
Eli Lilly and Company

First Quarter Financial Review

April 19th, 2010

The Lilly logo is written in a red, cursive script font.

Answers That Matter.

Agenda

Opening Remarks and Recent Events

- Phil Johnson, Vice President, Investor Relations

Financial Overview and Guidance

- Derica Rice, Executive Vice President, Global Services and Chief Financial Officer

Effient, Business Development and Pipeline Updates

- Nick Lemen and Ronika Pletcher, Directors, Investor Relations

Question and Answer Session

Closing Remarks

Safe Harbor Provision

This presentation contains forward-looking statements that are based on management's current expectations, but actual results may differ materially due to various factors. The company's results may be affected by such factors as the risks and uncertainties in pharmaceutical research and development; competitive developments; regulatory actions; litigation and investigations; business development transactions; economic conditions; and changes in laws and regulations, including health care reform. For additional information about the factors that affect the company's business, please see the company's latest Form 10-K filed February 2010.

The company undertakes no duty to update forward-looking statements.

Beyond the Quarterly Financial Results

Significant events since the last earnings call

Business Development:

- Signed global agreement with Acrux for the commercialization of Axiron, an experimental underarm testosterone solution
- Re-acquired from Boehringer Ingelheim full rights to Cymbalta in OUS countries other than Japan
- Agreed to acquire European rights for several animal health products from Pfizer

Regulatory:

- Submitted exenatide once weekly for regulatory review in Europe
- Received Complete Response Letter from FDA for exenatide once weekly, or Bydureon; company response to be submitted this week
- Missed PDUFA date for Cymbalta chronic pain; expect Ad Com H2 2010

Beyond the Quarterly Financial Results

Significant events since the last earnings call

Legal:

- Judge in Southern District of Indiana upheld Gemzar compound patent and ruled in Lilly's favor on nearly all grounds that had been raised for invalidity of method-of-use patent. On May 7th, the Court of Appeals for the Federal Circuit will hear our appeal of the Michigan decision invalidating the method-of-use patent.
- Board of Patent Appeals and Interferences affirmed the U.S. Patent Office's rejection of the patent claim Pfizer had asserted for Viagra; Pfizer's case against Lilly was dropped by agreement of the parties
- The Court of Appeals for the Federal Circuit rendered its opinion that certain scientists at Vanderbilt University should not be included as joint inventors on patents relating to Cialis and its use in treating erectile dysfunction
- Reached a proposed settlement of the outstanding shareholder derivative litigation

U.S. Health Care Reform

Overview of select provisions

Measures taking effect January 2010:

- Medicaid fee-for-service:
 - Increase in statutory minimum rebate from 15.1% to 23.1%
 - Limitation of maximum rebate to 100% of Average Manufacturer's Price
- 340B Program expanded to include additional institutions

Measures taking effect March 2010:

- Expansion of Medicaid fee-for-service rebates to Managed Medicaid
- New tax law making retiree drug subsidy taxable beginning in 2013
- Follow-on biologics pathway providing 12 years data package protection

Measures taking effect January 2011:

- Discount of 50% on branded drugs for certain Part D participants while they are in the "donut hole"
- Annual fee on branded pharmaceutical sales

Measures taking effect by January 2014:

- Expansion of population eligible for Medicaid
- Establishment of state-run insurance exchanges

Comparison Measures

Results shown two ways to aid analysis

“Reported” results

- Include all financial results as reported in accordance with GAAP

“Non-GAAP” results

- Start with “Reported” results
- Include adjustments for items such as:
 - Restructuring charges, asset impairments and special charges
 - In process R&D charges from business development activities

2010 Income Statement (Non-GAAP)

Millions; except per share data

	<u>Q1 2010</u>	<u>Q1 2009</u>	<u>Growth</u>
Total Revenue	5,486	5,047	9%
Gross Margin	79.5%	83.8%	(4.3)pp
Total Operating Expense	2,653	2,477	7%
Operating Income	1,709	1,754	(3)%
Other Income / (Deductions)	75	(71)	NM
<i>Effective Tax Rate</i>	<i>27.3%</i>	<i>22.0%</i>	<i>5.3pp</i>
Net Income	<u>\$1,298</u>	<u>\$1,313</u>	(1)%
Diluted EPS	\$1.18	\$1.20	(2)%

For notes to the 2010 non-GAAP income statement, please see slide 9.

2010 Income Statement (Reported)

Millions; except per share data

	<u>Q1 2010</u>	<u>Q1 2009</u>	<u>Growth</u>
Total Revenue	5,486	5,047	9%
Gross Margin	79.5%	83.8%	(4.3)pp
Total Operating Expense*	2,730	2,477	10%
Operating Income	1,633	1,754	(7)%
Other Income / (Deductions)	75	(71)	NM
<i>Effective Tax Rate</i>	<i>26.9%</i>	<i>22.0%</i>	<i>4.9pp</i>
Net Income	<u>\$1,248</u>	<u>\$1,313</u>	(5)%
Diluted EPS	\$1.13	\$1.20	(6)%

Notes:

The first quarter 2010 includes a restructuring charge of \$26.2 million (pretax), or \$0.02 (after-tax). This charge is primarily related to severance costs from previously announced strategic actions that the company is taking to reduce its cost structure and global workforce. In addition, the first quarter 2010 includes a charge of \$50.0 million (pretax), or \$0.03 per share (after-tax), for acquired in-process research and development associated with the in-licensing agreement with Acrux Limited.

* Includes Research and Development expense, Selling, Marketing and Administrative expense and significant charges.

Significant Items Affecting EPS

	<u>Q1 2010</u>	<u>Q1 2009</u>	<u>Growth</u>
EPS (reported)	\$1.13	\$1.20	(6%)
Restructuring charges	0.02	-	
In-process research and development charge associated with Acrux in-licensing (2010)	0.03	-	
EPS (non-GAAP)	<u>\$1.18</u>	<u>\$1.20</u>	(2%)

Note: Numbers may not add due to rounding.

Effect of Price/Rate/Volume on Revenue

	Q1 2010 Amount	Q1 2010 vs. Q1 2009			
		Price	FX Rate	Volume	Total
Pharmaceuticals					
U.S.	\$2,748.7	5%	-	2%	6%
Europe	1,241.3	(2)%	5%	2%	5%
Japan	328.6	(3)%	3%	34%	34%
ROW	724.4	(3)%	11%	8%	17%
Total Pharma	5,042.9	1%	3%	5%	9%
Animal Health	289.6	3%	3%	4%	10%
Net Product Sales	5,332.5	1%	3%	4%	9%
Collab/Other Revenue	153.0	-	-	(1)%	(1)%
Total Revenue	\$5,485.5	1%	3%	4%	9%

Note: Numbers may not add due to rounding.

Effect of Foreign Exchange on 2010 Results

(Non-GAAP)

Year-on-Year Growth

	Q1 2010	
	With FX	w/o FX
Total Revenue	9%	6%
Cost of Sales	37%	1%
Gross Margin	3%	7%
Operating Expense <i>(R&D and SG&A)</i>	7%	5%
Operating Income	(3)%	9%
EPS	(2)%	10%

Without the effect of U.S. HCR, operating income growth would have been 12%

**Strong underlying financial performance,
excluding the effect of foreign exchange**

Effect of Foreign Exchange on 2010 Results

(Reported)

Year-on-Year Growth

	Q1 2010	
	With FX	w/o FX
Total Revenue	9%	6%
Cost of Sales	37%	1%
Gross Margin	3%	7%
Operating Expense <i>(R&D, SG&A and sign. items)</i>	10%	8%
Operating Income	(7)%	4%
EPS	(6)%	6%

2010 Guidance

Millions, except per share amounts

 Changes

	Excluding HCR	Including HCR
EPS (non-GAAP)	\$4.75 - \$4.90	\$4.40 - \$4.55
Significant Items <i>(excludes any potential future items)</i>	\$0.05	\$0.05
EPS (reported)	\$4.70 - \$4.85	\$4.35 - \$4.50
Total Revenue	Mid- to high-single digits	Mid-single digits
Gross Margin % of Revenue	Flat to declining	Flat to declining
Mktg, Selling & Admin.	Low- to mid-single digits	Low- to mid-single digits
Research & Development	Low-double digits	Low-double digits
Other Income/(Expense)	\$(50) - \$(100)	\$(50) - \$(100)
Tax Rate	Approximately 22%	Approximately 23%
Capital Expenditures	Approximately \$1,000	Approximately \$1,000

For complete reconciliation to reported guidance, please see slide 16 of this presentation and our earnings press release dated Apr. 19, 2010.

Earnings per Share Expectations

	<u>2010</u>	<u>2009</u>	<u>Growth</u>
Earnings per share (reported)	\$4.35-\$4.50	\$3.94	10%-14%
Charges related to Zyprexa litigation	-	0.13	
Asset impairments and restructuring charges (included in asset impairments, restructuring and other special charges)	0.02	0.29	
In-process research and development charges associated with the AcruX (2010) and Incyte (2009) in-licensing agreements	0.03	0.05	
EPS (non-GAAP)	<u><u>\$4.40-\$4.55</u></u>	<u><u>\$4.42</u></u>	(0)%-3%

Note: Numbers may not add due to rounding.

Effient Update

U.S.

- Lilly and Daiichi-Sankyo remain encouraged by the growth of Effient
- Strong sequential quarter TRx growth in Q1
- Continued reduction in initial stocking
- New-to-brand prescription share exceeded 8% of OAP market
- On formulary and stocked in the cath lab in 75% of all accounts – up from 60%
- Payer access continues to progress

Outside of the U.S.

- Despite generic clopidogrel, Effient achieved strong reimbursement and favorable pricing
- UK and Germany - strong sequential quarter sales growth
- Recent launches in Australia, France, Spain and Italy
- Launches planned in 2010 in Canada and 30 other countries

Business Development - Axiron

- Lilly has entered into an exclusive worldwide license agreement for the commercialization of Acrux's experimental underarm testosterone solution, Axiron
 - Axiron is under regulatory review by the FDA for the treatment of testosterone deficiency (hypogonadism) in men
- In exchange for these rights, Acrux will receive:
 - An upfront payment of \$50 million plus \$3 million on the transfer of manufacturing assets
 - \$87 million upon the potential issuance of marketing authorization by the FDA
 - Up to \$195 million in potential commercialization milestones, as well as royalty payments on future global sales
- Axiron will be a strong strategic fit, leveraging our experience in men's health, and has the potential to be the first testosterone solution to be applied via an underarm applicator for patients who have testosterone deficiency

Business Development – OUS Duloxetine

- Lilly and Boehringer Ingelheim (BI) have terminated their agreement to jointly develop and commercialize duloxetine, with Lilly purchasing BI's interest in duloxetine
- Excluding Japan, Lilly now has all rights to duloxetine for all indications
- Lilly paid \$400 million upfront, and BI will receive a royalty on sales through the end of 2012

Business Development – Pfizer Animal Health

- Lilly has entered into an agreement with Pfizer and Wyeth/Fort Dodge Animal Health for the acquisition of an extensive range of animal health products
- The acquisition includes vaccines and pharmaceutical products for use in companion animals and production animals, marketing rights in certain European countries, and a Fort Dodge manufacturing site in Sligo, Ireland
- The acquisition aligns with three key Elanco strategies:
 - Grow Elanco in Europe,
 - Enter the animal vaccine space
 - Expand Elanco's companion animal business

Lilly NME Pipeline

April 12, 2010

New Chemical Entity (NCE)
<i>New Biotech Entity (NBE)</i>

Movement since Jan 2010 update

- Achieved milestone
- Attrition
- New molecule

	cancer	depression
	<i>anemia</i>	cancer
	cancer	diabetes
	cancer	diabetes
	cancer	diabetes
	pain	Gem prodrug cancer
	alcohol depend	TGF β inhibitor cancer
	alcohol depend	<i>IMC-18F1 cancer</i>
	atherosclerosis	<i>IMC-EB10 cancer</i>
	atherosclerosis	<i>cancer</i>
	BPH	<i>cancer</i>
	<i>bone healing</i>	<i>eIF-4E ASO cancer</i>
	cancer	<i>TGF β antibody CRD, cancer</i>

Phase 1



schizophrenia

agitation in Alz's	iGluR5 antag pain
cancer	LY2624803 insomnia
Eg5 inhibitor cancer	mGlu2/3 pro II schizophrenia
<i>IMC-3G3 cancer</i>	NERI depression
<i>IMC-A12 cancer</i>	OpRA alcohol depend
<i>CD20 antibody NHL</i>	obesity
diabetes	JAK-1/JAK-2 RA
<i>Basal insulin diabetes</i>	<i>IL-17 antibody RA</i>
<i>GLP-1 PEG diabetes</i>	<i>IL-23 antibody psoriasis</i>
<i>IL-1 β antibody diabetes</i>	<i>BAFF antibody RA</i>
LY2599506 diabetes	<i>Survivin ASO prostate cancer</i>

Phase 2

Enzastaurin DLBCL
<i>GLP-1 Fc diabetes</i>
<i>IMC-11F8 NSCLC</i>
<i>IMC-1121B breast /gastric</i>
Semagacestat Alzheimer's
<i>Solanezumab Alzheimer's</i>
Tasisulam melanoma
<i>Teplizumab diabetes</i>

Phase 3

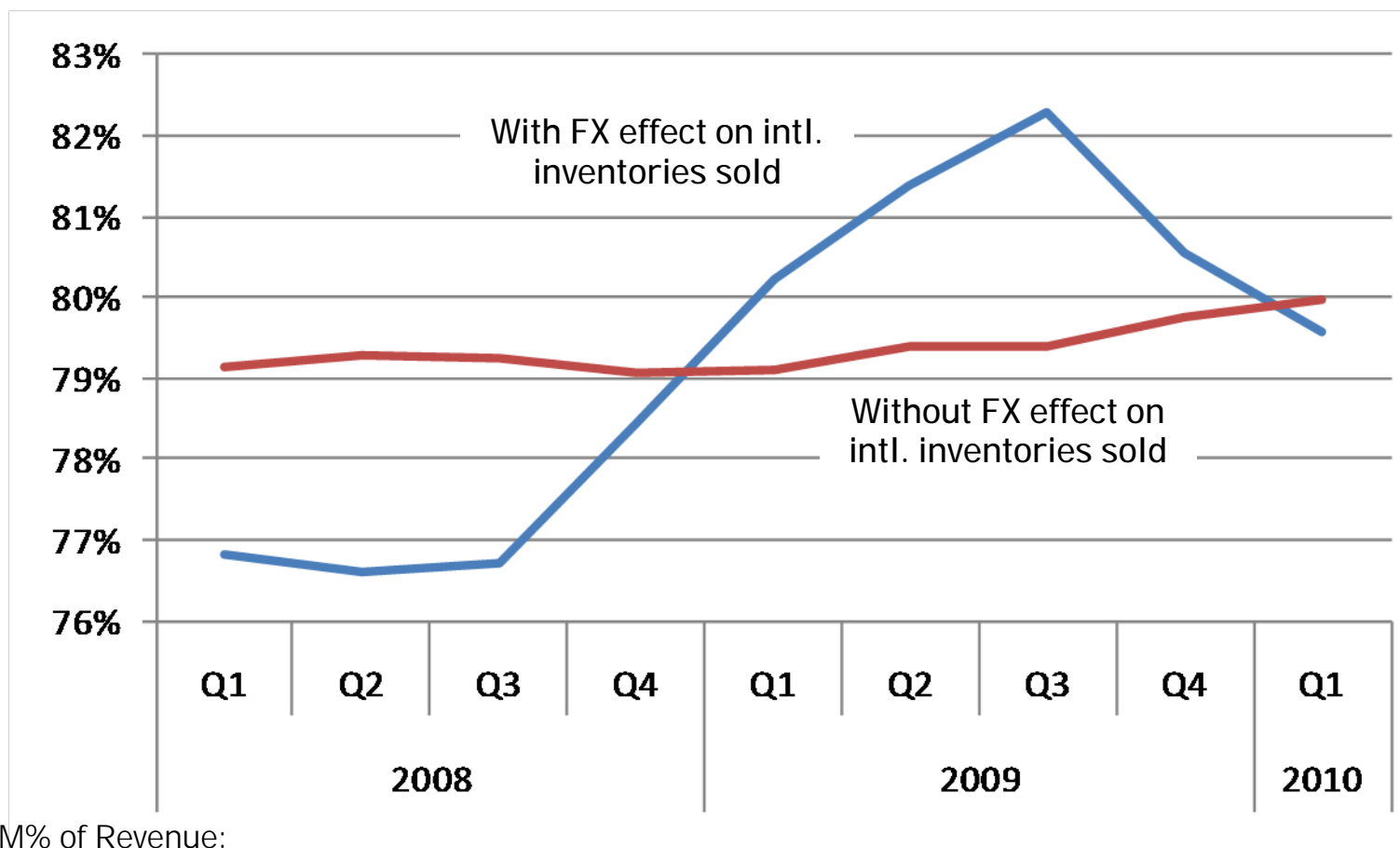
Arxxant DR
Axiron testosterone def.
Livalo lipidemia

Reg Review, Pre-Launch

Supplementary Slides

Gross Margin % - Moving Annual Total

Pro-forma non-GAAP



Individual quarter GM% of Revenue:

with FX effect on intl inv sold	76.5%	77.5%	77.4%	82.3%	83.8%	82.1%	81.1%	75.9%	79.5%
w/o FX effect on intl inv sold	79.3%	80.6%	78.8%	77.7%	79.4%	81.7%	78.8%	79.2%	80.4%

Comparative EPS Summary 2009/2010

	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10	2010
Non-GAAP	1.20	1.12	1.20	.91	4.42	1.18				
Reported	1.20	1.06	.86	.83	3.94	1.13				

Note: Numbers may not add due to rounding.

For complete reconciliation to reported earnings, please see slide 10 of this presentation and our earnings press release dated Apr. 19, 2010.

Q1 Other Income/(Deductions)

Millions

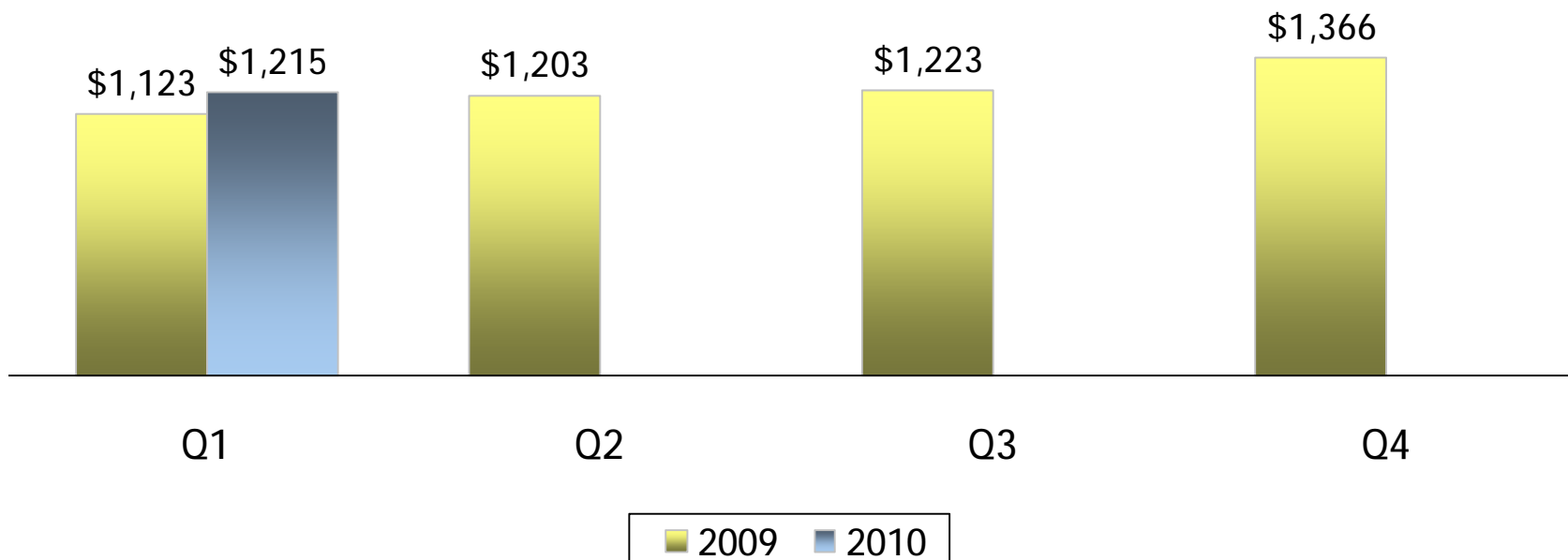
	<u>Q1 10</u>	<u>Q1 09</u>
- Interest Expense	(\$47.6)	(\$87.6)
- Interest Income	10.6	27.4
Interest, net	(37.0)	(60.2)
- Outlicense of Marketed Products	-	3.3
- Outlicense of Development Stage Products	11.2	1.0
- Miscellaneous Income / (Loss)	100.3	(14.8)
Other Income, net	111.5	(10.5)
Net Other Income (Loss)	<u>\$74.5</u>	<u>(\$70.7)</u>

Note: Numbers may not add due to rounding.

Q1 Zyprexa[®] Sales Increased 8%

Millions

U.S. sales increased 9%
International sales increased 7%

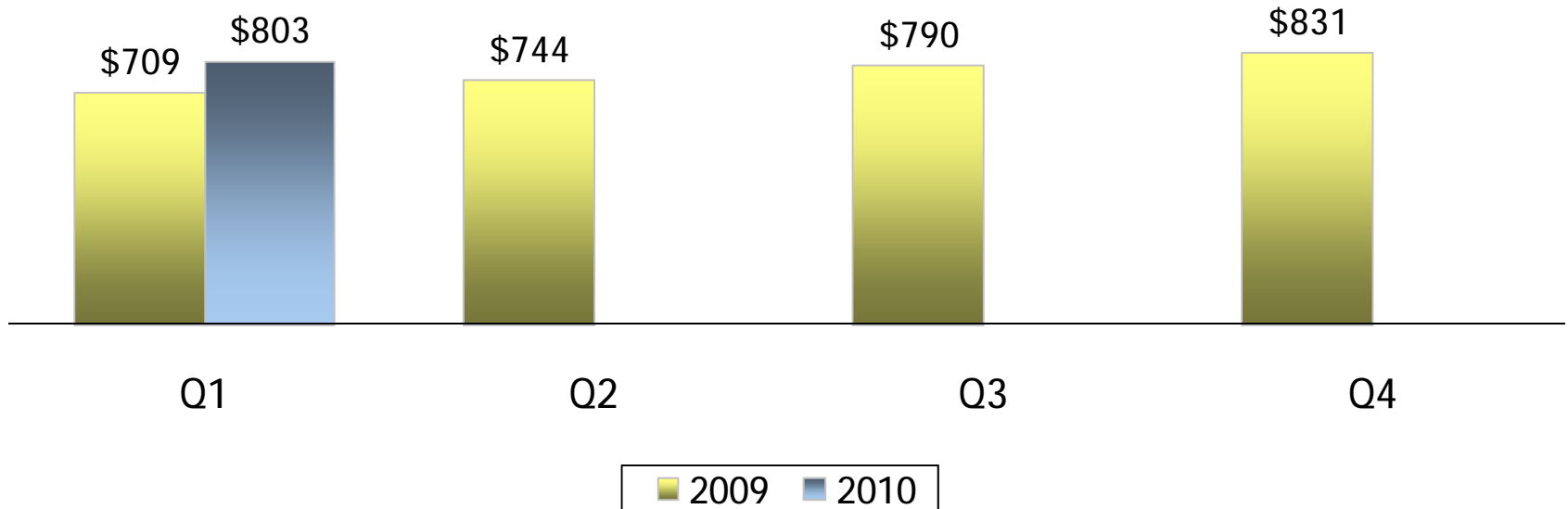


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Cymbalta[®] Sales Increased 13%

Millions

U.S. sales increased 9%
International sales increased 36%

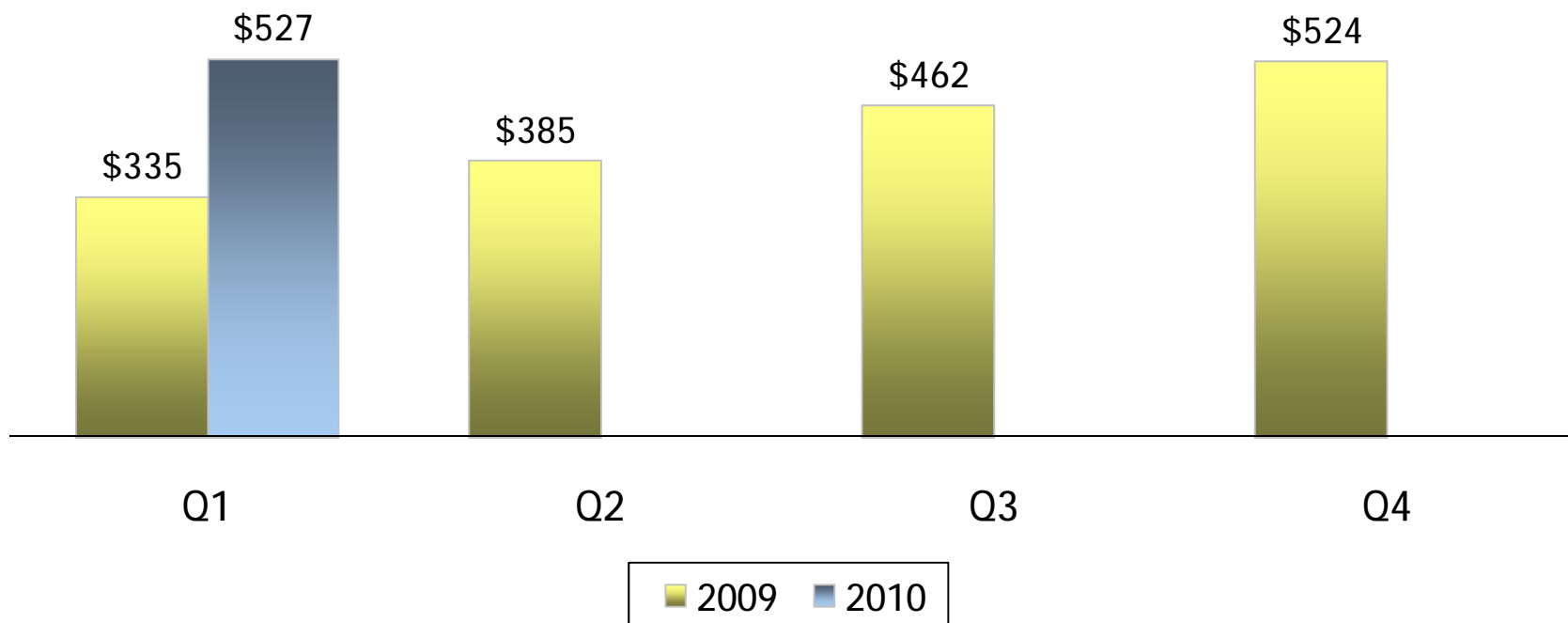


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Alimta[®] Sales Increased 57%

Millions

U.S. sales increased 29%
International sales increased 88%

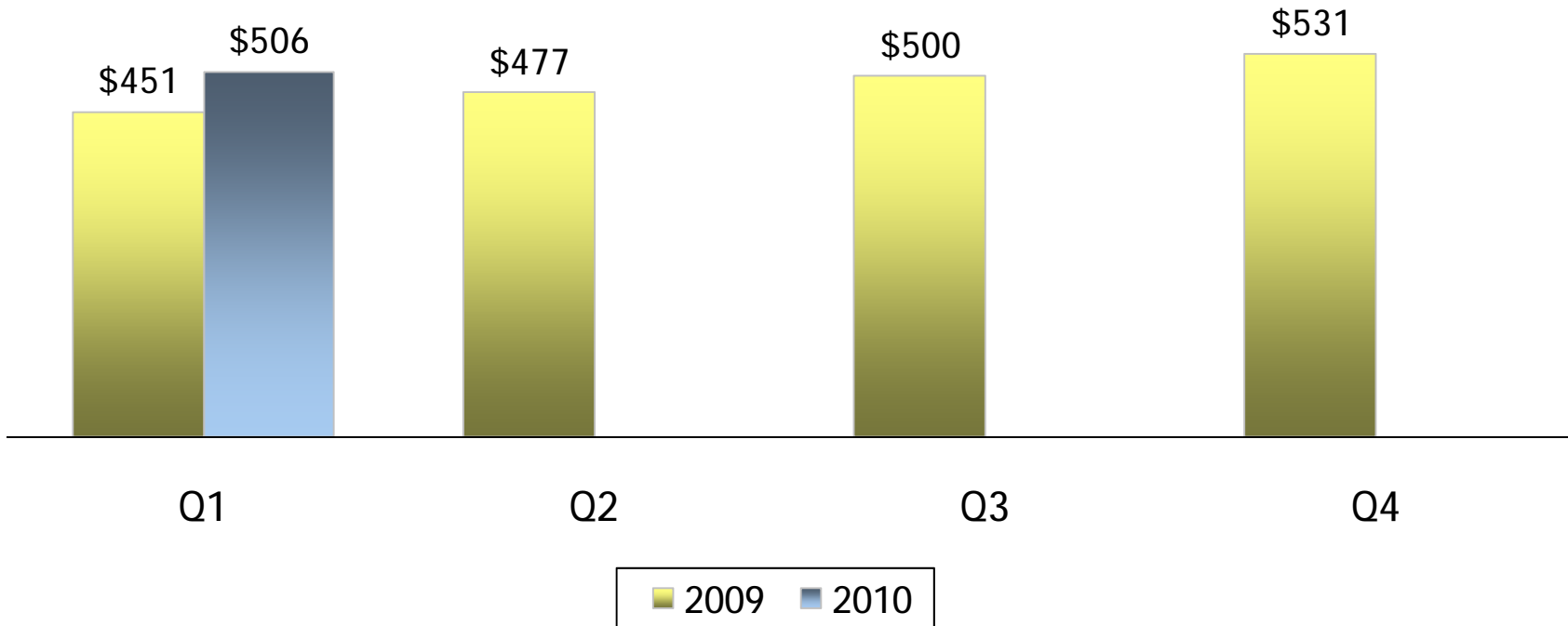


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Humalog[®] Sales Increased 12%

Millions

U.S. sales increased 8%
International sales increased 20%

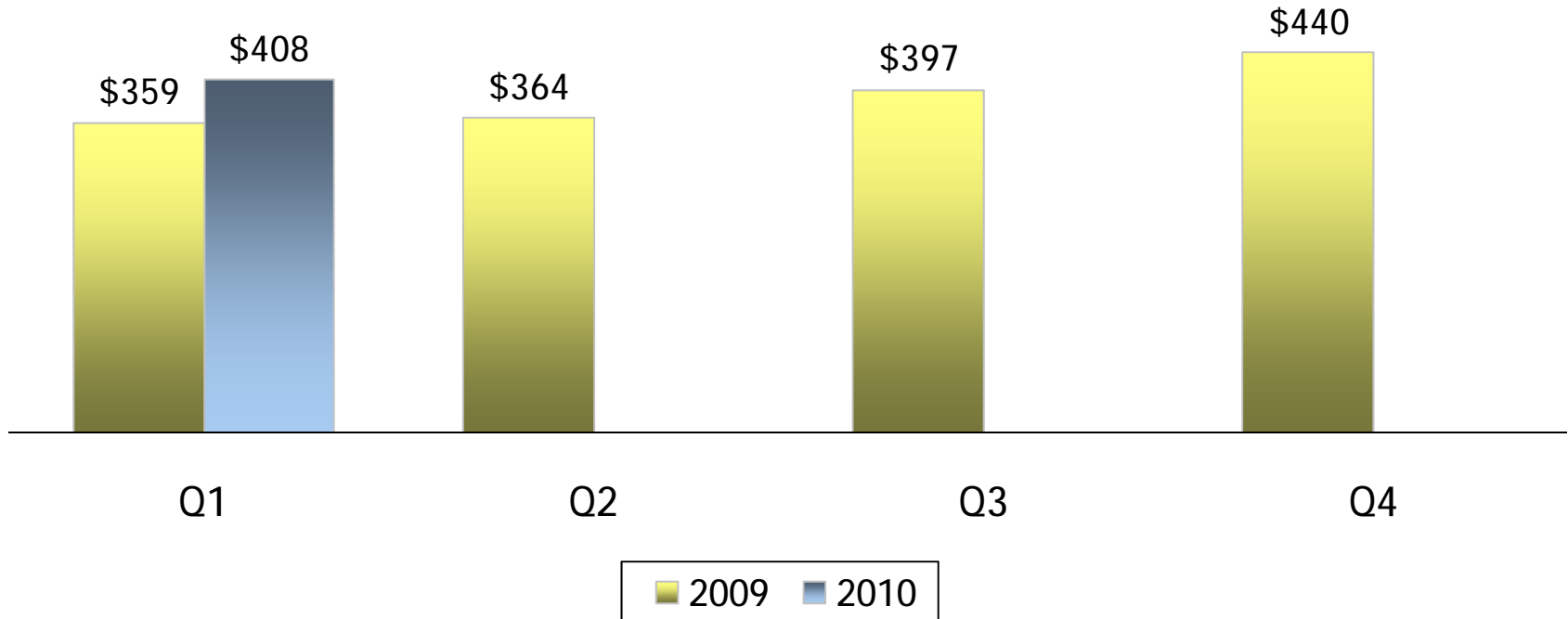


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Cialis[®] Sales Increased 14%

Millions

U.S. sales increased 1%
International sales increased 23%

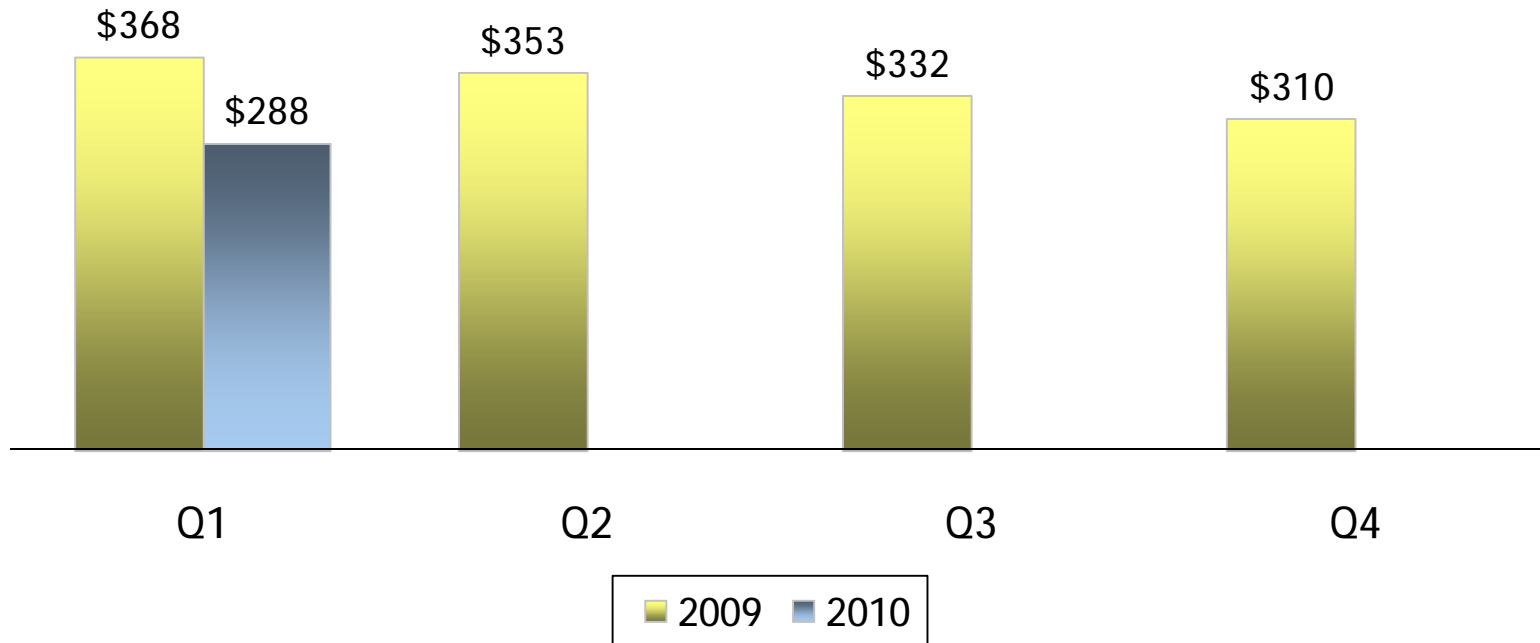


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Gemzar[®] Sales Decreased 22%

Millions

U.S. sales increased 3%
International sales decreased 42%

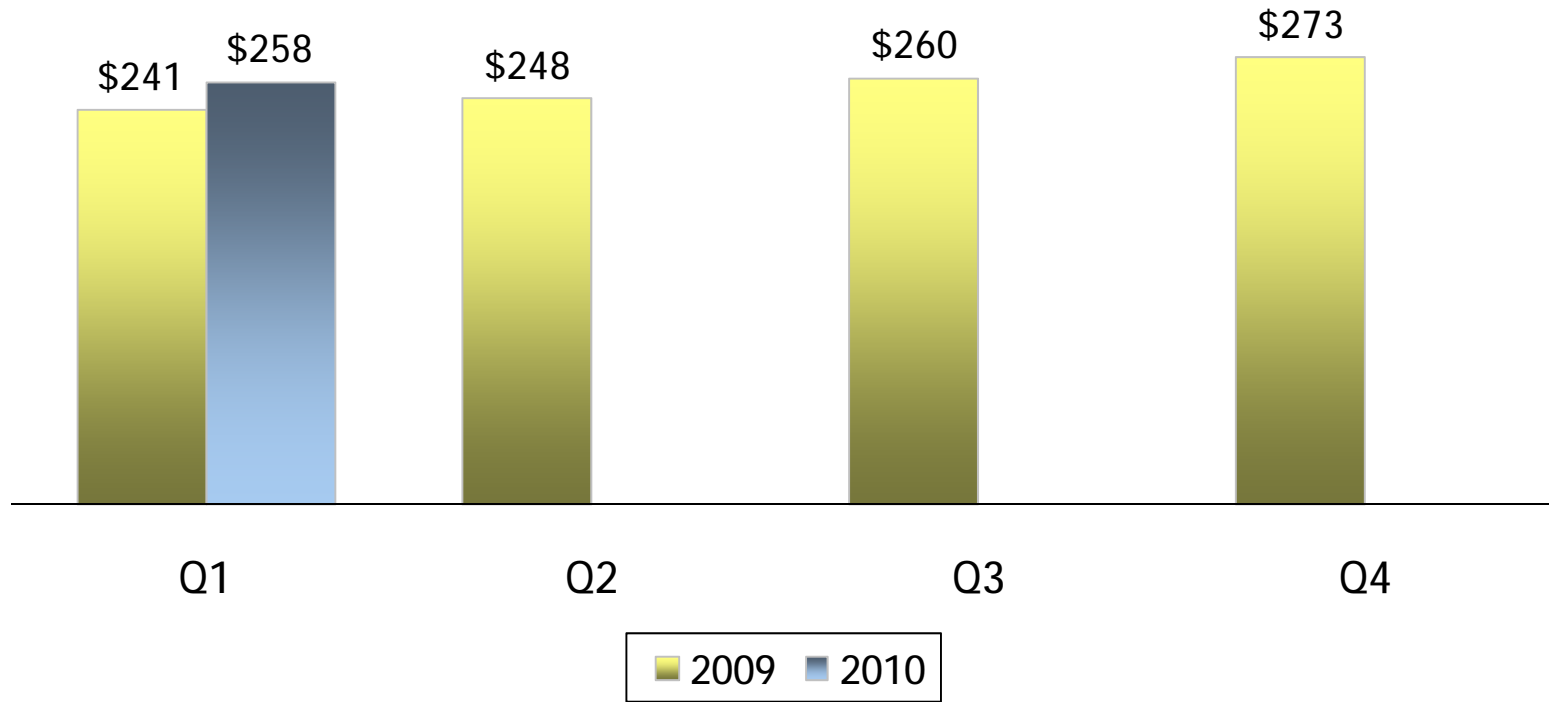


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Humulin[®] Sales Increased 7%

Millions

U.S. sales increased 16%
International sales increased 1%

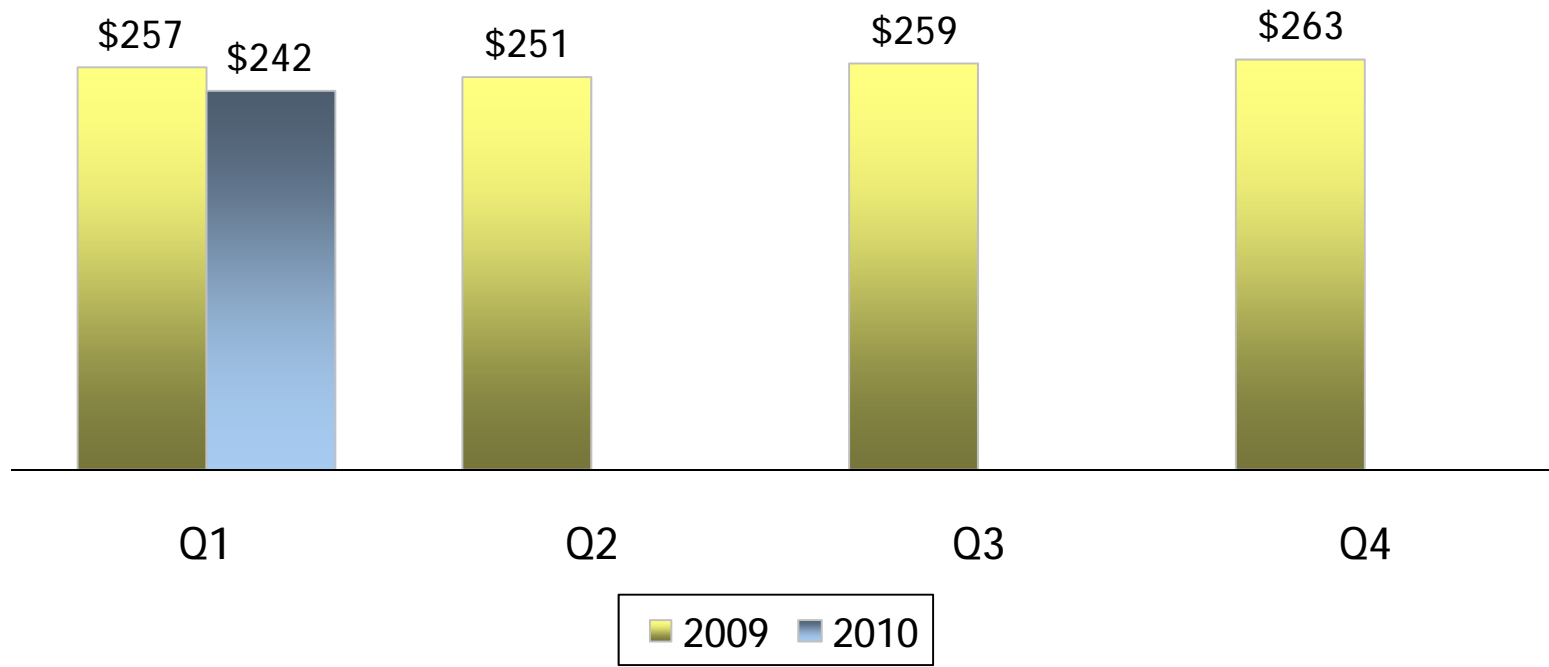


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Evista[®] Sales Decreased 6%

Millions

U.S. sales decreased 3%
International sales decreased 10%

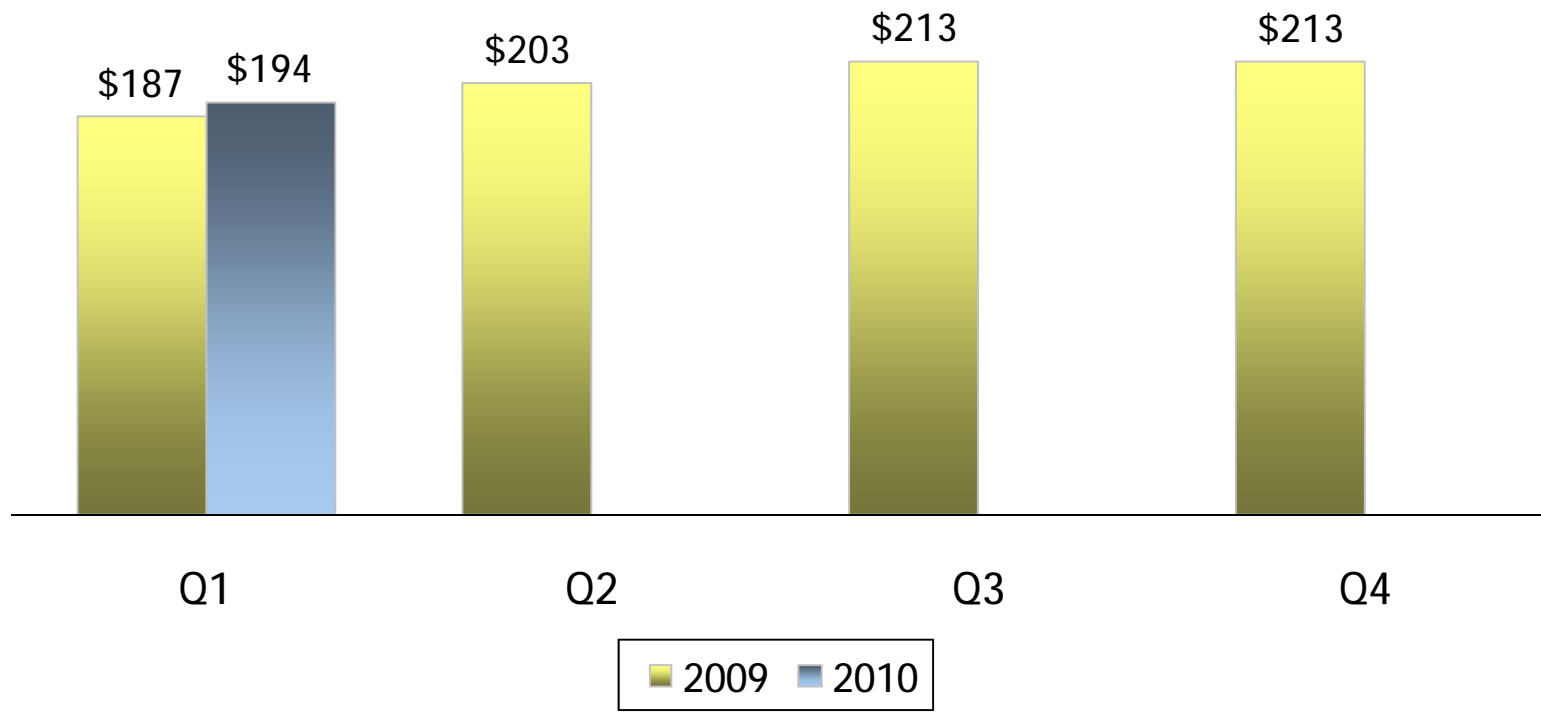


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Forteo[®] Sales Increased 4%

Millions

U.S. sales decreased 4%
International sales increased 18%

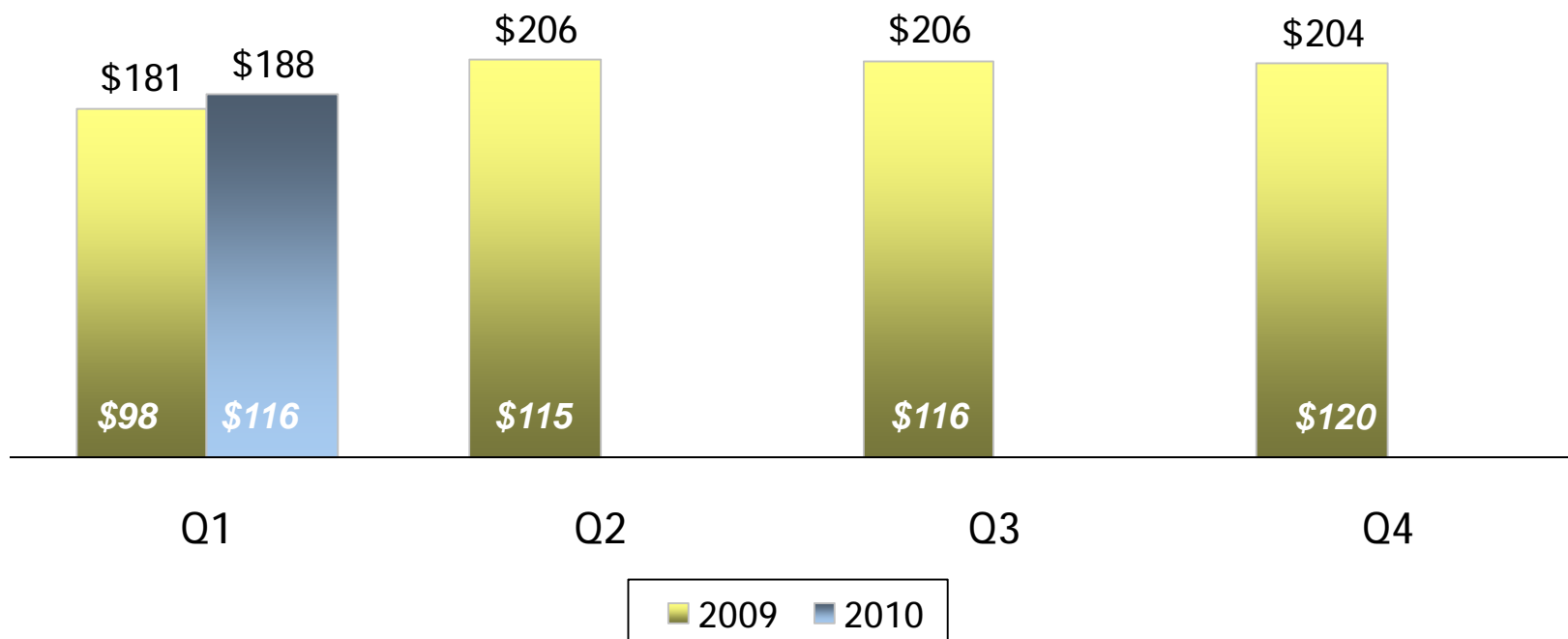


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q1 Byetta[®] Worldwide Sales \$188.0 Million

Millions

Worldwide sales increased 4%
Lilly revenue increased 19%

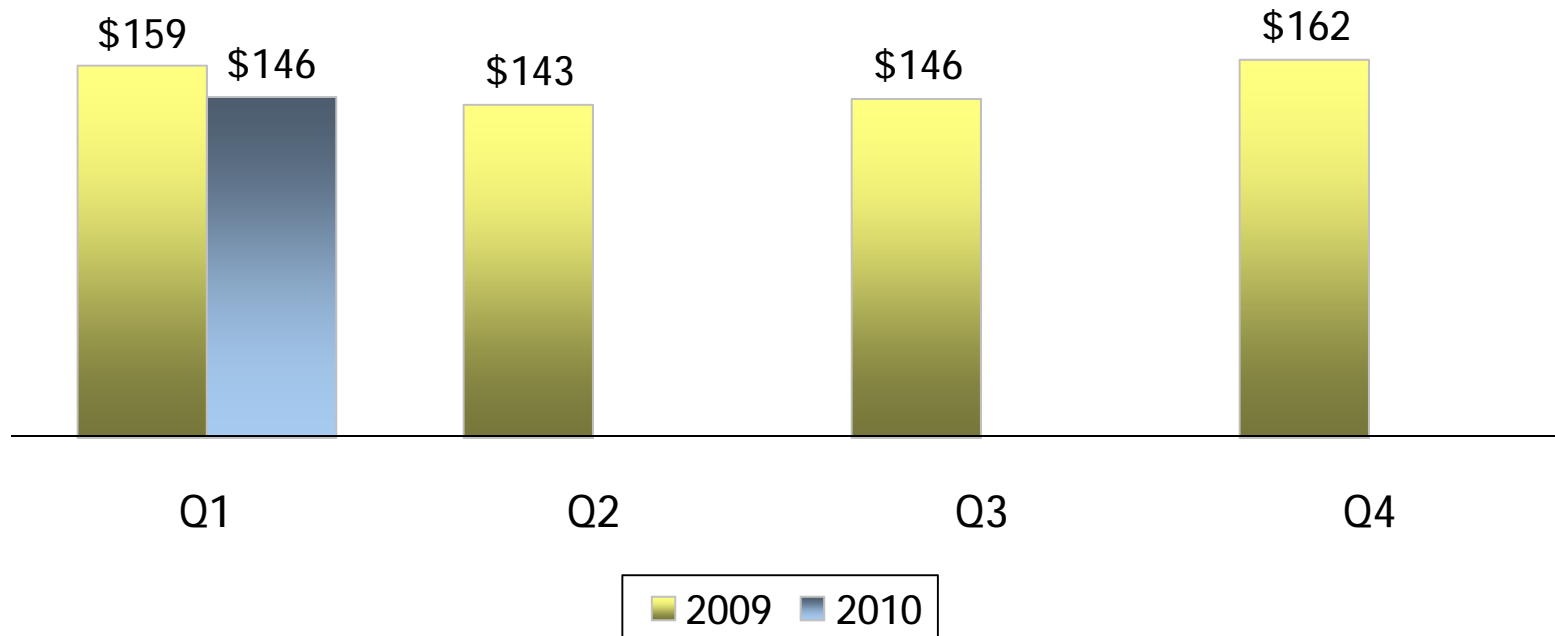


- Note:
- Quarterly numbers may not add to year-to-date totals due to rounding.
 - Bar height represents total molecule sales; values shown inside bars represent amount recorded in Lilly revenue line.

Q1 Strattera[®] Sales Decreased 8%

Millions

U.S. sales decreased 11%
International sales increased 1%



Note: Quarterly numbers may not add to year-to-date totals due to rounding.