

## Eli Lilly's worldwide revenue dips by 16%

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According to the company's statement, the revenue decline was comprised of 16 percent due to lower volume; the impact of changes in price and foreign exchange rates on worldwide revenue was negligible.

The 16 percent decrease in worldwide volume was primarily driven by the loss of US patent exclusivity for Cymbalta, and to a lesser extent Evista, partially offset by volume gains for most other products.

Total revenue in the US decreased 33 percent to \$2.218 billion, driven primarily by lower demand for Cymbalta and Evista following their patent expirations. Total revenue outside the US increased 8 percent to \$2.658 billion, driven by higher volume.

Gross margin decreased 21 percent to \$3.609 billion in the third quarter of 2014 compared to the third quarter of 2013, driven by lower sales of Cymbalta and Evista due to the loss of the US patent exclusivity.

Gross margin as a per cent of total revenue was 74 percent, a decrease of 5.2 percentage points compared with the third quarter of 2013. The decrease in gross margin percent was primarily due to lower sales of Cymbalta and Evista following US patent expirations.

Total operating expenses in the third quarter of 2014, defined as the sum of research and development and marketing, selling and administrative expenses, were \$2.915 billion, a decrease of 4 percent compared with the third quarter of 2013.

R&D expenses decreased 10 percent to \$1.243 billion, or 25.5 percent of total revenue, driven primarily by lower late-stage clinical development costs in the third quarter of 2014, partially offset by a \$63 million charge associated with the termination of tabalumab development.

Marketing, selling and administrative expenses increased 1 percent to \$1.672 billion, due primarily to a \$119 million charge associated with the Branded Prescription Drug Fee, partially offset by a reduction in sales and marketing activities for Cymbalta, as well as ongoing cost containment efforts.

In the third quarter of 2014, the company recognized acquired in-process research and development charges totaling \$95 million related to collaboration agreements with Immunocore Limited and AstraZeneca. In the same quarter, the company

recognized asset impairment, restructuring and other special charges of \$36.3 million, primarily severance, associated with ongoing cost containment efforts and costs related to the pending acquisition of Novartis Animal Health. There were no such charges in the third quarter of 2013.

Operating income in the third quarter of 2014 was \$562.0 million, a decrease of 64 per cent compared to the third quarter of 2013, driven by lower gross margin, partially offset by lower operating expenses.

Other income (expense) was income of \$93.5 million in the third quarter of 2014, compared with expense of \$31.3 million in the third quarter of 2013, driven primarily by gains on the sale of investment securities and income from milestones earned.

The effective tax rate was 23.6 percent in the third quarter of 2014, compared with 20.5 percent in the third quarter of 2013. The effective tax rate for the third quarter of 2014 includes the negative impact of the expiration of the R&D tax credit in the US at the end of 2013.

In the third quarter of 2014, net income and earnings per share decreased 58 percent to \$500.6 million and \$0.47, respectively, compared with third quarter 2013 net income of \$1.203 billion and earnings per share of \$1.11. The decreases in net income and earnings per share were driven by lower operating income.

### **Third-Quarter 2014 Non-GAAP Measures**

On a non-GAAP basis, operating income decreased \$732.3 million, or 47 percent, to \$812.4 million, driven by lower gross margin, partially offset by lower operating expenses.

The effective tax rate increased to 22.0 percent, compared with 20.5 percent in the third quarter of 2013. The effective tax rate for the third quarter of 2014 includes the negative impact of the expiration of the R&D tax credit in the US at the end of 2013.

Net income and earnings per share decreased 41 percent to \$706.6 million and \$0.66, respectively, compared with \$1.203 billion and \$1.11 during the third quarter of 2013.

Non-GAAP measures exclude items totaling \$0.19 per share of expense in the third quarter of 2014.