

LILLY ELI & CO
Form 10-Q
April 27, 2018

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934
FOR THE QUARTER ENDED MARCH 31, 2018
COMMISSION FILE NUMBER 001-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

INDIANA 35-0470950

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

LILLY CORPORATE CENTER, INDIANAPOLIS, INDIANA 46285

(Address of principal executive offices)

Registrant's telephone number, including area code (317) 276-2000

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 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of a "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

(Do not
check if a

Non-accelerated filer smaller reporting company

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 April 23, 2018:

Class	Number of Shares Outstanding
Common	1,085,430,420

Eli Lilly and Company
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Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue” expressions.

In particular, information appearing under “Management's Discussion and Analysis of Results of Operations and Financial Condition” includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we (Lilly or the company) express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- the timing of anticipated regulatory approvals and launches of new products;
- market uptake of recently launched products;
- competitive developments affecting current products;
- the expiration of intellectual property protection for certain of our products;
- our ability to protect and enforce patents and other intellectual property;
- the impact of actions of governmental and private payers affecting pricing of, reimbursement for, and access to pharmaceuticals;
- regulatory compliance problems or government investigations;
- regulatory actions regarding currently marketed products;
- unexpected safety or efficacy concerns associated with our products;
- issues with product supply stemming from manufacturing difficulties or disruptions;
- regulatory changes or other developments;
- changes in patent law or regulations related to data-package exclusivity;
- litigation involving past, current, or future products as we are largely self-insured;
- unauthorized disclosure or misappropriation of trade secrets or other confidential data stored in our information systems, networks, and facilities, or those of third parties with whom we share our data;
- changes in tax law;
- changes in foreign currency exchange rates, interest rates, and inflation;
- asset impairments and restructuring charges;
- changes in accounting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC);
- acquisitions and business development transactions and related integration costs;
- the strategic review of our animal health business, including any potential initial public offering, merger, sale, or retention of the business;
- information technology system inadequacies or operating failures;
- reliance on third-party relationships and outsourcing arrangements; and
- the impact of global macroeconomic conditions.

More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017, particularly under the captions “Risk Factors.”

All forward-looking statements herein speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report.

PART I. Financial Information

Item 1. Financial Statements

Consolidated Condensed Statements of Operations

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

(Dollars and shares in millions, except per-share data)

	Three Months Ended	
	March 31,	
	2018	2017
Revenue	\$5,700.0	\$5,228.3
Costs, expenses, and other:		
Cost of sales	1,571.3	1,347.9
Research and development	1,176.9	1,258.3
Marketing, selling, and administrative	1,500.0	1,567.7
Acquired in-process research and development (Note 3)	—	857.6
Asset impairment, restructuring, and other special charges (Note 5)	78.3	213.9
Other—net, (income) expense (Note 12)	(67.5) (78.3)
	4,259.0	5,167.1
Income before income taxes	1,441.0	61.2
Income taxes (Note 8)	223.6	172.0
Net income (loss)	\$1,217.4	\$(110.8)
Earnings (loss) per share:		
Basic	\$1.16	\$(0.10)
Diluted	\$1.16	\$(0.10)
Shares used in calculation of earnings (loss) per share:		
Basic	1,048.0	1,056.3
Diluted	1,049.8	1,056.3
Dividends paid per share	\$0.5625	\$0.52

See notes to consolidated condensed financial statements.

Consolidated Condensed Statements of Comprehensive Income
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	\$1,217.4	\$(110.8)
Other comprehensive income, net of tax (Note 11) ⁽¹⁾	386.3	198.7
Comprehensive income	\$1,603.7	\$87.9

⁽¹⁾ Other comprehensive income for the three months ended March 31, 2018 was all attributable to controlling interest. Other comprehensive income for the three months ended March 31, 2017 consisted of \$209.7 million of other comprehensive income attributable to controlling interest and \$(11.0) million of other comprehensive income (loss) attributable to non-controlling interest.

See notes to consolidated condensed financial statements.

Consolidated Condensed Balance Sheets
 ELI LILLY AND COMPANY AND SUBSIDIARIES
 (Dollars in millions)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents (Note 6)	\$ 3,084.3	\$ 6,536.2
Short-term investments (Note 6)	1,705.2	1,497.9
Accounts receivable, net of allowances of \$40.1 (2018) and \$38.7 (2017)	4,495.1	4,546.3
Other receivables	775.6	715.9
Inventories	4,631.3	4,458.3
Prepaid expenses and other	1,570.0	1,447.5
Total current assets	16,261.5	1