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Zoetis, Inc. (ZTS)

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CORPORATE PARTICIPANTS

Wetteny Joseph

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

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Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

We're going to get going. Mic's on. Heading towards the end of the day, panel 15 of 16. I love all my companies equally, but maybe we're saving the best for last. So next up, I'm happy to introduce Wetteny Joseph, the CFO and Head of Business Development at Zoetis, the world's biggest number one animal health company. I'm going to lead the charge again with Q&A. I encourage all you guys to feel free to chime in and ask any questions.

QUESTION AND ANSWER SECTION

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Wetteny, I'll just start on – I've started with trends for most of the companies. And let's get after maybe the livestock recovery, not this year in 2022, but 2023 and beyond. And Kristin has mentioned the market recapturing historical, sort of normalized mid-single-digit growth rates as early as next year, 2023. And I think for a lot of investors, I mean, clearly, livestock's gone through a lot, right, ASF, then that was followed by COVID. What gets us to those normalized growth rates? And I guess my question is, is it just easy comps, drags and headwinds abating, or is there some innovation that's going to come out from Zoetis that helps the company recapture those normalized growth rates of mid-single digits as early as next year?

Wetteny Joseph

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

A

Yeah, Jon, maybe if I just briefly step back and just sort of recap where we – how we got here.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Please.

Wetteny Joseph

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

A

We delivered a really strong year last year of 15% operational growth in revenue and 19% operational growth at the bottom line, and came into this year with expectations to grow top line 9% to 11%, 10% to 13% at the bottom line, and positive 9% operational growth in the first quarter. And reiterated our operational guidance, of course, we did adjust for FX, which has moved pretty significantly since we issued guidance. We're very, very pleased with how we started the year as well.

In terms of your question around livestock, I think all of those factors you mentioned are going to play into this. Let's face it. While the pandemic arguably has been positive for companion animal trends, it's been on the other side for livestock. We've seen shutdowns and lockdowns in a number of different markets. We still have been seeing those across China and other places. And it has had an impact in terms of end sort of consumer dynamics and some input costs and other things as well. So, we think as you get on the other side of the pandemic that will be a factor.

Your point around Draxxin, for us, specifically, will be certainly a factor. We expected coming into the competitive situation for generic Draxxin, and to some extent, Zoamix. But Draxxin, we expected about 20% impact in the first year and 20% in the second year. We did a little bit better than what we thought in the first year, but we continue to track as we go into our second year here. Getting on the other side of that will certainly be helpful.

And the last point I'll say is we have actually been introducing innovation in livestock. They're not of the size of an Apoquel on companion animal...

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Right.

Wetteny Joseph

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

A

...as I've talked a little bit today. But there certainly have been. If you look across swine, we've been introducing vaccines in swine that we've launched in certain markets in Europe and certain markets like in China, et cetera. We have certain vaccines on the vector side for poultry that we're launching. Draxxin KP has been helpful, but they get muted a bit by the overhang on Draxxin from a price perspective. But as you get on the other side, cycling through the first two years of competition, I think some of those will start to be more noticeable on the positive side from a livestock perspective. So, I think there are a number of factors. I won't go any longer than that.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. But to your point, market normalizing, Draxxin headwinds mostly behind you and some innovation. When we think about Draxxin headwinds, I know you said 20% year one, 20% year two. What is year three? I mean, is that like the big step-down where you have rebased and therefore, the year-over-year decline in year three is zero or 5%, it steps down notably from what you experienced in year one and year two from a generic perspective?

Wetteny Joseph

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

A

Yeah. We're not expecting a notable drop after the first two years, right.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Okay.

Q

Wetteny Joseph

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

We think – what we expect in terms of generic performance on our livestock product, which you don't see at all in companion animal, but what we expect is about a 40% to 50% impact. We think it'll be more front-loaded here in the first two years. And what we've been able to do is actually see an ability to maintain volume, which is very important here. This is a product that's certainly a little bit more on the complex side to make. And so if you can maintain volumes, you're going to be ahead of the game...

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Okay.

Q

Wetteny Joseph

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

...on this one for the long term and still pretty attractive margins. But as we expected, we're seeing really an expansion of macrolides as a class – as a premium class into areas where perhaps producers would not have used macrolides because of the prices [ph] having (00:05:05) come down. And so we're seeing a bit of an expansion in that and we're keeping the volume, which will help us sort of weather through the competition that we're seeing here. And so we're not expecting a meaningful step-down after the first two.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

And in terms of innovation, we talked about innovation a little bit within livestock. You said that you guys have been introducing new products. What about methane-reducing products? One of your competitors, it's very front and center, they talk a lot about it. They've got product lines today, additional ones coming mid-decade, where is Zoetis with methane-reducing products and when can we see some of those initiatives come to market?

Q

Wetteny Joseph

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

Look, I won't speak to what others may be discussing here, but one thing I will – to point out the obvious, Zoetis has demonstrated an ability to make an impact on this industry and our customers' needs through innovation. That's no different in this spectrum. So, we will continue to invest in innovation. We believe a healthy and productive animal is good for sustainability. And we have made significant strides, as an industry, quite, mind you, and Zoetis is contributing to that over the years, if you look at the productivity of dairy cattle, for example. But there, we're innovating. If you look at the work we're doing on the genetics and other spectrum, we're able to help producers through genomic data understand how best to manage the dairy cattle, even feed programs, et cetera, based on their genetic predisposition. So, again, a healthier animal, we believe, will be more productive and the more productive, it is better news for sustainability.

A

You look at pork on the swine side and Improvac, which is, again, sustainable production of swine, I can go on and on. So, we are approaching this similar to what we've done in other spectrums here in terms of meeting customer needs on innovation. And we'll see how as those come out over the years.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. So, maybe just to try to push you a little bit there, it may not mean that, hey, Zoetis is going to enter that space specifically. There might be some areas in and around which help, what, keep the animal healthy, productive, where you guys sort of push the envelope. But we might not be seeing a methane-reducing like-for-like competing product in the near term.

Wetteny Joseph

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

A

I won't say that. Look, we spent over \$500 million in R&D last year. I think you can imagine that we're involved in a lot of things, fairly broad spectrum. I won't narrow it to a specific method in terms of approach, but needless to say, we're fairly broad in terms of our approach around these. I'll just give you a couple of examples in terms of where innovation might come in. That's already existing and we'll continue to pursue those.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Great. Well, one last one on livestock and then, I want to shift to companion animal. Swine in China, and that was a notable headwind for the company in the first quarter and for other others as well in the space, it seems like prices have bounced back or stabilize intra-quarter in 2Q. So, we'd love just any updated thoughts on the China swine market. It was supposed to be another big headwind in the second quarter of 2022. But has price stabilization come in, in that market where it's actually trending a little bit better than what you would have thought a couple of months ago?

Wetteny Joseph

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

A

Yeah. So, look, we're watching those trends and certainly are encouraged by an uptick in price. If you compare it to over a year ago, we're just now lapping when we saw prices come down pretty significantly a year ago about the June timeframe. And so, it's very encouraging as we've now exited our second quarter internationally. As you know, we closed international a month in advance of the US. As we're exiting, we're seeing prices elevate for swine, which is a good start. I think, certainly, we look at other factors in terms of input costs for producers, et cetera.

Look, long term, what's transitioned in China is favorable. We're seeing less backyard farming and more larger, better biosecurity, et cetera. And those tend to invest more in terms of what products to drive their herd and productivity and so on. And so, we believe that will bode well for us long term. We have had to go through a period with respect to prices [ph] having (00:09:06) come down significantly from what was really historic highs...

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah.

Wetteny Joseph

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

A

...a year ago, but now they're starting to pick up, which again, is a good factor going as we look ahead.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Nothing else on livestock. I'm going to shift over to companion animal. Believe it or not, there was some noise on vet clinic growth in the first quarter here in the US. So maybe just talk to us about vet clinic market fundamentals in the US and in the EU? And how do you guys explain sort of those weak clinic visit growth numbers that we saw in the first quarter? And do you expect it to sort of unwind as we work our way throughout the year?

Wetteny Joseph

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

A

We look at this as well, and here are a couple of things I would point out. First of all, we delivered 20% growth in companion animal in our first quarter. So, as the company drove about 3 points of price overall, for companion animal, it was closer to 6 points. So we're really talking about 13% increase in volume in our first quarter. And you saw that across US and international. So we're not seeing a demand issue across companion animal.

Look, we expected if you look back over the last few years in terms of what's happened with vet visit trends, you've seen year-after-year in the first quarter, about 1 million sort of increase in visits each year as you look out. Last year, we certainly saw an uptick to that. It was more than double that increase in Q1 and then repeated in the second quarter. That also translated to much faster revenue growth for clinics into the – well into the double digits in terms of revenue growth. And we said, look, this is not sustainable. We expect to be above where we were on a pre-pandemic basis, but the levels we saw in the first half of last year were not [indiscernible] (00:10:49). So...

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

A more moderate view of how that was going to play out.

Wetteny Joseph

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

A

Yeah. And what we've seen so far is really coming back to that trend line, which is nice increase over time versus anything that we were not expecting. And again, we saw a really solid growth. What's really more indicative for us as well is really the revenue per visit and total revenue growth numbers. So if you look at those over the last 9 or 10 quarters, you see a higher correlation between those in our growth. We're seeing about an 8% or 9% increase in those over the last, call it, 10 quarters and you've seen us grow somewhere in north of 11% or 12% during that time. So we think that's more indicative for us as well.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

20% companion growth in the quarter, you broke it down, 3% price overall for the company, 6% for companion. Can that even improve further for the rest of the year? I mean, talk to us about the pricing strategy at Zoetis, right? We've run into several companies throughout the day where they instituted price on [ph] January 1 only to (00:11:39) say, hey, we're going to come and do another price increase, July 1. So how do we think about price for you guys this year? And with a highly differentiated product portfolio, could that lend itself to additional pricing opportunities in the not-too-distant future?

Wetteny Joseph

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

A

Well, the short answer to the last part of your question is yes. We have an innovative portfolio. We have strong demand where we saw – we see opportunity and we look at market-by-market, product-by-product to drive price. And we're still able to see good volume growth as well as we do that. Now, we have demonstrated an ability to push price to, at least, meet inflation, if not better. And we've done it in different markets, too. I mean, there are markets we've been operating in for years that have been higher inflation. You look at Brazil, you look at Turkey, you look at Argentina, et cetera. We've done that. We've demonstrated that. So we'll continue to pull that lever and we continue to be innovative in terms of products that we're bringing out that have good solid demand.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Maybe, Wettény, if you could talk a little bit about trends in the international markets for companion animal versus that of the US. And I bring that up, because on a competitor's call in the past quarter, they did call out capacity constraints in the US, but also mentioned some macro variables in the international markets. What are you guys seeing between the two? Are you seeing any signs of a weakening consumer in the international markets, right? I mean, you've got these great innovative products, but they're also somewhat expensive, like atopic derm for the pet owner. Are you seeing any fraying for the underlying demand for some of those offerings?

Wettény Joseph

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

A

So it's been very interesting in terms of what I've seen in my one year now with Zoetis. It's just amazing the growth that we've seen in emerging markets on companion animal. Companion animal used to be in many markets substantially smaller than livestock, you take China, for example. We're now about 50/50 companion animal and livestock in China. Despite the lockdowns in China, we've seen growth over the last two quarters in companion animal in China, high-single-digit growth. This first quarter, because of the swine dynamics in Q1, companion animal was actually more than 50% of the China business.

So, we continue to see robust growth across our emerging markets, across international markets. There are some areas where you might have seen, on livestock, Draxxin impacts or what have you. But overall, we've really seen solid growth and we're not seeing a slowdown or notable slowdown as we look across those markets. And companion animal is becoming a bigger proportion. This first quarter was the first quarter that companion animal was more than 50% of the international business. It has been significantly more than 50% in the US, but this was the first quarter that we...

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Surpassed 50% of international. And maybe just to play off that a little bit, just talk to us about the runway for atopic derm overall, but international, I'm going round for [ph] sharing (00:14:33) purposes. But when I look at 2021, atopic derm revenue was almost \$1.2 billion, US was \$800 million, international was \$400 million. Again, I'm rounding. US was 2 to 1. But we all know from just a pet population standpoint, how many more pets are internationally versus the US. Should that make us feel very good about the durability? Everyone keeps on expecting atopic derm to run into sort of a little bit of a brick wall. But is there this massive international runway that still is in front of the company for atopic derm?

Wettény Joseph

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

A

Again, I would say, it's resounding yes on that. We do think there's more headroom to grow, both US, but especially international. And we've seen derm grow about 25% per year over the last few years. We grew derm

28% in the first quarter, international was up 38%. So, we do think there is significant more room. In the US, we think there's about 6 million dogs that suffer from itchiness that should be treated that are not. In addition to that, there's a portion of those that are being treated that are undertreated with antihistamines or what have you steroids. And so we do think there are some that are undertreated and then there are those that are not treated at all. We think a similar if not higher number outside the U.S. So, we do think there's more room.

Markets outside the US tend to take longer to get to peak sales. We have been investing behind our derm franchise across both DTC where we can do branded campaigns and in some markets where we do sort of unbranded awareness campaigns to send more pet owners to the clinic, to the vet, to ask questions about their pets, if they're seeing them itch, et cetera. That's driving the performance that you're seeing. We do think there's substantially more room to expand in that market.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. I want to stick with a little bit of the international theme. I'm going to go over to parasiticides and Simparica Trio. I mean that market is so heavy US for a whole bunch of reasons. But you guys did call out, I think, on the most recent earnings call about the launch of Trio in Japan. I think that's a solid parasitic market. Is there a way to size that market opportunity and what it might mean for Zoetis as you launch into Japan?

Wetteny Joseph

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

A

Yeah. Japan is a very attractive market from a triple combination perspective. We just launched, I believe, in April. And so, it's still early days. And certainly, we are investing behind that brand there as well to drive growth. It is an important market for us from a triple combination perspective. There are some markets outside the US that are meaningful, but certainly the US is the most – is the biggest market from a heartworm standpoint. Heartworm is in every state across the US and so there's more room. We grew Simparica Trio about 83% in the quarter, but Simparica also is growing for us across our international markets, so we're very pleased with what we're seeing across parasiticides.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

And maybe just bring us up to date on the competitive landscape for both Trio and atopic derm. And maybe let's just start with Trio. You guys are, seem to have a high level of conviction, nothing before 2023, that leaves a very small window for what might be brought to market before the parasiticide season, right? So, why the conviction nothing before 2023? And then there's nothing there for the season. I mean, if nothing's there for the first three or four months, obviously that means a lot when we think about the seasonality behind the product?

Wetteny Joseph

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

A

Sure. Yeah. Look, I think, as you know, compared to what I'm used to in human health side of the spectrum, we don't get a ton of detailed specifics in terms of where pipelines are across this market. So, we tend to get into conferences and other discussions with customers to get a sense and it gives us a good six months of visibility, I would say, give or take, and we're confident that we won't see competition here in 2022. But we continue to innovate and invest behind these products and these key franchises. For us, parasiticides is about a \$5 billion market. And as new products come into this space, certainly first to market is important.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah.

Q

Wetteny Joseph

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

But what happens after other products come in is a tendency to continue to expand that and the oral market continues to grow and expand out, and we see brands that came in second or third and the first brand continued to grow over time.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Sure. NexGard's still growing today despite how much success you guys have had with Simparica Trio. But where are you guys vulnerable? And what I mean by that is like NexGard was out there, they were the first mover in oral flea and tick, and then Bravecto came along, but Bravecto came to market and they had a decent selling strategy, right, one was a 30-day, one was a 90-day. When you think about future competition for the triple, the Trio, where are you guys most vulnerable? Is it a particular label or puppies or worm coverage or duration, how do you think those competitors are going to best try to attack the market?

Q

Wetteny Joseph

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

Look, I think we're well positioned. If you'll see the growth that we've been driving in this market, the expansion that we're seeing, the adoption rates, the penetration rates, as we look ahead, we're not anticipating any particular differentiation coming to market versus what we have.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Not like a 90-day versus 30-day or anything like that?

Q

Wetteny Joseph

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

Yeah. Look, I think if you look at where we cover from a speed to action with respect to ticks, et cetera, and spectrum that we cover, I believe we're well-positioned there. And by the way, we have the biggest innovation engine and we're not stopping in terms of innovation. I won't speak to any specifics in these areas, but this is a big market. It's a \$5 billion market. And we've been gaining really strong traction.

A

We were behind in this market. But clearly, we've done some great things with Trio and other products, and we like the growth that we're seeing. I mean, in the first quarter, yes, Trio grew 83%, but our flea, tick, heartworm products across the spectrum grew 25% in the quarter.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah.

Q

Wetteny Joseph

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

A

So, we like what we have in terms of the breadth of offerings that we have and we're not done innovating behind them.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

And in terms of atopic dermatitis, I think the thought from Zoetis is that is also a 2023, at the earliest. Where is there more noise? Where is there more of a signal to pull out of in terms of what's coming next from a competitive standpoint, one versus the other, atopic dermatitis versus the Trio?

Wetteny Joseph

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

A

I won't – look, again, we look out another six months and we can see and have confidence in terms of what could happen this year or what won't happen this year. We're focused on our innovation and what we're doing across the products. So, if you look at dermatitis, for example, we've got an approval in Europe for Apoquel chewable. We're launching that product. And so, we'll continue to drive the needs of the end market and further penetrate where we see opportunities to expand those. We've been expecting competition, so there's nothing new, but that's not stopping us in terms of innovation and driving our own business.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Is chewable a pricing mechanism? In other words, is that a premium product?

Wetteny Joseph

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

A

It's a premium product. We'll play it in different markets differently depending on what we see the opportunity is.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

And when can chewable make its way to the US in terms of from a timeline perspective?

Wetteny Joseph

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

A

We haven't given a timeline on that, but certainly it's something we're working on.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. So, actually, something like a chewable could, from a timing perspective, align well with future competition in that space?

Wetteny Joseph

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

A

Depending on when...

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Hypothetically speaking.

Q

Wetteny Joseph

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

Hypothetically.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah, okay. Librela, blockbuster status expected this year in Europe alone and usually from what we see from an innovation standpoint, the US well outstrips the international market. So, how do we think about growth specific to Librela in Europe into 2023 and then are you guys going to have supply able to go out and handle that?

Q

Wetteny Joseph

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

So, look, we couldn't be more pleased with the start that we've had in Europe on Librela and it's running above our expectations. If you look at every dimension of this, we have pets that are coming on to Librela, they have never been treated before for OA pain, about 40% of the pets coming on. Clearly, this is priced at a premium. So, that's expanding the – for the market as well. Pets are on it longer, the compliance rates, et cetera. Every aspect that we look at is pointing in a direction above where we were thinking. And so that's driving demand at a level that we're a little bit behind from a supply perspective. And so, we'll continue to be on allocation through the rest of this year, but we're actively driving capacity to get to this demand and beyond.

A

I'll make one more point. You have to appreciate monoclonal antibodies are long lead time items. So, compared to a small molecule or solid that you could manufacture start to finish in three or four months, you're looking at double that for a monoclonal antibody. So, your ability to sort of sprint to that demand is a little bit longer and that's what you're seeing playing out here. But we're very confident in the expansions and everything else that we're doing across the network that will meet customer demands and expectation across these products.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

And with that longer lead time, I mean, do you think you can rectify any supply-related issues into 2023, because arguably in 2023, you would have the growth in Europe and you'd also have a launch in the US. Are you going to be able to pursue both of those full steam ahead...

Q

Wetteny Joseph

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

That's right.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

...without any supply constraints?

Q

Wetteny Joseph

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

A

Yeah. That's right. And look, and if you look in – the other part of your question was, look, if you look at the ramp to the blockbuster in Europe this year, we did \$21 million in Q1. We're expected to be north of \$100 million for the year. So, clearly, we're going to continue to ramp through this year, which certainly infers the capacity that's ramping with it and delivering higher and higher volumes as we go.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay.

Wetteny Joseph

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

A

So, certainly those are part of our plans and we'll continue to execute on those.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Any analogs, Wetteny, when we think about a \$100 million product or north of that for blockbuster status in year one, I don't know, [indiscernible] (00:24:20) \$100 million goes to in year two, just in terms of how that curve, what that curve looks like?

Wetteny Joseph

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

A

Look, I won't give any specifics in terms of what to expect for 2023, but certainly as we ramp through this year, you can envision and my point about the fact that we'll continue to be on allocation, demand is outstripping supply. Certainly, there's an appetite out there to grow this meaningfully.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Arguably there's some pent-up demand, those were my words, not yours, but arguably there's some pent-up demand still to serve in that European market in 2023 that you might not have been able to get to...

Wetteny Joseph

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

A

That's right.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

...in 2022. Okay. Okay. And maybe just let's quickly hit on Solensia and then we'll pivot over to companion animal diagnostics. If I'm missing any questions, just yell out or flag me down. Minimal revenue to date in the international markets, do we see that inflect in 2023 or just talk to us about what it takes to build this market? It's higher for the pet owner to diagnose, they're bringing in felines a lot less frequently than canines. I mean, those numbers still have been small, right? We hear in our survey work, it lit up so well, the want for this product, because they haven't had any sort of solution for feline pain. But yet Librela is doing \$21 million, and this is doing \$3 million to \$4 million. So...

Wetteny Joseph

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

Yeah.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

...how long does it take to really inflect that market?

Q

Wetteny Joseph

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

Look, we expected this to take longer to develop. There's not an existing market today for feline. Like you said, they're harder to get them into the clinic. You see more churn in the clinic for feline as well as a result of the difficulty. So they need more innovation to convince them to come in. And when you have a therapeutic that is for chronic condition, then you have a reason to bring them in on a regular basis and that's going to have implications for other services for the vets and other products as well.

A

So vets, as you said, are extremely excited about innovation for feline and what that means for their practice, and they're very much supportive. But we know it's going to take longer to develop that market, get pet owners to recognize where their cats may have OA pain, et cetera, and educate them to get them into the clinic, et cetera. So those are happening as we expected. So while it's slower than Librela, it's as we expected.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

And it's still a 2H launch here in the US.

Q

Wetteny Joseph

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

That's right.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Companion animal diagnostics, you gave us a percentage, but I'd like some absolutes. So I think Kristin mentioned in the most recent call you're building a dedicated field force for the diagnostics portfolio. I think this is going to increase the US companion animal field force by 40%. Can you give us a starting point or an ending point so we can figure out what 40% means?

Q

Wetteny Joseph

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

Look, I think no matter what you what your starting point and ending point is, it's a pretty big number, right, 40%. And look, I think when we look at the full force across Rx and diagnostics, by the way, so this is not just diagnostics that we're growing, we are separating and having a dedicated field force for diagnostics, support behind them in terms of the technical folks as well and we're confident in diagnostics' ability to grow faster than overall animal health. We're seeing that, we grew 12% in the first quarter, very pleased with what we've seen there.

A

But if you look at our broad sort of products that we have in terms of portfolio in the clinic and what our sales folks have to go in and talk to vets about, and as we innovate, we bring Trio, we run promotions for this products, et cetera. Their ability is consistently spend the amount of time on diagnostics is a little bit more limited than we would like. So we do believe there's an opportunity here to drive not only our Rx portfolio that's existing today, not only products like the derm products, but our in-line products that have been in the portfolio for some time, driving those and maximizing those, we think is an opportunity here, and we're confident in the returns that we'll get from this investment across Rx and diagnostics. And we'll see that play out as we get into the back half of the year as we reprimand that this quarter.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

And where are you with bundling the two? Like, right now, if I'm a customer and I'm using Zoetis diagnostics and I wanted to go ahead and also purchase Apoquel or Simparica Trio, are you guys proactively out there with that bundled strategy as an attempt to win market share?

Wetteny Joseph

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

A

So, look, I think, certainly, we leverage our portfolio given all the innovation and all the products that we're bringing out. And that's more – the doors are wide open for us to come in and talk to them because of what we continue to put out there.

Now, in terms of bundling, there are markets where we can do that and we do, and there are markets that you cannot and obviously we don't. So certainly, again, innovation opens the door and being able to really leverage the portfolio in delivering strong end-to-end solutions to our customers is important. Diagnostics plays a factor in that. We're also investing in diagnostics in our reference labs, which is important for the larger corporate accounts to be able to service them across their network of clinics, in terms of where we have reference labs. So we are investing in that as well, which is going to be important in terms of leveraging that overall corporate portfolio across Rx as well.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. I think I've only got about one minute left. I just want to maybe tick through a couple of things. I've been trying to ask every company here today on the supply chain, how you're navigating the inflationary cost challenges and any – if things are so fluid with so many companies out there that we've been hearing from, any component supply shortages or how have you guys – have been navigating that to date?

Wetteny Joseph

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

A

Yeah. We have seen some component supply shortages. We saw those last year throughout. We've seen them throughout the pandemic. We grew volumes to the tune of 14% last year despite those and we've seen some of those this year as well. We've seen them in China with respect to getting products into Shanghai, which is a key port for us to distribute to the whole country. We've seen them in terms of some of our tube supply for some of our products. So, we've seen intermittent issues. We've been able to navigate through those. They may have some timing impacts, but overall, we've been able to navigate through them last year and we're confident in doing that this year as well.

From an inflation perspective, we really have flex on price given our innovation and our portfolio. We have demonstrated that in the first quarter.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

3% and 6%.

Q

Wetteny Joseph

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

And we continue to do that.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

And one last one. I know you've only been there for in and around a year, but maybe just talk about the share repo. You're sitting with the stocks well off highs, the balance sheet's in fantastic shape. You guys spit off a ton of cash. I think Kristin, when she came in, said that you guys weren't going to do anything very transformative, right, wildly transformative. So, is there an opportunity here to really flex the balance sheet when you think about where you guys are and where the stock has come in and where you can take that over the next three to six months in terms of getting more aggressive from that perspective?

Q

Wetteny Joseph

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

Yeah. Look, in terms of large transformative moves, Kristin is right. When we look at the landscape out there, we are able to really invest in the business. We're doing it with our field force, R&D, CapEx, given the products that we're launching and the demand that we're seeing. We're certainly meaningfully investing in CapEx. And despite that, we're still generating significant cash. So, the board authorized \$3.5 billion of share repurchases in December last year on top of what was remaining in our prior authorization. And it gives us the flexibility and we've increased our dividend 30% last year – from last year to this year. And so, when we see opportunities, we're able to execute on those, but have the flexibility to turn the dial. So, I won't preface what we will do going forward, but certainly if you saw what we did in the first quarter...

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

You got the dry powder if...

Q

Wetteny Joseph

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

We do.

A

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

...if you see fit.

Q

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Perfect. Wetteny, thanks very much for your time.

Wetteny Joseph

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

Appreciate it, Jon.

Jonathan D. Block

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you.

Wetteny Joseph

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

Thanks for having us.

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