RESOLVED, that shareholders of Eli Lilly and Company ("Lilly") urge the Compensation Committee (the "Committee") to report annually to shareholders on the extent to which risks related to public concern over drug pricing strategies are integrated into Lilly's incentive compensation policies, plans and programs ("arrangements") for senior executives. The report should include, but need not be limited to, discussion of whether (i) incentive compensation arrangements reward, or not penalize, senior executives for adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding prescription drug prices; and (ii) such concern is taken into account when setting financial targets for incentive compensation arrangements.

SUPPORTING STATEMENT

As long-term investors, we believe that senior executive incentive compensation arrangements should reward the creation of sustainable value. To that end, it is important that those arrangements align with company strategy and encourage responsible risk management.

A key risk facing pharmaceutical companies is potential backlash against high drug prices. Public outrage over high prices and their impact on patient access may force price rollbacks and harm corporate reputation. Lilly has come under fire for rising insulin prices. Minnesota's attorney general sued Lilly in October 2018 alleging a "scheme" to inflate list prices in order to pay higher rebates to pharmacy benefit managers. (http://www.startribune.com/minnesota-attorney-general-lori-swanson-sues-insulin-makers/497711361/) The media regularly reports on patients rationing or going without insulin due to cost.

We applaud Lilly for improving transparency on drug pricing and supporting alternative pricing approaches. We are concerned, however, that the incentive compensation arrangements applicable to Lilly's senior executives may not encourage them to take actions that result in lower short-term financial performance even when those actions may be in Lilly's best long-term interests.

Lilly uses revenue and earnings per share (EPS) as metrics for the annual bonus and EPS growth as the metric for performance awards. (2018 Proxy Statement, at 43-45) A 2017 Credit Suisse analyst report identified Lilly as a company where price increases accounted for at least 100% of 2016 EPS growth. (*Global Pharma and Biotech Sector Review: Exploring Future US Pricing Pressure*, Apr. 18, 2017, at 1) In Credit Suisse's 2018 report, Lilly was one of three companies with U.S. list price increases over 10%. (*Global Pharmaceuticals*: *Scoring Sensitivity to Trump's Reforms*, May 25, 2018, at 20)

In our view, excessive dependence on drug price increases is a risky and unsustainable strategy, especially when price hikes drive large senior executive payouts. In 2017, Lilly made a special $3 million equity grant to Enrique Conterno, head of Lilly's diabetes unit, who "built the diabetes business into [Lilly's] largest franchise." (2018 Proxy Statement, at 43) We are concerned that this grant appears to reward raising prices, which could create risks for Lilly.

The disclosure we request would allow shareholders to better assess the extent to which compensation arrangements encourage senior executives to responsibly manage risks relating to drug pricing and contribute to long-term value creation. We urge shareholders to vote for this Proposal.