

LILLY ELI & CO
Form DEF 14A
March 19, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ELI LILLY AND COMPANY
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SEC 1913 (11-01) Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Notice of 2018 Annual Meeting of Shareholders and Proxy Statement

Your vote is important

Please vote online, by telephone, or by signing, dating, and returning the enclosed proxy card by mail.

Table of Contents	
<u>Notice of Annual Meeting of Shareholders</u>	P1
<u>Proxy Statement Summary</u>	P2
<u>Governance</u>	P11
<u>Item 1 - Election of Directors</u>	P11
<u>Board Operations and Governance</u>	P11
<u>Director Qualifications and Nomination Process</u>	P19
<u>Director Compensation</u>	P21
<u>Director Independence</u>	P23
<u>Committees of the Board of Directors</u>	P24
<u>Membership and Meetings of the Board and Its Committees</u>	P25
<u>Board Oversight of Compliance and Risk Management</u>	P27
<u>Highlights of the Company's Corporate Governance</u>	P27
<u>Shareholder Engagement on Governance Issues</u>	P31
<u>Prior Management Proposals to Eliminate Classified Board and Supermajority Voting Requirements</u>	P31
<u>Shareholder Proposals and Nominations</u>	P32
<u>Ownership of Company Stock</u>	P33
<u>Compensation</u>	P34
<u>Item 2 - Advisory Vote on Compensation Paid to Named Executive Officers</u>	P34
<u>Compensation Discussion and Analysis</u>	P35
<u>Executive Compensation</u>	P50
<u>Compensation Committee Matters</u>	P60
<u>Audit Matters</u>	P62
<u>Item 3 - Proposal to Ratify the Appointment of Principal Independent Auditor</u>	P62
<u>Management Proposals</u>	P65
<u>Item 4 - Amend Articles of Incorporation to Eliminate the Classified Board Structure</u>	P65
<u>Item 5 - Amend Articles of Incorporation to Eliminate Supermajority Voting Provisions</u>	P66
<u>Item 6 - Approve the Amended and Restated 2002 Lilly Stock Plan</u>	P68
<u>Shareholder Proposals</u>	P77
<u>Item 7 - Seeking Support for the Descheduling of Cannabis</u>	P77
<u>Item 8 - Requesting Report Regarding Direct and Indirect Political Contributions</u>	P78
<u>Item 9 - Requesting Report on Policies and Practices Regarding Contract Animal Laboratories</u>	P80
<u>Item 10 - Requesting Report on Extent to Which Risks Related to Public Concern Over Drug Pricing Strategies are Integrated into Incentive Compensation Arrangements</u>	P82
<u>Other Information</u>	P83
<u>Meeting and Voting Logistics</u>	P83
<u>Other Matters</u>	P86
<u>Appendix A - Summary of Adjustments Related to the Annual Cash Bonus and Performance Award</u>	P87
<u>Appendix B - Proposed Amendments to the Company's Articles of Incorporation</u>	P89
<u>Appendix C - Proposed Amended and Restated 2002 Lilly Stock Plan</u>	P93
<u>Annual Meeting Admission Ticket</u>	P112

Notice of 2018 Annual Meeting of Shareholders

To the holders of Common Stock of Eli Lilly and Company:

The 2018 Annual Meeting of Shareholders of Eli Lilly and Company will be held as shown below:

TIME AND DATE: 11:00 a.m. EDT, Monday, May 7, 2018

LOCATION: The Lilly Center Auditorium
Lilly Corporate Center
Indianapolis, Indiana 46285

ITEMS OF BUSINESS: Election of the five directors listed in the proxy statement to serve three-year terms
Approval, by non-binding vote, of the compensation paid to the company's named executive officers
Ratification of Ernst & Young LLP as the principal independent auditors for 2018
Approve amendments to the Articles of Incorporation to eliminate the classified board structure
Approve amendments to the Articles of Incorporation to eliminate supermajority voting provisions
Approve the Amended and Restated 2002 Lilly Stock Plan
Shareholder proposal seeking support for the descheduling of cannabis
Shareholder proposal requesting report regarding direct and indirect political contributions
Shareholder proposal requesting report on policies and practices regarding contract animal laboratories
Shareholder proposal requesting report on the extent to which risks related to public concern over drug pricing strategies are integrated into incentive compensation arrangements

WHO CAN VOTE: Shareholders of record at the close of business on March 12, 2018

This proxy statement is dated March 19, 2018, and is first being sent or given to our shareholders on or about that date.

See the back page of this report for information regarding how to attend the meeting. Every shareholder vote is important. If you are unable to attend the meeting in person, please sign, date, and return your proxy card or voting instructions by mail, or vote by telephone or online promptly so that a quorum may be represented at the meeting.

By order of the Board of Directors,
Bronwen L. Mantlo
Secretary
March 19, 2018
Indianapolis, Indiana

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 7, 2018: The annual report and proxy statement are available at <https://www.lilly.com/annualreport2017>.

Proxy Statement Summary

General Information

This summary highlights information contained elsewhere in this proxy statement. It does not contain all the information you should consider, and you should read the entire proxy statement carefully before voting.

Meeting:	Annual Meeting of Shareholders	Date:	May 7, 2018
Time:	11:00 a.m. EDT	Location:	The Lilly Center Auditorium Lilly Corporate Center Indianapolis, Indiana 46285
Record Date:	March 12, 2018		
Items of Business:	<p>Item 1: Election of the five directors listed in this proxy statement to serve three-year terms.</p> <p>Item 2: Approval, by non-binding vote, of the compensation paid to the company's named executive officers.</p> <p>Item 3: Ratification of Ernst & Young LLP as the principal independent auditor for 2018.</p> <p>Item 4: Approve amendments to the Articles of Incorporation to eliminate the classified board structure.</p> <p>Item 5: Approve amendments to the Articles of Incorporation to eliminate supermajority voting provisions.</p> <p>Item 6: Approve the Amended and Restated 2002 Lilly Stock Plan.</p> <p>Item 7: Shareholder proposal seeking support for the descheduling of cannabis.</p> <p>Item 8: Shareholder proposal requesting report regarding direct and indirect political contributions.</p> <p>Item 9: Shareholder proposal requesting report on policies and practices regarding contract animal laboratories.</p> <p>Item 10: Shareholder proposal requesting report on extent to which risks related to public concern over drug pricing strategies are integrated into incentive compensation arrangements.</p>		

What Is New In This Year's Proxy Statement

In February 2017, we welcomed Carolyn R. Bertozzi to the board. Dr. Bertozzi is the Anne T. and Robert M. Bass Professor of Chemistry and Professor of Chemical and Systems Biology and Radiology at Stanford University. She is an investigator for the Howard Hughes Medical Institute. In May 2017, John Lechleiter and Franklyn Prendergast retired from the board and on June 1, 2017, Dave Ricks succeeded John Lechleiter as Chairman.

Every year the Directors and Corporate Governance Committee conducts a robust assessment of the board's performance, board committee performance, and all board processes, based on input from all directors. We also conduct a detailed review of individual director performance at least every three years, when considering whether to nominate the director to a new three-year term. In 2017, we updated our process to include an assessment of each director every year.

The board has approved, and recommends that the shareholders approve, the following management proposals at this meeting. The board recommends approval of amendments to the company's Articles of Incorporation to eliminate the

classified board structure (see Item 4 herein) and to eliminate supermajority voting provisions (see Item 5 herein). The board believes these two proposals balance shareholder interests and demonstrate its accountability and willingness to take steps that address shareholder-expressed concerns. Lastly, the board recommends approval of the company's amended and restated stock plan (see Item 6 herein). Stock incentive plans have been an integral part of the company's compensation programs

P2

for more than 50 years. The board believes these plans enable the company to attract and retain top talent and focus employees on creating and sustaining shareholder value through increased employee stock ownership.

Highlights of 2017 Company Performance

The following provides a brief look at our 2017 performance in three dimensions: operating performance, innovation progress, and shareholder return. See our 2017 annual report on Form 10-K for more details.

Operating Performance

Performance highlights:

• 2017 revenue increased 8 percent to approximately \$22.9 billion.

• 2017 earnings per share (EPS) were a loss of \$0.19 on a reported basis and reflect charges associated with recently enacted U.S. tax reform legislation, activities associated with reducing the company's cost structure, and acquired in-process research and development charges.

• 2017 EPS increased 22 percent on a non-GAAP basis to \$4.28.

*A reconciliation of measures prepared in accordance with generally accepted accounting principles (GAAP) and externally reported non-GAAP measures is included in Appendix A.

Innovation Progress

We made significant advances with our pipeline in 2017, including:

• U.S. approval of Verzenio™ (abemaciclib) indicated both as a single agent and in combination with another chemotherapy agent for treatment of certain types of advanced or metastatic breast cancer.

• U.S. and EU approval for Taltz® (ixekizumab) for the treatment of adults with active psoriatic arthritis.

• EU and Japan approvals for Olumiant® (baricitinib) for the treatment of moderate-to-severe active rheumatoid arthritis and rheumatoid arthritis, respectively. Olumiant is part of the company's collaboration with Incyte.

• U.S. approval of updates to the label for Trulicity® (dulaglutide) to include use in combination with basal insulin for adults with type 2 diabetes.

• Submission for regulatory approval of galcanezumab in the U.S. for migraine prevention and resubmission of baricitinib in the U.S. for rheumatoid arthritis.

• Phase 3 clinical trial initiations of ultra-rapid insulin for diabetes, empagliflozin for chronic heart failure, and baricitinib for atopic dermatitis.

Shareholder Return

We generated strong total shareholder returns (share price appreciation plus dividends, reinvested quarterly) through year-end 2017. Our returns exceeded the compensation peer group but slightly lagged the S&P 500 across the time periods presented below:

P4

Governance	Further Information	
Item 1: Election of Directors	See page 11	
Name and principal occupation	Public boards	Management recommendation to pass
Katherine Baicker, Ph.D., 46		
Dean, Harris School of Public Policy, University of Chicago	Vote FOR	Majority of votes cast
Director since 2011		