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DELTA REPORT

10-Q

ELANCO ANIMAL HEALTH INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1386
CHANGES	130
DELETIONS	706
ADDITIONS	550

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2023 March 31, 2024
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _________ to _______

COMMISSION FILE NUMBER 001-38661

2015-Elanco-logo.jpg

Elanco Animal Health Incorporated

(Exact name of Registrant as specified in its charter)

INDIANA	82-5497352
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

2500 INNOVATION WAY, GREENFIELD, INDIANA 46140
(Address and zip code 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

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 (or for such shorter period that the registrant was required to file such reports), 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 ☒	Accelerated filer ☐
Non-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 November 2, 2023 May 3, 2024 was 492,798,113. 494,181,620.

ELANCO ANIMAL HEALTH INCORPORATED
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2023 MARCH 31, 2024
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FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

This Quarterly Report on Form 10-Q (Form 10-Q) includes forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include, without limitation, statements concerning the impact on Elanco Animal Health Incorporated and its subsidiaries (collectively, Elanco, the Company, we, us or our) caused by the integration of business acquisitions, expected synergies and cost savings, product launches, global macroeconomic conditions, expectations relating to liquidity and sources of capital, our expected compliance with debt covenants, cost savings, expenses and reserves relating to restructuring actions, our industry and our operations, performance and financial condition, and including, in particular, statements relating to our business, growth strategies, distribution 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 risk 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 generics; operating in a highly competitive industry;
- the success of our research and development (R&D) and licensing efforts;
- the impact of disruptive innovations and advances in veterinary medical practices, animal health technologies and alternatives to animal-derived protein;
- competition from generic products that may be viewed as more cost-effective;
- changes in regulatory restrictions on the use of antibiotics in farm animals;
- an outbreak of infectious disease carried by farm animals;
- risks related to the evaluation of animals;
- consolidation of our customers and distributors;
- the impact of increased or decreased sales into our distribution channels resulting in fluctuations in our revenues;
- our dependence on the success of our top products;
- our ability to complete acquisitions and divestitures (including the proposed divestiture of our aqua business) and to successfully integrate the businesses we acquire;
- our ability to implement our business strategies or achieve targeted cost efficiencies and gross margin improvements;
- consolidation of our customers manufacturing problems and distributors; capacity imbalances;
- an outbreak fluctuations in inventory levels in our distribution channels;
- risks related to the use of infectious disease carried by farm animals; artificial intelligence (AI) in our business;
- our dependence on sophisticated information technology and infrastructure and the impact of breaches of our information technology systems;
- the impact of weather conditions, including those related to climate change, and the availability of natural resources;
- demand, supply and operational challenges associated with the effects of a human disease outbreak, epidemic, pandemic or other widespread public health concern;
- the potential impact on our business and global economic conditions resulting from regional conflicts;
- the success of our research and development (R&D) and licensing efforts;
- misuse, off-label or counterfeiting use of our products;
- unanticipated safety, quality or efficacy concerns and the impact of identified concerns associated with our products;
- fluctuations in our business results due to seasonality and other factors;
- the impact of weather conditions, including those related to climate change, and the availability of natural resources;
- risks related to the modification of foreign trade policy;
- risks related to currency exchange rate fluctuations;
- our dependence on the success of our top products;
- the impact of customer exposure to rising costs and reduced customer income;
- the lack of availability or significant increases in the cost of raw materials;
- the impact of increased or decreased sales into our distribution channels resulting in fluctuations in our revenues;
- risks related to the write-down of goodwill or identifiable intangible assets;
- risks related to the evaluation of animals;
- manufacturing problems and capacity imbalances;
- the impact of litigation, regulatory investigations and other legal matters, including the risk to our reputation and the risk that our insurance policies may be insufficient to protect us from the impact of such matters;
- actions by regulatory bodies, including as a result of their interpretation of studies on product safety;

- risks related to tax expense or exposure;
- risks related to environmental, health and safety laws and regulations;
- risks related to our presence in foreign markets;
- challenges to our intellectual property rights or our alleged violation of rights of others;
- our dependence on sophisticated information technology and infrastructure and the impact of breaches of our information technology systems;
- risks related to the use of machine learning and artificial intelligence by us and our competitors;
- the impact of increased regulation or decreased financial support related to farm animals;

- adverse effects of labor disputes, strikes, work stoppages and the loss of key personnel or highly skilled employees;
- risks related to underfunded pension plan liabilities;
- our ability to complete acquisitions and successfully integrate the businesses we acquire, including Kindred Biosciences, Inc. (KindredBio) and the animal health business adverse effects of Bayer Aktiengesellschaft (Bayer Animal Health); labor disputes, strikes and/or work stoppages;
- the effect of our substantial indebtedness on our business, including restrictions in our debt agreements that limit our operating flexibility, changes in our credit ratings that lead to higher borrowing expenses and may restrict access to credit and changes in interest rates that may adversely affect our earnings and cash flows;
- changes in interest rates;
- risks related to the write-down of goodwill or identifiable intangible assets;
- the lack of availability or significant increases in the cost of raw materials;
- risks related to our presence in foreign markets;
- risks related to foreign currency exchange rate fluctuations;
- risks related to underfunded pension plan liabilities;
- our current plans not to pay dividends and restrictions on our ability to pay dividends;

- the potential impact that actions by activist shareholders could have on the pursuit of our business strategies;
- risks related to certain governance provisions in our constituent documents;
- risks related to tax expense or exposure;
- actions by regulatory bodies, including as a result of their interpretation of studies on product safety;
- the possible slowing or cessation of acceptance and/or adoption of our farm animal sustainability initiatives;
- the impact of increased regulation or decreased governmental financial support related to the raising, processing or consumption of farm animals;
- risks related to the modification of foreign trade policy;
- the impact of litigation, regulatory investigations and other legal matters, including the risk to our reputation and the risk that our insurance policies may be insufficient to protect us from the impact of such matters;
- challenges to our intellectual property rights or our alleged violation of rights of others;
- misuse, off-label or counterfeiting use of our products;
- unanticipated safety, quality or efficacy concerns and the impact of identified concerns associated with our products;
- insufficient insurance coverage against hazards and claims;
- compliance with privacy laws and security of information; and
- any failure risks related to maintain an effective system of disclosure controls environmental, health and internal control over financial reporting, including arising from an identified material weakness. safety laws and regulations.

See Item 1A, "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, filed with the United States (U.S.) Securities and Exchange Commission (SEC) (2022 2023 Form 10-K), and Part II of this 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. 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.

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ITEM 1. FINANCIAL STATEMENTS

Elanco Animal Health Incorporated
Condensed Consolidated Statements of Operations (Unaudited)
(in millions, except per-share data)

		Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
		2023	2022	2023	2022	2024	2023
Revenue	Revenue	$ 1,068	$ 1,026	$ 3,382	$ 3,426		
Costs, expenses and other:	Costs, expenses and other:						
Cost of sales	Cost of sales	487	472	1,415	1,465		
Cost of sales							
Cost of sales							
Research and development	Research and development	86	78	248	241		
Marketing, selling and administrative	Marketing, selling and administrative	313	298	993	963		
Amortization of intangible assets	Amortization of intangible assets	140	128	410	398		
Asset impairment, restructuring and other special charges	Asset impairment, restructuring and other special charges	16	26	91	152		
Goodwill impairment		1,042	—	1,042	—		
Interest expense, net of capitalized interest							
Interest expense, net of capitalized interest							
Interest expense, net of capitalized interest	Interest expense, net of capitalized interest	72	60	210	179		
Other expense, net	Other expense, net	9	8	41	11		
	1,193						
Income before income taxes							
Income tax (benefit) expense							
Net income							
		2,165	1,070	4,450	3,409		
(Loss) income before income taxes		(1,097)	(44)	(1,068)	17		
Income tax (benefit) expense		(1)	21	22	41		

Net loss		$ (1,096)	$ (65)	$ (1,090)	$ (24)
Loss per share:					
Earnings per share:					
Earnings per share:					
Earnings per share:					
Basic					
Basic					
Basic	Basic	$ (2.22)	$ (0.13)	$ (2.21)	$ (0.05)
Diluted	Diluted	$ (2.22)	$ (0.13)	$ (2.21)	$ (0.05)
Weighted-average shares outstanding:	Weighted-average shares outstanding:				
Basic	Basic	492.7	488.4	492.1	488.3
Basic					
Basic					
Diluted	Diluted	492.7	488.4	492.1	488.3

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss	$ (1,096)	$ (65)	$ (1,090)	$ (24)
Other comprehensive loss:				
Cash flow hedges, net of taxes	—	62	(19)	179
Foreign currency translation, net of taxes	(197)	(418)	(65)	(973)
Defined benefit pension and retiree health benefit plans, net of taxes	(4)	(2)	(6)	(4)
Other comprehensive loss, net of taxes	(201)	(358)	(90)	(798)
Comprehensive loss	$ (1,297)	$ (423)	$ (1,180)	$ (822)

	Three Months Ended March 31,	
	2024	2023
Net income	$ 32	$ 103
Other comprehensive (loss) income:		
Cash flow hedges, net of taxes	32	(48)
Foreign currency translation, net of taxes	(227)	130
Defined benefit plans, net of taxes	(4)	—
Other comprehensive (loss) income, net of taxes	(199)	82
Comprehensive (loss) income	$ (167)	$ 185

See accompanying notes to condensed consolidated financial statements.

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Elanco Animal Health Incorporated
Condensed Consolidated Balance Sheets
(in millions, except share data)

		September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
		(Unaudited)			
	March 31, 2024 (Unaudited)				
Assets					
Assets					
Assets	**Assets**				
Current Assets	*Current Assets*				
Cash and cash equivalents					
Cash and cash equivalents					
Cash and cash equivalents	Cash and cash equivalents	$ 369	$ 345		
Accounts receivable, net	Accounts receivable, net	911	797		
Other receivables	Other receivables	224	205		
Inventories	Inventories	1,690	1,538		
Prepaid expenses and other	Prepaid expenses and other	371	394		
Assets held for sale					
Total current assets	Total current assets	3,565	3,279		
Total current assets					
Total current assets					
Noncurrent Assets	*Noncurrent Assets*				
Goodwill					
Goodwill					
Goodwill	Goodwill	4,902	5,993		
Other intangibles, net	Other intangibles, net	4,475	4,842		
Other noncurrent assets	Other noncurrent assets	410	378		
Property and equipment, net	Property and equipment, net	992	999		
Total assets	Total assets	$ 14,344	$15,491		
Total assets					
Total assets					
Liabilities and Equity	**Liabilities and Equity**				

Current Liabilities	*Current Liabilities*			
Current Liabilities				
Current Liabilities				
Accounts payable				
Accounts payable				
Accounts payable	Accounts payable	$ 296	$ 390	
Sales rebates and discounts	Sales rebates and discounts	356	324	
Current portion of long-term debt	Current portion of long-term debt	39	388	
Other current liabilities	Other current liabilities	574	600	
Other current liabilities				
Other current liabilities				
Total current liabilities				
Total current liabilities				
Total current liabilities	Total current liabilities	1,265	1,702	
Noncurrent Liabilities	*Noncurrent Liabilities*			
Long-term debt	Long-term debt	5,870	5,448	
Long-term debt				
Long-term debt				
Deferred taxes				
Deferred taxes				
Deferred taxes	Deferred taxes	643	662	
Other noncurrent liabilities	Other noncurrent liabilities	432	390	
Total liabilities	Total liabilities	8,210	8,202	
Commitments and Contingencies	*Commitments and Contingencies*			*Commitments and Contingencies*
Equity	*Equity*			
Common stock, no par value, 5,000,000,000 shares authorized, 492,683,420 and 474,237,738 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively		—	—	
Common stock, no par value, 5,000,000,000 shares authorized, 494,049,915 and 492,845,216 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively				
Common stock, no par value, 5,000,000,000 shares authorized, 494,049,915 and 492,845,216 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively				

Common stock, no par value, 5,000,000,000 shares authorized, 494,049,915 and 492,845,216 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively

Additional paid-in capital	Additional paid-in capital	8,763	8,738
Accumulated deficit	Accumulated deficit	(2,147)	(1,057)
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(482)	(392)
Total equity	Total equity	6,134	7,289
Total liabilities and equity	Total liabilities and equity	$ 14,344	$15,491

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock				Accumulated Other Comprehensive Loss				
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Cash Flow Hedge	Foreign Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Total	Total Equity
December 31, 2021	473.1	$ —	$ 8,696	$ (979)	$ 25	$ (253)	$ 19	$ (209)	$7,508

Common Stock
Common Stock
Common Stock
Shares
Shares

	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Cash Flow Hedges	Foreign Currency Translation	Defined Benefit Plans	Total	Total Equity
December 31, 2022									
Net income / Net income	—	—	—	51	—	—	—	—	51
Net income									
Net income									
Other comprehensive income (loss), net of tax									

Other comprehensive income (loss), net of tax										
Other comprehensive income (loss), net of tax	Other comprehensive income (loss), net of tax	—	—	—	—	109	(85)	(1)	23	23
Stock-based compensation activity, net	Stock-based compensation activity, net	1.0	—	3	—	—	—	—	—	3
Stock-based compensation activity, net										
Stock-based compensation activity, net										
March 31, 2022		474.1	—	8,699	(928)	134	(338)	18	(186)	7,585
Net loss		—	—	—	(10)	—	—	—	—	(10)
Other comprehensive income (loss), net of tax		—	—	—	—	8	(470)	(1)	(463)	(463)
Stock-based compensation activity, net		—	—	13	—	—	—	—	—	13
Conversion of tangible equity units (TEUs) into common stock										
June 30, 2022		474.1	—	8,712	(938)	142	(808)	17	(649)	7,125
Net loss		—	—	—	(65)	—	—	—	—	(65)
Other comprehensive income (loss), net of tax		—	—	—	—	62	(418)	(2)	(358)	(358)
Stock-based compensation activity, net		—	—	12	—	—	—	—	—	12
Conversion of tangible equity units (TEUs) into common stock										
September 30, 2022		474.1	$ —	$ 8,724	$ (1,003)	$ 204	$ (1,226)	$ 15	$(1,007)	$6,714
Conversion of tangible equity units (TEUs) into common stock										
March 31, 2023										

December 31, 2022	474.2	$ —	$ 8,738	$ (1,057)	$ 182	$ (672)	$ 98	$ (392)	$ 7,289
Net income	—	—	—	103	—	—	—	—	103
Other comprehensive income (loss), net of tax	—	—	—	—	(48)	130	—	82	82
Stock-based compensation activity, net	1.0	—	6	—	—	—	—	—	6
Conversion of tangible equity units (TEUs) into common stock	17.2	—	—	—	—	—	—	—	—
March 31, 2023	492.4	—	8,744	(954)	134	(542)	98	(310)	7,480
Net loss	—	—	—	(97)	—	—	—	—	(97)
Other comprehensive income (loss), net of tax	—	—	—	—	29	2	(2)	29	29
Stock-based compensation activity, net	0.2	—	8	—	—	—	—	—	8
June 30, 2023	492.6	—	8,752	(1,051)	163	(540)	96	(281)	7,420
Net loss	—	—	—	(1,096)	—	—	—	—	(1,096)
Other comprehensive income (loss), net of tax	—	—	—	—	—	(197)	(4)	(201)	(201)
Stock-based compensation activity, net	0.1	—	11	—	—	—	—	—	11
September 30, 2023	492.7	$ —	$ 8,763	$ (2,147)	$ 163	$ (737)	$ 92	$ (482)	$ 6,134
December 31, 2023	492.8	$ —	$ 8,777	$ (2,288)	$ 57	$ (379)	$ 56	$ (266)	$ 6,223

Net income	—	—	—	32	—	—	—	—	32
Other comprehensive (loss) income, net of tax	—	—	—	—	32	(227)	(4)	(199)	(199)
Stock-based compensation activity, net	1.2	—	—	—	—	—	—	—	—
March 31, 2024	494.0	$ —	$ 8,777	$ (2,256)	$ 89	$ (606)	$ 52	$ (465)	$ 6,056

See accompanying notes to condensed consolidated financial statements.

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

Three Months Ended March 31,	Three Months Ended March 31,	
	2024	2023
Cash Flows from Operating Activities		
Net income		
Net income		
Net income		
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization		
Depreciation and amortization		
Depreciation and amortization		

	Nine Months Ended September 30,	
Stock-based compensation expense		
	2023	2022
Cash Flows from Operating Activities		
Net loss	$ (1,090)	$ (24)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	523	514
Stock-based compensation expense		
Goodwill impairment	1,042	—
Stock-based compensation expense / Stock-based compensation expense	31	44

Asset impairment and write-down charges	5	81
Proceeds from interest rate swap settlements	57	207
Changes in operating assets and liabilities, net of acquisitions	(446)	(385)
Changes in operating assets and liabilities, net of acquisitions and divestitures		
Changes in operating assets and liabilities, net of acquisitions and divestitures		
Changes in operating assets and liabilities, net of acquisitions and divestitures		
Other non-cash operating activities, net / Other non-cash operating activities, net	(8)	2
Net Cash Provided by Operating Activities	114	439
Other non-cash operating activities, net		
Other non-cash operating activities, net		
Net Cash Provided by (Used for) Operating Activities		
Cash Flows from Investing Activities / **Cash Flows from Investing Activities**		
Net purchases of property and equipment and software		
Net purchases of property and equipment and software		
Net purchases of property and equipment and software / Net purchases of property and equipment and software	(99)	(94)
Cash paid for acquisitions / Cash paid for acquisitions	(19)	—
Proceeds from sale of Shawnee and Speke facilities (see Note 4)		
Proceeds from sale of Shawnee and Speke facilities (see Note 4)		
Proceeds from sale of Shawnee and Speke facilities (see Note 4)		
Purchases of intangible assets / Purchases of intangible assets	(14)	(11)

Other investing activities, net	Other investing activities, net	(2)	2
Net Cash Used for Investing Activities		(134)	(103)
Other investing activities, net			
Other investing activities, net			
Net Cash Provided by (Used for) Investing Activities			
Cash Flows from Financing Activities	**Cash Flows from Financing Activities**		
Proceeds from Revolving Credit Facility			
Proceeds from Revolving Credit Facility			
Proceeds from Revolving Credit Facility	Proceeds from Revolving Credit Facility	350	563
Repayments of Revolving Credit Facility	Repayments of Revolving Credit Facility	(53)	(813)
Proceeds from Securitization Facility	Proceeds from Securitization Facility	250	—
Repayments of Securitization Facility	Repayments of Securitization Facility	(97)	—
Proceeds from issuance of long-term debt		—	425
Repayments of long-term borrowings			
Repayments of long-term borrowings			
Repayments of long-term borrowings	Repayments of long-term borrowings	(388)	(607)
Other financing activities, net	Other financing activities, net	(6)	(33)
Net Cash Provided by (Used for) Financing Activities		56	(465)
Other financing activities, net			
Other financing activities, net			
Net Cash (Used for) Provided by Financing Activities			

Effect of exchange rate changes on cash and cash equivalents	**Effect of exchange rate changes on cash and cash equivalents**	(12)	(49)
Net increase (decrease) in cash and cash equivalents		24	(178)
Net decrease in cash and cash equivalents			
Cash and cash equivalents – beginning of period	Cash and cash equivalents – beginning of period	345	638
Cash and cash equivalents – end of period	Cash and cash equivalents – end of period	$ 369	$ 460

See accompanying notes to condensed consolidated financial statements.

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Elanco Animal Health Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Tables present dollars and shares in millions, except per-share and per-unit data)

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with the SEC requirements for interim reporting. As permitted under those rules, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the U.S. (GAAP) have been condensed or omitted. The information included in this Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes for the year ended December 31, 2022 December 31, 2023, included in our 2022 2023 Form 10-K. In addition, results for interim periods should not be considered indicative of results for any other interim period or for the full year ending December 31, 2023 December 31, 2024, or any other future period.

In our opinion, the financial statements reflect all adjustments (including those that are normal and recurring) that are necessary for 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. Certain reclassifications of prior year information have been made to conform to the current year's presentation.

The significant accounting policies set forth in Note 4 2 to the consolidated financial statements in our 2022 2023 Form 10-K and the footnotes herein appropriately represent, in all material respects, the current status of our accounting policies.

Revision of Previously Issued Consolidated Financial Statements

In connection with the preparation of our financial statements as of and for the year ended December 31, 2022, a cumulative error was identified and corrected relating to the valuation allowance for taxes for a Southeast Asia affiliate. While immaterial to prior years, correcting this cumulative error in 2022 would have caused the 2022 financial statements to be materially misstated. In conjunction with making these corrections, we made other adjustments to the prior years to revise uncorrected errors. The appropriate revisions to our historical condensed consolidated financial statements and the notes thereto are reflected herein. Further information is included in Note 2 and Note 21 to the consolidated financial statements in our 2022 Form 10-K.

Note 2. Implementation of New Financial Accounting Pronouncements

The following table provides a brief description of an accounting standard standards applicable to us that was adopted during the nine months ended September 30, 2023: we have not yet adopted:

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2020-04, 2023-07, *Reference Rate Reform Segment Reporting (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting;* ASU 2021-01, *Reference Rate Reform (Topic 848) 280): Scope;* ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848 Improvements to Reportable Segment Disclosures*	ASU 2020-04 provides optional expedients 2023-07 is intended to improve disclosure requirements related to reportable segments, primarily through enhanced disclosures about significant segment expenses that are regularly provided to the chief operating decision maker (CODM) for purposes of assessing a segment's profit or loss and exceptions deciding how to allocate resources. This new standard applies to all public entities, including entities, like us, with a single reportable segment.	This new standard is effective for applying GAAP fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. Adoption requires retrospective application.	We are currently assessing the impact ASU 2023-07 will have on our consolidated financial statements, including our footnote disclosures.
ASU 2023-09, *Income Taxes (Topic 740): Improvements* to *contracts, hedging relationships Income Tax Disclosures*	ASU 2023-09 is intended to enhance the transparency and other transactions affected decision usefulness of income tax disclosures by reference enhancing information about how an entity's operations and related tax risks and its tax planning and operational opportunities affect its tax rate reform if certain criteria are met. ASU 2021-01 clarifies the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible and prospects for certain optional expedients and exceptions. ASU 2022-06 extends the period of time entities can utilize the reference rate reform relief guidance under ASU 2020-04 from December 31, 2022 to December 31, 2024. future cash flows.	Adoption of the The guidance is optional and effective as of March 12, 2020 through for fiscal years beginning after December 31, 2024. , with early adoption permitted. Adoption is permitted at any time during the period on a allows for prospective basis. application, with retrospective application permitted.	Effective April 1, 2023, and in accordance with We are currently assessing the provisions outlined in our underlying credit agreements, we impact ASU 2023-09 will have transitioned the reference rate used in our credit facilities from the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (Term SOFR). The change did not have a material impact on our condensed consolidated financial statements. statements, including our Income Taxes footnote disclosure.

Note 3. Revenue

We recognize revenue primarily from product sales to customers. Revenue from sales of products is recognized at the point where the customer obtains control of the goods and we satisfy our performance obligations, which is

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generally once the goods have been shipped and the customer has assumed title. For contract manufacturing organization (CMO) arrangements, we recognize revenue over time or at a point in time depending on our evaluation of when the customer obtains control of the promised goods or services.

We have a single customer that accounted for approximately 10% and 11% of revenue for the nine months ended September 30, 2023 and 2022, respectively. Product sales with this customer resulted in accounts receivable of $96 million and $73 million at September 30, 2023 and December 31, 2022, respectively.

Provisions for sales rebates and discounts are recorded as a reduction to revenue in the period the related sales are recognized and are based on specific agreements. In determining the appropriate accrual amount, we consider our historical experience with similar incentive programs, current sales data and estimates of inventory levels at our channel distributors. The following table summarizes the activity in our global sales rebates and discounts liability:

		Nine Months Ended September 30,			
		2023	2022		
		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,			
	2024			2024	2023
Beginning balance	Beginning balance	$324	$319		
Reduction of revenue					
Reduction of revenue					
Reduction of revenue	Reduction of revenue	558	524		
Payments	Payments	(522)	(521)		
Foreign currency translation adjustments	Foreign currency translation adjustments	(4)	(18)		
Ending balance	Ending balance	$356	$304		

Adjustments to revenue recognized as a result of changes in estimates during the nine three months ended September 30, March 31, 2024 and 2023, and 2022 for product shipped in previous periods were not material. Actual global product returns were approximately 1% of net revenue for the nine three months ended September 30, 2023 March 31, 2024 and 2022. 2023.

Disaggregation of Revenue

The following table summarizes our revenue disaggregated by product category:

		Three Months Ended September 30,		Nine Months Ended September 30,			
		2023	2022	2023	2022		
		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,					
	2024					2024	2023
Pet Health	Pet Health	$ 495	$ 469	$1,688	$1,718		
Farm Animal:	Farm Animal:						
Cattle							
Cattle							
Cattle	Cattle	242	227	700	722		
Poultry	Poultry	184	176	545	529		
Swine	Swine	93	95	284	284		
Aqua	Aqua	42	47	132	132		
Total Farm Animal	Total Farm Animal	561	545	1,661	1,667		

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Contract Manufacturing (1)	Contract Manufacturing (1)	12	12	33	41
Revenue	Revenue	$1,068	$1,026	$3,382	$3,426

(1) Represents revenue from arrangements in which we manufacture products on behalf of a third party.

The following table summarizes our revenue disaggregated by geographic area:

		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,			
	2024		2024		2023
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
United States					
United States					
United States	United States	$ 479	$ 475	$1,522	$1,536
International	International	589	551	1,860	1,890
Revenue	Revenue	$1,068	$1,026	$3,382	$3,426
Revenue					
Revenue					

We have a single customer that accounted for approximately 9% of revenue for each of the three months ended March 31, 2024 and 2023. Product sales with this customer resulted in accounts receivable of $93 million and $78 million at March 31, 2024 and December 31, 2023, respectively.

Note 4. Acquisitions, Divestitures and Other Arrangements

NutriQuest U.S. Acquisition ***Acquisitions***

On January 3, 2023, During 2023, we acquired completed the acquisitions of certain U.S. marketed products, pipeline products, inventory and an assembled workforce from NutriQuest, LLC (NutriQuest) and certain assets including inventory and distribution rights for certain marketed products from NutriQuest Nutricao Animal Ltda (NutriQuest Brazil). NutriQuest is a provider Each of swine, poultry and cattle nutritional health products to animal producers. The acquisition allows us to expand our existing nutritional health offerings and furthers our efforts to explore innovative antibiotic alternatives.

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The composition of the purchase price was as follows:

Up-front cash consideration	$	16
Deferred cash consideration due January 4, 2024		5
Fair value of contingent consideration		37
Total purchase consideration	$	58

The NutriQuest acquisition these transactions was accounted for as a business combination under the acquisition method of accounting. The acquisition method requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date, with the excess of the purchase price over the fair value of the acquired assets recorded as goodwill. date. The determination of estimated fair value requires 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.

NutriQuest

On January 3, 2023, we acquired NutriQuest for total purchase consideration of $59 million. NutriQuest is a provider of swine, poultry and cattle nutritional health products to animal producers. The acquisition helped us expand our existing nutritional health offerings and further our efforts to explore innovative antibiotic alternatives. The composition of the purchase price was as follows:

Up-front cash consideration	$	16
Deferred cash consideration paid January 4, 2024		5
Fair value of contingent consideration		38
Total purchase consideration	$	59

Contingent consideration for this acquisition includes up to $85 million of cash consideration payable if specific development, sales and geographic expansion milestones are achieved, as outlined in the asset purchase agreement. The initial fair value of this contingent consideration liability of $37 million $38 million was estimated at the acquisition date using a Monte Carlo simulation model, which represented a Level 3 measurement under the fair value measurement hierarchy (see Note 10. Fair Value for further information).

The following table summarizes the preliminary amounts recognized for fair values of assets acquired as of the acquisition date:

Inventories	$	3
Intangible assets:		
Marketed products		29
Acquired in-process research and development (IPR&D)		10 9
Other intangible assets		15
Total identifiable assets		57 56
Goodwill		1 3
Total consideration transferred	$	58 59

Other intangible assets consist of customer relationships and trade names. The acquired definite-lived intangible assets are being amortized over a weighted-average estimated useful life of approximately 12 years on a straight-line basis. The estimated fair values of identifiable intangible assets were determined using the income approach, which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the significant assumptions inherent in the development of these asset valuations include the estimated net cash flows for each year for each asset or product (including revenues, cost of sales, R&D expenses, marketing, selling and administrative expenses and contributory asset charges), the appropriate discount rate necessary to measure the risk inherent in each future cash flow stream, the life cycle of each asset, the potential regulatory and commercial success risk and competitive trends impacting the asset and each cash flow stream, as well as other factors.

The accounting for this acquisition has not been finalized as of September 30, 2023. The purchase price allocation is preliminary and subject to change, including the valuation of the contingent consideration and intangible assets. The final determination of these amounts will be completed as soon as possible but no later than one year from the acquisition date. Revenue attributable to the NutriQuest acquisition for the nine months ended September 30, 2023, was approximately $16 million.

NutriQuest Brazil Acquisition

On August 1, 2023, we acquired certain assets including inventory and distribution rights for certain marketed products from NutriQuest Nutricao Animal Ltda (NutriQuest Brazil) Brazil for total purchase consideration of $19 million. The composition of the purchase price included cash paid on the closing date of approximately $3 million, with additional consideration payable through 2026 valued at approximately $16 million, a portion of which is contingent upon the continuation of certain terms and conditions set forth in the asset purchase agreement. The NutriQuest Brazil acquisition was accounted for as a business combination under the acquisition method of accounting.

The following table summarizes the preliminary amounts recognized for assets acquired as of the acquisition date:

Inventories	$	3
Definite-lived intangible assets		15
Total identifiable assets		18
Goodwill		1
Total consideration transferred	$	19

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The acquired definite-lived intangible assets are being amortized over a weighted-average estimated useful life of approximately nine years on a straight-line basis. The estimated fair values of identifiable intangible assets were determined using the income approach. The purchase price allocation for this acquisition is preliminary as of September 30, 2023 March 31, 2024, and subject to change, including the valuation of the intangible assets. The final determination of these amounts will be completed as soon as possible but no later than one year from the acquisition date. Neither revenue nor income before taxes included within our condensed consolidated statements of operations from NutriQuest Brazil were material for the three and nine months ended September 30, 2023.

Divestitures

Microbiome R&D platform carve-out

In April 2022, we signed an agreement to transfer assets associated with our microbiome R&D platform to a newly created, independent biopharmaceutical company, BiomEdit, focused on developing solutions for animal and human health. As part of the agreement, we retained a non-voting, minority stake in the company. In addition, we entered into transitional services agreements with the company for certain services. Assets transferred included intellectual property and laboratory equipment. The book values of those assets were not material. We recorded a gain on disposal of the assets of approximately $3 million during the year ended December 31, 2022.

Shawnee and Speke

During 2021, as part of our strategy to optimize our manufacturing footprint, we announced an agreement with TriRx Pharmaceuticals (TriRx) to sell our manufacturing sites in Shawnee, Kansas (Shawnee) and Speke, U.K. (Speke), including the transfer of approximately 600 employees. . In connection with these arrangements, we also entered into long-term manufacturing August 2021 and supply agreements, under which TriRx began manufacturing existing Elanco products at both sites upon the closing of the transactions. On August 1, 2021 and February 1, 2022, February 2022, we completed the sales of our Shawnee and Speke sites, respectively. Upon closing the sale of the Speke site, we recorded a contract asset of $55 million for the favorable supply agreement, which was included in prepaid expenses and other and other noncurrent assets on our condensed consolidated balance sheets.

Based on the original terms of the sales agreements, we anticipated receiving cash consideration from TriRx over a three-year period, and we received cash proceeds received to date, as of September 30, 2023, we had a net receivable balance $13 million from TriRx of $73 million from the sales of Shawnee and Speke, which was included within other receivables on the condensed consolidated balance sheets. in 2022. In May 2023, we entered into amendments to the agreements (the amended agreement), which effectively restructured the payment schedule related to the remaining amount owed. Under At December 31, 2023, our remaining net receivable balance from TriRx under the terms amended agreement was $69 million. In February 2024, we received $66 million from TriRx, in addition to accrued interest, with the remaining $3 million due in August 2024.

Aqua Business

In February 2024, we entered into an asset purchase agreement (APA) to sell our aqua business to Intervet International B.V., a Dutch subsidiary of Merck Animal Health, for approximately $1.3 billion in cash, payable at closing. Our aqua business includes products across both warm-water and cold-water species. This divestiture is expected to include inventories, real property and equipment, including our manufacturing sites in Canada and Vietnam, and certain intellectual property, technology and other intangible assets, including marketed brands, as well as approximately 280 commercial and manufacturing employees. The APA contains certain representations, warranties and covenants that are customary for transactions of this nature, including covenants by us relating to the operation of the amendments aqua business prior to the closing of the transaction, as well as certain non-compete restrictions. The future closing of the divestiture is subject to customary conditions, including the receipt of applicable regulatory and antitrust approvals, and is currently anticipated to occur around mid-year 2024. If the APA is terminated due to failure to obtain the applicable required approvals, subject to certain conditions, Merck Animal Health will be required to pay us a termination fee of $55 million in cash. Our aqua business generated revenues of $31 million and $40 million during the three months ended March 31, 2024 and 2023, respectively. Given that we expect operate our business as a single reporting unit, we are unable to receive approximately $67 million reasonably determine stand-alone costs and related earnings or loss before income taxes attributable to our aqua business.

We determined the aqua business assets being sold (the disposal group) met all the required criteria to be classified as held for sale in February 2024. Accordingly, at that time we ceased depreciation and amortization of this receivable balance the long-lived assets included within the disposal group. We have also determined that the sale of our aqua business does not qualify for reporting as a discontinued operation, as it does not represent a strategic shift that has or will have a major effect on our operations and/or financial results.

We also determined that the disposal group's fair value, based upon the earlier expected $1.3 billion sales price, less anticipated costs to sell, exceeded its carrying value. As such, no write-down of the date on which certain conditions are met or in equal installments over a twelve-month period beginning January 31, 2024, with carrying value was required. In establishing the remainder due within the next 12 months. We continue to assess the collectibility of these receivables from TriRx and continue to believe amounts owed are collectible. Further, we have rights to certain collateral in the event of a default and we continue to monitor the carrying value of this collateral.

BexCaFe Arrangement

our disposal group, a portion of our single reporting unit's goodwill was allocated to it on a relative fair value basis. In June 2022, we signed a license agreement with BexCaFe, LLC (BexCaFe) for determining the development and commercialization of products related to *Bexacat,* an oral treatment intended to reduce glucose levels in diabetic cats. BexCaFe held the rights to the compound through a license agreement with similar terms and conditions. We will incur all development and regulatory costs associated with the products. Based on the guidance in Accounting Standards Codification (ASC) 810, *Consolidation*, we determined that BexCaFe represents a variable interest entity and that we are the primary beneficiary of BexCaFe because the terms of the license give us the power to direct the activities that most significantly impact the entity's economic performance. As a result, we consolidated BexCaFe, a development-stage company with no employees that did not meet the definition of a business, as of the date we signed the license agreement. Upon initial consolidation of BexCaFe, we measured an IPR&D asset at its relative fair value of $59 million and recorded liabilities totaling $59 million, which included contingent consideration of $49 million based on the disposal group to our single reporting unit as a whole, we compared the fair value of the disposal group to an estimated fair value of our single reporting unit, which was based on a fair value assessment using the income approach. The income approach is a valuation technique that provides an estimate of fair value based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Significant management judgment was required in estimating the fair value of our single reporting unit, including, but not limited to, estimates and assumptions regarding future milestone payments cash flows of our single reporting unit, revenue growth and sales royalties owed other profitability measures, such as gross margin and earnings before interest, taxes, depreciation and amortization (EBITDA) margin, and the determination of an appropriate discount rate. We consider this valuation approach to be a Level 3 measurement under the license agreement. There is no minimum payout due on fair value hierarchy.

As of March 31, 2024, the contingent consideration and the maximum payout related to sales royalties is unlimited. Since BexCaFe did not meet the definition of a business, no goodwill was recorded and immediately after initial consolidation, we expensed the IPR&D asset because we concluded that it did not have an alternative future use.

During the nine months ended September 30, 2023, we paid $13 million to BexCaFe in connection with development/regulatory milestones achieved upon U.S. Food and Drug Administration (FDA) approval carrying amounts of the original new animal drug application following major assets were classified as held for *Bexacat* in December 2022. Remaining contingent consideration liabilities of $35 million were included in other current liabilities and other noncurrent liabilities sale on our condensed consolidated balance sheet as sheet:

Inventories	$	45
Goodwill		482
Other intangibles, net		50
Property and equipment, net		66
Other assets		8
Total assets held for sale	$	651

Based on our current estimates, we expect to recognize a pre-tax gain on sale in the range of September 30, 2023. $600 million to $650 million.

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Note 5. 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 product, facility rationalization and business rationalizations and workforce reductions. In connection with recent acquisitions, including the acquisition of Bayer Animal Health, we We have also incurred costs associated with executing acquisition, divestiture and other significant transactions and integrating acquired operations. 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 impairment charges can be incurred as a result of revised fair value projections related integration and/or determinations to no longer utilize certain assets in the business on an ongoing basis. Determinations of fair value can result from a complex series of judgments and rely on estimates and assumptions.

separation activities. Components of asset impairment, restructuring and other special charges were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
Restructuring charges (credits)(1)	$	*2024 Q1 Form 10-Q* | ***12***	$	—	$	—	$	(7)
Acquisition related charges(2)		11		27		86		77
Asset impairments and other items (3)		5		(1)		5		82
Total expense	$	16	$	26	$	91	$	152

	Three Months Ended March 31,			
	2024		2023	
Restructuring charges(1)	$	39	$	—
Acquisition and divestiture-related charges(2)		7		40
Total expense	$	46	$	40

(1) Restructuring credits charges in 2022 2024 primarily related to adjustments resulting from the reversal of expected cash-based severance accruals costs associated with 2021 a restructuring programs, resulting program approved and announced in February 2024 intended to reallocate resources by shifting international resources from final negotiations farm animal to pet health. This restructuring program has also resulted in changes in how we operate in and certain restructured employees filling open positions. sell into the Argentina market, among others.

(2) Acquisition related and divestiture-related charges included transaction costs directly related to acquiring or divesting businesses, such as expenditures for banking, legal, accounting, consulting and other similar services and integration or separation charges, inclusive of system and process integration and or carve-out costs, product transfers and independent company stand-up costs related to the implementation of new systems, programs and processes.

(3) Asset impairments during The following table summarizes the third quarter of 2023 primarily related to the write-down of certain indefinite-lived intangible assets due to increases in the relevant discount rates. Asset impairments during 2022 included a charge of $59 million related to the write-off of an IPR&D asset with no alternative future use licensed from BexCaFe and a $22 million charge related to the finalization of the write-down upon sale of the Speke site (see Note 4. Acquisitions, Divestitures and Other Arrangements for further discussion on each of these items).

The changes activity in our reserves established in connection with restructuring reserves during the nine months ended September 30, 2023, were as follows:
activities:

Balance at December 31, 2022 December 31, 2023	$	36
Cash paid		(29)
Balance at September 30, 2023	$	7
Charges		39
Cash paid		(6)
Balance at March 31, 2024	$	40

These reserves were included within other current liabilities and other noncurrent liabilities on our condensed consolidated balance sheets based on the timing Timing of when the restructuring reserve obligations are expected to be paid which can vary due to certain country-specific negotiations and regulations. Of the total reserve, $27 million is included within other current liabilities on our condensed consolidated balance sheet at March 31, 2024, with the remainder included within other noncurrent liabilities.

Note 6. Inventories

Inventories are stated at the lower of cost and net realizable value. We value a majority of our inventories using the first-in, first out (FIFO) method, although 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 or the weighted-average cost method. inventories.

Inventories consisted of the following:

		September 30, 2023	December 31, 2022		
	March 31, 2024			March 31, 2024	December 31, 2023
Finished products	Finished products	$ 831	$ 783		
Work in process	Work in process	772	683		
Raw materials and supplies	Raw materials and supplies	145	130		
Total	Total	1,748	1,596		
Decrease to LIFO cost	Decrease to LIFO cost	(58)	(58)		
Inventories	Inventories	$ 1,690	$ 1,538		

Note 7. Equity

Tangible Equity Unit (TEU) Offering

In January 2020 we issued 11 million in TEUs at the stated amount of $50 per unit. Total proceeds, net of issuance costs, were $528 million. The gross proceeds and deferred finance costs from the issuance of the TEUs were allocated 86% to equity (prepaid stock purchase contracts) and 14% to debt (TEU amortizing notes) based on the

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relative fair value of the respective components of each TEU. The TEU prepaid stock purchase contracts were converted into shares of our common stock on February 1, 2023. Holders of our TEUs received 1.5625 shares of our common stock based on the maximum settlement rate for the applicable market value being below $32.00. In total, we issued approximately 17 million shares to holders in connection with the settlement.

Note 8. Debt

Long-term debt consisted of the following:

		September 30, 2023	December 31, 2022
	March 31, 2024	March 31, 2024	December 31, 2023
Incremental Term Facility due 2025	Incremental Term Facility due 2025	$ 175	$ 175
Incremental Term Facility due 2028	Incremental Term Facility due 2028	490	494
Incremental Term Facility due 2029	Incremental Term Facility due 2029	247	249
Term Loan B due 2027	Term Loan B due 2027	3,849	3,881
Revolving Credit Facility (1)	Revolving Credit Facility (1)	297	—
Securitization Facility (2)	Securitization Facility (2)	153	—
4.272% Senior Notes due 2023 (3)		—	344
4.900% Senior Notes due 2028 (4)		750	750
TEU Amortizing Notes due 2023 (5)		—	7
4.900% Senior Notes due 2028 (3)			
4.900% Senior Notes due 2028 (3)			
4.900% Senior Notes due 2028 (3)			
Unamortized debt issuance costs	Unamortized debt issuance costs	(52)	(64)
		5,909	5,836
Unamortized debt issuance costs			
Unamortized debt issuance costs			
	5,765		
Less current portion of long-term debt	Less current portion of long-term debt	39	388
Total long-term debt	Total long-term debt	$ 5,870	$ 5,448

(1) During the nine months ended September 30, 2023, we drew $350 million on our Revolving Credit Facility (subsequently repaying $53 million), both to fund working capital needs and to partially fund the repayment of the 4.272% Senior Notes due 2023 (see below for further information). Our Revolving Credit Facility provides up to $750 million in borrowing capacity (with incremental capacity if certain conditions are met), bears interest at Term SOFR plus 2.10% and matures in August 2025.

(2) In August 2023, we entered into a new secured term facility that Our Securitization Facility is secured and collateralized by our U.S. Net Eligible Receivables Balance, (see below for further information). has a maximum borrowing capacity of $300 million, bears interest at Term SOFR plus 1.25% and matures in July 2026.

(3) We redeemed the 4.272% Senior Notes due 2023 in full in August 2023 (see below for further information).

(4) Subsequent to issuance in August 2018, the our 4.900% Senior Notes due 2028 have been subject to interest rate increases related to credit rating agency downgrades. As of September 30, 2023 March 31, 2024, these notes bear interest at a rate of 6.650%.

(5) The TEU Amortizing Notes due 2023 matured on February 1, 2023 (see Note 7. Equity for further information).

2023 Financing

On August 3, 2023, we entered into a new secured term facility (the "Securitization Facility") that is secured and collateralized by our U.S. accounts receivable subject to certain adjustments (defined as the Net Eligible Receivables Balance within the applicable agreement). Of the maximum borrowing capacity under the Securitization Facility of $300 million, $250 million was drawn on August 3, 2023, based on our borrowing capacity on that date. Our borrowing capacity under the Securitization Facility is subject to fluctuation monthly based on the level of our borrowing base as reported to the lender, which is correlated to our U.S. Net Eligible Receivables Balances. The Securitization Facility requires monthly interest payments over its three-year term at a variable rate based on Term SOFR plus 125 basis points. The full, outstanding balance of the Securitization Facility is due on July 31, 2026. During the three months ended September 30, 2023, we utilized the proceeds from the Securitization Facility, in addition to a $100 million draw on our Revolving Credit Facility, to redeem in full the 4.272% Senior Notes due 2023. The early redemption of the 4.272% Senior Notes due 2023 satisfied all obligations and commitments thereunder. Subsequent to our initial $250 million draw on the Securitization Facility, $97 million was repaid, resulting in a balance of $153 million outstanding as of September 30, 2023. The Securitization Facility includes various covenants specific to the underlying composition of our U.S. accounts receivables portfolio.

As of September 30, 2023 March 31, 2024, approximately 76% 78% of our long-term indebtedness bears interest at a fixed rate, including variable-rate debt converted to fixed-rate through the use of interest rate swaps (see Note 9. Financial Instruments for further information). We were in compliance with all of our debt covenants as of September 30, 2023 March 31, 2024.

Note 9. Financial Instruments

To manage our exposure to market risks, such as changes in foreign currency exchange rates and interest rates, 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. We also assess 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. Derivative cash flows are principally classified in the operating activities section of the condensed consolidated statements of cash flows, consistent with the underlying hedged item. Further, we do not offset derivative assets and liabilities on the condensed consolidated balance sheets. Our outstanding positions are discussed below.

Derivatives not designated as hedges

We may enter into foreign exchange forward or option contracts to reduce the effect of fluctuating foreign currency exchange rates. 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 expense, net in the condensed consolidated statements of operations. Forward contracts generally have maturities not exceeding 12 months. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had outstanding foreign exchange contracts with aggregate notional amounts of $864 $812 million and $784 $891 million, respectively.

The amounts of net (losses) gains (losses) on derivative instruments not designated as hedging instruments, recorded in other expense, net were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Foreign exchange forward contracts (1)	$ 1	$ (5)	$ 2	$ (20)

	Three Months Ended March 31,	
	2024	2023
Foreign exchange forward contracts (1)	$ (9)	$ 2

(1) These amounts were substantially offset in other expense, net by the effect of changing exchange rates on the underlying foreign currency exposures.

Derivatives designated as hedges - Net investment hedges

In September 2023 we entered into a series of cross-currency fixed interest rate swaps to help mitigate the impact of foreign currency fluctuations on our operations in Switzerland with a combined 1,000 million CHF notional amount with tenors in 2026 and 2027. These instruments were determined to be, and were designated as, effective economic hedges of net investments in our CHF denominated net assets. The fair values of these instruments were estimated based on quoted market values of similar hedges and are classified as Level 2 in the fair value hierarchy (see Note 10. Fair Value for further information). Gains or losses related to these instruments due to spot rate fluctuations are recorded as cumulative translation adjustments as a component of other comprehensive income (loss). Gains and losses will remain in accumulated other comprehensive income (loss) until either the sale or substantial liquidation of the hedged subsidiary. Gains on net investment hedges, net of tax, recorded in other comprehensive (loss) income, were as follows:

	Three Months Ended March 31,	
	2024	2023
Cross-currency fixed interest rate swaps	$ 62	$ —

During the three months ended March 31, 2024, these instruments also generated $8 million of interest income, which was included as a contra interest expense, net of capitalized interest in our condensed consolidated statement of operations.

Derivatives designated as hedges - Interest rate swaps

To manage our exposure to variable interest rate risk, we utilize interest rate swap contracts to effectively convert our variable-rate debt into fixed-rate debt. We recognize any differences between the variable interest rate payments and the fixed interest rate settlements with the swap counterparties as an adjustment to interest expense, net of capitalized interest over the life of the swaps. We have designated our interest rate swaps as cash flow hedges and record them at fair value on the condensed consolidated balance sheets. Changes in the fair value of the hedges are recognized in other comprehensive income (loss). and reclassified into earnings through interest expense, net of capitalized interest at the time earnings are affected by the hedged transaction. Fair value is estimated based on quoted market values of similar hedges and is classified as Level 2 in the fair value hierarchy (see Note 10. Fair Value for further information). hierarchy.

Our We had outstanding forward-starting interest rate swaps, had maturities ranging between 2023 and 2028, with aggregate notional amounts of $3,800 million and $3,050 million as of September 30, 2023 both March 31, 2024 and December 31, 2022, respectively. In March 2023, we entered into new interest rate swap agreements with a combined notional amount December 31, 2023. As of $1,000 million, which became effective on October 1, 2023 March 31, 2024, following the maturity of certain swaps with the same combined notional amount. Additionally, on May 1, 2023, we entered into new interest rate swap agreements with a combined notional amount of $750 million, which became effective on June 1, 2023, and mature in August 2028. Also, in September 2023, we took advantage of market opportunities to further restructure our interest rate swap portfolio (see below for further details). instruments had maturities ranging between 2026 and 2028. The amounts of gains (losses) on our interest rate swap contracts, net of tax, recorded in other comprehensive (loss) income were as follows:

	Three Months Ended March 31,	
	2024	2023
Interest rate swaps	$ 63	$ (25)

The amounts of gains reclassified from accumulated other comprehensive loss and recognized into earnings through interest expense, net of capitalized interest were as follows:

	Three Months Ended March 31,	
	2024	2023
Interest rate swaps	$ 31	$ 23

Over the next 12 months, we expect to reclassify a gain of $92 million from accumulated other comprehensive loss into interest expense, net of capitalized interest related to our current and previously settled interest rate swaps. As of September 30, 2023 March 31, 2024, when factoring in the $3,800 million of variable rate debt converted to fixed-rate through the use of interest rate swaps (excluding the expected future reclassifications to interest expense, net of capitalized interest related to past interest rate swap settlements), the weighted-average effective interest rate on our outstanding indebtedness was 6.34% 6.40%.

Additionally, as a means of mitigating the impact of currency fluctuations on our operations in Switzerland, we entered into a series of cross-currency fixed interest rate swaps in September 2023 with a 1 billion CHF notional amount with tenors in 2027. These instruments were determined to be, and were designated as, effective economic hedges of net investments in our CHF denominated net assets. The fair values of these instruments were estimated based on quoted market values of similar hedges and is classified as Level 2 in the fair value hierarchy. Over the life of these instruments, gains or losses due to spot rate fluctuations will be recorded as cumulative translation adjustments, as a component of other comprehensive income (loss). Gains and losses within accumulated other comprehensive income (loss) will remain in accumulated other comprehensive income (loss) until either the sale or substantial liquidation of the hedged subsidiary.

The amounts of gains (losses) on derivatives designated as cash flow hedges and net investment hedges, net of tax, recorded in other comprehensive loss were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Forward-starting interest rate swaps	$ —	$ 62	$ (19)	$ 179
Cross-currency fixed interest rate swaps	9	—	9	—

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During the three months ended September 30, 2023 and 2022, activity on cash flow hedges recorded in other comprehensive loss included gains of $24 million and a gain of $75 million, net of tax, respectively, related to mark-to-market adjustments. During the nine months ended September 30, 2023 and 2022, activity on cash flow hedges recorded in other comprehensive loss included gains of $57 million and $218 million, net of tax, respectively, related to mark-to-market adjustments.

As noted above, in September 2023, we took advantage of market opportunities to restructure $3,050 million of our interest rate swap portfolio by unwinding existing swaps and simultaneously entering into new agreements with the same notional amounts and tenors extending through 2026. As a result, we received cash settlements of $57 million in the aggregate. Also, in April 2022 and September 2022, we settled certain existing interest rate swaps and simultaneously entered into new agreements with the same notional amount and covering the same tenor. As a result, we received cash settlements of $207 million in the aggregate. The cash proceeds from these interest rate swap settlements were included in net cash from operating activities in the condensed consolidated statements of cash flows for the nine months ended September 30, 2023 and 2022.

During the three months ended September 30, 2023 and 2022, we reclassified $35 million and $11 million of net gains, respectively, into interest expense, net of capitalized interest. During the nine months ended September 30, 2023 and 2022, we reclassified $94 million of net gains and $10 million of net losses, respectively, into interest expense, net of capitalized interest. Over the next 12 months, we expect to reclassify a gain of $120 million to interest expense, net of capitalized interest related to our derivatives designated as hedges.

Note 10. Fair Value

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a framework that utilizes the inputs market participants use to determine the fair value of an asset or liability and establishes a fair value hierarchy to prioritize those inputs. Level 1 fair value measurements are based on quoted prices in active markets for identical assets or liabilities. 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. Our Level 3 fair value measurements which include the value of contingent consideration as of September 30, 2023, are based on unobservable inputs based on little or no market activity.

The following table summarizes the fair value information at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, for assets and liabilities measured at fair value on a recurring basis in the respective balance sheet line items, as well as long-term debt, for which fair value is disclosed on a recurring basis:

Table

			Fair Value Measurements Using							
Financial statement line item		Carrying Amount		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Fair Value
March 31, 2024										
Recurring fair value measurements										
Prepaid expenses and other - derivative instruments	$	66	$	—	$	66	$	—	$	66
Other current liabilities - derivative instruments		(74)		—		(74)		—		(74)
Other current liabilities - contingent consideration		(7)		—		—		(7)		(7)
Other noncurrent liabilities - derivative instruments		(17)		—		(17)		—		(17)
Other noncurrent liabilities - contingent consideration		(31)		—		—		(31)		(31)
Financial instruments not carried at fair value										
Long-term debt, including current portion		(5,811)		—		(5,815)		—		(5,815)
December 31, 2023										
Recurring fair value measurements										
Prepaid expenses and other - derivative instruments	$	65	$	—	$	65	$	—	$	65
Other current liabilities - derivative instruments		(63)		—		(63)		—		(63)
Other current liabilities - contingent consideration		(9)		—		—		(9)		(9)
Other noncurrent liabilities - derivative instruments		(132)		—		(132)		—		(132)
Other noncurrent liabilities - contingent consideration		(31)		—		—		(31)		(31)
Financial instruments not carried at fair value										
Long-term debt, including current portion		(5,824)		—		(5,825)		—		(5,825)

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities at the time of Contents

		Fair Value Measurements Using			
Financial statement line item	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
September 30, 2023					

Recurring fair value measurements					
Prepaid expenses and other - derivative instruments	$ 64	$ —	$ 64	$ —	$ 64
Other noncurrent assets - derivative instruments	32	—	32	—	32
Other noncurrent assets - investments with readily determinable fair value	8	8	—	—	8
Other current liabilities - derivative instruments	(61)	—	(61)	—	(61)
Other current liabilities - contingent consideration	(16)	—	—	(16)	(16)
Other noncurrent liabilities - contingent consideration	(33)	—	—	(33)	(33)
Financial instruments not carried at fair value					
Long-term debt, including current portion	(5,961)	—	(5,877)	—	(5,877)
December 31, 2022					
Recurring fair value measurements					
Prepaid expenses and other - derivative instruments	$ 90	$ —	$ 90	$ —	$ 90
Other noncurrent assets - derivative instruments	10	—	10	—	10
Other noncurrent assets - investments with readily determinable fair value	7	7	—	—	7
Other current liabilities - derivative instruments	(64)	—	(64)	—	(64)
Financial instruments not carried at fair value					
Long-term debt, including current portion	(5,900)	—	(5,711)	—	(5,711)

purchase of three months or less. The carrying values of cash and cash equivalents, accounts and other receivables, accounts payable and other current liabilities are a reasonable estimate of their fair values due to the short-term nature of these assets and liabilities. We also had investments without readily determinable fair values and equity method investments, which were classified as other noncurrent assets on our condensed consolidated balance sheets totaling $28 $25 million and $27 $26 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. These investments are not recorded at fair value on a recurring basis, and as such, are not included in the fair value table above.

Of the total value The fair values of the contingent consideration liabilities at September 30, 2023, $42 million related to our acquisition of certain assets from NutriQuest during the first quarter of 2023 (see Note 4. Acquisitions, Divestitures and Other Arrangements for further information). We may pay up to $85 million in cash consideration related to this acquisition, which is contingent upon the achievement of specific development, sales and geographic expansion milestones, as outlined in the asset purchase agreement. The fair values of these liabilities at September 30, 2023, were estimated using the Monte Carlo simulation model, consisting of Level 3 inputs not observable in the market, including estimates relating to revenue forecasts, discount rates and volatility.

Note 11. Goodwill

The following table summarizes the changes in the carrying amount of goodwill:

December 31, 2023 (gross)		
Balance as of December 31, 2022	$ 5,993 6,136	
Additions related to acquisitions Accumulated impairment	2	
Impairment charge	(1,042)	
December 31, 2023 (net)		5,094
Reclassification to assets held for sale(1)		(482)
Foreign currency translation adjustments		(51) (134)
Balance as of September 30, 2023 March 31, 2024 (net)		$ 4,902 4,478

Goodwill is recorded as (1) We reclassified $482 millionof goodwill to assets held for sale during the difference, if any, between three months ended March 31, 2024, in connection with the aggregate consideration paid expected divestiture of our aqua business. See Note 4. Acquisitions, Divestitures and Other Arrangements for an acquisition and the fair value of the net tangible and intangible assets acquired. Goodwill is not amortized, but is reviewed for further information.

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impairment at least annually on October 1, or more frequently if certain qualitative impairment indicators are present. When required, a comparison of fair value to the carrying amount of our single reporting unit is performed to determine the amount of any impairment.

Given the sharp increase in long-term treasury rates in the third quarter of 2023, we assessed our long-lived assets for impairment, concluding that qualitative impairment indicators (i.e., a triggering event) existed as of September 30, 2023, for certain indefinite-lived assets, including goodwill. Accordingly, we performed an interim quantitative goodwill impairment test, which resulted in a $1,042 million pre-tax impairment charge. The fair value of our single reporting unit was determined using the income approach, based on a discounted cash flow model. Significant management judgment was required in estimating our reporting unit's fair value, including, but not limited to, estimates and assumptions regarding future cash flows, revenue growth and other profitability measures such as gross margin and EBITDA margin; and the determination of an appropriate discount rate. We made these judgments based on historical experience, relevant market size, historical pricing and expected industry trends. While we believe our estimates and assumptions underlying the September 30, 2023, interim goodwill impairment test were reasonable in view of all available information, future changes in our discount rate, whether driven by increases in long-term treasury rates or other factors, or future changes in other significant assumptions or the use of alternative estimates and assumptions, could have a significant impact on the estimated fair value of our reporting unit, exposing us to further goodwill impairment losses.

Note 12. Income Taxes

		Three Months Ended September 30,		Nine Months Ended September 30,				
		2023	2022	2023	2022			
		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,						
		2024					2024	2023
Income tax (benefit) expense	Income tax (benefit) expense	$ (1)	$ 21	$22	$ 41			
Effective tax rate	Effective tax rate	0.2 %	(47.7)%	(2.0)%	234.3 %	Effective tax rate	(182.2) %	4.4 %

For the three and nine months ended September 30, 2023March 31, 2024, we recognized an income tax benefit of $1 million and income tax expense of $22 million, respectively.$20 million. Our effective tax ratesrate of 0.2% and (2.0)%, respectively, differ from the statutory income tax rates primarily due to the recognition of a goodwill impairment charge that was non-deductible in most of the impacted jurisdictions.

For the three and nine months ended September 30, 2022, we recognized income tax expense of $21 million and $41 million, respectively. Our effective tax rates of (47.7)(182.2)% and 234.3%, respectively, differdiffered from the statutory income tax rate primarily due to the partial release of a valuation allowance attributable to the anticipated sale of our aqua business and a benefit related to the recognition of certain state tax credits. For the three months ended March 31, 2023, we recognized income tax expense of $5 million. Our effective tax rate of 4.4% differed from the statutory income tax rate due to jurisdictional earnings mix of earnings between periods resultingprojected income in projectedlower tax jurisdictions, partially offset by losses in the U.S. and for various other foreign affiliatesa Southeast Asia affiliate for which there was no tax benefit, as valuation allowances had been established in those jurisdictions. Income tax expense for the nine months ended September 30, 2022, included a $17 million income tax benefit reclassified from accumulated other comprehensive loss due to the termination of interest rates swaps. countries.

We were included in Eli Lilly and Company's (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 our initial public offering (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. The U.S. examination of tax years 2016 to 2018 began in 2019 and remains ongoing. Final resolution of certain matters is dependent upon several factors, including the potential for formal administrative proceedings.

Note 13. Commitments and Contingencies

Legal Matters

We are party to various legal actions that arise in the normal course of business. The most significant matters are described below. LossUnder GAAP, loss contingency provisions are recorded when we deem it is deemed probable that we will incur a loss and we canare able to formulate a reasonable estimate of that loss.

Seresto Class Action Lawsuits and EPA Safety Review

Claims seeking actual damages, injunctive relief and/or restitution for allegedly deceptive marketing have been made against Elanco Animal Health Inc. and Bayer HealthCare LLC, along with other Elanco and Bayer entities, arising out of the use of *Seresto*™, a non-prescription flea and tick collar for cats and dogs. During 2021, putative class action lawsuits were filed in federal courts in the U.S. alleging that the *Seresto* collars contain pesticides that can cause serious injury and death to cats and/or dogs wearing the product. In August 2021, the lawsuits were consolidated by the Judicial Panel on Multidistrict Litigation, and the cases were transferred to the Northern District of Illinois. In June 2023, the parties agreed on the monetary terms of a potential settlement of the consolidated class action lawsuits, and as a result, a charge of $15 million was recorded duringrecorded. As of December 31, 2023, the three months ended June 30, 2023. The parties must still reach agreementhad agreed on the non-monetary terms and anyof a potential settlement, if reached, is subjectin addition to approval bythe monetary terms agreed to in June 2023. In January 2024, the court preliminarily approved the settlement. The court set a hearing to consider final approval of the settlement in December 2024. If at that time all conditions of the settlement are met, and likelythe settlement is approved, we anticipate the settlement amount will be subject to other conditions. Thispayable in the first quarter of 2025. As such, the $15 million provision was included within other noncurrentcurrent liabilities on our condensed consolidated balance sheet as of September 30, 2023March 31, 2024.

Also, in January 2023, a lawsuit seeking damages for alleged negligence, breach of statutory regulations, breach of statutory duties and deceptive marketing was filed in Israel against Elanco and other parties, arising out of the use of *Seresto* and *Foresto*™ flea and tick collars for cats and dogs that are marketed and sold in Europe and in Israel. We intend to defend our position vigorously, and as of the date of this filing, we are unable to estimate the probability of loss or range of loss, if any.

Seresto is a pesticide registered with the U.S. Environmental Protection Agency (the EPA). In April 2021, a non-profit organization submitted a petition to the EPA requesting that the agency take action to cancel *Seresto's* pesticide registration and suspend the registration pending cancellation. In response to the EPA's request for comments from the public on the petition, we submitted a comment to the EPA supporting the safety profile of *Seresto* and engaged in discussions with the EPA. On July 13, 2023, the EPA announced their completion of a comprehensive, multi-year review, with support from the FDA, of the *Seresto* flea and tick collar and confirmed the continued registration of the collar, denying the citizen's petition. As part of the EPA's scientific review process, the agency analyzed incident data including third-party assessments and compared data to other EPA registered pet products. Based on comprehensive data from the review, the EPA concluded that *Seresto* continues to meet all the EPA's standards for registration under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), which ensures that products do not pose unreasonable risk of harm.

Additional Legal Matters

For the litigation legal matters discussed below, we either believe loss is not probable or are unable to estimate the possible loss or range of loss, if any. The process of resolving these matters is inherently uncertain and may develop over an extended period of time; therefore, at this time, the ultimate resolutions cannot be predicted. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had no material liabilities established related to the litigation matters mentioned discussed below.

On May 20, 2020, a shareholder class action lawsuit captioned *Hunter v. Elanco Animal Health Inc., et al.* (*Hunter*) was filed in the United States District Court for the Southern District of Indiana (the Court) against Elanco and certain executives. On September 3, 2020, the Court court appointed a lead plaintiff, and on November 9, 2020, the lead plaintiff filed an amended complaint adding additional claims against Elanco, certain executives and other individuals. The lawsuit alleged, in part, that Elanco and certain of its executives made materially false and/or misleading statements and/or failed to disclose certain facts about Elanco's supply chain, inventory, revenue and projections. The lawsuit sought unspecified monetary damages and purports to represent purchasers of Elanco securities between September 30, 2018 and May 6, 2020, and purchasers of Elanco common stock issued in connection with Elanco's acquisition of Aratana. Aratana Therapeutics, Inc. On January 13, 2021, we filed a motion to dismiss, and on August 17, 2022, the Court court issued an order granting our motion to dismiss the case without prejudice. On October 14, 2022, the plaintiffs filed a motion for leave to amend the complaint. On December 7, 2022, we filed an opposition to the plaintiffs' motion, and on September 27, 2023, the Court court denied the plaintiffs' motion for leave, issuing final judgment

in favor of Elanco. On October 25, 2023, the plaintiffs filed a notice of appeal to the United Stated Court of Appeals for the Seventh Circuit. We continue to believe the claims made in the case are meritless, and we intend to continue to vigorously defend our position.

On October 16, 2020, a shareholder class action lawsuit captioned *Saffron Capital Corporation v. Elanco Animal Health Inc., et al.* was filed in the Marion Superior Court of Indiana against Elanco, certain executives and other individuals and entities. On December 23, 2020, the plaintiffs filed an amended complaint adding an additional plaintiff. The lawsuit alleges, in part, that Elanco and certain of its executives made materially false and/or misleading statements and/or failed to disclose certain facts about Elanco's relationships with third party distributors and revenue attributable to those distributors within the registration statement on Form S-3 dated January 21, 2020, and accompanying prospectus filed in connection with Elanco's public offering which closed on or about January 27, 2020. The lawsuit seeks unspecified monetary damages and purports to represent purchasers of Elanco common stock or TEUs issued in connection with the public offering. From February 2021 to August 2022, this case was stayed in deference to *Hunter v. Elanco Animal Health Inc*. On October 24, 2022, we filed a motion to dismiss. On December 23, 2022, the plaintiffs filed their opposition to the motion to dismiss. Prior to the ruling on the motion to dismiss, on June 8, 2023, the plaintiffs filed a motion for leave to file a second amended complaint, which is now the operative complaint. We filed a motion to dismiss the second amended complaint on August 7, 2023, to which the plaintiff plaintiffs filed their opposition on October 13, 2023. On April 17, 2024, our motion to dismiss was granted. The dismissal is without prejudice to plaintiffs' right to re-file a claim, and it is possible the plaintiffs will attempt to file a third amended complaint. We continue to believe the claims made in the case are meritless, and we intend to vigorously defend our position.

In the third quarter of 2019, Tevra Brands, LLC (Tevra) filed a complaint in the U.S. District Court of the Northern District of California, alleging that Bayer Animal Health (acquired by us in August 2020) had been involved in unlawful, exclusive dealing and tying of its flea and tick products *Advantage*, *Advantix* and *Seresto* and maintained a monopoly in the market. The complaint was amended in March 2020 and then dismissed in September 2020 with leave to amend. A second amended complaint was filed in March 2021 and realleges claims of unlawful exclusive

dealing related to *Advantage* and *Advantix* and monopoly maintenance. A motion to dismiss the second amended complaint was denied in January 2022. Tevra's demands include both actual and treble damages. On April 16, 2024, the court granted our motion for summary judgment to exclude all damages subsequent to our acquisition of Bayer Animal Health in August 2020. The trial is scheduled for July 2024. We intend to vigorously defend our position vigorously. position.

Regulatory Matters

On July 1, 2021, we received a subpoena from the SEC relating to our channel inventory and sales practices prior to mid-2020. We have cooperated in providing documents and information to the SEC and will continue to do so. We have recently engaged in discussions with the SEC about a possible resolution or settlement of potential disclosure claims, but there can be no assurance that claims. While we have not reached an agreement on a resolution or settlement of the potential disclosure claims, based on the ongoing discussions with the SEC, we believe a loss contingency is both probable and estimable. Accordingly, we have accrued a liability of $15 million as of March 31, 2024, which was an increase of $2.5 million from the liability we had recorded for this matter as of December 31, 2023. This liability was included within other current liabilities on our condensed consolidated balance sheets. It remains uncertain whether an agreement will be reached. reached and the terms of any such agreement. Management continues to believe that its actions were appropriate. We are unable to estimate the range of any reasonably possible loss associated with this matter.

Other Commitments

As of September 30, 2023 March 31, 2024, we had a lease commitment that has not yet commenced for our new corporate headquarters in Indianapolis, Indiana. Total minimum lease payments are estimated to be approximately $378 million over a term of 25 years, excluding extensions. Final lease payments may vary depending on the actual cost of certain construction activities. Lease commencement is expected in 2025.

The land for our new corporate headquarters is located in a Tax Increment Finance District, and the project is, in part, funded through Tax Incremental Financing (TIF) through an incentive agreement between us and the City of Indianapolis. The agreement provides for an estimated total incentive of $64 million to be funded by the City of Indianapolis in connection with the future tax increment revenue generated from the developed property. In December 2021, as part of a funding and development agreement entered into between us and the developer, we made a commitment to use the expected TIF proceeds towards the cost of developing and constructing the headquarters. In exchange, the developer reimbursed us up to the $64 million commitment in 2021. During 2022, we refunded approximately $15 million of the TIF proceeds to the developer. As a result, it is our expectation that our future lease payments will be reduced. The remaining accrued incentive was included in other noncurrent liabilities on our condensed consolidated balance sheets and will be amortized over the lease term beginning on the commencement date and offset future rent expense.

Note 14. Earnings Per Share

We compute basic earnings (loss) per share by dividing net income (loss) available to common shareholders by the actual weighted-average number of common shares outstanding for the reporting period. Elanco has variable common stock equivalents relating to certain equity awards in stock-based compensation arrangements. We also had variable common stock equivalents related to the TEU prepaid stock purchase contracts during the three and nine months ended September 30, 2022, and in the first quarter of 2023 through the settlement date of February 1, 2023 (see Note 7. Equity for further discussion). Diluted earnings per share reflects the potential dilution that could occur have occurred if holders of the unvested equity awards converted their holdings into common stock and that could have occurred if holders of unsettled TEUs had converted their holdings into common stock prior to the February 1, 2023 settlement date. The weighted-average number of potentially dilutive shares outstanding was calculated using the treasury stock method. Potential common shares that would have had the effect of increasing diluted earnings per share (or reducing loss per share) were considered to be anti-dilutive and as such, these shares were not included in the calculation of diluted loss earnings per share.

Basic and diluted weighted-average shares outstanding were as follows:

	Three Months Ended March 31,				
	Three Months Ended March 31,				
	Three Months Ended March 31,				
	2024			**2024**	**2023**
	Three Months Ended September 30,	**Nine Months Ended September 30,**			
Basic weighted-average common shares outstanding (1)					
	2023	**2022**	**2023**	**2022**	
Basic weighted-average common shares outstanding (1)					
Determination of shares:					

Basic weighted-average common shares outstanding (1)	Basic weighted-average common shares outstanding (1)	492.7	488.4	492.1	488.3		493.2	491.1	491.1
Assumed conversion of dilutive common stock equivalents (2)	Assumed conversion of dilutive common stock equivalents (2)	—	—	—	—				
Diluted weighted-average shares outstanding	Diluted weighted-average shares outstanding	492.7	488.4	492.1	488.3	Diluted weighted-average shares outstanding	496.0	492.8	492.8

(1) The TEU prepaid stock purchase contracts were convertible into a minimum of 14.3 million shares or a maximum of 17.2 million shares. The minimum 14.3 million shares were included in the calculation of basic weighted-average shares from January 22, 2020 to February 1, 2023. The 17.2 million shares that were ultimately issued were have been included in the calculation of basic weighted-average shares outstanding subsequent to the settlement date of February 1, 2023.

(2) For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, approximately 2.7 0.8 million and 4.4 1.4 million, respectively, of potential common shares were excluded from the calculation of diluted loss per share because their effect was anti-dilutive. For the nine months ended September 30, 2023 and 2022, approximately 2.7 million and 2.6 million, respectively, of potential common weighted-average shares were excluded from the calculation of diluted loss per share outstanding because their effect was anti-dilutive.

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ITEM 2. MANAGEMENT'S MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management’s discussion and analysis of financial condition and results of operations (MD&A) 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 condensed consolidated financial statements and accompanying footnotes in Item 1 of Part I of this Form 10-Q. Certain statements in this Item 2 of Part I of this Form 10-Q constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" “Forward-Looking Statements” of this Form 10-Q, in Item 1A, "Risk Factors" “Risk Factors” of Part II of this Form 10-Q and in Item 1A, “Risk Factors” of Part I of our 2022 2023 Form 10-K, may cause our actual results, financial position and cash generated from operations to differ materially from these forward-looking statements. Further, due to the seasonality of our pet health sales, interim results are not necessarily an appropriate base from which to project annual results.

Business Overview

Elanco is a global leader in animal health, company that develops dedicated to innovating and delivering products for pets and services to prevent and treat disease in farm animals and pets. Our diverse, durable product portfolio is sold in more than 90 countries. countries and serves animals across many species, primarily: dogs and cats (collectively, pet health) and cattle, poultry, swine, sheep and aqua (collectively, farm animal). With a heritage dating back to 1954, we rigorously consistently innovate to improve the health of animals and to benefit our customers while fostering an inclusive, cause-driven culture for our employees. We operate our business in a single segment, directed at fulfilling advancing the well-being of animals, people and the planet, enabling us to realize our vision of enriching the lives of people through food, making protein more accessible Food and affordable, and through pet companionship, helping pets live longer, healthier lives. We advance our vision by offering products in the Pet Health and Farm Animal Companionship Enriching Life.

Our diverse product categories.

We offer a diverse portfolio of approximately 200 brands that helps make us a trusted partner to pet owners, veterinarians and farm animal producers. Our products are generally sold worldwide to third-party distributors and independent retailers, and directly to farm animal producers and veterinarians. With the acquisition of Bayer Animal Health in 2020, In recent years, we have expanded our omnichannel presence in both the veterinary clinic and in retail markets, including e-commerce.

Product Development and e-commerce channels, allowing Regulatory Update

A key element of our customers targeted value creation strategy is to shop where drive revenue growth through portfolio development and how they want. product innovation. We continue to pursue the development of new chemical and biological molecules, as well as additional registrations and indications for current products. Our future growth and success depend on both our pipeline of new products, including new products we develop internally, develop with partners or that we obtain through licenses or acquisitions, and the life cycle management of our existing products. We believe we are an industry leader in animal health R&D, with a track record of successful product innovation, business development and commercialization.

Other Key Trends and Factors Affecting Our Results of Operations

Acquisition and Integration Activity: To date in In 2023 we have acquired certain U.S. marketed products, pipeline products, inventory and an assembled workforce from NutriQuest, LLC (NutriQuest) and certain assets including inventory and distribution rights for certain marketed products from NutriQuest Nutricao Animal Ltda (NutriQuest Brazil). Additionally, as previously disclosed, in April 2023 we successfully completed the integration of the Bayer Animal Health business into Elanco's Enterprise Resource Planning our enterprise resource planning (ERP) system. During the nine months ended September 30, 2023, we We incurred costs totaling $86 million $93 million in 2023 related to integration activities, including the build out of processes and systems to support our global organization. We In connection with this integration, we notified our customers of an expected commercial blackout period during specified periods of time in April 2023, during which certain products would not be able to be shipped. Due to this, we believe certain customers modified their purchasing habits, causing a shift of revenue from the second quarter of 2023 to the first quarter of 2023 of approximately $90 million to $110 million, based on our high-level estimates. While first quarter 2023 revenue benefited from this shift in purchases, this resulted in a corresponding decrease in revenue during the second quarter of 2023.

Aqua Business Divestiture: On February 5, 2024, we entered into an agreement to sell our aqua business to a subsidiary of Merck Animal Health for approximately $1.3 billion in cash, payable at closing, which we currently anticipate some additional costs through early to occur around mid-year 2024. Our aqua business includes products across both warm-water and cold-water species and generated $31 million and $40 million in revenue during the three months ended March 31, 2024 and 2023, respectively. Upon closing of this sale, we intend to use the after-tax cash proceeds to accelerate debt repayment and reduce our leverage and future interest expense. Strategically, this divestiture allows us to prioritize our investments in larger markets with greater long-term earnings potential. The closing of the transaction is subject to customary conditions, including the receipt of applicable antitrust approvals. If the agreement is terminated due to failure to obtain required antitrust approvals, subject to certain conditions, Merck Animal Health will be required to

pay us a termination fee of $55 million in cash. Based on our current estimates, we expect to recognize a pre-tax gain on sale in the range of $600 million to $650 million. Income tax expense associated with this sale is expected to be in the range of $170 million to $190 million. See Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for further information.

Restructuring Activities: In February 2024, our Board of Directors authorized a restructuring plan (the restructuring plan) to improve operational efficiencies and better align our organizational structure with current business needs, top strategic priorities and key growth opportunities. Specifically, the restructuring plan was intended to reallocate resources by shifting international resources from farm animal to pet health as we finalize these integration activities. plan for the global launches of certain blockbuster potential products currently under regulatory review. Further, the restructuring plan has impacted how we operate in and sell into the Argentina market, among others, reducing our foreign currency exposure in those markets.

Total expected pre-tax charges associated with the restructuring plan total $50 to $55 million in 2024, of which $39 million was incurred during the first quarter of 2024, the majority relating to cash-based severance costs. The restructuring plan is expected to result in the elimination of approximately 420 personnel across our global organization and annualized net savings of $30 to $35 million. See Note 5. Asset Impairment, Restructuring and Other Special Charges to the condensed consolidated financial statements for further information.

Macroeconomic Factors: Our As a global company with products sold in more than 90 countries, our operations are exposed to and are impacted by various global macroeconomic factors. We face continuing market and operating challenges across the globe due to, among other factors, the Russia-Ukraine conflict, conditions related to the COVID-19 pandemic, supply chain disruption, higher interest rates, foreign currency exchange rate volatility and inflationary pressures. Continued evolution of these conditions has led to economic slowdowns in certain countries and/or regions and volatility in consumer behavior. Additionally, as discussed in more detail below, the continued rise in interest rates throughout the year, specifically in long-term treasury rates in the third quarter, led to a $1,042 million pre-tax impairment charge as of September 30, 2023. We anticipate global macroeconomic pressures to continue beyond 2023. throughout 2024.

Russia-Ukraine Conflict: As a global animal health leader, we have an obligation to support the health of animals and people. At the center of that work is ensuring access and availability of food and avoiding the spread of disease. At this time, we are limiting our business in Russia to only the essential products that support these needs, while complying with all imposed sanctions. We do not currently manufacture products in Russia, but we continue to support the health of animals and people in the country. We have entered into an agreement pursuant to which we will supply raw material inventories to an entity in Russia that will manufacture its own products, which we will then distribute, because of new laws requiring products sold in Russia to be produced there as well. We do not conduct business with the Russian government. During the nine months ended September 30, 2023, revenue from Russian and Ukrainian customers represented approximately 1% of our consolidated revenue. Assets held in Russia as of September 30, 2023, represented less than 1% of our consolidated assets.

Seasonality: While many of our products are sold consistently throughout the year, we do experience seasonality in our pet health business due to increased demand for certain parasiticide product offerings in the first half of the year. For example, based upon historical results, approximately 75% and 60% of total annual revenue contributed by our higher-margin parasiticide products *Seresto* and *Advantage Family*, respectively, typically occurs during the first half of the year, which is reflective of the flea and tick season in the Northern Hemisphere.

Product Development and Regulatory Update

A key element of our targeted value creation strategy is to drive growth through portfolio development and product innovation. We continue to pursue the development of new chemical and biological molecules through our approach to innovation. Our future growth and success depend on both our pipeline of new products, including new products that we develop internally and may develop with partners and products that we are able to obtain through licenses or acquisitions, and the life cycle management of our existing products. We believe we are an industry leader in animal health R&D, with a track record of successful product innovation, business development and commercialization. For example, in July 2023, we launched our canine parvovirus monoclonal antibody in the U.S. after receiving conditional approval from the U.S. Department of Agriculture. This product is the first and only approved therapeutic solution to treat canine parvovirus, one of the most contagious and deadly viruses a dog can contract.

Seresto: On July 13, 2023, the EPA announced its completion of a comprehensive, multi-year review, with support from the FDA, of the *Seresto* flea and tick collar and confirmed the continued registration of the collar. As part of the EPA's scientific review process, the agency analyzed incident data including third-party assessments and compared data to other EPA-registered pet products. Based on comprehensive data from the study, the EPA concluded that *Seresto* continues to meet all the EPA's standards for registration under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), which ensures that products do not pose an unreasonable risk of harm. We believe the EPA's conclusions align with those of authorities worldwide, with *Seresto* being approved for use in more than 80 countries and supported by veterinary professionals around the globe. The robust scientific evidence continues to support *Seresto*'s safe use.

Goodwill Impairment Charge

Given the sharp increase in long-term treasury rates in the third quarter of 2023, we assessed our long-lived assets for impairment, concluding that qualitative impairment indicators (i.e., a triggering event) existed as of September 30, 2023, for certain indefinite-lived assets, including goodwill. Accordingly, we performed an interim quantitative goodwill impairment test. Significant management judgment was required in estimating our reporting unit's fair value and in the creation of forecasts of future operating results that were used in the discounted cash flow method of valuation. These included, but were not limited to, estimates and assumptions regarding our future cash flows, revenue growth and other profitability measures such as gross margin and EBITDA margin; and the determination of an appropriate discount rate. We made these significant judgments based on our historical experience, relevant market size, historical pricing and expected industry trends.

Due principally to the sharp increase in long-term treasury rates in the third quarter of 2023, which led to an increased discount rate assumption relative to prior interim assessments, our quantitative test resulted in a $1,042 million pre-tax impairment charge. While we believe the estimates and assumptions underlying our goodwill impairment test were reasonable in view of all available information, future changes in our discount rate assumption, whether driven by increases in long-term treasury rates or other factors, or future changes in other significant assumptions or the use of alternative estimates and assumptions, could have a significant impact on our reporting unit's estimated fair value and may expose us to further goodwill impairment losses. For additional information regarding this goodwill impairment, see Note 11. Goodwill to the 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.

Revision Our results of Prior Period Financial Statements Primarily Relating to Tax Valuation Allowance Adjustment

In connection with the preparation of our financial statements as of and operations for the year ended December 31, 2022, a cumulative error was identified relating periods presented below may not be comparable with prior periods or with our results of operations in the future due to many factors, including but not limited to the valuation allowance for taxes for a Southeast Asia affiliate. While immaterial to prior years, correcting this cumulative error in 2022 would have caused the 2022 financial statements to be materially misstated. As a result of having to make the revisions related to this error, we made other immaterial revisions to our 2022 unaudited interim consolidated financial statements. All of the revisions have been reflected throughout this Form 10-Q. factors identified above.

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		Three Months Ended September 30,			Nine Months Ended September 30,						
		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,									
(Dollars in millions)	(Dollars in millions)	2023	2022	% Change	2023	2022	% Change	(Dollars in millions)	2024	2023	% Change
Revenue	Revenue	$ 1,068	$1,026	4 %	$ 3,382	$3,426	(1)%	Revenue	$ 1,205	$ $ 1,257	(4) (4) %
Costs, expenses and other:	Costs, expenses and other:										
Cost of sales	Cost of sales	487	472	3 %	1,415	1,465	(3)%				

Cost of sales														
Cost of sales										515		494	4	%
% of revenue	% of revenue	46 %	46 %	— %	42 %	43 %	(1)%							
Research and development														
Research and development														
Research and development	Research and development	86	78	10 %	248	241	3 %		87	81	81	7	7	%
% of revenue	% of revenue	8 %	8 %	— %	7 %	7 %	— %							
Marketing, selling and administrative	Marketing, selling and administrative	313	298	5 %	993	963	3 %							
Marketing, selling and administrative														
Marketing, selling and administrative										337		327	3	%
% of revenue	% of revenue	29 %	29 %	— %	29 %	28 %	1 %							
Amortization of intangible assets	Amortization of intangible assets	140	128	9 %	410	398	3 %							
% of revenue		13 %	12 %	1 %	12 %	12 %	1 %							
Amortization of intangible assets														
Amortization of intangible assets										133		134	(1)	%
Asset impairment, restructuring and other special charges	Asset impairment, restructuring and other special charges	16	26	(38)%	91	152	(40)%							
Goodwill impairment		1,042	—	100 %	1,042	—	100 %							
Asset impairment, restructuring and other special charges														
Asset impairment, restructuring and other special charges										46		40	15	%
Interest expense, net of capitalized interest														
Interest expense, net of capitalized interest														
Interest expense, net of capitalized interest	Interest expense, net of capitalized interest	72	60	20 %	210	179	17 %		66	64	64	3	3	%
Other expense, net	Other expense, net	9	8	13 %	41	11	NM	Other expense, net	9	9	9	—	—	%
(Loss) income before income taxes		(1,097)	(44)	NM	(1,068)	17	NM							
% of revenue		(103)%	(4)%	NM	(32)%	— %	NM							

Income before income taxes								Income before income taxes	12	108	(89) %
Income tax (benefit) expense	Income tax (benefit) expense	(1)	21	NM	22	41	NM				
Net loss		$(1,096)	$ (65)	NM	$(1,090)	$ (24)	NM				
Income tax (benefit) expense											
Income tax (benefit) expense									(20)	5	NM
Net income								Net income	$ 32	$ 103	(69) %

Certain amounts and percentages may reflect rounding adjustments.

NM - – Not meaningful

Revenue

As a global company, our products are sold in more than 90 countries, and as a result, a significant portions portion of our revenue and expenses are is recorded in currencies other than the U.S. dollar. As a result, Dollar. Because of this, our revenue is influenced by changes in foreign currency exchange rates. During the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, approximately 51% 52% and 53% of our revenue was denominated in foreign currencies. Foreign currency movements decreased revenue by 1% and 2% for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. currencies, respectively.

Further, increases or decreases in inventory levels in our distribution channels can positively or negatively impact our quarterly revenue results, leading to variations in revenue. 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, blackout shipping periods due to system downtime, implementations and integrations and procedures and environmental factors beyond our control. For example, in connection with the integration of the Bayer Animal Health business into our ERP system, we communicated commercial shipping blackout periods that occurred in April 2023. Given this timing, we believe certain customers modified purchasing habits, which we estimate caused a shift of revenue from the second quarter of 2023 to the first quarter of 2023 of approximately $90 million to $110 million. While first quarter 2023 revenue benefited from this shift in purchases, this resulted in a corresponding decrease in revenue during the second quarter of 2023. This estimated shift of quarterly revenue in the prior year is a principal contributor to the year-over-year volume declines experienced during the three months ended March 31, 2024.

On a global basis, our revenue by product category for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 is summarized 2023, was as follows:

	Three Months Ended September 30,				Increase (Decrease)		
	Revenue		% of Total Revenue				
(Dollars in millions)	**2023**	**2022**	**2023**	**2022**	**$ Change**	**% Change**	**CC (1)**
Pet Health	$ 495	$ 469	46 %	46 %	$ 26	6 %	6 %
Farm Animal	561	545	53 %	53 %	16	3 %	4 %
Subtotal	1,056	1,014	99 %	99 %	42	4 %	5 %
Contract Manufacturing (2)	12	12	1 %	1 %	—	— %	(2)%
Total	$ 1,068	$ 1,026	100 %	100 %	42	4 %	5 %

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	Nine Months Ended September 30,		
	Revenue		
		% of Total	
	Revenue	**Revenue**	**Increase (Decrease)**
	Revenue		

		Revenue												% of Total Revenue		Increase (Decrease)		
(Dollars in millions)	(Dollars in millions)	2023	2022	2023	2022	$ Change	% Change	CC (1)	(Dollars in millions)	2024		2023		2024	2023	$ Change	% Change	CC (1)
Pet Health	Pet Health	$1,688	$1,718	50 %	50 %	$(30)	(2) %	— %	Pet Health	$ 639	$	$ 675	53	53 %	54 %	$ (36)	(5)%	(5)%
Farm Animal	Farm Animal	1,661	1,667	49 %	49 %	(6)	— %	2 %	Farm Animal	556	573	573	46	46 %	46 %	(17)	(3)%	(
Subtotal		3,349	3,385	99 %	99 %	(36)	(1) %	1 %										
Contract Manufacturing (2)																		
Contract Manufacturing (2)																		
Contract Manufacturing (2)	Contract Manufacturing (2)	33	41	1 %	1 %	(8)	(20) %	(18)%		10	9	9	1	1 %	1 %	1	11 %	12 %
Total	Total	$3,382	$3,426	100 %	100 %	(44)	(1) %	1 %	Total	$1,205	$	$ 1,257	100	100 %	100 %	$ (52)	(4)%	(4)%

Note: Numbers may not add due to rounding

(1) Constant Currency (CC), a non-GAAP measure, is defined as revenue growth excluding the impact of foreign exchange rates. The calculation assumes the same foreign currency exchange rates that were in effect for the comparable prior-year period were used in translation of the current period results. We believe this metric provides a useful comparison to previous periods.

(2) Represents revenue from arrangements in which we manufacture products on behalf of a third-party.

The On a global basis, the effects of price, foreign currency exchange rates and volume on changes in revenue for the three and nine months ended September 30, 2023 March 31, 2024, compared to the three months ended March 31, 2023, were as follows:

Three months ended September 30, 2023 (Dollars in millions)																	
(Dollars in millions)		Revenue	Price	FX Rate	Volume	Total	CC										
(Dollars in millions)																	
(Dollars in millions)											Revenue		Price		FX Rate	Volume	Total CC
Pet Health	Pet Health	$ 495	4%	—%	2%	6%	6%	Pet Health	$ 639	3%	3%		—%		(8)%		(5)%
Farm Animal	Farm Animal	561	3%	(1)%	1%	3%	4%	Farm Animal	556	—%		—%				(3)%	
Subtotal		1,056	4%	(1)%	1%	4%	5%										
Contract Manufacturing																	
Contract Manufacturing																	
Contract Manufacturing	Contract Manufacturing	12	—%	2%	(2)%	—%	(2)%		10	(2)%	(2)%		(1)%	14%		11%	12%
Total	Total	$1,068	4%	(1)%	1%	4%	5%	Total	$ 1,205	2%	2%		—%		(6)%		(4)%

Nine months ended September 30, 2023 (Dollars in millions)	Revenue	Price	FX Rate	Volume	Total	CC
Pet Health	$ 1,688	5%	(2)%	(5)%	(2)%	—%
Farm Animal	1,661	4%	(2)%	(2)%	—%	2%
Subtotal	3,349	4%	(2)%	(3)%	(1)%	1%
Contract Manufacturing	33	—%	(2)%	(18)%	(20)%	(18)%
Total	$ 3,382	4%	(2)%	(3)%	(1)%	1%

Note: Numbers may not add due to rounding

Pet Health health revenue increased $26 decreased $36 million, or 6% 5%, for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022, 2023, driven primarily by increased pricing, improved market conditions lower volumes and partially offset by a 3% increase in Europe impacting parasiticide sales and improved supply for vaccines pricing. The primary driver of the lower volumes was the impact of the ERP system integration commercial blackout periods in the prior year, which we believe shifted an estimated $65 million to $80 million in pet health revenue from the second quarter of 2023 to the first quarter of 2023. This impact to volumes, in addition to the slow start to the U.S. These factors were partially offset by parasiticide season and continued competitive pressure on certain products in the U.S. veterinary channel. Pet Health revenue decreased $30 million, or 2%, for the nine months ended September 30, 2023, compared to the same period in 2022, driven by the unfavorable impact of foreign exchange rates and lower volumes, channel, were partially offset by increased pricing. For the nine months ended September 30, 2023, lower volumes were attributable vaccine sales due to declines in easing of supply constraints, improved demand for retail parasiticide products in certain European markets, including Spain, and continued competitive pressure on the impact of an initial stocking of certain parasiticide legacy Bayer Animal Health products in into the U.S. These factors were partially offset by higher demand for pain and over-the-counter products in the U.S. and increased revenue from new products. distribution channel.

Farm Animal animal revenue increased $16 decreased $17 million, or 3%, for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022, driven by increased pricing and higher 2023. The primary driver of the lower volumes partially offset by was the impact of the ERP system integration commercial blackout periods in the prior year, which we believe shifted an unfavorable impact from foreign exchange rates. Increased volumes were driven by estimated $25 million to $30 million of revenue from new products, led by *Experior*, and strength in European poultry, partially offset by regulatory changes impacting cattle implant products and timing the second quarter of U.S. poultry rotations. Farm Animal revenue decreased $6 million, flat on a percentage basis, for the nine months ended September 30, 2023, compared 2023 to the same period first quarter of 2023. This impact to volumes, as well as market weakness impacting the swine business in 2022, impacted by lower volumes and the unfavorable impact of foreign exchange rates, which were offset by increased pricing. Lower volumes for the nine months ended September 30, 2023, were attributable to supply disruptions in U.S. cattle vaccines, reduced sales of cattle implants due to U.S. regulatory changes, timing of poultry rotations in the U.S. and generic competition. These factors were China, was partially offset by increased revenue from new products, led by *Experior*, and strength in European poultry and Aqua. sales globally.

Cost of Sales

		Three Months Ended September 30,			Nine Months Ended September 30,								
		Three Months Ended March 31,											
		Three Months Ended March 31,											
		Three Months Ended March 31,											
(Dollars in millions)	(Dollars in millions)	2023	2022	% Change	2023	2022	% Change	(Dollars in millions)	2024		2023		% Change
Cost of sales	Cost of sales	$487	$472	3 %	$1,415	$1,465	(3) %	Cost of sales	$ 515	$	$ 494	4	4 %
% of revenue	% of revenue	46 %	46 %		42 %	43 %							

Cost of sales increased $15 million $21 million for the three months ended September 30, 2023 March 31, 2024, primarily due to higher volume compared to the same period in the prior year, while and cost of sales as a percentage of revenue was flat year over year. Product price increases and the impact of foreign exchange rates on international inventories sold were largely offset by inflation and planned reduced throughput at certain manufacturing sites in support of efforts to reduce inventory balances and improve cash conversion.

Cost of sales decreased $50 million increased from 39% for the nine three months ended September 30, 2023 March 31, 2023, primarily due to lower volume compared to the same period in the prior year. Cost of sales as a percentage of revenue decreased from 43% for the nine three months ended September 30, 2022, to 42% for the nine months ended September 30, 2023, March 31, 2024. These increases were due to a combination of product price increases and inflation, the impact of foreign exchange rates product mix, which was driven by the impact of the ERP system integration commercial blackout periods on international inventories sold, partially offset by inflation higher margin products in the prior year, and planned reduced throughput at certain manufacturing sites in support of efforts to reduce inventory balances and improve cash conversion.

Research and Development

		Three Months Ended September 30,			Nine Months Ended September 30,								
		Three Months Ended March 31,											
		Three Months Ended March 31,											
		Three Months Ended March 31,											
(Dollars in millions)	(Dollars in millions)	2023	2022	% Change	2023	2022	% Change	(Dollars in millions)	2024		2023		% Change

Research and development	Research and development	$86	$78	10 %	$248	$241	3 %	Research and development	$ 87 $	$ 81 7	7 %
% of revenue	% of revenue	8 %	8 %		7 %	7 %					

Research and development expenses increased $8 million and $7 $6 million for the three and nine months ended September 30, 2023 March 31, 2024, respectively, as compared to the same periods period in the prior year, primarily driven by higher employee-related expenses and timing of project costs and the unfavorable impact of foreign exchange rates impacting our European research and development sites. costs.

Marketing, Selling and Administrative

		Three Months Ended September 30,			Nine Months Ended September 30,						
		Three Months Ended March 31,									
		Three Months Ended March 31,									
		Three Months Ended March 31,									
(Dollars in millions)	(Dollars in millions)	2023	2022	% Change	2023	2022	% Change	(Dollars in millions)	2024	2023	% Change
Marketing, selling and administrative	Marketing, selling and administrative	$313	$298	5 %	$993	$963	3 %	Marketing, selling and administrative	$ 337 $	$ 327 3	3 %
% of revenue	% of revenue	29 %	29 %		29 %	28 %					

Marketing, selling and administrative expenses increased $15 million and $30 million $10 million for the three and nine months ended September 30, 2023 March 31, 2024, respectively, as compared to the same periods period in the prior year, primarily driven by increases in marketing and promotional spend primarily supporting our global pet health business and higher employee-related expenses. These increases were partially offset by cost savings associated with the U.S. Pet Health business, employee-related expenses and travel and meeting expenses. completion of our ERP system integration in the second quarter of 2023.

Amortization of Intangible Assets

		Three Months Ended September 30,			Nine Months Ended September 30,						
		Three Months Ended March 31,									
		Three Months Ended March 31,									
		Three Months Ended March 31,									
(Dollars in millions)	(Dollars in millions)	2023	2022	% Change	2023	2022	% Change	(Dollars in millions)	2024	2023	% Change
Amortization of intangible assets	Amortization of intangible assets	$140	$128	9 %	$410	$398	3 %	Amortization of intangible assets	$ 133 $	$ 134	(1) %

Amortization of intangible assets increased $12 million decreased $1 million for the three and nine months ended September 30, 2023 March 31, 2024, as compared to the same periods period in the prior year, due year. Partially contributing to this decrease, as of February 1, 2024, the date we concluded the assets to be sold as part of our aqua business divestiture qualified as held for sale, we ceased the amortization of the finite-lived intangible assets included within this disposal group. See Note 4. Acquisitions, Divestitures and Other Arrangements to the addition of amortization of intangible assets recorded from the acquisitions of certain assets of NutriQuest and NutriQuest Brazil during the current year, as well as the impact of foreign exchange rates, primarily during the three months ended September 30, 2023. condensed consolidated financial statements for further information.

Asset Impairment, Restructuring and Other Special Charges

	Three Months Ended September 30,	Nine Months Ended September 30,
	Three Months Ended March 31,	
	Three Months Ended March 31,	
	Three Months Ended March 31,	

(Dollars in millions)	(Dollars in millions)	2023	2022	% Change	2023	2022	% Change	(Dollars in millions)	2024		2023	% Change
Asset impairment, restructuring and other special charges	Asset impairment, restructuring and other special charges	$16	$26	(38) %	$91	$152	(40) %	Asset impairment, restructuring and other special charges	$ 46	$	$ 40	15 %

Asset impairment, restructuring and other special charges decreased $10 million increased $6 million for the three months ended September 30, 2023 March 31, 2024, as compared to the prior year, primarily due to lower integration costs same period in the current year prior year. Amounts recorded during the three months ended March 31, 2024, consist of $39 million of costs associated with the restructuring plan announced in February 2024 and $7 million of acquisition integration and divestiture-related costs. Amounts recorded during the three months ended March 31, 2023, primarily represented costs associated with the implementation of new systems, programs, and processes resulting from due to the integration of Bayer

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Animal Health. Asset impairment, restructuring and other special charges decreased $61 million for the nine months ended September 30, 2023, compared to the prior year, primarily due to the $59 million charge related to the expensing of an IPR&D asset licensed from BexCaFe during the prior year, which did not recur in the current year.

For additional information regarding our asset impairment, restructuring and other special charges, see Note 5. Asset Impairment, Restructuring and Other Special Charges to the condensed consolidated financial statements.

Goodwill Impairment

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2023	2022	% Change	2023	2022	% Change
Goodwill impairment	$ 1,042	$ —	NM	$ 1,042	$ —	NM

We performed interim quantitative goodwill impairment tests as of September 30, 2023 and 2022. Our interim impairment test as of September 30, 2022, indicated no goodwill impairment, nor have any of the subsequent qualitative assessments through June 30, 2023. However, as discussed above, due principally to the sharp increase in long-term treasury rates in the third quarter of 2023, which led to an increased discount rate assumption, our quantitative impairment test resulted in a $1,042 million pre-tax impairment charge at September 30, 2023. For additional information regarding this goodwill impairment, see Note 11. Goodwill to the condensed consolidated financial statements.

Interest Expense, Net of Capitalized Interest

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2023	2022	% Change	2023	2022	% Change
Interest expense, net of capitalized interest	$ 72	$ 60	20 %	$ 210	$ 179	17 %

	Three Months Ended March 31,		
(Dollars in millions)	2024	2023	% Change
Interest expense, net of capitalized interest	$ 66	$ 64	3 %

Interest expense, net of capitalized interest increased $12 million and $31 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in the prior year, primarily due to higher interest rates on our outstanding variable-rate debt and rate increases on our Senior Notes driven by credit downgrades. The increase for the nine months ended September 30, 2023, compared to the prior year, was partially offset by $19 million of debt extinguishment charges recorded in 2022, which did not recur in the current year.

Other expense, net

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2023	2022	% Change	2023	2022	% Change
Other expense, net	$ 9	$ 8	13 %	$ 41	$ 11	NM

Other expense, net $2 million for the three months ended September 30, 2023, primarily consisted of foreign exchange losses, inclusive of devaluation losses related to the hyperinflationary environments in Turkey and Argentina, in addition to an increase in the contingent consideration liability related to the NutriQuest acquisition. The increase due to these items was partially offset by milestone income related to a license agreement. Other expense, net for the nine months ended September 30, 2023, also consisted of a settlement provision of $15 million recorded in June 2023 related to the *Seresto* class action lawsuits (see Note 13. Commitments and Contingencies for further information) and mark-to-market adjustments on equity investments.

Income tax (benefit) expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2023**	**2022**	**% Change**	**2023**	**2022**	**% Change**
Income tax (benefit) expense	$ (1)	$ 21	NM	$ 22	$ 41	(46)%
Effective tax rate	0.2 %	(47.7)%		(2.0)%	234.3 %	

We recognized an income tax benefit of $1 million for the three months ended September 30, 2023, compared to income tax expense of $21 million in the same period of the prior year. The effective tax rate was 0.2% for the three months ended September 30, 2023 March 31, 2024, as compared to the prior year effective tax rate of (47.7)%, and differed from the statutory income tax rate primarily due to the recognition of a goodwill impairment charge that was non-deductible in most of the impacted jurisdictions.

Income tax expense decreased $19 million for the nine months ended September 30, 2023, compared to the same period in the prior year, primarily due to higher weighted-average interest rates.

Other Expense, Net

	Three Months Ended March 31,		
(Dollars in millions)	**2024**	**2023**	**% Change**
Other expense, net	$ 9	$ 9	— %

Other expense, net for the three months ended March 31, 2024 and 2023, primarily consisted of foreign exchange losses. During the effective three months ended March 31, 2024, we also increased our accrual for the possible resolution or settlement with the SEC by $2.5 million, which was included within other expense, net.

Income Tax (Benefit) Expense

	Three Months Ended March 31,		
(Dollars in millions)	**2024**	**2023**	**% Change**
Income tax (benefit) expense	$ (20)	$ 5	NM
Effective tax rate	(182.2)%	4.4 %	

We recognized an income tax rate decreased to (2.0)% benefit of $20 millionfor the three months ended March 31, 2024, compared to 234% income tax expense of $5 million for the same period in the prior year period. This decrease in year. The income tax benefit during the effective tax rate three months ended March 31, 2024, was primarily due driven by the partial release of a valuation allowance attributable to the anticipated sale of our aqua business and a benefit related to the recognition of a goodwill impairment charge that was non-deductible in most of the impacted jurisdictions. Income certain state tax expense and the effective tax rate for the nine months ended September 30, 2022, included a $17 million income tax benefit reclassified from accumulated other comprehensive loss due to the termination of interest rates swaps during the nine months ended September 30, 2022.

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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 internationally, 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, the income taxes associated with transferring cash to the U.S. We intend to indefinitely reinvest substantially all foreign earnings for continued use in our foreign operations. As our business evolves, 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.

We believe our primary sources of liquidity are sufficient to fund our short-term and long-term existing and planned capital requirements, which include working capital obligations, funding existing marketed and pipeline products, capital expenditures, business development in our targeted areas, short-term and long-term debt obligations, such as principal and interest payments, as well as interest rate swaps, operating lease payments, purchase obligations and costs associated with mergers, acquisitions, divestitures and business integrations. integrations and/or restructuring activities. As of September 30, 2023 March 31, 2024, we had cash and cash equivalents of $369 million $345 million and unused borrowing capacity on our Revolving Credit Facility of approximately $453 $550 million. In addition, our Securitization Facility provides additional borrowing capacity in the event our borrowing capacity on this facility, which is correlated to our U.S. Net Eligible Receivables Balances, exceeds our outstanding borrowings on the facility. As of March 31, 2024, we had undrawn borrowing capacity of $114 million on our Securitization Facility. We also have the ability to access capital markets to obtain debt financing for longer-term funding, if required. Further, we believe we have sufficient cash flow and liquidity to remain in compliance with our debt covenants.

Our ability to meet future funding requirements may be impacted by macroeconomic, business and financial volatility. As market conditions 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 - We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful" have substantial indebtedness" in Part I of our 2022 2023 Form 10-K.

Cash Flows

The following table provides a summary of cash flows from operating, investing and financing activities for the nine three months ended September 30, 2023 March 31, 2024 and 2022: 2023:

(Dollars in millions)	(Dollars in millions)	Nine Months Ended September 30,					
Net cash provided by (used for):							
Net cash provided by (used for):							
Net cash provided by (used for):	Net cash provided by (used for):	2023	2022	$ Change	2024	2023	$ Change
Operating activities	Operating activities	$114	$ 439	$(325)			
Investing activities	Investing activities	(134)	(103)	(31)			
Financing activities	Financing activities	56	(465)	521			
Effect of exchange-rate changes on cash and cash equivalents	Effect of exchange-rate changes on cash and cash equivalents	(12)	(49)	37			
Net increase (decrease) in cash and cash equivalents		$ 24	$(178)	$ 202			
Net decrease in cash and cash equivalents							

Operating activities

Cash provided by operating activities decreased $325 million to $114 million was $2 million for the nine three months ended September 30, 2023 March 31, 2024, compared to $439 million cash used for operating activities of $145 million for the nine three months ended September 30, 2022 March 31, 2023. The decrease change in cash from provided by (used for) operating activities primarily related to was driven by a larger net loss, year-over-year improvement in changes in operating assets and liabilities, and a decrease of $150 million of proceeds from interest rate swap settlements year-over-year. partially offset by lower net income.

Investing activities

Cash used for provided by investing activities was $134 million $37 million for the nine three months ended September 30, 2023, compared to $103 million for the nine months ended September 30, 2022. The increase in cash used for investing activities was primarily driven by cash paid for the acquisitions of certain assets of NutriQuest and NutriQuest Brazil of $19 million during the nine months ended September 30, 2023.

Financing activities

Cash provided by financing activities was $56 million for the nine months ended September 30, 2023 March 31, 2024, compared to cash used for investing activities of $55 million for the three months ended March 31, 2023. Cash provided by investing activities during the three months ended March 31, 2024, was driven by the collection of a $66 million receivable related to our previous divestiture of our Shawnee and Speke locations (see Note 4. Acquisitions, Divestitures and Other Arrangements to the condensed consolidated financial statements for additional information). These proceeds were partially offset by net purchases of property and equipment and software and a deferred cash payment related to our prior year acquisition of NutriQuest. Cash used for investing activities during the three months ended March 31, 2023, primarily related to net purchases of property and equipment and software, $16 million paid for the acquisition of NutriQuest and $14 million for the purchase of intangible assets.

Financing activities

Cash used for financing activities was $27 million for the three months ended March 31, 2024, compared to cash provided by financing activities of $465 million $174 million for the nine three months ended September 30, 2022 March 31, 2023. Cash used for financing activities during the three months ended March 31, 2024, included $13 million in scheduled repayments of long-term borrowings. Cash provided by financing activities of $174 million during the nine three months ended September 30, 2023, reflected proceeds of $350 million from our Revolving Credit Facility, and $250 million from our Securitization Facility, largely offset by $388 million of repayments of long-term borrowings, inclusive of the $344 million repayment of our 4.272% Senior Notes due 2023, as well as repayments of $53 million on our Revolving Credit Facility and $97 million on our Securitization Facility. Cash used for financing activities of $465 million during the nine months ended September 30, 2022 March 31, 2023, primarily reflected the tender offer completed during the period, as well as net repayments on proceeds from our Revolving Credit Facility

and revolving credit facility, partially offset by the repayment of indebtedness outstanding under our term loan B credit facility, partially offset by proceeds from the issuance of our incremental term facilities. long-term borrowings.

Description of Indebtedness

For a complete description of our existing debt and available credit facilities as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, see Note 10. 8. Debt within Item 8, "Financial Statements and Supplementary Data," of Part II of our 2022 2023 Form 10-K. New developments are discussed in Note 8. Debt of this Form 10-Q.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Certain of our accounting policies are considered critical because these policies are the most important to the depiction of our financial statements and require significant, difficult or complex judgments, often requiring the use of estimates about the effects of matters that are inherently uncertain. Actual results that differ from our estimates could have an unfavorable effect on our financial position and results of operations. We apply estimation methodologies consistently from year to year. Such policies are summarized in Item 7, "Management's Discussion & Analysis of Results of Financial Condition and Results of Operations," of our 2022 2023 Form 10-K. There were no significant changes or developments in the application of our critical accounting policies during the nine three months ended September 30, 2023 March 31, 2024.

Goodwill Impairment Testing

We evaluate goodwill for impairment on an annual basis and when certain qualitative impairment indicators are present that would more likely than not reduce the fair value of our single reporting unit below its carrying amount.

In the third quarter of 2022, a significant change in our market capitalization relative to our book value, among other factors, triggered a goodwill impairment review. Based on our qualitative assessment, we concluded it was more likely than not that the fair value of our single reporting unit was less than its carrying value, and therefore, we performed a quantitative goodwill impairment test, which involved comparing the estimated fair value of our single reporting unit with its carrying value, including goodwill. We estimated the fair value of our single reporting unit using the income approach, concluding that the fair value of our single reporting unit exceeded the carrying amount by more than 20% as of September 30, 2022, and, therefore, no impairment existed with respect to our goodwill. Given that our market capitalization remained lower than our book value, we reevaluated our impairment testing from a qualitative perspective on a quarterly basis, with no change to our previous conclusion that no impairment existed through June 30, 2023. However, given the sharp increase in long-term treasury rates in the third quarter of 2023, we assessed our long-lived assets for impairment, concluding that qualitative impairment indicators (i.e., a triggering event) existed as of September 30, 2023, for certain indefinite-lived assets, including goodwill. As part of this assessment, we concluded it was more likely than not that the fair value of our single reporting unit was below its carrying amount, and as such, we performed an interim quantitative goodwill impairment test.

Significant management judgment was required in estimating our reporting unit's fair value and in the creation of forecasts of future operating results that were used in the discounted cash flow method of valuation. These included, but were not limited to, estimates and assumptions regarding our future cash flows, revenue growth and other profitability measures such as gross margin and EBITDA margin; and the determination of an appropriate discount rate. We made these judgments based on our historical experience, relevant market size, historical pricing and expected industry trends. These assumptions are subject to change in future periods because of, among other things, additional information, financial information based on further historical experience, changes in competition, our investment decisions, volatility in foreign currency exchange rates, results of research and development and changes in macroeconomic conditions, including rising interest rates and inflation.

Due principally to the sharp increase in long-term treasury rates in the third quarter of 2023, which led to an increased discount rate assumption relative to prior interim assessments, our quantitative goodwill impairment test resulted in a $1,042 million pre-tax impairment charge as of September 30, 2023. While we believe the estimates and assumptions underlying our goodwill impairment test were reasonable in view of all available information, future changes in our discount rate assumption, whether driven by increases in long-term treasury rates or other factors, or future changes in other significant assumptions or the use of alternative estimates and assumptions, could have a significant impact on our reporting unit's estimated fair value and may expose us to further goodwill impairment losses.

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 currency exchange rates. We are exposed to foreign currency exchange risk as the functional currency financial statements of non-U.S. subsidiaries are translated to U.S. dollars. We are also subject to foreign currency transaction gains and losses to the extent revenue and expense transactions are not denominated in the functional currency of a subsidiary. We are primarily exposed to foreign currency exchange risk with respect to net assets denominated in the Euro, British pound, Swiss franc, Brazilian real, Australian dollar, Japanese yen, Canadian dollar and Chinese yuan.

We Additionally, we generally identify hyperinflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Since 2018, we We have concluded that our Argentina subsidiary is operating in a hyperinflationary market. As a result, we applied hyperinflationary accounting for our Argentina subsidiary and changed the functional currency to the U.S. dollar. During the first quarter of Turkey subsidiaries since 2018 and 2022, Turkey's three-year cumulative inflation rate also exceeded 100%, respectively, and as such, we concluded that Turkey became a hyperinflationary economy for accounting purposes. As of April 1, 2022, we applied hyperinflationary accounting for our subsidiary in Turkey and result, have changed its their functional currency currencies to the U.S. dollar. During the nine three months ended September 30, 2023 March 31, 2024, revenue in Argentina and Turkey each represented less than 1% of our consolidated revenue, while and assets held in Argentina and Turkey as of September 30, 2023 March 31, 2024, each represented less than 1% of our consolidated assets.

The Further, in February 2024 our Board of Directors authorized a restructuring plan that, among other strategic decisions, has resulted in a change in how we operate in and sell into the Argentina market, which has reduced our foreign currency exposure with respect to the Argentine peso. In spite of this, and while the application of hyperinflationary accounting for our subsidiaries in Argentina and Turkey has resulted in approximately did not have a material impact on our business$13 million of foreign currency related expense during the nine three months ended September 30, 2023 March 31, 2024, which was included within other expense, net we may in the condensed consolidated statements of operations. In the future we may incur larger further currency devaluations, which could have a material adverse impact on our results of operations.

Interest Risk

Effective April 1, 2023, we transitioned the reference rates used in our credit facilities so that, as a result, our variable-rate debt is now exclusively indexed to Term SOFR. At September 30, 2023 March 31, 2024, we held interest rate swap agreements with a notional value of $3,800 million that had the economic effect of modifying this amount of our variable-rate debt to fixed-rate. When including variable-rate converted to fixed-rate through the use of interest rate swaps, as of September 30, 2023 March 31, 2024, approximately 76% 78% of our long-term indebtedness bore interest at a fixed rate.

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 September 30, 2023. As disclosed in Item 9A of Part II of our 2022 Form 10-K March 31, 2024, management and concluded that a material weakness existed as of December 31, 2022, resulting from the ineffective review of the annual income tax provision, including the valuation allowance related to deferred tax assets. We have developed and are implementing a remediation plan which requires the effective operation of certain quarterly and annual controls. Therefore, the material weakness cannot be fully remediated until we assess the effectiveness of our internal control over financial reporting for the year ending December 31, 2023. Based on this evaluation, the chief executive officer and the chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures remained ineffective. they were effective.

(b) *Changes in Internal Controls*. During the third first quarter of 2023, 2024, 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 other than the aforementioned material weakness. reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

See Note 13. Commitments and Contingencies to the condensed consolidated financial statements for a summary of our legal proceedings, which is incorporated herein by reference. proceedings. This item should be read in conjunction with "Legal Proceedings" in Part I, Item 3 of our 2023 Form 10-K.

ITEM 1A. RISK FACTORS

Our risk factors are documented in Item 1A of Part I of our 2022 2023 Form 10-K, which is incorporated herein by reference. Other than the revisions set forth below, there . There have been no material changes from the risk factors previously disclosed in the 2022 2023 Form 10-K.

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

Unanticipated safety, quality or efficacy concerns or identified concerns associated with our products may harm our reputation and have an adverse impact on our performance.

Unanticipated safety, quality or efficacy concerns arise from time to time with respect to animal health products, whether or not scientifically or clinically supported, potentially leading to product recalls, withdrawals or suspended or reduced sales, as well as product liability and other claims. Regulatory actions based on these types of safety, quality or efficacy concerns could impact all, or a significant portion, of a product's sales.

For example, lawsuits seeking actual damages, injunctive relief, and/or restitution for allegedly deceptive marketing have been filed against us arising out of the use of *Seresto*, a non-prescription flea and tick collar for cats and dogs, based on media reports alleging that the collar has caused injury and death to pets. Further, in 2021, the U.S. House of Representatives' then-subcommittee chair requested that we produce certain documents and information related to the *Seresto* collar, made a request to temporarily remove *Seresto* collars from the market and, during a hearing at which our President and Chief Executive Officer (CEO) testified, again called for removal of the collars from the market.

Since that time, on July 13, 2023, the EPA announced the completion of its comprehensive, multi-year review of the *Seresto* flea and tick collar and confirmed the continued registration of the collar. However, if any similar claims with respect to our products are resolved adversely to us, or if a regulatory agency determines that a recall or cancellation of registrations of any of our products is necessary, such action could cause harm to our reputation, reduce our product sales, result in monetary penalties and other costly remedies against us, and could therefore have a material adverse effect on our business, financial condition and results of operations.

In addition, we depend on positive perceptions of the safety, quality and efficacy of our products, and animal health products in general, by food producers, veterinarians and pet owners. Any concern as to the safety, quality or efficacy of our products, whether actual or perceived, may harm our reputation. These concerns, including those relating to *Seresto*, and the related harm to our reputation could materially adversely affect our business, financial condition and results of operations, regardless of whether such reports are accurate.

Changes in our credit rating could increase our interest expense and restrict our access to, and negatively impact the terms of, current or future financings or trade credit.

Credit rating agencies continually revise their ratings for the companies that they follow, including us. Credit rating agencies also evaluate our industry as a whole and may change their credit ratings for us based on their overall view of our industry. We cannot be sure that credit rating agencies will maintain their ratings on us and certain of our debt. The acquisition of Bayer Animal Health had a negative impact on our credit ratings, leading to higher borrowing expenses. Additionally, S&P, Moody's and Fitch downgraded our credit ratings in February, March and April 2023, respectively. Because the ratings of certain of our senior unsecured notes have been downgraded, we have been required to pay additional interest under the senior unsecured notes. Any further downgrades could result in requirements to pay additional interest under the 4.900% Senior Notes due 2028. Moreover, any decision to downgrade our ratings could restrict our access to, and negatively impact the terms of, current or future financings and trade credit extended by our suppliers of raw materials or other vendors.

Changes in interest rates may adversely affect our earnings and/or cash flows.

During the first quarter of 2023, certain of our credit facilities bore interest at variable interest rates that used the London Inter-Bank Offered Rate (LIBOR) as a benchmark rate. Effective April 1, 2023, and in accordance with the provisions outlined in our underlying credit agreements, we transitioned the reference rate used in our credit facilities from LIBOR to Term SOFR.

Term SOFR measures the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. While this change did not have a material impact on our condensed consolidated financial statements, we continue to be exposed to the risk of rising interest rates, given our level of variable-rate indebtedness. Term SOFR rate increases over the course of 2023 have led to an increase in both our interest expense and cash paid for interest. Additionally, the increased interest rate environment, particularly long-term treasury rates, played a critical role in the goodwill impairment charge of $1,042 million we recorded during the third quarter of 2023. Any further increases in Term SOFR or other benchmark rates, including long-term treasury rates, would expose us to additional interest rate risk, additional expense and the potential for additional future impairments. We are also exposed to the risk of rising interest rates to the extent we fund our operations with short-term or variable-rate borrowings.

We use machine learning and artificial intelligence (AI) in our business, and challenges with properly managing its use could result in competitive or reputational harm and legal liability and adversely affect our results of operations.

We use AI in multiple ways in our business and continue to expand the use of AI in our operations. Given that machine learning and AI are new and rapidly evolving technologies, their use presents a number of operational, compliance and reputational risks. AI algorithms are currently known to sometimes produce unexpected results or behave in unpredictable ways that can generate irrelevant, nonsensical, deficient, factually inaccurate or biased content and results. Accordingly, AI presents emerging operational, legal and ethical issues, and if our use of AI becomes controversial, we may experience reputational harm to our brand, competitive harm or legal liability. At the same time, our competitors may incorporate AI into their operations more quickly than we do or with more successful outcomes, which would also harm our business. We also expect there will be new laws or regulations concerning the use of AI technology, which might be burdensome to comply with and may limit our ability to use this technology. We might not be able to attract and retain the talent to support our AI technology initiatives and maintain our systems. Any disruption or failure in our AI systems or those of third parties on whom we rely could result in delays and operational challenges, and the various operational, compliance and reputational issues could adversely affect our business and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

(none)

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(none)

ITEM 4. MINE SAFETY DISCLOSURES

(none)

ITEM 5. OTHER INFORMATION

During the three months ended September 30, 2023 March 31, 2024, no director or officer of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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. SEC.

Exhibit Number	Description
	Asset Purchase Agreement among by and between Elanco SPEAR LLC, Elanco US Inc., The Various Lenders Animal Health Incorporated as Seller and Lender Agents from Time to Time Party Thereto and Coöperatieve Rabobank U.A., New York Branch, Intervet International B.V. as Buyer dated as of August 3, 2023 February 5, 2024 (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed with

10.1	Receivables Loan 2.1		the SEC on February 5, 2024)**.
10.1		Cooperation Agreement, dated as of March 29, 2024, by and among Elanco Animal Health Incorporated, Ancora Catalyst Institutional, LP and the other person and entities listed thereto (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the SEC on August 7, 2023 April 1, 2024).	
31.1 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 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		

32		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).

**Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The company will furnish copies of any such schedules to the U.S. Securities and Exchange Commission upon request.

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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:	November 7, 2023 May 8, 2024	/s/ Jeffrey N. Simmons
		Jeffrey N. Simmons
		President and Chief Executive Officer
		(Principal Executive Officer)
Date:	November 7, 2023 May 8, 2024	/s/ Todd S. Young
		Todd S. Young
		Executive Vice President, Chief Financial Officer
		(Principal Financial Officer)

EXHIBIT 31.1

CERTIFICATIONS

I, Jeffrey N. Simmons, certify that:

1. I have reviewed this report on Form 10-Q of Elanco Animal Health Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2023 May 8, 2024

By: /s/ Jeffrey N. Simmons

Jeffrey N. Simmons
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Todd S. Young, certify that:

1. I have reviewed this report on Form 10-Q of Elanco Animal Health Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023 May 8, 2024

By: /s/ Todd S. Young

Todd S. Young
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

CERTIFICATION OF THE

CHIEF EXECUTIVE OFFICER AND

CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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 September 30, 2023 March 31, 2024 (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: November 7, 2023 May 8, 2024

/s/ Jeffrey N. Simmons

Jeffrey N. Simmons
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2023 May 8, 2024

/s/ Todd S. Young

Todd S. Young
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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