



Elanco

Making Life Better For Animals, Makes Life Better

2020 CEO Letter



With Relevance Comes Responsibility

Learnings from COVID-19



A letter from Jeff Simmons Elanco President & CEO

2020 was a historic year for the world and for Elanco. We have long understood the power of pets and protein in our lives. Pets play an essential role in providing companionship to an aging parent, soothing anxiety in a child, offering a reason to get out of the house for exercise, or making a connection with a neighbor. Similarly, an egg a day or a glass of milk provides invaluable benefit toward building strong, healthy bodies and developing young minds. Healthy animals make milk, meat, fish, and eggs more available and affordable. Healthy, active pets at the center of our families improve the mental and physical health of people everywhere. Simply put, making life better for animals, makes life better.

If ever there was a year when we needed ways to make life better, it was 2020. And while the COVID-19 pandemic shook our system to its core, it did help awaken the world to the importance of pets and protein – the center of Elanco's focus.

THE PANDEMIC THAT BROUGHT PERSPECTIVE

Much of the developed world experienced empty meat, milk, and egg cases for the first time, getting a glimpse of what the 850 million people that struggle with hunger and

malnutrition experience daily. In the next three decades, 2 billion more people will join our global population. Population and middle-class growth are expected to drive a 70% increase in demand for protein in the same time period. And all people deserve a seat at the dinner table.

As lockdown orders kept people at home, the skies cleared over cities around the world and emissions dropped 10% in the U.S. for example. Yet animal numbers, one of the often-blamed emission culprits, aren't what changed overnight. The COVID-19 pandemic showed us globally people want and need meat, milk, fish, and eggs. Meat department sales grew nearly 20% in value and 11%, in volume with household penetration at 98.4%, according to IRI data. Greater knowledge of meat options and preparation are likely to benefit the meat industry for years to come. Healthy animals produce more, which is critical, considering the world does not have the extra natural resources to meet the increased protein needs of this growing population.

As quarantines began and social isolation grew, we saw pet shelters empty. People around the world turned to four-legged friendships for connection and joy. Loneliness and anxiety, already at an all-time high even before COVID, put people at greater risk of developing conditions like depression, high blood pressure, and dementia. Pets have been an intervention, an accessible solution in the limited toolbox that exists for addressing mental and emotional health. In fact, our Elanco research showed more than two-thirds of pet owners say their pets provided even more emotional support for them during the pandemic. Nearly three-quarters

reported mental health improvements from pet ownership.

FROM CATS TO CATTLE: BEING THE CATALYST FOR CHANGE

As tragic as the events of 2020 were around the globe, I believe the past year serves as a catalyst for change if we not only respond to what happened, but also anticipate what's ahead. The pandemic brought us into this decade. But for a better end to this decade – and for those that follow – we must act now to ensure a brighter future.

From where I sit, there's an obvious answer: it's about healthy animals. Pets and protein and the role they play in our lives. The pandemic showed us what mattered most to people. Pets and protein are central to people's lives. And they are central to some of the world's greatest challenges. Pets and protein can unlock solutions to the seemingly disconnected issues of environmental, physical, and mental health.

And the animal health industry will play a key role in bringing services and solutions to address this important intersection.



What we do at Elanco has never been more relevant. With relevance comes great responsibility to bring innovation and to lead with a new level of urgency. Responsibility to make a difference, not just to survive this period of uncertainty, but to separate ourselves and find ways to help society – and our company – thrive.

PUTTING OUR “STEAK” IN THE GROUND

If we're to achieve the 2050 UN Sustainable Development goals – like zero hunger, good health and well-being, and temperature neutrality – we must make a difference this decade. In October, we shared our commitment to do our part with the Elanco Healthy Purpose Pledges. These decade-long pledges ultimately seek to improve the lives of people through increased

access to care for 3 billion animals – whether it's improving the availability of nutritious, sustainable protein, being our customers' leading partner on the road to net zero emissions, or helping a pet spend a few more years at the center of families.

This is our time. We don't have the luxury of choosing the era in which we live. But we can control how we respond. **Our vision becomes reality when common visions collide, and**

true purpose-driven passion can be harnessed for the collective good.

Together, we can achieve complex goals for the good of society – around the world. Beyond the heartbreaking loss of lives to this pandemic, the greatest tragedy of COVID would be if we fail to act on what we've learned.

Elanco is better positioned to act than at any time in our history.

Predictions for the Next Decade: 4 Forces Fueling the Future

What gives us confidence in our opportunity to make a difference? It's based in our demonstrated ability to execute and capitalize on key macro trends that will be forces of good in the first half of this decade, propelling our industry and Elanco forward.



CURBSIDE TO COUCH: CREATING CONVENIENT ACCESS TO ANIMAL CARE

COVID has forever changed our relationships with our pets and how we care for them. Our pets moved from companions to favorite co-workers. They became regulars on Zoom calls, and the best reason to get out of the house. And as life returns to normal, pet owners expect to integrate their pets even more into their daily routines, prioritizing pet-friendly vacations, hotels, and workplaces. **This increased togetherness is translating into increased expectations around pet care and health,** driving broad-based industry growth from clinic visits for both wellness and sickness, to spending and auto shipments.

As the COVID-19 pandemic shuttered businesses, our sales and technical teams shifted to serve customers in innovative ways for a virtual and curbside world, supporting the surge in telemedicine and doorstep delivery. Omnichannel presence, which encompasses a strong

veterinary presence combined with leadership in specialty, mass retail, and e-commerce, has never mattered more. During COVID, we saw about one-third of pet owners shift their spending online. And nearly all expect to continue to use this channel. **With approximately half of the world's 500 million pets still unmedicalized, our increasing access to these animals as an omnichannel leader creates a responsibility to be the conduit – the bridge – between pet owners and veterinarians, improving pet care over the long-term.**

Meanwhile, continued technology innovation will give animals a voice like never before. Imagine a world of connected care where a collar on a dog not only provides protection from fleas and ticks, but also tracks daily activity, from food and water intake to number and speed of steps, helping a pet owner or veterinarian detect potential illness or osteoarthritis well before clinical signs. These types of advances are sure to improve our understanding of animal disease, pain, and well-being in new and interesting ways that will only further

the megatrends in the decade to come. Elanco stands as one of the only independent companies with the access, systems, processes and people to reach these animals around the world.

THE PATH TO NET ZERO

If we're to achieve UN Sustainable Development goals like zero hunger, good health and well-being and temperature neutrality by 2050, sustainability is another key trend where we have to make a difference this decade. **And OUR time is NOW.** So that when this decade comes to a close, we are looking back on the major moves we made in this industry to make a healthier planet.

From changes in administration here in the U.S., to global organizations like the UN, to increased involvement of global philanthropic organizations and big donors – **the stars are aligned, and sustainability is part of everyone's agenda.** We all want the same things – a stable environment with clean air, clean water, and high-quality food that nourishes people. Livestock,

particularly cattle, are often cited as a leading culprit in air emissions. **We can be an easy target, or we can show the world we are part of the solution. Healthy animals play a critical role on the path to Net Zero, in addition to the important role meat, milk and eggs play in human nutrition and health.** They upcycle the food byproducts, grass, and forages that humans cannot use on land that has limited alternative use, creating 2.5 times more nutrient rich protein in meat and milk than they consume. The key to achieving Net Zero is sequestering carbon and balancing emissions with removals. Livestock are important players on both sides of that emissions balance sheet.

If we want to make a difference in emissions from protein production, we must invest in farm animal innovation, where orders-of-magnitude more protein will be produced and where the ability to reduce emissions within the sector dwarfs any impact alternative protein could achieve. For example, U.S. retail meat sales grew \$13.3 billion in 2020, which is 27 times larger than the entire refrigerated plant-based alternatives market.

Importantly, the major gas coming from cattle production is methane. Methane from cattle is derived from CO₂ in the atmosphere. Cattle eat carbon captured in plants and emit a small fraction as methane. Unlike carbon dioxide, which lasts for a century and is produced in alternative protein production, methane is a short-lived greenhouse gas, persisting for roughly a decade. As a result, cattle are part of the natural biogenic carbon cycle. The short-lived nature of methane is an opportunity however – atmospheric concentrations respond much quicker to emissions reductions than CO₂.

So reducing methane emissions can actually have a cooling impact on the environment. **If we can cut methane emissions by one-third in 2050 compared to 2020, we can create a significant cooling effect on the climate** and move us closer to the goal of the Paris Agreement containing global warming below 1.5 degrees Celsius. Farm animal innovations that cut methane emissions are an exciting opportunity for animal ag to be a part of the global climate solution.

Today, animal agriculture is responsible for about 4% of U.S. greenhouse gas emissions (GHGs). There are four main areas of emissions: enteric methane derived from the animal's digestive process, manure emissions, feed production, and, to a lesser extent electricity/fuel use. I'll focus on the first two.

Enteric Emissions: The best avenues to reduce enteric emissions include reducing loss from death and disease, optimizing feed to sources that generate lower emissions, genetic selection for animals that naturally have greater production efficiency, and feed additives that can reduce methane or improve efficiency, generating more meat, milk or eggs per unit of feed and reducing the amount of methane per unit. For example, in early 2021 University of California-Davis released new research on red seaweed that could cut emissions from beef cattle by over 80%. While more research is needed, innovations that get us to our target of cutting methane by a third are within reach.

Manure emissions: Manure emissions are the second largest part of the footprint, but manure can also be an important part of the solution.

Aerobic digesters convert manure to renewable energy to reduce on-farm energy needs or to be sold to the power grid. Industrial energy is responsible for around 11% of US emissions; if biogas from digesters can be used to reduce industrial GHG emissions, this would reduce that sector's emissions along with those of the livestock production. Manure can also be used as a natural fertilizer, improving the health of the soil and increasing crop yields, while reducing need for synthetic fertilizer, production of which is a meaningful source of GHG emissions.

Through our Healthy Purpose commitments, we at Elanco are committed to be livestock producers' leading partner on their journey to Net Zero. Elanco solutions are already helping farmers and ranchers improve the sustainability of livestock production.

ELANCO CAN IMPACT THE FIRST THREE EMISSION TYPES IN SEVERAL WAYS:

- 1 Today 20% of animal productivity globally is lost to death or disease. We can have a significant effect on reducing both enteric and manure emissions simply by improving the health of animals.**
- 2 Elanco helps the animal reach its genetic potential and be more productive, which means fewer animals are needed to produce the same amount of meat. Fewer animals equals less methane and less manure. Specifically, the unique mode of action in**



Elanco's Rumensin® directly reduces enteric methane in each animal.

3 Elanco helps the animal get more from its feed and improve feed efficiency, which means it needs less.

4 Finally, with more than 20 years of industry data tracking, Elanco provides technical and benchmarking expertise to help customers identify potential adjustments to reduce their footprint and track their progress over time.

Elanco's products, partnerships, robust industry data and expertise are the four key ingredients that help position us as our customers' lead partner on the path to Net Zero. Today, Elanco products reduce beef's footprint by at least 9%. In dairy, Rumensin use on an average 1,000-cow dairy decreases CO2 emissions per kilogram of milk by about 3.5% and enteric methane emissions nearly 5%. Livestock production can reach carbon neutrality by 2050; many farms will do it in this decade. And dairy, the largest source of animal protein in the diet, is an industry committed to achieving Net Zero by 2050. In just the last decade, dairy farmers reduced GHG emissions per gallon of milk by 20%.

But we know we can do better. Imagine a world where we aren't just focused on mitigating animals' impact on the environment a world where farmers' and ranchers' main source of income comes through their ability to recycle and sequester carbon to create renewable natural gas and renewable electricity from their herds.

We can't eat our way out of climate change.

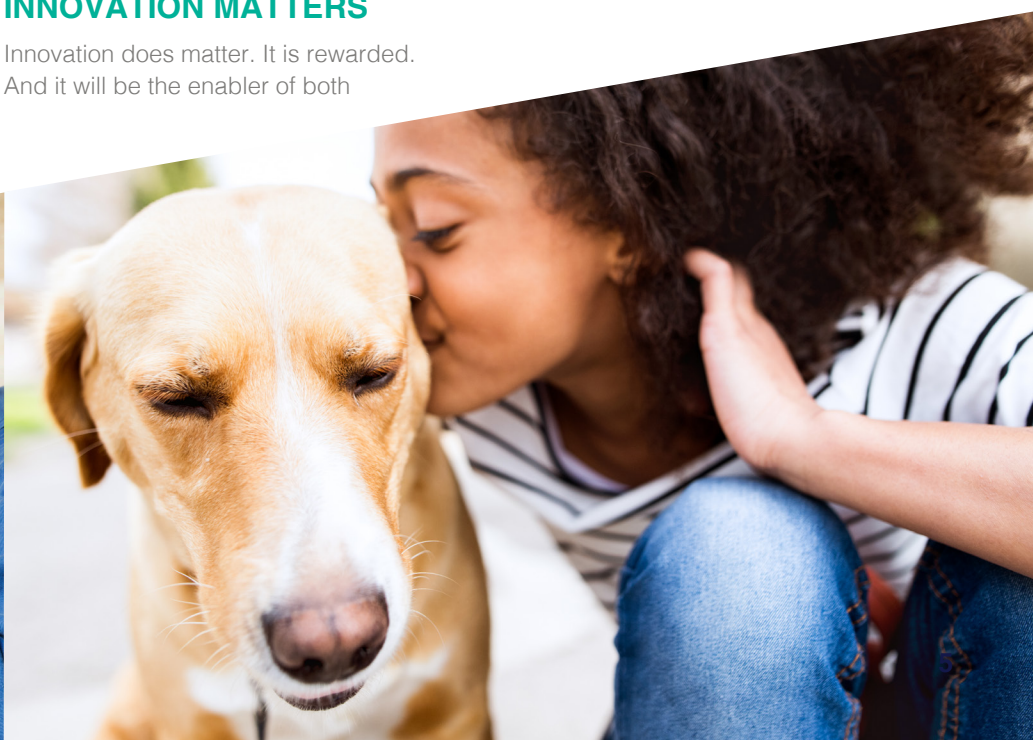
But we can improve how food gets to our plate. Animal health is an essential part of the climate smart agriculture required to nourish us while meeting climate goals. If we completely removed animal protein from the diet and every American went vegan, we would only reduce GHGs by less than 1.5%. New research suggests removing ruminants and protein production from the system entirely would actually be counterproductive, potentially even increasing emissions in the long-term. We must foster a dialogue focused on bringing innovation, investment, and real solutions that achieve health for the planet, animals, and people simultaneously. Together, we can achieve complex goals for the good of society across the globe.

INNOVATION MATTERS

Innovation does matter. It is rewarded. And it will be the enabler of both

the changing pet care landscape and environmental trends. Throughout history, science and innovation have been the solution to our greatest challenges. Innovation will be the answer again.

As the animal health industry is maturing, it's beginning to attract investors to drive new innovation and convergence of other industries. With bigger, independent companies uncoupled from human pharma, the industry is poised to make significant progress. During this decade we will see emerging innovators, expansion to adjacent space, new funding and sourcing models. And Elanco wants to be THE innovation partner of choice. As a global pet and livestock leader, Elanco has significant access to animals – 19 species in nearly 100 countries –and the track record as a conduit to source, partner, and globalize innovation in animal health. We predict that the sourcing, partnering, development and funding of innovation will be more transformational and significant the next five years than ever before in animal health.



CREATING COMMUNITY ON THE INSIDE CHANGES COMMUNITIES ON THE OUTSIDE

I would be remiss if I were to close this letter without mentioning the social injustice our world experienced in 2020. We at Elanco spent a great deal of time in 2020 processing these injustices, seeking to bring greater understanding and become better advocates for all people. We need to listen more. We need to do more. We need to reach out more. We need to challenge perspectives more. We cannot waste this time and opportunity today to make tomorrow better.

Elanco aspires to be a safe harbor, to foster a culture and community where all employees from across the globe can be their authentic selves every day. As the world is a sea of divisiveness, Elanco becomes a harbor of personal security where our team can form community, where they feel safe and enabled to be themselves, where they can thrive. This takes culture to another place.

And work-life balance to a whole life experience that exudes respect and a demand that everyone can express and be their whole self. Our values of Respect, Integrity, and Excellence aren't just words on a wall. They come to life daily in how we care for each

other, in how we embrace everyone, their unique backgrounds and beliefs, and how we make our toughest decisions. The events of 2020 have been a catalyst for action, especially around making everyone comfortable speaking up when seeing injustice.

We have used this time to unite and strengthen the community inside our company, because it will be our leaders that go outside our company into the communities where we live and work to make a difference in the world. We also need to lend our voice to driving change faster in our community.

Two years into Elanco's journey of building a fit-for-purpose, independent global animal health leader, we are well positioned to capitalize on these four forces, accelerating sustainable long-term value for customers, shareholders, and employees while turning these trends into a force for good for society as a whole.

Most importantly, as I reflect on 2020, it's with deep gratitude to our Elanco team. Our frontline essential workers in the labs and plants kept our pipeline and products flowing. Our sales and technical teams shifted to serve customers in innovative ways. They not only weathered the pandemic and kept our customers in the center, but they did it while we were completing our industry's largest

ever acquisition – all virtually. The executive team and I remain inspired by the deeply committed, passionate performance of the Elanco team.

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One of my biggest learnings from 2020: strong vision and purpose to make a difference create a level of loyalty I couldn't begin to imagine when we started on our journey to create a purpose-driven company 15 years ago.

As we close out a year we will never forget, I want to end with my sincere appreciation to our Board of Directors and particularly our Chairman, Dave Hoover, for the wisdom, advice, and guidance as we've transformed Elanco into a global leader.

Finally, thank you to all of you – our investors – for your continued belief in Elanco, our strategy, and the difference that we can make for customers and our world.



Jeff Simmons
Elanco President
and CEO

