Financial Outlook

Elanco Investor Day 2020

Todd Young

Executive Vice President – Chief Financial Officer, Corporate Governance, & Strategy

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

Topics to Cover Today

Near-Term Financial Guidance

Increasing and tightening Q4 2020 revenue guidance, and providing adj. EPS[(1)] and adj. EBITDA[(1)] guidance

2021 guidance vs. expected 2020 pro forma reference base

Greater transparency and new revenue reporting structure

Long-Term Algorithm Value Creation

Targeting **~3%-4% annual revenue growth** driving robust **double-digit adj. EBITDA growth[(1)]**

Pathway to long-term profitability targets: 60% adj. gross margin[(1)] and 31% adj. EBITDA[(1)] margin

Accelerating synergy realization, investing for growth, and mitigating increased IT costs

Cash and Capital Allocation Outlook

Nearing completion of independent company stand-up

Approaching end of peak cash needs for key strategic investments

Priority to repay gross debt

(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

Q4 2020

Guidance Update

$ millions, except per share values

Total Revenue	**$1,040 – $1,070** increase from $1,020 - $1,060
Core Revenue[1] (Excluding Contract Manufacturing)	**$1,005 – $1,035** increase from $985 - $1,025
Contract Manufacturing	Approx. $35 Unchanged
Adjusted Gross Margin[1]	Approx. 52%
Operating Expenses	$425 – $445
Adjusted EBITDA[1]	**$140 – $160**
Adjusted EBITDA Margin[1]	**13.5% – 15.0%**
Depreciation	Approx. $42
GAAP Earnings per Share	**($0.38) – ($0.32)**
Adjusted Earnings per Share[1]	**$0.06 – $0.12**

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

2020 Pro Forma

Reference Base[(1)]

$ millions

Total Revenue	**$4,370 – $4,400**
Adjusted Gross Margin[(2)]	Approx. 54.5%
Operating Expenses	$1,740 – $1,760
Adjusted EBITDA[(2)]	**$780 – $800**
Adjusted EBITDA Margin[(2)]	**Approx. 18%**
Depreciation	Approx. $156

Includes updated Q4 2020 guidance

Assumes Bayer Animal Health transaction closed January 1, 2020

Assumes related divestitures completed January 1, 2020 and accounting reclassifications complete

(1) This reference base is materially correct based on the public filings of Bayer and Elanco; however, due to certain data limitations, including foreign exchange rates, these numbers may have some non-material differences to actuals. This reference base is a good faith summary to provide better financial context to investors about the expected performance of Elanco in 2021

(2) Non-GAAP financial measure. The company has not reconciled its 2020 GAAP net income to 2020 non-GAAP pro forma adjusted EBITDA guidance to GAAP net income because the reconciling items between such GAAP and non-GAAP financial measures is not available without unreasonable effort

2021 Guidance Aligns with Our Long-Term Growth Algorithm

Growth

3%-5% Revenue Growth Includes **~3%-4%** Underlying Growth(1) vs. 2020 Pro Forma

Profitability

Adjusted EBITDA(2) **Up 20%-25%** vs. 2020 Pro Forma

Adj. Gross Margin(2) **Up 100-200 bps** to **55.5%-56.5%** vs. 2020 Pro Forma

Results

Adjusted EPS(2) of **$0.83-$0.95**

$500M in Gross Debt Paydown, with **~5.5x** Net Leverage(3) at 2021 Year-End

(1) Non-GAAP financial measure. See slide 8 for more information
(2) Non-GAAP financial measure. See Appendix to this presentation for more information, including GAAP to non-GAAP reconciliations
(3) Net leverage ratio calculated as gross debt less cash & equivalents on our balance sheet divided by adjusted EBITDA as reported. Does not include Term Loan B covenant-related adjustments that reduce this leverage ratio

2021

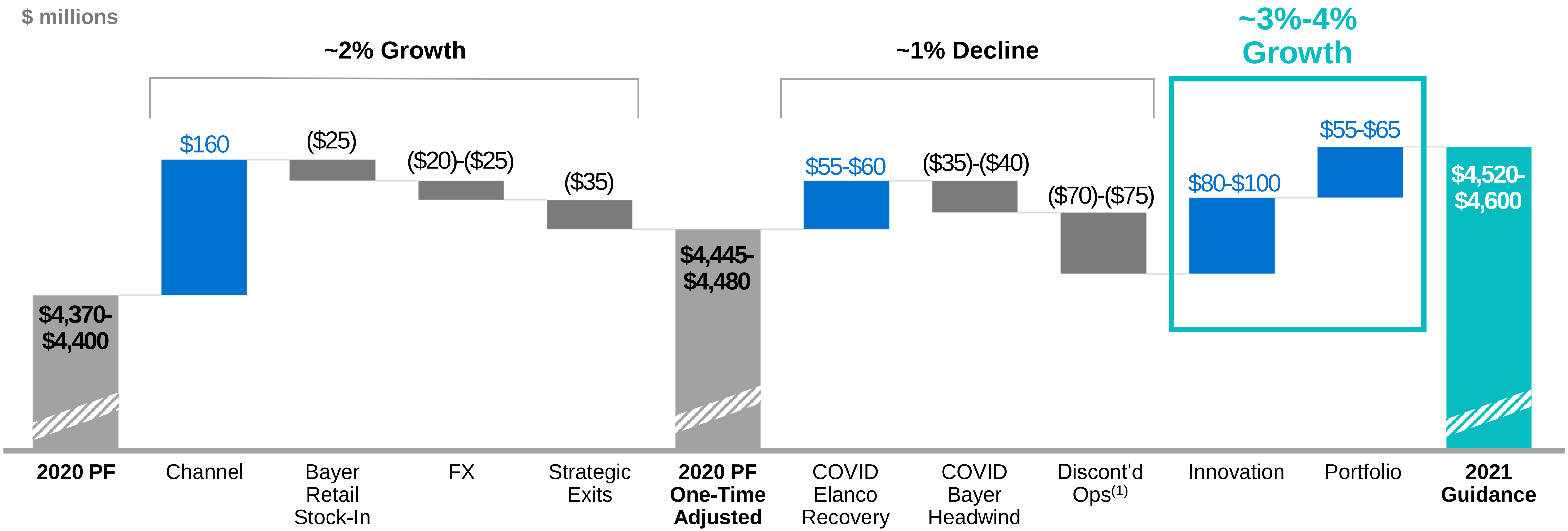
Guidance

$ millions, except per share values

Total Revenue	**$4,520 – $4,600**
Adjusted Gross Margin(1)	55.5% – 56.5%
Operating Expenses	$1,730 – $1,760
Adjusted EBITDA(1)	**$940 – $1,000**
Adjusted EBITDA Margin(1)	**21% – 22%**
Depreciation	Approx. $175
Interest Expense, Net of Capitalized Interest	$236 – $244
Tax Rate	21% – 22%
GAAP Earnings per Share	**($0.28) – ($0.14)**
Adjusted Earnings per Share(1)	**$0.83 – $0.95**
Weighted Average Diluted Share Count	Approx. 494.5 million
Capital Expenditures	$145 – $165
Net Cash Impact from Bayer, Stand-up, Integration, and Restructuring	Approx. $250
Cash Taxes(2)	$30 – $35

(1) Non-GAAP financial measure. See Appendix to this presentation for more information, including GAAP to non-GAAP reconciliations
(2) Net of an expected U.S. federal income tax refund of $16 million

2021 Revenue Growth Includes ~3% to 4% Underlying Growth



(1) Includes a $25M headwind from divestitures related to antitrust clearances that occurred late in 2020 and thus associated revenue has not been excluded from the 2020 pro forma reference base. Additionally, includes the impact from exiting certain low margin distribution agreements across both legacy Elanco and Bayer portfolios

Expected 2021 Revenue Drivers by Category

	Tailwinds	Headwinds
Pet Health	Retail leadership & momentum	
	Accelerated China growth	Parasiticide competitive pressure (~$75M)
	Double-digit growth from Focus Brands, led by Seresto, Credelio (lotilaner), Interceptor Plus (milbemycin oxime/praziquantel) and specialty portfolio	Generic pressure for Atopica, Trifexis (spinosad+milbemycin oxime), advantage multi (imidacloprid+moxidectin)
	New launches: Elura (capromorelin oral solution), Credelio (lotilaner) Cat U.S. & Credelio Plus (lotilaner+milbemycin oxime)	Lapping Bayer's COVID-19 benefit in 2020
Farm Animal	Lapping global COVID-19 pressure	Generic pressure impacting cattle and swine (~$50M)
	Accelerated China growth	Macroeconomic and competitive pressures in poultry and aqua
	New launches: Elanco Experior, Elanco Cosabody, Elanco Increxxa (tulathromycin injection) and 2x RWA poultry	Discontinued operations

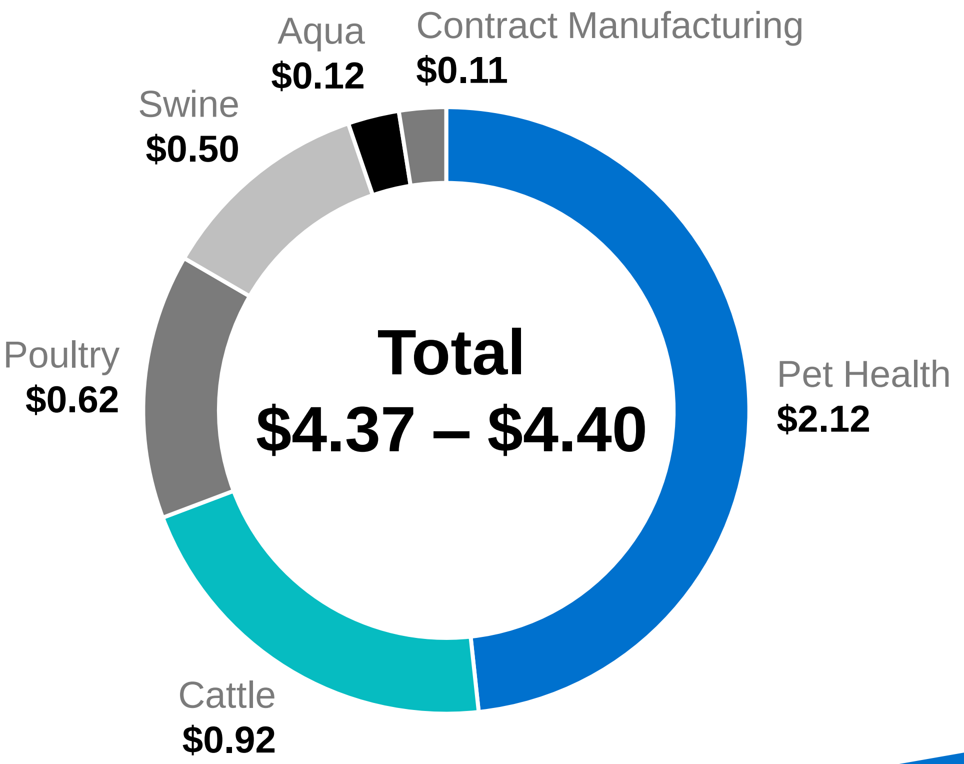
Greater Transparency Through New Reporting Categories

Transition to new reporting categories with Q1 2021 results

	2021 Guidance **Growth vs. 2020 Pro Forma**
Pet Health	**MSD – HSD**
Farm Animal	**LSD – MSD**
Cattle	LSD – MSD
Poultry	MSD – HSD
Swine	Flat – LSD
Aqua	MSD – HSD
Contract Manufacturing	~35% Decline from Strategic Exits
Total	**3% – 5%**

2020 Pro Forma Breakdown

($ billions; mid-point of guidance range)



Note: 2021 growth expectations by species are in comparison to the 2020 pro forma reference base of $4,370-$4,400 million in revenue; LSD = low-single digit, MSD = mid-single digit, HSD = high-single digit

Delivered Key Bayer Integration Milestones to Drive Commercial Execution and Synergy Realization in 2021

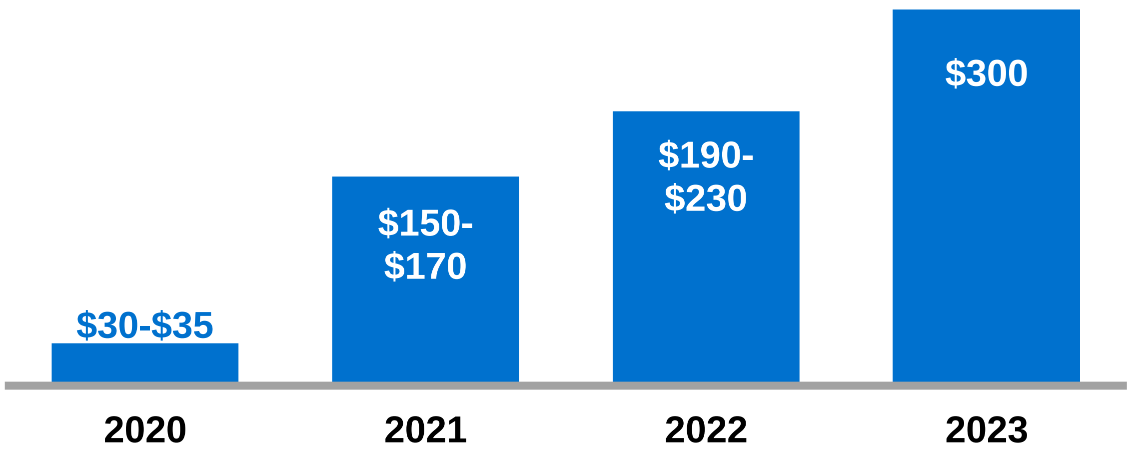
2020

- **New Commercial Leadership** — April
- **Closed Acquisition** — August
- **Bayer ERP System Build-Out Via TCS** — August
- **Portfolio Integration & Cross-Selling Training** — September
- **Announced Restructuring to Reduce ~900 Roles Across 40 Countries** — September
- **Bayer Ownership Reduction from 15% to 4%** — November/ December

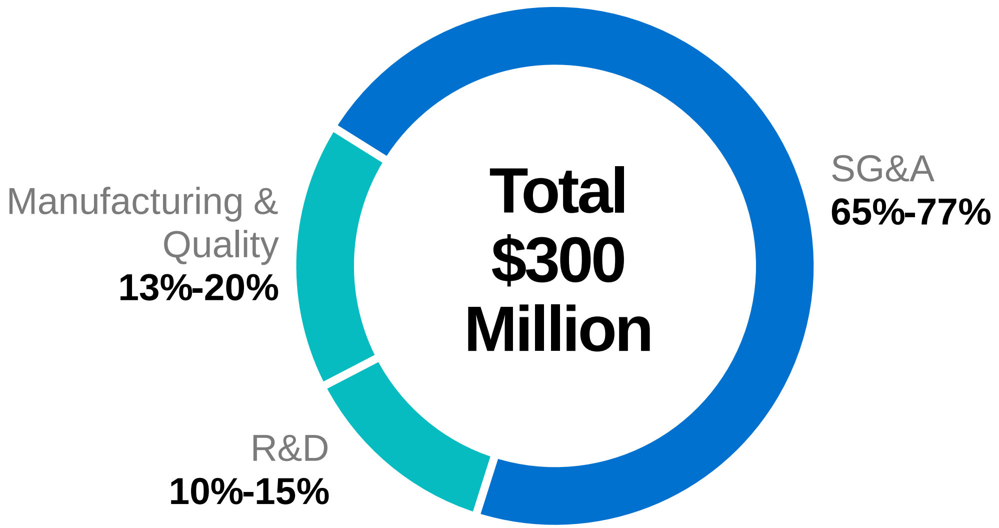
Accelerated Value Capture – $300 Million in Synergies by 2023

Adj. EBITDA Synergy Timeline

Cumulative ($ millions)



Adj. EBITDA Synergy Sources



SG&A continues to represent the largest opportunity for total synergies

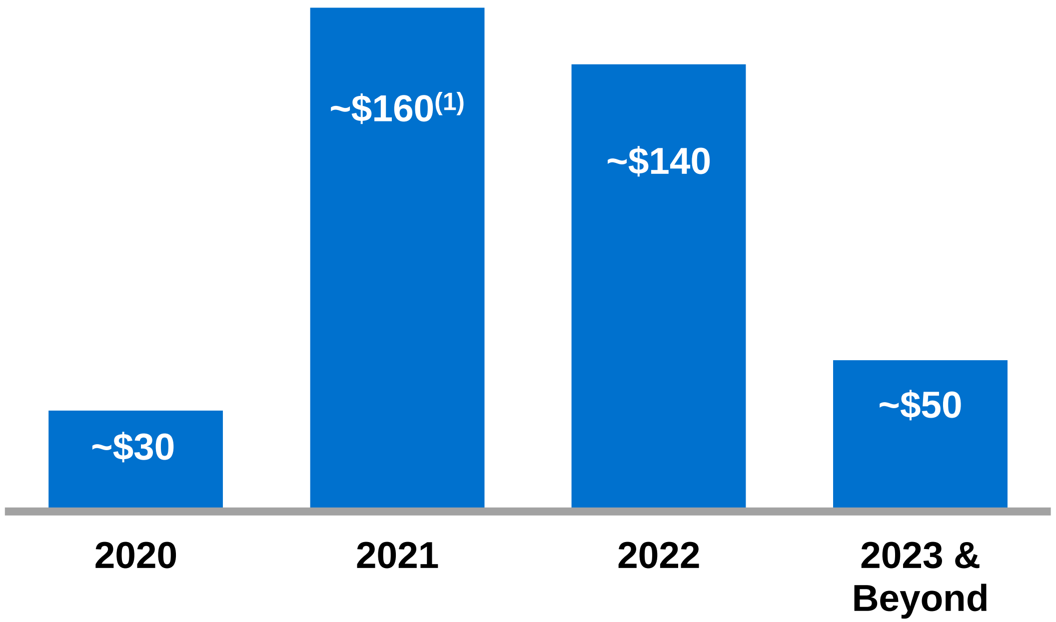
Savings from reduced head-count, third-party spend, R&D portfolio rationalization, and M&Q productivity agenda will drive costs lower

Note: Adj. EBITDA synergies include synergies from both cost of sales and operating expenses

Higher Cash Costs to Obtain Synergies with Accelerated Timing

Timeline for One-Time Cash Costs

($ millions)



Total one-time costs are now expected to be $375-$400 million to integrate Bayer and capture the $300 million of synergies

Majority of one-time costs are associated with severance and restructuring actions

Cash impact lags P&L impact, to better align restructuring cash costs with synergy benefit

One-time costs to exceed original expectations, due to:

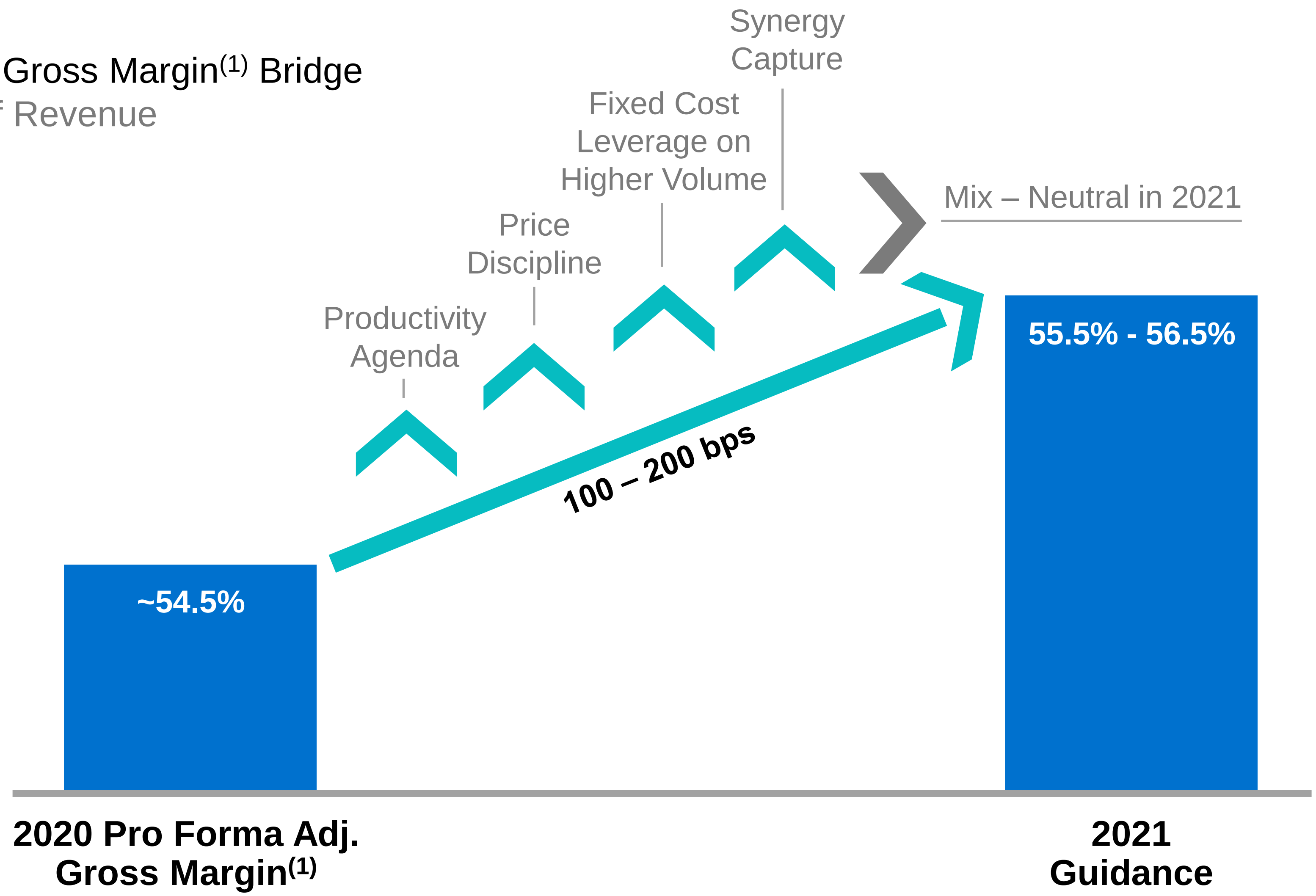
1) restructuring more headcount than originally assumed, to offset higher costs to integrate and operate Bayer AH inside Elanco; and

2) accelerating $300 million of synergies into 2023 from originally assumed 2025

(1) Included in the $250M guidance for Net Cash Impact from Bayer, Stand-up, Integration, and Restructuring in 2021

Resuming Gross Margin Improvement with Several Positive Levers

Adj. Gross Margin(1) Bridge
% of Revenue



2021 Drivers

+ Flat cost of goods sold, enabled by legacy Elanco productivity agenda and Bayer synergy realization

+ $130-$190 million of increased gross profit through increased volume and price, allowing leverage over the fixed manufacturing cost base

(1) Non-GAAP financial measure. We define adjusted gross margin as adjusted gross profit divided by total revenue. Adjusted gross profit is defined as total revenue less adjusted cost of sales. Adjusted cost of sales is cost of sales excluding amortization of inventory fair value adjustments recorded from the acquisition of Bayer Animal Health in 2020 and 2021 and charges associated with the write-off of marketing inventory recorded from the acquisition of Bayer Animal Health in Q3 2020

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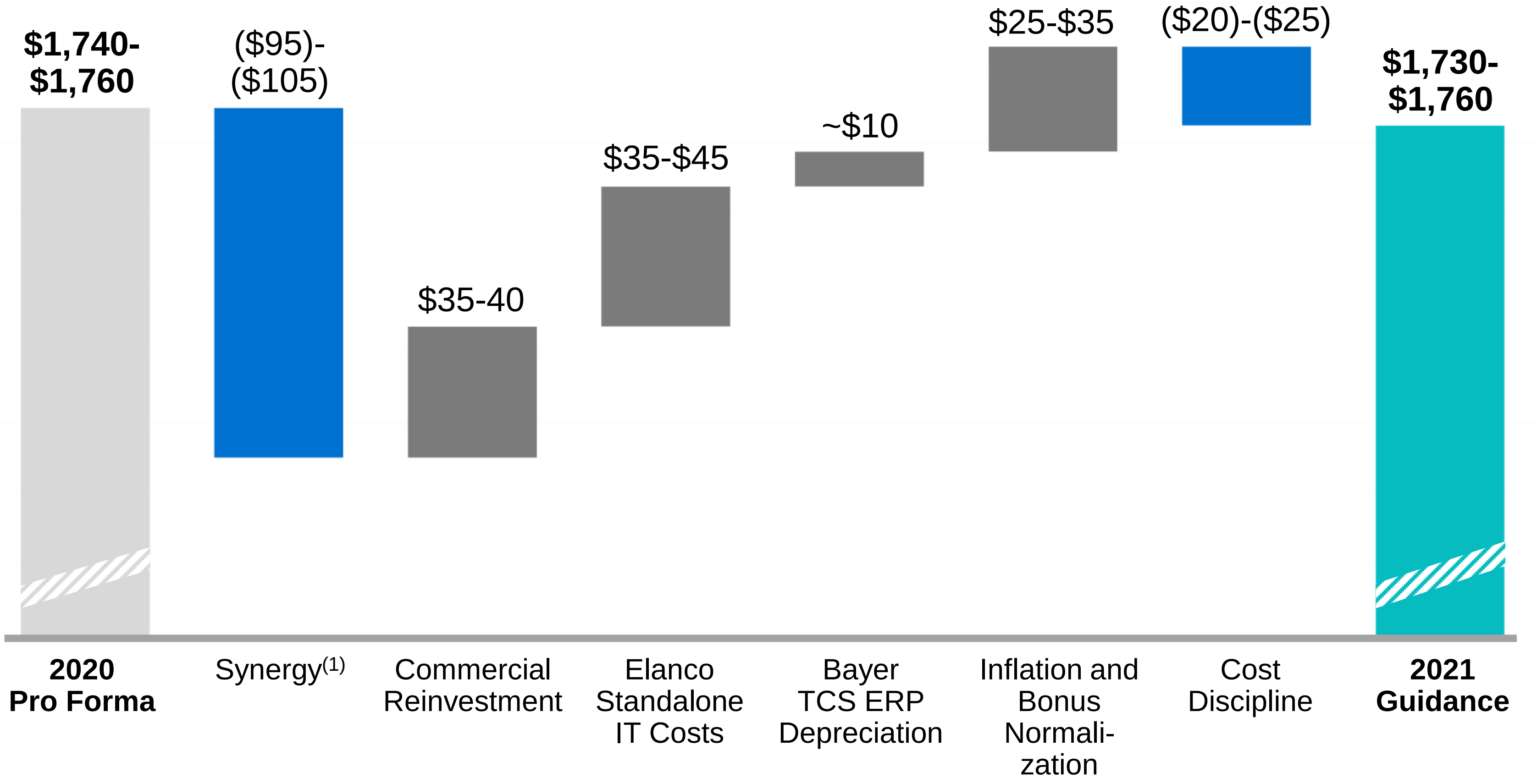
Flat to Declining Opex, Including Strategic Reinvestment

Operating Expense Bridge
($ millions)



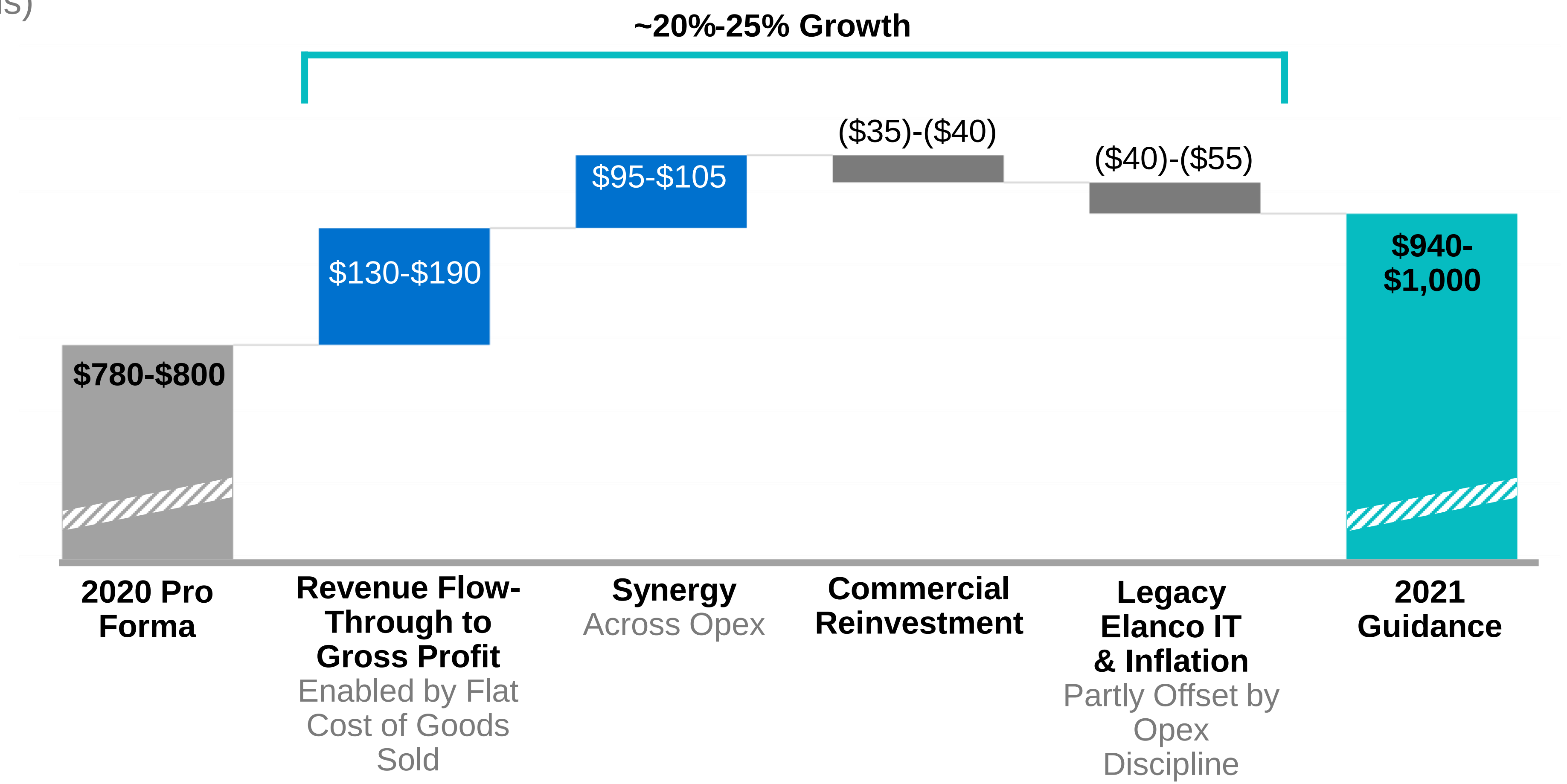
(1) Synergy is $150-$170 million cumulative adj. EBITDA synergy less $20-$25 million achieved in gross profit and $30-$35 million realized in 2020

2021 Drivers

- + Synergy capture (~6% reduction in PF base)
- + Ongoing cost discipline
- O Cost to run legacy Bayer business inside Elanco in line with previous corporate allocations from Bayer to Bayer Animal Health
- − Inclusion of costs for Elanco ERP and IT infrastructure, which are higher than under Lilly TSAs
- − Inclusion of ERP depreciation from the TCS system that hosts the legacy Bayer business
- − Reinvestment in U.S. Pet Health and China commercial businesses
- − Wage inflation and other costs across Elanco

Robust Adj. EBITDA Growth from Sales Growth and Cost Discipline

Adj. EBITDA(1) Bridge
($ millions)



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

Transparent Value Creation Through Our Long-Term Growth Algorithm

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

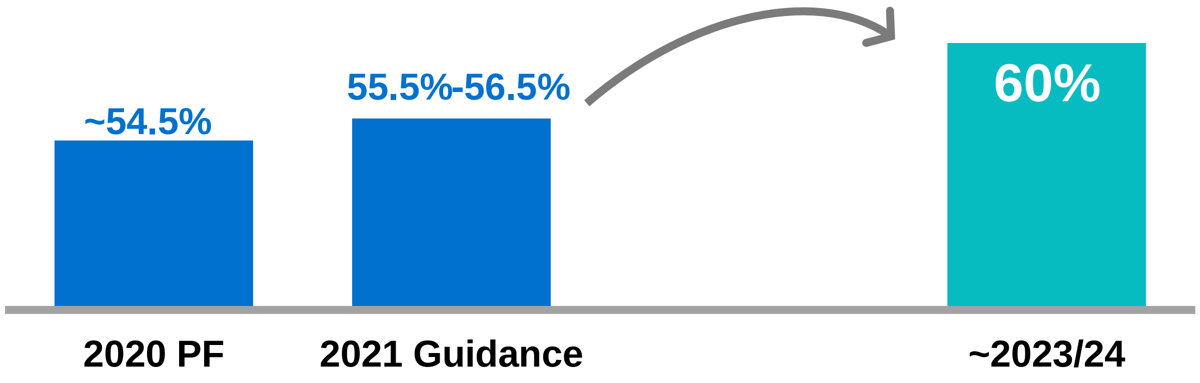
Double-Digit
Annual Adjusted
EPS[(1)] Growth

Progressing Toward
Net Leverage <3x

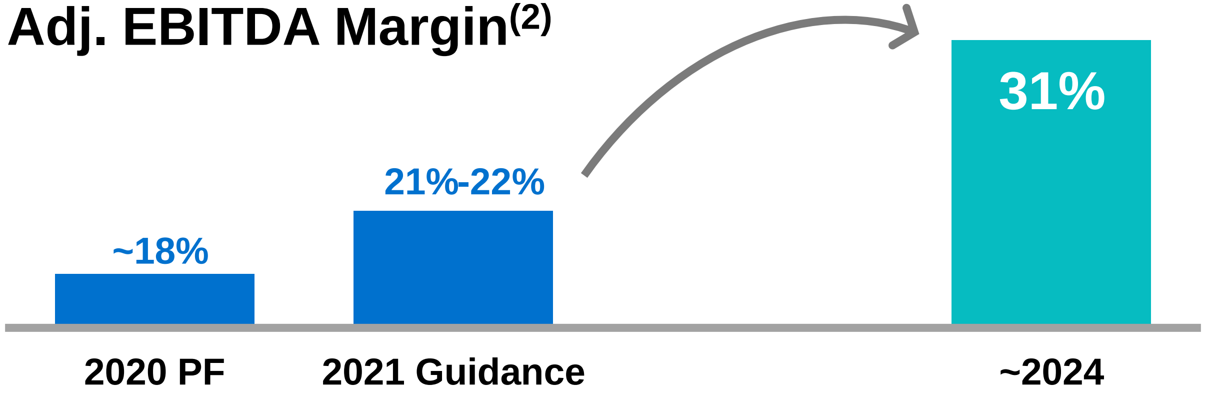
(1) Non-GAAP financial measure. See Appendix to this presentation for more information, including GAAP to non-GAAP reconciliations

Long-Term Algorithm Providing a Clear Path Toward Margin Targets

Adj. Gross Margin(1)



Adj. EBITDA Margin(2)



Long-Term Margin Drivers

- Average annual top-line growth of ~3%-4%, including volume and price increases
- Revenue flow-through to gross profit through flat cost of sale, driven by our productivity agenda and Bayer synergy capture
- Opex cost discipline moving past 2021 one-time increase from exiting Lilly ERP system
- Opex synergy capture of $110-$115 million in 2022 and 2023

(1) Non-GAAP financial measure. We define adjusted gross margin as adjusted gross profit divided by total revenue. Adjusted gross profit is defined as total revenue less adjusted cost of sales. Adjusted cost of sales is cost of sales excluding amortization of inventory fair value adjustments recorded from the acquisition of Bayer Animal Health in 2020 and 2021 and charges associated with the write-off of marketing inventory recorded from the acquisition of Bayer Animal Health in Q3 2020

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

Elanco Independent Stand-Up On Track for Completion in Q1 2021

2019 | **2020** | **2021**

Full Separation & Independent Board
March 2019

Physical Office Separations
Throughout 2019

Human Resources & Payroll Transition
January 2020

Employee Transition to Computers, Networks, IT Infrastructure
In Process, to Be Completed by Q1 2021

Elanco ERP System Migration
January-March 2021

2021 as the Final Year for Cash Costs to Exit TSAs with Lilly

($ millions, net of certain adjustments[1])

Initial estimate for total stand-up costs:

$240 - $290

Q3 2020 updated estimate:

$280 - $320

Final Year

2021 remaining cash costs:

$55 - $65

Recent Increase Driven by

- Higher costs to execute local country IT infrastructure deployment and transitions as a result of COVID-19 pandemic-related travel restrictions and protocols
- Increased site cutover and additional scope costs

(1) Certain adjustments include real estate dispositions and employee benefit changes as a result of the separation from Lilly

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Capital Allocation Priorities

Debt Paydown

Progressing toward <3x net leverage

Invest for Growth & Efficiency

R&D and sales & marketing

Bayer ERP integration

Targeted External Innovation

Financial flexibility to evaluate and execute accretive bolt-on opportunities

Complements internal innovation pipeline

Dividend & Share Repurchases

The Board will continue to evaluate opportunities to return capital to shareholders over time

Top Priority

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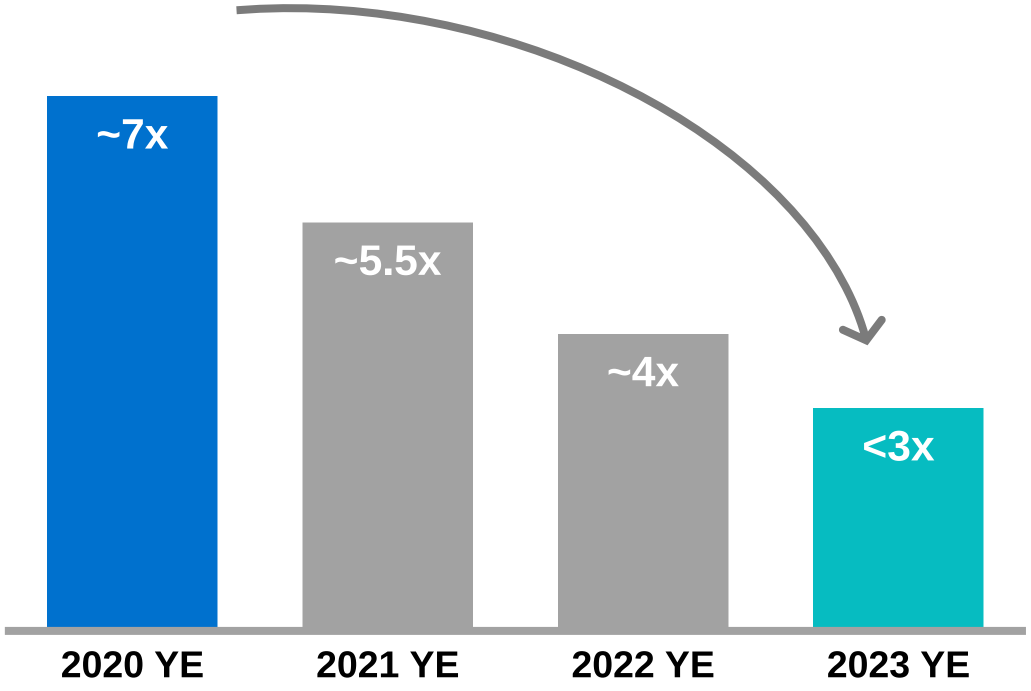
Gross Debt Repayment Fueling Deleverage to <3x By 2023 Year-End

Net Leverage Ratio[(1)]



($ millions)	2020	2021	2022	2023
Adj. EBITDA[(2)]		**$940 - $1,000**	Robust Double-Digit Growth	
Gross Debt Paydown	~$125	$500	$600-$800	$700-$900
Net Debt	**~$5,760**	Paydown		**$3,700 - $3,900**
Net Interest Expense		$236-$244	Reduction at ~4.5% Avg. Rate	
Total EPS[(2)] Accretion from Reduced Interest			**~$0.06**	**~$0.11**

(1) Net leverage ratio calculated as gross debt less cash & equivalents on our balance sheet divided by adjusted EBITDA as reported. Does not include Term Loan B covenant-related adjustments that reduce this leverage ratio

(2) Applies to GAAP and adjusted EPS, which is a non-GAAP financial measure. See Appendix to this presentation for more information, including GAAP to non-GAAP reconciliations

Elanco Is Positioned for Sustainable Long-Term Value Creation

Financial Outlook Takeaways

Increased Q4 2020 outlook; clear 2020 pro forma

2021 guidance demonstrating our inflection point to transparent value creation

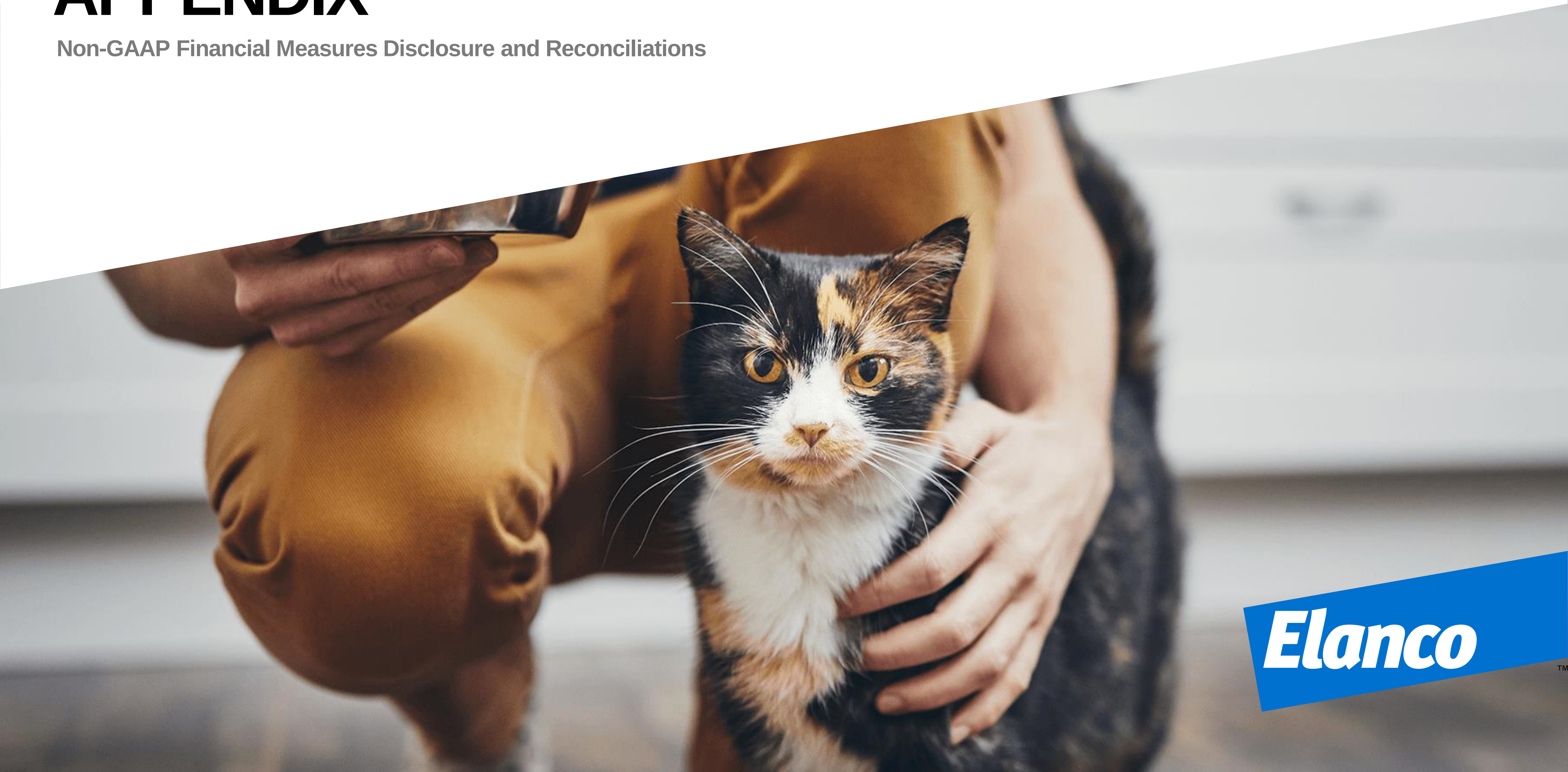
Defined path toward long-term margin targets

Accelerated synergy capture

Deleverage to <3x by 2023 year-end

APPENDIX

Non-GAAP Financial Measures Disclosure and Reconciliations



Q4 2020

EBITDA Guidance Reconciliation

$ millions

Reported Net Income (Loss)	**($185) – ($155)**
Net Interest Expense	Approx. $60
Income Tax Expense	($80) – ($70)
Depreciation and Amortization	Approx. $165
EBITDA	**($40) – $0**
Non-GAAP Adjustments	
Cost of Sales	Approx. $70
Asset Impairment, Restructuring, and Other Special Charges	$110 – $90
Accelerated Depreciation and Amortization[1]	Approx. $2
Other – Net, (Income) Expense	–
Adjusted EBITDA	**$140 – $160**
Adjusted EBITDA Margin	**13.5% – 15.0%**

(1) Represents depreciation and amortization of certain assets that has been accelerated. 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 our EBITDA calculation

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Q4 2020

EPS Guidance Reconciliation

GAAP Earnings per Share	**($0.38) – ($0.32)**
Cost of Sales	$0.14
Amortization of Intangible Assets	$0.24
Asset impairments, restructuring, and other special charges	$0.19 – $0.23
Subtotal	**$0.57 – $0.61**
Tax Impact of Adjustments	($0.14) – ($0.17)
Total Adjustments to Earnings per Share	**$0.43 – $0.44**
Adjusted Earnings per Share[1]	**$0.06 – $0.12**

Note: Numbers may not add due to rounding
(1) Adjusted EPS is calculated as the sum of EPS and total adjustments to EPS

EBITDA Guidance Reconciliation

$ millions

Reported Net Income (Loss)	**($425) – ($395)**
Net Interest Expense	Approx. $150
Income Tax Expense	($195) – ($185)
Depreciation and Amortization	Approx. $455
EBITDA	**($15) – $25**
Non-GAAP Adjustments	
Cost of Sales	Approx. $110
Asset Impairment, Restructuring, and Other Special Charges	$570 – $550
Accelerated Depreciation and Amortization(1)	Approx. $8
Other – Net, (Income) Expense	Approx. ($165)
Adjusted EBITDA	**$510 – $530**
Adjusted EBITDA Margin	**15.0% – 16.5%**

(1) Represents depreciation and amortization of certain assets that has been accelerated. 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 our EBITDA calculation

EPS Guidance Reconciliation

GAAP Earnings per Share	**(\$0.96) – (\$0.90)**
Cost of Sales	\$0.25
Amortization of Intangible Assets	\$0.71
Asset impairments, restructuring, and other special charges	\$0.87 – \$0.91
Subtotal	**\$1.83 – \$1.87**
Tax Impact of Adjustments	(\$0.49) – (\$0.52)
Total Adjustments to Earnings per Share	**\$1.34 – \$1.35**
Adjusted Earnings per Share(1)	**\$0.39 – \$0.45**

Note: Numbers may not add due to rounding
(1) Adjusted EPS is calculated as the sum of EPS and total adjustments to EPS

EBITDA Guidance Reconciliation

$ millions

Reported Net Income (Loss)	**($140) – ($70)**
Net Interest Expense	$236 – $244
Income Tax Expense	($20) – ($10)
Depreciation and Amortization	Approx. $645
EBITDA	**$725 – $805**
Non-GAAP Adjustments	
Cost of Sales	Approx. $70
Asset Impairment, Restructuring, and Other Special Charges	$145 – $125
Accelerated Depreciation and Amortization(1)	Approx. $2
Other – Net, (Income) Expense	–
Adjusted EBITDA	**$940 – $1,000**
Adjusted EBITDA Margin	**21% – 22%**

(1) Represents depreciation and amortization of certain assets that will be accelerated. 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 our EBITDA calculation

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Full Year 2021

EPS Guidance Reconciliation

GAAP Earnings per Share	**(\$0.28) – (\$0.14)**
Cost of Sales	\$0.14
Amortization of Intangible Assets	\$0.95
Asset impairments, restructuring, and other special charges	\$0.26 – \$0.30
Subtotal	**\$1.35 – \$1.39**
Tax Impact of Adjustments	(\$0.25) – (\$0.29)
Total Adjustments to Earnings per Share	**\$1.10**
Adjusted Earnings per Share(1)	**\$0.83 – \$0.95**

Note: Numbers may not add due to rounding
(1) Adjusted EPS is calculated as the sum of EPS and total adjustments to EPS

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