



Zoetis Investor Day 2023 | May 26, 2023

Steve Frank:

It's good to see everybody. Very, very nice turnout, so thank you for being here. Good morning to everybody. Welcome to Zoetis Investor Day. It's been a little while, but we're glad to have you here today and looking forward to a discussion on our business and our portfolio in the future.

I'm Steve Frank. I am the Vice President of Investor Relations. We're very excited to be hosting you for this event today. We look forward to addressing a lot of the questions that you guys have provided to us over the last several months, and we are going to address them today. Some of you have already seen the slides, I've gotten some commentary back. We also want to provide a line of sight for you as to what we think is a very compelling long-term growth model. And I think you're going to see that in, not only in the slides, but in the presentations as well.

Quick legal disclaimer. Before we can begin, please note that there will be various forward-looking statements made throughout today's presentations, and that actual results could differ materially for a number of reasons, including the risks and uncertainties described in our SEC filings. Please be sure to read our disclosure on forward-looking statements. You can find all reference slides and materials on the Zoetis Investor Relations site and in our 10-K filings.

Okay. So we've got a great lineup of presentations for you today. You're going to get an update on our strategy and outlook from our CEO, Kristin Peck; a presentation on R&D, on pipeline, on competitive advantages within R&D from Rob Polzer; a panel discussion on how our capabilities help us deliver on our value propositions. Then there'll be a short break. And after the break, a detailed financial roadmap, a walk kind of down the P&L, some commentary and discussion on capital allocation. And then finally, we're going to end with a half hour, 45 minute Q&A session. So really looking forward to today. Again, thank you for being here, especially before a long holiday weekend. We appreciate it.

So now, to get this started, I'd like to introduce the CEO of Zoetis, Kristin Peck.

Kristin Peck:

Thanks, everybody. It is great to be here and to see so many familiar faces. It's certainly regular cadence of these investor meetings about every nine years. Probably not a best practice, but we're really excited to have you here. Hopefully, you're pleased to be here. But hopefully, and most importantly, you've been pleased with our performance and our transparency over the last 10 years since we IPO'ed. We're really proud of that.

But we also are aware that we live in turbulent times, and it'd be a good time now as we've heard from you to share a little bit about our medium to long term outlook, and that's what we intend to do here today. You asked to hear more about our R&D and what that looked like, and about our long-term plan. So hopefully, as you saw from today's agenda and the slides, which I'm sure you've all been pouring over already, well, that's our intention today.

So with that, I want to share a little bit about what we're going to cover today in my section. First and foremost, what you're going to hear is that animal health is a resilient industry, and Zoetis has

established itself as the leader in that industry. I'll talk a little bit about how we did that, our core beliefs, our vision, our purpose, and our priorities. I'll then talk a little bit about the animal health industry and some of the key growth drivers. It's a dynamic and resilient industry, and we'll talk about why that is.

And then we'll talk about how Zoetis has consistently, year over year, grown faster than the animal health industry. And I'll talk about our ability to not just grow markets, but to build markets. And then we'll talk a little bit after that about the core capabilities and how we're investing in them to make sure we can sustain our long-term growth across different parts of our business. Whether that be R&D, global manufacturing and supply, commercial, our colleagues, we'll go over that.

And we'll talk about, lastly, what this means for you, our investors, how doing all that provides value to you across our four tenets. So let's get started.

As you think about what Zoetis has built, we built that through our 14,000 colleagues. So as I start today's presentation, I thought it might be best to hear from some of them. Will you play the video?

Video:

Zoetis means keeping animals healthy.

Coming to a job every day that has real purpose.

Where we are all rank in the same direction.

An inclusive place to work.

Zoetis means work-life balance.

Endless opportunities with room for me to grow.

Zoetis means something a little bit different to all of us. At our core, our shared purpose is to nurture our world and humankind by advancing care for animals. And that is what unites us.

But just as important are the individual what's and why's of our thousands of colleagues globally. That is who we are. Whether we're in the lab, on the farm, in the warehouse, or one of our offices across the world, together, we explore and deliver innovations across the continuum of animal care, to predict, prevent, detect, and treat disease. We help veterinarians provide the best care to animals. We help farmers raise livestock to support our healthy food supply chain. We help pets live longer, stronger lives with the people who love them.

And along the way, we help each other, by creating a workplace that is rooted in humanity. We value support, connection, and community. And whether you are motivated by a love for animals, the greater good, a job or a career, your purpose strengthens ours.

I love working for Zoetis because of their commitment to diversity, inclusion and equity across organization.

I package finished tablets that get sent around the world.

I'm the last set of eyes that see the product before they reach the customer.

I'm a formulation scientist and an avid motorcycle rider.

I'm a QC data reviewer and a cattle runner.

I am a curriculum designer and an avid reader.

I'm a lawyer and mother of two children and one bunny.

I'm an executive assistant and an amateur interior designer.

I'm a marketing manager and a karaoke singer.

I'm a researcher at the farm.

Zoetis is the world leader in animal health. Good for animals. Good for the world. Good for you.

Kristin Peck:

So I hope as you saw there the power of our people. And as a company, we're incredibly purpose driven. As you heard in the video, our purpose is to nurture the world and humankind by advancing care for animals.

As we think about this purpose, it's our why. It's our why we exist as a company. And as we think about who we want to be, we've outlined that in our vision statement. And as you see here, our goal is to be the most trusted and the most valued animal health company, and to shape the future of animal health, and I'll talk a lot about that today, how we've been shaping it over the last 10 years, and how we'll continue to do that over the next five to 10 years. And we'll talk about how we do that. We do that through innovation. We do it through customer obsession. And we do it through our purpose-driven colleagues.

And as we think about how we're going to deliver in the near term, we have six strategic priorities, and you'll hear about each of those throughout the presentations today. First and foremost, we're going to drive our business with innovation. We're going to deliver an exceptional customer experience. We're going to power our business through digital and data. We're going to support a workplace that engages and supports all of our colleagues. We're going to have an integrated sustainability strategy that advances animal agriculture as a key part of sustainability for the planet. And we're going to perform with excellence and agility.

But as you think about what establishes our culture, it's really rooting our core beliefs that our colleagues actually established about 10 years ago. If you'd walk the halls of any Zoetis office, you'll hear colleagues talking about these. But it's not about them talking about it, it's about them living it. And as we'll talk leaders, you see our engagement. It is clear that they do that. They are one Zoetis. They are customer obsessed. They do the right thing. These are really core parts of who we are, our core beliefs.

So if you haven't been spending your time on your spring break going over our 10-K, I thought I might highlight a few facts in case you're new to Zoetis. We are proud to have an over 70-year history. We make medicines, vaccines, diagnostics, devices, and different technology solutions for our customers. Last year, we were \$8.1 billion in revenue, which put us 440 on the Fortune 500 list. And we've done that with about half of our business in the US, about half outside of the US, and about 64%, 65% of our business in pet care and 35% of it in livestock.

And if you've been an investor with us over the last few years, you'd know we consistently talk about our four value propositions. And what I want to do right now is go through each one of these individually and talk about where we've been over the last 10 years, and importantly, what I'm committing to you and what we're committing to you today, we'll be doing over the next three to five years.

So let's start with revenue. We committed when we IPO'ed to grow our revenue at or above the market. And as you'll see, every year since we IPO'ed, we grew faster than the market. On average, 3% faster than the market, year in and year out. As we look to the next three to five years, we commit to growing faster than the market. And importantly, we're committing today to mid-to-high single digit revenue growth over the next three to five years. And we'll talk today about some of the key drivers of how we're going to execute against that.

Secondly, we committed to investing in innovation and growth of the company, both internally and externally. And we've done that over the last 10 years, with \$4 billion invested in R&D. We've also

acquired some new technologies, some new capabilities, and that are important spaces across the continuum of care. And we'll talk about that. As we look to the next three to five years, we are committed to drive return on invested capital accretion across those areas we've talked about before, but also really investing in scaling our capabilities across manufacturing and supply, investing in digital and data, and investing in commercial excellence and connection with vets and pet owners. And throughout today's presentations, you'll hear more about each of these.

We also committed to growing adjusted net income faster than revenue. And as you can clearly see, we've done that. In fact, since our IPO, we've increased and expanded our margins 1,250 basis points. That is delivering in our commitments. And as we look to the future, we're committed to continuing to expand margins. And we believe we have the ability to do that, by the investing in strong growth in important companion animal areas with strong margins. We'll also leverage our scale to drive growth as well. And whereas back to our sixth priority, we're going to drive with excellence and agility to be more productive and more efficient.

And lastly, we're committed to return excess capital to our shareholders. Hopefully, as you've seen over the last 10 years, we've grown our dividends 20% on average. We've also bought back \$5 billion in shares, and delivered for you, our shareholders, a total shareholder return of 625%. And as Wetteny will talk about in his section later, our path forward over the next three to five years, we commit to continuing to do this. We will return all excess capital to our shareholders, after first investing in our business as we've continued to do. So with that, what I'd love to get into is the animal health market that we operate in. It's incredibly dynamic and resilient, and it is incredibly strong growth drivers, historically and into the future. And I'd like to outline just a few of these.

But let's start with the history. As you look here, over a long time period, animal health has grown, on average, 5.4%. The consistency is one of the strength of investing in animal health and investing in Zoetis. And I know we live in turbulent times now, and many of you have asked, well, what would happen if we saw a recession? Well, as you look here back in 2009, even when times of recession, the animal health industry has grown 3%, and importantly, Zoetis has continued to grow faster than that market.

So what do we see over the next five to 10 years? We continue to believe that the animal health industry will grow on average of 4% to 6% over the next five to 10 years. It's going to do this given the strength of our fundamental markets of both pet care and livestock. So what I'd like to do now is dive into a few of these key trends that are driving the growth.

So as you can see here, one of the biggest changes is who is adopting pets these days? Not just in the United States, not just in developed markets, but across the world. And more and more, those pet owners are younger. They're millennials and Gen Z. And they see pets as critical members of their family. And more and more, it's high income households adopting a second pet. And these demographics are willing to spend, and we'll show you the data that's proven that over time.

But the second big macro trend is the human-animal bond. 10 years ago, in some emerging markets, their dogs might have been outside. Now they're in their house. Now they're on their beds. And if you live in New York City, they're probably in a stroller coming down the road, or they could be in an outfit. They're important members of people's family. In fact, 95% of pet owners today view their pets as important members of their family, and 90% of those would pay "whatever it takes" to alleviate their animal's suffering.

And we did a study at the end of last year and asked pet owners, in 10 different markets, if they had a hypothetical 20% decrease in their income, would they still be willing to pay to take care of their pet? And the answer was an emphatic yes. And so as you look at those trends, what that means is there's more pet medicalization across the globe. And with that medicalization, animals are living longer and

healthier lives. And what that means is the need for more and more innovation to keep those animals healthier. And we at Zoetis are leading in driving this innovation.

And as you look at just the US on the next slide, and vet clinic visit trends, and average spend per visit in total revenue, you can see how the demographic shift to who's owning these pets, how they view their pets, is really translating into how they're spending on those visits. So as you look at the clinic revenues, all the way on the right hand side of the slide, they're up 39%, an average CAGR of 7%. If you look at spend per visit, it's up 6% over the time period. And although as you look at clinic visits, it's much more of some spikes, on average, as we've talked about before, it grows about 1%.

And although we saw a huge spike with all the puppies and new pets adopted in the US, and clearly around the world, then we saw a sort of a crash as those puppies didn't need to go to the vet all the time, and the industry faced some capacity constraints. But what we are seeing now is a normalization, back to normal levels, and we're still significantly above where we were before the pandemic in vet visits. And what this means is that the pet care industry will continue to grow faster than animal health. So as animal health will go at four to six, we believe pet care will grow on average of six to 8% over the time period.

So let's turn now to livestock. So as this chart shows you, livestock growth, historically and on average, it grows about 2.4%, or really about 3%, year in, year out. What drives this are some fundamental needs for protein across the world, and we'll talk about some of that. And we believe, over the next five to 10 years, you will see the same growth in livestock. We'll talk a little bit about some of the challenges that have plagued Zoetis in the industry in the last few years, but why we really see the trend reverting back to a 2.4% growth.

And first and foremost, that's because of demographics across the globe. It's a growing population. By 2050, there'll be 2 billion more people here on the earth. And more and more, those people will be entering the middle class. And as they do that, they'll be eating more protein. There'll be a consistent need for protein. But we, across the globe, need to find a more sustainable way to raise that protein. And Zoetis intends to be a leader in helping producers across the globe do just that.

Now, I know many of you thought, the savior to all these people and all their protein needs was going to be alternative proteins. But as you can see here, the volume of alternative proteins over the last few years has actually been declining. We fundamentally believe there'll always be alternatives to animal agriculture. There's vegetarianism. There's alternative proteins. But with 2 billion more people, there is no question, we're going to have to find more sustainable ways to raise agriculture. And that animal agriculture will be critical to feeding the world over time.

But now I'd like to get into five specific trends that I think really will drive animal health, and more importantly, livestock over the next five years. First is China. So one of the drags, as we've seen in livestock over the last few years, was African swine fever in China, which decimated the herd there. And then compounded that on top as they were just about to recover, we got COVID. But they are now returning. The herd is rebuilding. In fact, we believe the herd will be back to pre-pandemic levels, probably by 2024. And that herd now is more technified. It is more with integrated producers. And we are the leader in that space.

Secondly, we're looking at key trends in poultry, with more and more people wanting to eat poultry across the world. Even with high path avian influenza, we're seeing significant growth across the globe in poultry, where we're a leader in biodevices, with a great portfolio in vaccines, and investing more in our vector vaccines portfolio.

We're also seeing a shift around the globe, from consumers, from producers, to want more sustainable agriculture and more investment in prevention. And Zoetis is a leader in that., And you're going to hear that throughout today's presentations.

We're also happy to say, the impact of generics, which has been a drag on the industry, but in particular, Zoetis' livestock business' because we were the leader in a lot of these products, such as Draxxin and Zoamix. And thankfully, those will be more behind us, as we look to the end of this year, and 2024 and beyond.

And lastly, we're really excited at the growth in aquaculture. It is one of the fastest growing species. For Zoetis last year, it grew 18%. And importantly, Zoetis is growing at one and a half times that of the industry.

So as I wrap up this section, I really want to emphasize the growth in pet care is incredibly strong. It's led by who's adopting those pets, younger people willing to spend, and it's being driven by our innovation. As you think about livestock, the growth in livestock is going to be driven more and more by the demographics of the world, by the desire for more prevention and more sustainable ways of raising agriculture where Zoetis is a leader.

So let's talk now about how Zoetis does indeed build markets, because that's what we do. We also build incredible franchises. And what I want to talk about today is how we've done that historically, and the new franchises we're investing in over the next three to five years.

So let me start with some of the franchises that hopefully you all know quite well. The first is dermatology, where if you go back to 2014, it was a little under \$100 million, and Zoetis was about 1% of it as we'll talk about. And we built that market. We helped consumers realize and help diagnose allergic dermatitis across the globe. And we've grown that today with the launch of Apoquel in 2014, and then Cytopoint, our monoclonal antibody, in 2016, to a \$1.4 billion business. We build markets.

And then as you look at parasiticide, which is one of the largest categories in animal health overall, five years ago, we were number five. We are now number two, with a \$1.6 billion market. So even in established markets, we can form leadership positions in those markets. We can innovate, and we can deliver customer excellence to delight our customers.

And as you move to the last section, we're really excited about pain. When we launched Librela and Solensia in Europe, we launched Solensia last year, and I'm sure you all heard, we got approval of Librela, I think the day after our last earnings call. And we're super excited. And what we've said is that we believed pain can be a billion dollar market.

But what I'm excited to share today is, based on the success of Librela and Solensia in Europe, and Solensia in the us, we now believe that Zoetis, with Librela and Solensia, will deliver over \$1 billion in peak sales ourselves. That's \$1 billion in Librela and Solensia. And what I'm excited to talk about today is how we're going to deliver that.

But what you as investors often see are the limbs and the leaves. You see what's on the market. You see some of the commercial strategies that we use to deliver. But we're excited to share with you today are the roots, the parts of the business that you don't always see, and how we're investing to grow those franchises, with new indications, lifecycle innovation, new species and new disruptive innovation. That is what Zoetis does incredibly well, and that is how we've continued to lead the industry by three points.

So let's start with one of the biggest franchises we've got, which is dermatology. As you saw, we used to have about 1% of it. Today we are 95% of the business. But we're not stopping. We're investing in building deep relationships with vets. We have a strong track record. We're building deep relationships in customers' lives. We've changed pet owners' lives by supporting their pets. And we're going to continue to do that. We're going to do that with lifecycle innovation like we have with Apoquel

chewable. We're also going to look at long-acting. We're going to look at new species such as feline and equine. The growth in dermatology as you see here over the next 10 years, we believe can grow to 2.1 to 2.7. And Zoetis will continue to be a leader. We will continue to grow in this important market. And we've demonstrated time and time again our ability to continue to grow these markets with lifecycle innovation and new disruptive innovation.

Next, moving to parasiticides. Back in 2013, it was only 12% of the market. Today, Zoetis is 25% of the market. Between Simparica, Simparica Trio, Revolution, Rev Plus, Pro Heart 6 and Pro Heart 12, we have built deep relationships with our vets and with consumers, consumers who are thrilled with the 3-in-1 treatment, thrilled with an injectable as they have with Pro Heart. These are sticky, sticky businesses, but we're not done. We're going to continue to invest in innovation here into long-acting injectables. We're going to continue to invest in direct to consumer, building and deepening our relationships. This is a core franchise for Zoetis, and we will continue to be a leader in this important space.

As we think about OA pain, we're equally excited for this now to be our third billion dollar franchise as we're forecasting into the future. The market here used to be about a \$400 million market led by NSAIDs. But yet again, Zoetis brought disruptive innovation to this space. You're going to hear today just how life-changing getting Librela or Solensia is in your pet, and how that is going to continue to drive growth. We're investing in helping pet owners and vets know how to better diagnose OA pain, and to ensure they're treated appropriately.

But again, we will not be done there. As you see here, today, it's about a \$700 million business. We believe it can grow to two to \$3 billion with our products today. But again, as you'll hear from Rob, we are not done. We're going to continue investing in long-acting. We're continuing to invest in diagnostics. This is a critical new area, and Zoetis will continue to be the leader in it.

We're also excited about diagnostics. And really, as you see here with VETSCAN IMAGYST, we have really brought disruptive innovation to diagnostics, as we committed to doing. We're investing to bring game-changing new analyzers in existing spaces, such as chemistry and hematology, over the next few years. We'll also bring companion diagnostics for some of the key spaces we're in, as we did with dermatology, with a new indication on the VETSCAN IMAGYST.

But we're also investing in our reference lab business, both in the US and in China, as you'll also hear more about today. Diagnostics is critical as you think about the continuum of care. More and more for all of our businesses, the ability to diagnose means a better ability to treat and to deliver better standards of care for animals across the globe. And we believe Zoetis will continue to be a leader in this important space.

So let's talk about the future franchises we're looking forward to building. One of the ones we're really excited about is renal. Today, that's around a \$300 million business. But we believe we can build it into a \$1 billion business. We believe this because today's therapies are mostly palliative care. There's over 10 million dogs and cats today with chronic kidney disease and other renal conditions, and you really have so few options. We are investing in monoclonal antibodies in diagnostics to better diagnose renal and better treat it. We believe we can disrupt and improve the standard of care dramatically in this important space. And again, Zoetis has demonstrated, time and time again, our ability to build markets.

Next, I want to talk a little about cardiology, where Zoetis does not operate today, but what we believe can grow from \$250 million to \$700 million, by bringing some really exciting new therapies that will, again, transform the standard of care. We also believe we can bring advances in diagnostics to help diagnose earlier, treat earlier, to create longer, healthier lives for pets.

The last area I want to highlight today is oncology. It's a space I know many of you have been asking about. Today, it's a market of around \$300 million. And most of the market today is old school

chemotherapy and surgicals. We believe there's a significant opportunity on oncology to transform it, to completely disrupt it, to think about creating new therapies that create much better quality of life for animals. Better vaccines, monoclonal antibodies, better diagnostics, you name it, we're investing to grow this important space. As animals live longer, healthier lives, and as that human animal bond strengthens, more and more pet owners want their pets to be treated with similar therapies that they get. And Zoetis will invest to help build this market.

Now, let's talk a little bit about how we're doing that in livestock. There is tremendous unmet medical need across livestock. And first and foremost, as you'll hear from Rob, we're investing in better prediction with genetics, and better prevention, and how to keep animals healthier. Healthier animals are more sustainable animals. Zoetis has been a leader in these spaces, and as you'll see about the areas we're investing in, we will continue to lead in bringing new vaccines to market, new diagnostics, new genetics to transform livestock into the future.

And the last section I want to talk about, it's not really a therapy, it's more of a geography, but it's one where Zoetis has continued to demonstrate, it builds markets. I want to start with China and Brazil, and I'll pick China as a good example here. For those of you who are in this room, nine years ago, you probably don't remember us talking that much about China. It wasn't even a top 10 market for us, but we were investing. I was up here on the stage and I was presenting a slide, if you remember, at manufacturing, and many of you look too young to have probably been here. But we were doing the manufacturing slide. I was talking about investing in a site in China called Jilin to build vaccine capabilities in China. We invested early. We invested early in building infrastructure, in making sure we had China for China products that were relevant to the local market.

Today, China is our second largest market at Zoetis. And it's growing strong. We know how to build markets, not just new therapeutic areas, but how to invest early. We look in the medium term at important markets such as Latin America, Southeast Asia, looking at Eastern Europe. Again, we can continue to build market. We know how to really strengthen the veterinary profession, strengthen diagnosis, make sure we have the treatments that are available there.

But we're not stopping there, we're looking at the future, to the long-term markets. As we talked about in demographics, we're going to add 2 billion people, and the fastest population growth is in China. Sorry, the fastest population is in Africa, but similar to China, we are building the infrastructure now. Jeanette will talk a little bit about our partnership with the Bill and Melinda Gates Foundation and Project Alpha to build sustainable businesses for Zoetis, for our customers, so that we can create a safe, affordable, sustainable food supply in Africa. And we're doing that very similarly to what we did in China, by investing in building the infrastructure necessary, making sure we can diagnose the most important local diseases, bringing the products, and importantly, educating a vet and para-vet professionals across Africa to build those markets.

So let's talk about how we also invest in the capabilities to bring those exciting new franchises to market and to bring them to customers. I won't spend too much time on this side because we do have Rob Polzer here today to talk about R&D, but we have invested \$4 billion in R&D across 300 product lines, building 15 blockbuster products. We're really proud of that. We've also, as Rob will talk about, invested in business development to support that, to give us new technologies such as Basepaws, which has been really critical in pet care genetics, and Rob will bring that to life today. Adding new product portfolios such as Jurox in Australia. We've done partnerships, we've also entered new spaces such as diagnostics, such as platinum performance with nutritionals, and certainly our aquaculture business, which we've continued to outpace the market with its growth.

But none of that, none of that matters if you cannot manufacture it, and this is where Zoetis is a leader, providing a reliable supply. And later, Nick Ashton on the panel will talk a little bit about that and how

we bring that to life, but I'm incredibly proud of our ability to manufacture things such as monoclonal antibodies, with three already on the market. We were the first, we were the second, and we were the third monoclonal antibody. We've continuously shown that we're investing to expand our capacity in important new technologies that support our growth, and Nick will talk to you a lot more about how we're doing that. But we're also doing that with commercial excellence, and on the panel, you'll hear from Jamie about how we deliver customer excellence. We measure the experience we deliver for our customers in two ways: Customer satisfaction or CSAT scores, which as you can see here, are incredibly strong, of 80 and 81. But I'm really most proud of net promoter score, which is if you ask a customer of ours, "Would you recommend us to your friend?" And we have some of the highest scores, 60 in the US and 60 outside the US, but importantly, we're significantly head of all of our animal health competitors.

And part of how we do this is through data and digital. Driving insights that support our customers through something such as the Next Generation Sales Engine, and Wafaa Mamilli will help bring this to life. But this has a huge impact. In markets where we've launched this, we can significantly increase the revenue per call of our reps, but as importantly, drive a better customer experience. We're talking about what they want to hear about and we're helping them support their growth of their practice. This is critical to our success, but it's not just with vets, it's also with pet owners. As you see here, we're investing in pet owner programs and direct to consumer. In the US alone, we have two and a half million pet owners with three and a half million pets on our pet owner loyalty program using Apoquel, Simparica Trio, you name it.

And importantly, through this program, it gives gift cards that go back to the vet clinic to support the vets, so the vets are supporting this as well. This is a competitive advantage, and you'll hear more about how we're investing in pet owners with Jamie on the panel today. I also want to highlight the important capability we've built in integrating sustainability into everything we do at Zoetis. We established sustainability about three and a half years ago as a core strategy for Zoetis, and through our Driven To Care program led by Jeanette Ferran Astorga, who'll be speaking on the panel today, we have delivered results. We are supporting the planet, we are investing in innovation that advances animal agriculture as more sustainable across time, we're also investing in our colleagues and our communities. I'm incredibly proud of what we've delivered here. I hope you've had the chance to read our sustainability report, our new report will be out next month, and I hope you take a look and you can see how sustainability is not separate but integrated into everything that we do.

Lastly, I want to talk about what that means for our colleagues. We continue to invest in one of our priorities, as you saw, creating a workplace that engages our colleagues so we can attract the colleagues, we can have colleagues who are engaged, who stay, but importantly, who strive. And when you drive an 88% engagement rate, as you see on the slide, there's no doubt that we're doing just that. And on the left-hand side, you'll see so many of the amazing awards led by Roxanne Logano and our HR lead across the company, across geographies. Best company for working moms, for working dads, for Hispanics, for Blacks, this matters to Zoetis. We want to be where the best talent across the globe wants to be, wants to stay, and wants to strive.

So what does this mean for you, our shareholders? How does this create value? Well, across each of our four tenants of our value proposition, we have delivered over the last 10 years, and we're committed to continuing to deliver over the next three to five years. We will continue to grow revenue faster than the markets and we're committing today to deliver mid to high single digits. We will continue investing in innovation and drive ROIC accretion over that time period. We will also increase adjusted net income faster than revenue, and with that, we will continue to expand our margins, and we'll return excess capital to our shareholders as we've continued to do over the last 10 years. So hopefully what I hope you heard from me today is that Zoetis is a leader based on its strategies, its people, its culture, and its

priorities, that we operate in a dynamic and resilient animal health industry with strong historical growth, and those trends will continue to drive 4% to 6% growth in this market.

But importantly, Zoetis grows faster than that market. Over the last 10 years, 3% faster, and with that, Zoetis will continue to be a leader in not just building markets, but making markets, making the markets of the future. We'll continue to invest in the capabilities to sustain that growth, and by doing so, we will deliver significant value to you, our shareholders. So I know when we asked you what the most important things you're going to hear today, you wanted to hear more about R&D, so I'm super excited now to introduce Rob Polzer to share some of our background and our R&D program. Rob Polzer.

Robert Polzer:

Thank you, Kristin, and thanks for the opportunity to speak about our exciting portfolio in Zoetis. As we think about today, I want to spend time to talk with you about why we are very confident in our ability to continue to lead innovation and value creation in the industry. We'll talk about our capabilities in R&D, and why we strongly believe that these capabilities will allow us to continue to lead over the next decade. We'll talk about our investment priorities. We have a very large, diverse, robust portfolio, so we'll talk about how we think about investments and investment priorities across this portfolio. We'll then also talk about how we will continue to propel growth as we look to manage and deliver that portfolio consistently year over year, and then I will end with providing some insights as to what you can anticipate for delivery from our portfolio in both pet care and livestock over the next several years.

So let's start with our R&D capabilities. Zoetis has had a proud history of delivery, leading the industry in innovation and value creation over the past decade. This is exemplified by the fact that over the past 10 years, we've achieved greater than 2000 regulatory approvals globally. We've delivered 15 blockbusters to the market through our history through our internal R&D engine, complimented by business development activities. And of these 15, nine of them have been delivered, grown, or maintained over the past decade. Six of those have been delivered to the market through disruptive innovation with products such as Apoquel, Cytopoint, and most recently, Librela in the United States. But more importantly, or as importantly, three of the nine have been either grown or maintained through significant lifecycle innovation from our portfolio, so it shouldn't be surprising that as we think about our investments in R&D, we look to balance the research investments between 60% to 70% on new product introductions and about 30 to 40% on lifecycle innovation to make sure we're continuing to grow, and expand, and protect these valuable franchises.

But what does lifecycle innovation mean? For Zoetis, we focus on building these durable franchises through a variety of mechanisms of lifecycle innovation. About a third of our investment in this space is focused on new claims, and this would be an example of new indications for existing products such as building new flea and tick claims for our parasitology portfolio. We spend about a third of our investment on new formulations, and this would be exemplified through our recent introduction of Apoquel Chewable to the market. But we also recognize that as we bring new products to the market, we initially focus on a core set of countries and regions that we are targeting our initial registrations. Once we achieve those initial registrations, we recognize that there's continuing significant value in order to expand these products to the rest of the globe. So in 2023, we've invested about 15% of our lifecycle innovation investment in geo expansion of our critical products and product lines.

The balance of our investment is focused on expansion to new species, new combinations that meet the needs of our customers, as well as a variety of other activities to both expand and protect these franchises. But let me give you a bit more detail around some key companion animal therapeutic areas and how we balance our investments across these areas. We tailor these investment mixes based off of each of the therapeutic areas and the markets that we are working in. Parasiticides are a mix of

opportunities for new introductions of new innovations, but we also recognize this is a space where we've had some recent introductions of significant products, as well as a portfolio that's fairly mature. So with that mix of opportunity and investment, we ensure that we not only deliver new products and new innovations in this space, but balance it with significant lifecycle innovation to ensure that we're expanding and protecting these extremely valuable franchises.

In allergy and dermatology and pain and inflammation, with our delivery of Apoquel, Cytopoint, Solensia and Librela, we recognize that there continues to be a significant opportunity to actually bring additional new products to these markets in a form of complimentary new products, new offerings that we can bring forward, and there's of course an element of lifecycle innovation as we look to expand and protect these valuable franchises that we've built. Kristen mentioned Renal, Cardio, and Oncology. These are the new horizons that we are going after aggressively, and in these spaces, not surprising, our investment is really focused on those new products that will disrupt or create these market opportunities.

But why do we believe we will deliver? I believe, I strongly believe, and I know my peers on the executive team strongly believe that the reason we are going to win in this space is the fact that our R&D model is unique in the industry. Within a single R&D organization, we have the full capabilities across the continuum of care. We have capabilities of genetics, genomics, robotics, automation, biosensors, Bio devices, diagnostics, all coupled with the talent and expertise to deliver whatever modality is required by our customers. Whether this be vaccines, therapeutics, or pharma therapeutics. So together we can utilize all of these capabilities to bring the appropriate solutions to our customers, and as importantly, we take the opportunity as we're looking at these key areas where we know that we have some challenging diseases that we are working through, we can pull on any of these capabilities to overcome those challenges as we drive the portfolio forward.

So let me bring this to life and talk about a specific example. I'd like to talk with you about the pet care space, where we're working in several very complex disease areas: Allergy and dermatology, pain and inflammation, the renal, cardio, and oncology spaces. Here is where we initially will leverage our capabilities that we heard about with respect to our genetics and genomics capabilities built on a very strong analytics platform. We have the opportunity where we are collaborating extensively, tapping into the extensive genetic database that was acquired through Basepaws, and with those capabilities, we're able to probe the biology of not only of the species we are working in, but also these complex disease areas. Asking critical questions such as, "Is there a genetic basis or predisposition to disease in these animals?" We have the capability to understand how are these disease initiated? How do they progress? And does our therapeutic intervention either slow or arrest progression of the disease?

This is an opportunity to go and explore new biomarkers that can be used for research purposes and as importantly, an opportunity to potentially offer future diagnostic offerings from our diagnostic portfolio. And at the end of the day, once we understand what's the basis of the disease, how it's progressing, we understand then how we can intervene, and based on the biological target we go after, we have the capability to intervene in whatever modality is needed, and that is where we can draw on our expertise in vaccine areas, pharma therapeutics, and Bio therapeutics, to be able to bring the correct modality to the market to optimize the response of our patients and to really drive value to our customers.

But having those capabilities is only one part of the equation. We also have to build our success on thinking about different research models, and so I'm really proud of the incubator model that we've built within Zoetis. In 2019, we established our first incubator on the site, on the campus of Colorado State University. This incubator was fully functional starting January of 2020, initially focused in cattle, on Bovine Respiratory Disease. After about 18 months, where that team has successfully explored the biology of cattle and BRD, we identified a substrate that that team moved forward in our portfolio, and in the middle of 2021, we had the opportunity to pivot our incubator to focus on opportunities in allergy

and dermatology in the pet care space. And I'm really pleased to share with all of you today that our Zoetis incubator with its collaborations with the broader R&D organization in Zoetis is advancing 20 plus monoclonal antibodies substrate across species of biological targets in allergy and dermatology, and by tapping into the broader organization, we are able to advance this substrate in parallel rather than our traditional sequential approaches, truly increasing our chance for success.

And I'm really pleased to share with you how we have advanced our monoclonal antibody portion of our portfolio. Since the inception of Cytopoint in 2016, over the past seven years, we have committed to growing Biopharmaceuticals within Zoetis, where today bio pharmaceuticals represent about a third of our investments and where we have 50 monoclonal antibody substrate against biological targets proceeding in the portfolio across five different species. We have an additional 25% of our investment focus in the bio space. These are our vaccines, where we are looking for new vaccine solutions across all species in pet care, as well as livestock. So together, we are investing more than 50% of our R&D investments in biologicals of one form or another. We continue to see tremendous opportunity for pharmaceuticals heavily focused in our parasitology portfolio, and that represents about a quarter of our portfolio, and then we have about 10% that we focus on new diagnostics offerings. As Kristin mentioned, this is a part of our business we are looking to grow, and we have the opportunity to introduce some significant new offerings over the next few years.

But how do we prioritize our investments? So let me start by talking about a few items of where we believe human health and animal health diverge as R&D types of activities. I will speak to two or three points, and then later in the program, Wettenev will come up and speak to some other components between the differences of human health and animal health. First, you've seen that we've had significant blockbusters delivered through innovation, and not only new product innovation, but also lifecycle enhancement and lifecycle innovation. So within animal health, it's actually quite important that we maintain a healthy balance between those two areas of innovation. The R&D model in animal health is more predictable and less costly than human health. It's not unheard of to spend hundreds of millions of dollars, over a billion dollars to bring a new product to the market in human health.

For the animal health R&D element of our work, we are more in a range of about tens of millions of dollars to bring those new products to the market. I will then also highlight that of course, one of the complexities we do face is the fact that we are working across eight different species and their biologies and their diseases with distinct regional needs. So while these are complexities, they also offer significant opportunities for new solutions to our customers. But again, here is where I believe we have a very unique model within Zoetis that has allowed us to win across this space and this very diverse portfolio. We have a core set of interconnected capabilities that really drive all of our processes with respect to our portfolio. From the very inception of an idea for a new project to enter the portfolio, we have our commercial and marketing teams partnered with our R&D colleagues and our manufacturing and supply colleagues. With a robust governance model to monitor and manage our portfolio, we bring all of these key capabilities and key colleagues together to talk about elements around market creation, the value to our customers, as well as the return on investment. So we really explore these interconnected capabilities, and through our governance model, we ensure that from inception through delivery to the market, these core groups are all aligned from the beginning to the end of a project's lifecycle.

And in this space, I will focus and talk a bit about this model through the lens of R&D, but later in the panel, you'll hear from the panel members what this looks like through the lens of our commercial colleagues, as well as through our manufacturing colleagues. So from an R&D perspective, the way we think about this model and these interconnected capabilities is that we focus on four key criteria for every project that enters our portfolio. We start with is the idea, is the concept important to our customers? Will it meet a need, an unmet net medical need? With that, we then talk about where will

we target this solution? Is this a global product? Is it a regional product? So what is the commercial value and the markets we will focus on?

With that in mind, we create an initial product profile of what that new project will look like and what the new offering will achieve. Our R&D colleagues then do a very deep dive assessment to understand technical doability, as well as the regulatory hurdles that we may face in trying to deliver that product. With that, we then have our manufacturing colleagues who will come in and do an assessment, helping us understand what capabilities will we need in our manufacturing organization and what may be some of the initial upfront costs that we may need think about as we think about this new product offering. And together, this helps us understand not only the value of the opportunity, but the return on investment to bring this product to the market.

But in 30 years that I've been in pharmaceuticals, I have to highlight that a winning strategy in developing a portfolio also requires a healthy humility and recognition that while we have fantastic capability and talent within the walls of Zoetis, we only represent a small fraction of the brain power and capability on the planet, and with that, within R&D, we have a group of colleagues who partner with our business development organization to each and every day go out and look at the external environment, looking for capabilities and talent that we can tap into to either overcome challenges we're facing in the portfolio, bring forward new technologies to enhance our efficiency, or potentially identify a new substrate that can be brought in to complement our internal portfolio of projects. And even if those assets are more advanced or superior in their profile than our internal project, we would even consider replacing an internal program with an external asset where warranted. So this is really quite important that we balance our internal efforts with external opportunities.

So for us to ensure portfolio and consistent portfolio deliverables, we have to not only build a successful portfolio, we have to ensure consistent portfolio delivery by monitoring those factors that can affect our ability to progress. We look at the product profile. Are we achieving the key attributes and elements of that product profile? Are the market dynamics stable or is something changing in the market dynamic that require us to pivot the profile that we're going after? Are we hitting any risks within our portfolio? Technical challenges, so do we have to bring forward parallel multiple risk mitigation strategies to overcome critical technical challenges? And where we begin to see success, is there an opportunity to accelerate these projects to deliver the product faster to the market? So routinely through our governance model and with our partners, we are constantly looking to manage and pivot these various components of our portfolio in order to drive that consistent delivery. But how will we continue to propel growth of our portfolio? Well, one of the things that we also recognize is that one of the risks that we face are the various markets that we are trying to enter into, and as a result, when we look at our overarching R&D portfolio, we look to deliberately balance our investments across different market segments. And within Zoetis, for our R&D portfolio, we actually characterize three specific market segments. The first of these, we'll call established opportunities. These are really well understood markets where we understand the value of bringing a new product to the market, we have very high confidence of the value we're going to bring. An example of this type of market segment is parasitology or parasiticides, where we really understand that market and we understood the value of bringing up products such as Simparica would bring as additional offering to the parasitology market. But we also recognize in these very mature and well understood markets that we have the opportunity for strategic differentiation, which is our second market segment. These are, again, these are well understood markets, but where? Target differentiation can be the source of significant incremental value. An example of this space is again, in the parasiticides we recognize that there was significant value opportunity by bringing forward a triple combination therapy, and therefore we brought simp Simparica Trio to the market. But then the final segment that I'd like to talk about, which is an exciting segment has tremendous potential, but also has higher risk, is disruptive innovation.

This is a market segment where we need to go out and either generate or create the market. As Kristin mentioned, allergy dermatology was an example of that with the introductions of Apoquel and Cytopoint. But these these markets are also represented by markets where significant expansion opportunities exist, and this is where one would look at Librela and Solensia, where the pain inflammation market was well known but with those introductions of disruptive innovation, we are able to significantly expand those markets going forward. So as we manage and as we build our portfolio, we look to specifically and deliberately build and spread our investment across these market segments.

But as importantly as we think about our portfolio is how we stage our portfolio programs for deliverables, and I'll start here by talking about the various stages or terms of delivery for R&D because they may be different than the timeline or time horizons that one thinks about in the financial community. The near term time horizon for an R&D portfolio in Zoetis are those projects that are destined to deliver over the next four years, our midterm deliverables are those programs that are destined to deliver a product to the market within four to seven years, and our long-term portfolio is that part of the portfolio where those projects are going to be seven years or longer until a product hits the portfolio. And what we have found is that over the past five years, I would say even over the past decade, we have had a fairly stable set of investments across these three phases, and this seems to be a winning strategy for us with respect to being able to ensure that consistent delivery year-on-year from our portfolio.

We have about 50% of our investment in that near term portfolio destined to deliver projects in the next four years. Kristin highlighted, we have programs in the portfolio such as Apoquel Chewable that's advancing for US approval. We have long-acting Cytopoint and other long-acting monoclonal antibodies coming. We also have additional and significant offerings in a diagnostic space that all sit in that near term portfolio deliverable time horizon. But as we deliver these products to the market, it is important, and exceedingly important to ensure that we're constantly refueling this engine, and that's where our incubator and our early research approaches come into play because they feed that longer term deliverable part of our portfolio. And so within our long term and midterm portfolio, we invest about 25% in each of those phases, advancing those projects to ensure delivery over the next four years, but well into the next decade.

So let's talk about future innovations and what you should anticipate seeing from our portfolio over the next decade. We have had a growing investment companion animal. Kristin has highlighted how the value in

... Value and our revenue stream has been changing over time. Likewise, our investment thesis in R&D has been shifting as well, with growing investments in companion animals. Today, in 2023, the balance of investment between companion animal and livestock is about 60/40, and we anticipate that to grow to about 65/35 next year. And then as we go forward in the future, that investment mix will be based on the value proposition commensurate with the opportunities coming into the portfolio.

But what should you anticipate seeing from the portfolio, in the area of pet care? We will aggressively protect and expand our franchises, thinking about parasitology, allergy, dermatology, pain and inflammation. We have the opportunity to grow and expand these franchises as well as bring new introductions into these product areas. We will look to focus on building new innovations and build and deliver new franchise spaces.

Some of those will be monoclonal antibodies. We've talked about renal, cardio, oncology as opportunity spaces. But additionally, we have opportunities in vaccines across pet care species. And in a diagnostic area, we will look to focus on bringing new offerings to the market that really help enhance and build that business as we go forward.

In livestock, we do have some significant opportunities for return on investment in livestock, and our focus is on building and maintaining the health of animals that are in this space. As Kristin mentioned, we'll look to bring forward genetic offerings that help us predict the health of animals in the livestock space. A key focus area for us, of course, is prevention, with new offerings coming across every species in livestock. But we also recognize we have opportunities to bring innovation in the space of mitigating greenhouse gas emissions. But here again, is where we think we differentiate from our competitors and the fact that we partner the idea of mitigating greenhouse gas with our purpose, which is advancing the care for animals. So we look at solutions that not only reduce greenhouse gas emissions, but also will improve the health and performance of our livestock species.

And then the final category in livestock that we are focusing on are alternatives to antibiotics. And I will highlight here that should be actually alternatives to critically important human health classes of antibiotics because we're focused in two areas. One is in disruptive innovation on immunomodulators, maintaining the health of animals. But the second area is the possibility of bringing forward veterinary medicine only classes of new antibiotics coming forward that avoid some of the issues and concerns with some of the critically important classes on the market today. So all in all, we believe there continue to be significant opportunities in livestock. And this is a space where our focus is on maintaining or improving the health of the animal because we know that healthier livestock are better performing animals, but these are also animals that are much more sustainable for the planet.

So let me end by summarizing that across Zoetis, we truly believe we are going to continue to drive and lead innovation in animal health for the next decade. We have a very strong foundation built on a very strong data analytics platform that allow us to maximize the use of all of our capabilities. And at the end of the day, I'll leave you with one message in summary. I believe we have the right people, the right talent, the right portfolio, the right capabilities, and the right processes with a strong foundation of a winning culture that's going to allow us to continue to lead both innovation and value creation over the next decade. So with that, I thank you for your attention. I look forward to coming back during the Q&A section. And at this point I would like to turn over our program to Jeannette Ferran Astorga, who will lead members of our executive team in a panel discussion. And I will talk with you a little later. Thank you so much.

Jeannette Ferran Astorga:

Morning everyone. My name is Jeannette Ferran Astorga and I lead corporate affairs, communications and sustainability for Zoetis. And it is truly my pleasure to be with you this morning to moderate a conversation with my colleagues on the executive team about how we are delivering our value proposition across Zoetis. And you heard from Kristin and from Rob this morning that we are creating value and we're doing that through our innovative products and pipeline. We're doing that by meeting the ability to scale the growth of our franchises and importantly by delivering with commercial excellence. And we're going to dive deeper into all of these topics throughout our discussion today. And what I'm excited for you to hear from my colleagues is really how we're driving our strategy and putting it into action. You're going to hear examples about how we're driving a differentiated and best in class commercial strategy that is helping us win market share.

You're going to hear about how we're advancing our investments to scale our manufacturing and supply network that is going to help us meet the demand of our customers globally. You'll hear examples of how we're powering our business with digital and data insights and importantly leveraging AI. And you'll also hear examples of how we are using unique commercial capabilities and integration and sustainability as we're advancing emerging markets that are at different in varying stages of evolution, whether it's China or Africa. So with that, I'd like to introduce my esteemed colleagues from the Zoetis executive team. And I'm going to start with Jamie Brannan. Jamie leads our international commercial

operations and he also runs our aquaculture business. And Jamie's been with Zoetis for about seven years and he has over 20 years of experience in human and animal health. Next, also joining us from across the pond, we have Nick Ashton and Nick leads our global manufacturing and supply organization. Nick joined us in 2020 and he has nearly 30 years experience in supply chain management. And you'll hear from Wafaa Mamilli. Wafaa is our chief digital and technology officer, and she runs our commercial operations in Brazil and in China, and also our precision animal health businesses. Wafaa also joins Zoetis in 2020 and follows a 20 year career in human health.

So with that, I think we can begin and I'll kick us off by reflecting on what you heard from Kristin this morning, and the rise of monoclonal antibodies for pets. And certainly the fact that Zoetis is shaping markets and building markets. And I think it's important to highlight how we're also doing that in a very integrated approach. And I would say one that we've used a one Zoetis mindset as one of our core beliefs in the approach we take. So as we have a discussion around monoclonal antibodies, I'd love to start with you, Jamie. And if you could share with us a little bit of the insights on the market landscape for MABs in Europe, before we launched, before

Jamie Brannan:

We'll start before. So OA pain, it impacts both the mobility and the quality of life of nearly 40% of all cats and dogs. So it's a big number. Diagnosis rates sadly are much lower. For dogs, it's less than 20%. And for cats it's even lower. When you look at cats in particular, vets at the moment or before monoclonal antibodies, we're not routinely screening cats for OA pain. And when you think about pet owners, if you've got a dog, you're taking your dog out for a walk, you can kind of see if there's mobility issues, but it's really hard to detect those issues in a cat.

So there was quite a lot of work to do there. And when you think about the market before monoclonal antibodies, it was quite small. Kristin mentioned kind of the size, but it was relatively small, and really dominated by non-steroidal inflammatory drugs or NSAIDs, which is much easier for me to say. And these were used by vets to treat both chronic and acute cases, but they come with known risks. May that be ulcers, could be kidney damage, liver damage. So before monoclonal antibodies, there was an opportunity for us to really change the game and to look at how we could capitalize on an underserved market, but with plenty of unmet needs, especially as we brought through the innovation in the monoclonals.

Jeannette Ferran Astorga:

So let's fast forward to today. So thinking about the landscape, how did that inform your team's approach as you launched MABs across Europe?

Jamie Brannan:

Yeah, so I'd focus on three areas and we'll go internally first. So how did we get the commercial excellence and develop the right go to market strategy? We had a big focus on field force training and the development of our sales teams, but backing that up with the right field force effectiveness programs, particularly focusing in on the segmentation and targeting of the market. But to complement this, we needed to have the right marketing campaigns and also to think about digital tools to ensure that we got the right share of voice.

Externally, vets first. So our vets needed new tools in their toolbox to really get after this OA pain piece. And they were aware of monoclonals through Cytopoint. And Rob mentioned nine years ago that we launched Cytopoint. So they knew monoclonals, but we needed to educate them on the science of anti-NGF, and also the safety profiles were really, really important.

And along with that, the multiple benefits of both Librela and Solensia. So through our launch planning, I mentioned segmentation and targeting. So we really had to think about how we educate the vets. So how do we get the right reach and frequency of the right messages to really get it in the brain? So we used a number of approaches. We set up first to know meetings, which were more group meetings. We spent a lot of time on early experience trials, so to get the product into the hands of the vets. And then using our sales force to go round and make sure we had the right in practice connections to really develop that understanding with our customers. Knowing that we needed to back that up with marketing campaigns to accelerate the share of voice, and also to think about the reach and frequency and how we targeted between both independent and corporate customers to make sure the velocity was right for us at launch.

So we got all that done, but we knew that we still needed to think about how we raised this awareness in pet owners. We ran a public opinion survey in Europe. We quizzed 6,000 pet owners to try and understand their understanding of OA. And we kind of thought we knew the answer, but it's good to get it through. And what came back was that many, many pet parents were just mistaking OA for just aging. Just felt like the cat or the dog was getting old or other health issues. So we really had to think about how we could create awareness through the right educational campaigns with pet parents.

So when you put that all together, how did we do? Librela and Solensia literally transformed the European OA market. We got approval and launch of both Librela and Solensia in 2021. By the end of 2022 would increase the market value by over 70%, just in Europe. We'd taken market leadership positions in OA pain across Europe, and we delivered number 15, Rob, in terms of the 15th blockbuster with Librela, something we're very proud of in Europe, I'd like to add. But we are far from done. Adoption is still low and a lot of the animals that are coming through on the products are actually new. So we've still got a lot of work to do in the sort of diagnosed cats and dogs and continue to build that awareness. So our focus at the moment is really on how we develop that education within pet parents. And we're using direct to consumer campaigns for this is a big part, and also leveraging the digital tools. And Wafaa, technology played a huge role in developing these digital tools. So would you like to expand on that?

Wafaa Mamilli:

Indeed, it did. And just saying everywhere will not be an enough answer I guess. So let me tell you, I'll give you a little bit more. We are an insight obsessed company, in the same way we are customer obsessed. So let me give you some insights. In the US, 60, 60 million cats out of which about 20 million medicalized. We believe that in those 20 million there are five million who are left behind and diagnosed for OA pain. And as a result and treated, here comes Cat Pain IQ, our digital AI powered solution for OA pain screening. So how does it work? It's available through our vet partners and online where a cat owner can record a video of their cats jumping up, jumping down, walking. An AI algorithm will be applied against that video comparing it in fact against cats, healthy cats. The results of that OA pain screening will be shared right then with the cat owner, and at the same time will be made available to the vet on a dedicated portal.

So you can see here we've made the connection between the cat owner and the vet on something that matters, screening leading towards diagnosis. The cat owner can then go to see the vet to ultimately get treatment that's needed and hopefully reduce that number of the five million I mentioned earlier.

We don't stop there. We're insight driven. We love data, we love insights. So we take that information from the data profiles we are now building to first continuously improve that video screening, that algorithm we have to screen for OA pain. And at the same time, we're creating data profiles, providing insights to our sales reps who now can go visit the vet and continuously help them with education, and

at the same time, providing them with cross-selling opportunities. So this is just one of the many examples, Jamie, that we have where leveraging insights, leading with insights and customer obsession, we are driving vet education, pet owner awareness, continuous connection, while at the same time building up our sales force effectiveness and generating value for our customers and our shareholders.

Jeannette Ferran Astorga:

Thank you. And we can't talk about scaling monoclonal antibodies without bringing you into this conversation, Nick. So I'd love to turn it over to you and hear a little bit about what your team has done to really begin to continue to prepare for the scaling of MABs.

Nick Ashton:

Sure. Well, the one thing's for sure, we're not going to have a problem with demand. So the challenge on my side is to make sure that we're able to have a network that can make it consistently, that we can actually then scale as the demand grows in the marketplace, and that we can stay ahead of our competition. And that's the area where I'm most proud. So since the launch of Cytopoint, we've obviously been learning and learning and building that capability and technical expertise within Zoetis's internal manufacturing network. But we've also realized that there's an opportunity to maximize the market impact and accelerate that by partnering with suppliers externally. Now, this isn't something that readily exists in the animal health space. I know the human health have been doing it for quite a while. So we've had to go out there, we've had to select partners and we've had to educate them, train and work with them, and we've made fantastic progress. So I think now we can switch our focus to consistent supply, making sure that we get the customers onto the product, and then they've got that consistency and trust of backup.

Jeannette Ferran Astorga:

Well, you mentioned the importance of supporting our customers. And we talk often about our customers being not only the pet, but also the pet parent. So Jamie, can you speak to your experience and what you've seen following the launch of MABs in Europe and how that truly has transformed the lives of pets as well as their owners?

Jamie Brannan:

Yeah. It truly does work for both. It's how it changes the life of the pet, but that also links to the life of the pet parent. It's eyeopening. When you look at the effectiveness in dogs and cats of these products, especially when you look at the behavior and the mobility and movement before and after treatment. You can't put it into words. So I think let's have a look at a video to show it. Don't really have to say anything else, do you? When you look at the difference. But one thing I would say is pet parents taking these videos and putting them on social media, it's kids on social media and your pets, has actually built momentum in the uptake of the product. But I've seen that video a few times and it makes me a little emotional because that's my boy. So that's Rocco, that's my dog. He's nearly 13, so he's getting a bit older. But after Librela, I think you can see the amount of movement he got back and that video was actually one month after his first Librela shot.

Jeannette Ferran Astorga:

Amazing, amazing. It's an impactful video and it's pretty dramatic when you see the difference. And we love that Rocco has gotten his stride back. So before we move on from pain MABs, Jamie, can you just talk a little bit more about the lessons that you've learned through the launch of Librela and Solensia

across Europe and how that's informing our teams as we're launching in other markets and in particular in the US?

Jamie Brannan:

Yeah, for sure. Look, the launch focused on three things. It was about commercial excellence. It was about focusing in on the education of our vets and the support of the vets, and then how do we create that awareness with pet owners or pet parents. Through that, we've seen high levels of clinic penetration, we've seen high levels of product compliance, and we've seen high levels of both vet and pet parent satisfaction. So I think when you talk about learnings, I think they're continuous and I think they've really helped us shape the launches we've done in international already year to date with Canada, Australia, Brazil, and Japan's in flight. And I'm really excited how we continue to apply these learnings as we work with the US team for the launch of Librela.

Jeannette Ferran Astorga:

Awesome, thank you. So moving on from pain MABs, I'd actually like to switch gears a little bit and dive into digital and data. So Wafaa, love to bring you into the conversation. And can you share with us examples of the work your team has been doing to integrate digital and data insights into our business that's also helping us have the insights needed to connect with more customers globally?

Wafaa Mamilli:

Sure. We heard from Kristin that powering our business with digital and data insights is one of our six strategic priorities, and we do that to delight our customers, generate demand for our products and services, improve our colleagues' experience while at the same time, continuously improving the productivity and efficiency of our own operations. Let me give you a simple example that brings all these together. In the US to support our parasiticides portfolio, we have a progressive email campaign with a video that allows the vet to interact with that video. Every interaction provides us with information. That information, by now you know how obsessed we are about insights, generates insights that allow us to do few things that are really important. First, make sure that we have the next best personalized sales action to our sales rep. At the same time, provide us with the next best marketing action at the same time, personalized for that vet.

This is an example where we bring all these things together, allowing us to position the vets at the center and serve our customers. This specific example, what you heard from Rob about the platforms, the analytics platforms, and anything you hear here on this panel on digital and data analytics enablement is done through a very disciplined and value-driven investment approach on three main areas, people, platforms, and AI.

On the people side, it's about making sure we have capable talent by hiring the best diverse experiences and expertises. It's at the same time launching a digital upskilling program throughout the enterprise to make sure that all our colleagues are up to the challenge and the opportunity digital provides. It's as well fostering external partnerships to make sure that we can get access to the best talents outside of our walls.

The platform play is as critical. Every single thing we do is use case and value driven. But while we are doing that, we are building in a modular and very disciplined approach, our data and digital platforms, which allow us to scale with high speed and agility. You heard from Kristin earlier, the NGSE, the next generation sales engine example. That's why it was built for the US and deployed very successfully, as you saw in that example with top line improvement. We could deploy that very fast with agility so far in five international markets, and more to go. And we could do that because of our platform approach.

Our AI play is the same thing, value obsessed, value-driven use case. We always start what's the relevant critical business question we have to answer and we go and we build the AI around it. We experiment what works gets scaled into our operations. Because of our platform play, we can scale and embed in our operations. We are really proud of this strategy and how we've been able to enable different use cases throughout the full value chain of the enterprise. This strategy and this discipline allowed us and is allowing us to scale, like very few can. And there is more to that. I know we're doing way more in international. Jamie, would you like to share some of those?

Jamie Brannan:

We're doing way more together. Yeah, there's lots going on, right?

Wafaa Mamilli:

Indeed.

Jamie Brannan:

If you talk about international and around this area, I'd focus in on the 360 campaigns and I'd pick out three elements of the 360 campaign. So firstly I mentioned DTC earlier. We have DTC campaigns which may be branded or unbranded, depending on the product, depending on the country and the regulatory landscape. And these enable us to create a push. So by educating pet parents, whether it may be in OA pain, could be in dermatology or parasitology, it's educating those pet parents and driving traffic to clinics. But the pet parents are well-prepared. So it's also a rich dialogue between the pet parent and the vet based on that education.

The second element would be to make sure that the vets are ready. So it's about our in practice activities and how we support our vets in education, in our services, and in just support across our innovative portfolio within pet care. And then the final piece to this is to create a pull. And we do that through our virtual recall solution. So virtual recall is a marketing communication system available to our vets, which enables them to communicate directly to their pet parents. Through the system, they can educate, they can create awareness, they can also drive compliance and drive traffic and pull the pet parents back into their clinic.

Jeannette Ferran Astorga:

Excellent, thank you both. So I'd like to shift gears from digital and data and move over to supply. So Nick, last year we talked about the impact of supply challenges and constraints, but now that that's normalizing, can you give us an update on where we stand on supply today?

Nick Ashton:

Sure, I can. So we've spent the last year really leaning in to agility and resilience in our supply chain. We've made strong investments in the spaces of quality scale and of course, our people. So it's no surprise to anybody here in the room today or tuning in that we're still living in an uncertain world with a lot of turbulence and challenges in the supply chain. And that was made even more challenging last year with exceptionally strong demand for a lot of our products. So we spent a lot of time over the last 12 months really digging into that, making sure that we get clear transparency using our data to get the insights. And we've made real progress in lining this up. So we focused in on the quick wins. We've made sure that we've got the whole organization from end to end tuned and there to be able to provide that consistent, trusted supply through to the customer.

And we've made tremendous progress. So from last year where we were signaling that we had some supply challenges, by the end of Q1, that's not only been normalized, but we are seeing back order levels now that are much lower than we were experiencing even before the pandemic came into place. In addition to that, the area where we've seen that really great demand was in our parasiticides. And I'm pleased to say that the entire GMS organization now are able to say there are no back orders in this space. So that's fantastic, not only for the business, but also the customers.

Jeannette Ferran Astorga:

That's welcomed news. Welcome news indeed. Thank you, Nick. So this morning, Kristin reinforced the need to support our growing franchises, whether it's Simparica Trio or Librela. Tell us a little bit about the investments that you are being made into your team and capabilities to help us prepare for the future.

Nick Ashton:

Sure. I like to think of this in kind of three specific areas. The first one is the people. Then we have the facilities, the network that we have, and then the capabilities. So I'm going to start with the people side of things. And one of the great things about my role is I get to go out and visit a lot of our manufacturing sites and facilities around the world. And I know because I meet them. We have great world-class talent in the GMS organization. So our job is to continue to recruit and retain, and we do that so incredibly well. We make sure that we're developing people and they continue to learn and become educated and we give them breadth and opportunity for them to continue their careers. So we've seen really strong growth in the numbers of people in the GMS organization and in Q1 alone we had a net continued growth of another 250 to continue to meet those needs for our customers and grow that capacity. And what I'm super proud of is not only are we able to scale, but we're able to do that whilst we're also maintaining diversity. So today we've got almost 50% of the entire GMS organization is female, and of the leadership teams at director and above across the whole of the GMS organization, 30% of those are in female positions. So I'm really proud of the people strategy that's playing out and we'll continue to work on that.

The next one is our facilities. So our network and we are very privileged to have 29 manufacturing sites that pretty much span the entirety of the globe, making sure that we've got that local touch for marketplaces and we've got that global scale. So we take great care and attention on designing our network, making sure that when we have new products, that they go into the right hubs and that we influence the external partnerships as well to get the maximum benefit for our internal network. When you look at recent announcements, we announced that we were buying a new manufacturing site in Atlanta, Georgia, so that just demonstrates the scale and the commitment to the investments that we're making across our entire network. The exciting new opportunity just outside of Atlanta, Georgia is a facility that's going to drive big volume capacity for the growing needs in our mAbs portfolio and also our vaccines. So creating opportunity for us to be able to scale to the marketplace with Librela and Solensia as that comes through into the US stronger and stronger from this year onwards.

And then the last bit is capabilities. Now I work on my team do with Wafaa and Jamie and Rob, and we make sure that we string everything together from the R&D all the way through to the customer interaction and we make sure that we've got those real strong paths of communication throughout the business. We then land those in pretty concrete plans so that everybody knows how we're working together to be successful. So whilst we're doing that, one of the things we've learned in recent years is maintaining the ability not only to be resilient, but also to be able to be flexible to meet those needs in the marketplace as they come up. And we've become pretty good at that, certainly with our data and

digital insights. We don't have a speed issue with understanding where the opportunities and the constraints are. And a recent example of that for us would be when a competitor was out of the marketplace for quite some time, we were able to pivot and get our Vanguard canine influenza product to the customer that was good for Zoetis from revenue, but it's even better for the customer because they got what they needed.

And then in the data and digital spaces as Wafaa really pointed out to, that's a space where we continue to pour in a lot of energy and effort. We want to free up our talent to be able to focus on problem solving, not trying to find the information. And we're making great progress in that space that allows us to kind of maximize that trust of consistent supply through to our customers. So I think it's that combination, great people working in a really well-designed network and then having that connectivity, those capabilities through the organization, that's the bit that gives me faith that we're going to be able to scale with the organization.

Jeannette Ferran Astorga:

Excellent. And Nick, you mentioned our 29 global manufacturing and supply facilities and I think it's so important to highlight the partnership and the collaboration across our teams in sustainability and manufacturing where we are now building a resilient future-proof network of manufacturing driven to our 2030 goals for carbon neutrality. But importantly, a third of our sites are running on renewable energy today. And I think it's been incredible how the team has already exceeded initial energy efficiency targets but is already looking forward to how to even further advance, improve packaging and solutions for our customers needs and sustainability.

Nick Ashton:

And so I completely agree, I think the acceleration in the focus on sustainability that we've brought around over the last few years will continue to grow. I know this being felt in every location within the manufacturing network and there's a lot more that we can do in that space and it'll remain one of those key focus areas for us to work on together.

Jeannette Ferran Astorga:

Excellent. And Kristin mentioned this morning our upcoming sustainability report will be launching next month, but we've provided today in our investor materials at a bit of an overview so you can get a sense of some of the progress the team has already made. So we're going to shift gears again and I'd actually like to come back to you Wafaa, and talk a little bit about the importance of emerging markets. And so given your leadership over our commercial operations in China, can you share with us a little bit more and some examples of how we're leading with our China for China's strategy?

Wafaa Mamilli:

Great. Emerging markets, as you heard from Kristin, is one of our growth levers and it's in fact because of the key trends that we heard about as well that are true in these regions as well. It's rise, increase in wealth, it's rise in pet ownership and it's as well rise in population, which is fueling protein consumption. China is a prime example of this. Since 2013, we saw a 300% increase in pet's ownership in China. China is in fact the biggest livestock market when you take the number of animals. It's in fact five times the one in the US and China is the biggest meat consumer. And at Zoetis we have quadrupled our revenue in China in the last 10 years and that's by no accident. It's once again because we know how to imagine the art of the possible and how to make it happen. And that's our China for China strategy.

It means the disciplined investments for China throughout our value chain. In R&D, we have research and development facilities in China focusing only on China, which allows us to develop vaccines against the local strains as well. We have a manufacturing plant in Suzhou just for China. In the last part of 2022, despite the COVID lockdown lockdowns, we opened two diagnostic reference labs in Beijing and Shanghai with 200 plus test capabilities available, open day one of our opening.

On the commercial side, while we are building the talent locally and all the commercial capabilities, we know how to think global and act local and follow our platform play. We have leveraged uniquely the WeChat platform in China to establish direct connections with the pet owners, direct connections and stickiness with the vets and to establish connections between the vets and the pet owners. In the last two years, we opened our e-commerce presence on Alibaba and jd.com where we have more than 1 million pet owners ordering and interacting with us.

So you see again how we have been able to think about that art of the possible, imagine what we can do and go and execute against it. And it's known by no accident again that Zoetis is the largest and the fastest growing multinational animal health player in China, but leaders who shape the future don't stop there, don't only think about the here and now, they think long term horizon. And I know Jeannette, that you play a key role in the great work we are doing in Africa along with Jamie on the commercial side to build and develop opportunities on the commercial front and at the same time do good on the social and economic impact. Do you mind sharing with us more of what we are doing there?

Jeannette Ferran Astorga:

Sure, sure. I'm happy to. And I think if when you look at the opportunity in Africa, I would start with some of the stats and insights that we heard this morning where we are facing a 2 billion increase in the population by 2050, right? So 2 billion growth in human population also means some of the highest growth rates are coming from Africa, and that just further underscores the need to really create a sustainable livestock agriculture network, but also ensure that we're helping provide access to sustainable sources of animal protein for a growing population. And yeah, as you said, Wafaa, we're certainly shaping this opportunity at Zoetis and I saw that firsthand when I had the opportunity to visit sub-Saharan Africa with Kristin as well as with our chief medical officer to see the work of our team on the ground leading our alpha initiative. And it was very apparent how animal health is critical to emerging markets when you think about ensuring access to veterinary products to support the growing population, to support farmer livelihoods, increasing the quality of care, access to care, while also protecting the region's natural resources.

And the team has been leading the way in Africa. So when you think about it, Zoetis was selected as the strategic partner to the Bill & Melinda Gates Foundation and over the last six years has been advancing access to our products where when we entered the market, there were very few of Zoetis's veterinary products on the market. We've increased that by 20 times over the last six years. We've also helped establish a 16 diagnostic labs across the region, and I certainly know we're not done. What's interesting about Zoetis's unique approach to sustainability is, as you've heard today, it's integrated and it's created an opportunity for Jamie and our international commercial operations to run this initiative on the ground. It's integrated into the work that our team does and that now has resulted in an extended partnership with Bill and Melinda Gates. So we've extended for another five years, which means we're actually moving into seven additional countries across Africa and we're incorporating aquaculture, which is an exciting opportunity.

So I think Wafaa, this really underscores how, Zoetis does has a very differentiated and unique approach to sustainability. It's about really living our purpose every day. It's about advancing care for animals in a way that allows our teams to uphold our purpose and upholding our purpose helps billions in the end.

So when you think of our purpose, it's a social purpose, it has an impact on society, on people, on the planet, and that's certainly the approach that we're very proud of at Zoetis.

So with that, I'm actually going to take this opportunity to wrap up our discussion this morning and I really want to thank my colleagues, Jamie, Nick and Wafaa for sharing examples of how Zoetis is delivering on our value proposition and the insights they've shared around how we're really putting our strategy into action. So thank you. So I'd like to now announce that we're going to be taking a short break and following the break you will hear from Zoetis's CFO, Wettey Joseph. Thank you

Steve:

Chair, we've got two more sessions. We've got one presentation and then a Q&A should probably take about an hour. Up next, I'd like to invite to the stage our chief financial officer, Wettey Joseph.

Wettey Joseph:

Thanks Steve. Welcome back from the break everyone. Oh, moving off the break. Look, I'm very, very pleased to be with you today and I thank you for joining us here at The Exchange. And for those of you who are joining us online, I hope you've enjoyed the presentations as well as the panel discussion so far. And given it's taken nine years since we've had the last investor day, I hope you could sense the excitement that we have about the capabilities and the strategies that will enable us to sustain long-term growth as we leverage our existing franchises drive innovation through our pipeline to create nuance and expand emerging markets. So I'll be touching on this today, but although I know that Rob is the star of the show, you get to hear from Kristin and myself and Steve regularly. I'm sure you also want to understand how all of these translate into how we'll deliver on the four tenets of our value proposition. Though it looks linear on this page, it's actually a continuous cycle of driving profitable growth, expanding our margins, reinvesting strategically in our business, and then delivering excess capital to our shareholders.

By leveraging our existing franchises and use innovation to build new ones as well as expand in emerging markets, we'll leverage our commercial excellence, our scale, our execution and our discipline to continue to drive revenue growth at mid to high single digits over the medium to long term. And as we have done for the last 10 years, grow faster than the market. You can see our track record here since our IPO 10 years ago. We have delivered operational revenue growth CAGR of 8%. Now, when you compare that to the market that has grown about 5%, we have consistently delivered three percentage points of growth above the market year after year.

Now when you look at our end markets, we compete in two very dynamic markets that have very positive circular growth trends. We have the humanization of pets and we're feeding the world. These are very powerful trends that are driving growth for our industry. Now, Kristin mentioned some of these already, but I'm going to dig into some of them here as well. We have demographic shifts. Millennials, Gen Z and higher income households actually own the majority of pets today, and they see them as members of their family, which means they place great value on their health. We also have growing global population going from 8 billion to 10 billion people around the world, particularly in emerging markets where we see increased urbanization and we also see a growing middle class that's looking for greater access to animal proteins.

Now this creates a very positive backdrop that helps us deliver consistent growth and steady growth year after year. And that's before we do all the things that you heard from Rob in driving innovation consistently, as we've always done to drive sustainable growth and to expand markets. Now these are markets where we already have a very strong leadership from position. Looking at species, we're a leader in species that represent 90% of our revenues. We have market leadership across product

categories and across geographies. Not only that, we're a leader in the three largest and fastest growing market segments in animal health, dermatology that you've seen from us for a decade, pet parasiticides where we've been gaining market share rapidly and now osteoarthritis pain.

Now, besides our market leadership, another strength of ours is diversification. 300 product lines with 15 blockbusters with Librela being the 15th, as you heard earlier, serving eight core animal species across seven product categories with sales in a hundred countries. The diversity across our geographies, our species and our product categories enable us to absorb significant events that have occurred in our industry. Now, when think back over the last three to four years, let's recap some of those. In 2019, we had African swine fever. In 2020, we had the onset of COVID-19. In 2021, we had generic competition for Jackson, our largest livestock product, and to start 2022, we have the war in Ukraine. Despite all of those, we have delivered on average of 10% operational revenue growth over the last three years. Certainly challenges will occur, but the resiliency that we have in our industry, in our business and through our people help to minimize those impacts.

Now, I'm going to sit on this page for a little bit because besides the diversification that we have, which helped to deliver steady growth from us, what propels us above market growth are the multiple sources of revenue growth that we have. Parasiticides, it's a 6 billion market, now it grows between five and 6%, right? But we play in the end of the market that's going faster than that. Oral indications starting about eight years ago. And then our triple combination product, Simparica Trio are continuing to expand this market as we see movement from collars and topicals, which still represented by 40% of the market moving into all indications. We'll continue to innovate and expand in this market.

Dermatology. If you've been following Zoetis, you certainly know what we've done in dermatology starting about 10 years ago with Apoquel, which revolutionized the space. We then added Cytopoint about eight years ago. Now, when we look at this market, we see room to expand even based on these existing therapies. We still see about 6 million dogs that are untreated in the US about another 2 million that are undertreated with even more than that across international markets. We've already started to launch the next generation of these therapies. Apoquel chewable has been approved in Europe and we're already launching and in the US we continue to advance towards approval here as well. And as you heard from Rob, we're working on the next generation of Cytopoint in long-acting.

And to top that off, we're continuing to invest to drive into other species and a broader allergy market segment than just dermatology. In osteoarthritis pain, we are developing a brand new market with Solensia for cats and with Apoquel for dogs. We have been extremely pleased with how Librela, I think I said Apoquel, Librela and how it's taken off in Europe and certainly with the recent approval in the US, which we're all very excited about Librela, if you live in the US, we'll be coming to a vet clinic near you.

In Global Diagnostics, we'll be making investments to scale and drive innovation in this space just like we do everywhere else within our industry. Investments that are enhancing our share of voice in clinics with veterinarian veterinarians in emerging markets, including Asia and Africa, we see the attributes that are going to drive growth well into the future. Looking at the number of animals and the percentage of them that are medicalized, we see opportunity to increase the spend per animal over time across these markets. And then of course, the investments that we're making in innovation that will drive new product categories that are very promising that you heard from Kristin and from Rob earlier today.

We are making these investments that are prioritized with the highest returns on invested capital. We're also making investments in our supply chain to drive capability and capacity to help drive organic growth, organic growth that will not only drive financial performance, but actually increase the standard of care for animals as we deliver greater value for our customers, but also at enhanced margins that drive ROIC accretion as we have done historically. Now I'm fast approaching my second anniversary at Zoetis. Now, there are a number of things that I've come to really appreciate about our company and

our people. One of them is how this concept of returns and ROIC is embedded throughout the company. You can imagine as a CFO, I'm used to be the one that's asking the questions to extract, what the returns are going to be and how we're going to drive margin enhancement for the company. But I'm having conversations with Rob, our head of R&D and everything that he's doing, which you heard from him earlier, has this embedded already in it, certainly makes my job a little bit easier. That focus on returns and ROIC coupled with our scale and our execution across our commercial and manufacturing has enabled us to deliver ROIC that you can see here on the page that's not only above the S&P500, but also the broader healthcare markets.

So let's take a closer look at where we're investing and why we believe these investments will be highly productive and continue to drive faster bottom line than even top line and increase our AC performance. You heard from Rob earlier in how we are balancing the risks and the opportunities to deliver consistent innovation as we've done in the past. We have the highest spend in R&D in our industry, but it's also the most productive and by sustaining, continuing to focus on returns, we believe we'll continue to be the most productive as we launch innovation across the investments that we're making in CapEx, we're making investments to drive scale, particularly as we scale our monoclonal antibody platform, given a number of targets that Rob talked about earlier and the launch of products like Librela, Solensia et cetera.

In advertising and promotion as well as digital and data, we're making investments that drive awareness, continue to reinforce our brands and help us drive nuance as well as driving productivity through our sales force and our field force. And of course, we'll continue to make investments into our skilled workforce, including reallocating resources from slower growing areas to faster growing areas. Now I'm going to get into each one of these and share some additional insights in terms of R&D, you heard from Rob about some of the positive attributes of R&D and animal health as compared to human health, but I'm going to share some additional perspective with you in terms of how those translate into what you see on the financials now because we start and end in the same specie of interest that actually drives higher success rates in animal health than human health. That clinical trials are also shorter, which translates into lower cost than human health and faster development timelines.

Now, I know those cycles along, although they are about two to three years faster than human health also, but we balance between new disruptive innovation and lifecycle innovation. And the way I look at lifecycle innovation is you're actually getting significant returns at relatively lower risks because what lifecycle innovation does is expands these markets beyond the initial reach of our initial innovation and we already know the customer's willingness to pay for that innovation. And to top all of that, we have no single payer like governments or large insurance companies that would dictate conversion to generics.

CapEx, we started this year and unveiled that we are substantially increasing the deployment of capital into CapEx to drive growth. And we also set expectations that this is going to sustain that way for the next couple of years before it starts to moderate. So why, let me share a little bit more insight into where we're spending in terms of the various categories. Clearly as we scale monoclonal antibodies as well as vaccines, these are consuming capital, but it's largely in the growth areas that are driving organic growth. And these are in areas that are already proven when you look at monoclonal antibodies and how quickly Librela rose to being the number one pain product in Europe, and with opportunities even greater in the US as we launched later this year. Then you have Cytoint that's going to deliver north of 500 million in revenues this year.

We also see monoclonal antibody capacity as being high value for us. Not only do we have the internal capabilities that we build in terms of know-how, we also are building skill, that's a competitive advantage as we look ahead and we're being smart about our capital deployment here as well. We're

leveraging efficiency in terms of productivity initiatives and rather than all greenfields, we're balancing those with brownfield opportunities like the acquisition of the site in Atlanta that you heard from Nick earlier, as well as leveraging our existing footprint and leveraging our existing skillset and resources to expand as we're doing in Lincoln, Nebraska. So while our CapEx is elevated, it is over-indexed in the areas of growth and productivity. Advertising and promotion. I think you heard a lot from the panel earlier today in terms of how these are driving not only enhancing our brands, helping us really drive new brands in terms of adoption with pet owners, it's also driving productivity for us, and it's not just in the areas of manufacturing, it's also in R&D, it's across the company. You also heard examples of how our next generation sales engine, NGSE is embedded in driving more effectiveness in our sales force and with significant value for our customers as well.

Now we're also making investments in M&A, these span from full acquisitions to strategic partnerships to incubators, which you heard from Rob about earlier also. We make tuck-in acquisitions like Xerox, which leverages

... bridges our existing scale to drive even greater value creation. We've used M&A as well to move into areas that are complementary to our core business, like we did with the Abaxis acquisition, to meaningfully move into diagnostics. Of course, our strategic partnerships also give us access to external innovation. Our M&A approach is disciplined. It is focused on driving value creation opportunities within our core, giving us access to enabling technologies and driving innovation. Now, I know, having heard from the other presentations and panelists on how we're driving growth, many of you are thinking about how's that going to translate into driving bottom line performance and growing adjusted net income faster than revenues? We are expanding in areas that are even higher margin categories driven by our mAbs, et cetera, and I'll get into those a little bit, but we're also leveraging our scale and are maintaining disciplined expense management that would enable us to continue to expand our margins and grow adjusted net income faster than revenues. You can see how we have expanding margins, taking our adjusted net income from 16% in 2013 to 28% in 2022. Again, if we've already convinced you of how we're going to continue to drive sustainable growth, this is an area that I want to spend a little bit more time in terms of how we're going to be doing that.

If you look at this chart, you can see that we've seen more modest expansion over the last few years. That's driven by a few things. Number one, we've seen some movement in tax, which you can see that get neutralized when you look at the adjusted EBITDA trend line. We've also seen the US dollar strengthen against currencies that we are operating around the world. In fact, but for the strengthening of the US dollars in 2022, the endpoint would've been 29% adjusted net income as well. Now, when you consider the significant events that I've described earlier, on top of that, heavier investments in our field force and across the business, we're still demonstrating an ability because the business inherently has an ability to drive margin.

We're still delivering margin expansion over this time, which has translated into EPS growth at a 15% CAGR over the last 10 years. We have grown our EPS year after year, and as you heard from Kristin earlier, this is translated to total share of the return of 625%. That's outpacing the S&P 500 and the broader healthcare indexes as well. Now, price is a lever that we use and we have grown price between 2 and 3% on average each year. We've done that across different cycles. Now our pricing approach is based on the value that we deliver to our customers. In the area of pet care, it's extending and enhancing the standard of care and in livestock, it's driving productivity at an attractive cost to benefit ratio for producers.

Now, our pricing approach has not only contributed to margin expansion, but it's actually been about 25% of our growth over the years. When you consider the innovation that we have with our billion dollar franchises and what is in our pipeline that's addressing the highest unmet needs in animal health,

we're positioned to continue to leverage price as we move ahead. Now within companion animal, we have seen and experienced even greater shifts and mix that has been positive for the business. Companion animal has gone from 35% of our revenues in 2013 to approximately 64, 65% of our revenues in 2022.

Although both livestock and companion animal have attractive end markets, we expect companion animal to continue to outpace the growth of livestock as we look ahead. This will enhance our margin picture. Even within companion animal, monoclonal antibodies and our platform, as Rob mentioned, we have 50 plus targets within our pipeline here... will become a greater proportion of our companion animal picture and enhance the companion animal margins as well. To dive into mAbs for a minute and looking at osteoarthritis pain franchises, which, as Kristin mentioned earlier, we expect to be north of a billion dollars in peak sales, which is within about a three to five year period as we've consistently said.

Now, given the recent investments we've been making in our field force and our global scale across our international markets, the most significant incremental spin that we will have as we scale this business up to a billion will be in the areas of advertising and promotion. That will leave significant contribution margin to fall to the bottom line as we ramp up to a billion plus. In addition to mix and driving margin enhancing initiatives and product innovation throughout our pipeline, we've also leveraged disciplined operational excellence, OPEX growth rather, to also add to our margin enhancements over time.

Now, initially, when we became Zoetis, we focused on eliminating redundant costs, but as we've grown, we have leveraged our scale and maintained the discipline to continue to drive bottom line performance as well, and we'll continue to do so as we look ahead. To dive a little bit deeper into that and get a little bit more specific for you, this is how we think about OPEX as you look ahead. In the area of R&D, we expect to grow at about the rate of growth for revenues. Now there'll be some years that's a little bit slower and there'll be years, like in 2023, where it's faster, but it's the pipeline that we let dictate that and it's investments that go through a rigorous process and financial hurdles that start off with our head of R&D and the rest of our colleagues coming in already having that embedded in.

When we think about our field selling, given again the recent investments that we've made in these areas, we expect to grow those slightly below our revenue growth, and digital and data, which is driving productivity, again, not only in manufacturing, which is probably the first thing we think of, it's actually in areas of R&D and finance, et cetera. We expect to grow about in line with our revenue growth there, leaving other G&A to grow somewhere in the low single digits and clearly below our revenue growth rate. Now let me get into free cash flow for a minute. Just like other global companies, COVID-19 has created challenges in supply chains.

So in response, we've made investments not only in our processes and tools to drive resiliency, we've also invested in inventory to help absorb some of those shocks. In addition, we have significant launches, including Librela, for the US and across other markets that's going to keep our inventory levels somewhat elevated through 2024. We then expect to gradually come down to about where we were in the pre-COVID times and then CapEx, we just talked about the productive investments that we're making to drive and support our innovation. Given that these are multi-year type buildouts, we would expect CapEx to also remain elevated through 2025 and then gradually come down to about a range of 5% to 8% of our revenues.

So what we do with the free cash flow that we'll be generating? We'll continue to invest in strategic investments within our business, we'll target M&A that enhance our growth and our innovation and then we'll continue to grow the dividend as we have done historically and will systematically buy back shares. Now this picture looks balanced, but I believe we are in a very unique position. Not only are we in position to be able to invest in all of the internal investment opportunities that meet our appropriately rigorous financial hurdles, but despite that, we're generating cash that we can also return

to shareholders. It looks balanced here, but that just... is just a reflection of the unique position that we're in rather than a deliberate push to do that.

Now, we had the highest buybacks in the history of the company last year, and I think that demonstrates that we will not sit on idle cash on our balance sheet. In terms of dividends, we have grown our dividends every year since the IPO, which reflects a 20% CAGR on dividend growth growing year after year after year. We have in the past and continue to expect our dividends to grow faster than our adjusted net income. In terms of share buybacks, we've actually bought back about 7% of our shares since the IPO and we expect to gradually reduce our share count over time. Now, as I said earlier, we have a consistent systematic approach to share buybacks, though we may flex periodically and opportunistically.

So what drives that flex? It's a combination of the rhythm of the internal investments. So in a year where we see CapEx at a billion dollars for the company, that might translate into slightly less share buybacks. In the years where it's not, you may see a little bit more, but we also look at the timing of M&A transactions and we look at the intrinsic value of our stock compared to our internal long-term growth aspects and the broader markets to drive when we opportunistically flex on the level of buybacks that you see from us. So just to summarize before we go to Q and A, although I think Q and A started earlier during the break, we're a leader in a resilient industry with very positive secular growth trends.

As the innovation leader, we have the capabilities to build on our track record of increasing the standard of care by developing the next wave of innovation that will shape the industry for the next decade. In doing so, we'll deliver mid to high single digit revenue growth in the medium to long term while growing our adjusted net income even faster. We are well positioned to extend our track record of margin expansion leading to ROIC accretion and we'll maintain a balance between reinvesting in the business and returning excess capital to our shareholders. Thank you very much. With that, I'm going to ask Steve, Kristin, and Rob to join me up here so we can take your questions.

Moderator:

All right, as we transition to the Q and A section, we're going to do a live session here and at the same time, a virtual session and Nick, who most of you know on our IR team, he'll manage that. Here, if you want to ask a question, just raise your hand. We're going to have mic runners from our Zoetis team, but we'll be working with you. They'll hand you the mic. Speak directly into the mic. We want to get you on the record and in the transcript if you can, so let's start. Why don't we start with Chris Schott from JPMorgan?

Mike Riskin:

Great. Thanks so much for the questions and as someone who was here nine years ago, it's been pretty amazing to see the progress you guys have made over that time. I just had two questions. Maybe the first one is elaborating a little bit on Librela and maybe the path to the billion dollars in sales and just a longer term question about the 2 to 3 billion dollar pain market. So I guess first, on the ramp, how quickly can this ramp? It seems like the European experience has been very positive. There seems to be some pent-up demand just from the vets we talked to, et cetera. Can we get to that billion dollars in this three to five year window? Is it on the earlier end, longer end, and then competitively, how do you think about the first mover advantage you have here and the ability to sustain share as I think about a 2 or 3 billion dollar pain market over time? Do you anticipate there's a lot of competition coming in here or is this a market that, maybe like dermatology, you have a long runway before we see additional competitors? Thank you.

Kristin Peck:

Sure, I'll start and then Wetteny, certainly build. As you think about Librela, we are super excited and I think there is a lot of pent-up demand in the US and honestly around the world. So in the quarter, we're already launching in multiple other markets across the globe as Jamie mentioned, whether that's Canada, Australia, Brazil, et cetera. I think because this is an established market and because for dogs, and Solensia would be different, it is often more easily diagnosed by vets, we think the time to peak sales will be faster with Librela than I think you see in a lot of other categories such as dermatology, which took us longer. You're establishing a market.

I think Solensia will be slower, so the question of will it be faster, I definitely think it will be. We're investing to obviously do that as fast as we can both commercially and as I hope you also heard from Nick on that. So I do think that's the case and as you think about the market that we're talking about, we believe we can be a billion in a market that could be two to three with Librela and Solensia, but as I also said, and I think you also heard from Rob in his presentation, we're not stopping there. So as you think about a market, in the future, could be 2 to 3 billion, what we're saying is the only two products we have today will be a billion. We obviously, as I mentioned, are investing in other pain and inflammation in this space, so as we look at that market 10 years out, you should assume we have a lot more products than the two that you know, and I do expect competition in this space. I think companies who have been public about their portfolios have mentioned that they have products in this. I think we have a significant head start and as Rob also managed to... What he was talking about is we also will have long acting, so there's a lot more that we'll be feeding into the growth of this space, but I think we are expecting competition. I don't know if you want to comment on that, Wetteny.

Wetteny Joseph:

Yeah, look, I think Kris, we may not get down to specifics in terms of that ramp, but clearly, when we think about what we've seen in Europe and how Librela is expanding the market... I think we shared previously about 40% of the dogs that are being put on Librela had not been treated before, so we certainly see all the attributes and plus, we tend to see a faster ramp up in the US than we see elsewhere, so we're very encouraged by that, but I think you alluded to one thing which I want to dive into a little bit, which is there is a difference between where we say our products will be north of a billion of peak sales.

That's usually within a three to five year period, so while we see an even greater market size out to 2032, which is 10 years out, we'll continue to grow beyond that, just like we've done in dermatology, et cetera. So those are the other two pieces that I would add to what Kristin already covered in terms of how we look at the market. Now, we're never sure about when competition's coming, but certainly, the scaling that we're putting behind these and leveraging our commercial excellence and the examples that you heard from the panel earlier are going to help us to capitalize on our first mover advantage and maximize that.

Moderator:

Okay, next question, Mike Riskin, Bank of America.

Mike Riskin:

Thanks. Thanks for the presentation, guys. That was great. I want to go back to your top line commentary, mid single digit to high single digit. You gave a lot of color about your performance historically and how you've consistently outperformed the industry by 300 BPS in good times and in bad. Is that the right framework now, just to hone in a little bit? Is 300 BPS the out-performance versus

broader market going forward and specifically because you are expecting to see a little bit more competition in coming years than you have in the past. There's a lot of talk about another triple combo coming, there's talk about derm coming. Is that factored into your framework? Could you talk about how that'll impact 2024 and beyond?

Wetteny Joseph:

Yeah, look, I think when you look at the charts that we shared earlier across the last 10 years, we've outpaced the market anywhere from two points to five or six points, so I don't think it's going to be consistent the same 3%, but on average, 3% across 10 years. I think today, we're able to really share the capabilities and take the covers off a little bit to give you a bit more about our strategies and how we believe those position is to continue to outpace the market. So again, we're confident about that despite competition that we're expecting in certain areas, but we also have very promising targets within our pipeline that we continue to execute on and maintain that edge. So while I can't give you a specific number for what it'll be each year, we're confident in our ability to continue to do that.

Moderator:

Brandon. William Blair.

Brandon:

Hi, thanks for taking the questions. First, Wetteny, I know this slide on monoclonal or mAbs, the benefits you get from margins is probably not literal because the arrows go as high as 50% margins, so just the question there being can you give us any color about what are the margin benefits there? Maybe 50%, but either way, give a little color around that. The other maybe for Rob, this was a really interesting presentation on R&D and the flywheel that you guys have generated. The helpful color also may be why are you guys uniquely positioned to do this? Why can't your competitors come up with market research and R&D? Why are you guys the ones executing on this and why will you be the ones in the lead for a foreseeable future? Thanks.

Wetteny Joseph:

Maybe I'll start first and then turn it over. Look, in terms of that chart, it's really demonstrating the contribution margin incrementally that we would expect to drive. It's not a gross margin picture, so that hopefully clarifies it, but certainly, we can take follow up from you in that regard, but again, we have scale here that we can leverage and we've also been making investments over the last few years, particularly in our field force that we believe will derive incremental contribution margin in this case. Now when you look at our companion animals, and if you look at our financials, you can see that we have gross margins somewhere in the 80% range and these are products that certainly, at scale, will be accretive to our gross margin picture here. So again, it's really intended to show a contribution margin incrementally coming from those, not a gross margin picture. So I'll turn it over.

Robert Polzer:

I would say why we're confident in our ability to continue to innovate and grow is the fact that we bring in all the elements of what I was sharing with you. We have a very diverse portfolio, so we're looking to manage and balance the risk to ensure that that portfolio, where we have technical challenges in one area, we have opportunities another, but we've combined that with the diverse capabilities that we have from genetics to therapeutics. So allowing the biology to choose what is the optimal solution gives

us a lot of opportunity to choose because of having that breadth of capability within R&D completely within R&D.

We can select those at any time we need to, but then importantly, as Wetteny had mentioned, we always go in with the eye of the financials and the return on investment. So we look to make sure that the investments we're making are going to be of value to the customer and if anything changes in the market, the market dynamics can change, the product profile changes, we'll pivot to ensure that our resilient portfolio can offer a different solution compared to something that maybe we were pursuing initially. So I think it's actually a combination of all those capabilities that really put us in that unique position to continue to lead over the next decade.

Kristin Peck:

The other thing I'd build on that is I think the expertise that have been built across not just R&D but manufacturing on how to manufacture, how to scale, what regulators are looking for, as you look at the future growth of the company as you saw in the pipeline, so much of that is in bio and biopharma and I think the years of experience that we have at Zoetis in doing this since 2016 when we launched our first gives us a very strong competitive advantage. We understand how to discover these, how to scale them, how to manufacture them, how to work with regulatory authorities. These are new technologies. Again, we were the first at USDA, the first at FDA. I don't think you can underestimate the value that has and our ability to better understand what is going to work, what is going to get scaled, what are regulators going to be more receptive to and less receptive. I do think it really drives significant competitive advantage for us at Zoetis.

Moderator:

Nate. Goldman Sachs.

Nate:

Great. Thank you. One on the lifecycle management and then one on the pipeline. Can you maybe expand a little bit on where you see opportunity to push innovation forward in derm and pet parasiticides? It sounds like a lot of the opportunity's maybe longer acting injectables. Can you just maybe expand on that and where those might be in the pipeline in terms of when we should see something hit the market and then how are you prioritizing going after the opportunities that you identified in renal, cardiology and oncology in terms of where you guys maybe see the best opportunity to bring innovation to market?

Kristin Peck:

Sure. I'll take the first one and I'll certainly let Rob take the second one. As you think about dermatology, your question is how do we continue to grow that franchise and to deliver? I would say a few things that I'm super excited about. Obviously, new claims, as Rob mentioned, around the products we already have I think will continue to drive growth in that space. I think as well, there's still millions of untreated dogs in the US and outside the US so we continue to take the market and I think we can grow the market that we have today. We're then going to have lifecycle innovations such as Apoquel chewable, which is approved outside the United States, will get approved in the United States. We're looking at long-acting, but I think also, we're really excited about expanding species here. This is still a really important area of dermatology for both cats and horses.

I know Rob knows. I harass him all the time about the equine one, which I remain super excited about. We're not public about products and their launch dates until they're very close as you know, but I think

as you could look at innovation in derm, I think as you look at his pie of in the next four years, four to seven, we have innovation in derm in every part of that circle that he had. We have new derm that's going to be coming in the next four years, exciting, that I think will drive significant growth. We've got it in the four to seven and we've got it in the seven plus, so every franchise we're in, you should assume that Rob is innovating across every dimension of that time to do so. I don't know, Rob, you want to take the second question?

Robert Polzer:

Sure. Around the renal, cardio and oncology. In that space, again, I go back and it's going to be a theme that I always bring up is the focus on the biology of the species. What we find is that humans are different than dogs than are different than cats and while some of that biology comport between a species, it's actually been our experience and many times they are very unique. So the area of innovation in these spaces starts with that fundamental understanding of that specific species' biology and how is the disease progressing in that area? Once we understand those components, now we can tailor the solution to go after that and bring those innovations forward, but there is a lot of fundamental knowledge that we're building as part of our pursuit of those franchise areas.

Moderator:

Okay. Next question from Belagi. Barclays.

Belagi:

Hi, good morning and thank you for the presentation. Two questions from me. Kristin, I know that digital solutions technology innovation is a big area of focus for you. I found the digital solution for OA pain screening very interesting. I want to understand if there are other therapeutic area segments where you can employ these solutions and decouple growth from veterinary visits and being linked to labor availability. That's one. Two, I think historically, the Zoetis playbook has been about revenue growth being greater than industry growth, operating income growth being greater than revenue growth. We didn't see a specific guidance in terms of how much you would expect EBITDA to grow the next 5, 10 years vis-a-vis the revenue growth numbers that you provided. Are there any specific factors that limit visibility into providing such a guidance or if not, can you give guidance? Thank you.

Kristin Peck:

Sure. I'll take the first question and I'll let Wetteny take the second one. We're super excited about digital and data. It was a core strategy when I became CEO in 2020 and digital and data and driving insights and powering our business by that is across everything that we do. It's not just if you sit in Wafaa's organization and Zoetis tech and digital. I hope what you also heard across the panel is that we embed this in everything that we do. So whereas Jamie spoke on the panel about how we bring this to life through virtual recall to support the vet, I think we're looking at new diagnostics that can drive more pet owners to the clinic. We're also looking at technologies that help the vet stay engaged, as Jamie mentioned, with the pet owner, even when they're not there, drive compliance, reminder so they don't have to come in.

We can just automatically ship that product to you. We really think the data and digital powers every single dimension of our business. It's certainly drives revenue and as you think of the Imagyst platform, so we really think it's a mindset that we have and as Wafaa really spoke about, we have platforms that go across the company that we're really confident we can continue to lever. Wafaa also mentioned we want to fail fast. We're experimenting constantly with things. We'll try that. It doesn't work. We'll shut

that one down. This one works. Let's scale it. So I think you should look at digital and data as something that generates revenue, supports revenue and enables us to be more agile. Go back to the sixth priority of operating with agility and excellence. Tech and digital is critical to our success to do that.

As you heard on the panel, Nick was talking about having greater visibility into demand, into forecasting, into looking at AI to predict forecast years out, so we can think about our network. We want every single part, whether you sit in HR, to be able to predict workforce trends of our company. Every part of our business, we're looking at AI to help us be more efficient and actually, we've got a bunch of groups now looking at generative AI as well, use cases that certainly, Rob's thinking about across R&D to transform it, but also, other use cases to just make us more efficient across our entire organization. It is how we think as I think Wafaa really tried to outline, and then Wetteny, you want to take the second one?

Wetteny Joseph:

Yeah. Happy to. Look, if you look at the rhythm of how we've performed, looking backwards and then I'll talk a little bit about some of the elements to think about as we look forwards. If you go back to 2021, we grew the top line 15%. We grew the bottom line 19. In 2022, we grew 8 and 11. By the way, that's despite some of the events that I've talked about. Now, there's been some noise with respect to FX that might muddy it up a little bit, but considering the continuing mix shift that we see in the business in terms of companion animal continuing to outpace livestock and then adding to that, the mix within companion animal with our mAbs and leveraging investments.

We've been in investment mode, but we have the discipline also to control spending so that we can continue to grow the bottom line faster than the top. Even as I've said, the range might narrow a bit, but we're doing that despite the investments in those other areas. I think we certainly can see a path to continue to expand the bottom line faster than the top, though I won't give you a specific number to plug in, but I do think when I think about what we've done in the past, despite these other elements that have been introduced and the productive use of the investments that we're making, certainly can see us continuing this track record.

Moderator:

Next question from John Block, Stifel.

John Block:

Thanks and nice to see you and thanks for the presentation. I think one of the slides that you put up was the premium growth to market and the 300 BPS is certainly impressive when you're the number one player, but the other really impressive metric was you did it every year and you did it for 10 years straight. Can you talk about your conviction as we look forward? I think there's some concern out there when you think about the timing of competition, notably next year, do you still have conviction that you can grow at a premium to market

... going forward, notably 2024. And then for Rob, the chewable and Apoquel seems very interesting, especially if there's competition coming to the US next year. Can you give us a flavor for the conversion that you saw in Europe when you rolled that out from the pillable to the chewable, and then maybe a price premium as well? Thanks guys.

Kristin Peck:

So, I'll take second unless you want to start taking commercial questions. Okay. I think you could actually, so I'll open on the first question and you'll jump on in the second.

Wetteny Joseph:

It was the, how are we conceding?

Kristin Peck:

Oh yeah. So let me start. Yes, absolutely. We have conviction and the reason we say we have conviction is if you saw my slide, we're predicting the market to grow at four to six and we're committing to grow mid to high single digits. So absolutely we think we can continue to grow faster than the market. I have strong conviction, I don't know if you'd add anything there.

Wetteny Joseph:

Yeah, look, I think you mentioned competition. First of all, the timing of competition is never certain, but we're not resting on that. We're continuing to innovate. And I think in the area of Durham, for example, we highlighted a number of areas where we're continuing to drive innovation in Durham that we believe will continue to do that. But you step up beyond the individual category here. Certainly we have innovation and launches and or pain, et cetera, that we believe will continue to drive that performance for us as we look ahead.

Kristin Peck:

Yeah, and I think his second question was on part-

Robert Polzer:

Conversion.

Kristin Peck:

Conversion, if you want to take that one?

Wetteny Joseph:

Conversion? I'm sorry. Conversion?

Kristin Peck:

Oh, so conversion. You talking to chewable.

John Block:

[Inaudible]

Kristin Peck:

Yeah, no, I mean just so you understand, I mean I don't know how many of you have dogs, some of your dogs, some dogs have no problem. My dog would eat anything. Just to be clear, I don't even think it has to even be edible. So my dog could take Apoquel or Apoquel chew, it will be no issue.

But there's a lot of dogs who are quite finicky, especially sometimes not to be judgemental. The smaller dogs tend to also be quite finicky. The lab generally not. It really it's, and by the way, people like it because it's almost like a treat. So instead of feeling bad that you have to give a pill to your dog, people like it. So we've been very successful in converting customers, but our goal here more strategically is continue in the space of animal health versus human.

We get paid for that innovation, right? In human health they may not care if you make it a little easier. Here, it really helps. Pet owners are happy, happier with it. Our goal... We are going... We're launching chewable in Europe, for example, ahead of when anyone's even launched anything on Apoquel. So our goal is always to be one step ahead and we've been very successful in converting. And I think as you look at Apoquel and Apoquel chewable, I think the other trend, that Wetteny talks about a lot, that's really important is that more and more both vets and pet owners are actually moving to Cytopoint. They're moving to Cytopoint because it is really strong compliance. It is very strong safety and efficacy and vets love it because it stays in the clinic. But I don't know, Whitney, if you want to build on that it's favor.

Wetteny Joseph:

Yeah. The only thing I would add, yeah, I agree. I think as we look ahead, we could certainly see Cytopoint continue to set the pace here. And given that we no longer have the constraints that we had with Covid vaccines competing for those inputs, we can actually capitalize on that. And I think you're seeing it in the trend lines and I would expect those to continue as well. And look, I think with Apoquel chewable, as Kristen said, we're a step ahead and so we're continuing to have... Add to our arsenal in terms of how we look at this. And while there might be significant cannibalization on here, I do think strategically it's very important as we look ahead in terms of the market.

Moderator:

Next question, Steve from Cowan.

Steve:

Thank you so much. Are you confident that Librela supply can meet initial demand? Especially if it's stronger than expected and we don't have Apoquel like situation. And then secondly, this is more of an industry question, but you mentioned in the past the shortage of vets and with few new vet schools, if any being built, it doesn't seem this is a problem that's going to go away. So do you see this as a long-term structural limitation to the potential of Zoetis? And if yes, what can Zoetis do about it? Thank you.

Kristin Peck:

So I'll take your second question first.

Steve:

Yeah.

Kristin Peck:

And they'll let Wetteny take the other one. As you look at what he is talking about for those aren't aware, the capacity constraints in the US and in some markets as we had this huge increase in pets. Obviously we didn't also simultaneously graduate tons of new vets. But I think it was really exacerbated by the turnover you saw in vet clinics, in the vet techs and in the front office, which has more of an impact on the efficiency of a clinic than you might realize. And so although they're not all of a sudden graduating new vets, by the way, they will be, as you've probably heard, there's expansions in those classes, but they won't be here for three to four years of the expansions in the classes. But you can graduate vet techs much faster and you can get experienced people at your front desk.

And we really invested in supporting vet clinics across the world in the United States and across Europe of how to be more efficient and more productive. I think they're leveraging telemedicine more. Does

every animal have to come in for everything? Can you leverage your vet techs much more? Do they have to change the model? And I think what you've been seeing is you've been seeing the normalization of vet visits as we saw on the chart. And what you saw in Q1 is that vet practices across the globe are figuring out how to manage their business more efficiently and more effectively by better leveraging vet techs the same way that doctors do with their nurses.

Vet clinics were a little slower on the build leverage in your model strategy and also just getting the front desk to better understand what animals need to come in, what animals we can manage easily through just a call, which ones you know can do telemedicine. So I think the vet clinics themselves are getting more efficient. We don't see it as a rate limiter to our growth as you think about it hasn't been as you've seen obviously this year. But I don't know, Wetteny, you want to take the second one.

Wetteny Joseph:

On Librela, here's how I look at it, right? Although I wasn't here, although I referenced Apoquel and I even mixed it with Librela earlier. Look, we learned from the experience in launching Apoquel and then clearly you saw what we did with Trio getting to 750 million within the first two, two and a half years. But we're also learning from the launch of Librela across Europe. And as we think about what that means into the demand for the US, it's factoring into what we build and the timing of that launch. And this is why I know all of you are wondering about the timing of the launch of Librela in the US but if you think about it, the bigger launch you expect the later you are going to do it because you also want to make sure that you have all the supply to do that without having pets get on the product and not being able to sustain them on it.

And so despite, besides the benefits that we expect from the early experience program, which we intend to execute before we do the launch, this is the other dimension that we put into it because we want to make sure we have ample supply to be able to launch the product. And also because it takes 10 months to produce a map that factors into all of that as well. And you don't want to start so early that you start to run into expiry. So it's a fairly complex element that we're used to and we know well and we're executing, this is why we've been so consistent about what our plans are.

Kristin Peck:

And the other thing I'll just show that I think speaks to the culture of Zoetis is the team that's looking at that meets every other week and it's multiple members of this leadership team. It is not Nick out on an island making sure it is Nick with our commercial leaders, with Wetteny, with Rob. I mean we are working that issue and really understanding what do we think commercial is, again, what we thought to be honest a year ago has changed because Europe's been so successful.

So that's a constant, that interconnected capability slide that Rob talked about, it's how we operate. So what we expected two years ago changed in the last year because Europe was really successful. Wow, it's already a blockbuster. All right, let's think more, let's re-look at now what do we need?

So it's been constant that communication that... I know it's hard as an investor to appreciate why that matters, but I think if you look at the history of our success and if Juan Ramone were on the stage, he constantly, for those who were here, I know some of you are, he talked about it is really important competitive advantage and it's going to help our ability to ensure that we have that reliable supply on what's a critical launch for us and Librela.

Moderator:

Okay, next question from David Westenberg. Piper Sandler.

Dave Westenberg:

Hi. Thank you for taking the question. Dave Westenberg from Piper Sandler. So let's, can we look at the parasiticide market and some of the pushes and pulls you got in the big growth in the overall market. When I then think Trio was a priced at a discount to Next Guard heart guard together. I mean I believe Heart Guard 12 is a discount to heart guard... I mean, sorry... Pro Heart 12 I believe is a discount to the shorter duration.

So I know you talked about duration expanding, but the market size getting bigger. So can you talk about some of those pushes and pulls that came into your estimate? And then just as a quick or the second question's probably a little bit on the shorter side, why not go with the 10-year growth rate of, I mean I think you should show innovation that you're looking at that's going to go to 30, 2032. So I mean you're investing all this money in R and D, I think you're going to probably grow faster than the market overall. So why stop at that three to five year mark? Thank you.

Wettny Joseph:

Well, I appreciate the confidence start. Let me start with the first part of your question in terms of how we look at the parasitized market in terms of the puts and takes. Look, this is a market, as we said, it's about 6.3 billion though it's growing in the five to 6% range. As I said earlier, we're actually playing in the [inaudible] which grow faster and expand the market because the price point is also higher.

And so when you consider that what we've seen happen over the last eight years is all indications have been expanding the market and growing at a faster rate than the five to 6%. And we expect that to continue. And in addition to that triple combination, which although we expect competition here, has also continued to do that. And we think that will extend that trend where about 40% of the market is still in the topicals and collars.

We'll see that continuing to drive here. So that's really I think one of the biggest things. And of course we'll continue to innovate as well as others and we think that we'll continue to drive compliance. When you look at it across the world, I think the compliance in terms of months is still somewhere around five or so months. And I think with heartworm included within our formulation here with respect to trio, as well as injectables. And we've got also different channels here with respect to retail. You go in to continue to drive compliance in this space with autoship and all those type of things. So this various factors that we look at when we think about this market in terms of how it's going to grow. But beyond the next few years, I think you're going to start to see more injectables and more longer duration formulations come into the picture as well.

Moderator:

Okay, next question, Lucas from Canter Fitzgerald.

Lucas Olson Duffy:

Thank you. Hi-

Kristin Peck:

Oh, He wanted you to answer his-

Wettny Joseph:

Yeah.

Kristin Peck:

Are you planning on providing a tenure?

Wetteny Joseph:

I mean, no. I don't think I'm shocking you on that one, but look also, this is a long cycle business and clearly we think long terms, those are the investments that we're making. This is why we use the guardrails of our financial discipline and the rigor. But we're not afraid to make investments that we believe are going to drive sustainable growth beyond the three to five years that I'm comfortable putting here in terms of the mid to high stable digits. So we'll continue to do that and I don't know if it'll be another nine years before we do the next.

Kristin Peck:

We're going to try to do it sooner.

Wetteny Joseph:

Investor Day, It might be, I don't, but we'll continue to look at how we adjust that then.

Lucas Olson Duffy:

Hi, thank you for taking the question. This is Lucas Olson Duffy here on behalf of Luis Chen from Canner Fitzgerald. So first I just want to say congratulations on your great investor day and your exciting vision and progress.

So today you discussed a lot about monoclonal antibodies and future possible indications and growth in areas such as derm allergy and pain. So I guess my question is can you discuss a little more about the specific indications in those buckets that you think hold promise for Zoetis moving forward, and what other novel pain indications are you considering besides OA moving forward? Thank you. Well

Kristin Peck:

Well Lucas, it's great to see you. I will let Rob talk it. I don't think we're going to get really specific on new claims since we haven't gotten there. But he could talk a little bit like some of the opportunities that we're investing in.

Robert Polzer:

Yeah, absolutely. So some of the opportunities, especially when you think about indications, again, I will always bring us back to this theme about the biology. Where the biology will port from one form of pain to another. We certainly will look at that, but it has to start with the customer importance and the needs, on medical needs. So we take those components to really drive where those additional indications will take us. And then the biology helps us understand whether or not we can port those types of solutions from one indication to another. I guess I'm trying to think what was the other question you had had?

Yeah, so it really is based off of that biology and where we're seeing the prevalence of various pain types that drive us to whether or not those are markets that we would go into.

Moderator:

Okay. I think we're going to switch gears and go with a question online. Nick, could you read the question please?

Nick Ashton:

Sure. Steve, we have a livestock question here. Can you touch a little bit more on what innovation you have coming in livestock over the next several years? Why are there no billion franchises in that space and do you think that might be possible in the future?

Lucas Olson Duffy:

I can talk about the innovation. So in the space of livestock, a large portion of our investment is focused on those new vaccines across all of the livestock species. So anticipate that you would see innovation coming from new vaccines across those groups. The other element is lifecycle innovation. There's opportunity to take our existing products and really support and protect and expand them. So those are key areas. Genetics where we're looking to go and improve in genetics predictions with respect to the health predictions of animals. And then as we look further, again, we talked a bit about those greenhouse gas reductions, but more importantly greenhouse gas reduction linked with improving the health and performance of animals. And then of course [inaudible] modulators. I think that is an interesting opportunity where it could be really quite disruptive to the market.

Kristin Peck:

The other thing... I'll build on the second half of that question, which is why aren't you see billion dollar franchises in livestock? And I think there's a few reasons. One is you look at a lot of the billion dollar franchises, they tend to be in chronic products where you're giving medication over a long period of time. Most livestock animals don't live, they don't don't live 10, 15 years. So those diseases of long life that are big opportunities in pet care are not opportunities in livestock. And I also think most consumers and livestock producers don't want to be treating animals chronically for long periods of time. It's much more of a market for efficiency.

That being said, do I expect billion dollar products in livestock? I don't. But they're a significant unmet medical need. And we have blockbusters to be clear over a hundred million products in livestock and I think you will see those in the future as well. There's big opportunities in a number of these diseases still, if you look at still, there's no cure, for example in African swine fever. There are big areas in livestock where you can generate the blockbusters of the future. Do I think they will be billion dollar franchises? To be clear, I do not. Just for the reasons that I said, I don't know Wetteny if there's anything I forgot?

Wetteny Joseph:

No, just look, there's an RAC equation here that works when we look at leveraging our capabilities across R and D, leveraging capabilities across manufacturing and you don't have the same level of advertising promotion and so on. Going down the P and L, we're still generating a significant RIC in the air of livestock. And so the equation works in my mind as well.

Moderator:

Any other questions over here?

Elliot:

Thanks. Good morning Elliot [inaudible] with Raymond James. Question for Rob. Want to get your perspective and insight into a particular disease state or therapeutic category that I don't hear discuss much among the companion animal companies, that being obesity, you have very high rates of obesity and canines and felines. You have arguably a population, not the pet population, but the pet owner population that can generate a relatively high rate of self-diagnosis. And remarkably, my favorite statistic is there's also very high correlation between overweight pets and overweight pet owners. So to the extent that pet owners are taking advantage of some of the new therapeutics, you have a market that's already primed. Just seems like the incremental opportunity here could be multiples above what you're talking about in some of your franchises.

Kristin Peck:

Before we get started, I have you say, I think I have the only, we actually had a product on this and I just say my dog was on it. I will not take any offense from the fact that there's a correlation. I might have been one of the only dogs who took the product. So I feel like I have to say that, but

Robert Polzer:

Right. So this is a space, again, going back to I think the customer need and what the customer is looking for. Biologically, yes, there's a path there technically to consider these types of therapies, but it really comes down to our customers want it. And I think as Kristen had mentioned, that may have been part of the challenge with-

Kristin Peck:

So, we had a product, for those of you who've been following us for a long time, we had a product, Cilentral. Unfortunately it did not sell well. So it worked by the way, it did work. But yeah, we can go through the bunch of reasons, but that honestly, it's we've been in the space, we had a product and it just didn't sell. And this, it's not that it didn't work, by the way.

Robert Polzer:

Yep.

Moderator:

Jeff.

Jeff:

Thanks. I wanted to throw a quick one in on the derm forecasts. It's kind of two pieces to it. When you're thinking about these long-term forecasts, there's so little visibility on what some of your competitors are doing. Just wondering how you sort of factor that when you think about sort of market growth. And then we've seen in other areas in human health that adding lines of therapy and combinations for pet patients that are refractory. I know that it works effectively in the majority of patients, but how these additional antibodies that you're talking about in derm, are they combination products? Are they thought about as lines of therapy as well to help expand that market and give you some more growth?

Kristin Peck:

You want to take that?

Wetteny Joseph:

I'll take the first one. Yeah, look, we've talked a great deal about the areas that we're looking to expand the market in terms of derm of course, as we never have real precision in terms of when competition's coming, but we'll continue to drive that. If you run the math on what we're expecting the market to be, it's a growth rate that's somewhat in the mid-high single digits. And despite that, by the way, we have confidence in conceal line sight for us delivering mid to high single digits because we're continuing to innovate and have other areas like [inaudible] et cetera as well.

So we'll continue to innovate in this space to drive the market. But look, I don't think we'll get into more detail in terms of what competition, what intel we have there, but we believe that there's still 6 million dogs in the US. We think there's even more outside the US. And as I talked during my presentation, we're already launching the next generation, which we think will be really strategically important in terms of how we expect things to trend out when competition does come. And then we're adding more to that pie as well. I don't know if you want to add anything to that.

Kristin Peck:

No, I mean I think to your point, it is hard to know with competition. And I know sometimes for those of you who cover human health, we're a little frustrating because you're waiting for the chart with our pipeline and when it's going to deliver. But I don't want to give you that information 'cause none of my competitors are giving it to me either. So we are a little bit challenging. There's very few public animal health companies on that. You want to take any of the second part of it?

Lucas Olson Duffy:

So with respect to the newer innovations, again, I think we need to step back and say Bio therapeutics, we do have a significant portfolio in monoclonals, but that's not the only type of modality In Bio therapeutics, you can have peptides, you can have fusion proteins, you can have bio specifics. So where animals may be refractory to the disease, we try to explore why are they refractory? Is it that the therapeutic is incorrect and we need to have a different biological target we go after? Or is it the fact that you do need to have a bit more horsepower and may need some type of combination? But then that's where we factor in the ROIC to understand can we bring those types of therapeutics to aid those refractory individuals within an appropriate return on investment.

Kristin Peck:

And I think that slide, it's one of my favorite slides in Rob's presentation as you looked at the one with the cat in the center and you look at what base paws can do for us here. If we can better understand which animals are going to respond to this therapy, we can better target it. But it also helps us create products very targeted at which point you're more successful in your development program because you're only looking for animals with this biological marker. And so it helps us not just be more efficient and more effective and more targeted, it helps us run much more efficient development programs going after very specific populations that we know will react to the product that we've got. So it goes back to his biology, but that's where his chart on the interconnected part of having genetics with us is we are looking at all... That technology is behind every powering every program. We have to understand who's responding and why so that we can look at targeted populations.

Jeff:

So sorry, I had one other quick little add on given that maybe nine years till we hear from you again. You didn't-

Kristin Peck:

I promise you'll be before then, but okay.

Jeff:

One thing you didn't mention at all today was pet insurance in the US and just very quick line on your thoughts about that. I know you had a update recently.

Kristin Peck:

Sure. As some of you probably read, we're really excited that we sold a majority interest in pumpkin pet health to JAB. We think this is a critical space as we've talked about, we are retaining a minority interest in this. We've got commercial agreements with JAB. We're really excited to partner with JAB because we believe that the growth of this is really important to providing best care for pets.

If there's an insured pet, it gets better care. The vet's less worried about recommending best care. So JAB, as you probably know, owns a lot of the other pet insurance. So they really are looking at this product as being really unique in their portfolio. So it's been a partnership we've been working on for a while and we're really excited to continue to support it. JAB now has a majority interest in it, but it is a really important space certainly as you look at Europe, where the penetration's much higher, we see growing here, but as we always got into it, we always said it's really because we think it helps support best care for pets.

Moderator:

Question from Marshall.

Marshall:

Thank you. I just want to ask about the issue of the shortage of veterinarians in the United States certainly. Is this a worldwide issue? We're really isolated to this country. And do you see any opportunities in non-prescription products that might alleviate that bottleneck in terms of your revenues to the extent they're tied to vet availability?

Kristin Peck:

Sure. It is an issue in a number of geographies. It's not global. There are some geographies with a plethora of vets. Welcome to Brazil. And there's some other markets around the world where there's plenty and plenty of vets. We should just move them all and get them to relocate around the world if only immigration allowed that. But it's not unique to the United States. I want to be clear, I don't think they're, for the diseases you're talking about and vaccines. And really as you look at even what we make, the vast majority of what we make, 50 to 60% of it has to be administered in a vet's office.

So no, I don't think that over-the-counter is going to be the solution to this. I think more efficient ways of operating in vet clinics will be, I think graduating more vet techs. A lot of the appointments can be done by techs... Vaccines... So you look at so much of what happens in a vet clinic, vet techs can play a much bigger role. So I think the other solutions are probably more important, both near term, medium and long term to ensuring a sustainable veterinary profession in the US and around the world.

Moderator:

Any other questions?

Nick Ashton:

I have one more from online, Steve.

Moderator:

Okay, thanks.

Nick Ashton:

How does Zoetis differentiate from strong competitors in diagnostics? What unaddressed customer needs can Zoetis fulfill in this market?

Kristin Peck:

Sure. I'll start and then maybe Wetteny can build on this one. I think that we really differentiate is we want to be the partner of choice. We want to make it easier for the vets to get their business. We want vets to choose us not be stuck in a contract. And we really are trying to be as flexible as we possibly can, but importantly, when we did the deal, we want to lead with innovation.

We were very clear that our ability to succeed and to take share was going to be by bringing disruptive innovation. And we're really proud of what we've done with our vets scan images platform, continuing to add, we're really excited, as I mentioned, to be adding next gen analyzers and chemistry and hematology over the coming years. But we're doing phenomenally in international, I have to say, growing significantly above the market. But it's creating really ways of interacting, not just with the vet but with the pet owner and really changing the customer experience at all levels and bringing innovation. So I'm not sure there's other areas I forgot about.

Wetteny Joseph:

The only thing I would add is as we invest in innovation here, we've been historically leveraging the same sales force to go into clinics on therapeutics as well as diagnostics. And I think matching with those investments in innovation, we wanted to make sure we had dedicated field force that are well-trained in terms of cell diagnostics and helping clinics leverage those more to drive their business and deliver pet care. So we think that's going to be an important investment for us given the innovation we have on a therapeutic side, quite frankly, I think we've been diluting the ability for our salespeople to actually be as effective as they could be. And despite that, we've actually grown roughly at market in the US and above market internationally. So we're very excited about those investments and looking forward to seeing those returns as we launch innovation here too.

Moderator:

Okay, so we're about out of time. Any closing remarks from Wetteny or Kristen?

Kristin Peck:

Look, I just want to thank everybody online and certainly here in the room for coming today and for engaging. We really appreciate the constant dialogue we have with all of you. We look forward to continuing that. And my commitment today is you will not be waiting another nine years before you

have another investor day. So we look forward to continuing the dialogue. Thanks so much for joining us today.

Wetteny Joseph:

Thank You.

Moderator:

Thank you.