, while changes in the fair value of the hedge are recognized in other comprehensive income. Fair value is estimated based on quoted market values of similar hedges and is classified as Level 2. Amounts recorded in accumulated other comprehensive loss will be recognized in earnings in interest expense when the hedged transaction affects earnings (i.e., when interest payments are accrued on the term loan B). During the three months ended March 31, 2020, we recorded a loss of \$39.2 million, net of tax benefit of \$11.4 million, on the cash flow hedges in other comprehensive loss.

Note 12. Income Taxes

Provision for Taxes on Income

	Three Months Ended March 31,	
	2020	2019
(Benefit) Provision for Taxes on Income	\$ (18.7)	\$ 13.3
Effective Tax Rate	27.6 %	29.7 %

Our income taxes for the three months ended March 31, 2019 and 2020, respectively, 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 2020. 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. During the fourth quarter of 2019, the IRS began its examination of tax years 2016 - 2018. Because the examination is still in the early stages of information gathering, the resolution of the audit will likely extend beyond the next 12 months.

For the three months ended March 31, 2020, we recognized an income tax benefit of \$18.7 million. The effective tax rate of 27.6% differs from the statutory income tax rate primarily due to a pre-tax book loss mainly driven by acquisition and integration costs. In addition, a discrete income tax benefit of \$1.9 million was recognized related to the excess tax benefits for stock-based compensation that vested in the three months ended March 31, 2020.

For the three months ended March 31, 2019, we incurred \$13.3 million of income tax expense. The effective rate for the three months ended March 31, 2019, of 29.7% was different from the statutory income tax rate primarily due to a one-time foreign exchange gain on the transfer of assets upon separation in addition to the impact of state income taxes.

Note 13. Commitments and 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 accrue for certain liability 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 March 31, 2020 and December 31, 2019, 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 and Divestitures, 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. 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 March 31, 2020. As a result of the financing secured for the acquisition through the equity and debt activity

during the three months ended March 31, 2020, we no longer intend to use the full financing pursuant to the commitment letter. See Note 9: Equity and Note 10: Debt for more information.

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*[™], *Optaflexx*[™], *Denagard*[™], *Tylan*[™], *Maxiban*[™] and other products for livestock and poultry, as well as *Trifexis*[™], *Interceptor*[™], *Comfortis*[™], *Galliprant* and other products for companion animals.

We have a single customer that accounted for 13.6% and 12.3% of revenue for the three months ended March 31, 2020 and 2019, respectively. The product sales resulted in accounts receivable with this customer of \$87.5 million and \$90.5 million as of March 31, 2020 and December 31, 2019, 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 March 31,	
	2020	2019
Revenue—to unaffiliated customers ⁽¹⁾		
United States	\$ 299.9	\$ 383.9
International	357.8	347.2
Revenue	\$ 657.7	\$ 731.1
	March 31, 2020	December 31, 2019
Long-lived assets ⁽²⁾		
United States	\$ 732.7	\$ 709.8
United Kingdom	181.8	192.6
Other foreign countries	232.9	244.7
Long-lived assets	\$ 1,147.4	\$ 1,147.1

⁽¹⁾ Revenue is attributed to the countries based on the location of the customer.

⁽²⁾ Long-lived assets consist of property and equipment, net, and certain noncurrent assets, including right-of-use assets.

Note 15. Earnings Per Share

Basic Earnings Per Share

We compute basic earnings (loss) per share by dividing net earnings (loss) available to common shareholders by the actual weighted average number of common shares outstanding for the reporting period. For the three months ended March 31, 2020, weighted average number of common shares outstanding used to calculate basic earnings per share includes the impact of approximately 25.0 million shares and 14.3 million shares relating to the common stock issued in connection with the January 2020 common stock offering and the shares of common stock issuable at the minimum settlement rate under the TEU prepaid stock purchase contracts, respectively. See Note 9: Equity for further discussion.

Diluted Earnings Per Share

Elanco has variable common stock equivalents relating to certain equity awards in stock-based compensation arrangements and the TEU prepaid stock purchase contracts. Diluted earnings per share reflects the potential dilution that could occur if holders of the unvested equity awards and unsettled TEUs converted their holdings into common stock. The weighted average number of potentially dilutive shares outstanding is calculated using the treasury stock method.

Weighted average diluted shares outstanding included common stock equivalents of 0.3 million for the three months ended March 31, 2019.

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. During the three months ended March 31, 2020, we reported a net loss. Therefore, dilutive common shares are not assumed to have been issued since their effect is anti-dilutive. As a result, basic and diluted weighted average shares are the same, causing diluted net loss per share to be equivalent to basic net loss per share.

For the three months ended March 31, 2019, approximately 0.2 million shares of potential common shares were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive.

Note 16. 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:

	March 31, 2020	December 31, 2019
TSA	\$ 10.8	\$ 10.5
Other activities	8.6	(15.8)
Local country asset purchases	(10.7)	(11.1)
Total receivable from/(payable to) Lilly	<u>\$ 8.7</u>	<u>\$ (16.4)</u>

As described in Note 1, we completed an IPO in September 2018 and Lilly fully divested 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 are able to use Lilly Services for a fixed term established on a service-by-service basis. We pay Lilly mutually

agreed-upon fees for the Lilly Services provided under the TSA, which are 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 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 consolidated 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 three months ended March 31, 2019. Further, during the three months ended March 31, 2020, our financing cash flows include a \$15.2 million outflow to Lilly related to a local country asset purchase that was in addition to the original Separation plan. This amount will be reimbursed by Lilly in the second quarter of 2020. These amounts are included in cash flows from financing activities in our consolidated 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 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 March 31, 2020, the majority of these assets have been legally acquired and the remainder are expected to be purchased during 2020. Restricted cash and Payable to Lilly of \$10.7 million are recorded on the condensed consolidated balance sheet for the remainder of the assets expected to be purchased by the end of 2020.

Transactions with Lilly Prior to Full 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:

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 condensed consolidated statements of operations. The costs of such plans related to our employees were \$5.1 million for the three months ended March 31, 2019.

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)

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 consolidated 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 Item 1A, "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019, 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 (Lilly), 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 \$3,071.0 million for the year ended December 31, 2019. Globally, we are #1 in medicinal feed additives, #2 in poultry, and #3 in other pharmaceuticals, which are mainly companion animal therapeutics, 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 along with the 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 March 31, 2020 and 2019, our revenue was \$657.7 million and \$731.1 million, respectively. For the three months ended March 31, 2020 and 2019, our net (loss) income was \$(49.1) million and \$31.5 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, proactive measures taken by us in response to shifting market dynamics, 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 includes 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. We believe that 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.

We believe that 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

COVID-19 Pandemic

The recent outbreak of COVID-19 originating in Wuhan, China, in December 2019 has since rapidly increased its exposure globally. On March 11, 2020, the World Health Organization declared the outbreak a pandemic. We are monitoring the global outbreak of COVID-19 and are working with our customers, employees, suppliers and other stakeholders to mitigate the risks posed by its spread. The COVID-19 pandemic is affecting the economy in the United States and globally, and has affected the operations of our company, vendors and suppliers, supply of and demand for our products, and our liquidity as follows:

Operations

As a result of the COVID-19 pandemic, governmental authorities have implemented and are continuing to implement numerous and constantly evolving measures to try to contain the virus, such as travel bans and restrictions, limits on gatherings, quarantines, shelter-in-place orders, site closures and business shutdowns. These measures have impacted the ability of our employees, vendors, and suppliers to perform their respective responsibilities and obligations relative to the conduct of our business. We have important manufacturing operations worldwide that have been affected by the outbreak. Measures requiring business shutdowns generally exclude certain essential services, and those essential services commonly include critical infrastructure and the businesses that support that critical infrastructure. Because the animal health industry has been designated an essential business, our manufacturing and research facilities remain operational, while our employees in other company functions are working remotely. These measures have impacted and may further impact our workforce and operations, as well as those of our customers, vendors and suppliers.

Supply

We have not yet experienced any significant impacts or interruptions to our supply chain as a result of the COVID-19 pandemic. However, our suppliers may face difficulties maintaining operations in light of government-ordered restrictions and shelter-in-place mandates. Although we regularly monitor the financial health of companies in our supply chain, the financial hardship on our suppliers caused by the COVID-19 pandemic could cause a disruption in our ability to obtain raw materials or components required to manufacture our products, adversely affecting our operations. Freight processes relating to the shipment of our finished goods have also been disrupted and have started to result in higher shipping costs, which has negatively impacted our profitability.

Demand

The COVID-19 pandemic has adversely impacted global economic conditions. In particular, the COVID-19 pandemic has created near-term uncertainty for our channel distribution partners with respect to end customer demand and working capital. Based on these factors, in addition to a shift in tactics for demand generation with our distributors, we reduced the amount of inventory held in the channel. We anticipate that these decreases in end customer demand may impact our companion animal business, primarily in vaccines and international markets, as social distancing guidelines have decreased veterinary visits, reduced veterinary practice revenue and increased working capital considerations for all parties in our value chain. In our food animal business, demand is expected to be negatively impacted by processing plant closures and pressured producer economics, as well as an effort by dairy farmers to decrease milk production, which could impact demand for a number of our food animal products. We anticipate that decreases in demand will occur, though the extent to which our operations may be impacted by the COVID-19 pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted at this time.

Liquidity

Our third party distributors may face difficulties maintaining operations and normal liquidity in light of government-mandated restrictions. Due to liquidity and working capital pressure caused by the COVID-19 pandemic, our distributors are managing inventory more tightly. In response to this along with a shift in tactics for demand generation with our distributors, we decided to reduce channel inventory levels during the quarter as we tighten our approach across all facets of our distributor relationships. We expect to take similar actions going forward. These actions will allow us to improve working capital management, implement new compensation structures with our distributors and enable greater control of overall stock levels. We estimate the impact on revenues to have been

approximately \$60 million through March 31, 2020, with another \$80 million to \$100 million of potential impact, primarily in the second quarter of 2020, as we expand this practice across our business and geographies. We continue to monitor the impacts on our customers' liquidity and therefore our ability to collect on our accounts receivable. While our allowance on these receivables factors in expected credit losses, continued disruption and declines in the global economy could result in difficulties in our ability to collect and thus require increases in our allowance for doubtful accounts.

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 have launched or acquired 14 new products, including the additions of *Entyce*[™], *Nocita*[™] and *Tanovea*[™] in 2019 through acquisition and business development activities. Revenue from these products contributed \$92.4 million to revenue for the three months ended March 31, 2020. 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 during the periods presented have benefited from operational and productivity initiatives implemented following recent acquisitions and in response to changing market demand for antibiotics and other headwinds.

Our acquisitions within the last six years added in the aggregate \$1.4 billion in revenue, 4,600 full-time employees, 12 manufacturing and eight R&D sites. In addition, from 2015 to 2019, changing market demand for antibiotics and other headwinds, such as competition with generics and innovation, affected some of our highest gross margin products, resulting in a change to our product mix and driving operating margin lower. In response, we implemented a number of initiatives across the manufacturing, R&D and selling, general and administrative (SG&A) functions. Our manufacturing cost savings strategies included improving manufacturing processes and headcount through lean manufacturing (minimizing waste while maintaining productivity), closing of three manufacturing sites, consolidating our CMO network, strategically insourcing certain projects, and pursuing cost savings opportunities with respect to raw materials via a new procurement process. Additional cost savings resulted from reducing the number of R&D sites from 16 to nine, SG&A savings from sales force consolidation, and reducing discretionary and other general and administrative (G&A) operating expense.

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 three months ended March 31, 2020 and 2019, approximately 49% and 42%, 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 1% during the three months ended March 31, 2020. Currency movements had limited impact on revenue during the three months ended March 31, 2019.

Our Relationship with Lilly and Additional Standalone Costs

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.

In connection with the IPO, we incurred \$2.5 billion of long-term borrowings. We have estimated interest expense of approximately \$99 million on an annual basis based on our borrowings as of March 31, 2020.

As a result of the IPO, we became subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act. We continue to establish and expand additional procedures and practices as a standalone public company. As a result, we continue to incur additional costs as a standalone public company compared to the prior period, 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 three months ended March 31, 2020 and 2019. 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 and the pending acquisition of Bayer's animal health business, 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 financial statements.

Results of Operations

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

	Three Months Ended March 31,		
	2020	2019	% Change
Revenue	\$ 657.7	\$ 731.1	(10) %
Costs, expenses and other:			
Cost of sales	332.7	343.8	(3) %
% of revenue	51 %	47 %	4 %
Research and development	66.8	64.1	4 %
% of revenue	10 %	9 %	1 %
Marketing, selling and administrative	182.0	181.1	— %
% of revenue	28 %	25 %	3 %
Amortization of intangible assets	51.6	49.0	5 %
% of revenue	8 %	7 %	1 %
Asset impairment, restructuring and other special charges	74.8	24.9	200 %
Interest expense, net of capitalized interest	16.5	20.8	(21) %
Other - net, expense	1.1	2.6	(58) %
Income (loss) before income taxes	(67.8)	44.8	NM
% of revenue	(10) %	6 %	NM
Income tax (benefit) expense	(18.7)	13.3	(241) %
Net income (loss)	\$ (49.1)	\$ 31.5	(256) %

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 March 31,		
	2020	2019	% Change
CA Disease Prevention	\$ 140.3	\$ 185.9	(25) %
CA Therapeutics	65.8	81.4	(19) %
FA Future Protein & Health	180.0	167.2	8 %
FA Ruminants & Swine	252.6	274.1	(8) %
Subtotal	638.7	708.6	(10) %
Strategic Exits ⁽¹⁾	19.0	22.5	(16) %
Total	\$ 657.7	\$ 731.1	(10) %

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

Total revenue

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Total revenue decreased \$73.4 million or 10% for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019, reflecting a 10% decrease in volume and a 1% unfavorable impact from foreign exchange rates, partially offset by a 1% increase in price.

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

- a decrease in revenue of \$44.3 million or 24% from CA Disease Prevention products, excluding the impact of foreign exchange rates;
- a decrease in revenue of \$14.7 million or 18% from CA Therapeutics products, excluding the impact of foreign exchange rates;
- a decrease in revenue of \$18.8 million or 7% from FA Ruminants & Swine products, excluding the impact of foreign exchange rates;
- a decrease in revenue of \$3.0 million or 13% from Strategic Exits, excluding the impact of foreign exchange rates; and
- a decrease in revenue of \$9.5 million due to the negative impact of foreign exchange rates.

partially offset by:

- an increase in revenue of \$16.9 million or 10% from FA Future Protein & Health products, excluding the impact of foreign exchange rates.

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

- CA Disease Prevention revenue decreased by \$45.6 million or 25% for the quarter, driven by decreased volume and to a lesser extent an unfavorable impact from foreign exchange rates, offset by an increase in price. The volume decrease was the result of actions across brands to reduce channel inventory levels due to the impact of the COVID-19 pandemic on the companion animal market. While underlying end user demand for certain products grew in the first quarter, we took actions to reduce channel inventory levels due to the impact of the COVID-19 pandemic on the companion animal market. The decrease in revenue resulting from these actions was partially offset by an increase in direct sales, particularly in alternative channels outside vet clinics.
- CA Therapeutics revenue decreased by \$15.6 million or 19% for the quarter, driven by decreased volume and to a lesser extent an unfavorable impact from foreign exchange rates. While clinic-level demand for *Galliprant* grew in major markets and geographic expansion continued into Latin

America in the first quarter, the volume decrease was the result of actions taken across brands to reduce channel inventory levels due to the impact of the COVID-19 pandemic on the companion animal market, partially offset by the inclusion of sales for *Entyce* and *Nocita* as a result of the acquisition of Aratana in the third quarter of 2019 and an increase in direct sales, particularly in alternative channels outside vet clinics.

- FA Future Protein & Health revenue increased by \$12.8 million or 8% for the quarter, driven by increased volume and price, partially offset by an unfavorable impact from foreign exchange rates. Growth was driven by strong demand in the international poultry and aqua portfolios, in addition to anticipatory buying in the first quarter by direct customers in international export markets to ensure continuity of supply ahead of potential COVID-19 pandemic disruptions.
- FA Ruminants & Swine revenue decreased by \$21.5 million or 8% for the quarter, driven by decreased volume, price, and an unfavorable impact from foreign exchange rates. The decrease is driven by actions to reduce inventory levels across brands due to the impact of the COVID-19 pandemic, as well as favorable purchasing patterns in the first quarter of 2019 for *Rumensin* and producer removal of *Paylean*™ to access export markets, and the continued replenishment of sterile injectable products from our contract manufacturing partner. These decreases were partially offset by increased demand in the China swine market as a result of favorable producer economics and positive efforts to repopulate herds impacted by African Swine Fever in 2019, in addition to anticipatory buying in the quarter by direct customers in international export markets to ensure continuity of supply ahead of potential COVID-19 pandemic disruptions.
- Strategic Exits revenue decreased by \$3.5 million to \$19.0 million and represented 3% of total revenue.

Costs and Expenses and Other

Cost of sales

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Cost of sales decreased \$11.1 million in the three months ended March 31, 2020 as compared to the three months ended March 31, 2019 due primarily to manufacturing productivity improvements and decreased revenue.

Cost of sales as a percent of revenues increased to 50.6% for the three months ended March 31, 2020 from 47.0% for the three months ended March 31, 2019, primarily due to unfavorable product and geographic mix and an unfavorable effect of foreign exchange rates on international inventories sold, partially offset by decreases in cost of sales discussed above.

Research and development

Three months ended March 31, 2020 vs. three months ended March 31, 2019

R&D expenses increased \$2.7 million for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019, primarily due to additional costs from acquired businesses in 2019, including Aratana and Prevtec.

Marketing, selling and administrative

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Marketing, selling and administrative expenses increased \$0.9 million for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019 due to additional costs from acquired businesses during the year, primarily Aratana, partially offset by strong expense management.

Amortization of intangible assets

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Amortization of intangible assets increased \$2.6 million for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019, primarily due to the addition of amortization of intangible assets recorded from the acquisitions of Aratana and Prevtect during 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 financial statements.

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Asset impairment, restructuring and other special charges increased \$49.9 million to \$74.8 million for the three months ended March 31, 2020 from \$24.9 million for the three months ended March 31, 2019 primarily due to higher transaction costs directly related to business acquisitions, including the pending acquisition of the animal health business of Bayer, higher integration costs of acquisitions, and costs associated with the implementation of new systems, programs, and processes due to the Separation from Lilly and in anticipation of the acquisition of the animal health business of Bayer during the three months ended March 31, 2020, as more fully described in Note 7.

Interest expense, net of capitalized interest

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Interest expense, net of capitalized interest, decreased \$4.3 million from \$20.8 million for the three months ended March 31, 2019 to \$16.5 million for the three months ended March 31, 2020 primarily as a result of the repayment of indebtedness outstanding under our existing term loan facility during the three months ended March 31, 2020.

Other - net, expense

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Other - net, expense decreased \$1.5 million from \$2.6 million for the three months ended March 31, 2019 to \$1.1 million for the three months ended March 31, 2020.

Income tax expense

Three months ended March 31, 2020 vs. three months ended March 31, 2019

Income tax expense decreased \$32.0 million for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019 primarily due to lower pre-tax earnings driven mainly by a decrease in revenue and increased acquisition and integration costs. See Note 12: Income Taxes to our condensed consolidated 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, in addition to funds needed for the completion of the Bayer acquisition, include funding existing marketed and pipeline products, capital expenditures, business development in our targeted areas, interest payments and payments on our amortizing notes. 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 Item 1A, "Risk Factors" for more information.

Cash Flows

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

Net cash provided by (used for):	Three Months Ended March 31,		\$
	2020	2019	Change
Operating activities	\$ 4.3	\$ 8.1	\$ (3.8)
Investing activities	(19.6)	(31.0)	11.4
Financing activities	896.6	(339.5)	1,236.1
Effect of exchange-rate changes on cash and cash equivalents	(9.3)	(14.5)	5.2
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 872.0	\$ (376.9)	\$ 1,248.9

Operating activities

Our cash provided by operating activities decreased by \$3.8 million, from \$8.1 million for the three months ended March 31, 2019 to \$4.3 million for the three months ended March 31, 2020. The decrease in operating cash flows was primarily attributable to a decrease in net income during the period as well as the change in deferred taxes. These decreases were partially offset by a decrease in cash used as a result of changes in operating assets and liabilities. The COVID-19 global health pandemic and related economic downturn have led to an increase in customer accounts receivable that are past due. 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 the COVID-19 global health pandemic, 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.

Investing activities

Our cash used for investing activities decreased by \$11.4 million, to \$19.6 million for the three months ended March 31, 2020 compared to \$31.0 million for the three months ended March 31, 2019. The change was primarily driven by proceeds from the settlement of the net investment hedge of \$25.2 million and a decrease in net purchases of property and equipment as compared to prior year, partially offset by an increase in purchases of software from 2019 to 2020.

Financing activities

Our cash provided by financing activities was \$896.6 million for the three months ended March 31, 2020 as compared to cash used for financing activities of \$339.5 million for the three months ended March 31, 2019. Cash provided by financing activities during the three months ended March 31, 2020 reflects proceeds from issuances of common stock and TEUs during the period, partially offset by the repayment of indebtedness outstanding under our existing term loan facility. Cash used for financing activities during the three months ended March 31, 2019, reflected the impact of \$331.5 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 March 31, 2020 and December 31, 2019, see Note 10: Debt to our condensed consolidated 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 and Divestitures, 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. 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 consolidated balance sheet as of March 31, 2020. As a result of the financing secured for the acquisition through the equity and debt activity during the three months ended March 31, 2020, we no longer intend to use the full financing pursuant to the commitment letter. See Note 9: Equity and Note 10: Debt for more information.

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, 2019. There have been no significant changes in the application of our critical accounting policies during the three months ended March 31, 2020.

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, 2019.

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.

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 \$1.5 million for the three months ended March 31, 2020.

In October 2018, we entered into a fixed interest rate, five-year, 750 million Swiss franc NIH against Swiss franc assets. The NIH generated approximately \$25 million in cash and contra interest expense in 2019 (\$6.1 million for the three months ended March 31, 2019). In the first quarter of 2020, the U.S. dollar strength compared to the Swiss franc allowed us to unwind and monetize approximately 75% of our Swiss franc NIH for a cash benefit of \$26.7 million. We had an approximately 190 million CHF notional remaining on our NIH as of March 31, 2020. In April 2020, we liquidated our remaining position for a cash benefit of \$8.3 million.

Interest Risk

Upon extinguishment of our borrowings under the Term Credit Facility in the first quarter of 2020, our current outstanding debt balances are fixed-rate debt. While changes in interest rates currently have no impact on the interest we pay on fixed-rate debt, borrowings under our new term loan facility will be exposed to interest rate fluctuations based on LIBOR. As of March 31, 2020, we held certain interest rate swap agreements with a notional value of \$4.05 billion that will have the economic effect of modifying the variable-interest obligations associated with the new Term Loan Facility, so that a portion of the variable-rate interest payable becomes fixed. During the three months ended March 31, 2020, we recorded a loss of \$39.2 million, net of taxes on these interest rate swaps in other comprehensive loss. The loss is primarily attributable to market conditions resulting from the COVID-19 pandemic and the resulting cut to interest rates by the U.S. Federal Reserve in the first quarter of 2020. See Note 11: Financial Instruments and Fair Value for further information.

Recently Issued Accounting Pronouncements

For discussion of our new accounting standards, see Note 4: Implementation of New Financial Accounting Pronouncements to our condensed consolidated 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 Jeffrey N. Simmons, president and chief executive officer, and Todd S. Young, executive vice president and chief financial officer, evaluated our disclosure controls and procedures as of March 31, 2020. 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 first quarter of 2020, 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, 2019.

We have identified the following additional risk factor:

The COVID-19 pandemic has had, and is expected to continue to have, an adverse impact on our business, our future results of operations and our overall financial performance.

The recent outbreak of COVID-19 originating in Wuhan, China, in December 2019, has since rapidly increased its exposure globally. On March 11, 2020, the World Health Organization declared the outbreak a pandemic. The pandemic has impacted and may further impact the United States and the broader economies of affected countries, including negatively impacting economic growth, the proper functioning of financial and capital markets, foreign currency exchange rates and interest rates. Due to the speed with which the situation is developing, the global

breadth of its spread and the range of governmental and community reactions thereto, there is uncertainty around its duration, ultimate impact and the timing of recovery. Therefore, the pandemic could lead to an extended disruption of economic activity and the impact on our consolidated results of operations, financial position and cash flows could be material.

As a result of the adverse impact that the COVID-19 pandemic is having on our economy and the economies in the countries in which we operate, the pandemic is also affecting our operations, including our supply chain distribution systems, production levels and research and development activities. In addition, any preventive or protective actions that governments implement or that we adopt in response to the COVID-19 pandemic, such as travel restrictions, quarantines, limited operations of governmental agencies or site closures, may interfere with the ability of our employees, vendors, and suppliers to perform their respective responsibilities and obligations relative to the conduct of our business. In particular, as a result of the COVID-19 pandemic, due to the suspension of in-person interactions by our customer-facing professionals and the fact that certain vet clinics are limiting such interactions, our ability to market our products has been and may continue to be limited, which, in turn, could have an adverse effect on our ability to compete in the marketing and sales of our products. Additionally, government regulations that have been imposed in response to the COVID-19 pandemic may cause delays in the receipt of products, causing delays in our global supply chain, delaying the transportation of finished goods, disrupting our freight processes, which would result in higher shipping costs, and causing resources to be diverted that are necessary to administer certain of our products. In addition, some research and development projects could be impacted based on need for the reagents from suppliers and clinical trial activity requiring veterinary clinic access and support. Furthermore, social distancing guidelines could have an adverse impact on our research and development activities as our laboratories are not operating at full capacity.

Our customers, and therefore our business and revenues, are sensitive to negative changes in economic conditions. As a result, we anticipate declines in revenue in 2020, including in our companion animal business as social distancing guidelines have decreased veterinary visits and have reduced veterinary practice spending. In addition, there have been a number of shutdowns of processing plants as a result of COVID-19 outbreaks within their operations, and there could be more of these shutdowns, which, in turn, may lead to decreased demand for our customers' livestock. Such shutdowns could not only lead to a decrease in demand for our products, but could also significantly impact their ability to pay for our products. In addition, an effort by dairy farmers to decrease milk production could negatively impact demand for *Rumensin*. We expect the negative impacts of the COVID-19 pandemic on our revenue will continue until conditions relating to the overall impact of COVID-19 on all aspects of the economy and life in general improve.

The impact of the COVID-19 pandemic on the global financial markets may reduce our ability to access capital, which could negatively impact our short-term and long-term liquidity. Additionally, our third party distributors may face difficulties maintaining operations and normal liquidity in light of government-mandated restrictions. Further, the resulting global economic downturn has negatively impacted the ability of certain of our customers to make payments on a timely basis, adversely impacting our cash flows from operations. While our liquidity has not been significantly impacted by delayed collections thus far, we do not yet know the full extent of the impact of the COVID-19 pandemic and its resulting economic impact, which could have a material adverse effect on our liquidity, capital resources, operations and business.

We are also monitoring the impact of COVID-19 on our talent recruitment and retention efforts. If members of our management and other key personnel in critical functions across our organization are unable to perform their duties or have limited availability due to COVID-19, we may not be able to execute on our business strategy and/or our operations may be negatively impacted. The loss or limited availability of the services of one or more of our executive officers or other key personnel, or our inability to recruit and retain qualified executive officers or other key personnel in the future, could, at least temporarily, have a material adverse effect on our business, financial condition and results of operations. Qualified individuals are in high demand, and we may incur significant costs to attract them, particularly at the executive level. We may face difficulty in attracting and retaining key talent for a number of reasons, including delays in the recruiting and hiring process as a result of the COVID-19 pandemic.

Our business, financial condition and results of operations could be materially adversely affected by unfavorable results in future employment litigation matters as result of COVID-19. Our employees may sue us due to possible exposure to COVID-19 while working at one of our facilities or sites. In addition, employees may challenge decisions to implement protective measures such as contact tracing on the basis of local privacy laws due to the increased collection of employee medical information. Litigation matters, regardless of their merits or their ultimate outcomes, are costly, divert management's attention and may materially adversely affect our reputation and demand for our products. We cannot predict with certainty the eventual outcome of pending or future litigation matters. An adverse outcome of litigation or legal matters could result in us being responsible for paying significant damages.

Any of these negative effects resulting from litigation matters could materially adversely affect our business, financial condition or results of operations. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in “Item 1A. Risk Factors” and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2019.

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

An outbreak of infectious disease carried by food animals could negatively affect the demand for, and sale and production of, our food animal products.

Sales of our food animal products could be materially adversely affected by the outbreak of disease or an outbreak carried by food animals, which could lead to the widespread death or precautionary destruction of food animals as well as the reduced consumption and demand for animal protein. In addition, outbreaks of disease carried by food animals may reduce regional or global sales of particular animal-derived food products or result in reduced exports of such products, either due to heightened export restrictions or import prohibitions, which may reduce demand for our food animal products due to reduced herd or flock sizes.

In recent years, outbreaks of various diseases, including African Swine Fever, avian influenza, foot-and-mouth disease, bovine spongiform encephalopathy (otherwise known as BSE or “mad cow” disease) and porcine epidemic diarrhea virus (otherwise known as PEDV) have negatively impacted sales of our animal health products. The discovery of additional cases of any of these, or new, diseases may result in additional restrictions on animal protein, reduced herd or flock sizes, or reduced demand for animal protein, any of which may have a material adverse effect on our business, financial condition and results of operations. In addition, the outbreak of any highly contagious disease near our main production sites could require us to immediately halt production of our products at such sites or force us to incur substantial expenses in procuring raw materials or products elsewhere.

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

In August 2019, we entered into a share purchase agreement (Purchase Agreement) to purchase the animal health business of Bayer for approximately \$5.3 billion in cash and approximately \$2.3 billion of our common stock, subject to certain customary adjustments. Our obligation to consummate the Acquisition is subject to satisfaction or waiver, to the extent permitted under applicable law, of a number of conditions. Among other conditions, the Acquisition is subject to antitrust approvals in certain jurisdictions. The current COVID-19 global pandemic has resulted in the closure of certain U.S. and foreign governmental agencies for an extended period of time. These closures may extend antitrust filing timelines or impact our ability to form legal entities and obtain certain permits. We cannot provide any assurance that all required antitrust clearances will be obtained, and what conditions will be imposed. Even after the reopening of governmental agencies, limited staffing at those governmental agencies or other internal limitations, or limitations on Bayer’s business, may negatively impact our ability to complete the Acquisition. There can be no assurance as to the cost, scope or impact of the actions that may be required, including divestiture requirements, to obtain antitrust approval. If we are required to or otherwise decide to take such actions in order to close the Acquisition, it could be detrimental to the combined organization following the consummation of the Acquisition, including with respect to the synergies which we expect from the Acquisition. For example, in January and February 2020, we signed agreements to divest *Osurnia*, a treatment for otitis externa in dogs, and the U.S. rights to *Capstar*, an oral tablet that kills fleas in dogs and cats, and *Vecoxan*, a treatment for coccidiosis in calves and lambs, for an aggregate of \$285 million in all cash deals, with the intent to advance our efforts to secure the necessary regulatory clearances for the Acquisition. Furthermore, these actions, or the failure to effect any additional divestitures at an acceptable price or at all, could have the effect of delaying or preventing completion of the 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 Acquisition, require the additional divestiture of assets or seek other remedies. Additionally, state attorneys general could seek to block or challenge the Acquisition as they deem necessary or desirable in the public interest at any time, including after completion of the Acquisition. In addition, in some circumstances, a third party could initiate a private action under antitrust laws challenging or seeking to enjoin the Acquisition, 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 Bayer animal health business successfully and realize the anticipated benefits of the Acquisition.

If the Acquisition is completed, the successful integration of the Bayer animal health business and operations into those of our own and our ability to realize the expected synergies and benefits of the Transactions 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 and realizing the anticipated cost synergies include, among other things:

- the inability to achieve the anticipated revenue, earnings, accretion and other benefits due to the impact of the COVID-19 global health pandemic;
- the challenge of integrating complex organizations, systems, operating procedures, compliance programs, technology, networks and other assets of the Bayer animal health business;
- the difficulties harmonizing differences in the business cultures of our company and the Bayer animal health business;
- the inability to combine successfully our respective businesses in a manner that permits us to achieve the cost savings, synergies and other anticipated benefits from the Acquisition;
- the inability to minimize the diversion of management attention from ongoing business concerns during the process of integrating the Bayer animal health 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 Bayer animal health business;
- difficulties in retaining key management and other key employees;
- the challenge of managing the expanded operations of a significantly larger and more complex company and coordinating geographically separate organizations; and
- difficulties in fully exploring intellectual property licensed from Bayer in connection with the acquisition, given Bayer's rights as licensor of such intellectual property.

We will incur substantial expenses to consummate the proposed Acquisition but may not realize the anticipated cost synergies and other benefits to the extent expected, on the timeline expected, or at all. In addition, even if we are able to integrate the Bayer animal health business successfully, the anticipated benefits of the Acquisition may not be realized fully, or at all, or may take longer to realize than expected. Moreover, competition in the animal health industry, including competition that has negatively impacted results in the companion animal parasiticide market, may also cause us not to fully realize the anticipated benefits of the Acquisition. Given the size and significance of the Acquisition, we may encounter difficulties in the integration of the operations of the Bayer animal health business and may fail to realize the full benefits and synergies of the Acquisition, which could adversely impact our business, results of operation and financial condition.

Breaches of our information technology systems or improper disclosure of confidential company or personal data, or a failure to comply with privacy laws, regulations and our contractual obligations concerning data privacy or the security of certain information could have a material adverse effect on our reputation and operations.

We rely on information technology systems to process, transmit and store electronic information in our day-to-day operations, including customer, employee and company data. The secure processing, maintenance and transmission of this information is critical to our operations. In addition, the legal environment surrounding information security, storage, use, processing, transmission, maintenance, disclosure and privacy is demanding with the frequent imposition of new and changing regulatory requirements.

We are generally dependent upon our technology systems to operate our business in normal periods, but in the wake of the COVID-19 global pandemic, we are increasingly dependent on our information technology systems as our office workers, who are working remotely, rely on third-party applications to host a greater number of video conferences and teleconferences, and are processing information through our network via their home networks, which may be less secure. As such, our ability to effectively manage our business depends on the security, reliability and adequacy of our technology systems and data and the ability of our employees to follow our cyber security policies and protocols, including, but not limited to, the use of VPN when remotely working on company matters, and other security protocols when using various video conferencing and teleconferencing applications, especially in light of the increased use of these tools due to the COVID-19 global pandemic.

We also store certain information with third parties, including the use of cloud technologies. Our information systems and those of our third-party vendors are subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber or phishing-attacks and also are vulnerable to an increasing threat of continually evolving cybersecurity risks and external hazards, as well as improper or inadvertent staff behavior, all of which could expose confidential company and personally identifiable information, as well as technology, networks, or infrastructure. Any such breach could compromise our networks, including a breach caused by a failure by our employees, working remotely or otherwise, to use such security policies and protocols, which could result in the loss of confidential company data, or an intrusion or business interruption by hackers that are able to access the company's network or meetings taking place via video conferencing or teleconferencing, and the information stored or in the process of being transmitted or communicated could be accessed, publicly disclosed, lost or stolen. Any such loss or misappropriation of company data or other intrusion could cause a disruption of our operations and other negative consequences, such as increased costs for security measures or remediation costs, and diversion of management attention.

Any actual or perceived access, disclosure or other loss of information or any significant breakdown, intrusion, interruption, cyber-attack or corruption of customer, employee or company data or our failure to comply with federal, state, local and foreign privacy laws or contractual obligations with customers, vendors, payment processors and other third parties, could result in legal claims or proceedings, liability under laws or contracts that protect the privacy of personal information, regulatory penalties, disruption of our operations, and damage to our reputation, all of which could materially adversely affect our business, revenue and competitive position. While we will continue to implement additional protective measures to reduce the risk of and detect cyber-incidents, cyber-attacks are becoming more sophisticated and frequent, and the techniques used in such attacks change rapidly. Our protective measures may not protect us against attacks and such attacks could have a significant impact on our business and reputation. In addition, due to a TSA with Lilly, we rely on Lilly for certain privacy, compliance, and security functions, and personnel, and may experience difficulties maintaining and implementing all policies and practices following completion of the TSA for these services.

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

(none)

Item 3. Defaults Upon Senior Securities

(none)

Item 4. Mine Safety Disclosures

(none)

Item 5. Other Information

(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.

Exhibit Number	Description
2.1	Amendment No. 2 to Share and Asset Purchase Agreement, dated as of January 17, 2020, between Bayer Aktiengesellschaft and Elanco Animal Health Incorporated (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed with the SEC on January 17, 2020)
2.2	Annex 27 to the Share and Asset Purchase Agreement, dated as of August 20, 2019, between Bayer Aktiengesellschaft and Elanco Animal Health Incorporated (incorporated by reference to Exhibit 4.3 of the Registration Statement on Form S-3 (File No. 333-235991) filed with the SEC on January 21, 2020)
4.1	Second Supplemental Indenture, dated as of January 27, 2020, between Elanco Animal Health Incorporated and Deutsche Bank Trust Company Americas, as trustee, including the form of amortizing note (incorporated by reference to Exhibit 4.4 of Current Report on Form 8-K filed with the SEC on January 27, 2020)
4.2	Purchase Contract Agreement, dated as of January 27, 2020, between Elanco Animal Health Incorporated and Deutsche Bank Trust Company Americas, as purchase contract agent, as attorney-in-fact for holders of the purchase contracts referred to therein and as trustee under the Indenture referred to therein, including the form of unit and form of purchase contract (incorporated by reference to Exhibit 4.1 of Current Report on Form 8-K filed with the SEC on January 27, 2020)
10.1	Form of Elanco Animal Health Incorporated Restricted Stock Unit Award Agreement for executives with respect to annual awards (filed herewith)
10.2	Form of Elanco Animal Health Incorporated Performance-Based Award Agreement for executives with respect to annual awards (filed herewith)
10.3	Elanco Animal Health Incorporated Corporate Bonus Plan (filed herewith)
10.4	Form of Elanco Animal Health Incorporated Sign-On Restricted Stock Unit Award Agreement for executives (filed herewith)
31.1	Section 302 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Section 302 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101	Interactive Data Files
104	Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101)

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ELANCO ANIMAL HEALTH INCORPORATED

(Registrant)

Date: May 7, 2020

/s/ Jeffrey N. Simmons

Jeffrey N. Simmons

President and Chief Executive Officer

Date: May 7, 2020

/s/ Todd S. Young

Todd S. Young

Executive Vice President, Chief Financial Officer



Elanco Animal Health Incorporated Restricted Stock Unit Award Agreement

This Restricted Stock Unit Award has been granted on _____, 2020 ("Grant Date") by Elanco Animal Health Incorporated, an Indiana corporation ("Elanco" or the "Company"), to the Eligible Individual who has received this Restricted Stock Unit Award Agreement (the "Grantee").

**Number of Shares: Log into UBS account at
<http://equity.elancodirect.com>**

Grantee:

**Vesting Date(s): 33% on March 1, 2021
33% on March 1, 2022
34% on March 1, 2023**

(except as otherwise provided in this Restricted Stock Unit Award Agreement)

Elanco Restricted Stock Unit Award Agreement

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Elanco Restricted Stock Unit Award Agreement

Section 1. Grant of Restricted Stock Units

Elanco, an Indiana corporation ("Elanco" or the "Company"), has granted to the Eligible Individual who has received this Restricted Stock Unit Award Agreement (the "Grantee") an award of restricted stock units (the "Restricted Stock Units" or the "Award") with respect to the number of shares of Elanco Common Stock (the "Shares") referenced on page 1 of this document, pursuant to and subject to the terms and conditions set forth in the 2018 Elanco Stock Plan (the "Plan") and to the terms and conditions set forth in this Restricted Stock Unit Award Agreement, including any appendices, exhibits and addenda hereto (the "Award Agreement"). Unless otherwise stated in the Plan where the terms in this Award Agreement may govern in the event of any conflict between the terms of the Plan and this Award Agreement, in the event of any such conflict, the terms of the Plan shall otherwise govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

Section 2. Vesting

- a. The Award shall vest as to all or a portion of the Award at the close of business in Greenfield, Indiana, U.S.A. on the earliest of the following dates (each, a "Vesting Date"):
 - i. the Vesting Date(s) set forth on page 1 of this document;
 - ii. a Qualifying Termination, as defined below; or
 - iii. the Grantee's Retirement, as defined below.
- b. In the event the Grantee's Service is terminated due to the Grantee's death, any unvested portion of the Award will accelerate and vest in full.
- c. In the event the Grantee's Service is terminated due to a Qualifying Termination for a reason other than death, a pro-rata portion of the Award will accelerate and vest based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to the Qualifying Termination to (y) the total number of months from the Grant Date to the next scheduled Vesting Date set forth on page 1 of this document.
- d. In the event the Grantee's Service is terminated due to Retirement prior to a Vesting Date set forth in Section 2(a) (i) above, a pro-rata portion of the Award will continue to vest on the Vesting Date(s) set forth in Section 2(a)(i) above (unless the Committee specifies another vesting date, in its sole discretion, under Section 3.3(j) of the Plan) based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to Grantee's Retirement to (y) the total number of months from the Grant Date to the next scheduled Vesting Date set forth on page 1 of this document. "Retirement" for purposes of this Award Agreement means either (A) age sixty (60) unless otherwise prescribed under Applicable Laws or (B) thirty (30) years of Service with the Company or an Affiliate, including any years of Service with Eli Lilly & Company ("Lilly") prior to the Company's spin-off from Lilly.

Elanco Restricted Stock Unit Award Agreement

- e. Any portion of the Award that does not vest pursuant to Section 2(a), 2(b), 2(c) or 2(d) shall be forfeited upon the Grantee's termination of Service or Qualifying Termination. Further, in the event the Grantee's Service is terminated prior to a Vesting Date for any reason or in any circumstance other than those specified in Section 2(a), 2(b), 2(c) or 2(d) above, any unvested portion of the Award shall be forfeited.
- f. For purposes of this Award Agreement, a "Qualifying Termination" means any one of the following:
 - i. the date the Grantee's Service is terminated due to the Grantee's death;
 - ii. the date the Grantee's Service is terminated by reason of Disability;
 - iii. the date the Grantee's Service is terminated due to a closing of a plant site or other corporate location;
 - iv. the date the Grantee's Service is terminated due to the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions; or
 - v. the date the Grantee's Service is terminated as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States.

The Committee, in its sole discretion, shall determine whether and when a Qualifying Termination has occurred and/or if a leave of absence or transfer of employment between the Company and an Affiliate or between Affiliates constitutes a termination of Service. Such determination shall be final and binding on the Grantee.

Section 3. Change in Control

The provisions of Section 13.2 of the Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 3 shall be the consummation of a merger, share exchange, or consolidation of the Company, as defined in Section 2.6(c) of the Plan (a "Transaction").
- b. In the event that the Award is not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction, then immediately prior to the Transaction, the Award shall vest automatically in full.
- c. In the event that the Award is converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to any applicable Vesting Date, the Award shall vest automatically in full.

For purposes of this provision, "Covered Termination" shall mean a Qualifying Termination, Grantee's termination without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to

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them in the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Employees or the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Select Employees (both as amended from time to time) or any successor plan or arrangement thereto, as applicable.

- d. If the Grantee is entitled to receive stock of the acquiring entity or successor to the Company as a result of the application of this Section 3, then references to Shares in this Award Agreement shall be read to mean stock of the successor or surviving corporation, or a parent or subsidiary thereof, as and when applicable.

Section 4. Settlement

- a. Except as provided below, the Award shall be paid to the Grantee as soon as practicable, and in no event later than sixty days, following the applicable Vesting Date, or, if earlier, a vesting event contemplated under Section 3 above.
- b. If the Award is considered an item of non-qualified deferred compensation subject to Section 409A of the Code (“NQ Deferred Compensation”) and the settlement date or period is determined by reference to the date of the termination of the Grantee’s Service, (i) the Award shall not be paid unless and until the Grantee experiences a “separation from service” within the meaning of Section 409A of the Code (a “Section 409A Separation”) and (ii) if the Grantee is a “specified employee” within the meaning of Section 409A of the Code as of the date of the Grantee’s Section 409A Separation, the vested portion of the Award shall instead be paid on the earliest of (1) the Vesting Dates set forth in Section 2(a)(i) with respect to the portion of the Award that was scheduled to vest on such Vesting Dates, (2) the first day following the six (6) month anniversary of the Grantee’s Section 409A Separation, (3) the date of a Section 409A CIC (as defined below), and (4) the date of the Grantee’s death. If the Award is considered NQ Deferred Compensation and the vesting event is a Transaction that does not constitute a “change in control event” within the meaning of Section 409A of the Code (a “Section 409A CIC”), the Award shall instead be settled on the earliest of (A) the Vesting Dates set forth in Section 2(a)(i) with respect to the portion of the Award that was scheduled to vest on such Vesting Dates, (B) the date of a Section 409A CIC, and (C) the date of the Grantee’s death.
- c. At the time of settlement provided in this Section 4, the Company shall issue or transfer Shares or the cash equivalent, as contemplated under Section 4(d) below, to the Grantee. In the event the Grantee is entitled to a fractional Share, the fraction may be paid in cash or rounded, in the Committee’s discretion.
- d. At any time prior to the applicable Vesting Date or until the Award is paid in accordance with this Section 4, the Committee may, if it so elects, determine to pay part or all of the Award in cash in lieu of issuing or transferring Shares. The amount of cash shall be based on the Fair Market Value of the Shares on the applicable Vesting Date.
- e. In the event of the death of the Grantee, the payments described above shall be made to the successor of the Grantee.

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Section 5. Rights of the Grantee

- a. No Shareholder Rights. The Restricted Stock Units do not entitle the Grantee to any rights of a shareholder of the Company until such time as the Restricted Stock Units vest and Shares are issued or transferred to the Grantee.
- b. No Trust; Grantee's Rights Unsecured. Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Grantee to receive payments of cash or Shares pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company.

Section 6. Prohibition Against Transfer

The right of a Grantee to receive payments of Shares and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of the Grantee or to a successor of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award Agreement. A Grantee may not assign, sell, pledge, or otherwise transfer Shares or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

Section 7. Responsibility for Taxes

- a. Regardless of any action the Company and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax-Related Items"), the Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Grantee further acknowledges that the Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the Restricted Stock Units, the vesting of the Restricted Stock Units and the lapse of restrictions, the transfer and issuance of any Shares, the receipt of any cash payment pursuant to the Award, the receipt of any dividends and the sale of any Shares acquired pursuant to this Award; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax-Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.
- b. Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items.
- c. If the Restricted Stock Units are paid to the Grantee in cash in lieu of Shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, at

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their discretion, to satisfy any obligation for Tax-Related Items by withholding from the cash amount paid to the Grantee pursuant to the Award or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.

- d. If the Restricted Stock Units are paid to the Grantee in Shares and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to (i) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, (ii) arrange for the sale of Shares to be issued upon settlement of the Award (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to the Company or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, and/or (iii) withhold in Shares otherwise issuable to the Grantee pursuant to this Award.
- e. If the Restricted Stock Units are paid to the Grantee in Shares and the Grantee is subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Company will withhold in Shares otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by applicable law or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax-Related Items may be satisfied by one or a combination of the methods set forth in Section 7(d)(i) and (ii) above.
- f. Depending on the withholding method, the Company and/or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case the Grantee may receive a refund of any over-withheld amount in cash as soon as practicable and without interest and will not be entitled to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding Shares, for tax purposes, the Grantee will be deemed to have been issued the full number of Shares to which he or she is entitled pursuant to this Award, notwithstanding that a number of Shares are withheld to satisfy the obligation for Tax-Related Items.
- g. The Company may require the Grantee to pay the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold or account for as a result of any aspect of this Award that cannot be satisfied by the means previously described. The Company may refuse to deliver Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax-Related Items as described in this Section 7.

Section 8. Section 409A Compliance

To the extent applicable, it is intended that this Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the

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Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A.

Section 9. Nature of Grant

In accepting the grant, Grantee acknowledges, understands and agrees that:

- a. the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, as provided in the Plan;
- b. the Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu thereof, even if Restricted Stock Units have been granted in the past;
- c. all decisions with respect to future awards of Restricted Stock Units or other awards, if any, will be at the sole discretion of the Committee;
- d. the Grantee's participation in the Plan is voluntary;
- e. the Award and any Shares subject to the Award are not intended to replace any pension rights or compensation;
- f. the Award and any Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar mandatory payments;
- g. unless otherwise agreed with the Company, the Award and any Shares subject to the Award, and the income and value of same, are not granted as consideration for, or in connection with, the service the Grantee may provide as a director of an Affiliate;
- h. neither the Award nor any provision of this Award Agreement, the Plan or the policies adopted pursuant to the Plan, confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of the Company or any subsidiary of the Company, the Award shall not be interpreted to form an employment contract or relationship with the Company or any Affiliate;
- i. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- j. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to the Company or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of Grantee's employment agreement, if any);
- k. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company, an

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Employer or an Affiliate and the Grantee's right, if any, to vest in and be paid any portion of the Award after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence);

- l. unless otherwise provided in the Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and
- m. none of the Company, the Employer or any Affiliate shall be liable for any foreign exchange rate fluctuation between the Grantee's local currency and the United States Dollar that may affect the value of the Award or any amounts due to the Grantee pursuant to the settlement of the Award or the subsequent sale of any Shares acquired upon settlement.

Section 10. Data Privacy

- a. *Data Collection and Usage. The Company and the Employer may collect, process and use certain personal information about the Grantee, and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Grantee's consent. Where required under Applicable Laws, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure is the Applicable Laws.*
- b. *Stock Plan Administration Service Providers. The Company transfers Data to UBS Financial Services Inc. and/or its affiliated companies ("UBS"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. The Grantee may be asked to agree on separate terms and data*

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processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.

- c. *International Data Transfers. The Company and its service providers are based in the United States. The Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company's legal basis, where required, for the transfer of Data is the Grantee's consent.*
- d. *Data Retention. The Company will hold and use the Data only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.*
- e. *Data Subject Rights. The Grantee understands that data subject rights regarding the processing of Data vary depending on Applicable Law and that, depending on where the Grantee is based and subject to the conditions set out in such Applicable Law, the Grantee may have, without limitation, the right to (i) inquire whether and what kind of Data the Company holds about the Grantee and how it is processed, and to access or request copies of such Data, (ii) request the correction or supplementation of Data about the Grantee that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, (iv) request the Company to restrict the processing of the Grantee's Data in certain situations where the Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Data for legitimate interests, and (vi) request portability of the Grantee's Data that the Grantee has actively or passively provided to the Company or the Employer (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Grantee's employment and is carried out by automated means. In case of concerns, the Grantee understands that he or she may also have the right to lodge a complaint with the competent local data protection authority. Further, to receive clarification of, or to exercise any of, the Grantee's rights, the Grantee understands that he or she should contact his or her local human resources representative.*
- f. *Voluntariness and Consequences of Consent Denial or Withdrawal. Participation in the Plan is voluntary and the Grantee is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke the Grantee's consent, the Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant this Award or other awards to the Grantee or administer or maintain such awards.*
- g. *Declaration of Consent. By accepting the Award and indicating consent via the Company's online acceptance procedure, the Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the*

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collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

Section 11. Additional Terms and Conditions

- a. Country-Specific Conditions. The Award shall be subject to any special terms and conditions set forth in any Appendix to this Award Agreement for the Grantee's country. Moreover, if the Grantee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Award Agreement.
- b. Insider Trading / Market Abuse Laws. The Grantee may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States and the Grantee's country of residence, which may affect the Grantee's ability to directly or indirectly, for the Grantee or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of Shares or rights to acquire Shares (e.g., Restricted Stock Units) under the Plan during such times as the Grantee is considered to have "inside information" regarding the Company (as determined under the laws or regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Grantee acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Grantee should consult with his or her personal legal advisor on this matter.
- c. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Award and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Restricted Stock Unit Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under Applicable Laws or any compensation recovery policy of the Company that reflects the provisions of Applicable Laws.

Section 12. Governing Law and Choice of Venue

The validity and construction of this Award Agreement shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Hancock County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

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Section 13. Miscellaneous Provisions

- a. Notices and Electronic Delivery and Participation. Any notice to be given by the Grantee or successor Grantee shall be in writing, and any notice shall be deemed to have been given or made only upon receipt thereof by the Corporate Secretary of the Company at the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A. Any notice or communication by the Company in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to the Company by the Grantee and, in the case of any successor Grantee, at the address specified in writing to the Company by the successor Grantee. In addition, the Company may, in its sole discretion, decide to deliver any documents related to the Award and participation in the Plan by electronic means or request the Grantee's consent to participate in the Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
- b. Language. If the Grantee has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.
- c. Waiver. The waiver by the Company of any provision of this Award Agreement at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Award Agreement at any subsequent time or for any other purpose.
- d. Severability and Section Headings. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan.

The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

- e. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of the underlying Shares. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

Elanco Restricted Stock Unit Award Agreement

Section 14. Award Subject to Acknowledgement of Acceptance

Notwithstanding any provisions of this Award Agreement, the Award is subject to acknowledgement of acceptance by the Grantee on or prior to 4:00 PM (EDT) on the 60th day after the Grant Date, through the website of UBS, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award prior to 4:00 PM (EDT) on or prior to the 60th day after the Grant Date, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances, provided, however, if the Grantee's Service is terminated due a Qualifying Termination prior to the 60th day after the Grant Date, the Award will not be cancelled and will be deemed accepted on behalf of the Grantee or the Grantee's legal successor.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in Greenfield, Indiana, by its proper officer.

ELANCO ANIMAL HEALTH INCORPORATED

By:



Jeffrey N. Simmons
President, Chief Executive Officer and Director

Appendix to
**Elanco Animal Health Incorporated
Restricted Stock Unit Award Agreement**

This Appendix includes special terms and conditions applicable to the Grantee's country. These terms and conditions supplement or replace (as indicated) the terms and conditions set forth in the Award Agreement to which it is attached. If the Grantee is a citizen or resident of a country other than the one in which the Grantee is currently working and/or residing (or is considered as such for local law purposes), or if the Grantee transfers employment or residency to a different country after the Award is granted, Elanco will, in its discretion, determine the extent to which the terms and conditions herein will apply. This Appendix also includes other information relevant to the Award.

Unless otherwise defined herein, the terms defined in the Plan or the Award Agreement, as applicable, shall have the same meanings in this Appendix.

There are no special terms and conditions or information for the following countries:

Austria	Germany	Korea	Slovenia
Belgium	Indonesia	Netherlands	Sweden
Czech Republic	Ireland	Norway	Thailand
Egypt	Japan	Poland	

However, the Grantee should be aware that he or she may be required to take certain steps to comply with Applicable Laws in the Grantee's country in connection with the Award. For example, exchange control, foreign asset and/or account and/or other tax reporting obligations may apply to the Grantee upon receipt of the Award or the Shares subject to the Award or upon the sale of Shares. *For more information regarding such obligations, the Grantee should refer to the Employee Information Supplement for the Grantee's country, if any. The Grantee should also consult with his or her own personal tax and legal advisors to determine what, if any, obligations exist with respect to the Award and/or the acquisition or sale of Shares. Neither the Company nor the Employer is responsible for any failure on the part of the Grantee to be aware of or comply with Applicable Laws.*

Elanco Restricted Stock Unit Award Agreement

ARGENTINA

Notifications

Securities Law Information. The Award and the Shares to be issued pursuant to the Award are offered as a private transaction and are not listed on any stock exchange in Argentina. This offering is not subject to supervision by any Argentine governmental authority.

AUSTRALIA

Terms and Conditions

Securities Law Information. Additional details regarding the offer of the Award are set out in the Australian Offer Document, a copy of which is attached to this Appendix for Australia as Annex 1.

Breach of Law. Notwithstanding anything to the contrary in the Award Agreement or the Plan, the Grantee will not be entitled to, and shall not claim, any benefit (including without limitation a legal right) under the Plan if the provision of such benefit would give rise to a breach of Part 2D.2 of the *Corporations Act 2001*, any other provision of that act, or any other applicable statute, rule or regulation that limits or restricts the provision of such benefit.

Notifications

Tax Information. The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Ctch) applies (subject to the conditions in that act).

Elanco Restricted Stock Unit Award Agreement

Annex 1 to Appendix for Australia

AUSTRALIA - OFFER DOCUMENT

ELANCO ANIMAL HEALTH INCORPORATED

RESTRICTED STOCK UNIT AWARD AGREEMENT

The Company is pleased to provide the Grantee with this offer to participate in the Plan. This offer sets out information regarding the grant of Restricted Stock Unit Awards to Australian resident employees of the Company and its Affiliates. This offer is provided by the Company to ensure compliance of the Plan with Australian Securities and Investments Commission (“ASIC”) Class Order 14/1000 and relevant provisions of the *Corporations Act 2001*.

In addition to the information set out in the Award Agreement, the Grantee is also being provided with copies of the following documents (collectively, the “Additional Documents”):

1. Notification regarding Award;
2. Plan;
3. Information Summary/Prospectus; and
4. Employee Information Supplement for Australia

The Additional Documents provide further information to help the Grantee make an informed investment decision about participating in the Plan. Neither the Plan nor the Information Summary/Prospectus is a prospectus for the purposes of the *Corporations Act 2001*.

The Grantee should not rely upon any oral statements made in relation to this offer. The Grantee should rely only upon the statements contained in the Award Agreement and the Additional Documents when considering participation in the Plan.

Securities Law Notification

Investment in shares involves a degree of risk. Grantees who elect to participate in the Plan should monitor their participation and consider all risk factors relevant to the acquisition of Shares under the Plan as set out in the Award Agreement and the Additional Documents.

The information contained in this offer is general information only. It is not advice or information that takes into account the Grantee’s objectives, financial situation and needs.

The Grantee should consider obtaining his or her own financial product advice from an independent person who is licensed by ASIC to give advice about participation in the Plan.

Additional Risk Factors for Australian Residents

The Grantee should have regard to risk factors relevant to investment in securities generally and, in particular, to the holding of Common Stock. For example, the price at which the Common Stock is traded on the New York Stock Exchange may increase or decrease due to a number of factors. There is no guarantee that the price of the Common Stock will increase. Factors which may affect the price of Common Stock include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, commodity and oil

Elanco Restricted Stock Unit Award Agreement

prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the nature of the markets in which the Company operates and general operational and business risks.

In addition, the Grantee should be aware that the Australian dollar value of any Shares acquired pursuant to the Award will be affected by the U.S. dollar/Australian dollar exchange rate. Participation in the Plan involves certain risks related to fluctuations in this rate of exchange.

Common Stock

Common stock of a U.S. corporation is analogous to ordinary shares of an Australian corporation. Each holder of the Common Stock is entitled to one vote for each Share held.

Dividends may be paid on the Common Stock out of any funds of the Company legally available for dividends at the discretion of the Board.

The Common Stock is traded on the New York Stock Exchange in the United States of America under the symbol "ELAN."

The Shares are not liable to any further calls for payment of capital or for other assessment by the Company and have no sinking fund provisions, pre-emptive rights, conversion rights or redemption provisions.

Ascertaining the Market Price of Shares

The Grantee may ascertain the current market price of the Common Stock as traded on the New York Stock Exchange at <http://www.nyse.com> under the symbol "ELAN." The Australian dollar equivalent of that price can be obtained at: <http://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

This is not a prediction of what the market price of the Common Stock will be on any applicable vesting date or when Shares are issued to the Grantee or at any other time or of the applicable exchange rate at such time.

Elanco Restricted Stock Unit Award Agreement

BRAZIL

Terms and Conditions

Nature of Grant. This provision supplements Section 9 of the Award Agreement:

By accepting the Award, the Grantee agrees that (i) he or she is making an investment decision, (ii) the Shares will be issued to the Grantee only if the vesting conditions are met and any necessary Services are rendered between the Grant Date and each applicable Vesting Date, and (iii) the value of the underlying Shares is not fixed and may increase or decrease in value over the vesting period without compensation to the Grantee.

Labor Law Acknowledgment. The Grantee agrees, for all legal purposes, (i) the benefits provided under the Award Agreement and the Plan are the result of commercial transactions unrelated to the Grantee's employment; (ii) the Award Agreement and the Plan are not a part of the terms and conditions of the Grantee's employment; and (iii) the income from the Award or Shares, if any, is not part of the Grantee's remuneration from employment.

Compliance with Law. By accepting the Award, the Grantee agrees to comply with all applicable Brazilian laws and agrees to report and pay any and all applicable taxes associated with the Award and the sale of the Shares acquired under the Plan.

CANADA

Terms and Conditions

Award Payable Only in Shares. The Award shall be paid in Shares only and does not provide the Grantee with any right to receive a cash payment.

Termination of Service. The following provision replaces Section 9(i) of the Award Agreement:

For purposes of the Award, the Grantee's Service shall be considered terminated as of the date that is the earliest of (i) the date on which the Grantee's Service is terminated, (ii) the date that the Grantee receives notice of termination of the Grantee's Service, or (iii) the date the Grantee is no longer actively providing Service to the Company or any Affiliate, regardless of any notice period or period of pay in lieu of such notice required under applicable employment laws in the jurisdiction where the Grantee is employed or otherwise providing Service (including, but not limited to statutory law, regulatory law and/or common law) or the terms of the Grantee's employment or other service agreement, if any. The Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing Service for purposes of the Award (including whether the Grantee may still be considered to be providing Service while on a leave of absence).

The following terms and conditions apply to employees resident in Quebec:

Language. The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à, la présente convention.

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Data Privacy. This provision supplements Section 10 of the Award Agreement:

The Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or non-professional, involved in the administration and operation of the Plan. The Grantee further authorizes the Company and any Affiliate and the Committee to disclose and discuss the Plan with their advisors and to record all relevant information and keep such information in the Grantee's employee file.

Notifications

Securities Law Information. The Grantee is permitted to sell Shares acquired under the Plan through UBS or such other broker designated under the Plan, provided the resale of such Shares takes place outside of Canada through the facilities of a stock exchange on which the Company's Shares are listed. The Company's Shares are currently traded on the New York Stock Exchange ("NYSE") which is located outside of Canada, under the ticker symbol "ELAN", and Shares acquired under the Plan may be sold through this exchange.

CHILE

Notifications

Securities Law Notice. The grant of the Award constitutes a private offering in Chile effective as of the date of the Award Agreement. This offer of the Award is made subject to General Ruling N° 336 of the Chilean Commission for the Financial Market ("CMF"). This offer refers to securities not registered at the Securities Registry or at the Foreign Securities Registry of the CMF, and, therefore, such securities are not subject to oversight of the CMF. Given that the Award is not registered in Chile, the Company is not required to provide public information about the Award or Shares in Chile. Unless the Award and/or the Shares are registered with the CMF, a public offering of such securities cannot be made in Chile.

Esta oferta de los Derechos de Acciones Restringidas constituye una oferta privada de valores en Chile se inicia en la fecha de este documento. Esta oferta de los Derechos de Acciones Restringidas se acoge a las disposiciones de la norma de Carácter General N° 336 de la Comisión para el Mercado Financiero (CMF). Esta oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la CMF, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de los Derechos de Acciones Restringidas no inscritos en Chile no existe la obligación por parte del emisor de entregar en Chile información pública respecto de los mismos. Estos Derechos de Acciones Restringidas no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el registro de valores correspondiente.

CHINA

Terms and Conditions

Vesting. This provision replaces Section 2(d) of the Award Agreement:

In the event the Grantee's Service is terminated due to Retirement, the a pro-rata portion of the Award shall accelerate and vest at the close of business in Greenfield, Indiana, U.S.A., on the date the Grantee's Service is terminated due to Retirement based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to Grantee's Retirement to (y) the total number of months from the Grant Date to the next scheduled Vesting Date set forth on page 1 of

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the Award Agreement. "Retirement" for purposes of this Award Agreement means either (A) age sixty (60) unless otherwise prescribed under Applicable Laws or (B) thirty (30) years of Service with the Company or an Affiliate, including any years of Service with Lilly prior to the Company's spin-off from Lilly.

This provision supplements Section 2 of the Award Agreement:

To facilitate compliance with any Applicable Laws or regulations in China, the Grantee agrees and acknowledges that the Company (or a brokerage firm instructed by the Company) is entitled to sell any or all Shares issued to the Grantee on or as soon as practicable after the applicable Vesting Date or other vesting event (on behalf of the Grantee and at the Grantee's direction pursuant to this authorization), either immediately after such Shares are issued to the Grantee or when the Grantee ceases Service or at such other time as the Company may determine is necessary or advisable to facilitate compliance with Applicable Laws or the administration of the Plan. The Grantee also agrees to sign any forms and/or consents that may be required by the Company and acknowledges that neither the Company nor the brokerage firm is under any obligation to arrange for such sale of the Shares at any particular price. In any event, when the Shares acquired under the Plan are sold, the proceeds of the sale of the Shares, less any Tax-Related Items and broker's fees or commissions, will be remitted to the Grantee in accordance with applicable exchange control laws and regulations.

Exchange Control Restrictions. The Grantee understands and agrees that, due to exchange control laws in China, the Grantee will be required to immediately repatriate to China any funds (*e.g.*, proceeds from the sale of Shares) received pursuant to this Award. The Grantee further understands that such repatriation of the funds may need to be effected through a special exchange control account established by the Company or any Affiliate. The Grantee hereby consents and agrees that any funds received pursuant to this Award may be transferred to such special account prior to being delivered to the Grantee's personal account. The Grantee also understands that the Company will deliver the funds to the Grantee as soon as possible, but there may be delays in distributing the funds to the Grantee due to exchange control requirements in China. Funds may be paid to the Grantee in U.S. dollars or local currency at the Company's discretion. If the funds are paid to the Grantee in U.S. dollars, the Grantee will be required to set up a U.S. dollar bank account in China so that the funds may be deposited into this account. If the funds are paid to the Grantee in local currency, the Company is under no obligation to secure any particular exchange conversion rate and the Company may face delays in converting the funds to local currency due to exchange control restrictions. The Grantee further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

Neither the Company nor any Affiliate shall be liable for any costs, fees, lost interest or dividends or other losses the Grantee may incur or suffer resulting from the enforcement of the terms of this Addendum or otherwise from the Company's operation and enforcement of the Plan, the Award Agreement and the Shares in accordance with Chinese law, including, without limitation, any applicable State Administration of Foreign Exchange rules, regulations and requirements.

COLOMBIA

Terms and Conditions

Nature of Grant. This provision supplements Section 9 of the Award Agreement:

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In accepting the Award, the Grantee acknowledges, understands and agrees that, pursuant to Article 128 of the Colombian Labor Code, the Award and any payment the Grantee receives pursuant to the Award do not constitute a component of “salary” and will not be considered as a salary nature payment for any legal purpose. Therefore, the Award and any related benefit will not be included and/or considered for purposes of calculating any labor benefits, such as legal/fringe benefits, vacations, indemnities, payroll taxes, social insurance contributions and/or any other labor-related amount which may be payable.

Notifications

Securities Law Information. The Shares are not and will not be registered with the Colombian registry of publicly traded securities (Registro Nacional de Valores y Emisores) and therefore the Shares may not be offered to the public in Colombia. Nothing in the Award Agreement should be construed as making a public offer of securities in Colombia.

DENMARK

Terms and Conditions

Employer Statement. The Grantee acknowledges that he or she has received an Employer Statement, translated into Danish, which includes a description of the terms of the Award as required by the Danish Stock Option Act.

FRANCE

Terms and Conditions

Award Not French-Qualified. The Award is not intended to be “French-qualified,” *i.e.*, it is not intended to qualify for specific tax and/or social security treatment in France.

Language Consent. In accepting the Award, the Grantee confirms having read and understood the documents relating to the Award (the Plan and the Award Agreement, including this Appendix), which were provided in English. The Grantee accepts the terms of those documents accordingly.

Consentement Relatif à la Langue Utilisée. En acceptant cette Attribution, le Bénéficiaire confirme avoir lu et compris les documents relatifs à cette Attribution (le Plan le Contrat d'Attribution incluant cette Annexe), qui ont été remis en langue anglaise. Le Bénéficiaire accepte les termes de ces documents en conséquence.

INDIA

Notifications

Exchange Control Information. The Grantee is required to repatriate the proceeds from the sale of Shares and any dividends received in relation to the Shares to India within any time frame prescribed under applicable Indian exchange control laws, as may be amended from time to time. The Grantee must maintain the foreign inward remittance certificate received from the bank where the foreign currency is deposited in the event that the Reserve Bank of India or the Grantee's employer requests proof of repatriation. It is the Grantee's responsibility to comply with applicable exchange control laws in India.

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ITALY

Terms and Conditions

Plan Document Acknowledgment. In accepting the Award, the Grantee acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Award Agreement (including this Appendix) in their entirety and fully understands and accepts all provisions of the Plan and the Award Agreement (including this Appendix) and, in particular, Section 2 (Vesting).

LEBANON

Terms and Conditions

Securities Law Information. The Plan does not constitute the marketing or offering of securities in Lebanon pursuant to Law No. 161 (2011), the Capital Markets Law. Offers under the Plan are being made only to Eligible Individuals.

MALAYSIA

Notifications

Director Notification Information. If the Grantee is a director of a Malaysian Affiliate, he or she is subject to certain notification requirements under the Malaysian Companies Act, 2016. Among these requirements is an obligation to notify the Malaysian Affiliate in writing when the Grantee receives or disposes of an interest (e.g., the Award, Shares) in the Company or a related company. This notification must be made within fourteen (14) days after acquiring or disposing of any interest in the Company or a related company.

MEXICO

Terms and Conditions

Acknowledgement of the Award Agreement. By accepting the Restricted Stock Unit Award, the Grantee acknowledges that he or she has received a copy of the Plan and the Award Agreement, including this Appendix, which he or she has reviewed. The Grantee further acknowledges that he or she accepts all the provisions of the Plan and the Award Agreement, including this Appendix. The Grantee also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in the "Grantee's Acknowledgement" section of the Award Agreement, which clearly provide as follows:

- (1) The Grantee's participation in the Plan does not constitute an acquired right;
- (2) The Plan and the Grantee's participation in it are offered by the Company on a wholly discretionary basis;
- (3) The Grantee's participation in the Plan is voluntary; and
- (4) The Company and its Affiliates are not responsible for any decrease in the value of any Shares acquired pursuant to the Restricted Stock Unit Awards.

Elanco Restricted Stock Unit Award Agreement

Labor Law Acknowledgement and Policy Statement. By accepting the Award, the Grantee acknowledges that the Company, with registered offices at the Elanco Animal Health Inc. Global Headquarters, Greenfield, Indiana 46140, U.S.A., is solely responsible for the administration of the Plan. The Grantee further acknowledges that his or her participation in the Plan, the grant of Restricted Stock Unit Awards and any acquisition of Shares under the Plan do not constitute an employment relationship between the Grantee and the Company because the Grantee is participating in the Plan on a wholly commercial basis and his or her sole employer is Elanco Salud Animal SA de CV ("Elanco-Mexico"). Based on the foregoing, the Grantee expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between the Grantee and his or her Employer, Elanco-Mexico, and do not form part of the employment conditions and/or benefits provided by Elanco-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of the Grantee's employment.

The Grantee further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue the Grantee's participation in the Plan at any time, without any liability to the Grantee.

Finally, the Grantee hereby declares that he or she does not reserve to him- or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

Spanish Translation

Reconocimiento del Convenio de Concesión. Al aceptar el Premio de Desempeño, el Beneficiario reconoce que ha recibido y revisado una copia del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario reconoce y acepta todas las disposiciones del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario también reconoce que ha leído y aprobado de forma expresa los términos y condiciones establecidos en la sección: "Naturaleza de la Concesión" del Convenio de Concesión, que claramente establece lo siguiente:

- (1) La participación del Beneficiario en el Plan no constituye un derecho adquirido;*
- (2) El Plan y la participación del Beneficiario en el es ofrecido por la Compañía de manera completamente discrecional;*
- (3) La participación del Beneficiario en el Plan es voluntaria; y*
- (4) La Compañía y sus Afiliadas no son responsables por ninguna disminución en el valor de las Acciones adquiridas de conformidad con el Premio de Desempeño.*

Reconocimiento de la legislación Laboral aplicable y Declaración de la Política. Al aceptar el Premio, el Beneficiario reconoce que Company, con domicilio social en the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A., es la única responsable por la administración del Plan. Además, el Beneficiario reconoce que su participación en el Plan, la concesión de Unidades de Acciones Restringidas y cualquier adquisición de Acciones bajo el Plan no constituyen una relación laboral entre el Beneficiario y Company, en virtud de que el Beneficiario

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está participando en el Plan en su totalidad sobre una base comercial y su único empleador es Elanco Salud Animal SA de CV (“Elanco-Mexico”). Por lo anterior, el Beneficiario expresamente reconoce que el Plan y los beneficios que puedan derivarse de su participación no establecen ningún derecho entre el Beneficiario y su empleador, Elanco-México, y que no forman parte de las condiciones de trabajo y/o beneficios otorgados por Elanco-México, y cualquier modificación del Plan o la terminación del mismo no constituirá un cambio o modificación de los términos y condiciones en el empleo del Beneficiario.

Además, el Beneficiario comprende que su participación en el Plan es el resultado de una decisión discrecional y unilateral de la Company, por lo que Company se reserva el derecho absoluto de modificar y/o suspender la participación del Beneficiario en el Plan en cualquier momento, sin responsabilidad frente al Beneficiario.

Finalmente, el Beneficiario manifiesta que no se reserva acción o derecho alguno que origine una demanda en contra de Company, por cualquier compensación o daño relacionada con las disposiciones del Plan o de los beneficios otorgados en el mismo, y en consecuencia el Beneficiario libera de la manera más amplia y total de responsabilidad a E Company, sus subsidiarias, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales de cualquier demanda que pudiera surgir.

PHILIPPINES

Terms and Conditions

Compliance with Law. The following provision supplements Section 3.3(h) of the Plan:

The Grantee acknowledges that the Grantee's participation in the Plan is subject to the Company obtaining an exemption from the registration requirements under Section 10.2 of the Philippines Securities Regulation Code. Without limitation to the foregoing, the Grantee understands and agrees that the issuance and delivery of Shares pursuant to the Award will be delayed until the Company obtains such exemption or the Committee has otherwise determined that the issuance of the Shares can be made in compliance with applicable laws and that the Company may settle the Award in cash, in its sole discretion if such requirements have not been met.

Notifications

Securities Law Notice. The risks of participating in the Plan include (without limitation) the risk of fluctuation in the price of the Shares on the New York Stock Exchange and the risk of currency fluctuations between the U.S. Dollar and your local currency. The value of any Shares the Grantee may acquire under the Plan may decrease below the value of the Shares at vesting and fluctuations in foreign exchange rates between the Grantee's local currency and the U.S. Dollar may affect the value of any amounts due to you pursuant to the subsequent sale of any Shares acquired upon vesting. The Company is not making any representations, projections or assurances about the value of the Shares now or in the future.

For further information on risk factors impacting the Company's business that may affect the value of the Shares, you may refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov, as well as on the Company's “Investor Relations” website at

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<https://investor.elanco.com/investors/investor-resources/faqs/default.aspx>.

The Grantee is permitted to sell Shares acquired under the Plan through the designated Plan broker appointed by the Company (or such other broker to whom the Grantee transfers Shares), provided that such sale takes place outside of the Philippines through the facilities of the New York Stock Exchange on which the Shares are listed.

PORTUGAL

Terms and Conditions

Language Acknowledgement. The Grantee hereby expressly declares that he or she has full knowledge of the English language and has read, understood and freely accepted and agreed with the terms and conditions established in the Plan and the Award Agreement.

Conhecimento da Língua. O Contratado, pelo presente instrumento, declara expressamente que tem pleno conhecimento da língua inglesa e que leu, compreendeu e livremente aceitou e concordou com os termos e condições estabelecidas no Plano e no Acordo de Atribuição (Award Agreement em inglês).

RUSSIA

Terms and Conditions

U.S. Transaction. The Grantee understands that accepting the Award and the terms and conditions of the Award Agreement will result in a contract between the Grantee and the Company completed in the United States and that the Award Agreement is governed by U.S. law. The Grantee understands and acknowledges that any Shares issued under the Plan shall be delivered to the Grantee through a brokerage account maintained outside Russia. The Grantee understands that the Grantee may hold Shares in a brokerage account outside Russia; however, in no event will Shares issued to the Grantee and/or share certificates or other instruments be delivered to the Grantee in Russia. The Grantee acknowledges and agrees that the Grantee is not permitted to sell or otherwise transfer the Shares directly to other Russian legal entities or individuals. Finally, the Grantee acknowledges and agrees that the Grantee may sell or otherwise transfer the Shares only outside Russia.

Notifications

Securities Law Information. This Appendix, the Award Agreement, the Plan and all other materials that the Grantee may receive regarding the Plan, do not constitute advertising or an offering of securities in Russia. The issuance of securities pursuant to the Plan has not and will not be registered in Russia; hence, the securities described in any Plan-related documents may not be used for offering or public circulation in Russia.

Exchange Control Information. Under current exchange control regulations in Russia, certain funds received outside of Russia must be repatriated to Russia as soon as the Grantee intends to use those amounts for any purpose, including reinvestment. Such funds must initially be credited to the Grantee through a foreign currency account at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

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As an exception to the above-mentioned repatriation rule, (i) cash proceeds from the sale of shares listed on one of the foreign stock exchanges on the list provided for by the Russian Federal law “On the Securities Market” (which currently includes the New York Stock Exchange) can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD (Organization for Economic Co-operation and Development) or FATF (Financial Action Task Force) country, and (ii) cash dividends paid on shares can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD or FATF country. Other exceptions may apply.

SOUTH AFRICA

Terms and Conditions

Securities Law Information. In compliance with South African securities law, the Grantee acknowledges that he or she has been notified that the following documents listed below are available for the Grantee’s review at the applicable website listed below:

- (1) The Company’s most recent annual financial statement, available at: <https://investor.elanco.com/investors/financials-and-filings/sec-filings/default.aspx>.
- (2) The Company’s most recent Information Summary/Prospectus, which is viewable within the Recordkeeping Information Document Library on UBS Financial Services Inc. at: <http://equity.elancoirect.com>.

The Grantee acknowledges that he or she may have a copy of the above documents sent to him or her, without fee, on written request to the Secretary of the Company at the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A.

Responsibility for Taxes. This provision supplements Section 7 of the Award Agreement:

By accepting the Award, the Grantee agrees to notify the Employer of the amount of any gain realized when the Award vests and Shares are issued (or the cash equivalent is paid) to the Grantee. If the Grantee fails to advise the Employer of the gain realized when the Award vests and Shares are issued, the Grantee may be liable for a fine.

SPAIN

Terms and Conditions

Vesting. This provision supplements Section 2 of the Award Agreement:

As a condition of the grant of the Award, termination of the Grantee’s Service for any reason (including for the reasons listed below but excluding for the reasons specified in Section 2(e) of the Award Agreement) will automatically result in the forfeiture and loss of the Award and the underlying Shares to the extent that the Award has not yet vested as of the date of termination of the Grantee’s Service. In particular, and without limitation to the provisions of the Award Agreement and the Plan, the Grantee understands and agrees that the Award will be cancelled without entitlement to the underlying Shares or to any amount as indemnification if the Grantee terminates employment by reason of, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without good cause (*i.e.*, subject to a “*despido improcedente*”), individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause (unless such layoff falls within the

Elanco Restricted Stock Unit Award Agreement

meaning of a plant closing or reduction in workforce as described in Section 2(e)), material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985 (unless such layoff falls within the meaning of a medical reassignment as described in Section 2(e)). The Grantee acknowledges that he or she has read and specifically accepts the vesting conditions referred to in Section 2 of the Award Agreement.

Grantee's Acknowledgement. This provision supplements Section 9 of the Award Agreement:

The Grantee understands that the Company has unilaterally, gratuitously and discretely decided to grant Restricted Stock Unit Awards under the Plan to individuals who may be Employees of the Company or its Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any of its Affiliates on an ongoing basis except to the extent otherwise provided in the Plan and this Award Agreement. Consequently, the Grantee understands that the Restricted Stock Unit Awards are granted on the assumption and condition that the Restricted Stock Unit Awards and any Shares acquired pursuant to the Restricted Stock Unit Awards shall not become a part of any employment contract (either with the Company or any of its Affiliates) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, the Grantee understands that this grant would not be made to the Grantee but for the assumptions and conditions referred to above; thus, the Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of Restricted Stock Unit Awards may be cancelled.

Notifications

Securities Law Information. No "offer of securities to the public," as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the Award. The Award Agreement has not nor will it be registered with the *Comisión Nacional del Mercado de Valores*, and does not constitute a public offering prospectus.

SWITZERLAND

Notifications

Securities Law Information. The grant of the Restricted Stock Unit Awards and the issuance of Shares is not intended to be publicly offered in or from Switzerland. Because this is a private offering in Switzerland, the Restricted Stock Unit Awards are not subject to registration in Switzerland. Neither this Award Agreement nor any other materials relating to the Restricted Stock Unit Awards (i) constitute a prospectus as such term is understood pursuant to article 652a of the Swiss Code of Obligations, (ii) may be publicly distributed nor otherwise made publicly available in Switzerland, or (iii) have been or will be filed with, approved or supervised by any Swiss regulatory authority, including the Swiss Financial Market Supervisory Authority ("FINMA").

TAIWAN

Notifications

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Securities Law Information. The offer of participation in the Plan is available only for Employees of the Company and its Affiliates. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

TURKEY

Notifications

Securities Law Information. Under Turkish law, the Grantee is not permitted to sell any Shares acquired under the Plan in Turkey. The Shares are currently traded on the New York Stock Exchange in the United States of America, under the ticker symbol of "ELAN" and Shares acquired under the Plan may be sold through this exchange.

UNITED KINGDOM

Terms and Conditions

Settlement. Section 4(d) of the Award Agreement shall not apply to Restricted Stock Unit Awards granted in the United Kingdom.

Responsibility for Taxes. This provision supplements Section 7 of the Award Agreement:

Without limitation to Section 7 of the Award Agreement, the Grantee agrees that he or she is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items, as and when requested by the Company and/or the Employer or by Her Majesty's Revenue & Customs ("HMRC") (or any other tax authority or any other relevant authority). The Grantee also agrees to indemnify and keep indemnified the Company and/or the Employer against any Tax-Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Grantee's behalf.

Notwithstanding the foregoing, if the Grantee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the foregoing provision will not apply. In this case, the amount of any Tax-Related Items not collected from or paid by the Grantee may constitute a benefit to the Grantee on which additional income tax and National Insurance contributions ("NICs") may be payable. The Grantee understands that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for paying to the Company and/or the Employer (as appropriate) the amount of any employee NICs due on this additional benefit. Grantee acknowledges that the Company and/or the Employer (as appropriate) may recover such additional NICs at any time thereafter by any of the means referred to in Section 7 of the Award Agreement.

Joint Election. As a condition of Grantee's participation in the Plan and vesting of the Restricted Stock Unit Awards, the Grantee agrees to accept any liability for secondary Class 1 national insurance contributions which may be payable by the Company and/or the Employer in connection with the Restricted Stock Unit Awards and any event giving rise to Tax-Related Items (the "Employer NICs"). Without prejudice to the foregoing, by accepting this Award, the Grantee is entering into a joint election with the Company or the Employer if he or she has not already done so, the form of such joint election being formally approved by HMRC (the "Joint Election"), a copy of which is attached to this Appendix for the United Kingdom as Annex 1, and any other required consent or election. The Grantee further agrees to execute such other joint elections as may be required

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between him or her and any successor to the Company and/or the Employer. The Grantee further agrees that the Company and/or the Employer may collect the Employer NICs from him or her by any of the means set forth in Section 7 of the Award Agreement.

Elanco Restricted Stock Unit Award Agreement

Annex 1 to Appendix for United Kingdom

Important Note on the Joint Election for Transfer of Liability for Employer National Insurance Contributions to the Grantee:

As a condition of the Grantee's participation in the Elanco 2018 Stock Plan, as amended from time to time (the "Plan"), the Grantee is required to enter into a joint election to transfer to the Grantee any liability for employer National Insurance contributions (the "Employer NICs") that may arise in connection with the Restricted Stock Unit Award (the "Award") and in connection with future awards, if any, that may be granted to the Grantee under the Plan (the "Joint Election").

By entering into the Joint Election:

- the Grantee agrees that any liability for Employer NICs that may arise in connection with or pursuant to the vesting of the Award and the acquisition of shares of common stock of Elanco Animal Health Inc. (the "Company") or other taxable events in connection with the Award will be transferred to the Grantee; and
- the Grantee authorizes the Company and/or the Grantee's employer to recover an amount sufficient to cover this liability by any method set forth in the Award Agreement and/or the Joint Election.

To enter into the Joint Election and to accept the Award, please select the button next to "Accept" where indicated on the Pending Acceptance screen. Please note that selecting the button next to "Accept" indicates the Grantee's agreement to be bound by all of the terms of the Joint Election.

Please note that even if the Grantee has indicated his or her acceptance of this Joint Election electronically, the Grantee may still be required to sign a paper copy of this Joint Election (or a substantially similar form) if the Company determines such is necessary to give effect to the Joint Election.

Please read the terms of the Joint Election carefully before accepting the Award Agreement and the Joint Election. The Grantee should print and keep a copy of this Joint Election for his or her records.

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United Kingdom

Joint Election for Transfer of Liability for Employer National Insurance Contributions to Employee

Election To Transfer the Employer's National Insurance Liability to the Employee

This Election is between:

- A. The individual who has obtained authorised access to this Election (the "**Employee**"), who is employed by one of the employing companies listed in the attached schedule (the "**Employer**") and who is eligible to receive restricted stock unit awards (the "**Award**") pursuant to the 2018 Elanco Stock Plan (the "**Plan**"), and
- B. Elanco Animal Health Inc., an Indiana corporation, with registered offices at Greenfield, Indiana 46140, U.S.A. (the "**Company**"), which may grant Restricted Stock Unit Awards under the Plan and is entering into this Election on behalf of the Employer.

1. Introduction

1.1 This Election relates to all Restricted Stock Unit Awards granted to the Employee under the Plan on or after February 1, 2019 up to the termination date of the Plan.

1.2 In this Election the following words and phrases have the following meanings:

- (a) "**Chargeable Event**" means any event giving rise to Relevant Employment Income.
- (b) "**ITEPA**" means the Income Tax (Earnings and Pensions) Act 2003.
- (c) "**Relevant Employment Income**" from Restricted Stock Unit Awards on which Employer's National Insurance Contributions becomes due is defined as:
 - (i) an amount that counts as employment income of the earner under section 426 ITEPA (restricted securities: charge on certain post-acquisition events);
 - (ii) an amount that counts as employment income of the earner under section 438 of ITEPA (convertible securities: charge on certain post-acquisition events); or
 - (iii) any gain that is treated as remuneration derived from the earner's employment by virtue of section 4(4)(a) SSCBA, including without limitation:
 - (A) the acquisition of securities pursuant to the Restricted Stock Unit Awards (within the meaning of section 477(3)(a) of ITEPA);
 - (B) the assignment (if applicable) or release of the Restricted Stock Unit Awards in return for consideration (within the meaning of section 477(3)(b) of ITEPA);
 - (C) the receipt of a benefit in connection with the Restricted Stock Unit Awards, other than a benefit within (i) or (ii) above (within the meaning of section 477(3)(c) of ITEPA).
- (d) "**SSCBA**" means the Social Security Contributions and Benefits Act 1992.

Elanco Restricted Stock Unit Award Agreement

- 1.3 This Election relates to the Employer's secondary Class 1 National Insurance Contributions (the "Employer's Liability") which may arise in respect of Relevant Employment Income in respect of the Restricted Stock Unit Awards pursuant to section 4(4)(a) and/or paragraph 3B(1A) of Schedule 1 of the SSCBA.
- 1.4 This Election does not apply in relation to any liability, or any part of any liability, arising as a result of regulations being given retrospective effect by virtue of section 4B(2) of either the SSCBA, or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
- 1.5 This Election does not apply to the extent that it relates to relevant employment income which is employment income of the earner by virtue of Chapter 3A of Part VII of ITEPA (employment income: securities with artificially depressed market value).

2. The Election

The Employee and the Company jointly elect that the entire liability of the Employer to pay the Employer's Liability that arises on any Relevant Employment Income is hereby transferred to the Employee. The Employee understands that, by accepting the Award (whether in hard copy or electronically) or by accepting this Election (whether in hard copy or electronically), he or she will become personally liable for the Employer's Liability covered by this Election. This Election is made in accordance with paragraph 3B(1) of Schedule 1 of the SSCBA.

3. Payment of the Employer's Liability

- 3.1 The Employee hereby authorises the Company and/or the Employer to collect the Employer's Liability in respect of any Relevant Employment Income from the Employee at any time after the Chargeable Event:
- (a) by deduction from salary or any other payment payable to the Employee at any time on or after the date of the Chargeable Event; and/or
 - (b) directly from the Employee by payment in cash or cleared funds; and/or
 - (c) by arranging, on behalf of the Employee, for the sale of some of the securities which the Employee is entitled to receive in respect of the Restricted Stock Unit Awards, the proceeds from which must be delivered to the Employer in sufficient time for payment to be made to Her Majesty's Revenue & Customs ("HMRC") by the due date; and/or
 - (d) where the proceeds of the gain are to be paid through a third party, the Employee will authorize that party to withhold an amount from the payment or to sell some of the securities which the Employee is entitled to receive in respect of the Restricted Stock Unit Awards, such amount to be paid in sufficient time to enable the Company and/or the Employer to make payment to HMRC by the due date; and/or
 - (e) by any other means specified in the applicable Restricted Stock Unit Award agreement entered into between the Employee and the Company.
- 3.2 The Company hereby reserves for itself and the Employer the right to withhold the transfer of any securities to the Employee in respect of the Awards until full payment of the Employer's Liability is received.

Elanco Restricted Stock Unit Award Agreement

3.3 The Company agrees to procure the remittance by the Employer of the Employer's Liability to HMRC on behalf of the Employee within 14 days after the end of the UK tax month during which the Chargeable Event occurs (or within 17 days after the end of the UK tax month during which the Chargeable Event occurs if payments are made electronically).

4.3 Duration of Election

4.1 The Employee and the Company agree to be bound by the terms of this Election regardless of whether the Employee is transferred abroad or is not employed by the Employer on the date on which the Employer's Liability becomes due.

4.2 Any reference to the Company and/or the Employer shall include that entity's successors in title and assigns as permitted in accordance with the terms of the Plan and relevant award agreement. This Election will continue in effect in respect of any awards which replace the Restricted Stock Unit Awards in circumstances where section 483 of ITEPA applies.

4.3 This Election will continue in effect until the earliest of the following:

- (a) the date on which the Employee and the Company agree in writing that it should cease to have effect;
- (b) the date on which the Company serves written notice on the Employee terminating its effect;
- (c) the date on which HMRC withdraws approval of this Election; or
- (d) the date on which, after due payment of the Employer's Liability in respect of the entirety of the Awards to which this Election relates or could relate, the Election ceases to have effect in accordance with its own terms.

4.4 This Election will continue in force regardless of whether the Employee ceases to be an employee of the Employer.

Acceptance by the Employee

The Employee acknowledges that, by clicking on the button next to "Accept" to accept the Restricted Stock Unit Award Agreement and this Election (or by signing the Restricted Stock Unit Award Agreement or this Election whether is hard copy or electronically), the Employee agrees to be bound by the terms of this Election.

Elanco Restricted Stock Unit Award Agreement

Acceptance by the Company

The Company acknowledges that, by signing this Election or arranging for the scanned signature of an authorised representative to appear on this Election, the Company agrees to be bound by the terms of this Election.

Signature for and on behalf of the Company

Position

Elanco Restricted Stock Unit Award Agreement

Schedule of Employer Companies

The employing companies to which this Election relates include:

Name:	Elanco UK AH Limited
Registered Office:	Lilly House, Priestley Road, Basingstoke, Hants RG24 9NL
Company Registration Number:	11378434
Corporation Tax Reference:	4312717782
PAYE Reference:	475/FB88335

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EXHIBIT 10.2

Elanco Animal Health Incorporated Performance-Based Award Agreement

This Performance-Based Award has been granted on _____, 2020 ("Grant Date"), by Elanco Animal Health Incorporated, an Indiana corporation ("Elanco" or the "Company"), to the Eligible Individual who has received this Performance-Based Award Agreement (the "Grantee").

**Number of Shares: Log into UBS account at
<http://equity.elancodirect.com>**

Grantee:

Performance Period: January 1, 2020- December 31, 2021

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Elanco and Company Performance-Based Award

Section 1. Grant of Performance-Based Award

Elanco, an Indiana corporation (“Elanco” or the “Company”), has granted to the Eligible Individual who has received this Performance-Based Award Agreement (the “Grantee”) an award of performance-based restricted stock units (the “Performance-Based Award” or the “Award”). The number of shares of Elanco Common Stock (the “Shares”) (as set forth on the first page of this document) underlying the Award will vest based on the attainment of the Company's performance conditions, in whole or in part, for the Performance Period and the other vesting conditions set forth below under Section 2. The Grantee may view the number of Shares underlying the Award by logging on to the UBS Financial Services Inc. website at <http://equity.elanco.com>.

The Award is made pursuant to and subject to the terms and conditions set forth in the 2018 Elanco Stock Plan (the “Plan”) and to the terms and conditions set forth in this Performance-Based Award Agreement, including any appendices, exhibits and addenda hereto (the “Award Agreement”). Unless otherwise stated in the Plan where the terms in this Award Agreement may govern in the event of any conflict between the terms of the Plan and this Award Agreement, in the event of any such conflict, the terms of the Plan shall otherwise govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

Section 2. Vesting

- a. The Award shall vest at the close of business in Greenfield, Indiana, U.S.A. on the last day of the Performance Period with respect to the Shares that become eligible to vest based on the attainment of the performance conditions set forth on page 1 of this Award Agreement, provided the Grantee continues in Service through the last day of the Performance Period;
 - i. As soon as reasonably practicable following the end of the Performance Period, the Committee shall determine the number of Shares eligible to vest based on the Company's net income (“Net Income”) ascertained from the Company's audited consolidated financial statements for each fiscal year in the Performance Period in accordance with accounting principles currently applicable in the United States (“US GAAP”), adjusted to the extent deemed appropriate by the Committee as set forth in Section 2(c) below for the Performance Period, the corresponding payout multiple and the number of Shares subject to this Award.
 - ii. The Net Income for the Performance Period shall be ascertained from the Company's audited consolidated financial statements for each fiscal year of the Performance Period in accordance with U.S.

Elanco and Company Performance-Based Award

GAAP each year, adjusted to the extent deemed appropriate by the Committee as set forth in Section 2(c) below.

- iii. The payout multiple corresponding to the Net Income (as shown on page 1 of this document) for each fiscal year shall then be applied to the number of Shares subject to this Award.
 - iv. The number of Shares eligible to vest with respect to this Award will be the number of Shares resulting from the calculation described in subsections (ii) and (iii) above.
- b. In the event the Grantee's Service is terminated prior to the last day of the Performance Period for any reason or in any circumstance other than a Qualifying Termination (as described below), the Award shall be forfeited. Further, any portion of the Award that does not vest in accordance with Section 3(c) shall be forfeited in the event the Grantee's Service is terminated due to a Qualifying Termination.
- c. In the event of any unplanned events that may impact the business results positively or negatively, the Committee, in its sole discretion, may adjust the actual Net Income for the Performance Period for purposes of determining the payout multiple. The adjustments may include:
- i. the impact from the operations of any business divestiture, such as a major product or geography;
 - ii. the impact of any acquisitions, significant collaborations, restructuring or external litigation;
 - iii. foreign currency fluctuation impact greater than a 2% change to applicable plan rates;
 - iv. the impact of any non-GAAP adjustment provided each adjustment is approved by the Committee; and/or
 - v. any unforeseen adjustment provided such adjustment is approved by the Committee.

Section 3. Adjustments for Certain Employment Status Changes

Unless the Committee determines, in its sole discretion, that such adjustments are not advisable after consideration of employment laws in the country where the Grantee resides, the number of Shares shall be adjusted for changes in employment status during the Performance Period as follows:

- a. Leaves of Absence. The number of Shares eligible to vest shall be reduced proportionally for any portion of the total days in the Performance

Elanco and Company Performance-Based Award

Period during which the Grantee is on an approved unpaid leave of absence longer than ninety (90) days.

- b. Demotions, Disciplinary Actions and Misconduct. The Committee may, in its sole discretion, cancel this Performance-Based Award or reduce the number of Shares eligible to vest, prorated according to time or other measure as determined appropriate by the Committee, if during any portion of the Performance Period the Grantee has been (i) subject to disciplinary action by the Company or (ii) determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such conduct causes significant harm to the Company, as determined in the sole discretion of the Company.
- c. Qualifying Termination. In the event the Grantee's employment is subject to a Qualifying Termination (as defined below), a pro-rata portion of the Award will vest on the originally scheduled vesting date (unless the Committee specifies another vesting date, in its sole discretion, under Section 3.3(j) of the Plan) based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to the Qualifying Termination to (y) the total number of months from the Grant Date to the scheduled vesting date.

For purposes of this Award Agreement, a "Qualifying Termination" means any one of the following:

- i. the date of the Grantee's Retirement;
- ii. the date the Grantee's Service is terminated due to the Grantee's death;
- iii. the date the Grantee's Service is terminated by reason of Disability;
- iv. the date the Grantee's Service is terminated due to a closing of a plant site or other corporate location;
- v. the date the Grantee's Service is terminated due to the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions; or
- vi. the date the Grantee's Service is terminated as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States.

"Retirement" for purposes of this Award means either (A) age sixty (60) unless otherwise prescribed under Applicable Laws or (B) thirty (30) years

Elanco and Company Performance-Based Award

of Service with the Company or an Affiliate, including any years of Service with Eli Lilly & Company ("Lilly") prior to the Company's spin-off from Lilly.

The Committee, in its sole discretion, shall determine whether and when a Qualifying Termination has occurred and/or if a leave of absence or transfer of employment between the Company and an Affiliate or between Affiliates constitutes a termination of Service. Such determination shall be final and binding on the Grantee.

Section 4. Change in Control

The provisions of Section 13.2 of the Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 4 shall be the consummation of a merger, share exchange, or consolidation of the Company, as defined in Section 2.6(c) of the Plan (a "Transaction").
- b. In the event that the Award is not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction, then immediately prior to the Transaction, the Award shall accelerate and vest, with the portion of the Award subject to Company performance vesting determined based on the target level of attainment.
- c. In the event that the Award is converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to any applicable vesting date, the Award shall accelerate and vest automatically in full with the portion of the Award subject to Company performance vesting determined based on the target level of attainment.

For purposes of this provision, "Covered Termination" shall mean a Qualifying Termination, Grantee's termination without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to them in the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Employees or the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Select Employees (both as amended from time to time) or any successor plan or arrangement thereto, as applicable.

- d. If the Grantee is entitled to receive stock of the acquiring entity or successor to the Company as a result of the application of this Section 4, then references to Shares in this Award Agreement shall be read to mean

Elanco and Company Performance-Based Award

stock of the successor or surviving corporation, or a parent or subsidiary thereof, as and when applicable.

Section 5. Settlement

- a. Except as provided below, the Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty days, following the last day of the Performance Period.
- b. If the Award vests pursuant to Section 4(b), the Award shall be paid to the Grantee immediately prior to the Transaction, provided that if the Award is considered an item of non-qualified deferred compensation subject to Section 409A of the Code (“NQ Deferred Compensation”) and the Transaction does not constitute a “change in control event,” within the meaning of the U.S. Treasury Regulations (a “409A CIC”), then the Award shall be paid in cash (calculated based on the value of the Shares established for the consideration to be paid to holders of Shares in the Transaction) on the earliest of the date that the Grantee experiences a “separation from service” within the meaning of Section 409A of the Code (a “Section 409A Separation”) (subject to any delay applicable to “specified employees” described in Section 5(c) below), the date of the Grantee’s death and the date set forth in Section 2(a) above.
- c. If the Award vests pursuant to Section 4(c) and the Award is NQ Deferred Compensation, (i) the Award shall be paid within sixty days following the date the Grantee experiences a Section 409A Separation and (ii) if the Grantee is a “specified employee” within the meaning of Section 409A of the Code as of the date of the Grantee’s Section 409A Separation, the Award shall instead be paid on the earliest of (1) the first day following the six (6) month anniversary of the Grantee’s Section 409A Separation, (2) the date set forth in Section 2(a) above, and (3) the date of the Grantee’s death.
- d. At the time of settlement provided in this Section 5, the Company shall issue or transfer Shares or the cash equivalent, as contemplated under Section 5(e) below, to the Grantee. In the event the Grantee is entitled to a fractional Share, the fraction may be paid in cash or rounded, in the Committee’s discretion.
- e. At any time prior to the end of the Performance Period or until the Award is paid in accordance with this Section 5, the Committee may, if it so elects, determine to pay part or all of the Award in cash in lieu of issuing or transferring Shares. The amount of cash shall be calculated based on the Fair Market Value of the Shares on the last day of the Performance Period

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in the case of payment pursuant to Section 5(a) and on the date of payment in the case of a payment pursuant to Section 5(c).

- f. In the event of the death of the Grantee, the payments described above shall be made to the successor of the Grantee.

Section 6. Rights of the Grantee

- a. No Trust; Grantee's Rights Unsecured. Neither this Performance-Based Award nor any action pursuant to or in accordance with this Performance-Based Award shall be construed to create a trust of any kind. The right of Grantee to receive payments of cash or Shares under this Performance-Based Award shall be an unsecured claim against the general assets of the Company
- b. No Shareholder Rights. The Performance-Based Award does not entitle the Grantee to any rights of a shareholder of the Company until such time as the Performance-Based Award is settled and Shares are issued or transferred to the Grantee.

Section 7. Prohibition Against Transfer

The right of a Grantee to receive payments of Shares and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of the Grantee or to a successor of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award Agreement. A Grantee may not assign, sell, pledge, or otherwise transfer Shares or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

Section 8. Responsibility for Taxes

Regardless of any action the Company and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax-Related Items"), the Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Grantee further acknowledges that the Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the Performance-Based Award, the expiration of the Performance Period, the issuance of Shares, the transfer and issuance of Shares, the receipt of any cash pursuant to the Award, the receipt of any dividends and the sale of any Shares acquired pursuant to this Award; and (ii) do not commit to

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and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax-Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay, or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items.

- a. In the case of any cash payment made to the Grantee pursuant to this Award, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligation for Tax-Related Items by withholding from the cash amount paid to the Grantee or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.
- b. If the Performance-Based Award is paid in Shares and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to (i) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, (ii) arrange for the sale of Shares to be issued pursuant to the Award (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to the Company or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, and/or (iii) withhold in Shares otherwise issuable to the Grantee pursuant to this Award.
- c. If the Performance-Based Award is paid in Shares and the Grantee is subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Company will withhold in Shares otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by applicable law or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax-Related Items may be satisfied by one or a combination of the methods set forth in Section 8(b)(i) and (ii) above.

Depending on the withholding method, the Company and/or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case the Grantee will receive a refund of any over-withheld amount in cash as soon as practicable and without interest and will not be entitled to the

Elanco and Company Performance-Based Award

equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding Shares, for tax purposes, the Grantee will be deemed to have been issued the full number of Shares to which he or she is entitled pursuant to the Performance-Based Award, notwithstanding that a number of Shares are withheld to satisfy the obligation for Tax-Related Items.

The Company may require Grantee to pay the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold or account for as a result of any aspect of this Award that cannot be satisfied by the means previously described. The Company may refuse to deliver Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax-Related Items as described in this Section 8.

Section 9. Section 409A Compliance

To the extent applicable, it is intended that this Performance-Based Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1985, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A.

Section 10. Nature of Grant

In accepting this Performance-Based Award, the Grantee acknowledges, understands and agrees that:

- a. the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, as provided in the Plan;
- b. the Performance-Based Award is voluntary and occasional and does not create any contractual or other right to receive future Awards, or benefits in lieu thereof, even if Awards have been granted in the past;
- c. all decisions with respect to future grants of Awards or other grants, if any, will be at the sole discretion of the Company;
- d. the Grantee's participation in the Plan is voluntary;
- e. the Performance-Based Award and any Shares subject to the Award are not intended to replace any pension rights or compensation;
- f. the Award and any Shares subject to the Award, and the income from and value of same, are not part of normal or expected compensation for any purpose, including but not limited to, calculating any severance,

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resignation, termination, redundancy, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar mandatory payments;

- g. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- h. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to the Company or the Employer (for any reason whatsoever and whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any);
- i. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company, an Employer or an Affiliate and the Grantee's right, if any, to earn and be paid any portion of the Award, after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence);
- j. unless otherwise provided in the Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and
- k. none of the Company, the Employer or any Affiliate shall be liable for any foreign exchange rate fluctuation between the Grantee's local currency and the United States Dollar that may affect the value of the Award or any amounts due to the Grantee pursuant to the settlement of the Award or the subsequent sale of any Shares acquired upon settlement.

Section 11. Data Privacy

- a. Data Collection and Usage. *The Company and the Employer may collect, process and use certain personal information about the Grantee, and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Awards or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Grantee's consent. Where required under Applicable Laws, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure is the Applicable Laws.*
- b. Stock Plan Administration Service Providers. *The Company transfers Data to UBS Financial Services Inc. and/or its affiliated companies ("UBS"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. The Grantee may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.*
- c. International Data Transfers. *The Company and its service providers are based in the United States. The Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company's legal basis, where required, for the transfer of Data is the Grantee's consent.*
- d. Data Retention. *The Company will hold and use the Data only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.*

Elanco and Company Performance-Based Award

- e. Data Subject Rights. *The Grantee understands that data subject rights regarding the processing of Data vary depending on Applicable Law and that, depending on where the Grantee is based and subject to the conditions set out in such Applicable Law, the Grantee may have, without limitation, the right to (i) inquire whether and what kind of Data the Company holds about the Grantee and how it is processed, and to access or request copies of such Data, (ii) request the correction or supplementation of Data about the Grantee that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, (iv) request the Company to restrict the processing of the Grantee's Data in certain situations where the Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Data for legitimate interests, and (vi) request portability of the Grantee's Data that the Grantee has actively or passively provided to the Company or the Employer (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Grantee's employment and is carried out by automated means. In case of concerns, the Grantee understands that he or she may also have the right to lodge a complaint with the competent local data protection authority. Further, to receive clarification of, or to exercise any of, the Grantee's rights, the Grantee understands that he or she should contact his or her local human resources representative.*
- f. Voluntariness and Consequences of Consent Denial or Withdrawal. *Participation in the Plan is voluntary and the Grantee is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke the Grantee's consent, the Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant this Award or other awards to the Grantee or administer or maintain such awards.*
- g. Declaration of Consent. *By accepting the Award and indicating consent via the Company's online acceptance procedure, the Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.*

Elanco and Company Performance-Based Award

Section 12. Additional Terms and Conditions

- a. Country-Specific Conditions. The Award shall be subject to any special terms and conditions set forth in any Appendix to this Award Agreement for the Grantee's country. Moreover, if the Grantee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Award Agreement.
- b. Insider Trading / Market Abuse Laws. The Grantee may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States and the Grantee's country of residence, which may affect the Grantee's ability to directly or indirectly, for the Grantee or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of Shares or rights to acquire Shares (e.g., the Performance-Based Award) under the Plan during such times as the Grantee is considered to have "inside information" regarding the Company (as determined under the laws or regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Grantee acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Grantee should consult with his or her personal legal advisor on this matter.
- c. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Award and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under Applicable Laws or any compensation recovery policy of the Company that reflects the provisions of Applicable Laws.

Section 13. Miscellaneous Provisions

- a. Notices and Electronic Delivery and Participation. Any notice to be given by the Grantee or successor Grantee shall be in writing, and any notice or payment shall be deemed to have been given or made only upon receipt thereof by the Corporate Secretary of the Company at the Elanco Animal

Elanco and Company Performance-Based Award

Health Global Headquarters, Greenfield, Indiana 46140, U.S.A. Any notice or communication by the Company in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to the Company by the Grantee and, in the case of any successor Grantee, at the address specified in writing to the Company by the successor Grantee. In addition, the Company may, in its sole discretion, decide to deliver any documents related to the Award and participation in the Plan by electronic means or request the Grantee's consent to participate in the Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

- b. Language. Grantee acknowledges that he or she is proficient in the English language, or has consulted with an advisor who is sufficiently proficient in English, so as to allow the Grantee to understand the terms and conditions of this Award Agreement. If the Grantee has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.
- c. Waiver. The waiver by the Company of any provision of this instrument at any time or for any purpose shall not operate as or be construed to be a waiver of that provision or any other provision of this instrument at any subsequent time or for any other purpose.
- d. Severability and Section Headings. If one or more of the provisions of this instrument shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this instrument to be construed so as to foster the intent of this Award and the Plan. The section headings in this instrument are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.
- e. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of the underlying Shares. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the

Elanco and Company Performance-Based Award

Grantee's participation in the Plan before taking any action related to the Plan.

Section 14. Governing Law and Choice of Venue

The validity and construction of this Performance-Based Award shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Performance-Based Award, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Marion County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this e Award is granted and/or to be performed.

Section 15. Award Subject to Acknowledgement of Acceptance

Notwithstanding any provisions of this Award Agreement, the Award is subject to acknowledgement of acceptance by the Grantee on or prior to 4:00 PM (EDT) on the 60th day after the Grant Date, through the website of UBS, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award by 4:00 PM (EDT) on or prior to the 60th day after the Grant Date, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances, provided, however, if the Grantee's Service is terminated due a Qualifying Termination prior to the 60th day after the Grant Date, the Award will not be cancelled and will be deemed accepted on behalf of the Grantee or the Grantee's legal successor.

IN WITNESS WHEREOF, the Company has caused this Award to be executed and granted in Greenfield, Indiana, by its proper officer.

ELANCO ANIMAL HEALTH INCORPORATED



Jeffrey N. Simmons
President, Chief Executive Officer and Director

Appendix to
**Elanco Animal Health Incorporated
Performance-Based Award Agreement**

This Appendix includes special terms and conditions applicable to the Grantee's country. These terms and conditions supplement or replace (as indicated) the terms and conditions set forth in the Award Agreement to which it is attached. If the Grantee is a citizen or resident of a country other than the one in which the Grantee is currently working and/or residing (or is considered as such for local law purposes), or if the Grantee transfers employment or residency to a different country after the Award is granted, Elanco will, in its discretion, determine the extent to which the terms and conditions herein will apply. This Appendix also includes other information relevant to the Award.

Unless otherwise defined herein, the terms defined in the Plan or the Award Agreement, as applicable, shall have the same meanings in this Appendix.

There are no special terms and conditions or information for the following countries:

Austria	Germany	Korea	Slovenia
Belgium	Indonesia	Netherlands	Sweden
Czech Republic	Ireland	Norway	Thailand
Egypt	Japan	Poland	

However, the Grantee should be aware that he or she may be required to take certain steps to comply with Applicable Laws in the Grantee's country in connection with the Award. For example, exchange control, foreign asset and/or account and/or other tax reporting obligations may apply to the Grantee upon receipt of the Award or the Shares subject to the Award or upon the sale of Shares. *For more information regarding such obligations, the Grantee should refer to the Employee Information Supplement for the Grantee's country, if any. The Grantee should also consult with his or her own personal tax and legal advisors to determine what, if any, obligations exist with respect to the Award and/or the acquisition or sale of Shares. Neither the Company nor the Employer is responsible for any failure on the part of the Grantee to be aware of or comply with Applicable Laws.*

ARGENTINA

Notifications

Elanco and Company Performance-Based Award

Securities Law Information. The Award and the Shares to be issued pursuant to the Award are offered as a private transaction and are not listed on any stock exchange in Argentina. This offering is not subject to supervision by any Argentine governmental authority.

AUSTRALIA

Terms and Conditions

Securities Law Information. Additional details regarding the offer of the Award are set out in the Australian Offer Document, a copy of which is attached to this Appendix for Australia as Annex 1.

Breach of Law. Notwithstanding anything to the contrary in the Award Agreement or the Plan, the Grantee will not be entitled to, and shall not claim, any benefit (including without limitation a legal right) under the Plan if the provision of such benefit would give rise to a breach of Part 2D.2 of the *Corporations Act 2001*, any other provision of that act, or any other applicable statute, rule or regulation that limits or restricts the provision of such benefit.

Notifications

Tax Information. The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Ctch) applies (subject to the conditions in that act).

Elanco and Company Performance-Based Award

Annex 1 to Appendix for Australia

AUSTRALIA - OFFER DOCUMENT
ELANCO ANIMAL HEALTH INCORPORATED
2018 ELANCO STOCK PLAN
PERFORMANCE-BASED AWARD AGREEMENT

The Company is pleased to provide the Grantee with this offer to participate in the Plan. This offer sets out information regarding the grant of Performance-Based Awards to Australian resident employees of the Company and its Affiliates. This offer is provided by the Company to ensure compliance of the Plan with Australian Securities and Investments Commission ("ASIC") Class Order 14/1000 and relevant provisions of the *Corporations Act 2001*.

In addition to the information set out in the Award Agreement, the Grantee is also being provided with copies of the following documents (collectively, the "Additional Documents"):

1. Notification regarding Award;
2. Plan;
3. Information Summary/Prospectus; and
4. Employee Information Supplement for Australia

The Additional Documents provide further information to help the Grantee make an informed investment decision about participating in the Plan. Neither the Plan nor the Information Summary/Prospectus is a prospectus for purposes of the *Corporations Act 2001*.

The Grantee should not rely upon any oral statements made in relation to this offer. The Grantee should rely only upon the statements contained in the Award Agreement and the Additional Documents when considering participation in the Plan.

Securities Law Notification

Investment in shares involves a degree of risk. Grantees who elect to participate in the Plan should monitor their participation and consider all risk factors relevant to the acquisition of Shares under the Plan as set out in the Award Agreement and the Additional Documents.

The information contained in this offer is general information only. It is not advice or information that takes into account the Grantee's objectives, financial situation and needs.

The Grantee should consider obtaining his or her own financial product advice from an independent person who is licensed by ASIC to give advice about participation in the Plan.

Elanco and Company Performance-Based Award

Additional Risk Factors for Australian Residents

The Grantee should have regard to risk factors relevant to investment in securities generally and, in particular, to the holding of Common Stock. For example, the price at which the Common Stock is traded on the New York Stock Exchange may increase or decrease due to a number of factors. There is no guarantee that the price of the Common Stock will increase. Factors which may affect the price of Common Stock include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the nature of the markets in which the Company operates and general operational and business risks.

In addition, the Grantee should be aware that the Australian dollar value of any Shares acquired pursuant to the Award will be affected by the U.S. dollar/Australian dollar exchange rate. Participation in the Plan involves certain risks related to fluctuations in this rate of exchange.

Common Stock

Common stock of a U.S. corporation is analogous to ordinary shares of an Australian corporation. Each holder of the Common Stock is entitled to one vote for each Share held.

Dividends may be paid on the Common Stock out of any funds of the Company legally available for dividends at the discretion of the Board.

The Common Stock is traded on the New York Stock Exchange in the United States of America under the symbol "ELAN."

The Shares are not liable to any further calls for payment of capital or for other assessment by the Company and have no sinking fund provisions, pre-emptive rights, conversion rights or redemption provisions.

Ascertaining the Market Price of Shares

The Grantee may ascertain the current market price of the Common Stock as traded on the New York Stock Exchange at <http://www.nyse.com> under the symbol "ELAN." The Australian dollar equivalent of that price can be obtained at: <http://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

This is not a prediction of what the market price of the Common Stock will be on any applicable vesting date or when Shares are issued to the Grantee or at any other time or of the applicable exchange rate at such time.

Elanco and Company Performance-Based Award

BRAZIL

Terms and Conditions

Nature of Grant. This provision supplements Section 10 of the Award Agreement:

By accepting the Award, the Grantee agrees that (i) he or she is making an investment decision, (ii) the Shares will be issued to the Grantee only if the Performance Goals are met and any necessary Services are rendered between the Grant Date and the end of the Performance Period, and (iii) the value of the underlying Shares is not fixed and may increase or decrease in value over the Performance Period without compensation to the Grantee.

Labor Law Acknowledgment. The Grantee agrees, for all legal purposes, (i) the benefits provided under the Award Agreement and the Plan are the result of commercial transactions unrelated to the Grantee's employment; (ii) the Award Agreement and the Plan are not a part of the terms and conditions of the Grantee's employment; and (iii) the income from the Award or Shares, if any, is not part of the Grantee's remuneration from employment.

Compliance with Law. By accepting the Award, the Grantee agrees to comply with all applicable Brazilian laws and agrees to report and pay any and all applicable taxes associated with the Award and the sale of the Shares acquired under the Plan.

CANADA

Terms and Conditions

Award Payable Only in Shares. The Award shall be paid in Shares only and does not provide the Grantee with any right to receive a cash payment.

Termination of Service. The following provision replaces Section 10(i) of the Award Agreement:

For purposes of the Award, the Grantee's Service shall be considered terminated as of the date that is the earliest of (i) the date on which the Grantee's Service is terminated, (ii) the date that the Grantee receives notice of termination of the Grantee's Service, or (iii) the date the Grantee is no longer actively providing Service to the Company or any Affiliate, regardless of any notice period or period of pay in lieu of such notice required under applicable employment laws in the jurisdiction where the Grantee is employed or otherwise providing Service (including, but not limited to statutory law, regulatory law and/or common law) or the terms of the Grantee's employment or other service agreement, if any. The Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing Service for purposes of the Award (including whether the Grantee may still be considered to be providing Service while on a leave of absence).

Elanco and Company Performance-Based Award

The following terms and conditions apply to employees resident in Quebec:

Language. The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à, la présente convention.

Data Privacy. This provision supplements Section 11 of the Award Agreement:

The Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or non-professional, involved in the administration and operation of the Plan. The Grantee further authorizes the Company and any Affiliate and the Committee to disclose and discuss the Plan with their advisors and to record all relevant information and keep such information in the Grantee's employee file.

Notifications

Securities Law Information. The Grantee is permitted to sell Shares acquired under the Plan through UBS or such other broker designated under the Plan, provided the resale of such Shares takes place outside of Canada through the facilities of a stock exchange on which the Company's Shares are listed. The Company's Shares are currently traded on the New York Stock Exchange ("NYSE") which is located outside of Canada, under the ticker symbol "ELAN", and Shares acquired under the Plan may be sold through this exchange.

CHILE

Notifications

Securities Law Notice. The grant of the Award constitutes a private offering in Chile effective as of the date of the Award Agreement. This offer of the Award is made subject to General Ruling N° 336 of the Chilean Commission for the Financial Market ("CMF"). This offer refers to securities not registered at the Securities Registry or at the Foreign Securities Registry of the CMF, and, therefore, such securities are not subject to oversight of the CMF. Given that the Award is not registered in Chile, the Company is not required to provide public information about the Award or Shares in Chile. Unless the Award and/or the Shares are registered with the CMF, a public offering of such securities cannot be made in Chile.

Elanco and Company Performance-Based Award

Esta oferta de los Derechos de Acciones Restringidas constituye una oferta privada de valores en Chile se inicia en la fecha de este documento. Esta oferta de los Derechos de Acciones Restringidas se acoge a las disposiciones de la norma de Carácter General N° 336 de la Comisión para el Mercado Financiero (CMF). Esta oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la CMF, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de los Derechos de Acciones Restringidas no inscritos en Chile no existe la obligación por parte del emisor de entregar en Chile información pública respecto de los mismos. Estos Derechos de Acciones Restringidas no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el registro de valores correspondiente.

CHINA

Terms and Conditions

Vesting. This provision replaces Sections 2(b) and 3(c) of the Award Agreement:

In the event the Grantee's Service is terminated due to Retirement, the Award shall accelerate and vest pro-rata at Target at the close of business in Greenfield, Indiana, U.S.A., on the date the Grantee's Service is terminated due to Retirement based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to Grantee's Retirement to (y) the total number of months from the Grant Date to the next scheduled vesting date. "Retirement" for purposes of this Award Agreement means either (A) age sixty (60) unless otherwise prescribed under Applicable Laws or (B) thirty (30) years of Service with the Company or an Affiliate, including any years of Service with Lilly prior to the Company's spin-off from Lilly.

This provision supplements Section 2 and Section 3 of the Award Agreement:

To facilitate compliance with any Applicable Laws or regulations in China, the Grantee agrees and acknowledges that the Company (or a brokerage firm instructed by the Company) is entitled to sell any or all Shares issued to the Grantee on or as soon as practicable after the applicable Vesting Date or other vesting event (on behalf of the Grantee and at the Grantee's direction pursuant to this authorization), either immediately after such Shares are issued to the Grantee or when the Grantee ceases Service or at such other time as the Company may determine is necessary or advisable to facilitate compliance with Applicable Laws or the administration of the Plan. The Grantee also agrees to sign any forms and/or consents that may be required by the Company and acknowledges that neither the Company nor the brokerage firm is under any obligation to arrange for such sale of the Shares at any particular price. In any event, when the Shares acquired under the Plan are sold, the proceeds of the sale of the Shares, less any Tax-Related Items and broker's fees or commissions, will be remitted to the Grantee in accordance with applicable exchange control laws and regulations.

Elanco and Company Performance-Based Award

Exchange Control Restrictions. The Grantee understands and agrees that, due to exchange control laws in China, the Grantee will be required to immediately repatriate to China any funds (e.g., proceeds from the sale of Shares) received pursuant to this Award. The Grantee further understands that such repatriation of the funds may need to be effected through a special exchange control account established by the Company or any Affiliate. The Grantee hereby consents and agrees that any funds received pursuant to this Award may be transferred to such special account prior to being delivered to the Grantee's personal account. The Grantee also understands that the Company will deliver the funds to the Grantee as soon as possible, but there may be delays in distributing the funds to the Grantee due to exchange control requirements in China. Funds may be paid to the Grantee in U.S. dollars or local currency at the Company's discretion. If the funds are paid to the Grantee in U.S. dollars, the Grantee will be required to set up a U.S. dollar bank account in China so that the funds may be deposited into this account. If the funds are paid to the Grantee in local currency, the Company is under no obligation to secure any particular exchange conversion rate and the Company may face delays in converting the funds to local currency due to exchange control restrictions. The Grantee further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

Neither the Company nor any Affiliate shall be liable for any costs, fees, lost interest or dividends or other losses the Grantee may incur or suffer resulting from the enforcement of the terms of this Addendum or otherwise from the Company's operation and enforcement of the Plan, the Award Agreement and the Shares in accordance with Chinese law, including, without limitation, any applicable State Administration of Foreign Exchange rules, regulations and requirements.

COLOMBIA

Terms and Conditions

Nature of Grant. This provision supplements Section 10 of the Award Agreement:

In accepting the Award, the Grantee acknowledges, understands and agrees that, pursuant to Article 128 of the Colombian Labor Code, the Award and any payment the Grantee receives pursuant to the Award do not constitute a component of "salary" and will not be considered as a salary nature payment for any legal purpose. Therefore, the Award and any related benefit will not be included and/or considered for purposes of calculating any labor benefits, such as legal/fringe benefits, vacations, indemnities, payroll taxes, social insurance contributions and/or any other labor-related amount which may be payable.

Elanco and Company Performance-Based Award

Notifications

Securities Law Information. The Shares are not and will not be registered with the Colombian registry of publicly traded securities (Registro Nacional de Valores y Emisores) and therefore the Shares may not be offered to the public in Colombia. Nothing in the Award Agreement should be construed as making a public offer of securities in Colombia.

DENMARK

Terms and Conditions

Employer Statement. The Grantee acknowledges that he or she has received an Employer Statement, translated into Danish, which includes a description of the terms of the Award as required by the Danish Stock Option Act.

FRANCE

Terms and Conditions

Award Not French-Qualified. The Award is not intended to be “French-qualified,” *i.e.*, it is not intended to qualify for specific tax and/or social security treatment in France.

Language Consent. In accepting the Award, the Grantee confirms having read and understood the documents relating to the Award (the Plan and the Award Agreement, including this Appendix), which were provided in English. The Grantee accepts the terms of those documents accordingly.

Consentement Relatif à la Langue Utilisée. En acceptant cette Attribution, le Bénéficiaire confirme avoir lu et compris les documents relatifs à cette Attribution (le Plan le Contrat d'Attribution incluant cette Annexe), qui ont été remis en langue anglaise. Le Bénéficiaire accepte les termes de ces documents en conséquence.

INDIA

Notifications

Exchange Control Information. The Grantee is required to repatriate the proceeds from the sale of Shares and any dividends received in relation to the Shares to India within any time frame prescribed under applicable Indian exchange control laws, as may be amended from time to time. The Grantee must maintain the foreign inward remittance certificate received from the bank where the foreign currency is deposited in the event that the Reserve Bank of India or the Grantee's employer requests proof of repatriation. It is the Grantee's responsibility to comply with applicable exchange control laws in India.

Elanco and Company Performance-Based Award

ITALY

Terms and Conditions

Plan Document Acknowledgment. In accepting the Award, the Grantee acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Award Agreement (including this Appendix) in their entirety and fully understands and accepts all provisions of the Plan and the Award Agreement (including this Appendix) and, in particular, Section 2 (Vesting).

LEBANON

Terms and Conditions

Securities Law Information. The Plan does not constitute the marketing or offering of securities in Lebanon pursuant to Law No. 161 (2011), the Capital Markets Law. Offers under the Plan are being made only to Eligible Individuals.

MALAYSIA

Notifications

Director Notification Information. If the Grantee is a director of a Malaysian Affiliate, he or she is subject to certain notification requirements under the Malaysian Companies Act, 2016. Among these requirements is an obligation to notify the Malaysian Affiliate in writing when the Grantee receives or disposes of an interest (e.g., the Award, Shares) in the Company or a related company. This notification must be made within fourteen (14) days after acquiring or disposing of any interest in the Company or a related company.

MEXICO

Terms and Conditions

Acknowledgement of the Award Agreement. By accepting the Performance-Based Award, the Grantee acknowledges that he or she has received a copy of the Plan and the Award Agreement, including this Appendix, which he or she has reviewed. The Grantee further acknowledges that he or she accepts all the provisions of the Plan and the Award Agreement, including this Appendix. The Grantee also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in the “Grantee’s Acknowledgement” section of the Award Agreement, which clearly provide as follows:

- (1) The Grantee’s participation in the Plan does not constitute an acquired right;

Elanco and Company Performance-Based Award

- (2) The Plan and the Grantee's participation in it are offered by the Company on a wholly discretionary basis;
- (3) The Grantee's participation in the Plan is voluntary; and
- (4) The Company and its Affiliates are not responsible for any decrease in the value of any Shares acquired pursuant to the Performance-Based Awards.

Labor Law Acknowledgement and Policy Statement. By accepting the Award, the Grantee acknowledges that the Company, with registered offices at the Elanco Animal Health Inc. Global Headquarters, Greenfield, Indiana 46140, U.S.A., is solely responsible for the administration of the Plan. The Grantee further acknowledges that his or her participation in the Plan, the grant of Performance-Based Awards and any acquisition of Shares under the Plan do not constitute an employment relationship between the Grantee and the Company because the Grantee is participating in the Plan on a wholly commercial basis and his or her sole employer is Elanco Salud Animal SA de CV ("Elanco-Mexico"). Based on the foregoing, the Grantee expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between the Grantee and his or her Employer, Elanco-Mexico, and do not form part of the employment conditions and/or benefits provided by Elanco-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of the Grantee's employment.

The Grantee further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue the Grantee's participation in the Plan at any time, without any liability to the Grantee.

Finally, the Grantee hereby declares that he or she does not reserve to him- or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

Spanish Translation

Reconocimiento del Convenio de Concesión. *Al aceptar el Premio de Desempeño, el Beneficiario reconoce que ha recibido y revisado una copia del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario reconoce y acepta todas las disposiciones del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario también reconoce que ha leído y aprobado de forma expresa los términos y condiciones establecidos en la sección: "Naturaleza de la Concesión" del Convenio de Concesión, que claramente establece lo siguiente:*

Elanco and Company Performance-Based Award

- (1) La participación del Beneficiario en el Plan no constituye un derecho adquirido;*
- (2) El Plan y la participación del Beneficiario en el es ofrecido por la Compañía de manera completamente discrecional;*
- (3) La participación del Beneficiario en el Plan es voluntaria; y*
- (4) La Compañía y sus Afiliadas no son responsables por ninguna disminución en el valor de las Acciones adquiridas de conformidad con el Premio de Desempeño.*

Reconocimiento de la legislación Laboral aplicable y Declaración de la Política. Al aceptar el Premio, el Beneficiario reconoce que Company, con domicilio social en the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A., es la única responsable por la administración del Plan. Además, el Beneficiario reconoce que su participación en el Plan, la concesión de Unidades de Acciones Restringidas y cualquier adquisición de Acciones bajo el Plan no constituyen una relación laboral entre el Beneficiario y Company, en virtud de que el Beneficiario está participando en el Plan en su totalidad sobre una base comercial y su único empleador es Elanco Salud Animal SA de CV ("Elanco-México"). Por lo anterior, el Beneficiario expresamente reconoce que el Plan y los beneficios que puedan derivarse de su participación no establecen ningún derecho entre el Beneficiario y su empleador, Elanco-México, y que no forman parte de las condiciones de trabajo y/o beneficios otorgados por Elanco-México, y cualquier modificación del Plan o la terminación del mismo no constituirá un cambio o modificación de los términos y condiciones en el empleo del Beneficiario.

Además, el Beneficiario comprende que su participación en el Plan es el resultado de una decisión discrecional y unilateral de la Company, por lo que Company se reserva el derecho absoluto de modificar y/o suspender la participación del Beneficiario en el Plan en cualquier momento, sin responsabilidad frente al Beneficiario.

Finalmente, el Beneficiario manifiesta que no se reserva acción o derecho alguno que origine una demanda en contra de Company, por cualquier compensación o daño relacionada con las disposiciones del Plan o de los beneficios otorgados en el mismo, y en consecuencia el Beneficiario libera de la manera más amplia y total de responsabilidad a E Company, sus subsidiarias, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales de cualquier demanda que pudiera surgir.

PHILIPPINES

Terms and Conditions

Compliance with Law. The following provision supplements Section 3.3(h) of the Plan:

Elanco and Company Performance-Based Award

The Grantee acknowledges that the Grantee's participation in the Plan is subject to the Company obtaining an exemption from the registration requirements under Section 10.2 of the Philippines Securities Regulation Code. Without limitation to the foregoing, the Grantee understands and agrees that the issuance and delivery of Shares pursuant to the Award will be delayed until the Company obtains such exemption or the Committee has otherwise determined that the issuance of the Shares can be made in compliance with applicable laws and that the Company may settle the Award in cash, in its sole discretion if such requirements have not been met.

Notifications

Securities Law Notice. The risks of participating in the Plan include (without limitation) the risk of fluctuation in the price of the Shares on the New York Stock Exchange and the risk of currency fluctuations between the U.S. Dollar and your local currency. The value of any Shares the Grantee may acquire under the Plan may decrease below the value of the Shares at vesting and fluctuations in foreign exchange rates between the Grantee's local currency and the U.S. Dollar may affect the value of any amounts due to you pursuant to the subsequent sale of any Shares acquired upon vesting. The Company is not making any representations, projections or assurances about the value of the Shares now or in the future.

For further information on risk factors impacting the Company's business that may affect the value of the Shares, you may refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov, as well as on the Company's "Investor Relations" website at <https://investor.elanco.com/investors/investor-resources/faqs/default.aspx>.

The Grantee is permitted to sell Shares acquired under the Plan through the designated Plan broker appointed by the Company (or such other broker to whom the Grantee transfers Shares), provided that such sale takes place outside of the Philippines through the facilities of the New York Stock Exchange on which the Shares are listed.

PORTUGAL

Terms and Conditions

Language Acknowledgement. The Grantee hereby expressly declares that he or she has full knowledge of the English language and has read, understood and freely accepted and agreed with the terms and conditions established in the Plan and the Award Agreement.

Conhecimento da Língua. *O Contratado, pelo presente instrumento, declara expressamente que tem pleno conhecimento da língua inglesa e que leu, compreendeu*

Elanco and Company Performance-Based Award

e livremente aceitou e concordou com os termos e condições estabelecidas no Plano e no Acordo de Atribuição (Award Agreement em inglês).

RUSSIA

Terms and Conditions

U.S. Transaction. The Grantee understands that accepting the Award and the terms and conditions of the Award Agreement will result in a contract between the Grantee and the Company completed in the United States and that the Award Agreement is governed by U.S. law. The Grantee understands and acknowledges that any Shares issued under the Plan shall be delivered to the Grantee through a brokerage account maintained outside Russia. The Grantee understands that the Grantee may hold Shares in a brokerage account outside Russia; however, in no event will Shares issued to the Grantee and/or share certificates or other instruments be delivered to the Grantee in Russia. The Grantee acknowledges and agrees that the Grantee is not permitted to sell or otherwise transfer the Shares directly to other Russian legal entities or individuals. Finally, the Grantee acknowledges and agrees that the Grantee may sell or otherwise transfer the Shares only outside Russia.

Notifications

Securities Law Information. This Appendix, the Award Agreement, the Plan and all other materials that the Grantee may receive regarding the Plan, do not constitute advertising or an offering of securities in Russia. The issuance of securities pursuant to the Plan has not and will not be registered in Russia; hence, the securities described in any Plan-related documents may not be used for offering or public circulation in Russia.

Exchange Control Information. Under current exchange control regulations in Russia, certain funds received outside of Russia must be repatriated to Russia as soon as the Grantee intends to use those amounts for any purpose, including reinvestment. Such funds must initially be credited to the Grantee through a foreign currency account at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

As an exception to the above-mentioned repatriation rule, (i) cash proceeds from the sale of shares listed on one of the foreign stock exchanges on the list provided for by the Russian Federal law “On the Securities Market” (which currently includes the New York Stock Exchange) can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD (Organization for Economic Co-operation and Development) or FATF (Financial Action Task Force) country, and (ii) cash dividends paid on shares can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD or FATF country. Other exceptions may apply.

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SOUTH AFRICA

Terms and Conditions

Securities Law Information. In compliance with South African securities law, the Grantee acknowledges that he or she has been notified that the following documents listed below are available for the Grantee's review at the applicable website listed below:

- (1) The Company's most recent annual financial statement, available at: <https://investor.elanco.com/investors/financials-and-filings/sec-filings/default.aspx>.
- (2) The Company's most recent Information Summary/Prospectus, which is viewable within the Recordkeeping Information Document Library on UBS Financial Services Inc. at: <http://equity.elancodirect.com>.

The Grantee acknowledges that he or she may have a copy of the above documents sent to him or her, without fee, on written request to the Secretary of the Company at the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A.

Responsibility for Taxes. This provision supplements Section 8 of the Award Agreement:

By accepting the Award, the Grantee agrees to notify the Employer of the amount of any gain realized when the Award vests and Shares are issued (or the cash equivalent is paid) to the Grantee. If the Grantee fails to advise the Employer of the gain realized when the Award vests and Shares are issued, the Grantee may be liable for a fine.

SPAIN

Terms and Conditions

Vesting. This provision supplements Section 2 of the Award Agreement:

As a condition of the grant of the Award, termination of the Grantee's Service for any reason (including for the reasons listed below but excluding for the reasons specified in Section 3(c) of the Award Agreement) will automatically result in the forfeiture and loss of the Award and the underlying Shares to the extent that the Award has not yet vested as of the date of termination of the Grantee's Service. In particular, and without limitation to the provisions of the Award Agreement and the Plan, the Grantee understands and agrees that the Award will be cancelled without entitlement to the underlying Shares or to any amount as indemnification if the Grantee terminates employment by reason of, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without good cause (*i.e.*, subject to a "*despido improcedente*"), individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or

Elanco and Company Performance-Based Award

recognized to be without cause (unless such layoff falls within the meaning of a plant closing or reduction in workforce as described in Section 3(c)), material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985 (unless such layoff falls within the meaning of a medical reassignment as described in Section 3(c)). The Grantee acknowledges that he or she has read and specifically accepts the vesting conditions referred to in Section 2 of the Award Agreement.

Grantee's Acknowledgement. This provision supplements Section 10 of the Award Agreement:

The Grantee understands that the Company has unilaterally, gratuitously and discretionally decided to grant Performance-Based Awards under the Plan to individuals who may be Employees of the Company or its Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any of its Affiliates on an ongoing basis except to the extent otherwise provided in the Plan and this Award Agreement. Consequently, the Grantee understands that the Performance-Based Awards are granted on the assumption and condition that the Performance-Based Awards and any Shares acquired pursuant to the Performance-Based Awards shall not become a part of any employment contract (either with the Company or any of its Affiliates) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, the Grantee understands that this grant would not be made to the Grantee but for the assumptions and conditions referred to above; thus, the Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of Performance-Based Awards may be cancelled.

Notifications

Securities Law Information. No "offer of securities to the public," as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the Award. The Award Agreement has not nor will it be registered with the *Comisión Nacional del Mercado de Valores*, and does not constitute a public offering prospectus.

SWITZERLAND

Notifications

Securities Law Information. The grant of the Performance-Based Awards and the issuance of Shares is not intended to be publicly offered in or from Switzerland. Because this is a private offering in Switzerland, the Performance-Based Awards are not

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subject to registration in Switzerland. Neither this Award Agreement nor any other materials relating to the Performance-Based Awards (i) constitute a prospectus as such term is understood pursuant to article 652a of the Swiss Code of Obligations, (ii) may be publicly distributed nor otherwise made publicly available in Switzerland, or (iii) have been or will be filed with, approved or supervised by any Swiss regulatory authority, including the Swiss Financial Market Supervisory Authority ("FINMA").

TAIWAN

Notifications

Securities Law Information. The offer of participation in the Plan is available only for Employees of the Company and its Affiliates. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

TURKEY

Notifications

Securities Law Information. Under Turkish law, the Grantee is not permitted to sell any Shares acquired under the Plan in Turkey. The Shares are currently traded on the New York Stock Exchange in the United States of America, under the ticker symbol of "ELAN" and Shares acquired under the Plan may be sold through this exchange.

UNITED KINGDOM

Terms and Conditions

Settlement. Section 5(e) of the Award Agreement shall not apply to Performance-Based Awards granted in the United Kingdom.

Responsibility for Taxes. This provision supplements Section 8 of the Award Agreement:

Without limitation to Section 8 of the Award Agreement, the Grantee agrees that he or she is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items, as and when requested by the Company and/or the Employer or by Her Majesty's Revenue & Customs ("HMRC") (or any other tax authority or any other relevant authority). The Grantee also agrees to indemnify and keep indemnified the Company and/or the Employer against any Tax-Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Grantee's behalf.

Notwithstanding the foregoing, if the Grantee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the foregoing

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provision will not apply. In this case, the amount of any Tax-Related Items not collected from or paid by the Grantee may constitute a benefit to the Grantee on which additional income tax and National Insurance contributions ("NICs") may be payable. The Grantee understands that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for paying to the Company and/or the Employer (as appropriate) the amount of any employee NICs due on this additional benefit. Grantee acknowledges that the Company and/or the Employer (as appropriate) may recover such additional NICs at any time thereafter by any of the means referred to in Section 8 of the Award Agreement.

Joint Election. As a condition of Grantee's participation in the Plan and vesting of the Performance-Based Awards, the Grantee agrees to accept any liability for secondary Class 1 national insurance contributions which may be payable by the Company and/or the Employer in connection with the Performance-Based Awards and any event giving rise to Tax-Related Items (the "Employer NICs"). Without prejudice to the foregoing, by accepting this Award, the Grantee is entering into a joint election with the Company or the Employer if he or she has not already done so, the form of such joint election being formally approved by HMRC (the "Joint Election"), a copy of which is attached to this Appendix for the United Kingdom as Annex 1, and any other required consent or election. The Grantee further agrees to execute such other joint elections as may be required between him or her and any successor to the Company and/or the Employer. The Grantee further agrees that the Company and/or the Employer may collect the Employer NICs from him or her by any of the means set forth in Section 8 of the Award Agreement.

Elanco and Company Performance-Based Award

Annex 1 to Appendix for United Kingdom

Important Note on the Joint Election for Transfer of Liability for Employer National Insurance Contributions to the Grantee:

As a condition of the Grantee's participation in the Elanco 2018 Stock Plan, as amended from time to time (the "Plan"), the Grantee is required to enter into a joint election to transfer to the Grantee any liability for employer National Insurance contributions (the "Employer NICs") that may arise in connection with the Performance-Based Award (the "Award") and in connection with future awards, if any, that may be granted to the Grantee under the Plan (the "Joint Election").

By entering into the Joint Election:

- the Grantee agrees that any liability for Employer NICs that may arise in connection with or pursuant to the vesting of the Award and the acquisition of shares of common stock of Elanco Animal Health Inc. (the "Company") or other taxable events in connection with the Award will be transferred to the Grantee; and
- the Grantee authorizes the Company and/or the Grantee's employer to recover an amount sufficient to cover this liability by any method set forth in the Award Agreement and/or the Joint Election.

To enter into the Joint Election and to accept the Award, please select the button next to "Accept" where indicated on the Pending Acceptance screen. Please note that selecting the button next to "Accept" indicates the Grantee's agreement to be bound by all of the terms of the Joint Election.

Please note that even if the Grantee has indicated his or her acceptance of this Joint Election electronically, the Grantee may still be required to sign a paper copy of this Joint Election (or a substantially similar form) if the Company determines such is necessary to give effect to the Joint Election.

Please read the terms of the Joint Election carefully before accepting the Award Agreement and the Joint Election. The Grantee should print and keep a copy of this Joint Election for his or her records.

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United Kingdom

Joint Election for Transfer of Liability for
Employer National Insurance Contributions to Employee

Election To Transfer the Employer's National Insurance Liability to the Employee

This Election is between:

- A. The individual who has obtained authorised access to this Election (the “**Employee**”), who is employed by one of the employing companies listed in the attached schedule (the “**Employer**”) and who is eligible to receive performance based awards (the “**Performance-Based Award**”) pursuant to the 2018 Elanco Stock Plan (the “**Plan**”), and
- B. Elanco Animal Health Inc., an Indiana corporation, with registered offices at Greenfield, Indiana 46140, U.S.A. (the “**Company**”), which may grant Performance-Based Awards under the Plan and is entering into this Election on behalf of the Employer.

1. Introduction

1.1 This Election relates to all Performance-Based Awards granted to the Employee under the Plan on or after February 1, 2019 up to the termination date of the Plan.

1.2 In this Election the following words and phrases have the following meanings:

- (a) “**Chargeable Event**” means any event giving rise to Relevant Employment Income.
- (b) “**ITEPA**” means the Income Tax (Earnings and Pensions) Act 2003.
- (c) “**Relevant Employment Income**” from Performance-Based Awards on which Employer's National Insurance Contributions becomes due is defined as:
 - (i) an amount that counts as employment income of the earner under section 426 ITEPA (restricted securities: charge on certain post-acquisition events);
 - (ii) an amount that counts as employment income of the earner under section 438 of ITEPA (convertible securities: charge on certain post-acquisition events); or

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- (iii) any gain that is treated as remuneration derived from the earner's employment by virtue of section 4(4)
 - (a) SSCBA, including without limitation:
 - (A) the acquisition of securities pursuant to the Performance-Based Awards (within the meaning of section 477(3)(a) of ITEPA);
 - (B) the assignment (if applicable) or release of the Performance-Based Awards in return for consideration (within the meaning of section 477(3)(b) of ITEPA);
 - (C) the receipt of a benefit in connection with the Performance-Based Awards, other than a benefit within (i) or (ii) above (within the meaning of section 477(3)(c) of ITEPA).

(d) "SSCBA" means the Social Security Contributions and Benefits Act 1992.

- 1.3 This Election relates to the Employer's secondary Class 1 National Insurance Contributions (the "Employer's Liability") which may arise in respect of Relevant Employment Income in respect of the Performance-Based Awards pursuant to section 4(4)(a) and/or paragraph 3B(1A) of Schedule 1 of the SSCBA.
- 1.4 This Election does not apply in relation to any liability, or any part of any liability, arising as a result of regulations being given retrospective effect by virtue of section 4B(2) of either the SSCBA, or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
- 1.5 This Election does not apply to the extent that it relates to relevant employment income which is employment income of the earner by virtue of Chapter 3A of Part VII of ITEPA (employment income: securities with artificially depressed market value).

2. The Election

The Employee and the Company jointly elect that the entire liability of the Employer to pay the Employer's Liability that arises on any Relevant Employment Income is hereby transferred to the Employee. The Employee understands that, by accepting the Performance-Based Award (whether in hard copy or electronically) or by accepting this Election (whether in hard copy or electronically), he or she will become personally liable for the Employer's Liability covered by this Election. This Election is made in accordance with paragraph 3B(1) of Schedule 1 of the SSCBA.

3. Payment of the Employer's Liability

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- 3.1 The Employee hereby authorises the Company and/or the Employer to collect the Employer's Liability in respect of any Relevant Employment Income from the Employee at any time after the Chargeable Event:
- (a) by deduction from salary or any other payment payable to the Employee at any time on or after the date of the Chargeable Event; and/or
 - (b) directly from the Employee by payment in cash or cleared funds; and/or
 - (c) by arranging, on behalf of the Employee, for the sale of some of the securities which the Employee is entitled to receive in respect of the Performance-Based Awards, the proceeds from which must be delivered to the Employer in sufficient time for payment to be made to Her Majesty's Revenue & Customs ("HMRC") by the due date; and/or
 - (d) where the proceeds of the gain are to be paid through a third party, the Employee will authorize that party to withhold an amount from the payment or to sell some of the securities which the Employee is entitled to receive in respect of the Performance-Based Awards, such amount to be paid in sufficient time to enable the Company and/or the Employer to make payment to HMRC by the due date; and/or
 - (e) by any other means specified in the applicable Performance-Based Award agreement entered into between the Employee and the Company.
- 3.2 The Company hereby reserves for itself and the Employer the right to withhold the transfer of any securities to the Employee in respect of the Performance-Based Awards until full payment of the Employer's Liability is received.
- 3.3 The Company agrees to procure the remittance by the Employer of the Employer's Liability to HMRC on behalf of the Employee within 14 days after the end of the UK tax month during which the Chargeable Event occurs (or within 17 days after the end of the UK tax month during which the Chargeable Event occurs if payments are made electronically).
- 4. Duration of Election**
- 4.1 The Employee and the Company agree to be bound by the terms of this Election regardless of whether the Employee is transferred abroad or is not employed by the Employer on the date on which the Employer's Liability becomes due.
- 4.2 Any reference to the Company and/or the Employer shall include that entity's successors in title and assigns as permitted in accordance with the terms of the Plan and relevant award agreement. This Election will continue in effect in

Elanco and Company Performance-Based Award

respect of any awards which replace the Performance-Based Awards in circumstances where section 483 of ITEPA applies.

4.3 This Election will continue in effect until the earliest of the following:

- (a) the date on which the Employee and the Company agree in writing that it should cease to have effect;
- (b) the date on which the Company serves written notice on the Employee terminating its effect;
- (c) the date on which HMRC withdraws approval of this Election; or
- (d) the date on which, after due payment of the Employer's Liability in respect of the entirety of the Performance-Based Awards to which this Election relates or could relate, the Election ceases to have effect in accordance with its own terms.

4.4 This Election will continue in force regardless of whether the Employee ceases to be an employee of the Employer.

Acceptance by the Employee

The Employee acknowledges that, by clicking on the button next to "Accept" to accept the Performance-Based Awards Agreement and this Election (or by signing the Performance-Based Awards Agreement or this Election whether in hard copy or electronically), the Employee agrees to be bound by the terms of this Election.

Acceptance by the Company

The Company acknowledges that, by signing this Election or arranging for the scanned signature of an authorised representative to appear on this Election, the Company agrees to be bound by the terms of this Election.

Signature for and on behalf of the Company

Position

Elanco and Company Performance-Based Award

Schedule of Employer Companies

The employing companies to which this Election relates include:

Name:	Elanco UK AH Limited
Registered Office:	Lilly House, Priestley Road, Basingstoke, Hants RG24 9NL
Company Registration Number:	11378434
Corporation Tax Reference:	4312717782
PAYE Reference:	475/FB88335

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The Elanco Corporate Bonus Plan
(as amended effective January 1, 2020)

As Amended Effective January 1, 2020

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The Elanco Corporate Bonus Plan
(as amended effective January 1, 2020)

SECTION 1. PURPOSE

The purpose of The Elanco Corporate Bonus Plan (the “Plan”) is to encourage and promote eligible employees to create and deliver innovative animal health-based solutions that enable Elanco Animal Health Incorporated (the “Company” or “Elanco”) to meet or exceed its business objectives through a constant stream of innovation. The Plan is designed to accomplish the following key objectives:

- a. Motivate superior employee performance through the implementation of a performance-based bonus system for all eligible global employees providing services to the Company;
- b. Create a direct relationship between key Company measurements and individual bonus payouts; and
- c. Enable the Company to attract and retain employees who will be instrumental in driving the Company’s sustained growth and performance by providing a competitive bonus program that rewards outstanding performance consistent with the Company’s mission, values and increased shareholder value.

SECTION 2. DEFINITIONS

The following words and phrases as used in this Plan will have the following meanings unless a different meaning is clearly required by the context. Masculine pronouns will refer both to males and to females:

- 2.1 Applicable Year means the calendar year immediately preceding the year in which payment of the Company Bonus is payable pursuant to Section 6. For example, the Applicable Year for 2021 payout is January 1, 2020 through December 31, 2020.
- 2.2 Bonus Target means the percentage of Participant Earnings for each Participant as described in Section 5.6(a) below.
- 2.3 Business Plan means Elanco Animal Health Incorporated’s annual plan for Revenue and Earnings Before Interest and Taxes, Depreciation and Amortization.
- 2.4 Committee means the Compensation Committee of the Board of Directors of Elanco Animal Health Incorporated.
- 2.5 Company means Elanco Animal Health Incorporated and its subsidiaries.

- 2.6 Company Bonus means the amount of bonus compensation payable to a Participant as described in Section 5 below. Notwithstanding the foregoing, however, the Committee may determine, in its sole discretion, to reduce the amount of a Participant's Company Bonus if such Participant becomes eligible to participate in such other bonus program of the Company as may be specifically designated by the Committee. Such reduction may be by a stated percentage up to and including 100% of the Company Bonus.
- 2.7 Company Performance Bonus Multiple means the amount as calculated in Sections 5.3 and 5.4 below.
- 2.8 Disabled means a Participant who has become "disabled" and unable to work under the applicable disability benefit plan or program for the Participant, or, in the event that there is no such disability benefit plan or program, has become disabled and unable to work under applicable law.
- 2.9 Earnings means the Company's Earnings Before Interest and Taxes, Depreciation and Amortization included in the Company's 10-K filed with the U.S. Securities and Exchange Commission, excluding such items as may be adjusted by the Committee in accordance with Section 3.4 below.
- 2.10 EBITDA to Plan means the profit from business operations (gross profit less operating expenses) before deduction of interest and taxes, depreciation and amortization, based on actual foreign currency rates, and excluding such items as may be adjusted by the Committee in accordance with Section 3.4 below, relative to the Company's annual plan for EBITDA.
- 2.11 EBITDA means Earnings Before Interest and Taxes, Depreciation and Amortization.
- 2.12 Effective Date means January 1, 2020, as amended from time to time.
- 2.13 Elanco means Elanco Animal Health Incorporated and its subsidiaries.
- 2.14 Eligible Employee means:
- a. with respect to employees of the Company working in the United States, including employees in Puerto Rico, a person who (1) is employed as an employee by Elanco; (2) does not participate in a local Elanco affiliate bonus or incentive program (i.e., a plan for eligible employees in sales, marketing and technical consulting) or any local site manufacturing bonus plan for Elanco; (3) works on a scheduled basis of twenty (20) or more hours per week and is scheduled to work at least five (5) months per year; and (4) is receiving compensation, including temporary illness pay under a temporary illness pay program or similar short-term disability program, from the Company for services rendered as an employee. Notwithstanding anything herein to the contrary, the term "Eligible Employee" will not include:

- (1) a person who is Disabled;
 - (2) a person who is a “leased employee” within the meaning of Section 414(n) of the Internal Revenue Code of 1986, as amended, or whose basic compensation for services on behalf of the Company is not paid directly by the Company;
 - (3) a person who is classified as a “Fixed Duration Employee”, as that term is used by the Company;
 - (4) a person who is classified as a special status employee because his employment status is temporary, seasonal, or otherwise inconsistent with regular employment status;
 - (5) a person who is a member of a recognized collective-bargaining unit, including those members of the United Food and Commercial Workers Local 6 at Fort Dodge, Iowa;
 - (6) a person who is eligible to participate in other Company bonus or incentive programs as may be specifically designated by the Committee or its designee;
 - (7) a person who submits to the Committee in writing a request that he or she not be considered eligible for participation in the Plan or is a member of the Board of Directors of Elanco unless he or she is also an Eligible Employee; or
 - (8) any other category of employees designated by the Committee in its discretion with respect to any Applicable Year.
- b. with respect to those employees who are employed by the Company and working outside the United States, an employee of the Company designated by the Committee as a Participant in the Plan with respect to any Applicable Year. In its discretion, the Committee may designate Participants either on an individual basis or by determining that all employees in specified job categories, classifications, levels, subsidiaries or other appropriate classification will be Participants.
- c. Notwithstanding anything herein to the contrary, the term Eligible Employee will not include any person who is not so recorded on the payroll records of the Company, including any such person who is subsequently reclassified by a court of law or regulatory body as a common law employee of the Company. Consistent with the foregoing, and for purposes of clarification only, the term employee or Eligible Employee does not include any individual who performs

services for the Company as an independent contractor or under any other non-employee classification.

2.15 Innovation Progression means measurements of Elanco's key scientific project progression and milestone delivery during the Applicable Year against goals established and approved by the Committee to be used for purposes of bonus calculations as described below. Such measures may include, but are not limited to, product approvals, products entering early or late stage development, reaching specified project milestones and/or qualitative assessment of the portfolio's progress during the Applicable Year.

2.16 Participant means an Eligible Employee who is participating in the Plan.

2.17 Participant Earnings means:

- a. those amounts described below that are earned during the portion of the Applicable Year during which the employee is a Participant in the Plan:
 - (1) regular compensation (including applicable deferred compensation amounts), overtime, shift premiums and other forms of additional compensation determined by and paid currently pursuant to an established formula or procedure;
 - (2) salary reduction contributions to the Company's 401(k) plan or elective contributions under any similar tax-qualified plan that is intended to meet the requirements of Section 401(k) of the Internal Revenue Code or similar Company savings program;
 - (3) elective contributions to any cafeteria plan that is intended to meet the requirements of Section 125 of the Internal Revenue Code or other pre-tax contributions to a similar Company benefit plan;
 - (4) payments made under the terms of the Company's temporary illness pay program or other similar Company or government-required leave program during an Applicable Year to a Participant who is on approved leave of absence and is receiving one hundred percent (100%) of his base pay; and
 - (5) other legally-mandated or otherwise required pre-tax deductions from a Participant's base salary.
- b. The term "Participant Earnings" does not include:
 - (1) compensation paid in lieu of earned vacation;
 - (2) payments made under the terms of the Company's temporary illness pay program or other similar Company or government-required leave program

during an Applicable Year to a Participant who is on approved leave of absence and is receiving less than the full amount of his base pay;

- (3) amounts paid under this Plan or other bonus, commission, or incentive program of the Company;
- (4) payments made under any severance-type benefits (whether company-sponsored or mandated by law) arising out of or relating to a Participant's termination of employment;
- (5) payments based upon the discretion of the Company; and
- (6) earnings with respect to the exercise of stock options, vesting of restricted stock units or vesting of restricted stock.

- 2.18 Plan means The Elanco Corporate Bonus Plan as set forth herein and as hereafter modified or amended from time to time. The Plan is an incentive compensation program and is not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), pursuant to Department of Labor Regulation Section 2510.3.
- 2.19 Plant Closing means the closing of a plant site or other Company location that directly results in termination of employment.
- 2.20 Reduction in Workforce means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of employment.
- 2.21 Revenue means, for any Applicable Year, the cumulative amount of total net sales by Elanco as reported by Elanco's Corporate Financial Planning Department based on actual foreign currency rates, excluding such items as may be adjusted by the Committee in accordance with Section 3.4 below.
- 2.22 Revenue to Plan means, for any Applicable Year, the cumulative amount of total net sales by Elanco as reported by Elanco's Corporate Financial Planning Department based on actual foreign currency rates, excluding such items as may be adjusted by the Committee in accordance with Section 3.4 below, relative to the Company's annual plan for Revenue.
- 2.23 Service means the aggregate time of employment of an Eligible Employee by the Company.

SECTION 3. ADMINISTRATION

- 3.1 Committee. The Plan will be administered by the Committee, or any successor committee having the same function as the Committee.

- 3.2 Powers of the Committee. The Committee will have the right to interpret the terms and provisions of the Plan and to resolve any and all questions arising under the Plan, including, without limitation, the right to remedy possible ambiguities, inconsistencies, or omissions by a general rule or particular decision. The Committee will have authority to adopt, amend and rescind rules consistent with the Plan, to make exceptions in particular cases to the rules of eligibility for participation in the Plan, and to delegate authority for approval of participation of any Eligible Employee. The Committee will take all necessary action to establish annual performance benchmarks and approve the timing of payments, as necessary. The Committee may delegate all or a portion of its responsibilities within its sole discretion by resolution. Any reference in this Plan to the Committee or its authority will be deemed to include such designees (other than with respect to the purposes of Section 9).
- 3.3 Determination of Results. Before any amount is paid under the Plan, the Committee will determine in writing the calculation of Revenue, Revenue to Plan, EBITDA, EBITDA to Plan (or other applicable performance measures) and Innovation Progression for the Applicable Year and the satisfaction of all other material terms of the calculation of the Company Performance Bonus Multiple and Company Bonus.
- 3.4 Adjustments for Significant Events. Not later than 90 days after the beginning of an Applicable Year, the Committee may specify with respect to Company Bonuses for the Applicable Year that the performance measures described in Section 5.2 will be determined before the effects of acquisitions, divestitures, restructurings or special charges or gains, changes in corporate capitalization, accounting changes, and/or events that are treated as extraordinary items for accounting purposes.
- 3.5 Finality of Committee Determinations. Any determination by the Committee of Revenue, Revenue to Plan, EBITDA, EBITDA to Plan, Innovation Progression, any other performance measure, performance benchmarks and the level and entitlement to Company Bonus, and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan, will be final and binding for all purposes and upon all interested persons, their heirs, and personal representatives. The Committee may rely on determinations made by its auditors to determine Revenue, Revenue to Plan, EBITDA, EBITDA to Plan, Innovation Progression and related information for administration of the Plan, whether such information is determined by the Company, auditors or a third-party vendor engaged specifically to provide such information to the Company. This subsection is not intended to limit the Committee's power, to the extent it deems proper in its discretion, to take any action permitted under the Plan.

SECTION 4. PARTICIPATION IN THE PLAN

- 4.1 General Rule. Only Eligible Employees may participate in and receive payments under the Plan.

- 4.2 Commencement of Participation. An Eligible Employee will become a Participant in the Plan as follows: (i) in the case of an Eligible Employee under Section 2.14(a), on the date on which the individual completes at least one hour of employment as an Eligible Employee within the United States, and (ii) in the case of an Eligible Employee under Section 2.14(b), the later of the date on which the individual completes at least one hour of employment as an Eligible Employee or the date as of which the Committee has designated the individual to become a Participant in the Plan.
- 4.3 Termination of Participation. An Eligible Employee will cease to be a Participant upon termination of employment with the Company for any reason, or at the time he or she otherwise ceases to be an Eligible Employee under the Plan; provided, however, a terminated Participant shall be eligible for a Company Bonus to the extent provided in Section 5.8.

SECTION 5. DEFINITION AND COMPUTATION OF COMPANY BONUS

- 5.1 Computation for Eligible Employees. Company Bonus amounts will depend significantly on Company performance, as well as whether Participants met their job expectations for certain Eligible Employees. As more specifically described below, a Participant's Company Bonus is calculated by multiplying the Participant's Bonus Target by his or her Participant Earnings and the Company Performance Bonus Multiple. For eligible management and those Participants designated by the Committee, whether an individual met his or her job expectations will also impact the Company Bonus calculation, as described in Section 5.6(c) below. Company Bonuses are paid to eligible Participants in the manner provided below.
- 5.2 Establishment of Performance Measures. Not later than 90 days after the beginning of each Applicable Year, the Committee will, in its sole discretion, determine appropriate performance measures for use in calculating Company Bonus amounts. These performance measures may include, but are not limited to, Revenue to Plan, EBITDA to Plan, growth in net income, return on assets, return on equity, total shareholder return, Innovation Progression, or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, restructurings and special charges or gains. Unless otherwise specified pursuant to a written resolution adopted by the Committee for the Applicable Year, the Committee will use as performance measures Revenue to Plan and EBITDA to Plan, in each case before the effect of acquisitions, divestitures, accounting changes, restructurings and special charges or gains (determined as described above) as performance measures and an Innovation Progression multiple.
- 5.3 Establishment of Performance Benchmarks. Not later than 90 days after the beginning of each Applicable Year, the Committee will establish performance benchmarks for the Company based on the performance measures described in Section 5.2 above. Unless otherwise specified pursuant to a written resolution adopted by the Committee for the Applicable Year, the performance benchmarks will correspond with Revenue and

EBITDA for the Applicable Year and Innovation Progression. The Committee will also adopt a formula that will determine the extent to which the performance measure multiples will vary as the Company's actual results vary from the performance benchmarks. Notwithstanding the foregoing, each performance measure multiple established above will be between 0.0 and 2.0 in any Applicable Year, regardless of the Company's actual results.

- 5.4 Company Performance Bonus Multiple. Unless otherwise specified pursuant to a written resolution adopted by the Committee not later than 90 days after the beginning of the Applicable Year, the Company Performance Bonus Multiple is equal to the product of the EBITDA multiple and 0.40 plus the product of the Revenue to Plan multiple and 0.30 plus the product of the Innovation Progression multiple and 0.30 (i.e., $\text{Company Performance Bonus Multiple} = (\text{EBITDA multiple} * 0.40) + (\text{Revenue to Plan multiple} * 0.30) + (\text{Innovation Progression multiple} * 0.30)$).
- 5.5 Company Performance Bonus Multiple Threshold and Maximum. Notwithstanding Sections 5.3 and 5.4 above, the Company Performance Bonus Multiple will not be less than 0.0 or greater than 2.0 in an Applicable Year. Notwithstanding the foregoing Sections 5.3 and 5.4, and this Section 5.5, the Committee may reduce the Company Performance Bonus Multiple (including but not limited to a reduction to 0.0) for some or all Eligible Employees, in its discretion.
- 5.6 Participant Company Bonus.
- a. Bonus Target. Not later than 90 days after the beginning of the Applicable Year, the Bonus Target for each Participant, whether such Participant is designated on an individual basis or by specified job category, classification, level, subsidiary or other appropriate classification, will be determined by the Committee on a basis that takes into consideration a Participant's pay grade level and job responsibilities. The Bonus Target for each Participant for the Applicable Year will be expressed as a percentage of Participant Earnings as of December 31 of the Applicable Year. Early in the Applicable Year, each Participant will receive information regarding the Participant's Bonus Target. In the event that a Participant's pay grade level changes during the Applicable Year (e.g., because of promotion, demotion or otherwise), the Participant's Bonus Target will be prorated based on the Bonus Target applicable to each pay grade level (with related job responsibilities) and the percentage of time that the Participant is employed at each pay grade level during the Applicable Year.
 - b. Company Bonus Calculation. Except as described in Section 5.6(c) below, a Participant's Company Bonus will equal the product of the Company Performance Bonus Multiple and the Participant's Bonus Target and the Participant's Earnings.

- c. Adjustment for Performance Multiplier, if Applicable. Notwithstanding anything herein to the contrary, all Eligible Employees in the United States and other employees as may be designated from time to time by the Committee are subject to individual performance multipliers. For all such Participants subject to an individual performance multiplier, the amount calculated in Section 5.6(b) above will be adjusted based on whether the Participant met job expectations as determined by the Company at the end of the Applicable Year. If a Participant does not meet such job expectations, the Participant will receive an individual performance multiplier equal to either 0.0 or 0.5, as determined by the Company. In that event, the individual performance multiplier will be multiplied by the amount described in Section 5.6(b) above to calculate the Participant's Company Bonus. If a Participant meets job expectations, the Participant's Company Bonus will equal the amount calculated in Section 5.6(b) above. Not later than 90 days after the beginning of the Applicable Year, the Committee will determine applicable multipliers for meeting job expectations or ranges for the applicable rating system in effect for the Participant. For each such Participant, such rating will be determined by the Participant's supervision.

In the event that a Participant does not receive a year-end performance rating, but is otherwise eligible for a Company Bonus, the amount calculated in Section 5.6(b) above will be multiplied by 1.0 so that the Participant's actual Company Bonus will be the amount calculated in Section 5.6(b) above.

- 5.7 Conditions on Company Bonus. Payment of any Company Bonus is neither guaranteed nor automatic. A Participant's Company Bonus is not considered to be any form of compensation, wages, or benefits, unless and until paid.
- 5.8 Required Employment. Except as provided below in this Section 5.8 or as otherwise designated by the Committee, if a Participant is not employed by the Company on the last day of the Applicable Year, or is otherwise not an Eligible Employee on that date, the Participant is not entitled to any Company Bonus payment under this Plan for that Applicable Year.
 - a. Leaves of Absence. A Participant who, on the last day of the Applicable Year, is on approved leave of absence under the Family and Medical Leave Act of 1993, military leave under the Uniformed Services Employment and Reemployment Rights Act, or such other approved leave of absence will be considered to be an Eligible Employee on that date for purposes of this Plan.
 - b. Transfer. An employee who is a Participant in this Plan for a portion of the Applicable Year and then transfers to a position within the Company in which he or she is ineligible to participate in this Plan, but who remains employed by the Company on the last day of the Applicable Year, will be treated as satisfying the last-day-of-Applicable Year requirement for purposes of this Plan. In that event, his or her Company Bonus will be based on his or her Participant Earnings for the

portion of the Applicable Year in which the employee was a Participant in the Plan.

- c. End of Career, Disability or Death. Except as described below in Section 5.8(e), a Participant who was an Eligible Employee for some portion of the Applicable Year and then ends his or her career by voluntarily resigning either after reaching 60 years of age or 30 years of service, becomes and remains Disabled through the end of the Applicable Year, or dies during the Applicable Year will be considered to satisfy the last-day-of-Applicable-Year requirement described in this Section 5.8 for purposes of this Plan.
 - d. Reallocation, Medical Reassignment, Plant Closing or Reduction in Workforce. A Participant who was an Eligible Employee for some portion of the Applicable Year and whose employment is terminated as a result of his failure to locate a position following his reallocation or medical reassignment in the United States, or a Plant Closing or Reduction in Workforce will be considered to satisfy the last-day-of-Applicable Year requirement described in this Section 5.8 for purposes of this Plan. The Committee or its designee's determination regarding whether a Participant's termination is a direct result of either a Plant Closing or a Reduction in Workforce will be final and binding.
 - e. Notice of Resignation. A Participant who submits a notice of resignation from employment with the Company prior to the end of the Applicable Year and whose effective date of resignation is two (2) weeks or less from the date of notice of resignation will be considered employed by the Company for purposes of this Plan until the end of his specified notice period. However, notwithstanding anything else in this Section 5.8, an Eligible Employee who has not received a year-end performance rating and (1) is on employment probation (or its equivalent outside the United States) and resigns in lieu of being terminated; or (2) resigns in lieu of being terminated because of an immediately terminable offense (e.g., absence of three days without notice, insubordination, violation of illegal drug policy, possession of firearms, misconduct) will not be considered to satisfy the last day of Applicable Year requirement.
- 5.9 New Participants. If an Eligible Employee began participation in the Plan during an Applicable Year and is eligible for a Company Bonus, his Company Bonus will be based on Participant Earnings earned after the employee became a Participant.
- 5.10 Miscellaneous. All determinations necessary for computing a Company Bonus for the Applicable Year, including establishment of all components of Revenue to Plan, EBITDA to Plan, Innovation Progression, Company Performance Bonus Multiple and Bonus Target percentages, shall be made by the Committee not later than 90 days after the commencement of the Applicable Year, unless otherwise designated in writing by the Committee.

- 5.11 Minimum Amount. Notwithstanding any other provision of the Plan, the minimum total amount of Company Bonus payable to Participants in the aggregate as a group or applicable subgroup (the “Minimum Amount”) may be fixed through a resolution of the Elanco Board of Directors or the Committee, made before the end of the Applicable Year. The Minimum Amount shall not be reduced or eliminated by the Company, including by either the Elanco Board of Directors or the Committee, following the end of the Applicable Year, but shall be payable to Participants as determined by the Company and consistent with the terms of the Plan. In addition, the Minimum Amount shall not be reduced by any discretionary action to reduce a particular Participant’s Company Bonus and shall be payable to persons, as determined by the Company, who are Participants in the Plan during the Applicable Year and eligible to receive a Company Bonus.

SECTION 6. TIME OF PAYMENT

- 6.1 General Rule. Payment under the Plan will be made in the year following the Applicable Year on or prior to March 15 of such year for Eligible Employees in the United States and at such time as may be determined by the Committee for Eligible Employees outside the United States, consistent with applicable local requirements for such Eligible Employees.
- 6.2 Terminated Employee. Except as provided in Section 5.8 above, in the event an Eligible Employee’s employment with the Company ends for any reason prior to the last day of the Applicable Year, he or she will not receive any Company Bonus for the Applicable Year.
- 6.3 Deceased Eligible Employee. In the event an Eligible Employee dies before payment under the Plan is made, the Committee may, in its sole discretion, authorize the Company to pay to his or her personal representative or beneficiary an amount not to exceed the amount established by the Committee to reflect the payment accrued at the date of death. Any such payment would be paid consistent with the timing requirements described in Section 6.1 above.

SECTION 7. ADMINISTRATIVE GUIDELINES

- 7.1 Establishment and Amendment by the Committee. The Committee may establish objective and nondiscriminatory written guidelines for administering those provisions of the Plan that expressly provide for the determination of eligibility, Company Bonus or benefits on the basis of rules established by the Committee. The Committee may, from time to time, amend or supplement the administrative guidelines established in accordance with this Section 7.1. The administrative guidelines established or amended in accordance with this Section 7.1 will not be effective to the extent that they materially increase the Plan's liability, or to the extent that they are inconsistent with, or purport to amend, any provision of the Plan set forth in a document other than such administrative guidelines.

7.2. Amendment by Board of Directors. Any administrative guidelines established by the Committee pursuant to Section 7.1 above may be amended or revoked by the Board of Directors, either prospectively or retroactively, in accordance with the general amendment procedures set forth in Section 9 below.

SECTION 8. MISCELLANEOUS

- 8.1 No Vested Right. No employee, Participant, beneficiary, or other individual will have a right to a Company Bonus or any part thereof until payment is made to him or her under Section 6.
- 8.2 No Employment Rights. No provision of the Plan or any action taken by the Company, the Board of Directors of the Company, or the Committee will give any person any right to be retained in the employ of the Company. The right and power of the Company to dismiss or discharge any Participant for any reason or no reason, with or without notice, is specifically reserved.
- 8.3 No Adjustments. After the certification of the calculation of Revenue to Plan, EBITDA to Plan, Innovation Progression and any other material terms of the calculation of the Company Performance Bonus Multiple and Company Bonus for the Applicable Year as described in Section 3.3 above, no adjustments will be made to reflect any subsequent change in accounting, the effect of federal, state, or municipal taxes later assessed or determined, or otherwise.
- 8.4 Other Representations. Nothing contained in this Plan, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any employee, Participant, beneficiary, legal representative, or any other person. Although Participants generally have no right to any payment from this Plan, to the extent that any Participant acquires a right to receive payments from the Company under the Plan, such right will be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder will be paid from the general funds of the Company and no special or separate fund will be established, and no segregation of assets will be made, to assure payment of such amount.
- 8.5 Tax Withholding. The Company will make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local, and other taxes required by law to be withheld with respect to Company Bonus payments under the Plan, including, but not limited to, deducting the amount required to be withheld from the amount of cash otherwise payable under the Plan, or from salary or any other amount then or thereafter payable to an employee, Participant, beneficiary, or legal representative.

- 8.6 Currency. The Company Bonus will be based on the currency in which the highest portion of base pay is regularly paid. The Committee will determine the appropriate foreign exchange conversion methodology in its discretion.
- 8.7 Effect of Plan on Other Company Plans. Nothing contained in this Plan is intended to amend, modify, terminate, or rescind other benefit or compensation plans established or maintained by the Company. Whether and to what extent a Participant's Company Bonus is taken into account under any other plan will be determined solely in accordance with the terms of such plan.
- 8.8 Construction. This Plan and all the rights thereunder will be governed by, and construed in accordance with, the laws of the state of Indiana, without reference to the principles of conflicts of law thereof.
- 8.9 Notice. Any notice to be given to the Company or the Committee pursuant to the provisions of the Plan will be in writing and directed to Secretary, Elanco Animal Health Incorporated, 2500 Innovation Way, Greenfield, IN 46140.

SECTION 9. AMENDMENT, SUSPENSION, OR TERMINATION

The Elanco Board of Directors will have the right to amend, modify, suspend, revoke, or terminate the Plan, in whole or in part, at any time and without notice, by written resolution of the Board of Directors. The Committee also will have the right to amend the Plan, except that the Committee may not amend this Section 9.



Elanco Animal Health Incorporated Restricted Stock Unit Award Agreement

This Restricted Stock Unit Award has been granted on [insert grant date] (“Grant Date”) by Elanco Animal Health Incorporated, an Indiana corporation (“Elanco” or the “Company”), to the Eligible Individual who has received this Restricted Stock Unit Award Agreement (the “Grantee”).

**Number of Shares: Log into UBS account at
<http://equity.elancoirect.com>**

Grantee:

**Vesting Date(s): 50% on 1st Anniversary of Grant Date
50% on 2nd Anniversary of Grant Date**

(except as otherwise provided in this Restricted Stock Unit Award Agreement)

Elanco Restricted Stock Unit Award Agreement

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Elanco Restricted Stock Unit Award Agreement

Section 1. Grant of Restricted Stock Units

Elanco, an Indiana corporation ("Elanco" or the "Company"), has granted to the Eligible Individual who has received this Restricted Stock Unit Award Agreement (the "Grantee") an award of restricted stock units (the "Restricted Stock Units" or the "Award") with respect to the number of shares of Elanco Common Stock (the "Shares") referenced on page 1 of this document, pursuant to and subject to the terms and conditions set forth in the 2018 Elanco Stock Plan (the "Plan") and to the terms and conditions set forth in this Restricted Stock Unit Award Agreement, including any appendices, exhibits and addenda hereto (the "Award Agreement"). Unless otherwise stated in the Plan where the terms in this Award Agreement may govern in the event of any conflict between the terms of the Plan and this Award Agreement, in the event of any such conflict, the terms of the Plan shall otherwise govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

Section 2. Vesting

- a. The Award shall vest as to all or a portion of the Award at the close of business in Greenfield, Indiana, U.S.A. on the earliest of the following dates (each, a "Vesting Date"):
 - i. the Vesting Date(s) set forth on page 1 of this document;
 - ii. a Qualifying Termination, as defined below; or
 - iii. the Grantee's Retirement, as defined below.
- b. In the event the Grantee's Service is terminated due to the Grantee's death, any unvested portion of the Award will accelerate and vest in full.
- c. In the event the Grantee's Service is terminated due to a Qualifying Termination for a reason other than death, a pro-rata portion of the Award will accelerate and vest based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to the Qualifying Termination to (y) the total number of months from the Grant Date to the next scheduled Vesting Date set forth on page 1 of this document.
- d. In the event the Grantee's Service is terminated due to Retirement prior to a Vesting Date set forth in Section 2(a) (i) above, a pro-rata portion of the Award will continue to vest on the Vesting Date(s) set forth in Section 2(a)(i) above (unless the Committee specifies another vesting date, in its sole discretion, under Section 3.3(j) of the Plan) based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to Grantee's Retirement to (y) the total number of months from the Grant Date to the next scheduled Vesting Date set forth on page 1 of this document. "Retirement" for purposes of this Award Agreement means either (A) age sixty (60) unless otherwise prescribed under Applicable Laws or (B) thirty (30) years of Service with the Company or an Affiliate, including any years of Service with Eli Lilly & Company ("Lilly") prior to the Company's spin-off from Lilly.

Elanco Restricted Stock Unit Award Agreement

- e. Any portion of the Award that does not vest pursuant to Section 2(a), 2(b), 2(c) or 2(d) shall be forfeited upon the Grantee's termination of Service or Qualifying Termination. Further, in the event the Grantee's Service is terminated prior to a Vesting Date for any reason or in any circumstance other than those specified in Section 2(a), 2(b), 2(c) or 2(d) above, any unvested portion of the Award shall be forfeited.
- f. For purposes of this Award Agreement, a "Qualifying Termination" means any one of the following:
 - i. the date the Grantee's Service is terminated due to the Grantee's death;
 - ii. the date the Grantee's Service is terminated by reason of Disability;
 - iii. the date the Grantee's Service is terminated due to a closing of a plant site or other corporate location;
 - iv. the date the Grantee's Service is terminated due to the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions; or
 - v. the date the Grantee's Service is terminated as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States.

The Committee, in its sole discretion, shall determine whether and when a Qualifying Termination has occurred and/or if a leave of absence or transfer of employment between the Company and an Affiliate or between Affiliates constitutes a termination of Service. Such determination shall be final and binding on the Grantee.

Section 3. Change in Control

The provisions of Section 13.2 of the Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 3 shall be the consummation of a merger, share exchange, or consolidation of the Company, as defined in Section 2.6(c) of the Plan (a "Transaction").
- b. In the event that the Award is not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction, then immediately prior to the Transaction, the Award shall vest automatically in full.
- c. In the event that the Award is converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to any applicable Vesting Date, the Award shall vest automatically in full.

For purposes of this provision, "Covered Termination" shall mean a Qualifying Termination, Grantee's termination without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to

Elanco Restricted Stock Unit Award Agreement

them in the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Employees or the Elanco Animal Health, Inc. 2018 Change in Control Severance Pay Plan for Select Employees (both as amended from time to time) or any successor plan or arrangement thereto, as applicable.

- d. If the Grantee is entitled to receive stock of the acquiring entity or successor to the Company as a result of the application of this Section 3, then references to Shares in this Award Agreement shall be read to mean stock of the successor or surviving corporation, or a parent or subsidiary thereof, as and when applicable.

Section 4. Settlement

- a. Except as provided below, the Award shall be paid to the Grantee as soon as practicable, and in no event later than sixty days, following the applicable Vesting Date, or, if earlier, a vesting event contemplated under Section 3 above.
- b. If the Award is considered an item of non-qualified deferred compensation subject to Section 409A of the Code (“NQ Deferred Compensation”) and the settlement date or period is determined by reference to the date of the termination of the Grantee’s Service, (i) the Award shall not be paid unless and until the Grantee experiences a “separation from service” within the meaning of Section 409A of the Code (a “Section 409A Separation”) and (ii) if the Grantee is a “specified employee” within the meaning of Section 409A of the Code as of the date of the Grantee’s Section 409A Separation, the vested portion of the Award shall instead be paid on the earliest of (1) the Vesting Dates set forth in Section 2(a)(i) with respect to the portion of the Award that was scheduled to vest on such Vesting Dates, (2) the first day following the six (6) month anniversary of the Grantee’s Section 409A Separation, (3) the date of a Section 409A CIC (as defined below), and (4) the date of the Grantee’s death. If the Award is considered NQ Deferred Compensation and the vesting event is a Transaction that does not constitute a “change in control event” within the meaning of Section 409A of the Code (a “Section 409A CIC”), the Award shall instead be settled on the earliest of (A) the Vesting Dates set forth in Section 2(a)(i) with respect to the portion of the Award that was scheduled to vest on such Vesting Dates, (B) the date of a Section 409A CIC, and (C) the date of the Grantee’s death.
- c. At the time of settlement provided in this Section 4, the Company shall issue or transfer Shares or the cash equivalent, as contemplated under Section 4(d) below, to the Grantee. In the event the Grantee is entitled to a fractional Share, the fraction may be paid in cash or rounded, in the Committee’s discretion.
- d. At any time prior to the applicable Vesting Date or until the Award is paid in accordance with this Section 4, the Committee may, if it so elects, determine to pay part or all of the Award in cash in lieu of issuing or transferring Shares. The amount of cash shall be based on the Fair Market Value of the Shares on the applicable Vesting Date.
- e. In the event of the death of the Grantee, the payments described above shall be made to the successor of the Grantee.

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Section 5. Rights of the Grantee

- a. No Shareholder Rights. The Restricted Stock Units do not entitle the Grantee to any rights of a shareholder of the Company until such time as the Restricted Stock Units vest and Shares are issued or transferred to the Grantee.
- b. No Trust; Grantee's Rights Unsecured. Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Grantee to receive payments of cash or Shares pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company.

Section 6. Prohibition Against Transfer

The right of a Grantee to receive payments of Shares and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of the Grantee or to a successor of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award Agreement. A Grantee may not assign, sell, pledge, or otherwise transfer Shares or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

Section 7. Responsibility for Taxes

- a. Regardless of any action the Company and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax-Related Items"), the Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Grantee further acknowledges that the Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the Restricted Stock Units, the vesting of the Restricted Stock Units and the lapse of restrictions, the transfer and issuance of any Shares, the receipt of any cash payment pursuant to the Award, the receipt of any dividends and the sale of any Shares acquired pursuant to this Award; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax-Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.
- b. Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items.
- c. If the Restricted Stock Units are paid to the Grantee in cash in lieu of Shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, at

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their discretion, to satisfy any obligation for Tax-Related Items by withholding from the cash amount paid to the Grantee pursuant to the Award or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.

- d. If the Restricted Stock Units are paid to the Grantee in Shares and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to (i) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, (ii) arrange for the sale of Shares to be issued upon settlement of the Award (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to the Company or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, and/or (iii) withhold in Shares otherwise issuable to the Grantee pursuant to this Award.
- e. If the Restricted Stock Units are paid to the Grantee in Shares and the Grantee is subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Company will withhold in Shares otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by applicable law or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax-Related Items may be satisfied by one or a combination of the methods set forth in Section 7(d)(i) and (ii) above.
- f. Depending on the withholding method, the Company and/or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case the Grantee may receive a refund of any over-withheld amount in cash as soon as practicable and without interest and will not be entitled to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding Shares, for tax purposes, the Grantee will be deemed to have been issued the full number of Shares to which he or she is entitled pursuant to this Award, notwithstanding that a number of Shares are withheld to satisfy the obligation for Tax-Related Items.
- g. The Company may require the Grantee to pay the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold or account for as a result of any aspect of this Award that cannot be satisfied by the means previously described. The Company may refuse to deliver Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax-Related Items as described in this Section 7.

Section 8. Section 409A Compliance

To the extent applicable, it is intended that this Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the

Elanco Restricted Stock Unit Award Agreement

Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A.

Section 9. Nature of Grant

In accepting the grant, Grantee acknowledges, understands and agrees that:

- a. the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, as provided in the Plan;
- b. the Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu thereof, even if Restricted Stock Units have been granted in the past;
- c. all decisions with respect to future awards of Restricted Stock Units or other awards, if any, will be at the sole discretion of the Committee;
- d. the Grantee's participation in the Plan is voluntary;
- e. the Award and any Shares subject to the Award are not intended to replace any pension rights or compensation;
- f. the Award and any Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar mandatory payments;
- g. unless otherwise agreed with the Company, the Award and any Shares subject to the Award, and the income and value of same, are not granted as consideration for, or in connection with, the service the Grantee may provide as a director of an Affiliate;
- h. neither the Award nor any provision of this Award Agreement, the Plan or the policies adopted pursuant to the Plan, confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of the Company or any subsidiary of the Company, the Award shall not be interpreted to form an employment contract or relationship with the Company or any Affiliate;
- i. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- j. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to the Company or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of Grantee's employment agreement, if any);
- k. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company, an

Elanco Restricted Stock Unit Award Agreement

Employer or an Affiliate and the Grantee's right, if any, to vest in and be paid any portion of the Award after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence);

- l. unless otherwise provided in the Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and
- m. none of the Company, the Employer or any Affiliate shall be liable for any foreign exchange rate fluctuation between the Grantee's local currency and the United States Dollar that may affect the value of the Award or any amounts due to the Grantee pursuant to the settlement of the Award or the subsequent sale of any Shares acquired upon settlement.

Section 10. Data Privacy

- a. *Data Collection and Usage. The Company and the Employer may collect, process and use certain personal information about the Grantee, and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Grantee's consent. Where required under Applicable Laws, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure is the Applicable Laws.*
- b. *Stock Plan Administration Service Providers. The Company transfers Data to UBS Financial Services Inc. and/or its affiliated companies ("UBS"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. The Grantee may be asked to agree on separate terms and data*

Elanco Restricted Stock Unit Award Agreement

processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.

- c. *International Data Transfers.* *The Company and its service providers are based in the United States. The Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company's legal basis, where required, for the transfer of Data is the Grantee's consent.*
- d. *Data Retention.* *The Company will hold and use the Data only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.*
- e. *Data Subject Rights.* *The Grantee understands that data subject rights regarding the processing of Data vary depending on Applicable Law and that, depending on where the Grantee is based and subject to the conditions set out in such Applicable Law, the Grantee may have, without limitation, the right to (i) inquire whether and what kind of Data the Company holds about the Grantee and how it is processed, and to access or request copies of such Data, (ii) request the correction or supplementation of Data about the Grantee that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, (iv) request the Company to restrict the processing of the Grantee's Data in certain situations where the Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Data for legitimate interests, and (vi) request portability of the Grantee's Data that the Grantee has actively or passively provided to the Company or the Employer (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Grantee's employment and is carried out by automated means. In case of concerns, the Grantee understands that he or she may also have the right to lodge a complaint with the competent local data protection authority. Further, to receive clarification of, or to exercise any of, the Grantee's rights, the Grantee understands that he or she should contact his or her local human resources representative.*
- f. *Voluntariness and Consequences of Consent Denial or Withdrawal.* *Participation in the Plan is voluntary and the Grantee is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke the Grantee's consent, the Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant this Award or other awards to the Grantee or administer or maintain such awards.*
- g. *Declaration of Consent.* *By accepting the Award and indicating consent via the Company's online acceptance procedure, the Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the*

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collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

Section 11. Additional Terms and Conditions

- a. Country-Specific Conditions. The Award shall be subject to any special terms and conditions set forth in any Appendix to this Award Agreement for the Grantee's country. Moreover, if the Grantee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Award Agreement.
- b. Insider Trading / Market Abuse Laws. The Grantee may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States and the Grantee's country of residence, which may affect the Grantee's ability to directly or indirectly, for the Grantee or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of Shares or rights to acquire Shares (e.g., Restricted Stock Units) under the Plan during such times as the Grantee is considered to have "inside information" regarding the Company (as determined under the laws or regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Grantee acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Grantee should consult with his or her personal legal advisor on this matter.
- c. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Award and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Restricted Stock Unit Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under Applicable Laws or any compensation recovery policy of the Company that reflects the provisions of Applicable Laws.

Section 12. Governing Law and Choice of Venue

The validity and construction of this Award Agreement shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Hancock County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

Elanco Restricted Stock Unit Award Agreement

Section 13. Miscellaneous Provisions

- a. Notices and Electronic Delivery and Participation. Any notice to be given by the Grantee or successor Grantee shall be in writing, and any notice shall be deemed to have been given or made only upon receipt thereof by the Corporate Secretary of the Company at the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A. Any notice or communication by the Company in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to the Company by the Grantee and, in the case of any successor Grantee, at the address specified in writing to the Company by the successor Grantee. In addition, the Company may, in its sole discretion, decide to deliver any documents related to the Award and participation in the Plan by electronic means or request the Grantee's consent to participate in the Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
- b. Language. If the Grantee has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.
- c. Waiver. The waiver by the Company of any provision of this Award Agreement at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Award Agreement at any subsequent time or for any other purpose.
- d. Severability and Section Headings. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan.

The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

- e. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of the underlying Shares. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

Elanco Restricted Stock Unit Award Agreement

Section 14. Award Subject to Acknowledgement of Acceptance

Notwithstanding any provisions of this Award Agreement, the Award is subject to acknowledgement of acceptance by the Grantee on or prior to 4:00 PM (EDT) on the 60th day after the Grant Date, through the website of UBS, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award prior to 4:00 PM (EDT) on or prior to the 60th day after the Grant Date, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances, provided, however, if the Grantee's Service is terminated due a Qualifying Termination prior to the 60th day after the Grant Date, the Award will not be cancelled and will be deemed accepted on behalf of the Grantee or the Grantee's legal successor.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in Greenfield, Indiana, by its proper officer.

ELANCO ANIMAL HEALTH INCORPORATED

By:



Jeffrey N. Simmons
President, Chief Executive Officer and Director

Appendix to
**Elanco Animal Health Incorporated
Restricted Stock Unit Award Agreement**

This Appendix includes special terms and conditions applicable to the Grantee's country. These terms and conditions supplement or replace (as indicated) the terms and conditions set forth in the Award Agreement to which it is attached. If the Grantee is a citizen or resident of a country other than the one in which the Grantee is currently working and/or residing (or is considered as such for local law purposes), or if the Grantee transfers employment or residency to a different country after the Award is granted, Elanco will, in its discretion, determine the extent to which the terms and conditions herein will apply. This Appendix also includes other information relevant to the Award.

Unless otherwise defined herein, the terms defined in the Plan or the Award Agreement, as applicable, shall have the same meanings in this Appendix.

There are no special terms and conditions or information for the following countries:

Austria	Germany	Korea	Slovenia
Belgium	Indonesia	Netherlands	Sweden
Czech Republic	Ireland	Norway	Thailand
Egypt	Japan	Poland	

However, the Grantee should be aware that he or she may be required to take certain steps to comply with Applicable Laws in the Grantee's country in connection with the Award. For example, exchange control, foreign asset and/or account and/or other tax reporting obligations may apply to the Grantee upon receipt of the Award or the Shares subject to the Award or upon the sale of Shares. *For more information regarding such obligations, the Grantee should refer to the Employee Information Supplement for the Grantee's country, if any. The Grantee should also consult with his or her own personal tax and legal advisors to determine what, if any, obligations exist with respect to the Award and/or the acquisition or sale of Shares. Neither the Company nor the Employer is responsible for any failure on the part of the Grantee to be aware of or comply with Applicable Laws.*

Elanco Restricted Stock Unit Award Agreement

ARGENTINA

Notifications

Securities Law Information. The Award and the Shares to be issued pursuant to the Award are offered as a private transaction and are not listed on any stock exchange in Argentina. This offering is not subject to supervision by any Argentine governmental authority.

AUSTRALIA

Terms and Conditions

Securities Law Information. Additional details regarding the offer of the Award are set out in the Australian Offer Document, a copy of which is attached to this Appendix for Australia as Annex 1.

Breach of Law. Notwithstanding anything to the contrary in the Award Agreement or the Plan, the Grantee will not be entitled to, and shall not claim, any benefit (including without limitation a legal right) under the Plan if the provision of such benefit would give rise to a breach of Part 2D.2 of the *Corporations Act 2001*, any other provision of that act, or any other applicable statute, rule or regulation that limits or restricts the provision of such benefit.

Notifications

Tax Information. The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Ctch) applies (subject to the conditions in that act).

Elanco Restricted Stock Unit Award Agreement

Annex 1 to Appendix for Australia

AUSTRALIA - OFFER DOCUMENT

ELANCO ANIMAL HEALTH INCORPORATED

RESTRICTED STOCK UNIT AWARD AGREEMENT

The Company is pleased to provide the Grantee with this offer to participate in the Plan. This offer sets out information regarding the grant of Restricted Stock Unit Awards to Australian resident employees of the Company and its Affiliates. This offer is provided by the Company to ensure compliance of the Plan with Australian Securities and Investments Commission (“ASIC”) Class Order 14/1000 and relevant provisions of the *Corporations Act 2001*.

In addition to the information set out in the Award Agreement, the Grantee is also being provided with copies of the following documents (collectively, the “Additional Documents”):

1. Notification regarding Award;
2. Plan;
3. Information Summary/Prospectus; and
4. Employee Information Supplement for Australia

The Additional Documents provide further information to help the Grantee make an informed investment decision about participating in the Plan. Neither the Plan nor the Information Summary/Prospectus is a prospectus for the purposes of the *Corporations Act 2001*.

The Grantee should not rely upon any oral statements made in relation to this offer. The Grantee should rely only upon the statements contained in the Award Agreement and the Additional Documents when considering participation in the Plan.

Securities Law Notification

Investment in shares involves a degree of risk. Grantees who elect to participate in the Plan should monitor their participation and consider all risk factors relevant to the acquisition of Shares under the Plan as set out in the Award Agreement and the Additional Documents.

The information contained in this offer is general information only. It is not advice or information that takes into account the Grantee’s objectives, financial situation and needs.

The Grantee should consider obtaining his or her own financial product advice from an independent person who is licensed by ASIC to give advice about participation in the Plan.

Additional Risk Factors for Australian Residents

The Grantee should have regard to risk factors relevant to investment in securities generally and, in particular, to the holding of Common Stock. For example, the price at which the Common Stock is traded on the New York Stock Exchange may increase or decrease due to a number of factors. There is no guarantee that the price of the Common Stock will increase. Factors which may affect the price of Common Stock include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, commodity and oil

Elanco Restricted Stock Unit Award Agreement

prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the nature of the markets in which the Company operates and general operational and business risks.

In addition, the Grantee should be aware that the Australian dollar value of any Shares acquired pursuant to the Award will be affected by the U.S. dollar/Australian dollar exchange rate. Participation in the Plan involves certain risks related to fluctuations in this rate of exchange.

Common Stock

Common stock of a U.S. corporation is analogous to ordinary shares of an Australian corporation. Each holder of the Common Stock is entitled to one vote for each Share held.

Dividends may be paid on the Common Stock out of any funds of the Company legally available for dividends at the discretion of the Board.

The Common Stock is traded on the New York Stock Exchange in the United States of America under the symbol "ELAN."

The Shares are not liable to any further calls for payment of capital or for other assessment by the Company and have no sinking fund provisions, pre-emptive rights, conversion rights or redemption provisions.

Ascertaining the Market Price of Shares

The Grantee may ascertain the current market price of the Common Stock as traded on the New York Stock Exchange at <http://www.nyse.com> under the symbol "ELAN." The Australian dollar equivalent of that price can be obtained at: <http://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

This is not a prediction of what the market price of the Common Stock will be on any applicable vesting date or when Shares are issued to the Grantee or at any other time or of the applicable exchange rate at such time.

Elanco Restricted Stock Unit Award Agreement

BRAZIL

Terms and Conditions

Nature of Grant. This provision supplements Section 9 of the Award Agreement:

By accepting the Award, the Grantee agrees that (i) he or she is making an investment decision, (ii) the Shares will be issued to the Grantee only if the vesting conditions are met and any necessary Services are rendered between the Grant Date and each applicable Vesting Date, and (iii) the value of the underlying Shares is not fixed and may increase or decrease in value over the vesting period without compensation to the Grantee.

Labor Law Acknowledgment. The Grantee agrees, for all legal purposes, (i) the benefits provided under the Award Agreement and the Plan are the result of commercial transactions unrelated to the Grantee's employment; (ii) the Award Agreement and the Plan are not a part of the terms and conditions of the Grantee's employment; and (iii) the income from the Award or Shares, if any, is not part of the Grantee's remuneration from employment.

Compliance with Law. By accepting the Award, the Grantee agrees to comply with all applicable Brazilian laws and agrees to report and pay any and all applicable taxes associated with the Award and the sale of the Shares acquired under the Plan.

CANADA

Terms and Conditions

Award Payable Only in Shares. The Award shall be paid in Shares only and does not provide the Grantee with any right to receive a cash payment.

Termination of Service. The following provision replaces Section 9(i) of the Award Agreement:

For purposes of the Award, the Grantee's Service shall be considered terminated as of the date that is the earliest of (i) the date on which the Grantee's Service is terminated, (ii) the date that the Grantee receives notice of termination of the Grantee's Service, or (iii) the date the Grantee is no longer actively providing Service to the Company or any Affiliate, regardless of any notice period or period of pay in lieu of such notice required under applicable employment laws in the jurisdiction where the Grantee is employed or otherwise providing Service (including, but not limited to statutory law, regulatory law and/or common law) or the terms of the Grantee's employment or other service agreement, if any. The Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing Service for purposes of the Award (including whether the Grantee may still be considered to be providing Service while on a leave of absence).

The following terms and conditions apply to employees resident in Quebec:

Language. The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à, la présente convention.

Elanco Restricted Stock Unit Award Agreement

Data Privacy. This provision supplements Section 10 of the Award Agreement:

The Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or non-professional, involved in the administration and operation of the Plan. The Grantee further authorizes the Company and any Affiliate and the Committee to disclose and discuss the Plan with their advisors and to record all relevant information and keep such information in the Grantee's employee file.

Notifications

Securities Law Information. The Grantee is permitted to sell Shares acquired under the Plan through UBS or such other broker designated under the Plan, provided the resale of such Shares takes place outside of Canada through the facilities of a stock exchange on which the Company's Shares are listed. The Company's Shares are currently traded on the New York Stock Exchange ("NYSE") which is located outside of Canada, under the ticker symbol "ELAN", and Shares acquired under the Plan may be sold through this exchange.

CHILE

Notifications

Securities Law Notice. The grant of the Award constitutes a private offering in Chile effective as of the date of the Award Agreement. This offer of the Award is made subject to General Ruling N° 336 of the Chilean Commission for the Financial Market ("CMF"). This offer refers to securities not registered at the Securities Registry or at the Foreign Securities Registry of the CMF, and, therefore, such securities are not subject to oversight of the CMF. Given that the Award is not registered in Chile, the Company is not required to provide public information about the Award or Shares in Chile. Unless the Award and/or the Shares are registered with the CMF, a public offering of such securities cannot be made in Chile.

Esta oferta de los Derechos de Acciones Restringidas constituye una oferta privada de valores en Chile se inicia en la fecha de este documento. Esta oferta de los Derechos de Acciones Restringidas se acoge a las disposiciones de la norma de Carácter General N° 336 de la Comisión para el Mercado Financiero (CMF). Esta oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la CMF, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de los Derechos de Acciones Restringidas no inscritos en Chile no existe la obligación por parte del emisor de entregar en Chile información pública respecto de los mismos. Estos Derechos de Acciones Restringidas no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el registro de valores correspondiente.

CHINA

Terms and Conditions

Vesting. This provision replaces Section 2(d) of the Award Agreement:

In the event the Grantee's Service is terminated due to Retirement, the a pro-rata portion of the Award shall accelerate and vest at the close of business in Greenfield, Indiana, U.S.A., on the date the Grantee's Service is terminated due to Retirement based on the ratio of (x) the number of full or partial months worked by the Grantee from the Grant Date to Grantee's Retirement to (y) the total number of months from the Grant Date to the next scheduled Vesting Date set forth on page 1 of

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the Award Agreement. "Retirement" for purposes of this Award Agreement means either (A) age sixty (60) unless otherwise prescribed under Applicable Laws or (B) thirty (30) years of Service with the Company or an Affiliate, including any years of Service with Lilly prior to the Company's spin-off from Lilly.

This provision supplements Section 2 of the Award Agreement:

To facilitate compliance with any Applicable Laws or regulations in China, the Grantee agrees and acknowledges that the Company (or a brokerage firm instructed by the Company) is entitled to sell any or all Shares issued to the Grantee on or as soon as practicable after the applicable Vesting Date or other vesting event (on behalf of the Grantee and at the Grantee's direction pursuant to this authorization), either immediately after such Shares are issued to the Grantee or when the Grantee ceases Service or at such other time as the Company may determine is necessary or advisable to facilitate compliance with Applicable Laws or the administration of the Plan. The Grantee also agrees to sign any forms and/or consents that may be required by the Company and acknowledges that neither the Company nor the brokerage firm is under any obligation to arrange for such sale of the Shares at any particular price. In any event, when the Shares acquired under the Plan are sold, the proceeds of the sale of the Shares, less any Tax-Related Items and broker's fees or commissions, will be remitted to the Grantee in accordance with applicable exchange control laws and regulations.

Exchange Control Restrictions. The Grantee understands and agrees that, due to exchange control laws in China, the Grantee will be required to immediately repatriate to China any funds (*e.g.*, proceeds from the sale of Shares) received pursuant to this Award. The Grantee further understands that such repatriation of the funds may need to be effected through a special exchange control account established by the Company or any Affiliate. The Grantee hereby consents and agrees that any funds received pursuant to this Award may be transferred to such special account prior to being delivered to the Grantee's personal account. The Grantee also understands that the Company will deliver the funds to the Grantee as soon as possible, but there may be delays in distributing the funds to the Grantee due to exchange control requirements in China. Funds may be paid to the Grantee in U.S. dollars or local currency at the Company's discretion. If the funds are paid to the Grantee in U.S. dollars, the Grantee will be required to set up a U.S. dollar bank account in China so that the funds may be deposited into this account. If the funds are paid to the Grantee in local currency, the Company is under no obligation to secure any particular exchange conversion rate and the Company may face delays in converting the funds to local currency due to exchange control restrictions. The Grantee further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

Neither the Company nor any Affiliate shall be liable for any costs, fees, lost interest or dividends or other losses the Grantee may incur or suffer resulting from the enforcement of the terms of this Addendum or otherwise from the Company's operation and enforcement of the Plan, the Award Agreement and the Shares in accordance with Chinese law, including, without limitation, any applicable State Administration of Foreign Exchange rules, regulations and requirements.

COLOMBIA

Terms and Conditions

Nature of Grant. This provision supplements Section 9 of the Award Agreement:

Elanco Restricted Stock Unit Award Agreement

In accepting the Award, the Grantee acknowledges, understands and agrees that, pursuant to Article 128 of the Colombian Labor Code, the Award and any payment the Grantee receives pursuant to the Award do not constitute a component of “salary” and will not be considered as a salary nature payment for any legal purpose. Therefore, the Award and any related benefit will not be included and/or considered for purposes of calculating any labor benefits, such as legal/fringe benefits, vacations, indemnities, payroll taxes, social insurance contributions and/or any other labor-related amount which may be payable.

Notifications

Securities Law Information. The Shares are not and will not be registered with the Colombian registry of publicly traded securities (Registro Nacional de Valores y Emisores) and therefore the Shares may not be offered to the public in Colombia. Nothing in the Award Agreement should be construed as making a public offer of securities in Colombia.

DENMARK

Terms and Conditions

Employer Statement. The Grantee acknowledges that he or she has received an Employer Statement, translated into Danish, which includes a description of the terms of the Award as required by the Danish Stock Option Act.

FRANCE

Terms and Conditions

Award Not French-Qualified. The Award is not intended to be “French-qualified,” *i.e.*, it is not intended to qualify for specific tax and/or social security treatment in France.

Language Consent. In accepting the Award, the Grantee confirms having read and understood the documents relating to the Award (the Plan and the Award Agreement, including this Appendix), which were provided in English. The Grantee accepts the terms of those documents accordingly.

Consentement Relatif à la Langue Utilisée. En acceptant cette Attribution, le Bénéficiaire confirme avoir lu et compris les documents relatifs à cette Attribution (le Plan le Contrat d’Attribution incluant cette Annexe), qui ont été remis en langue anglaise. Le Bénéficiaire accepte les termes de ces documents en conséquence.

INDIA

Notifications

Exchange Control Information. The Grantee is required to repatriate the proceeds from the sale of Shares and any dividends received in relation to the Shares to India within any time frame prescribed under applicable Indian exchange control laws, as may be amended from time to time. The Grantee must maintain the foreign inward remittance certificate received from the bank where the foreign currency is deposited in the event that the Reserve Bank of India or the Grantee's employer requests proof of repatriation. It is the Grantee's responsibility to comply with applicable exchange control laws in India.

Elanco Restricted Stock Unit Award Agreement

ITALY

Terms and Conditions

Plan Document Acknowledgment. In accepting the Award, the Grantee acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Award Agreement (including this Appendix) in their entirety and fully understands and accepts all provisions of the Plan and the Award Agreement (including this Appendix) and, in particular, Section 2 (Vesting).

LEBANON

Terms and Conditions

Securities Law Information. The Plan does not constitute the marketing or offering of securities in Lebanon pursuant to Law No. 161 (2011), the Capital Markets Law. Offers under the Plan are being made only to Eligible Individuals.

MALAYSIA

Notifications

Director Notification Information. If the Grantee is a director of a Malaysian Affiliate, he or she is subject to certain notification requirements under the Malaysian Companies Act, 2016. Among these requirements is an obligation to notify the Malaysian Affiliate in writing when the Grantee receives or disposes of an interest (e.g., the Award, Shares) in the Company or a related company. This notification must be made within fourteen (14) days after acquiring or disposing of any interest in the Company or a related company.

MEXICO

Terms and Conditions

Acknowledgement of the Award Agreement. By accepting the Restricted Stock Unit Award, the Grantee acknowledges that he or she has received a copy of the Plan and the Award Agreement, including this Appendix, which he or she has reviewed. The Grantee further acknowledges that he or she accepts all the provisions of the Plan and the Award Agreement, including this Appendix. The Grantee also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in the "Grantee's Acknowledgement" section of the Award Agreement, which clearly provide as follows:

- (1) The Grantee's participation in the Plan does not constitute an acquired right;
- (2) The Plan and the Grantee's participation in it are offered by the Company on a wholly discretionary basis;
- (3) The Grantee's participation in the Plan is voluntary; and
- (4) The Company and its Affiliates are not responsible for any decrease in the value of any Shares acquired pursuant to the Restricted Stock Unit Awards.

Elanco Restricted Stock Unit Award Agreement

Labor Law Acknowledgement and Policy Statement. By accepting the Award, the Grantee acknowledges that the Company, with registered offices at the Elanco Animal Health Inc. Global Headquarters, Greenfield, Indiana 46140, U.S.A., is solely responsible for the administration of the Plan. The Grantee further acknowledges that his or her participation in the Plan, the grant of Restricted Stock Unit Awards and any acquisition of Shares under the Plan do not constitute an employment relationship between the Grantee and the Company because the Grantee is participating in the Plan on a wholly commercial basis and his or her sole employer is Elanco Salud Animal SA de CV ("Elanco-Mexico"). Based on the foregoing, the Grantee expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between the Grantee and his or her Employer, Elanco-Mexico, and do not form part of the employment conditions and/or benefits provided by Elanco-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of the Grantee's employment.

The Grantee further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue the Grantee's participation in the Plan at any time, without any liability to the Grantee.

Finally, the Grantee hereby declares that he or she does not reserve to him- or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

Spanish Translation

Reconocimiento del Convenio de Concesión. Al aceptar el Premio de Desempeño, el Beneficiario reconoce que ha recibido y revisado una copia del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario reconoce y acepta todas las disposiciones del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario también reconoce que ha leído y aprobado de forma expresa los términos y condiciones establecidos en la sección: "Naturaleza de la Concesión" del Convenio de Concesión, que claramente establece lo siguiente:

- (1) La participación del Beneficiario en el Plan no constituye un derecho adquirido;*
- (2) El Plan y la participación del Beneficiario en el es ofrecido por la Compañía de manera completamente discrecional;*
- (3) La participación del Beneficiario en el Plan es voluntaria; y*
- (4) La Compañía y sus Afiliadas no son responsables por ninguna disminución en el valor de las Acciones adquiridas de conformidad con el Premio de Desempeño.*

Reconocimiento de la legislación Laboral aplicable y Declaración de la Política. Al aceptar el Premio, el Beneficiario reconoce que Company, con domicilio social en the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A., es la única responsable por la administración del Plan. Además, el Beneficiario reconoce que su participación en el Plan, la concesión de Unidades de Acciones Restringidas y cualquier adquisición de Acciones bajo el Plan no constituyen una relación laboral entre el Beneficiario y Company, en virtud de que el Beneficiario

Elanco Restricted Stock Unit Award Agreement

está participando en el Plan en su totalidad sobre una base comercial y su único empleador es Elanco Salud Animal SA de CV (“Elanco-Mexico”). Por lo anterior, el Beneficiario expresamente reconoce que el Plan y los beneficios que puedan derivarse de su participación no establecen ningún derecho entre el Beneficiario y su empleador, Elanco-México, y que no forman parte de las condiciones de trabajo y/o beneficios otorgados por Elanco-México, y cualquier modificación del Plan o la terminación del mismo no constituirá un cambio o modificación de los términos y condiciones en el empleo del Beneficiario.

Además, el Beneficiario comprende que su participación en el Plan es el resultado de una decisión discrecional y unilateral de la Company, por lo que Company se reserva el derecho absoluto de modificar y/o suspender la participación del Beneficiario en el Plan en cualquier momento, sin responsabilidad frente al Beneficiario.

Finalmente, el Beneficiario manifiesta que no se reserva acción o derecho alguno que origine una demanda en contra de Company, por cualquier compensación o daño relacionada con las disposiciones del Plan o de los beneficios otorgados en el mismo, y en consecuencia el Beneficiario libera de la manera más amplia y total de responsabilidad a E Company, sus subsidiarias, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales de cualquier demanda que pudiera surgir.

PHILIPPINES

Terms and Conditions

Compliance with Law. The following provision supplements Section 3.3(h) of the Plan:

The Grantee acknowledges that the Grantee's participation in the Plan is subject to the Company obtaining an exemption from the registration requirements under Section 10.2 of the Philippines Securities Regulation Code. Without limitation to the foregoing, the Grantee understands and agrees that the issuance and delivery of Shares pursuant to the Award will be delayed until the Company obtains such exemption or the Committee has otherwise determined that the issuance of the Shares can be made in compliance with applicable laws and that the Company may settle the Award in cash, in its sole discretion if such requirements have not been met.

Notifications

Securities Law Notice. The risks of participating in the Plan include (without limitation) the risk of fluctuation in the price of the Shares on the New York Stock Exchange and the risk of currency fluctuations between the U.S. Dollar and your local currency. The value of any Shares the Grantee may acquire under the Plan may decrease below the value of the Shares at vesting and fluctuations in foreign exchange rates between the Grantee's local currency and the U.S. Dollar may affect the value of any amounts due to you pursuant to the subsequent sale of any Shares acquired upon vesting. The Company is not making any representations, projections or assurances about the value of the Shares now or in the future.

For further information on risk factors impacting the Company's business that may affect the value of the Shares, you may refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov, as well as on the Company's “Investor Relations” website at

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<https://investor.elanco.com/investors/investor-resources/faqs/default.aspx>.

The Grantee is permitted to sell Shares acquired under the Plan through the designated Plan broker appointed by the Company (or such other broker to whom the Grantee transfers Shares), provided that such sale takes place outside of the Philippines through the facilities of the New York Stock Exchange on which the Shares are listed.

PORTUGAL

Terms and Conditions

Language Acknowledgement. The Grantee hereby expressly declares that he or she has full knowledge of the English language and has read, understood and freely accepted and agreed with the terms and conditions established in the Plan and the Award Agreement.

Conhecimento da Língua. O Contratado, pelo presente instrumento, declara expressamente que tem pleno conhecimento da língua inglesa e que leu, compreendeu e livremente aceitou e concordou com os termos e condições estabelecidas no Plano e no Acordo de Atribuição (Award Agreement em inglês).

RUSSIA

Terms and Conditions

U.S. Transaction. The Grantee understands that accepting the Award and the terms and conditions of the Award Agreement will result in a contract between the Grantee and the Company completed in the United States and that the Award Agreement is governed by U.S. law. The Grantee understands and acknowledges that any Shares issued under the Plan shall be delivered to the Grantee through a brokerage account maintained outside Russia. The Grantee understands that the Grantee may hold Shares in a brokerage account outside Russia; however, in no event will Shares issued to the Grantee and/or share certificates or other instruments be delivered to the Grantee in Russia. The Grantee acknowledges and agrees that the Grantee is not permitted to sell or otherwise transfer the Shares directly to other Russian legal entities or individuals. Finally, the Grantee acknowledges and agrees that the Grantee may sell or otherwise transfer the Shares only outside Russia.

Notifications

Securities Law Information. This Appendix, the Award Agreement, the Plan and all other materials that the Grantee may receive regarding the Plan, do not constitute advertising or an offering of securities in Russia. The issuance of securities pursuant to the Plan has not and will not be registered in Russia; hence, the securities described in any Plan-related documents may not be used for offering or public circulation in Russia.

Exchange Control Information. Under current exchange control regulations in Russia, certain funds received outside of Russia must be repatriated to Russia as soon as the Grantee intends to use those amounts for any purpose, including reinvestment. Such funds must initially be credited to the Grantee through a foreign currency account at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

Elanco Restricted Stock Unit Award Agreement

As an exception to the above-mentioned repatriation rule, (i) cash proceeds from the sale of shares listed on one of the foreign stock exchanges on the list provided for by the Russian Federal law “On the Securities Market” (which currently includes the New York Stock Exchange) can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD (Organization for Economic Co-operation and Development) or FATF (Financial Action Task Force) country, and (ii) cash dividends paid on shares can be paid directly to a foreign bank or brokerage account opened with a bank located in an OECD or FATF country. Other exceptions may apply.

SOUTH AFRICA

Terms and Conditions

Securities Law Information. In compliance with South African securities law, the Grantee acknowledges that he or she has been notified that the following documents listed below are available for the Grantee’s review at the applicable website listed below:

- (1) The Company’s most recent annual financial statement, available at: <https://investor.elanco.com/investors/financials-and-filings/sec-filings/default.aspx>.
- (2) The Company’s most recent Information Summary/Prospectus, which is viewable within the Recordkeeping Information Document Library on UBS Financial Services Inc. at: <http://equity.elancodirect.com>.

The Grantee acknowledges that he or she may have a copy of the above documents sent to him or her, without fee, on written request to the Secretary of the Company at the Elanco Animal Health Global Headquarters, Greenfield, Indiana 46140, U.S.A.

Responsibility for Taxes. This provision supplements Section 7 of the Award Agreement:

By accepting the Award, the Grantee agrees to notify the Employer of the amount of any gain realized when the Award vests and Shares are issued (or the cash equivalent is paid) to the Grantee. If the Grantee fails to advise the Employer of the gain realized when the Award vests and Shares are issued, the Grantee may be liable for a fine.

SPAIN

Terms and Conditions

Vesting. This provision supplements Section 2 of the Award Agreement:

As a condition of the grant of the Award, termination of the Grantee’s Service for any reason (including for the reasons listed below but excluding for the reasons specified in Section 2(e) of the Award Agreement) will automatically result in the forfeiture and loss of the Award and the underlying Shares to the extent that the Award has not yet vested as of the date of termination of the Grantee’s Service. In particular, and without limitation to the provisions of the Award Agreement and the Plan, the Grantee understands and agrees that the Award will be cancelled without entitlement to the underlying Shares or to any amount as indemnification if the Grantee terminates employment by reason of, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without good cause (*i.e.*, subject to a “*despido improcedente*”), individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause (unless such layoff falls within the

Elanco Restricted Stock Unit Award Agreement

meaning of a plant closing or reduction in workforce as described in Section 2(e)), material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985 (unless such layoff falls within the meaning of a medical reassignment as described in Section 2(e)). The Grantee acknowledges that he or she has read and specifically accepts the vesting conditions referred to in Section 2 of the Award Agreement.

Grantee's Acknowledgement. This provision supplements Section 9 of the Award Agreement:

The Grantee understands that the Company has unilaterally, gratuitously and discretely decided to grant Restricted Stock Unit Awards under the Plan to individuals who may be Employees of the Company or its Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any of its Affiliates on an ongoing basis except to the extent otherwise provided in the Plan and this Award Agreement. Consequently, the Grantee understands that the Restricted Stock Unit Awards are granted on the assumption and condition that the Restricted Stock Unit Awards and any Shares acquired pursuant to the Restricted Stock Unit Awards shall not become a part of any employment contract (either with the Company or any of its Affiliates) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, the Grantee understands that this grant would not be made to the Grantee but for the assumptions and conditions referred to above; thus, the Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of Restricted Stock Unit Awards may be cancelled.

Notifications

Securities Law Information. No "offer of securities to the public," as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the Award. The Award Agreement has not nor will it be registered with the *Comisión Nacional del Mercado de Valores*, and does not constitute a public offering prospectus.

SWITZERLAND

Notifications

Securities Law Information. The grant of the Restricted Stock Unit Awards and the issuance of Shares is not intended to be publicly offered in or from Switzerland. Because this is a private offering in Switzerland, the Restricted Stock Unit Awards are not subject to registration in Switzerland. Neither this Award Agreement nor any other materials relating to the Restricted Stock Unit Awards (i) constitute a prospectus as such term is understood pursuant to article 652a of the Swiss Code of Obligations, (ii) may be publicly distributed nor otherwise made publicly available in Switzerland, or (iii) have been or will be filed with, approved or supervised by any Swiss regulatory authority, including the Swiss Financial Market Supervisory Authority ("FINMA").

TAIWAN

Notifications

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Securities Law Information. The offer of participation in the Plan is available only for Employees of the Company and its Affiliates. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

TURKEY

Notifications

Securities Law Information. Under Turkish law, the Grantee is not permitted to sell any Shares acquired under the Plan in Turkey. The Shares are currently traded on the New York Stock Exchange in the United States of America, under the ticker symbol of "ELAN" and Shares acquired under the Plan may be sold through this exchange.

UNITED KINGDOM

Terms and Conditions

Settlement. Section 4(d) of the Award Agreement shall not apply to Restricted Stock Unit Awards granted in the United Kingdom.

Responsibility for Taxes. This provision supplements Section 7 of the Award Agreement:

Without limitation to Section 7 of the Award Agreement, the Grantee agrees that he or she is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items, as and when requested by the Company and/or the Employer or by Her Majesty's Revenue & Customs ("HMRC") (or any other tax authority or any other relevant authority). The Grantee also agrees to indemnify and keep indemnified the Company and/or the Employer against any Tax-Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Grantee's behalf.

Notwithstanding the foregoing, if the Grantee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the foregoing provision will not apply. In this case, the amount of any Tax-Related Items not collected from or paid by the Grantee may constitute a benefit to the Grantee on which additional income tax and National Insurance contributions ("NICs") may be payable. The Grantee understands that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for paying to the Company and/or the Employer (as appropriate) the amount of any employee NICs due on this additional benefit. Grantee acknowledges that the Company and/or the Employer (as appropriate) may recover such additional NICs at any time thereafter by any of the means referred to in Section 7 of the Award Agreement.

Joint Election. As a condition of Grantee's participation in the Plan and vesting of the Restricted Stock Unit Awards, the Grantee agrees to accept any liability for secondary Class 1 national insurance contributions which may be payable by the Company and/or the Employer in connection with the Restricted Stock Unit Awards and any event giving rise to Tax-Related Items (the "Employer NICs"). Without prejudice to the foregoing, by accepting this Award, the Grantee is entering into a joint election with the Company or the Employer if he or she has not already done so, the form of such joint election being formally approved by HMRC (the "Joint Election"), a copy of which is attached to this Appendix for the United Kingdom as Annex 1, and any other required consent or election. The Grantee further agrees to execute such other joint elections as may be required

Elanco Restricted Stock Unit Award Agreement

between him or her and any successor to the Company and/or the Employer. The Grantee further agrees that the Company and/or the Employer may collect the Employer NICs from him or her by any of the means set forth in Section 7 of the Award Agreement.

Elanco Restricted Stock Unit Award Agreement

Annex 1 to Appendix for United Kingdom

Important Note on the Joint Election for Transfer of Liability for Employer National Insurance Contributions to the Grantee:

As a condition of the Grantee's participation in the Elanco 2018 Stock Plan, as amended from time to time (the "Plan"), the Grantee is required to enter into a joint election to transfer to the Grantee any liability for employer National Insurance contributions (the "Employer NICs") that may arise in connection with the Restricted Stock Unit Award (the "Award") and in connection with future awards, if any, that may be granted to the Grantee under the Plan (the "Joint Election").

By entering into the Joint Election:

- the Grantee agrees that any liability for Employer NICs that may arise in connection with or pursuant to the vesting of the Award and the acquisition of shares of common stock of Elanco Animal Health Inc. (the "Company") or other taxable events in connection with the Award will be transferred to the Grantee; and
- the Grantee authorizes the Company and/or the Grantee's employer to recover an amount sufficient to cover this liability by any method set forth in the Award Agreement and/or the Joint Election.

To enter into the Joint Election and to accept the Award, please select the button next to "Accept" where indicated on the Pending Acceptance screen. Please note that selecting the button next to "Accept" indicates the Grantee's agreement to be bound by all of the terms of the Joint Election.

Please note that even if the Grantee has indicated his or her acceptance of this Joint Election electronically, the Grantee may still be required to sign a paper copy of this Joint Election (or a substantially similar form) if the Company determines such is necessary to give effect to the Joint Election.

Please read the terms of the Joint Election carefully before accepting the Award Agreement and the Joint Election. The Grantee should print and keep a copy of this Joint Election for his or her records.

Elanco Restricted Stock Unit Award Agreement

United Kingdom

Joint Election for Transfer of Liability for Employer National Insurance Contributions to Employee

Election To Transfer the Employer's National Insurance Liability to the Employee

This Election is between:

- A. The individual who has obtained authorised access to this Election (the "**Employee**"), who is employed by one of the employing companies listed in the attached schedule (the "**Employer**") and who is eligible to receive restricted stock unit awards (the "**Award**") pursuant to the 2018 Elanco Stock Plan (the "**Plan**"), and
- B. Elanco Animal Health Inc., an Indiana corporation, with registered offices at Greenfield, Indiana 46140, U.S.A. (the "**Company**"), which may grant Restricted Stock Unit Awards under the Plan and is entering into this Election on behalf of the Employer.

1. Introduction

1.1 This Election relates to all Restricted Stock Unit Awards granted to the Employee under the Plan on or after February 1, 2019 up to the termination date of the Plan.

1.2 In this Election the following words and phrases have the following meanings:

- (a) "**Chargeable Event**" means any event giving rise to Relevant Employment Income.
- (b) "**ITEPA**" means the Income Tax (Earnings and Pensions) Act 2003.
- (c) "**Relevant Employment Income**" from Restricted Stock Unit Awards on which Employer's National Insurance Contributions becomes due is defined as:
 - (i) an amount that counts as employment income of the earner under section 426 ITEPA (restricted securities: charge on certain post-acquisition events);
 - (ii) an amount that counts as employment income of the earner under section 438 of ITEPA (convertible securities: charge on certain post-acquisition events); or
 - (iii) any gain that is treated as remuneration derived from the earner's employment by virtue of section 4(4)(a) SSCBA, including without limitation:
 - (A) the acquisition of securities pursuant to the Restricted Stock Unit Awards (within the meaning of section 477(3)(a) of ITEPA);
 - (B) the assignment (if applicable) or release of the Restricted Stock Unit Awards in return for consideration (within the meaning of section 477(3)(b) of ITEPA);
 - (C) the receipt of a benefit in connection with the Restricted Stock Unit Awards, other than a benefit within (i) or (ii) above (within the meaning of section 477(3)(c) of ITEPA).
- (d) "**SSCBA**" means the Social Security Contributions and Benefits Act 1992.

Elanco Restricted Stock Unit Award Agreement

- 1.3 This Election relates to the Employer's secondary Class 1 National Insurance Contributions (the "Employer's Liability") which may arise in respect of Relevant Employment Income in respect of the Restricted Stock Unit Awards pursuant to section 4(4)(a) and/or paragraph 3B(1A) of Schedule 1 of the SSCBA.
- 1.4 This Election does not apply in relation to any liability, or any part of any liability, arising as a result of regulations being given retrospective effect by virtue of section 4B(2) of either the SSCBA, or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
1. This Election does not apply to the extent that it relates to relevant employment income which is employment income of the earner by virtue of Chapter 3A of Part VII of ITEPA (employment income: securities with artificially depressed market value).

2. The Election

The Employee and the Company jointly elect that the entire liability of the Employer to pay the Employer's Liability that arises on any Relevant Employment Income is hereby transferred to the Employee. The Employee understands that, by accepting the Award (whether in hard copy or electronically) or by accepting this Election (whether in hard copy or electronically), he or she will become personally liable for the Employer's Liability covered by this Election. This Election is made in accordance with paragraph 3B(1) of Schedule 1 of the SSCBA.

3. Payment of the Employer's Liability

- 3.1 The Employee hereby authorises the Company and/or the Employer to collect the Employer's Liability in respect of any Relevant Employment Income from the Employee at any time after the Chargeable Event:
 - (a) by deduction from salary or any other payment payable to the Employee at any time on or after the date of the Chargeable Event; and/or
 - (b) directly from the Employee by payment in cash or cleared funds; and/or
 - (c) by arranging, on behalf of the Employee, for the sale of some of the securities which the Employee is entitled to receive in respect of the Restricted Stock Unit Awards, the proceeds from which must be delivered to the Employer in sufficient time for payment to be made to Her Majesty's Revenue & Customs ("HMRC") by the due date; and/or
 - (d) where the proceeds of the gain are to be paid through a third party, the Employee will authorize that party to withhold an amount from the payment or to sell some of the securities which the Employee is entitled to receive in respect of the Restricted Stock Unit Awards, such amount to be paid in sufficient time to enable the Company and/or the Employer to make payment to HMRC by the due date; and/or
 - (e) by any other means specified in the applicable Restricted Stock Unit Award agreement entered into between the Employee and the Company.
- 3.2 The Company hereby reserves for itself and the Employer the right to withhold the transfer of any securities to the Employee in respect of the Awards until full payment of the Employer's Liability is received.

Elanco Restricted Stock Unit Award Agreement

3.3 The Company agrees to procure the remittance by the Employer of the Employer's Liability to HMRC on behalf of the Employee within 14 days after the end of the UK tax month during which the Chargeable Event occurs (or within 17 days after the end of the UK tax month during which the Chargeable Event occurs if payments are made electronically).

4. Duration of Election

4.1 The Employee and the Company agree to be bound by the terms of this Election regardless of whether the Employee is transferred abroad or is not employed by the Employer on the date on which the Employer's Liability becomes due.

4.2 Any reference to the Company and/or the Employer shall include that entity's successors in title and assigns as permitted in accordance with the terms of the Plan and relevant award agreement. This Election will continue in effect in respect of any awards which replace the Restricted Stock Unit Awards in circumstances where section 483 of ITEPA applies.

4.3 This Election will continue in effect until the earliest of the following:

- (a) the date on which the Employee and the Company agree in writing that it should cease to have effect;
- (b) the date on which the Company serves written notice on the Employee terminating its effect;
- (c) the date on which HMRC withdraws approval of this Election; or
- (d) the date on which, after due payment of the Employer's Liability in respect of the entirety of the Awards to which this Election relates or could relate, the Election ceases to have effect in accordance with its own terms.

4.4 This Election will continue in force regardless of whether the Employee ceases to be an employee of the Employer.

Acceptance by the Employee

The Employee acknowledges that, by clicking on the button next to "Accept" to accept the Restricted Stock Unit Award Agreement and this Election (or by signing the Restricted Stock Unit Award Agreement or this Election whether is hard copy or electronically), the Employee agrees to be bound by the terms of this Election.

Elanco Restricted Stock Unit Award Agreement

Acceptance by the Company

The Company acknowledges that, by signing this Election or arranging for the scanned signature of an authorised representative to appear on this Election, the Company agrees to be bound by the terms of this Election.

Signature for and on behalf of the Company

Position

Elanco Restricted Stock Unit Award Agreement

Schedule of Employer Companies

The employing companies to which this Election relates include:

Name:	Elanco UK AH Limited
Registered Office:	Lilly House, Priestley Road, Basingstoke, Hants RG24 9NL
Company Registration Number:	11378434
Corporation Tax Reference:	4312717782
PAYE Reference:	475/FB88335

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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 March 31, 2020 (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: May 7, 2020

/s/ Jeff Simmons

Jeff Simmons

President, and Chief Executive Officer

Date: May 7, 2020

/s/ Todd Young

Todd Young

Executive Vice President and Chief Financial Officer