

Focus on Productivity

Elanco Investor Day 2020

Dave Urbanek

Executive Vice President –
Manufacturing & Quality

Elanco



Today's Agenda



Elanco Today



Jeff Simmons
President & Chief Executive Officer



Innovative Future



Aaron Schacht
EVP – Innovation, Regulatory, & Business Development



Maximizing the Portfolio



Racquel Harris Mason
EVP – Chief Marketing Officer



Focus on Productivity



David Urbanek
EVP – Manufacturing & Quality



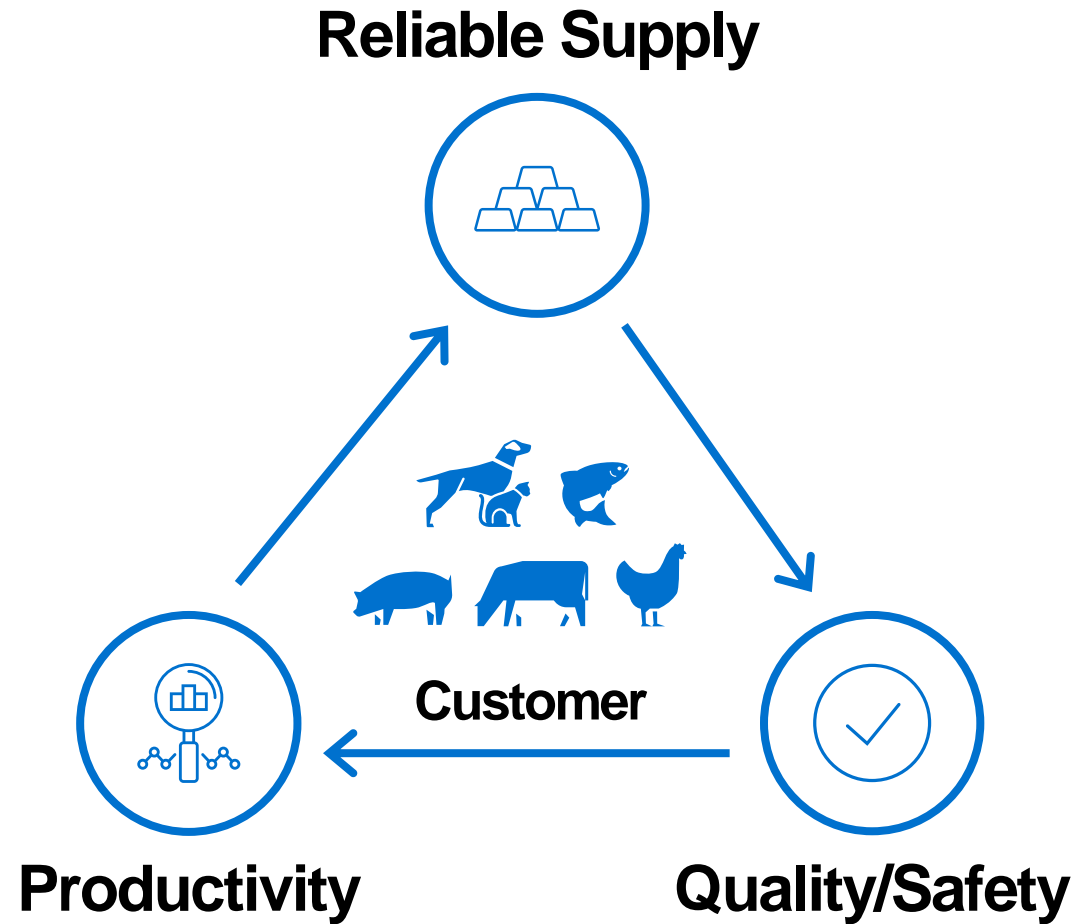
Financial Outlook



Todd Young
EVP – Chief Financial Officer, Corporate Governance, & Strategy

Q&A

Manufacturing & Quality Play an Essential Role in Serving Customers



Our Long-Term Algorithm for Accelerated Value Creation



Growth

~3% - 4%
Average Annual
Revenue Growth

Innovation and
Focus Brands
Leading Growth



Profitability

Double-Digit
Annual Adjusted
EBITDA⁽¹⁾ Growth

Progressing Toward
Long-Term Targets of
60% Adjusted Gross
Margin⁽¹⁾ and 31% Adjusted
EBITDA Margin⁽¹⁾



Results

Double-Digit
Annual Adjusted
EPS⁽¹⁾ Growth

Progressing Toward
Net Leverage <3x

(1) Non-GAAP financial measure. See Appendix to this presentation for more information, including GAAP to non-GAAP reconciliations
Note: All references to forward-looking financials are at constant currency, unless otherwise noted.

Productivity Key Takeaways



**Delivering
Against
Expectations**



**Three
Levers Drive
Improvement**



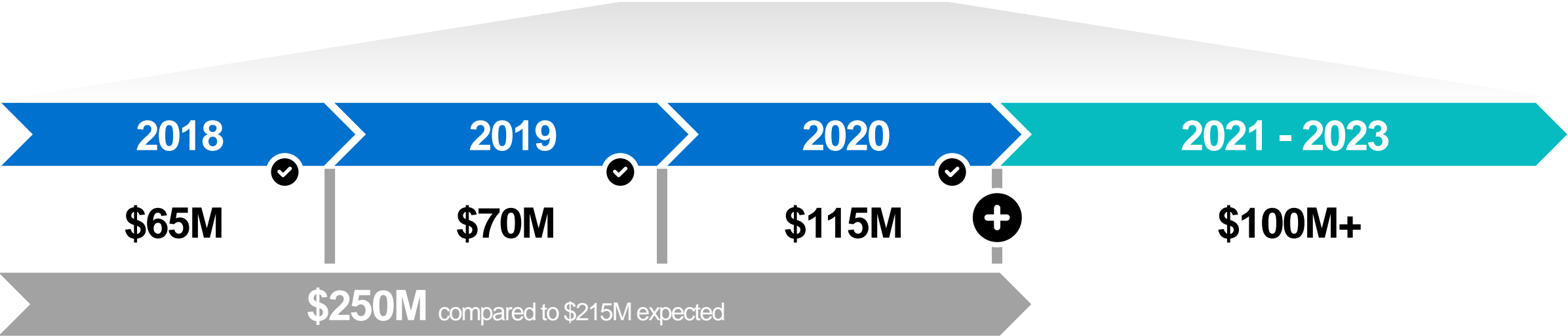
**Continued
Runway for
Incremental Gains**



**Bayer
Capabilities &
Value Capture**

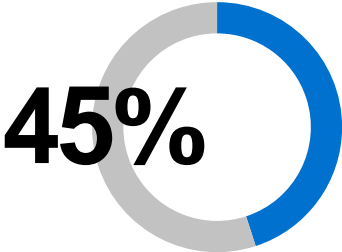
Legacy Elanco Has Demonstrated a Consistent Track Record of Productivity Improvement, Exceeding Expectations

Driven by Three Productivity Levers



Expect an Additional \$100M in Savings from 2021 to 2023

Three Productivity Levers Deeply Rooted in Our Culture

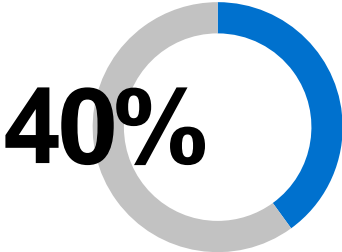


Operational Excellence

Lean principles and process optimization

Insourcing and CMO consolidation

Footprint and structure rationalization

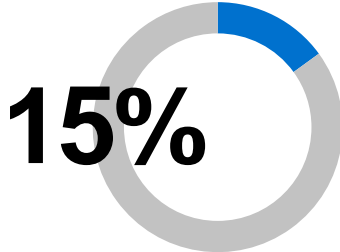


Procurement Agenda

Source changes to lower cost locations

Price negotiations with existing partners

Competitive RFP and new suppliers



Technical Agenda

Improved strains and yield

Impacting internal and external manufacturing operations

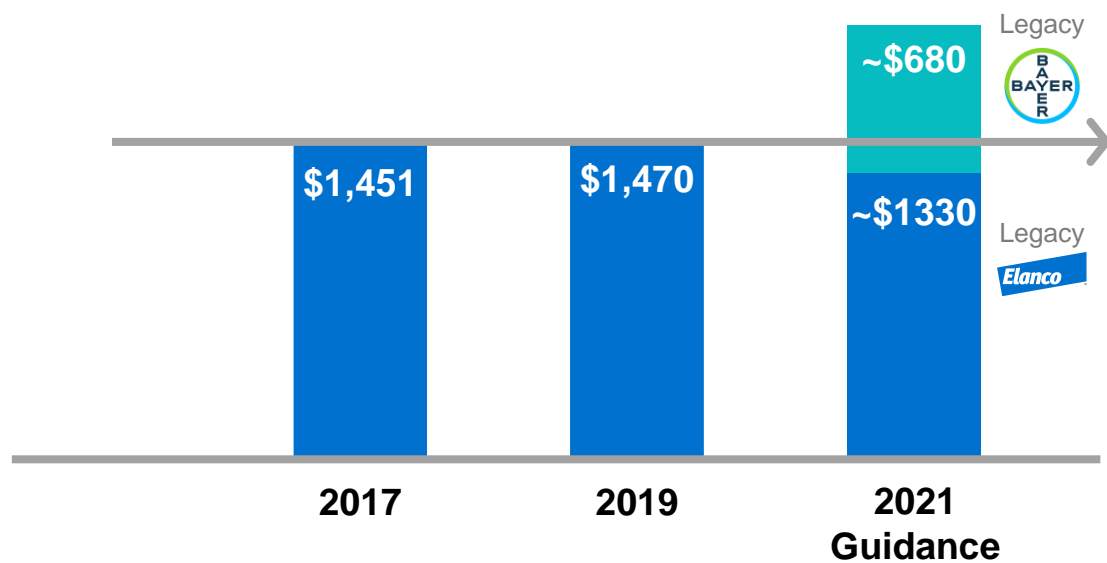
Target areas across the portfolio – from Rumensin to Credelio

Delivering Structural and Sustainable Cost Improvements

Productivity Savings Have Allowed Legacy Elanco to Maintain Flat Cost of Sales, Despite Inflation and Mix Pressures

Adj. Cost of Sales⁽¹⁾

(\$ millions)



	2017	2019	2021 Guidance
Revenue	\$2,889	\$3,071	\$4,520 to \$4,600

	2017	2019	2021 Guidance
Adj. Gross Margin ⁽¹⁾	49.8%	52.1%	55.5% - 56.5%

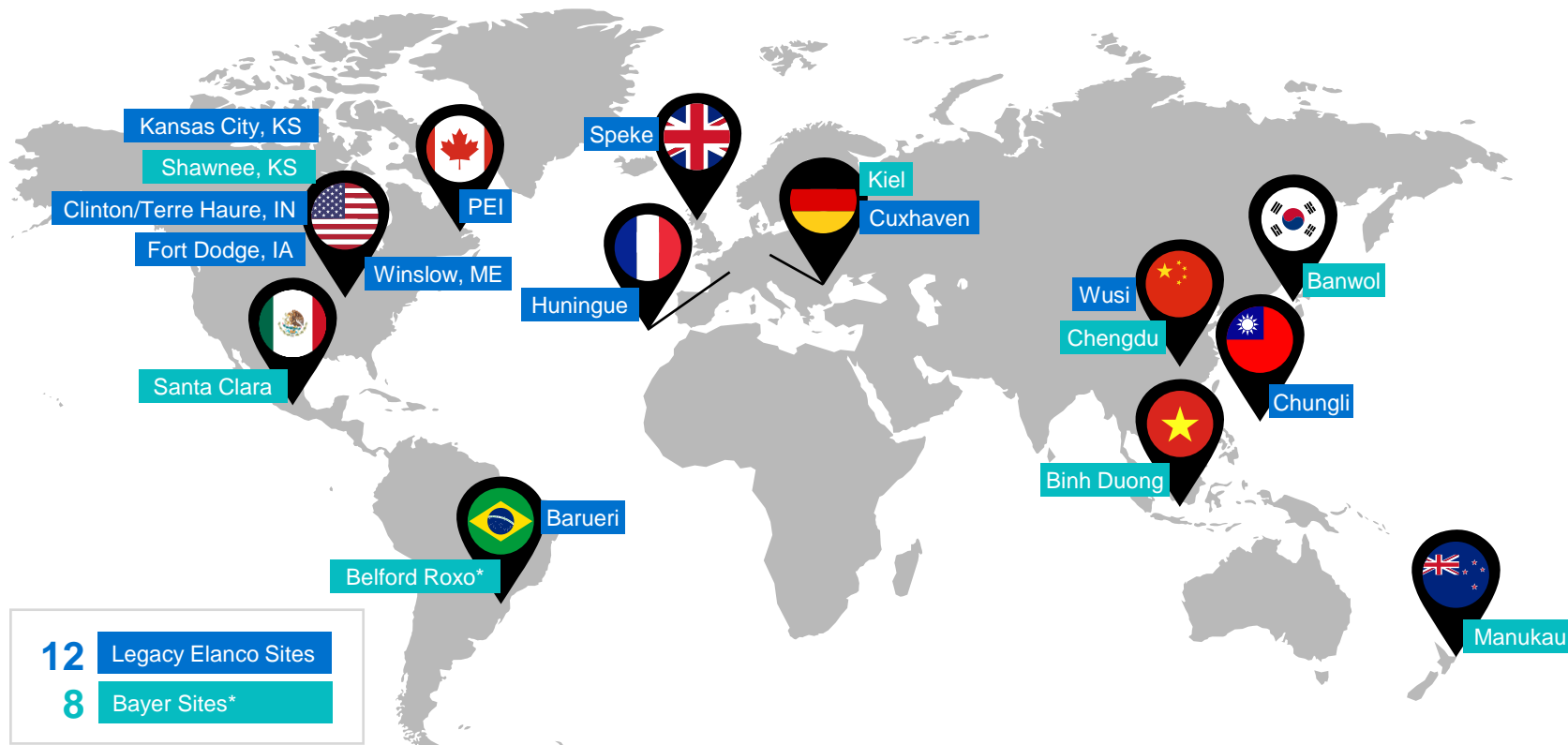
Cost of sales flat despite annual inflationary pressures of 2%-3% (e.g. wages and labor, freight, consumables)

Mix pressure has provided a headwind to realizing full productivity benefits at gross margin level

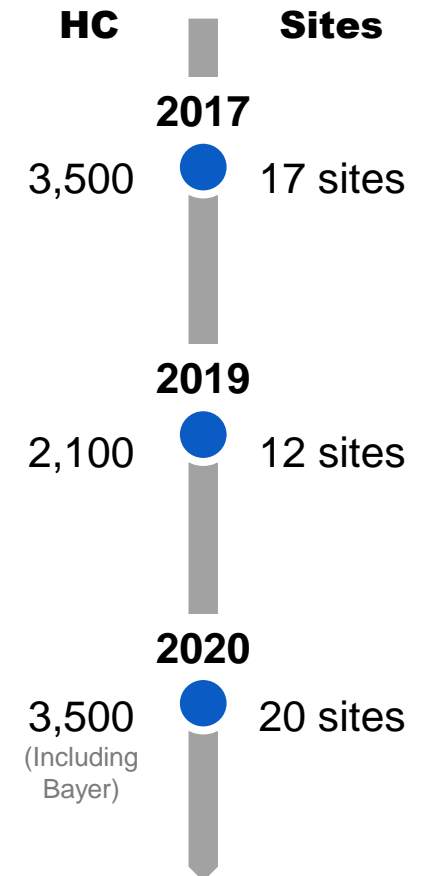
Cost savings are structural in nature and will persist

⁽¹⁾ Non-GAAP financial measure. See Appendix to this presentation for more information, including GAAP to non-GAAP reconciliations

Bayer Animal Health Expands Network, Continued Opportunity to Implement Productivity Levers



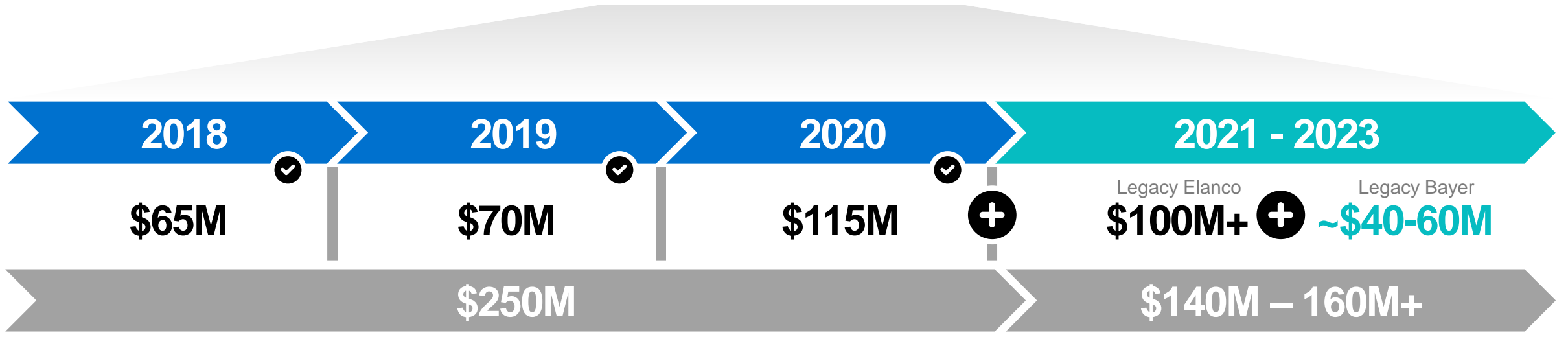
Internal footprint evolution



*Belford Roxo, Brazil site has not yet closed as a part of the Bayer Animal Health acquisition.

Productivity Agenda Remains Intact, with Additional Opportunity to Drive Bayer Synergy Savings

Driven by Three Productivity Levers



Evaluating Additional M&Q Synergy Opportunity Beyond 2023

Productivity Above Expectations, Path For Continued Savings



Productivity Takeaways

Track record of execution to deliver \$250M cost savings between 2018 and 2020 and maintain flat cost of sales

Three culturally embedded levers drive opportunity and agenda across global M&Q organization

Planned savings of additional \$100M+ from legacy Elanco between 2021 and 2023

Expanded capabilities with Bayer; \$40-\$60M synergy opportunity aligned with three productivity levers