

Elanco Animal Health

2024 Guide Brackets Street (but does not include new product contribution)

Maintain Rating: BUY | PO: 18.00 USD | Price: 16.37 USD

4Q sales of \$1,035mn 4% ahead, adj EPS 3c below Street

Elanco Animal Health (ELAN) reported 4Q revenue of \$1,035, ahead of BofAe & Street \$998. Pet health sales were \$416 mn (-1% reported, -1% constant currency) and farm animal sales were \$610mn (+10% reported, +10% CC). Excluding the impact of FX, total sales grew +5% CC. See Exhibit 1 for an overview of 4Q performance. Adj GM came in at 50.1% (-440bps y/y) vs BofAe 53.0%, while Adj EBITDA margin was 15.9% (-160bps y/y) below BofAe 17.0%, leading to Adj EPS of 8c, below of BofAe/Street 13c/11c.

Exhibit 1: ELAN 4Q'23 Results

Sales driven by strength in Farm Animal, Adj EPS 3c below street

	Actual	BofA est
Pet Health revenues (\$, mn)	\$416mn	\$427mn
Pet Health core growth (%)	-1%	+2%
Farm Animal revenues (\$, mn)	\$610mn	\$557mn
Farm Animal core growth (%)	+10%	+2%
ELAN total revenues (\$, mn)	\$1,035mn	\$998mn
ELAN total core growth (%)	+5%	+2%
Adj gross margins	50.1%	53.0%
Adj EBITDA margins	15.9%	17.0%
Adj EPS	\$0.08	\$0.13

Source: Company reports, BofA Global Research estimates, (*core growth excludes impact of F/X)

BofA GLOBAL RESEARCH

Pipeline on track, more restructuring announced

ELAN also provided updates on its key recent and upcoming innovation launches, all of which remain on track. In 4Q, ELAN has made regulatory submissions for its coming derm drug Zenrelia in several OUS market and completed manufacturing capacity expansion for its recently released Parvovirus monoclonal antibody. ELAN also announced a new round of restructuring expected to generate cost savings of \$20-\$25mn in FY24, and \$30-\$35mn in 2025 onwards which will be reinvested in areas of greater focus such as pet health innovation.

Initial FY24 guide brackets Street, 1Q comes in below

ELAN initiated FY24 guidance which notably does not embed any contribution from new launches, with sales of \$4,450-\$4,540mn (+2% y/y CC at midpt) vs BofAe/Street \$4,520/\$4,505mn. ELAN's earlier high-level FY24 framework called some degree of operational revenue growth excluding incremental sales from newly launched products. Adj EBITDA of \$960mn - \$1,010mn (+0.5% y/y at midpoint) compares to BofAe/Street \$963/\$999mn. Adj EPS are seen as 87c-95c vs BofAe/Street 92c/89c. For 1Q, sales are expected to be \$1,160mn-\$1,185mn (vs BofAe/Street \$1,187mn/\$1,209mn) and Adj EPS 25c-28c (vs BofAe/Street 39c/30c). Mgmt. noted that headwinds seen from voluntary plant slowdowns in 2H23 are expected to carry into 1H24. Overall, we see the initial guide FY24 guidance as coming in broadly as anticipated. The legacy portfolio appears to be continuing to stabilize, while key product launches in 2H24 are all on track. We look forward to the conference call at 8am for further detail on the FY24 outlook, updates on end-market conditions, and progress on upcoming products. We maintain our Buy rating

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Equity

Michael Ryskin
Research Analyst
BofAS
michael.ryskin@bofa.com

Derik de Bruin
Research Analyst
BofAS
derik.de_bruin@bofa.com

Wolf Chanoff
Research Analyst
BofAS
wolf.chanoff@bofa.com

John Kim
Research Analyst
BofAS
john.kim4@bofa.com

Avantika Dhabaria
Research Analyst
BofAS
avantika.dhabaria@bofa.com

Stock Data

Price	16.37 USD
Price Objective	18.00 USD
Date Established	27-Oct-2023
Investment Opinion	C-1-9
52-Week Range	7.88 USD - 16.56 USD
Mrkt Val (mn) / Shares Out (mn)	8,067 USD / 492.8
Free Float	99.4%
Average Daily Value (mn)	73.93 USD
BofA Ticker / Exchange	ELAN / NYS
Bloomberg / Reuters	ELAN US / ELAN.N
ROE (2023E)	7.2%
Net Dbt to Eqty (Dec-2022A)	75.3%
ESGMeter™	High

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Price objective basis & risk

Elanco Animal Health (ELAN)

Our \$18 PO is based on 14x our FY24 EV/EBITDA estimate.

Our target multiple is a roughly 5x discount to the company's closest animal health peer, given the slower sales growth and lower margin profile, but reflects some expectation of further improvements by Elanco.

Downside risks to our price objective are continued pressure from negative news flow on Seresto safety, market challenges from ongoing Coronavirus outbreak, deal integration challenges, competitive and generic launches for key products, slower-than-expected ramp for new product launches, increased regulation on antibiotic use in livestock, macroeconomic conditions, and currency risks.

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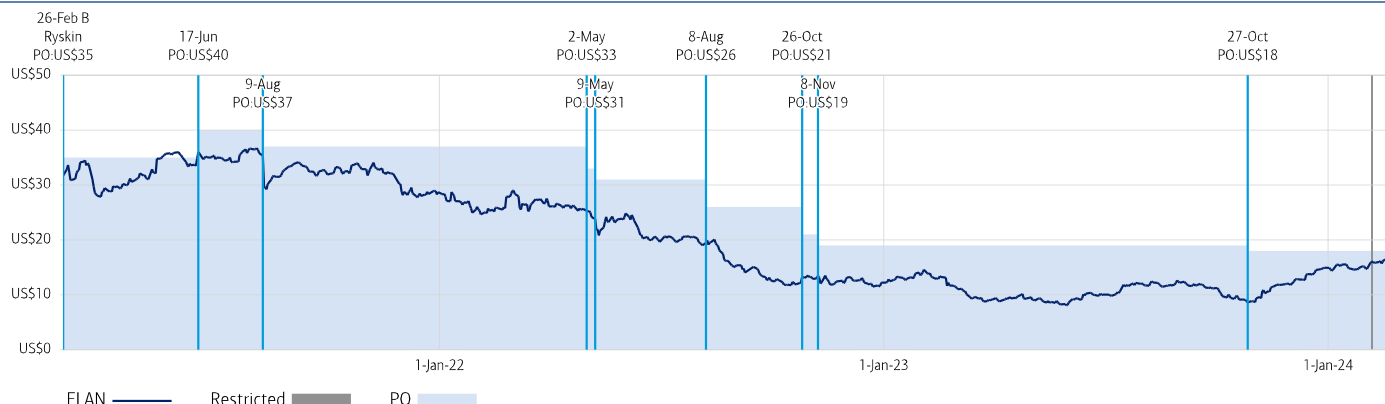
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Elanco Animal Health (ELAN) Price Chart



ELAN — Restricted PO
 B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
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