

Zoetis, Inc.

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Chris Schott: Good afternoon, everybody. I'm Chris Schott at J.P. Morgan. It's my pleasure to be introducing Zoetis today.

From the company, we'll have a presentation from Kristin Peck, CEO. We'll go to a Q&A session after that.

A lot of exciting things going on at Zoetis including the recent Librela launch. We'll hear more about that. Let me turn this over to Kristin. Thanks for joining us.

Kristin Peck: Hello everyone. It is great to be back. Thank you, Chris for the introduction.

I don't think it would be a presentation at the J.P. Morgan conference if you didn't have the legal disclaimer of forward-looking statements and non-GAAP financials, which you can find more information on these risks and the reconciliations in the deck we posted on our website, as well as in all of our SEC filings.

With that said, let's get started. Let me share a little bit about what you're going to hear from me today. We'll talk a little bit about Zoetis, and how we've established ourselves as the leader in animal health. A leader in an industry, the animal health industry, which is incredibly resilient through different economic times.

We'll talk about the value of Zoetis's diverse and durable portfolio and how we've continued to invest in building the capabilities across commercial R&D, as well as our supply chain to remain in a leadership position, driving disruptive innovation.

Finally, how delivering this value for our customers has met...We've delivered significant value for you, our shareholders. Let's start with a little bit first about Zoetis. As many of you know about Zoetis, we're an incredibly purpose-driven company, for all of our colleagues.

Our purpose is to nurture the world and humankind by advancing care for animals. Every

colleague who works at Zoetis feels deeply about that purpose. That is our why, and as we think about who we want to be, that really speaks to our mission. We want to be trusted, we want to be valued by our customers.

As you see here, it's really by the innovation that we bring to them, our customer obsession, which really means for us putting our customers first in everything that we do. Beyond that, continuing to have purpose-driven colleagues and investing in those colleagues. I'll talk a little more about these as I talk about our strategic priorities.

Before I do that, for those of you in the room who don't like spending your Thursday night reading our 10-K filings or haven't been an investor with us for a long time, let me share a little bit about Zoetis.

We IPOed as many of you know, about 11 years ago. In 2022, we had 8.1 billion in revenue that was split about equally between the US and international and about 64 percent, 35 percent between pet care and livestock, with the remaining 1 percent being in other.

What's really amazing about Zoetis is the diversity of our portfolios. As you see on this slide, that's across product categories, that's across species. It's also across market. We operate in over 100 markets across the globe. That is a really broad base. Again, we're also broad around species in therapeutic areas, which has helped Zoetis over the years deliver consistent performance.

It is both diverse and durable, across different times. Part of that is because we produce medicines, therapeutics, diagnostics, devices, genetics. We also have an incredibly broad portfolio across the continuum of care.

If we look at our strategies to deliver value, it starts as I talked about from the very beginning around our mission, around innovation. We have been the leader in innovation in the animal health space since before we IPOed bringing truly transformational innovation.

This isn't just transformational innovation and new products, but as I'm going to talk about later, it's also around lifecycle management, around 300 of our key product areas. We'll talk about some of the new categories of unmet medical need, where Zoetis will be bringing innovation.

Secondly, we're obsessed with our customers. You can see that obsession, both in how our field force is ranked by our customers, our field force effectiveness. When you dig into that data, the

reason is because they trust our representatives. They see us as a key partner in their future.

What's very different about animal health and human health, one of many things, is that we're a business partner to our customers. They carry our products. They buy directly from us, whether that's a vet, or a producer, we're an important business partner for them.

One of the ways we can deliver great value to them is by investing in digital and data, where over the last four years, Zoetis has done an absolutely outstanding job. You think about investing in digital and data, obviously, there's new revenue generating products where we've done this.

As you look at our images, platform and diagnostics, we've been able to deliver great value to our customers through AI-generated diagnostics, but it also helps us make our business much more efficient and effective.

We talked a little bit with those of you who were at Investor Day around our next-generation sales engine, which we have in the US, and now, in most of our major markets across the world, which has helped each of our representatives plan their days and add greater value to their customers.

Previously, they might have had to open, say, seven different applications to figure out what the sales were, what the customer was buying, whether the customer has called customer service, did they have concerns? What were they interested in?

That's now in one place for our reps, making it much more efficient, and importantly for the customer, making that visit much more valuable. Focusing on the issues and topics that the customer finds most important.

We've also really been investing empowering our business through sustainability. When we think about sustainability, that's across just how we operate our business. Making sure that we are responsible, that we invest in moving toward carbon neutrality, but it's also about innovation.

It's about delivering for our customers across the globe, more sustainable solutions. It's also about partnering with our communities. We've certainly done this through the Zoetis Foundation, which has been investing in the US and across the globe in markets to provide scholarships to better educate the veterinarians of the future.

It's also important partnerships in Africa such as Project A.L.P.H.A, our partnership with the Bill and Melinda Gates Foundation, to create more affordable safe food supply for Africa by enabling

small farmers to create businesses that make economic sense for them, their families, and for their communities, and we're very proud of this.

We do all of this by investing in our colleagues. Our colleagues are the center of what we deliver. I always say, is it customer first or colleague first? It's colleague first because I have never met a delighted customer if there wasn't an empowered, engaged colleague at the other end of that relationship.

We invest a lot in our colleagues. They're purpose-driven. Over the last few years, we've driven colleague engagement scores of 86 percent and above. This just goes to show you what the value of that engaged colleague base across the globe is.

Lastly, its performance with excellence and agility to make sure we can continue to deliver on our commitment to you to be able to grow our bottom-line faster than our top-line, and importantly, to find savings to reinvest in the many growth drivers we have at Zoetis.

Let's talk a little bit about what are the drivers in the animal health industry? For starters, it's an incredibly resilient industry because the fundamental drivers of animal health such as the need and desire for companionship from pets and the need for more high-quality, safe and affordable protein sources isn't going to change.

As we'll talk about later, with an additional two billion more people on this planet by 2050, there's going to be incredible need to have better, more affordable, and more sustainable protein production. This has really made the animal health business resistant to different economic times.

I'll talk in a second about the consistency of that. Even if you go back to 2008 and 2009 in the last recession, the animal health industry still grew three percent. A lot of that's being driven by the large number of unmet medical needs that are existing in animal health. We'll talk about some of the big categories of the future where Zoetis will continue to deliver there.

It's also being driven by the pet owner willingness to spend. We'll talk a little bit in a few minutes about what's driving that. Some of the major demographic shifts in who's owning pets, how they spend, and how they think about their pets.

This is not just a trend that we're seeing in the US or in the developed world. The trend in the movement to the increase in the human-animal bond is happening across the world. As pets move from the backyard, to the house, to the bed, the spend with those pets increases, the

number of visits to a vet clinic increase as well.

More and more, we're seeing the investment that producers, markets, and countries are placing in getting more sustainable production and the important role that keeping animals healthy plays in that.

As you see here, the animal health industry, which has historically grown about four to six percent, is projected to continue to grow at four to six percent, from $45 billion today to 558 billion by 2027, and for that to continue.

You might ask why. It's the increasing medicalization of animals, as I talked about, with the growth of the human-animal bond that is really driving the pet owner space. We're innovating in important chronic diseases.

As you saw, all those new pets that were adopted during COVID, as they age, they're going to get many of these chronic diseases. Zoetis is delivering disruptive innovation to improve the standard of care and the quality of life of these pets.

As you see here, the performance of Zoetis versus the industry. First, I would point out at the consistency of that growth across the industry, but importantly, as you look at Zoetis' growth, which has been about three percent above that of the industry over time.

As you look at the industry growing around four to six percent, livestock generally grows a little slower, as I'll talk about, maybe at two to four, but pet care grows above that. We'll talk a lot about what is driving that growth.

I think as you can see here, this is a phenomenal track record of a company that grew its revenues from our IPO at around 4.6 billion to 8.1 billion in 2022. Let's start with the pet owners, which are really the group that is driving so much of the growth and the growth of pet care for us globally.

For starters, the pet owners of today are quite different than they were 10 years ago. They are much younger, and importantly, they're also much wealthier. More and more pets are being adopted in high-income households. They have a much stronger human-animal bond.

Many of these young people are delaying having kids. They see their pet as a member of their family that should be treated with the same. They should have clothes, they should probably have

a stroller, they might even have a shrink these pets today. It's a very different world than we all remember about 10 years ago.

What this also means is there's an increase in pet medicalization. We see that in the US, but we're seeing it globally. What many of you who haven't followed us for a long time are surprised by is as you look at a market like China, China, we have more pet care sales than livestock sales.

That surprises a lot of people, but we're seeing that more and more in markets across the globe in Brazil and in many emerging markets, where this trend of the human-animal bond with pets is really driving significant growth and their willingness to spend, but it's also being driven by Zoetis and by the new technology developments we've put in.

We, today, have three monoclonal antibodies which we'll talk about, so new technologies really raising the standard of care. We'll also talk about the clinic spend, which has also been a key driver of growth in the US and around the world.

On this slide, we're getting it a little bit into what in the US is the trends of both Zoetis' growth as well as for the vet clinics themselves. As you look at here, over the last four years, Zoetis as a whole, pet care and livestock, have grown at around 8.1 percent. In US business, for our pet care business, we've grown 15.6 percent.

As you look at vet clinics, who've done very well over this time period. Over this time period, they've grown about 7.5 percent. We constantly get the question, but vet clinic visits aren't growing that much.

Well, vet clinic visits grew really quickly as everyone adopted the pets, and then you saw a significant decrease in 2022. I want to emphasize that overall, vet clinic visits are above what they were pre-pandemic.

As you see the growth over the last four years, so before the pandemic to now, you're still seeing positive growth. In 2023, we saw a bunch of volatility, some quarters where there was growth, some quarters where there's significant declines.

The most recent data that we have for Q4 is showed about two percent growth in the last quarter, but as we've said all along, over history, vet clinic visits normally grow about one percent. If you look at Zoetis' growth, there's not a strong correlation for our growth with vet clinic visits which have been flat.

It probably looks more like overall revenue in the clinic or revenue per visit. There's a bunch of important reasons why. One of them is the innovation that we continue to bring and gaining market share in that, but it's also in the US, the important role that retail is playing in that market.

Retail in the US has been growing around 35 percent. As you look at the retail market in the US, it's about 14 to 15 percent of our US pet care business. As Wetteny's been saying, if you just look at the US retail pet care business It would be larger than our second-largest market outside the United States. It is a pretty significant business.

As you look at vet clinic visits, it's not the strong correlation. I think what you're seeing is strong demand for veterinary care. That's where Zoetis plays a really important role of driving that with that innovation.

Speaking of that innovation, what Zoetis has done an amazing job of over the last few years is build billion-dollar portfolio franchises in animal health. As you see here in dermatology, if you go back about 10 years ago, our dermatology sales, I think, were half a million.

Today, or actually, in 2022, there are $1.3 billion. We created the dermatology market with Apoquel.

When no one thought you could ever bring a monoclonal antibody to animal health, much less a monoclonal antibody to the GP practitioner in animal health, we brought Cytopoint, which has been incredibly successful and has demonstrated that the vets are more comfortable than you might have imagined in doing monoclonal antibodies when they bring great innovation and a safe and efficacious product.

As we'll talk about throughout today's presentation, it also underscores the important role of lifecycle innovation, as we've continued to add last year in international and in the US, Apoquel Chewable. Continuing to invest in the lifecycle innovation of important brands and important franchises.

Secondly is parasiticides, where if you just go about five or six years ago, we were number five in parasiticides, but we've continued to invest in this portfolio and in this franchise, which as of 2022, was $1.6 billion. That's Simparica, Simparica Trio, Rev, Rev Plus, ProHeart 6, ProHeart 12.

As you listen to that, that's continued lifecycle innovation that's building and creating more value

for our brand through lifecycle innovation. Now we're number two in parasiticides, and we're not stopping there.

This is an important market. It's actually the largest market in animal health. It's a $6 billion market. We're going to continue to invest in growing our share in this important space.

A lot of the excitement here, as Chris said, is obviously around Librela, which is one of our key pain products, and Solensia. We are now really looking at growing our monoclonal antibody pain franchise. We've always had, obviously, Rimadyl, which is an NSAID, but we're really excited for the innovation that these two products are going to bring.

As you look at the OA pain market, historically, it was around 500 million, maybe 700 million in 2022 with some of the innovation we already brought there.

We predict that market will be two to three billion dollars by 2032. Importantly, as we said at investor day, we think librela and solensia alone will be one billion of that. We really see important innovation like this being disruptive and expanding a market.

We're very excited as we will talk about...I'm sure it'll be one of the number one Q&As. I don't want to steal you thunder here, Chris. I will not steal it. We've been seeing great excitement for librela in the US, which was approved last year and went into full launch in Q4, so I'm sure we'll get into some of that but really, really excited to continue to build on this.

As I moved to livestock, livestock has been a market that over time has grown around two to four percent I'll talk in a second about the important role the global population growth drives here but it's also with increased access to the middle class for different protein sources and

Also, we talked I think about four or five years ago where alternative proteins going to take over the world. I have to be honest, they've become less and less relevant over the years.

The focus on making sure that we have a sustainable and affordable food supply for the globe has only increased in importance as we've seen the important implications of some of the wars around the world to global hunger and to ensuring affordability of food and there's a really important role that we can play at Zoetis in ensuring a safe and affordable food supply.

There's also been some short-term headwinds for Zoetis that have also passed. We had the important loss of exclusivity of DRAXXIN, one of our largest products where we saw tremendous

competition over the last two years. Thankfully, we fully lapped that and will continue to see livestock grow.

As we said in Q3, low single digits there, but we believe as we look to 2024 and beyond you'll see lives that go back to its traditional growth of around low single digits overall in animal health and for us.

I want to double-click for a second on the important role that a growing population plays. As you look at two billion more people,whether they eat a little bit less protein and a little more vegetables. That's still a significant increase you're going to have to create in food across the world, but importantly we have to do that in more sustainable ways.

There's also a very strong correlation in livestock in our business to the increase in GDP. As you see more people, an increase in GDP, and also household income, protein consumption goes up over time. As you look at meat consumption versus global population, this is an important growth driver.

Again, even if people try to eat a little healthier and eat a little less of red meats, they're going to eat more fish and things like that, and that's where we really see some of the important tailwinds in livestock in the years ahead. We're seeing great growth in poultry, even with high path avian influenza, which has really affected many markets around the world.

We're also seeing a significant shift to prevention and sustainability, away from treatment. We've been leading the way to help do that at Zoetis. We've also talked about there's less of an impact of generics for Zoetis and for many, where we fully lab some of those big changes.

We're also looking at aquaculture, which has been growing very well for us at Zoetis. We've been growing at around double that of the market, and fish is one of the fastest growing protein sources in the world. These are very, very strong trends. What we are planning to do across pet care and livestock is continue to drive innovation.

We really have broad and deep roots when you think about innovation. We've talked about some of the big franchises we've launched and the new products, disruptive technologies across monoclonal antibodies, across diagnostics, across prevention, such as with some of our vaccines.

Importantly, I've spoken about the role of lifecycle innovation, which is critical in the animal health

space to extending the life of our products. Many of our products have been around for 25 years, and they still grow. They're still really relevant because we continue to invest in innovating on them.

We don't think all the great ideas start and end within the four walls of Zoetis. We continue to leverage business development, partnerships, and collaborations around important new technologies and modalities, investing in our R&D across the world, looking at important local diseases in certain markets, and expansion of some of our great franchises into new species, new markets, and new modalities.

Innovation is broad, and it's deep, but there's also significant unmet medical need in entire therapeutic areas that really have not had any innovation in years. We spoke about some of these at investor day, and I want to double-click on at least three of them right now.

The first is around the renal market such as for chronic kidney disease and different renal diseases. Today, there are 10 million cats and dogs who have this. There really is no treatment. The only treatment today is palliative care.

As someone whose dog passed away from this a mere two months ago, it's brutal. It's a brutal disease. We really think Zoetis can help transform this market certainly through new treatments.

We also think the combination of Zoetis, of our genetics such as Basepaws, to be able to understand predisposition, diagnotics...to diagnosis early means we can intervene in this disease before it progresses and causes damage to major organs. We can get those treatments out.

We really believe with this, we can grow this market from 300 million to a billion dollars, but most importantly improve the quality of life and the standard of care for pets and increase the human-animal bond over time.

The second major market is cardiology, which is a space Zoetis does not in any products in today. It's about a 250 million dollar market that we believe with innovation, diagnostic testing, new modalities and new treatments can grow to 700 million.

The last one, which is oncology. We do have a smaller product in today. We think we have significant growth over the coming years. We're investing a lot to grow this market. know this is a big market on the human health side, and we're happy to take questions during Q&A in what is different a little bit about the animal health space here.

This is a space, again, where pet owners are more willing than ever to spend to treat their animals who have cancer. They're spending, you'd be surprised, thousands of dollars today, but mostly on human chemo, mostly on radiation and surgeries.

What they want is transformative care like you're seeing on the human health side that we believe can be brought to the animal health side, and to create a market that could be at least 800 million dollars as well by 2032.

I know you don't see a beautiful chart like this on the slide for livestock because livestock is an industry a lot more of singles and doubles. There's lots of innovation we're bringing there, to vaccines, to parasiticide.

Livestock is more of a singles and doubles business. We're bringing new products to market, but they may be a vector vaccine in poultry, they may be a new vaccine for tilapia, a new vaccine for salmon, or a new genetic test that can better predict disease in cattle.

These are smaller products, but they're important. They help drive the two to four percent growth. Importantly, they also really drive to our sustainability goals to have a more safe, affordable and sustainable food supply across the globe.

With that, I want to really underscore what does this mean for you as our investors? At Investor Day, we outlined the four tenets of our value proposition. The first is about driving revenue growth. Our focus is driving revenue growth at or above the market, which we have consistently done as we demonstrated on that slide before.

With the market growing at four to six percent, historically, Zoetis has driven eight percent growth. We really believe this is a fundamental value driver for you. We do this by investing in innovation and growth capabilities.

That's certainly in our R&D, where last year as we guided to you, we've been growing our R&D spend at close to two times our revenue. That's because we have confidence in our pipeline and confidence in disruptive technologies in there that will drive the future growth of Zoetis.

Those investments go beyond R&D. We're also investing in building capacity in monoclonal antibodies where in animal health, you can't produce them in the same facility as a human health one.

The capacity we're building is ensuring that we can launch that future pipeline. It also means investing in direct-to-consumer advertising to maximize the value of the assets that we have.

We're looking at DTC even in Europe now. It's got to be unbranded, but building disease awareness and awareness of new therapeutics and important areas such as pain, that we've been doing, as well as dermatology in Europe, so investing in DTC.

With that, we believe that we can continue to get scale and drive adjusted net income faster than revenue to make sure that we can enable margin improvement. As you look over the last, 10, 11 years, we improve margins by 1,250 percent.

If you look at the years to come, we're focusing on how we can leverage our scale and continue to expand our margins overall. I'm sure Wetteny is really excited for the question. I won't sell your thunder either, Wetteny, because that's always one of the questions.

Then lastly, it's to return excess capital to you, our shareholders, which we've continued to do. We've literally consistently grown our dividend 20 percent, and we've bought back five billion dollars in shares in the last 10, 11 years. We've delivered a total shareholder return of 625 percent to our shareholders.

We've made sure that this value we're delivering for our colleagues and for our customers means great value for you our shareholders, which we're going to consistently do. With that, what I hope you got from this is first that Zoetis has built significant market leadership, and that we're not resting on our laurels in that market leadership.

We're going to continue to invest in the capabilities across our company to make sure that growth is sustainable, and that we don't just maintain that market leadership, but that we grow it. I hope you also understand that we operate in an incredibly durable and resilient industry with fundamental growth drivers that are sustainable.

We're talking about the human-animal bond, the desire for companionship, and the need for a safe, affordable food supply going forward. That by investing in this, we've created significant value for you, our shareholders, that we're committed to continuing to do.

With that, I think that's a pretty good overview, and I'd like to invite Wetteny up for Q&A with Chris.

[applause]

Chris: Thank you for the comment there. Can you guys hear me? There you go. As you mentioned during the presentation that I kick off here with some questions on Librela, so shocking, I know. Would love some feedback though in the US launch and how that's progressed so far. How is uptake trending relative to expectations? Any surprises? Any [inaudible] there first two months?

Kristin: We had pretty high expectations for Librela based on how well it's performed in international. As we look at it, we ran an early experience trial, as you probably know, which we started in September, and then went into a full launch in October. We're very pleased with how it's performing against our high expectations.

Wetteny and I track this very carefully every week? We're looking at everything from the penetration, which is the number of clinics carrying the product. We're looking at those clinics and how many are reordering. Then we're also looking at the average size of those reorders.

We're very pleased as we look at all of those and how they're tracking to the end of the year to set us up. As we talked about before, there's probably some stocking that's in that number Maybe it's about 20 percent of those sales will be stocking.

What we're really excited about is the reorder rates and the picking up of that sale. It's the anecdotal, I'm sure if any of you are following the product on social media, just the impact that it's having on these pets.

These pets that didn't want to go up the stairs, didn't want to climb on the bed, or didn't want to go out for that walk, are thrilled to do it It's also transforming families' lives. We're super excited so far of how it's going. I'm sure we'll provide lots more guidance in a few weeks when we report our earning.

Chris: Just on this product, how much education you think is going to be required from this market? It seems like something vets have been waiting for for years. Is there still going to be an education process before that fully rolls out?

Kristin: Education in '24, not about, by the way this is very symptomatic. You don't have to convince a pet owner that their dog has osteoarthritis. They see it. They know it. That's different

in cats, as we can. I'm happy to talk about that if you want.

I do think what's important, and this is the reason why we did or an early experience trial and why I think you'll see it, is for the vets getting comfortable, how fast does it work? How long do I want to be giving NSAIDs with it to make sure the dogs not in pain? How fast do they need to be? Is it every 30 days exactly that I need?

They're getting comfortable with that, what's the margin of error there. I think the other thing we think will be part of the education is moving them more into the moderate cases. As we saw in international relaunch, it starts in the most severe cases. Those pets like, honestly, my own, who went on in the early experience trial who is 14 years old, didn't want to get up, I had to carry up the stairs.

Those are the first pets they feel they have to bring it to, but those pets like my own, unfortunately, who passed away about a month and a half ago, they tend to be end of life with other comorbidities. What we're looking at an education is getting the comfort, seeing how safe and efficacious it is and has been, for example, in international, and getting that more into the moderate cases.

I think that's a little bit more of where we're focusing on education, but it's certainly not in knowing your dog has it. I think cats are quite different, they tend to hide it quite well. That's why we launched cat pain IQ, as you know, and uploading videos so you can better diagnose, is your cat getting fat because it's eating too much or is it just not moving? Little things like that that are helpful.

Chris: Maybe this is something we'll wait until guidance. As we think about kind of 2024 uptake, are you comfortable generally speaking where street expectations are on this one? Do you think we're in the right zip code in terms of the range?

Wetteny Joseph: We'll come back with more specific guidance next month, but we're very pleased, as Kristin said. We set high expectations. If you step back for a second, we launched a product in Europe initially at the end of 2021, full year of launch. First full years 2022 in the product, the uptake was just phenomenal.

We've factored those already into our thinking, into our supply plants, which by the way, we've really put the plans together to be able to capitalize on the demand, in case you see a much earlier transition into those moderate cases, and you see things really take off. We've put the

supply plants in capacity in place to be able to capitalize on them.

We're very confident being able to do that across not only the US, but across our other markets that we've launched the product. That has implications in terms of what happens through the P&L, which I'm sure we'll get into here in the Q&A session today. We're very, very well positioned to be able to capitalize on that.

Chris: Just keep on the larger products, Trio in 2023 it was about choppy quarter-to-quarter. Can you just maybe talk through some of the moving pieces that impacted results last year? Probably more important, anything about the dynamics heading into 2024? What should we be keeping in mind?

Wetteny: Look, we entered 2023 expecting competition to come in for Trio. We were first to market almost four years ago, so we had a four-year head start in terms of triple combination space. If you think about parasiticides, as Kristin mentioned, it's the largest segment within animal health. It's about six billion dollars. It's growing about five to six percent.

About 8 to 10 years ago, you have all indications come out and really start to shift the market from the topicals and collars into much better safety and efficacious solutions in the world indications You've seen significant growth even as second, third, and fourth players came into this space.

Now, triple combination are a relatively new standard of care starting in 2020 when we launched Trio in the US, at least for the US, which is the biggest market. We've seen the product really take off, but we've had four-year head start. That is very important in this space given how pet owners really identified to the brand, the safety record, and efficacy of the product.

We're very confident in our ability to grow through competition on this product, although coming into 2023 with the initial launch, we knew there'd be some promotions that they would run, and they have, that would maybe in short periods see some impact on the product. We're really pleased with how the product has performed.

Of course, in the first quarter, we had the impact of these stocking from distributors that impacted the results, but since then, you've seen really strong growth for Trio through Q2. Q3, we posted 20 percent operational growth for Trio.

More importantly, perhaps, is that we actually grew our patient share even with a competitor in

this space. We're expecting others to come into the space, but we're very pleased with our position and our label, and having a four-year head start.

Chris: Do you think that first competitor was the bigger one in terms of the impact you would have expected?

Kristin: Yes.

Chris: I used to think about potential launches in '24 that seemingly would be a smaller impact you'd be expecting. Is that fair to say?

Wetteny: Yes, and we expect the product to grow as we go into 2024 as well.

Kristin: The competitor that entered, Boehringer, they were number one. Them entering, they had Heartgard and NexGard and doing that, that was the biggest player, I think, as you look at the threat to the space.

What we're seeing...I want to underscore one of the points that Wetteny made, which is, this market has continued to grow. We were third or fourth to market with Simparica, but the market still grew. It's not like our competitors didn't grow when we entered. We expanded the market and as you're seeing here, they're expanding the market as well for orals. Moving more from topicals and collars, etc.

We think there's still significant opportunity for the market to grow here.

Chris: On the other major market with derm, it seems like we saw last two quarters especially some nice growth there. Just help us in terms of the underlying growth of that category, in terms of how penetrated it is. Another one is we think about competition potentially coming in. Is there opportunity to keep seeing that the pie expand, I guess with more players coming?

Wetteny: Sure. Look, as Kristen said, we basically created this market with $1.3 billion of revenues in 2022. Of course, we'll report our results in February for 2023, but we've really...if you look at this market, we're treating about eight million dogs on derm. There's still about six million in the US that are untreated.

If you look outside the US, even more than that. There's still room to continue to drive growth in this space even as, again, we expect competition come at some point. Now, I've been in the

company for two and a half years, and it feels like I've been expecting competition for five.

[laughter]

Wetteny: I think we're well positioned though. If you look at how our franchise is set up. We have a JAK inhibitor now in two formats. We have a film-coated tablet. We have a chewable tablet, and then we have a map which uninjectable. It would cite a point.

If you look across the markets that gives us really strong position to be able to leverage those strengths and the rest of our innovation to drive both even through competition if and when it comes into the space.

Chris: Just one on the macro side. I know the company's less levered to specific vet visits as you laid out in the presentation.Underlying health of the consumer right now, is there any areas we're seeing pockets of weakness or any concerns that there may be some economic sensitivity to business?

Kristin: There's economic sensitivity at certain levels. I would say what's a little bit different this time is who adopted the pets and how they think about their pets. Again, underscoring, with more of those pet owners be millennials, and Gen Z, who are not having kids and see this pet as the center of their world, their willingness to spend, when their animal gets sick is very high.

Historically, where you can see weakness in really difficult times that will drive you from a four to six to a three, for example, you tend to see it in wellness, "Do I have to buy 12 months or, all my parasiticides, maybe I delay my vet visit?" In many of their biggest growth categories, for us, they're symptomatic.

You're not going to let your dog be in pain. It's not where they make the trade-off. Sometimes what you're seeing is maybe they buy fewer new collars, leashes, and outfits and strollers, but they're not as you look at vet clinic spend. Spend and spend per visit are still growing significantly.

What we'd say is the demand remains strong from the pet owner for there has been capacity constraints to meet that demand in the vet clinics. It's not a weakness in overall demand for veterinary care or for veterinary products.

Wetteny: I would just add, if you look at the results for Q3, for example, Durham grew 14

percent, 8 points of that was locked. We're seeing increasing periodic patients into the clinic. Clearly, even under the umbrella of macro concerns that everyone's looking at, we're seeing increase in volume across the segment for us.

Chris: Great. We're just about out of time here. I really appreciate all the comments, and thanks for joining us today.

Kristin: Thank you. Yep.

[applause]

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