Elanco Animal Health
450 Elanco Circle
Indianapolis, IN 46221

FOR IMMEDIATE RELEASE

Investor Contact: Tiffany Kanaga (765) 740-0314 or tiffany.kanaga@elancoah.com
Media Contact: Colleen Parr Dekker (317) 989-7011 or colleen.dekker@elancoah.com

Elanco Animal Health Reports Third Quarter 2026 Results

Accelerated Price, Organic Constant Currency Revenue Growth, and Gross Margin Expansion; Raising Full Year Outlook and Innovation Target; Achieved 2.9x Net Leverage Ratio Milestone

- ***Third Quarter 2026 Financial Results:***
  - ***Revenue of $1.265 billion, an increase of 11% year-over-year; 9% organic constant currency growth***
  - ***Reported Net Income of $18 million, Adjusted Net Income of $136 million***
  - ***Adjusted EBITDA of $243 million; Adjusted EBITDA Margin of 19.5%***
  - ***Reported EPS of $0.04, Adjusted EPS of $0.27***
  - ***Net leverage ratio of 2.9x Adjusted EBITDA***
- ***Full Year 2026 Guidance:***
  - ***Raising innovation revenue target to $1.275 billion***
  - ***Raising revenue guidance to $5.155 billion to $5.18 billion, or approximately 8% organic constant currency growth***
  - ***Raising Adjusted EBITDA guidance to $1.05 billion to $1.065 billion, a year-over-year increase of 17% at midpoint***
  - ***Raising Adjusted EPS guidance to $1.17 to $1.20, a year-over-year increase of 26% at midpoint***
  - ***Improving year-end net leverage ratio target to approximately 2.9x Adjusted EBITDA with accelerated capital allocation flexibility***
- ***2027 Early Outlook:***
  - ***Building on expectations for full year 2026 outperformance, with continued expectation for 2027 results in line with December 2025 Investor Day annual algorithm: mid-single digit organic constant currency revenue growth, high-single digit Adjusted EBITDA growth, and low-double digit Adjusted EPS growth***

Indianapolis, IN (November 6, 2026) - Elanco Animal Health Incorporated (NYSE: ELAN) today reported financial results for the third quarter of 2026, provided guidance for the fourth quarter of 2026, updated guidance for the full year 2026, and provided an early outlook for the full year 2027.

"Third quarter results demonstrate Elanco is a consistent, reliable growth company, delivering our diverse portfolio of innovation along with accelerating cash flow," stated Jeff Simmons, President and CEO of Elanco. "Organic constant currency revenue growth of 9% was led by International Pet Health up 17% and U.S. Pet Health up 13%, as we saw strong veterinarian and pet owner demand for what we believe is 'best medicine' innovation for our 'Big 6' growth led by Zenrelia and Credelio Quattro. Price accelerated to 4% growth, exceeding our expectations, while volume remained robust at 5%. Our durable top-line is fueled by a significant runway for share gains off a small base in large, growing, global markets. Both Zenrelia and Credelio Quattro reached new market share highs in September, with competitive activity having no fundamental impact on the trajectory of our innovation. At the same time, adjusted gross margin expanded 300 basis points, we invested in our commercial execution, and we drove our net leverage ratio to the 2.9x milestone which accelerates our capital allocation flexibility. As we are raising full-year guidance to fully pass through the third quarter beat, Elanco is well positioned with momentum heading into 2027. We are recommitting to our annual algorithm of mid-single digit organic constant currency revenue growth, high-

single digit adjusted EBITDA growth, and low-double digit adjusted EPS growth, building on this year's expected outperformance and creating sustainable value for our customers, our shareholders, and the industry."

Select Business Highlights Since the Last Earnings Call

- Price increased 4% in Q3 led by global Pet Health at 5% including strong sequential acceleration in U.S. Pet Health versus Q2, as Elanco's differentiated innovation drives marketplace value
- Zenrelia™ achieved its largest revenue quarter ever, in both the U.S. and International, with September its largest month ever; U.S. JAK market share grew 7 points year-over-year with September its highest share month ever**; efficacy is driving use with 1,600 new clinics in Q3 to approximately 19,000 in the U.S.; gained 10 share points in Europe in H1 2026 (latest available data), 5x the competitive entrant, driven by high customer satisfaction***
- Credelio Quattro™ U.S. share grew 9 points year-over-year**; September was the largest sales month in Q3, and its highest share month ever**; continued clinic adoption momentum with 1,600 clinics added in Q3; total clinic penetration reaching over 16,500, or ~55%; Credelio Quattro became Elanco's largest U.S. Pet Health branded product, surpassing Seresto U.S.
- Credelio Quattro received positive opinion from European Medicines Agency for expansion into the EU; expect to launch in Q1 2027, ahead of the season
- Befrena™ access now open across clinics, including corporates, with all outstanding orders expected to be filled by next week and move into full launch in Q1 2027. Portfolio effect is working as ~20% of clinics that bought Befrena had never used Zenrelia
- Global ruminants remained Elanco's fastest growing species, with revenue up 12% year-to-date on an organic constant currency basis or 17% including AHV International and foreign exchange rates, as innovation fortified the company's beef and dairy portfolio
- Elanco announced Jamie Preston as Executive Vice President and Chief People Officer effective November 3, succeeding Dave Kinard who intends to retire at the end of the year. Preston joins from Eli Lilly and Company, most recently serving as Vice President of HR, Global Compensation and Workforce Innovation
- Elanco achieved its highest employee engagement levels since IPO, with all functions growing engagement and outpacing enterprise benchmarks; momentum further validated by earning Great Place To Work® certifications in 11 markets where the company operates

**Per Kynetec data
***Internal estimates based on multiple data sources

Financial Results

Third Quarter Results *(dollars in millions, except per share amounts)*	***2026***	***2025***	***Change (%)***	***Organic CC Growth [1] (%)***
Pet Health	**$608**	**$533**	**14 %**	**14 %**
Farm Animal	**$631**	**$593**	**6 %**	**4 %**
Cattle	$339	$289	17 %	11 %
Poultry	$201	$217	(7)%	(7)%
Swine	$91	$87	5 %	5 %
Contract Manufacturing and Other [2]	$26	$11	136 %	
Total Revenue	**$1,265**	**$1,137**	**11 %**	**9 %**
Gross Profit	**$720**	**$607**	**19 %**	
Reported Net Income (Loss)	**$18**	**$(34)**	**NM**	
Adjusted EBITDA	**$243**	**$198**	**23 %**	
Reported EPS	**$0.04**	**$(0.07)**	**NM**	
Adjusted EPS	**$0.27**	**$0.19**	**42 %**	

NM - Not meaningful

[1] Organic CC Growth represents revenue growth excluding royalty revenue and sales-based milestones that were sold to a third party, the impact of foreign exchange rates, and revenue attributable to AHV International B.V., which was acquired on April 30, 2026.

[2] Primarily represents royalty revenue, sales-based milestones and revenue from arrangements in which we manufacture products on behalf of a third party. Royalty revenue and sales-based milestones sold to a third party, to which we are no longer entitled but are still required to be recognized as revenue under GAAP, totaled $21 million and $6 million for the three months ended September 30, 2026 and 2025, respectively.

In the third quarter of 2026, revenue was $1,265 million, an increase of 11% on a reported basis, or 9% on an organic constant currency basis, compared to the third quarter of 2025.

Pet Health revenue was $608 million, an increase of 14% on both a reported and an organic constant currency basis. The 5% increase from price exceeded the company's expectation for acceleration. The year-over-year volume increase of 9% in the third quarter was primarily driven by strong demand for *Zenrelia*, *Credelio Quattro* and *AdTab*™. The Advantage® Family of products and Seresto® Family of products contributed revenue of $115 million and $49 million, respectively; Seresto was negatively impacted by U.S. retailer inventory draw down, with underlying performance in line with expectations.

Farm Animal revenue was $631 million, an increase of 6% on a reported basis, or 4% on an organic constant currency basis. The year-over-year reported increase was primarily driven by a 3% increase in price during the period and a 2% contribution from AHV.

Gross profit was $720 million and gross margin percentage was 56.9% in the third quarter of 2026, an increase of 350 basis points compared to the third quarter of 2025. On an adjusted basis, gross profit was $699 million and gross margin percentage was 56.1% in the third quarter of 2026, an increase of 300 basis points compared to the third quarter of 2025. The increase in gross margin percentage on both a reported and adjusted basis, which was ahead of the company's expectations, was primarily driven by increased pricing and favorable mix from the strong performance in U.S. Pet Health and global ruminants.

Total operating expenses were $492 million for the third quarter of 2026, an increase of 12% compared to the third quarter of 2025. Marketing, selling and administrative expenses increased 12% to $393 million, driven by higher compensation expense and strategic investments in the global launches of new products. Research and development expenses increased 11% to $99 million.

Asset impairment, restructuring and other special charges were $3 million in the third quarter of 2026, compared to $25 million in the third quarter of 2025. Charges recorded in the third quarter of 2026 primarily related to the company's 2025 restructuring plan as well as costs associated with the acquisition of AHV.

Reported net interest expense was $59 million in the third quarter of 2026, an increase of $7 million compared to the third quarter of 2025. The increase was principally due to the maturity of interest rate swaps in September 2025, which generated a favorable impact to interest expense in the prior year period, as well as imputed interest on our liability for sale of future revenue. These increases were partially offset by lower average debt balances. Adjusted net interest expense, which excludes this imputed interest, was $41 million in the third quarter of 2026, an increase of $7 million compared to the third quarter of 2025.

The reported effective tax rate was 25.7% in the third quarter of 2026 compared to 30.9% in the third quarter of 2025. This decrease was primarily due to a more favorable jurisdictional mix of earnings and the absence of prior-year discrete tax changes. The adjusted effective tax rate was 19.4% in the third quarter of 2026 compared to 26.5% in the third quarter of 2025.

Net income for the third quarter of 2026 was $18 million, or $0.04 per diluted share on a reported basis, compared with net loss of $34 million, or $0.07 per diluted share, for the same period in 2025. On an adjusted basis, net income for the third quarter 2026 grew 45% compared to the same period in 2025 to $136 million, representing $0.27 per diluted share.

Adjusted EBITDA was $243 million in the third quarter of 2026, a 23% increase compared to the third quarter of 2025. Adjusted EBITDA margin was 19.5% compared with 17.5% for the third quarter of 2025.

Working Capital and Balance Sheet

Cash provided by operations was $216 million in the third quarter of 2026, compared to cash provided by operations of $219 million in the third quarter of 2025.

As of September 30, 2026, Elanco’s net leverage ratio was 2.9x adjusted EBITDA, a decrease of 0.7x compared to December 31, 2025.

Financial Guidance

Elanco is updating financial guidance for the full year 2026, summarized in the following table:

2026 Full Year *(dollars in millions, except per share amounts)*	**August Guidance**			**November Guidance**		
Revenue [1]	$5,090	to	$5,140	$5,155	to	$5,180
Adjusted EBITDA	$1,010	to	$1,035	$1,050	to	$1,065
Adjusted Earnings per Share	$1.10	to	$1.16	$1.17	to	$1.20

[1] Revenue guidance excludes royalty revenue and sales-based milestones that were sold to a third party.

"Elanco achieved significant adjusted gross margin expansion in the third quarter, up 300 basis points reflecting accelerating price gains to 4% year-over-year and beneficial mix, as well as early progress on our Elanco Ascend productivity initiatives," said Bob VanHimbergen, Executive Vice President and CFO of Elanco Animal Health. "At the same time, we have continued our high-ROI investments in our launches. Our consistent top-line growth and improved profitability, alongside working capital discipline, have increased free cash flow and brought our net leverage ratio to 2.9x at quarter-end. Reaching this key milestone earlier than anticipated now unlocks accelerated capital allocation flexibility."

The company anticipates a tailwind to revenue of approximately $60 million from the favorable impact of foreign exchange rates compared to prior year. Excluding the impacts of foreign exchange rates, the AHV International acquisition that closed in April 2026, and royalty revenue and sales-based milestones sold to a third party, the company now expects revenue growth of approximately 8% versus 6% to 7% previously. The company continues to expect an accelerating contribution from price versus 2025.

Elanco expects adjusted gross margin of 55.8% to 56.0%, an increase of 100 basis points versus 2025 and compared to the prior expectation of 50 basis points of improvement. Adjusted EBITDA guidance reflects savings from the Elanco Ascend initiative as well as incremental strategic investments in the global launches of the company's innovation portfolio and the advancement of the R&D pipeline.

Additionally, the company is providing guidance for the fourth quarter of 2026, as summarized in the following table:

2026 Fourth Quarter *(dollars in millions, except per share amounts)*	**Guidance**		
Revenue [1]	$1,190	to	$1,215
Adjusted EBITDA	$185	to	$200
Adjusted Earnings per Share	$0.16	to	$0.19

[1] Revenue guidance excludes royalty revenue and sales-based milestones that were sold to a third party.

In the fourth quarter, the company anticipates a minimal impact from foreign exchange rates compared to prior year. Excluding the impacts of foreign exchange rates, the AHV International acquisition that closed in April 2026, and royalty revenue and sales-based milestones sold to a third party, the company expects 4% to 6% revenue growth. The company expects operating expenses up approximately 11% year-over-year in constant currency with incremental support for innovation products and R&D investments.

The 2026 full year and fourth quarter financial guidance reflects foreign exchange rates as of the end of October. Further details on guidance, including GAAP reported to non-GAAP adjusted reconciliations, are included in the financial tables of this press release and will be discussed on the company's conference call this morning.

WEBCAST & CONFERENCE CALL DETAILS

Elanco will host a webcast and conference call at 8:00 a.m. Eastern Time today, during which company executives will review third quarter financial and operational results, discuss fourth quarter and full year 2026 financial guidance, provide an early outlook for the full year 2027, and respond to questions from analysts. Investors, analysts, members of the media and the public may access the live webcast and accompanying slides by visiting the Elanco website at https://investor.elanco.com and selecting Events and Presentations. A replay of the webcast will be archived and made available a few hours after the event on the company's website, at https://investor.elanco.com/news-events/events-presentation.

ABOUT ELANCO

Elanco Animal Health Incorporated (NYSE: ELAN) is a global leader in animal health dedicated to innovating and delivering products and services to prevent and treat disease in farm animals and pets, creating value for farmers, pet owners, veterinarians, stakeholders and society as a whole. With more than 70 years of animal health heritage, we are committed to breaking boundaries and going beyond to help our customers improve the health of animals in their care, while also making a meaningful impact on our local and global communities. At Elanco, we are driven by our vision of Food and Companionship Enriching Life and our purpose – to Go Beyond for Animals, Customers, Society and Our People. Learn more at www.elanco.com.

Cautionary Statement Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements concerning product launches and revenue from such products, our 2026 full year and fourth quarter guidance and long-term expectations, our expectations regarding debt levels, and expectations regarding 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:

- operating in a highly competitive industry;
- the success of our research and development (R&D), regulatory approval 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;
- an increased use of alternative distribution channels or changes within existing distribution channels;
- our dependence on the success of our top products;
- our ability to complete acquisitions and divestitures and to successfully integrate the businesses we acquire;
- our ability to implement our business strategies or achieve targeted cost efficiencies and gross margin improvements;
- manufacturing problems and capacity imbalances, including at our contract manufacturers;
- fluctuations in inventory levels in our distribution channels;
- risks related to the use of artificial intelligence in our business;
- our dependence on sophisticated information technology systems and infrastructure, including the use of third-party, cloud-based technologies, and the impact of outages or breaches of the information technology systems and infrastructure we rely on;
- 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 loss of key personnel or highly skilled employees;
- adverse effects of 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 and changes in our credit ratings that lead to higher borrowing expenses and restrict access to credit;
- changes in interest rates that adversely affect our earnings and cash flows;
- 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 foreign and domestic economic, political, legal and business environments;
- risks related to foreign currency exchange rate fluctuations;
- risks related to underfunded pension plan liabilities;
- our current plan 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 tax expense or exposures;
- 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 tariffs, trade protection measures or other modifications 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;
- risks related to environmental, health and safety laws and regulations; and
- inability to achieve our aspirations or meet the expectations of stakeholders with respect to environmental, social and governance matters.

For additional information about the factors that could cause actual results to differ materially from forward-looking statements, please see the company's latest Form 10-K and Form 10-Qs filed with the Securities and Exchange Commission. 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 press release. 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 press release. 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 press release. Any forward-looking statement made by us in this press release speaks only as of the date thereof. 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. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should be viewed as historical data.

Use of Non-GAAP Financial Measures:

We use non-GAAP financial measures, such as revenue growth excluding the impact of acquisitions and divestitures, foreign exchange rate effects, royalty revenue and sales-based milestones sold to third party, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted EPS, adjusted gross profit, adjusted gross margin, net debt and net debt leverage to assess and analyze our operational results and trends as explained in more detail in the reconciliation tables later in this release.

We believe these non-GAAP financial measures are useful to investors because they provide greater transparency regarding our operating performance. Reconciliation of non-GAAP financial measures and reported U.S. generally accepted accounting principles (GAAP) financial measures are included in the tables accompanying this press release and are posted on our website at www.elanco.com. The primary material limitations associated with the use of such non-GAAP measures as compared to GAAP results include the following: (i) they may not be comparable to similarly titled measures used by other companies, including those in our industry, (ii) they exclude financial information and events, such as the effects of an acquisition or divestiture or amortization of intangible assets, that some may consider important in evaluating our performance, value or prospects for the future, (iii) they exclude items or types of items that may continue to occur from period to period in the future and (iv) they may not exclude all unusual or non-recurring items, which could increase or decrease these measures, which investors may consider to be unrelated to our long-term operations. These non-GAAP measures are not, and should not, be viewed as substitutes for GAAP reported measures. We encourage investors to review our unaudited consolidated financial statements in their entirety and caution investors to use GAAP measures as the primary means of evaluating our performance, value and prospects for the future, and non-GAAP measures as supplemental measures.

Availability of Certain Information

We use our website to disclose important company information to investors, customers, employees and others interested in Elanco. We encourage investors to consult our website regularly for important information about Elanco, including an Investor Overview presentation containing a general overview of the business, which can be found in the Events and Presentations page of our website.

Additional Information

We define innovation revenue as revenue from new products, lifecycle management and certain geographic expansions and business development transactions that is incremental in reference to product revenue in 2020 and does not include the expected impact of cannibalization on the base portfolio.

We define organic constant currency revenue growth as revenue growth excluding royalty revenue and sales-based milestones that were sold to a third party, the impact of foreign exchange rates, and revenue attributable to AHV International B.V., which was acquired on April 30, 2026.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Revenue	$ 1,265	$ 1,137	$ 4,004	$ 3,571
Cost of sales	545	530	1,701	1,567
Gross profit	720	607	2,303	2,004
Research and development	99	89	288	275
Marketing, selling and administrative	393	351	1,223	1,092
Amortization of intangible assets	144	140	421	404
Asset impairment, restructuring and other special charges	3	25	28	35
Interest expense, net of capitalized interest	59	52	175	140
Other (income) expense, net	(2)	—	1	23
Income (expense) before income taxes	24	(50)	167	35
Income tax expense (benefit)	6	(16)	38	(9)
Net income (loss)	$ 18	$ (34)	$ 129	$ 44
Earnings per share:				
Basic	$ 0.04	$ (0.07)	$ 0.26	$ 0.09
Diluted	$ 0.04	$ (0.07)	$ 0.26	$ 0.09
Weighted-average shares outstanding:				
Basic	499.7	496.8	498.9	496.2
Diluted	506.5	496.8	506.0	501.2

Elanco Animal Health Incorporated
Reconciliation of GAAP Reported to Selected Non-GAAP Adjusted Information
(Unaudited)
(Dollars and shares in millions, except per share data)

We use non-GAAP financial measures, such as organic constant currency revenue growth, adjusted gross profit, adjusted gross margin percentage, adjusted net income, adjusted EPS, EBITDA, adjusted EBITDA and adjusted EBITDA margin and net debt and net debt leverage, that differ from financial measures reported in conformity with GAAP. The company believes these non-GAAP measures provide useful information to investors. Among other things, they may help investors assess and analyze our operational results and trends of our ongoing operations. Management also uses these non-GAAP measures internally to evaluate the performance of the business and in making resource allocation decisions. Investors should consider these non-GAAP measures in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. Reconciliation of non-GAAP financial measures and reported GAAP financial measures are included in the tables below.

Adjusted Gross Profit and Gross Margin Percentage

We define gross profit as total revenue less cost of sales. We define adjusted gross profit as gross profit less royalty revenue and sales-based milestones sold to a third party, less cost of sales adjustments. We define adjusted gross margin percentage as adjusted gross profit divided by total revenue, less royalty revenue and sales-based milestones sold to a third party. The following is a reconciliation of GAAP reported gross profit for the three and nine months ended September 30, 2026 and 2025, to adjusted gross profit and adjusted gross margin percentage:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
GAAP reported gross profit	$ 720	$ 607	$ 2,303	$ 2,004
Sold royalty and milestone revenue	(21)	(6)	(39)	(10)
Cost of sales adjustments	—	—	—	1
Adjusted gross profit	$ 699	$ 601	$ 2,264	$ 1,995
Adjusted gross margin percentage	56.1 %	53.1 %	57.1 %	56.0 %

Adjusted Net Income and Earnings Per Share

We define adjusted net income as net income excluding amortization of intangible assets, purchase accounting adjustments to inventory, acquisition and divestiture-related charges, including integration and separation costs, severance, goodwill and other asset impairments, gains on sales of assets and related costs, facility exit costs, the impacts from sales of future revenues, gains and losses on mark-to-market adjustments on equity securities, tax valuation allowances, certain litigation-related settlements that we consider to be unusual or infrequent and significant, and other specified significant items, such as unusual or non-recurring items that are unrelated to our long-term operations adjusted for income tax expense associated with the excluded financial items. We define adjusted earnings per share as adjusted net income divided by the number of weighted-average diluted shares outstanding for the applicable period. The following is a reconciliation of GAAP reported net income and EPS for the three months ended September 30, 2026 and 2025, to adjusted net income and EPS:

	Three Months Ended September 30, 2026		Three Months Ended September 30, 2025	
	Net income [a]	EPS	Net (loss) income [a]	EPS
GAAP reported net income (loss) and EPS	$ 18	$ 0.04	$ (34)	$ (0.07)
Amortization of intangible assets	144	0.28	140	0.28
Asset impairment, restructuring and other special charges [1]	3	0.01	25	0.05
Sold royalty and milestone revenue	(21)	(0.04)	(6)	(0.01)
Interest expense, net of capitalized interest [2]	18	0.03	18	0.04
Other income, net	—	—	1	0.00
Income tax expense (benefit) [3]	(26)	(0.05)	(50)	(0.10)
Adjusted net income and EPS	$ 136	$ 0.27	$ 94	$ 0.19

(a) Adjustments to GAAP reported net income to arrive at adjusted net income for the three months ended September 30, 2026 and 2025, included the following:

(1) Adjustments of $25 million for the three months ended September 30, 2025, primarily related to two early-stage capital projects totaling $16 million that were indefinitely suspended during the third quarter.

(2) Adjustments of $18 million for the three months ended September 30, 2026, primarily related to imputed interest expense on our liability for sale of future revenue. Adjustments of $18 million for the three months ended September 30, 2025, primarily related to $13 million of imputed interest expense on our liability for sale of future revenue, and to a lesser degree, the write-off of previously deferred financing costs, given accelerated principal repayments.

(3) Adjustments of $26 million for the three months ended September 30, 2026, primarily represented the income tax expense associated with the adjusted items discussed above. Adjustments of $50 million for the three months ended September 30, 2025 primarily represented the income tax expense associated with the adjusted items discussed above and the discrete tax impact from the remeasurement of certain deferred tax positions due to a foreign tax rate change.

The following is a reconciliation of GAAP reported net income and EPS for the nine months ended September 30, 2026 and 2025, to adjusted net income and EPS:

	Nine Months Ended September 30, 2026		Nine Months Ended September 30, 2025	
	Net income [a]	EPS	Net income [a]	EPS
GAAP reported net income and EPS	$ 129	$ 0.26	$ 44	$ 0.09
Cost of sales	—	—	1	0.00
Amortization of intangible assets	421	0.83	404	0.81
Asset impairment, restructuring and other special charges [1]	28	0.06	35	0.07
Sold royalty and milestone revenue	(39)	(0.08)	(10)	(0.02)
Interest expense, net of capitalized interest [2]	47	0.09	28	0.06
Other (income) expense, net [3]	15	0.03	5	0.01
Income tax expense (benefit) [4]	(87)	(0.17)	(98)	(0.20)
Adjusted net income and EPS	$ 514	$ 1.02	$ 409	$ 0.82

(a) Adjustments to GAAP reported net income to arrive at adjusted net income for the nine months ended September 30, 2026 and 2025, included the following:

(1) Adjustments of $28 million for the nine months ended September 30, 2026, primarily related to $18 million of restructuring charges ($15 million of which was non-cash shut-down costs for the animal studies portion of our R&D facilities in Monheim, Germany) associated with our 2025 Restructuring Plan, as well as costs associated with our acquisition of AHV ($5 million). Adjustments of $35 million for the nine months ended September 30, 2025, included two early-stage capital projects totaling $16 million that were indefinitely suspended during the third quarter of 2025 and $7 million of upfront payments made in relation to new licensing arrangements.

(2) Adjustments of $47 million for the nine months ended September 30, 2026, primarily related to imputed interest expense on our liability for sale of future revenue. Adjustments of $28 million for the nine months ended September 30, 2025, primarily related to $20 million of imputed interest expense on our liability for sale of future revenue and the write-off of previously deferred financing costs, given accelerated principal repayments made throughout 2025.

(3) Adjustments of $15 million for the nine months ended September 30, 2026, primarily related to currency translation losses reclassified from accumulated other comprehensive loss in conjunction with the substantial liquidation of a dormant legal entity, a litigation settlement, and mark-to-market adjustments on equity investments.

(4) Adjustments of $87 million for the nine months ended September 30, 2026, primarily represented the income tax expense associated with the adjusted items discussed above. Adjustments of $98 million for the nine months ended September 30, 2025, primarily represented the income tax expense associated with the adjusted items discussed above and the discrete tax impacts from the remeasurement of certain deferred tax positions due to foreign tax rate changes, partially offset by a $35 million benefit related to a discrete tax item recognized during the first quarter of 2025.

Adjusted EBITDA and Adjusted EBITDA Margin

We define adjusted EBITDA as net income (loss) adjusted for interest expense (income), which includes debt financing charges and imputed interest on our liability for sale of future revenue, income tax expense (benefit) and depreciation and amortization, further adjusted to exclude purchase accounting adjustments to inventory, acquisition and divestiture-related charges, including integration and separation costs, severance, goodwill and other asset impairments, gains on sales of assets and related costs, facility exit costs, revenue sold to a third party, gains and losses on mark-to-market adjustments on equity securities, certain litigation-related settlements which we consider to be unusual or infrequent and significant, and other specified significant items, such as unusual or non-recurring items that are unrelated to our long-term operations.

For the periods presented, we have not made adjustments for all items that may be considered unrelated to our long-term operations. We believe adjusted EBITDA, when used in conjunction with our results presented in accordance with GAAP and its reconciliation to net income (loss), enhances investors' understanding of our performance, valuation and prospects for the future. We also believe adjusted EBITDA is a measure used in the animal health industry by analysts as a valuable performance metric for investors. The following is a reconciliation of GAAP reported net income (loss) for the three and nine months ended September 30, 2026 and 2025, to EBITDA, adjusted EBITDA and adjusted EBITDA margin, which we define as adjusted EBITDA divided by total revenue, less royalty revenue and sales-based milestones sold to a third party, for the respective periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
GAAP reported net income (loss)	$ 18	$ (34)	$ 129	$ 44
Net interest expense	59	52	175	140
Income tax expense (benefit)	6	(16)	38	(9)
Depreciation and amortization	179	176	520	506
EBITDA	$ 261	$ 178	$ 861	$ 681
Non-GAAP adjustments:				
Cost of sales	$ —	$ —	$ —	$ 1
Asset impairment, restructuring and other special charges	3	25	28	35
Sold royalty and milestone revenue	(21)	(6)	(39)	(10)
Other (income) expense, net	—	1	15	5
Adjusted EBITDA	$ 243	$ 198	$ 865	$ 712
Adjusted EBITDA margin	*19.5 %*	*17.5 %*	*21.8 %*	*20.0 %*

Numbers may not add due to rounding.

Gross and Net Debt and Net Leverage Ratio

We define gross debt as the sum of the current portion of long-term debt and long-term debt excluding unamortized debt issuance costs. We define net debt as gross debt less cash and cash equivalents and finance lease liabilities on the balance sheet. We define our net leverage ratio as net debt divided by our trailing twelve month adjusted EBITDA. We believe our net debt and net leverage ratio are important measures to monitor our financial flexibility, liquidity and capital structure and may enhance investors' understanding of our ability to meet future financial obligations. In addition, a net leverage ratio is a financial measure that is frequently used by investors and creditors. The below calculations do not include covenant-related adjustments that reduce our net leverage ratio. The following is a reconciliation of gross debt to net debt as of September 30, 2026:

Long-term debt	$	3,633
Current portion of long-term debt		74
Less: Unamortized debt issuance costs		(21)
Total gross debt		3,728
Less: Cash and cash equivalents		465
Less: Finance lease liabilities		258
Net debt	$	3,005

The following table presents a calculation of our net leverage ratio as of September 30, 2026:

Net debt	$	3,005
Trailing twelve month adjusted EBITDA		1,053
Net leverage ratio		2.9x