To Our Shareholders

A LETTER FROM DAVID A. RICKS, CHAIRMAN AND CEO

Our purpose at Lilly is to unite caring with discovery to create medicines that make life better for people around the world.

People like Beth Meyer. For 35 years, the mother of two and office manager in Pittsburgh has suffered from migraine. At least twice a week her head throbs – just behind her right eye – so intensely it makes her want to “drive a screwdriver into it to let the pain seep out.”

Beth began to get relief when her doctor signed her up for a clinical trial of galcanezumab, which Lilly launched last year as Emgality®. For months, Beth reported no migraine. She spent evenings and weekends with her husband and kids, instead of catching up on work missed during her migraine attacks.

“I felt like I’d gotten my life back,” she said. “I didn’t have to worry about what I was going to do, and then getting a migraine, and not getting to do it.”

Emgality is one of 10 new medicines Lilly has brought to patients over the past five years – life-changing new treatments for such diseases as cancer, pain, arthritis and diabetes. And there’s more to come. Lilly expects to launch 10 more new medicines over the next five years.

This is what patients, investors and societies expect of us. We push the boundaries of science to discover new medicines that change lives. We bring those medicines to patients. Then we reinvest the revenue from those medicines to invent even better ones.
OUR RESULTS
Growing numbers of people are benefiting from Lilly’s medicines – as evidenced by revenue growth last year of 7 percent, driven by volume. New products now account for 34 percent of Lilly’s pharmaceutical revenue, and we expect that number to near 45 percent by the end of 2019.

Lilly created value for customers and shareholders by deciding to separate our Elanco Animal Health subsidiary with an initial public offering and divestiture. That decision is best for both companies – and allows Lilly to focus on discovering and delivering new human medicines.

Lilly can deliver even stronger results in the future by focusing on these four key areas:

Speed Life-Changing Medicines: In 2018, our late-phase pipeline saw the addition of three highly promising molecules – tirzepatide in diabetes, mirikizumab in immunology and pegilodecakin in oncology – each with an opportunity to be first or best-in-class for diseases affecting millions of patients. And we’re moving these medicines to patients faster. Over the past five years, development at Lilly has transformed, accelerating our timelines from running near the back of our industry to running near the front.

Grow Revenue: We see ourselves in the early phases of a prolonged period of volume-driven growth. Our newly launched medicines position Lilly in some of the most promising classes of treatments, allowing us to grow revenue despite the 2018 expiration of our U.S. patent on Cialis. And we continue to invest in our new medicines – to expand into new indications and new markets.

Improve Productivity: Due to our continued efforts to control expenses and change the way we work, we are progressing toward a pharmaceutical operating margin in 2020 of 31 percent, excluding foreign exchange impact on inventories sold – up from 25.5 percent in 2017.

Create Long-Term Value: Our gains in productivity allow Lilly to invest more in manufacturing, ensuring a reliable and safe supply of medicines. Productivity also allows us to fund more R&D. That could be additional indications for our existing medicines. It could be new molecules in our labs. Or it could be business development deals to supplement our pipeline – such as our acquisition of ARMO BioSciences in 2018 or 2019’s purchase of Loxo Oncology. We are also committed to returning money to shareholders, including raising our dividend 15 percent this year.

OUR CULTURE
Of course, the ultimate source of long-term value is Lilly’s people. To support our strategy, we’re creating a culture that emphasizes four key behaviors – include, innovate, accelerate and deliver. We want all of our employees to feel they are part of one Team Lilly with one purpose – making life better for patients who are waiting.

We can’t do it alone. Our work includes thousands of partners in health systems all over the world. Scientists at Lilly work for years with physicians to make sure each new medicine is safe and right for patients. We work alongside doctors, health insurers and pharmacies, so that when anyone needs a Lilly medicine, they can get it.

Unfortunately, in today’s U.S. health care system, this goal is more challenging to achieve. In response, Lilly has taken action on several fronts. We’ve launched new medicines Emgality, Olumiant® and Basaglar® at lower prices. In March, we announced that we will launch an authorized generic insulin, identical to our Humalog® insulin, at a list price 50 percent lower than Humalog’s list price. Yet because the system is still imperfect, and because some patients experience access and affordability gaps, we’ve started new programs to help people more easily afford our medicines. We also advocate for change so the entire U.S. health system shifts to be fairer and more affordable for the patients who need care.

Every day, Lilly’s executive team – guided by our board of directors – strives to manage our company by our enduring values of integrity, excellence and respect for people. While pleased with our performance, we are not satisfied. We are compelled to improve, to get better.

When we’re at our best, we unite caring with discovery to create medicines that make life better – for you, your loved ones and the people in your community. Being at our best helps you be at yours.