

10-Nov-2020

# Zoetis, Inc. (ZTS)

Credit Suisse Healthcare Conference

## CORPORATE PARTICIPANTS

**Glenn C. David**

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

---

## OTHER PARTICIPANTS

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Hi. Good afternoon, everybody. My name is Erin Wright. I cover Lifesciences Tools Diagnostics at Credit Suisse. And welcome to our 2020 Healthcare Conference. It's obviously in a virtual format this year. So a little bit different. If you do have questions, feel free to e-mail me at erin.wright@credit-suisse.com. We'll be happy to pass them along to management here. We do have Zoetis with us for this presentation and it's a fireside chat format. So we'll get right into Q&A.

But with us we have EVP and CFO, Glenn David. I think we also have Steve Frank, who heads up the IR effort on the line as well. But we're happy to get started. And – but welcome. Thank you for, thank you for coming.

---

**Glenn C. David**

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

Great. No, thanks. Thanks Steve. Thanks for letting me be here and [indiscernible] (00:00:50) Erin.

## QUESTION AND ANSWER SECTION

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And just to kick it off. Let's talk about fundamental demand trends across the companion animal segment first. What have you seen quarter to date as well as in the third quarter, there was an element of pent-up demand? Can you help us break down some of the components of sort of the underlying demand trends in the quarter? What you're seeing in areas such as like underlying spending per animal as well as potential tangible evidence of increased pet ownership trends.

**Glenn C. David**

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

A

Yeah. So, obviously we've seen very strong performance in companion animal. As you mentioned, we grew 20% in the quarter in companion animal, we've grown 15% year-to-date, so really demonstrating strong resiliency during the pandemic. A couple of trends that we saw in the quarter. We did see vet visits start to stabilize whereas in Q2, vet visits were down. We saw that relatively flat versus last year, which was a positive trend. What's equally encouraging was the revenue per visit was up significantly. So while the vet visits were relatively flat, we saw revenue per clinic up almost 12%, which would indicate that people are spending a lot more when they are visiting the vet, which is a very positive trend. We think there are a couple of factors that are driving that. A, people are home a lot more and spending a lot more time with their pets and they might be witnessing some more of the elements that they are seeing and they're bringing those up with the vet when they go for the vet visit.

Also, we have seen obviously – has been mentioned, an increase in the number of adoptions so we do believe that that's helping as well. And also a little bit of pent-up demand as you mentioned in the quarter as some of the visits may have been delayed from the past. So they might have been picking up on some of their spending or from a pharmaceutical perspective.

But overall, the underlying trends remain very positive for the market and then for us in particular, a big part of our growth continues to be driven by our innovation and obviously really excited by the launch of Simparica Trio and the continued growth we see in that product. We did about \$50 million for Simparica Trio in the quarter and we continued to also see strong performance from Simparica as well, 4% and 5% in the quarter; so really strong overall performance from the breadth of our portfolio, the launch of Trio. Simparica, the rest of our parasiticide portfolio and as well as our derm portfolio, which also performed very well.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay, great. And then switching gears or switching species here to our groups to livestock. So on the 9%, I believe, operational growth in the most recent quarter, what were the key drivers of that? I think you mentioned like an expedited cattle run that we saw that helped the trends there. But what are you seeing in terms of underlying demand trends across that segment as well?

**Glenn C. David**

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

A

Yeah. So there were a number of key factors for our livestock growth. As you mentioned, US cattle performed very well in the quarter. But a big portion of that impact was somewhat seasonal. We did see a catch-up in buyer

patterns with our customers returning to more historical buying patterns in Q3, where they were a little more hesitant in Q2 with the uncertainty around the pandemic. We also saw an acceleration of the fall cattle run, so moving some sales from that we would typically see in Q4 into Q3. So because of that, we do expect a weaker Q4 in US cattle. Some of the positive underlying trends that we saw though, particularly in swine in China, we saw very rapid growth in our swine business in China, almost 159% growth in swine in China for the quarter as we recover from the impact of African swine fever. Q3 was a challenging quarter last year. So it was somewhat relatively easier comp, but on a year-to-date basis, our swine business in China continues to grow and perform very well as the larger producers continued to increase the size of their herd and we do very well in our performance in the larger producers.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then can you quantify how much the cattle run impacted the third quarter, so we can frame how that impacts the fourth quarter? Because I mean this is a timing dynamic that we've seen in the past. And maybe you could reference maybe historical trends that we've seen in terms of it shifting from the third quarter to the fourth quarter or vice versa?

**Glenn C. David**

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

A

Yeah. So when you look at the overall US cattle performance, we grew a little over 20% in the quarter. Right. And if you want to break that out, about half of that was driven by the cattle, around about half of that...

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay.

**Glenn C. David**

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

A

...was driven by the normalization of buying patterns. I think a better indication of performance is probably looking at some of the year-to-date growth. We've seen year-to-date growth in our US cattle of about 2%. And we expected for the year to be relatively flat, which is probably a better indication of underlying demand in that segment.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then we were also hearing some kind of noise in the channel about sort of the poultry and aquaculture markets internationally. Obviously aquaculture is almost all international anyway.

**Glenn C. David**

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

A

Yes.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

What are you seeing across those businesses?

**Glenn C. David**

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

A

Yes, we're seeing very strong performance in our aquaculture business. On a year-to-date basis, we've grown 16% in aquaculture, really driven by some of the innovations we've brought there, particularly with our Alpha Flux product in Chile. But also, we also in the quarter, we acquired a company called Fish Vet Group, which added some sales as well and they're focused on diagnostics for aquaculture. So that represented about half of the growth that we saw in the quarter for aquaculture. Poultry was a little more challenged in the quarter globally, both in the US and in international markets. And what we saw there is a little bit of a rotation from our products that are used within the poultry setting and that's something that's standard in the industry to prevent disease resistance that you rotate from products occasionally. We've been very fortunate that we have a very broad portfolio and we've seen consistent growth there. But we have seen some impact from a rotation away for some of our products in the quarter. That'll probably continue as we move into Q4, but something that we'll recover from as they rotate back to our products.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Yeah. Your annual guidance does assume, I guess, it's 7% to 8% operational top line growth for 2020. It does assume somewhat of a step down in the fourth quarter naturally with some of the things that you just mentioned. But is there any sort of lingering COVID headwind embedded in there?

**Glenn C. David**

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

A

So in terms of the companion animal performance, right, I don't think there's too much of a lingering COVID impact. Obviously we have a range of outcomes and it does depend on severity of the impact of some of the lockdowns that we're recently seeing in many different markets across the globe as well as some of the geographies within the US.

So obviously a range of performance for the year of 7% to 8%, but it's a bigger arrangement. We look at just one quarterly impact. So there is a range of outcomes from an impact of COVID, but we do – in general, we anticipate things to be relatively consistent with what we've seen in Q3. And obviously from a livestock perspective, we expect our producer customers to be able to operate pretty much at normal capacity like they have been to date. But again, the guidance that we provide, it does provide for a range of outcomes related to the COVID impact.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And switching gears to innovation, I wanted to first talk on Simparica Trio. So how the traction has been relative to your initial internal expectations and how cannibalization has played out relative to your expectations as well, particularly in a COVID environment? And I guess we'll start there and then I have follow-ups.

**Glenn C. David**

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

A

Yes. So overall, our parasiticide portfolio is performing well and performing in line or even slightly above our expectations on an overall perspective. Right. Simparica year-to date has grown 11%. And that's even with the launch of Trio and the incremental \$110 million of sales we've had from Trio year to date. Trio itself when we started the year, we said we expected \$125 million to \$150 million of incremental sales. With the impact of COVID-19, we've brought that down to \$100 million to \$125 million because of the fact that we thought it'd be

more challenging to penetrate clinics during the COVID environment and to be able to get patients to switch to a new product when they weren't necessarily having the same interaction with the vet that they were in the past.

However, what we've seen is while the penetration in terms of the number of clinics adopting Trio has been lower than we expected, the actual market share, once we've gotten into those clinics has exceeded our expectations. And because of that, we brought our guidance back up for incremental sales of Trio to \$125 million to \$150 million. So we're very encouraged by the launch. We've also invested heavily behind the product with direct-to-consumer advertising, which we believe has also benefited the sales and we're very excited for the future of Simparica Trio as well and the trends that we're seeing.

In terms of the cannibalization of Simparica, as I mentioned, very strong performance of Simparica on a year-to-date perspective. So, it's actually been a lot less than we initially anticipated in terms of the cannibalization with Simparica growing 11% year-to-date and growing 5% still in the quarter.

---

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Is that a function of you think the – any sort of competitive dynamics that have changed in the market? Or is it the fact that you have several different now modalities across, across parasiticides that you're able to bundle together and that becoming a competitive advantage for you?

---

**Glenn C. David**

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

A

Yeah. I think it's the latter right, just the breadth of our portfolio being a competitive advantage, right. We're able to [indiscernible] (00:10:27) multiple solutions to treat their patients if they want the convenience of Simparica Trio, that's obviously something that they can choose if you're very concerned about heartworm protection and want guarantee 12-month heartworm protection, you can use ProHeart 12 and then combine that with Simparica as well. So we really think the breadth of our portfolio has really helped drive the sales for the Simparica and the overall parasiticide franchise. As we mentioned on the Q3 earnings call in the US, as an example, we've increased our market share in the parasiticide area by six market share points in the quarter versus the same quarter of the prior year.

---

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then how do you think that Simparica Trio is matching up or competing with NexGard, Spectra and other geographies?

---

**Glenn C. David**

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

A

Yeah. So, we're early in the launch outside of the US as we are in the US as well. We've been on the market for around six months at this point. And we think it's performing very well in the markets that we have launched. We've launched in a number of markets in the EU. We've launched in Canada. We've launched in Australia. And the product is performing well there and exceeding our expectations there. So we do expect it to do very well and be very competitive in those markets.

---

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And do you anticipate a competitor, is that embedded in your internal expectations over the next 12, 24 months?

**Glenn C. David**

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

A

Yeah. So, in terms of competition, as we mentioned, it's difficult to have a lot of competitive intelligence in the animal health market. Our current expectations are that we would not expect competition in the US until the later part of 2021 at the earliest. But that's something that we'll continue to monitor. And as we provide guidance in February for 2021, we'll also be clear with what our expectation is and what's embedded in the guidance.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then your update on monoclonal antibodies, you've had already success with injectables, how does that help you in terms of your launch in this category and how should we think about the market opportunity associated with each of your candidates there?

**Glenn C. David**

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

A

Yeah. So I think to your point, our history with our success in monoclonal antibodies, also in our success in the dermatology space with growing and existing market by bringing some innovation, we think sets us up well for the monoclonal antibodies for pain and we're very excited about both of those products Librela for dogs and Solensia for cats. We received positive verbal opinion in September for Librela. For the EU, we expect final approval to occur this year with launch in the first half of next year and we expect approval for Solensia as well in 2021 in the EU and also obviously in the US, for both Librela and Solensia, we expect approvals to come in the latter part of 2021. Right, we see those as both large markets that have the opportunity to expand significantly and we believe both of the products have blockbuster potential which as you know, in animal health is in excess of \$100 million.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay, great and then – yeah, more on the canine segment, we kind of are aware that the feline segment is a little bit more of an unmet – critical unmet need kind of across veterinary, but on the canine segment, I mean Rimadyl is still a very big product for you. How are you going to market this differently? This is obviously a vastly better safety profile than Rimadyl presumably and how should we think about cannibalization of that product given they are very different, but Rimadyl has been around for a very long time and vets are also very brand loyal. So how do you weigh those different dynamics?

**Glenn C. David**

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

A

Yeah. So Rimadyl, as you said, it's been a very successful product. It's been around a long time; it certainly has a place in the market even as we do – we do launch Librela. But we don't have a final label yet, it would be a little premature to talk about exactly how we're going to position the two. But we do believe that with Librela, we will bring significant innovation to the marketplace and that we'll have the opportunity to expand the market significantly.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then switching a little bit to the competitive dynamics for Draxxin, I know this seems to be a bit of a bigger topic and I don't want to get too much into the minutia because you're a bigger, broader diversified company. But I do have to ask just given this is a larger product for you, you will be facing generic competition.

How will this play out differently than other generic competitors that you've seen in the past across your different business lines? This is obviously going to be several generic players, not just one branded generic launch. So how is this going to play out any differently relative to your initial thinking?

**Glenn C. David**

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

A

Yeah. So as you mentioned, Draxxin is a very large product in the animal health industry, one of the largest. In 2019, we had sales of about \$350 million for Draxxin. So we do expect there to be significant generic competition for Draxxin, really early on when we lose exclusivity in 2021. What we typically say is that we expect about an impact of 20% to 40% from generic competition and we expect that to occur over a number of years. Based on the level of competition, we expect to see a contraction that might occur more rapidly than we typically anticipate. But we do also think there is an opportunity to expand the market and expand the usage of Draxxin.

Right now, a lot of times customers may trade down some products that may not be considered as effective as Draxxin from a price perspective. To the extent that there are price concessions because of Draxxin, we do believe that might help grow the market overall for Draxxin, which should help offset a little bit the impact from generic competition. But again, based on the size and scale of the product, we would expect significant competition and we would expect that 20% to 40% impact to occur at a much more rapid rate than we typically see.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Yeah. And then the underlying profit profile for Draxxin, it is one of your higher margin products across the livestock segment. Do you have any details on that front and in terms of the 20% to 40%, how much is like price versus volume?

**Glenn C. David**

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

A

Yeah, so in terms of the overall profile for Draxxin, we don't disclose margin by product obviously. But it is one of our higher margin products, particularly on the livestock side. We do expect there will be price concessions with generic products available. But even with that, because it is a high margin product, we expect it to continue to be a higher margin product even as we take price concessions. So in terms of the exact percentage of the 20%, 40% that will come from price versus volume, that's something that will evolve over time. But we're confident that this product will remain a high margin product moving forward.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And does your guidance assume any sort of meaningful destocking of the product in the fourth quarter?

**Glenn C. David**

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

A

Yeah. So obviously the guidance does anticipate effects of the Draxxin LOE in Q4. We do expect that with the anticipation of generic competition coming early in 2021, that our customers may not maintain the same level of inventory as they have in the past. So we do anticipate that that will negatively impact our US cattle business in the quarter. And that is fully included in our guidance, as well as the anticipation of what occurred with the full cattle run accelerating into Q3, slowing down our growth in Q4.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*



Okay. And then thinking about sort of longer term, in light of sort of the Draxxin dynamic as well as like commercial initiatives across Simparica Trio and commercial and new commercial launches across the MAB segment, how should we be thinking about underlying margin leverage across your business in 2021?

**Glenn C. David**

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



Yeah. So when you look at margin, right, we always say that over time, we have opportunity to continue to expand our margin, right, as we get some additional leverage. From a gross margin perspective over the next few years, we would expect companion animal to continue to grow at a pace faster than livestock and because of our global scale and size, we would expect that we'd be able to grow expenses at a pace somewhat slower than revenue.

2021 in particular has a couple of unique circumstances that need to be taken into consideration. Obviously the impact of COVID-19 to our expense base in 2020, we've seen significant savings in T&E and we've reinvested a lot of that in direct-to-consumer advertising behind Simparica Trio as well as Apoquel, which we've seen a very positive return with the momentum we've seen in Trio as well as the 21% growth we've seen year-to-date from our dermatology portfolio.

So we will most likely continue those investments from a direct consumer advertising perspective to continue to grow those brands. If we do see a recovery from COVID-19 and acceleration in our T&E expenses, that would be a challenge in terms of expense growth as we move into 2021. But the timing of that is still somewhat unknown.

Also from a margin perspective, again, we'll see – from a gross margin perspective, we'll see the benefit of the continued growth of companion animal, but the Draxxin LOE will be somewhat of a challenge from a margin perspective as well as the build-out of some of our strategic initiatives, particularly our reference lab strategy where we will be beginning to build out additional labs that will not be running at efficient levels at the beginning, but will grow to a much better margin profile over time. So there are a number of puts and takes from a margin perspective. Obviously we're working through our plans for 2021 and we'll share that guidance in February as we typically do.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*



Okay. That's helpful. And I do want to get to the diagnostics strategy in a second, but I'm curious in terms of broader disruption in the market, there's obviously a larger transaction that took place there was – with Bayer not long ago, there were subsequent sales force defections. I mean can you benefit from any of that sort of disruption in the market and have you?

**Glenn C. David**

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



Yes, so we don't really see that changing our competitive dynamic substantially, right. Obviously, we're very focused on our portfolio and the growth that we have moving forward with the lot of the innovation that we've brought to the marketplace. Also very pleased, we have very good turnover rates within our organization, so we are not seeing significant disruption from that.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*



Okay. And then atopic dermatitis or your derm portfolio, you've seen a lot of success there. You spoke to that as well, but what's the further opportunity for greater penetration with specifically Apoquel that's obviously a little bit more mature. And then as well as Cytopoint, it sounds like there's still a long runway there in terms of better penetration, but how should we think about growth trends across those two segments into 2021 and also the competitive landscape evolving in that segment?

**Glenn C. David**

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



Yes. We think there's still a lot of growth opportunity for our Derm portfolio. It comes in different flavors between international and US. So when you look at the break-out of our sales, about two-thirds of our sales are in the US and about one-third of our sales are in international. Yet, the number of dogs with dermatitis is relatively equal, if not, greater in the international markets. So we do think we have significant opportunity to continue to penetrate and expand the market in international.

One of the reasons we've been more successful in the US is we do have direct-to-consumer advertising, which has been very successful in raising awareness of the disease state and driving patients into the clinic. We have a little less opportunity for that in international, where direct-to-consumer advertising is restricted in certain markets. But we do think over time, we'll be able to grow the international markets faster and narrow that margin between two-thirds, one-third. However, even within the US, still about 40% of atopic dogs remain untreated. So we do believe there is opportunity for continued expansion and market growth within the US for our dermatology portfolio. Also, we continue to focus on lifecycle enhancements for the portfolio, which we do believe will also bring further growth potential in the short and medium term. In terms of competition, again, it's not very transparent, the competition and their timeframes in animal health. But what we do expect is we expect that we will remain exclusive at least until the second half of 2021.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*



Okay. Do you anticipate two other additional competitors in that segment?

**Glenn C. David**

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



It's difficult to say. Right. It's difficult, the potential competition for Apoquel, potential competition for Cytopoint as well and again the timelines for both are [indiscernible] (00:23:08).

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*



Okay. That's fair. And then in terms of R&D dollars dedicated to novel therapeutics versus lifecycle enhancement, how are you thinking about that going forward? Has that changed at all in terms – I know it's always been kind of somewhat of a – both can be very fruitful from an R&D perspective for you. But I'm curious on how you're dedicating those R&D dollars?

**Glenn C. David**

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



Yes, so we still dedicated a significant portion to lifecycle enhancements. We've always talked about 50/50 between lifecycle enhancements and new product innovation. It's also important to understand that we're pretty strict in how we define lifecycle enhancements. So Simparica Trio, for example, would be considered a lifecycle enhancement because of the development of Simparica, one could argue that that is more new product innovation. So we are very committed to bringing new product innovation to the market as well. But we do believe that lifecycle enhancements are also a key to our growth moving forward as well.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Great. And then... Okay. So, let's switch gears to diagnostics. You've had this sort of buy-and-build sort of strategy on domestic reference lab. Where does that stand now? Is there more deals to do? There's not that much out there that we're aware of, some small academic stuff? But how much of this will be kind of an organic investment versus acquisitions? And how long will this take to truly ramp up to meaningful scale for you to successfully compete with the VCAs and Idexxes of the world on reference lab in particular?

**Glenn C. David**

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

A

Yeah. From a reference lab strategy, in the US in particular, right, we're still very early in on the strategy. It's been less than 12 months since we've acquired the three reference labs in the US. And it is, like you say, we are focused more on an organic strategy. One of the key things with the acquisitions of the reference labs in the US is we also acquired the talent from those companies to assist us inorganically than building out a nationwide network. We do expect that to take good time. We expect that to be more of a three- to five-year build out and we want to do it prudently and make sure that each of the labs that we're building are running effectively versus trying to be too aggressive in building out that national network. So to your point, there aren't that many opportunities from an acquisition perspective in the US in particular and that will be more of an organic build at this point. Internationally, that's something that we're exploring as well, looking for opportunities to follow a similar strategy where we can acquire some regional players that we could then build an international network from, but right now, the focus is more in the US.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And how are the Abaxis assets kind of doing relative to your expectations? [indiscernible] (00:25:49) meaningful growth across the point of care business in the most recent quarter. Do you think you're taking some share in that segment or is it growth within existing customers?

**Glenn C. David**

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

A

Yeah. So, in terms of the quarter, as you said, we had a very strong quarter in terms of animal health diagnostics business. We grew about 24% in the quarter, which we were very pleased with, also very pleased with the progress from an integration perspective. Abaxis is now fully integrated into our core systems, which enables us to really provide one face with the customer and leverage our broader portfolio and our offerings in a much more efficient way.

And also we've made significant progress in our connectivity as well from where we are at the end of 2019 till today. We think that's starting to play out in terms of what we're seeing from a revenue perspective and the growth that we're seeing from a revenue perspective. So we do expect that will continue to grow within diagnostics. We would expect that we would continue to outpace the overall market growth in diagnostics moving

forward. Obviously, we also are very excited about the launch of IMAGYST and the innovation we're bringing to the fecal marketplace which hasn't had innovation in a very long time and we do think that that's a platform that we could extend to other areas as well.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And thinking of point of care innovation, I mean you acquired with Abaxis a very sizable installed base that potentially could be upgraded, where you could see increase in stepped up consumables flow through from that in any sort of upgrade cycle. Is that something that's on your radar screen near term as being another leg of growth if we do see like a new chemistry analyzer launch from you?

**Glenn C. David**

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

A

Yeah. Absolutely, so continuing to innovate within diagnostics is something that obviously we are very focused on, particularly with the acquisition of Abaxis and that is something that we're working on from our innovation portfolio. To your point though, we are able to continue to generate significant consumable growth. In the quarter, we saw about 20% increase in our consumable growth and to the extent that we're able to penetrate additional clinics with additional instruments, that strongly help accelerate the consumable growth as well.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then where do you stand on the livestock front and diagnostics? I know that was an area of focus initially. I'm just curious if that's changed or I mean it's basically a nonexistent market, I mean it's very, very small today is how I would think that there is several significant greenfield opportunity there?

**Glenn C. David**

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

A

Yes, there are. And even when we did the acquisition, we're pretty clear that we expect that to be a longer term development cycle to bring some of the innovation to the livestock marketplace. And that is something that we continue to work on. But that's much more in a three- to five-year horizon versus the near term.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then in terms of sales force distribution strategy, do you anticipate any sort of stepped up investment from a sales force perspective or any changes in terms of your supply chain relationships with third-party distributors?

**Glenn C. David**

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

A

Yeah. From a sales force perspective, as we've mentioned, we have a very significant size and scale across many markets. We've been able to bring significant innovation to the marketplace, particularly in companion animal. And to the extent that that growth requires some incremental field force expansions, that will be on the margins and that's something that we'll look at and evaluate globally. But it shouldn't be anything dramatic or overly substantial in a particular year. But we want to make sure that we are effectively supporting the growth of our key brands across all geographies. But in general, we have the infrastructure that we need to support that

growth. From a distribution strategy perspective, I don't think we foresee any changes in the short to medium term.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

You did recently make a change though across your diagnostics segment. Is that correct, moving direct?

**Glenn C. David**

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

A

Yeah. We move direct in the international...

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay.

**Glenn C. David**

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

A

...as was always anticipated from a diagnostics perspective.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay, okay. And then in terms of your e-commerce strategy and relationships with customers like Chewy for instance, how is that progressing relative to your internal expectations and is that something that it's going according to plan? Are you happy with sort of how things are playing out across the e-commerce segment? It can be also competitive? Are you seeing more generic competition across that segment or and also how is that pricing strategy playing out?

**Glenn C. David**

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

A

Yeah. So I think things are playing out well and according to our plans. Obviously with the impact of COVID-19, we've seen an acceleration in those segments beyond our initial expectations prior to COVID. On a year-to-day basis, we're up about 50% in terms of the level of volume going through those segments in the US and we expect when the year closes, it'll probably be somewhat above that number. The MAP pricing is going well. We think that was a very appropriate strategy and it helps put the veterinarian in the clinics on an equal-playing field. And then for our business, it's always important for us to remind people that a good portion of our business still needs to be administered within the vet clinic – 50% to 60% of our sales does require administration within the vet clinic; so it's only a portion of our sales that would be applicable to the e-commerce channels, but we're very pleased with the performance that we've had in those channels, the relationships that we've established. And we want to make sure that a pet owner has access to our products in any way that they want to receive them.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And how do you balance that in terms of the relationships with the vet clinics. You don't want to step on their toes and there can be a conflict of interest there. How do you work with vets to ensure that you have their loyalty as well?

**Glenn C. David**

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

A

Yeah, and that's as we said – doing things in a very responsible manner – things such as the MAP pricing, making sure that they're on an equal footing in terms of a pricing perspective and also – continuing to support the vets with products that are administered within the clinic. We've brought a lot of innovation to the marketplace with the monoclonal antibody such as Cytopoint continuing to develop vaccines and monoclonal antibodies for pain. Obviously that we expect to be launching – there are a number of ways that we continue to support the veterinarian.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

One other question we had on the distribution relationships. One of your competitors obviously somewhat rationalized their distribution relationships. Does that help you at all in terms of those underlying relationships that you have with the same distributors?

**Glenn C. David**

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

A

So we're pleased with the relationships that we've had to date with our distribution partners. Obviously we believe the majority of our demand is driven by our direct field force interacting with veterinarians, but we're very pleased with the relationships we have with our distributors to date.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And how about your relationships with corporate accounts? That's obviously – I mean we estimate there's probably 40, 50 private equity firms rolling out hospitals right now across the US. How do you play into that dynamic?

**Glenn C. David**

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

A

Yeah. So our market share in corporate accounts is very strong. Obviously, we have a very broad portfolio. We have a very innovative portfolio and that helps with our relevance with those accounts and obviously provides us a good negotiating power as we're working with those accounts. But with the breadth of our portfolio, it really puts us in a good position. We have very good relationships with the large accounts and our performance in those accounts is very strong.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And I think you always say it's roughly about like 2%, 3% price realization on an annual basis.

**Glenn C. David**

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

A

Yeah.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

...is that sustainable and can you break that down livestock versus companion?

**Glenn C. David**

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

A

Yeah. So, on a year-to-date basis, we've seen about 2% price growth. It's been very consistent obviously – honestly this year between companion and livestock, also between international and the US around that – around that 2%. We do think that's sustainable over time, that there may be any given year, where there may be a dynamic that makes it a little lower, makes it a little higher. But over time, we do believe that that is sustainable. And we've seen that even during this year with the COVID-19 pandemic.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And capital deployment, I did want to ask where are the opportunities from an M&A perspective. I would assume that you're kind of limited in terms of size, but there should be ample opportunities in terms of in certain markets or certain therapeutic categories, where is your focus today?

**Glenn C. David**

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

A

Yeah. So there are a number of areas from a capital allocation perspective. I'll start first with our internal investment, which is always our number one priority and this year, we've stepped up in a number of areas. I mentioned the direct-to-consumer advertising behind some of our key companion animal brands. Also from a capital expense perspective, we're making a number of investments to ensure supply for many of our launch brands or also our rapidly growing brands, increasing our capacity for monoclonal antibodies, expanding in markets such as China, our ability to develop and produce products in China for China and also some work that we're doing from an API perspective to produce some of our own APIs, also capital investments behind data and digital, which is another key strategy for us as well as our diagnostic business.

We've also ramped up inventory a little bit this year to ensure continuity of supply during the pandemic. That was a use of capital as well. So our internal investments are always our first priority. As you mentioned, we'll continue to look for business development opportunities. To your point, large-scale acquisition opportunities are relatively limited based on the size and scale of our business. But there are opportunities in certain geographies where we may be underrepresented in any particular species. We'll continue to look for those as well as some of the other areas that obviously we have a focus on. We mentioned the reference labs opportunities outside the US. Also genetics continues to be an area of interest for us. Precision livestock farming with the recent acquisition we did with precision livestock analytics. So, there are a number of smaller areas that we continue to look at from a business development perspective to continue to support our growth. But [indiscernible] (00:36:03) very fortunate that we have very strong underlying organic growth that we could be very selective in the acquisitions that we look at and make sure that they have the right strategic fit and also the right financial rationale.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And have you been active on the buyback quarter to date?

**Glenn C. David**

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

A

So from a buyback perspective, we suspended our buyback after the first quarter. We have not reinitiated...

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay.

**Glenn C. David**

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

A

...buybacks, that's something that we will continue to evaluate. We do have \$1.4 billion remaining under our current share buyback program and we'll look for the appropriate time to come back into the market with share buybacks.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

I have one last broader question just on sort of your livestock business. We get a lot of people who want to kind of compare your livestock businesses to other competitors in the market and your business portfolio there has evolved, much less skewed towards more commoditized additional food additives. I mean, can you explain a little bit about sort of maybe the differences or what the key drivers are across sort of – or key focus areas from a portfolio perspective across that business and how that's changed over the years? Sorry, that's a bigger question, but we get it a lot.

**Glenn C. David**

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

A

Yeah. I know. And to your point, right, we have a very diversified portfolio across therapeutic areas as well as across species and geographies, right. So that provides us significant benefit in terms of balancing any risk in any particular area. To your point, we've seen more of our sales shift towards vaccines and premium anti-infectives effectives versus [indiscernible] (00:37:33). And again, we're seeing growth in big [indiscernible] (00:37:37) geographic diversity we've seen very strong growth this year in terms of swine in particular in China, which also has been a contributing factor. Also being with the Fish acquisition that we did a number of years ago, a rapid growth in Fish. So it's really that diversity across therapeutic areas, across species, across geographies that enables us to continue to perform well in what is a challenging livestock environment.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Okay. All right. Thank you so much for the time. I really appreciate it. Hope you have a great [ph] day of meetings (00:38:05).

**Glenn C. David**

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

Great. Thank you.

**Erin Wilson Wright**

*Analyst, Credit Suisse Securities (USA) LLC*

Thank you.

## Glenn C. David

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

Thank you.

### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.