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# 2020 Earnings First Quarter

May 7, 2020

# SAFE HARBOR PROVISION



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; an outbreak of infectious disease carried by food animals; the success of our R&D and licensing efforts; our ability to complete acquisitions and successfully integrate the businesses we acquire, including the animal health business of Bayer AG (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; consolidation of our customers and distributors; 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 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 standup our enterprise resource planning (ERP) system and other information technology systems.

For additional information about the factors that could cause actual results to differ materially from forward-looking statements, please see the company's latest Forms 10-K and subsequent form 10-Qs filed with the Securities and Exchange Commission.

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

# FOOD AND COMPANIONSHIP ENRICHING LIFE

**Elanco**<sup>TM</sup>



*Animal Health manufacturing  
and research deemed  
essential*

*Employees, customers and  
other stakeholders  
maintaining connection*

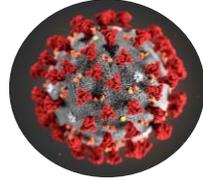
*Supporting our local  
communities*

# COVID-19 PROMPTS CHANGES WITH CHANNEL PARTNERS

Elanco™

## Where We Have Been

- Buy/Sell arrangements
- Inventory levels as tactic to drive demand generation
- Consolidating number of partners
- Focusing compensation to value drivers
- Reducing commission levels



## COVID-19 pandemic

- Working capital and liquidity pressures across value chain
- Expected demand shocks related to pandemic impacts
- Amplified inventory impact of partner consolidation

Inventory Reduction of \$60M;  
additional expected in Q2

## Where We Are Headed

- Elanco drives demand generation efforts
- Use of distribution where they excel
- Optimization of promotional spend with higher return on investment
- Hybrid arrangements and optionality in light of Bayer portfolio

***Structural change triggered by COVID-19 pandemic that will improve working capital, level of control and commercial execution***

# IPP STRATEGY CONSISTENT, BAYER ADVANCING

Elanco™



## Deliver Innovation

- Continued global expansion of **Galliprant** with approvals in strong companion animal markets, Australia and Japan, launch in Brazil
- **R&D teams** operating normally; 20 **launch equivalents** from **Elanco** progressing; 5 expected by end of 2021

## Drive Growth of Portfolio

- Strong growth in **alternative channels** for companion animal products in the U.S.
- Collaboration with **VetNow** to help increase access to telemedicine platform in U.S.

## Productivity to Unlock Value

- Manufacturing productivity, independent company stand up and ERP development **remain on track** despite COVID-19



Animal Health

## Transaction Advancing

- Maintain expectation of mid-2020 close
- Antitrust clearance received in **Colombia, South Africa and Vietnam**, in addition to previously announced China, Ukraine and Turkey
- Antitrust advancing in remaining jurisdictions – EU submitted Form CO, UK review commenced
- All financing elements in place
- Integration planning on schedule
- Executive leadership team announced; two leaders from Bayer AH team

# REPORTED INCOME STATEMENT



Millions; except per share data

	Q1 2020	Change
Revenue	\$657.7	(10)%
Gross margin	49.4%	(360) bps
Total operating expense*	248.8	1%
Operating income	76.2	(46)%
Interest expense, net	16.5	(21)%
Effective tax rate	27.6%	NM
<b>Net income (loss)</b>	<b>\$(49.1)</b>	<b>(256)%</b>
<b>Earnings (loss) per share diluted</b>	<b>\$(0.12)</b>	<b>(233)%</b>

\*Includes research and development expense as well as marketing, selling and administrative expense  
 NM – not meaningful

## "REPORTED" RESULTS

Include all financial results as reported in accordance with Generally Accepted Accounting Principles (GAAP)

## "ADJUSTED" MEASURES

Start with **"REPORTED" RESULTS**

Include adjustments for items such as:

- Asset impairment, restructuring and other special charges
- Acquired in-process R&D charges and other income and expenses from business development activities
- Amortization of intangible assets

# CERTAIN INCOME STATEMENT ITEMS AS ADJUSTED



## Q1

Millions; except per share data	2020 Adjusted	2019 Adjusted	Change
Revenue	\$657.7	\$731.1	(10)%
Gross margin	50.1%	52.9%	(280)bps
Total operating expense*	248.8	245.2	1%
Operating income	80.5	141.5	(43)%
Interest expense, net	15.7	20.8	(25)%
Effective tax rate	15.9%	21.3%	NM
<b>Net income</b>	<b>\$53.6</b>	<b>\$92.9</b>	<b>(42)%</b>
<b>Earnings per share diluted</b>	<b>\$0.13</b>	<b>\$0.25</b>	<b>(48)%</b>

Refer to slide 17-18 for the reconciliation between GAAP and Non-GAAP and definition of margin calculation.

\*Includes research and development expense as well as marketing, selling and administrative expense

# EFFECT OF PRICE/RATE/VOLUME ON REVENUE



Millions

	Q1 2020					
	Revenue	Price	FX Rate	Volume	Total	CER* Growth
CA Disease Prevention	140.3	3%	(1)%	(27)%	(25)%	(24)%
CA Therapeutics	65.8	(0)%	(1)%	(18)%	(19)%	(18)%
FA Future Protein & Health	180.0	4%	(2)%	6%	8%	10%
FA Ruminants and Swine	252.6	(1)%	(1)%	(6)%	(8)%	(7)%
<b>Core Revenue</b>	<b>\$638.7</b>	<b>1%</b>	<b>(1)%</b>	<b>(10)%</b>	<b>(10)%</b>	<b>(9)%</b>
Strategic Exits	19.0	0%	(2)%	(13)%	(15)%	(13)%
<b>Total Elanco</b>	<b>\$657.7</b>	<b>1%</b>	<b>(1)%</b>	<b>(10)%</b>	<b>(10)%</b>	<b>(9)%</b>

Note: Numbers may not add due to rounding  
 \*CER = Constant exchange rate

# REVENUE BY GEOGRAPHY



## Q1 2020

Millions	Global		US		International	
	Revenue	Change	Revenue	Change	Revenue	Change
<b>Core Revenue</b>	<b>\$638.7</b>	<b>(9)%</b>	<b>\$288.0</b>	<b>(22)%</b>	<b>\$350.7</b>	<b>6%</b>
Strategic Exits	19.0	(13)%	11.9	(13)%	7.1	(14)%
<b>Total Elanco</b>	<b>\$657.7</b>	<b>(9)%</b>	<b>\$299.9</b>	<b>(22)%</b>	<b>\$357.8</b>	<b>6%</b>

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

## Strong Cash Position

\$1.2 billion cash and equivalents  
Retired Term Loan A with \$371 million principal payment

## Bayer Financing

All financing in place; Term Loan B priced and equity offering completed in Q1

## Financial Backstop

\$750 million undrawn revolver

## NEAR AND MID-TERM COVID-19 RISKS

- ⊖ Commercial channel inventory reduction
- ⊖ Livestock production capacity constraints
- ⊖ Pressured livestock producer economics
- ⊖ Vet Clinic Visits & Revenue
- ⊖ Uncertain economic recovery outlook

## CONTINUED GROWTH DRIVERS

- ⊕ Durable, resilient Animal Health industry
- ⊕ Underlying business strong, innovation launches
- ⊕ Alternative Channels importance accelerated
- ⊕ 5 expected new launches by end of 2021
- ⊕ Manufacturing Productivity agenda on-track
- ⊕ Bayer deal on-track; Q1 results strong



**Elanco**

TM

**Food and Companionship**  
*Enriching Life*

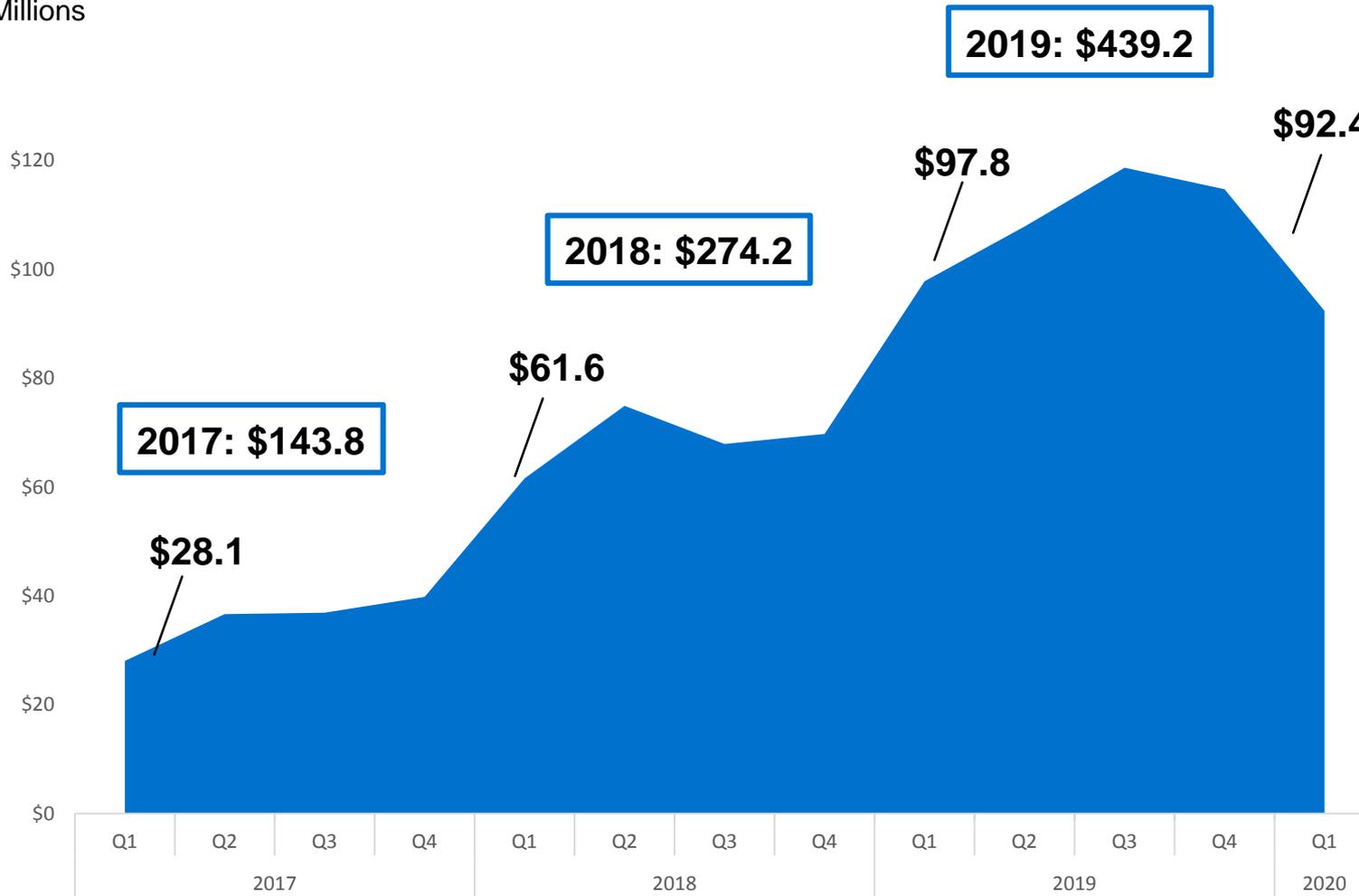
# SUPPLEMENTAL SLIDES



# NEW PRODUCT PROGRESS



Millions



## Products Include:

### COMPANION ANIMAL

- Interceptor<sup>®</sup> Plus
- Osurnia<sup>®</sup>
- Galliprant<sup>®</sup>
- Credelio<sup>®</sup>
- Entyce<sup>®\*\*</sup>
- Nocita<sup>®\*\*</sup>
- Tanovea<sup>®\*\*</sup>

### FOOD ANIMAL

- Imrestor<sup>®\*</sup>
- Imvixa<sup>™</sup>
- Kavault<sup>®</sup>
- Intepriety<sup>®</sup>
- Clynav<sup>™</sup>
- Prevacent<sup>™</sup> PRRS
- Correlink<sup>™</sup>

**2020 Q1: 6% decline  
impacted by reductions in  
channel inventory**

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

\*\*Added in Q3 2019

# RESULTS IMPACTED BY COMMERCIAL ACTIONS IN FIRST QUARTER



## Q1 2020

	Companion Animal Disease Prevention	(24)%
	Companion Animal Therapeutics	(18)%
	Food Animal Future Protein & Health	10%
<b>Targeted Growth Categories</b>		<b>(10)%</b>
	Food Animal Ruminants & Swine	(7)%
<b>Core Elanco</b>		<b>(9)%</b>
	Strategic Exits	(13)%
<b>Total Elanco</b>		<b>(9)%</b>

## Commercial Actions

Impacts of COVID-19 pandemic prompted Elanco to implement changes with commercial distribution partners.

Reduced Q1 sales by \$60 million.

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

# Q1 RECONCILIATION OF GAAP to NON-GAAP



	Q1 2020			Q1 2019		
	GAAP Reported	Adjusted Items	Non-GAAP	GAAP Reported	Adjusted Items	Non-GAAP
Millions; except per share data						
<b>Gross profit</b>	<b>\$325.0</b>	<b>4.3</b>	<b>\$329.3</b>	<b>\$387.3</b>	<b>(0.6)</b>	<b>\$386.7</b>
<b>Operating income</b>	<b>\$76.2</b>	<b>4.3</b>	<b>\$80.5</b>	<b>\$142.1</b>	<b>(0.6)</b>	<b>\$141.5</b>
Amortization of intangible assets	51.6	51.6	—	49.0	49.0	—
Asset impairments, restructuring and other special charges	74.8	74.8	—	24.9	24.9	—
Interest expense, net	16.5	0.8	15.7	20.8	—	20.8
<b>Income (loss) before taxes</b>	<b>\$(67.8)</b>	<b>131.5</b>	<b>\$63.7</b>	<b>\$44.8</b>	<b>\$73.3</b>	<b>\$118.1</b>
Provision for taxes	(18.7)	(28.8)	10.1	13.3	(11.9)	25.2
<b>Net income (loss)</b>	<b>\$(49.1)</b>	<b>\$102.7</b>	<b>\$53.6</b>	<b>\$31.5</b>	<b>\$61.4</b>	<b>\$92.9</b>
<b>Earnings (loss) per share diluted</b>	<b>\$(0.12)</b>	<b>\$0.25</b>	<b>\$0.13</b>	<b>\$0.09</b>	<b>\$0.17</b>	<b>\$0.25</b>

See slide 18 for details on items included in the adjustments for each line.

# Q1 2020 INCOME STATEMENT NOTES



## Q1 2020 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

- A one-time payment to settle outstanding obligations to a contract manufacturing organization in connection with the divestiture of Osumnia (\$4.3 million).
- Charges associated with integration efforts and external costs related to the acquisition of businesses and charges primarily related to independent stand-up costs and other related activities (\$76.3 million), facility exit costs and asset write-downs (\$1.9 million), and severance (\$1.0 million), partially offset by a favorable adjustment from reversals for severance programs that are no longer active (\$0.6 million) and the gain on the sale of our R&D facility in Prince Edward Island, Canada (\$3.8 million).
- The debt extinguishment loss recorded in connection with the repayment of our existing term loan facility (\$0.8 million).

## Q1 2019 NON-GAAP INFORMATION HAS BEEN ADJUSTED TO EXCLUDE:

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

## FOR ALL PERIODS:

- Income tax represents the income tax expense associated with the adjusted items.
- Adjusted Gross Margin is adjusted Gross Profit divided by Revenue.

# RECONCILIATION OF GAAP REPORTED TO NON-GAAP EPS



	Q1	
	2020	2019
<b>As Reported EPS</b>	\$(0.12)	\$0.09
Cost of sales	0.01	—
Amortization of intangible assets	0.13	0.13
Asset impairments, restructuring and other special charges	0.19	0.07
Interest expense, net of capitalized interest	0.00	—
<b>Subtotal</b>	<b>\$0.33</b>	<b>\$0.20</b>
Tax impact of adjustments	(0.07)	(0.03)
<b>Total adjustments to EPS</b>	<b>\$0.26</b>	<b>\$0.17</b>
<b>Adjusted EPS<sup>(1)</sup></b>	<b>\$0.13</b>	<b>\$0.25</b>
Impact of Q1 equity issuances on Adjusted EPS <sup>(2)</sup>	0.01	
<b>Adjusted EPS Excluding Share Issuances</b>	<b>\$0.14</b>	

Numbers may not add due to rounding. (1) Adjusted EPS is calculated as the sum of As Reported EPS and Total Adjustments to EPS. (2) Impact is based on excluding the weighted average impact in Q1 2020 of approximately 25.0 million shares relating to the common stock issuance and 14.3 million shares relating to the minimum settlement rate of the tangible equity unit prepaid stock purchase contracts. Both equity issuances occurred during the three months ended March 31, 2020.

# NET INCOME TO EBITDA AND ADJUSTED EBITDA



## Q1

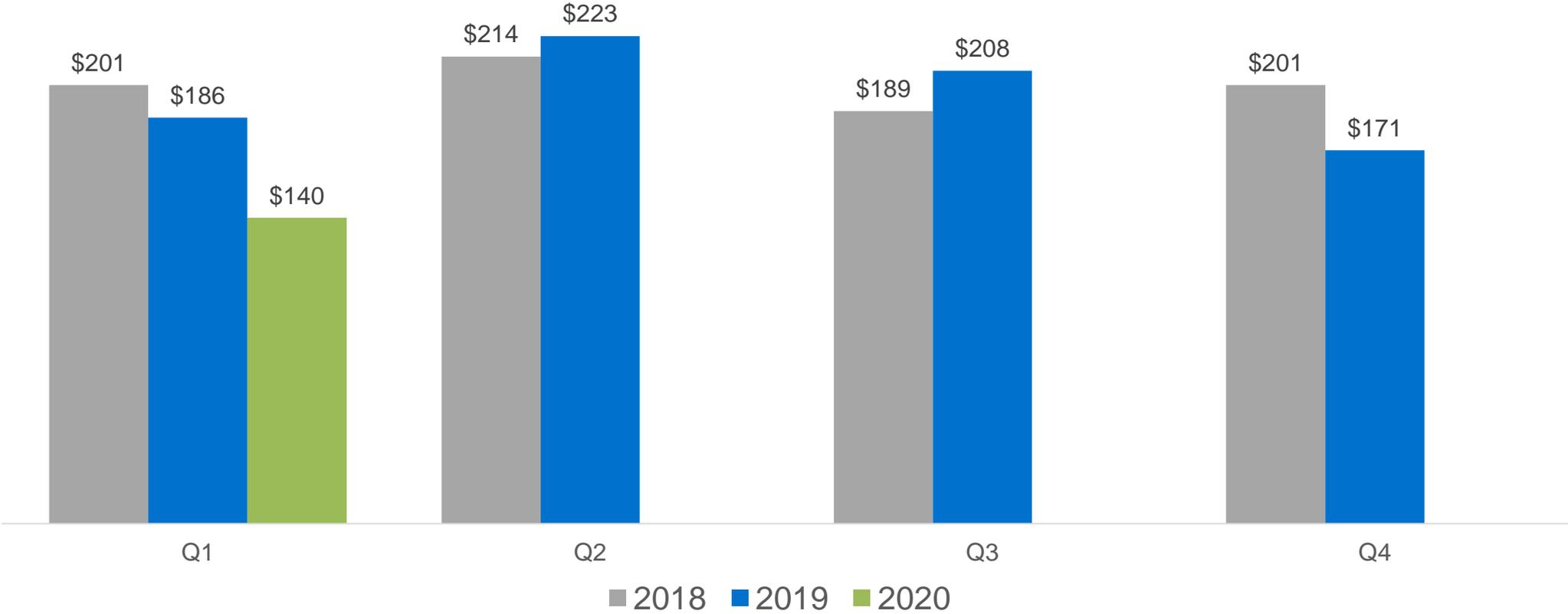
(dollars in millions)

	2020	2019
<b>Reported net income (loss)</b>	\$(49.1)	\$31.5
Net interest expense	16.5	20.8
Income tax expense (benefit)	(18.7)	13.3
Depreciation and amortization	81.5	75.2
<b>EBITDA</b>	<b>\$30.2</b>	<b>\$140.8</b>
Non-GAAP adjustments:		
Cost of sales	4.3	(0.6)
Asset impairment, restructuring and other special charges	74.8	24.9
Accelerated depreciation and amortization <sup>(1)</sup>	(2.8)	—
<b>Adjusted EBITDA</b>	<b>\$106.5</b>	<b>\$165.1</b>
<i>Adjusted EBITDA Margin</i>	<i>16.2%</i>	<i>22.6%</i>

(1) Represents depreciation and amortization of certain assets that was accelerated during the three months ended March 31, 2020. This amount must be added back to arrive at Adjusted EBITDA because it is included in Asset impairment, restructuring and other special charges but it has already been excluded from EBITDA in the "Depreciation and amortization" row above.

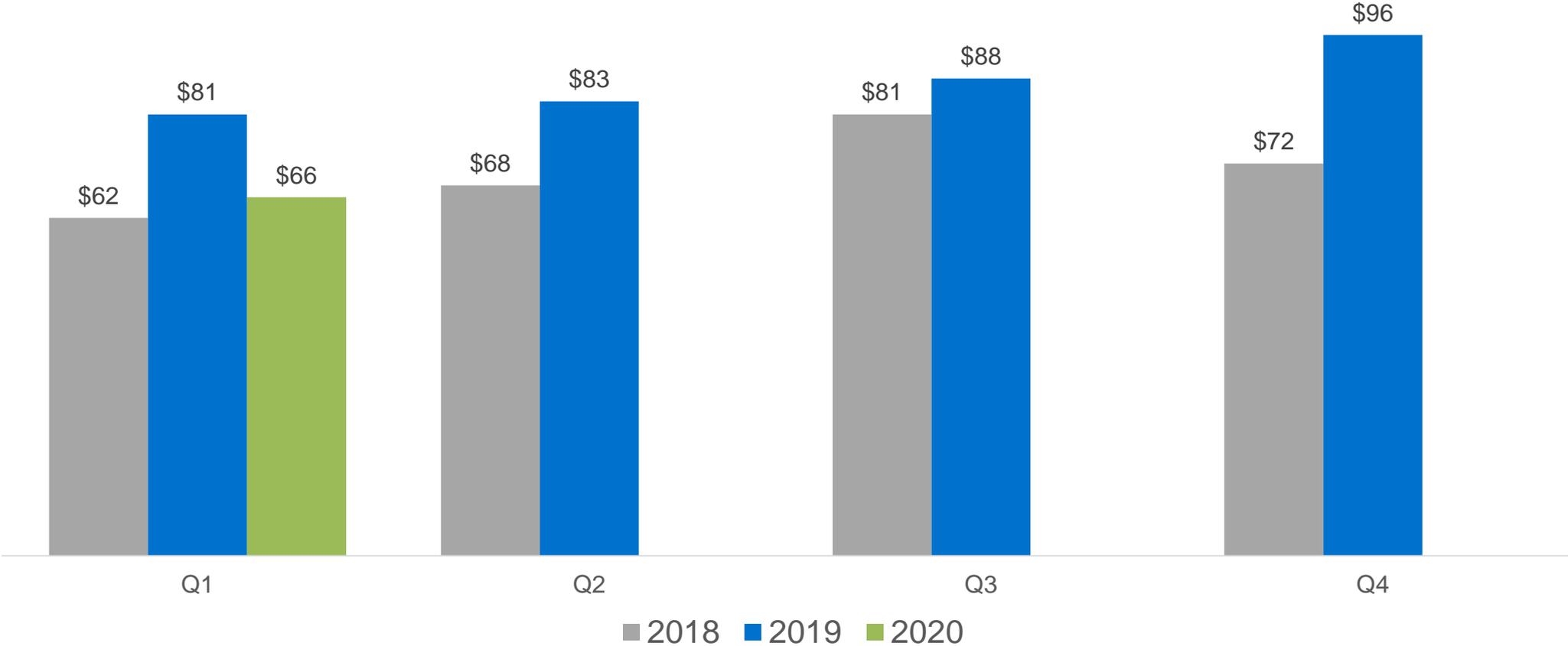
Depreciation and amortization, EBITDA and Adjusted EBITDA as shown in the earnings materials for the first quarter of 2019 were overstated by \$7.9M due to an error. The values shown for the three months ended March 31, 2019 above are correct.

# Q1 2020 CA PREVENTION SALES DECREASED 25%



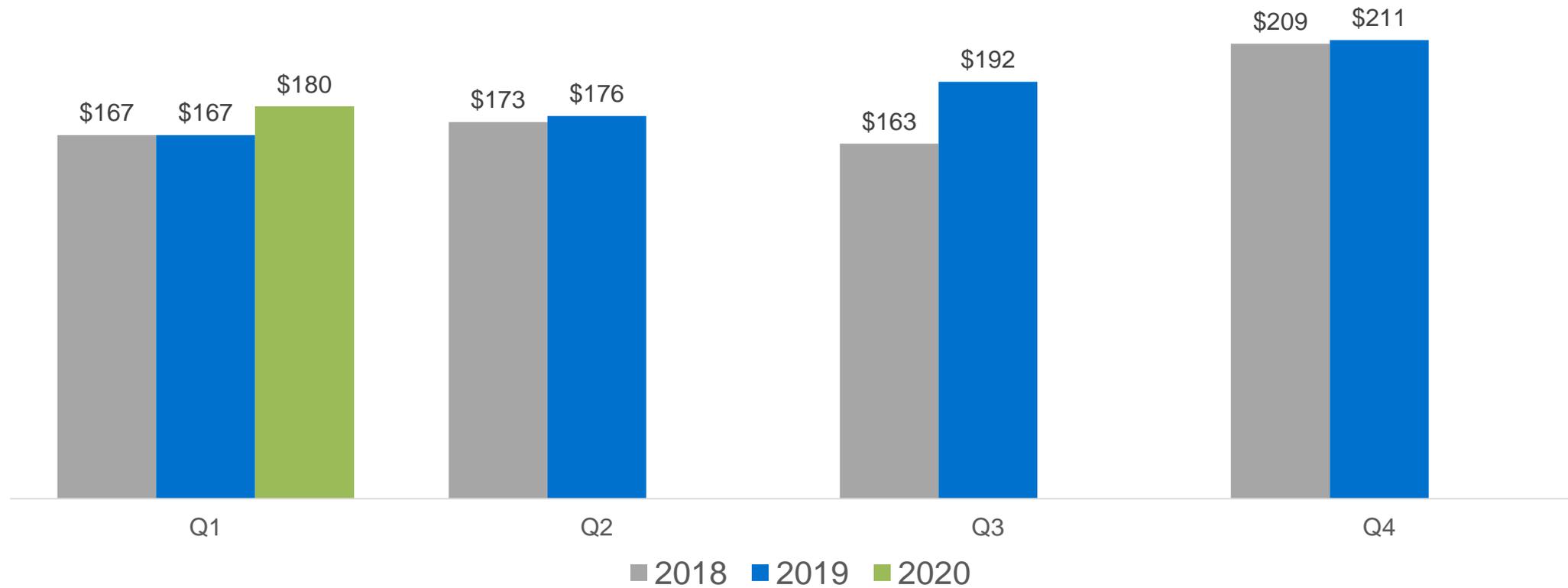
Note: Amounts and growth rates in reported dollars; dollars in millions

# Q1 2020 CA THERAPEUTICS SALES DECREASED 19%



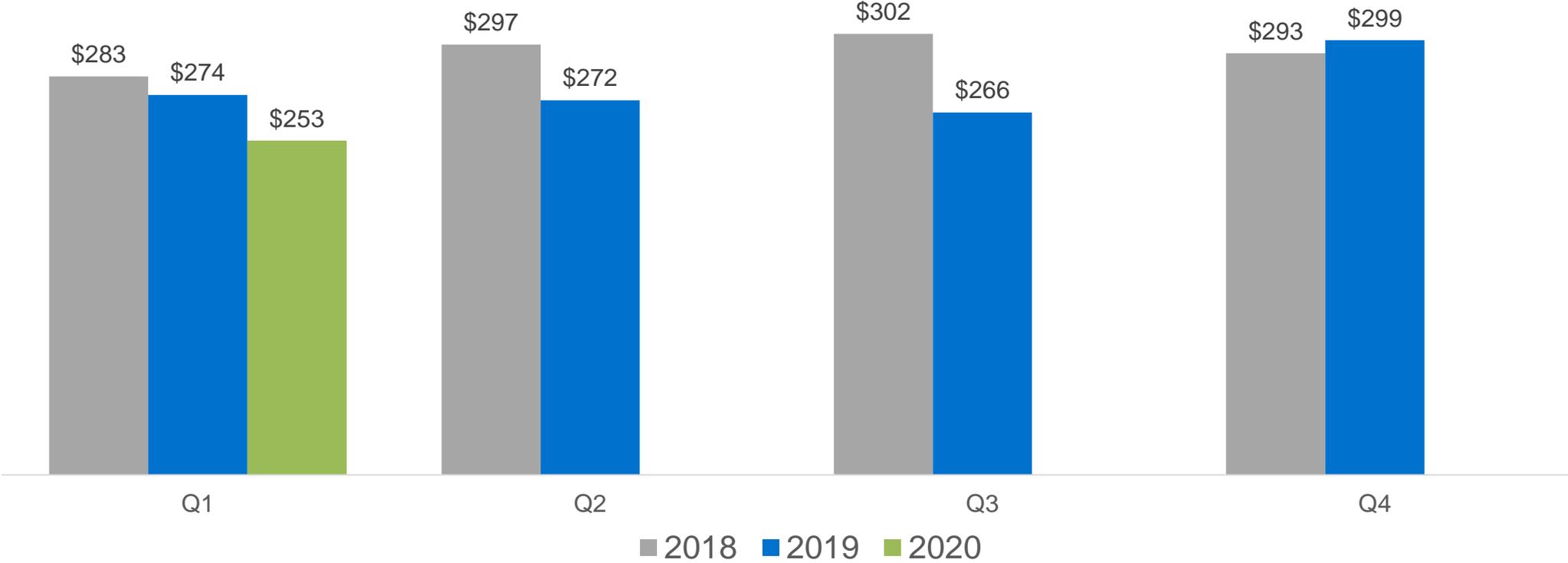
Note: Amounts and growth rates in reported dollars; dollars in millions

# Q1 2020 FUTURE PROTEIN & HEALTH SALES INCREASED 8%



Note: Amounts and growth rates in reported dollars; dollars in millions

# Q1 2020 RUMINANTS & SWINE SALES DECREASED 8%



Note: Amounts and growth rates in reported dollars; dollars in millions