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Zoetis, Inc. (ZTS)

Bank of America Securities Animal Health Summit

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CORPORATE PARTICIPANTS

Wetteny Joseph
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Michael Ryskin
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MANAGEMENT DISCUSSION SECTION

Michael Ryskin
Analyst, BofA Securities, Inc.

Great. Thanks for joining us again. My name is Mike Ryskin. I'm on the Bank of America life science tools and diagnostics team. I also have the privilege of covering animal health. And for our next session, we're joined by Wetteny Joseph, CFO of Zoetis. Wetteny, thanks for being here with us today. We appreciate it.

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

Thanks for having me, Mike. Great to be with you.

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QUESTION AND ANSWER SECTION

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

I think just to get the ball rolling, you reported 4Q 2021 results just last week. Can you give us just a brief recap of some of the key points, both from the quarter and the guide for 2022?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Yeah, I'd be happy to Mike. In 2021, Zoetis delivered our strongest annual performance ever, and that's thanks to our innovative, diverse, and durable portfolio, and of course, the talent and commitment of our colleagues. We grew revenues 15% operationally, and that's above the expected market growth rate in a $45 billion animal health market. We see that momentum continuing into 2022 where we again expect to grow faster than the market, and that's driven by the strength of pet care as well as expansion of our diagnostics portfolio internationally and of course, significant growth in emerging markets both for companion animal and for livestock, and thus markets like Brazil and China, for example. We've set our guidance for 2022 in the range of 9% to 11% operational growth for the year. And we're also committed to continue to invest in our talent, in our technology manufacturing, as well as innovation that will continue to drive our future growth.

So with that, I'd be happy to take your questions.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

Great. And as a reminder to investors, we're going to run this more or less as a fireside chat format. But if you've got any questions, feel free to send them over either via the Vericast portal or via Bloomberg chat or e-mail, and we'll work them in.

I guess, just to start, going back to your guide and sort of your expectations for the year, let's start maybe on companion animal. It's a segment that's done incredibly well for the Zoetis over the last couple of years, and it's been a combination of a couple of different things. And then the market has seen better performance across the board. But then also the Zoetis has a number of really significant growth drivers that have really kicked in. So maybe just starting on the end market trends, what are you seeing from a vet clinic visit level throughout the second half and towards the tail end of 2021? What did you see in early 2022 and what are your assumptions for the rest of the year? Sort of where do you see those levels normalizing? What's sort of the new normal in companion animal vet clinics?

A

Yeah. Look, we see a very strong animal health background here. And it's not just in the US. We see it across just about every market where we operate, including emerging markets. There are more pets. People are spending more time on their pets and actually they're willing to spend a lot more on their pets. And we see millennials and Gen Z being more significant portion of pet owners. And you saw or you heard our comments in the earnings call recently where there was a survey of 16,000 pet owners and about 1,200 vets as well where 86% of the pet owners said they would spend whatever it takes if their pet needed extensive veterinary care.

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And so with 60% of our global revenues in companion animal in 2021, and actually, if you look at the US, the percentage was almost 75% of our revenues in companion animal in 2021. Given the momentum that we have, as you said in a number of products, whether you look at parasiticides with the Simparica franchise overall, but our whole fleet of heartworm franchise, which actually grew 45% on the year. We continue to expand our derm key products across markets, both US and international. And we have a really strong start to our maps in Europe. Those opposition as well to capitalize on that really strong sort of companion animal backdrop.

So in terms of [indiscernible] 00:04:24 traffic and revenue, we've seen really robust growth, certainly across the last couple of years. But I think what's important to note here is this is not a new trend, right? We've seen this trend of pets coming into the home, coming into the bed and then continuing to spend a lot more on them.

And our innovation has certainly helped to capitalize on that over time, where you're seeing a greater sort of prioritization on the health of pets and more spend on them over time. What we've seen over the last two years certainly is an acceleration of that trend, but not a new trend. And we believe that will continue to be durable in terms of that appetite for spend and the sort of raising of the standard of care for animals overall.

So we do see that continuing and driving growth here. We saw the fourth quarter, for example, we saw vet clinic growth of 3%. Also 5% growth in spend per visit, which if you look across the last eight quarters, that's been the more consistent element because we've seen times when you know a variant – of COVID variant is coming through and you see visits come down like in Q2 in 2020 and Q1 last year 2021, for example. Yet in both of those instances, in every quarter for the last eight quarters as you've seen an increase in spend per visit and an increase in revenue as a result.

So we do see that again continuing and I think given our broad portfolio and innovation, we believe we're better positioned to capitalize on that than anyone else hence the guidance that you saw from us for 2022.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

And speaking about the resilience of that spend per visit as opposed to just the underlying volume trends, I think we're seeing some of those concerns early in 2022 because some of the data from January and early February in the US indicated that vet visit trends are down again. Are you sort of seeing the same resilience in the channel where despite some of those challenges, I mean, tied to Omicron and tied to some supply issues, you're still seeing the strength of that market?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

We certainly are. And look, I've been spending some time with our customers. I was at a conference recently, the weekend before last, where I spoke in front of hundreds of our vets and had a chance to sit down with some of them. And certainly, there's no indication that there is a slowdown in terms of the demand that they're seeing for visits to them in the time that it's taking to do that. Certainly, we continue to see that enthusiasm and the momentum will continue. And again, we believe it will be – it's durable and the levels will continue above the pre-pandemic levels even if they were – if they were to moderate a bit versus what we've seen over the last couple of years.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

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Okay. And then as far as it pertains to some of the innovative products you talked about, maybe we'll touch on Solensia and Librela first, because that's probably the newest part of the portfolio, right? Certainly a lot of confidence given what you've seen in Europe so far. How should we think those launch dynamics translate to the United States? How do we think about ramp for Librela for example? I mean, is it fair to just take the numbers from Europe and transport them over to the United States in terms of quarter-over-quarter growth, how it scales up. The US market is certainly a lot bigger, but I think we've been pleasantly surprised by how quickly these have been taken up in Europe, and your comments that Librela is going to be a blockbuster just this year. So yeah, how do you think about the EU to US transition there?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Yeah. We've been very pleased with the demand that we're seeing for Librela and Solensia. The feedback has been really positive from pet owners. They're seeing increased activity. They're seeing sociability improvements with their pets certainly looking at the safety profile and efficacy. That's driving a lot of the demand that we're seeing for these products. And really some of the underlying data, albeit still early, right, relatively speaking, it's been very encouraging. We are seeing compliance being above our expectations.

We are seeing 40% of the pets that are being treated are new to the category. And, as you know, part of what we anticipate is an expansion of the OA pain market from where it's been. And we estimated about $400 million on the sort of dog side of things globally and because there's an established market there. With respect to two feline, we – there's not an established market. So we think it's a sub $100 million market, call it. We think that can go to $200 million. But on the dog side, a $400 million market, we believe, can go to $800 million. So you'll get the combined products and you can see about $1 billion in terms of market there as we look out, say, five-plus years.

And so we – having said that, given the – what we're seeing so far with 40% of pets being used to the category and the compliance rates, it's certainly very encouraging when you look at that as a backdrop. Now, how does that translate to the US? Typically, the US is a bigger market, number one, as you said. Also, we tend to see a bit faster adoption in this innovation in the US than we've seen in other markets. And it takes longer to get to peak sales outside the US than, say, the US. And so we anticipate approval at some point in the US as we continue to make progress on that front, When that time comes and we launched the product, we will learn from the processes that we've done. Certainly in Europe, we've done early, sort of, experience programs and other things like that to be delivered about how we go about executing and take advantage of those. But certainly, what we're seeing in Europe as we translate that to the US again is very encouraging.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

And when you think about the approval process and the moving pieces there, you sort of reiterated your prior comments in terms of Librela approval in the United States. But Solensia did come in, it feels like at least a couple of months earlier than expected. You talked about Solensia being more of a first half of the year product and it came in, I think, January 10 or January 11. So anything we can take from that? Was that just a oneoff or is the FDA finally working through their backlog and we can expect a little bit faster timing with some of these processes? What's going on with that?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Well, certainly, we're happy to see the approval come in as early as it did in the year. These processes take some time and we work with the agency throughout and make progress and so we can sort of range a timeframe where

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we think it may come through. In this case, did come in a bit faster than we thought. They did have to do an inspection outside the US which, of course, occurred last year. And after that happened, we – you would have seen different language coming from us in terms of our confidence level. But it's never something that you can absolutely pin down and nor would I sit here and say just that one instance is indicative of what we might expect in the future, but certainly was encouraging and again it required an expression outside the US which we also require here for Librela approval. So that was certainly an encouraging sign as that took place, but of course as variance and other things happened, the agency's timing in terms of executing those types of inspections outside the US may be impacted.

So as we sit here, we would anticipate such – an inpsection to happen early enough in a year such that after the inspection and the normal processes would take place, that we would see an approval sometime in 2022, but it would certainly be in the second half.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

Okay. Okay. And launch timing after that approval, you talked about Solensia being a little bit more of a measure to launch just because it is a new market, so maybe gradual launch than broader expansion. What about Librela? Could it be a faster approval to launch window because pain – canine pain is a little bit more of an established market here?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

So look, I won't go into specifics on Librela. Certainly, once that approval happens, you do have to get the label set based on the approval and what you are able to put on the label. We'll do that and then get the product out in the hands of vets. And certainly given the momentum and the performance of the product out in Europe, there's certainly a lot of interest in getting that out. We'll do so but we'll make sure we follow the process to learning from what we've done elsewhere.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

Okay. And a point that came up a decent amount on the 4Q call was sort of some of the supply constraints, some of the issues in terms of manufacturing. It's something we talked about a lot across the rest of our coverage when it comes to processing and supply chain as it comes to what's going on with COVID vaccine and how that's soaking up a lot of the reagents used. So can you give us a little bit more color on that, sort of how transient are those issues? And is this going to be a gradual recovery from that or have you already taken those steps and starting 1Q or 2Q, you're back to what would be your normal run rate on those products on the mAbs?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Yeah. Look, Mike, I couldn't be more pleased and proud of the work that the team has done over the last three years. It's not just across mAbs, it's across the landscape to navigate across challenges that have come up in the supply chain. And when you talk about mind to bodies, their long lead time items no matter what race, so you have to get to a bioprocessing manufacturing element and you have to get to the fill/finish etcetera. So these are relatively long lead time and the demand for the equipment and inputs is high and that was before COVID.

So you – and you know, I came from a place that does a fair amount of bio processing as well as fill and finish. So I know they track fairly well in terms of putting all the equipment that it takes and some of the single use bags or

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filtration, etcetera. And so long lead times we've been able to navigate through those. These are not our first mAbs, of course, you know, we have [indiscernible] 00:14:25 point and with the Librela and Solensia in Europe as well.

So look, I'm confident in our ability to navigate through these. There have been sporadic constraints from time to time that we've had to get through, but we also delivered 15% operational growth last year, where 14% of that was volume. So clearly we've been able to navigate through those and I'm confident we will as well as we look in the future.

We had to have a certain level of confidence to go into the assumptions we have in our guidance for 2022 to put those out there as well.

Q

Okay. I figured you might enjoy the chance to talk about fill/finish for once [indiscernible] 00:15:01

A

I t's been – It's been a while. Yeah.

Q

That was a softball for you. Got a couple of client questions that come in across a number of these topics. One is, in terms of the success you've seen of Librela and Solensia in Europe, granted, it's only been a couple of quarters. Can you address any surprises or any takeaways you learned in terms of what worked [indiscernible] 00:15:21 where you saw better uptake or worse uptake and sort of how you're incorporating that into your future plans?

A

Yes. So, look, as we look at this market I mentioned earlier, we expect the doubling of the established dog market and getting the feline market up to $200 million. I think there are assumptions that were behind those with respect to price and an expansion of those markets. I think what we've seen is what we expect from a price perspective to be able to price these premium versus what's out in the market today. But certainly from an expansion standpoint, what we're seeing is very encouraging, I would say, with respect to what the implications might be in the future. So I think the lessons with respect to feedback that we're getting from vets and pet owners has been very positive.

I think on the feline side, certainly isn't what we expect. Getting cats into the clinic is more difficult than the dogs. They're under-mentalized, etcetera. So we do believe that will take longer to develop those markets and so on, but that's in line with our expectations. But in terms of the feedback we're getting from pet owners and vets has been really, really positive and we're very pleased with that.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

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Okay. A question that we've been kind of kicking around for a little while and I know we talked about in the past was these products you're launching and they're not going into nascent markets for you, right? Simparica Trio, great product, great success so far. But previously, Zoetis has a position with ProHeart, ProHeart 6 or 12. You've got a position in terms of standalone Simparica of Revolution Plus. And I mean when you talk about the mAbs, Rimadyl, right? Somewhat similar indication, some overlap. So can you talk about what you're seeing in terms of cannibalization, what your expectations are with both the triple combo and the pain mAbs, cannibalization of existing products and sort of how that's played out relative to your expectations?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Yeah. So look, let's take a look at parasiticides and talk about Trio for a second, right? As we sit, our flea, tick, heartworm franchise overall last year grew 45%. If you look at Simparica combined, right, Trio and Simparica, those grew 82% last year. And so – and Simparica, particularly when you look at markets outside the US grew quite well. So globally, Simparica grew 13 last year, but international markets, Simparica grew about 45% on the year. So we've seen really strong growth in areas where we're launching new innovation where there might be some level of overlap because the market continues to expand and some – in the case of our parasiticides, Simparica was still sort of targeting markets where heartworm is not a particular problem. So, a little bit of a nuance there. But we do believe that as you bring out innovation, particularly in the pain side of things where from a safety profile perspective and then from an efficacy standpoint, it certainly is a step above anything else that's out there that tends to drive perhaps more from an expansion standpoint.

So even if you have some level of cannibalization, the fact that we're expecting to double the size of the market means that net-net we'll see really strong growth there and it's unique innovation versus anything else that's in the market. So we expect to enjoy a majority of that as we go out.

So I do think it's hard to pin down exactly how much cannibalization, I would say, even in the case of Simparica and Simparica Trio. But combined, the products continue to grow. And we would expect certainly for Librela to take a stronghold now. Even as early as within the first year, we've seen Librela become the number one pain product in Europe as we got through Q4 here. So, certainly it's very encouraging and that would factor in as you look at cannibalization, etcetera.

Q

And sticking on – staying on this Simparica Trio front, obviously, really, really strong growth so far. I think above your initial expectations, probably above most investor expectations we've seen. Given where you sort of ended 2021 with the product ramp, is it fair to think that we're going to start to see some of the seasonality that you normally see with parasiticides show up in 2022? Or are we still sort of in that rapid ramp phase? You saw a little bit of it last year with 2Q a little bit stronger, but to be honest, 3Q and 4Q came in better than we had expected. So where are we on that ramp curve in terms of seasonality impact?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

So, look, I think it'll be harder to see seasonality here because we are continuing to grow the product. We are putting investments behind the product in terms of the DTC, in terms of our field force. We are still the only triple combination in the US on that. So if we do that, it may be harder to see sort of pronounced sort of seasonality here. Of course, as we got through 2021, we lapped so that the launch of the product, which happened in 2020 so perhaps not the same level of percentage growth that we're talking about, but certainly a strong contributor to our

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2022 growth expectations and guidance. But again, as we put more investments behind the product and more field force, etcetera, including field force in DTC, etcetera, I think you may not see as much of that pronounced sort of seasonality at this stage.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

Okay. And again, on the parasiticide front, another question from a client, this morning Elanco indicated that they're expected to submit to the regulatory agencies in the US up to two blockbusters this year, one for derm, one in parasiticide, and they're both expected to be differentiated blockbusters. So any idea or could you opine on what could be differentiated or how others could be coming after you in those markets?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

So look, when you look at flea, tick, heartworm, Mike, just talk parasiticide for a second, it's a $5 billion market within what we say is a $45 billion animal health space. So it's the biggest market within. And so it's an important market to us.

It's an important market to others. We expect competition to come at sell points. And we're continuing to really invest behind the product with our – with us being the first, with a triple combination in the US, an established brand, established pet owners on the product working really well for them.

We're going to continue to put investments behind it. We're going to put investments in our field force and we're going to continue to innovate in this space against a $5 billion market that we're not ceding to anyone, weren't expecting anyone to cede to us. So we'll continue to drive across the spectrum to grow those. And then I'll say similarly with respect to [indiscernible] 00:22:21. This was a market that we've expanded substantially over the years and we landed nearly $1.2 billion of revenues in 2021.

And we saw 24% growth across our key term last year. And so we're continuing to, again, put more behind that. It takes longer to get to peak sales in international markets, as we talked about with respect to what we might expect going forward with our [indiscernible] 00:22:44 products. Similarly, here we're continuing to see and we think there's more headroom externally outside the US and in the US for that matter.

We think about 6 million dogs that are not treated for atopic dermatitis issues that are still to be sort of expanded into. So we'll continue to drive that. That's just in the US, by the way. We think a similar number outside the US as well. So we're going to again DTC awareness campaigns and so on to drive that and we're going to innovate. You might have seen the approval of [indiscernible] 00:23:17 by way of example, in Europe.

We spent $500 million in R&D in 2021 as the biggest player in animal health, we're positioned to continue to invest in R&D. I think anyone who looks at the facts and numbers will we'll see that it's most productive R&D engine in animal health, and very disciplined process that go through, I've been very impressed with that as I've come into the organization and really high ROI in terms of our investments there, and we'll continue to invest. And certainly these two categories you talk about parasiticides and derm are extremely important to us, so they'll still see their fair share of that spend as well.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

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Okay. That was actually going to be one of the next topics I was going to ask was going to be additional innovation on your side of things, but I do want to go a little bit deeper into that.Obviously, we've talked a lot about how others are looking to get into derm and getting into triple combo market. It's something that we've been talking about for years and years. I think 2018, 2019 was the first time we started asking questions about that,. So it's been three or four years, we still haven't seen competition. I think it's safe to say it's coming and just given how long it's been anticipated. But what else can you do to stay ahead of that, right, both on the innovation side and on the commercial side, are there additional life cycle extensions like chewable that you can take? Are there – is there additional coverage you can introduce to sort of just sort of stay ahead and make sure your product continue to be even more innovative and even more ahead of the other competitors.

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

I'll say, Mike, it's all of the above. It starts with what shorter terms, sort of DTC type items to investments in our field to lifecycle innovation. I mentioned $500 million of R&D spend in 2021, will a good porrtio – that about half is going after lifecycle, sort of, innovations of existing products plus other products. Again, we're doing to continue to invest behind these areas. They are very, very important to us. And our teams have demonstrated an ability to do that and do that very effectively as well. So, we'll continue to prioritize those.

Q

And assuming, let's just say, that a competitor product is launched for either triple combo or derm 6 months from now, 9 months from now, 12 months from now. What's the reaction from you, is there a plan on pricing? Is there a plan on bundling sort of how – what's your strategy for dealing with that and was the response we're going to see?

A

So look, I mean, for competitive reasons, I don't know if I get into too much detail in terms of what exact moves we'll make, but I think what you've seen from us already in terms of how we're putting more investments behind these products is part of how we – we'll make sure that we maximize the opportunity that we have before us and what we'll do if and when there's competition or otherwise.

And so we expect competition. We certainly won't be surprised by it when it comes, and therefore our planning and execution is accordingly. And I think, whether you look at what I've already described in terms of examples of expansion or the diverse portfolio we have and the relationships we have across markets, solid markets where we can bundle and take advantage of our full spectrum across derm.

Now with the OA pain franchises, as well as [indiscernible] 00:26:47 etcetera, we certainly will do that. And might I mentioned diagnostics as well. We will certainly do that and leverage our full breadth in terms of how we approach the market from a competitive standpoint when there's competition in these areas.

Q

And just the question we're seeing across all of our coverage, obviously inflation's on everyone's mind. Can you talk about sort of your expectations for price increases across the portfolio, right? I mean, there's different areas where you going to take different amounts of price based on how innovative it is based on how much of a sort of

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monopoly you have on the market. So, any high level promise you can make here and then maybe more specifically for things like Trio and derm. Can you give us a breakdown of volume versus price growth, where are you there with that, especially for [audio gap] 00:27:40-00:27:53

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

...I mean, the first thing to look at is really strong demand across pet care, in particular across the market. So with our innovative products, we have an opportunity to really take price. By the way, we also have mix to our favor, right, as pain animal is a bigger portion of our business and we have innovative products that are growing faster than livestock that's going to drive our margins up from a mix perspective first and foremost.

Now we look at pricing, which by the way, we have other markets by way of example where we've seen high inflation that we've taken price and continued to see strong growth across those markets. If you look at Brazil, for example, you look at Turkey and elsewhere around the world, we have taken price up to meet or surpass offset inflation, and we continue to enjoy really solid growth across those markets. And so it's a muscle that we've exercised and we'll continue to exercise.

Inflation is not new even in the US. As we went through last year, you saw inflationary pressures on inputs. You saw you saw that in freight in other areas, we've been able to expand on margins in the face of inflation through price. So I think there are a number of areas that we will. But as you said, we're going to take a very deliberate approach and very thoughtful approach where it's by SKU, by market that we'll look at what the opportunity is for price and we'll drive to optimize those.

Now across companion animals, certainly, it's very obvious that we can do that in certain products given the demand profile and then a vision, it's very obvious that we'll do those as well. There are some areas we won't. You look at, for example, the livestock. If you look at Jackson, given we expected to see about a 20% impact in the first year that is largely price related. We're going to go to maintain most of our volume there, particularly if you look at the US. As we go into our second year of generic competition for Draxxin, we are expecting another 20%. That's not an area that I would look and say, yeah, we're going to take price there, right?

And so I think there are some areas where we want. But keep in mind, there are products within livestock where we see opportunity to price and we want to take the price. So I think, we've demonstrated an ability to expand margins. We have mixed to our favor here and we'll drive price across the spectrum where we see the opportunity. And if you look at last year in 2021, we expanded on margins. I mean, net delivered price expansion even net of the Draxxin sort of headwinds and we'll look to continue to do the same.

Q

On the topic of Draxxin is you called out a 20% hit last year. I think it was more back half loaded just given it took a little bit of time for the others to the ramp up. And then you're spiking another 20% this year. Is that going to be it? Should we expect Draxxin to normalize beyond that next year? I think in the past, we've kind of seen a 30%, 40% erosion. So you're kind of going to be there at the end of this year. Is that where you kind of draw the line?

A

That's about right. Look, it's really played out to our expectations, maybe a little bit better than our expectations if you look back in 2021. So competition really came in sort of late Q1. So we're back to sort of annualize the first

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round and we expected about 20% sort of impact. It was a little bit better than that. We're expecting another 20% in the second year on Draxxin KP talk about sort of innovation across the portfolio in terms of life cycle, etcetera. KP has a little bit of a pain management element to it. And so that helped us to maintain sort of a volume here. And if you look anti-infectives in terms of class, [indiscernible] 00:31:33 is a, sort of, premium class where producers may not have chosen to pay the price for those depending on what their risk appetite was. But as prices have come down, they're actually expanding the use of those in terms of within that. So rather than using a different anti-infective, they use a premium product. And so we're seeing an expansion of the market as a result of that. That's again providing more volume.

So we believe when the dust settles, that will remain a leader in the space. And by the way, despite the price sort of pressures that we're seeing from our generic competition, we still enjoy a good, really solid margin for that product. So we'll continue to drive that. And so it's really roughly in line with our expectations, maybe slightly better. So we do think things will normalize a bit for livestock overall as we get beyond 2022, as we get into 2023, 2024.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

Okay. And then, I had a question come in from the audience. We're hearing from some of your peers that wholesalers or distribution players are launching white label products. Is this an issue for you? Have you come across this and sort of what's your take on that?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Look, it's not surprising in terms of elements that we see happening in the space. We have really strong brands and innovation that pet owners have gotten to know. We delivered $1.2 billion of term revenues last year across our keys derma products. So certainly, these are products that are known and trusted by pet owners across the board and across the globe, and we continue to see growth across those as well. We're seeing strong growth across our parasiticides franchises, and that's just Trio, Simparica, [indiscernible] 00:33:25 etcetera as we look across the landscape in terms of revolution plus etcetera. So we'll continue to drive those with respect to investments behind our products and as we go forward here.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

Okay. I'm going to remind investors about five minutes left, so if you've got any questions, feel free to submit them via chat or via the system. One high level one for me. I mean, we touched on the monoclonal Abs. We touched on Simparica. It seems like in general, if you sort of take a step back, innovation has really paid off for Zoetis, right? There's been new product launch after new product launch after new product launch, some of them internally developed, some of them brought in via deals. But yet it still rings true that a lot of the innovation that we've seen animal health has come from Zoetis. Is this – sort of I mean, how do you attribute this? Is this something different than you're doing in the R&D organization versus others? I mean, we know BI, and Elanco, Merck, they're all spending on R&D. And yet, product after product seems to have come from Zoetis, more than your fair share. So what's driving this and sort of how sustainable is it going forward?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

So, look, guys, I came into the organization now, time flies, it's almost nine months. One of the elements that I continue to to dig into and really try to appreciate, Mike, was, it's one thing for a company to be a leader, right, to

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be number one in their space, but to get there through innovation is really special, right? So how do you get to number one is as important as whether you're number one or not, right? And so as I as I dig into that and was really the subject of a conversation I had with vets recently, it really comes down to our mission and our purpose and how that permeates throughout the organization, how every colleague is working hard to do that.

And then you have the financial sort of wherewithal to back it up and the rigor and process and discipline that goes behind it. And so all of those things have to work together to deliver what we have, enable to deliver and when [indiscernible] 00:35:34 continuing to do it. And as I mentioned, $500 million a span given our size and as we increase our spend, it certainly is a priority area for us with respect to R&D and the track record has been proven there as well.

So it was certainly an important aspect that I had to understand and evaluate and appreciate, and it factors into capital allocation decisions that I'm involved with, with the rest of the executive team to continue that that the track record in terms of performance of our productivity, of our of our R&D spend.

Q

Okay. And then maybe just in the last couple of minutes, shifting to the P&L and to some of the financials, I'm not going to ask about the specifics for 2022 and the puts and takes there, but I think bigger picture, one of the other debates we've had in animal health is. Sort of what the long term margin profile co-locating should look like, and for the longest time, 70% gross margins and something approaching 40% of sort of seen as the ceiling for Zoetis.

And lo and behold, you're essentially there, if not ahead of there. So I guess, put in other words, what is that long-term profile? What is that long term ceiling and what are the key drivers behind that? Is it portfolio shift. Is it, companion versus livestock, that simple, innovation versus not innovation, US, OUS spreading to more investment in DTC diagnostics.

You've got all these different levers. But how should we think about your financial profile over time and how all of that stuff filters down?

A

Yeah. Sure, look, certainly if you look at the business that naturally has an ability to continue to expand margins from where we are today, where it starts is to your point, if you look at companion animal has margins that are greater than the company average So as we see 60% of our revenues in companion animal and that growing faster than livestock, right, in the US is north of 70% of last year's revenues for companion animal, that will contribute towards that.

If you look at the innovation in the products that we're bringing out that are meeting unmet needs like the molecule antibodies that we are able to not only get through development cycles and get through approvals, but have the ability to scale those to levels that we can deliver volumes and margins that we're talking about here that are at or better than our companion animal on average. I think that's not a trivial element in terms of combining those and getting those done. So we see that as a platform in terms of monoclonal antibody. And we'll continue to develop on that platform for potential future launches that I think will continue to contribute to that innovation element going towards higher margins.

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Now, we demonstrated certainly in the past and what we're doing now is that we will invest in the business in areas that we see the ability to help drive even acceleration of growth, etcetera. So we're not shy about doing that and we're making those investments and we're making investments in our CapEx for manufacturing, for mAbs, etcetera, across our network. We're investing in our field force. We're investing in D2C, etcetera. So as we do that – and by the way, in R&D, speaking of the very productive engine that we have built over the years.

So those will sort of be offsets to what might otherwise be the margin expansion, but we will always look to deliver higher growth at the bottom line than the top line. So, case in point, this year, 2022, we should 9 to 11 guide for the top; 10 to 13 at the A&I line. So we'll continue to do that.

Michael Ryskin
Analyst, BofA Securities, Inc.
Q

Great. Yeah. We're essentially out of time, but I've got one last question that came in so I want to try to squeeze it in real quick.

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.
A

Yeah.

Michael Ryskin
Analyst, BofA Securities, Inc.
Q

It speaks to the companion animal therapeutics portfolio versus diagnostics. It's something you talked about in the past and with the Abaxis deal and the Reference Lab deals sort of leveraging your position in companion animal drugs and capturing those synergies with diagnostics. Can you give us an update on that, both on the on the revenue side and on the cost side, how are you thinking about sales force between those two? What have you seen in that between those two businesses since you acquired of Abaxis? What's your vision forward?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.
A

Yeah. Really, pleased – look, diagnostics is a faster growing element of animal health, with double-digit market growth there. If you look at 2021, we delivered 21% growth that's above market, even on diagnostics growth rate. So very pleased with our progress there. We're innovating in that space, too. Speaking of innovation with images, for example, as a AI platform which I've had the opportunity to see use of at a vet clinic, etcetera. So, very pleased at the progress that we're making across diagnostics and we'll continue to invest in it.

I think if you look across point of care, which is largely what the focus of the Abaxis acquisition was, other acquisitions we've made in Reference Labs. And then you combine that with innovation like we're talking about with images. And then the combination is very powerful of both internationally where we saw that as a more level playing field, but also in the US and other markets, we have larger corporate accounts, etcetera, having that scale for them across their clinical portfolio is important. So we're making those investments, which we believe will pay off for us as we look in the future. But again, very pleased with what we've done in terms of progress today, and we're committed to continuing to invest behind those and drive the growth and capitalize on that As we look across the continuum of care, diagnostics is critically important in that.

Now, as we mentioned, right, we have [indiscernible] 00:41:28 portfolio from a pharma perspective and leveraging that across with our customers in markets where we are able to do that, we certainly are and will.

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Michael Ryskin

Analyst, BofA Securities, Inc.

Okay. Okay. Well, with that, now we're definitely out of time. Thanks so much, Wetteny. Appreciate you joining us. It's good to see you. Clients, investors, thank you for dialing in. Hope you found this session useful, and good luck with the rest of the day. Hope the rest of your meetings go well.

Wetteny Joseph

Executive Vice President & Chief Financial Officer, Zoetis, Inc.

Thanks for having me. Enjoy the rest of your conference.

Michael Ryskin

Analyst, BofA Securities, Inc.

Thanks, Wetteny. Always a pleasure.

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