Zoetis

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Erin Wright: Okay. Thanks, and good afternoon, everyone. Welcome to the Morgan Stanley Healthcare Conference. I'm Erin Wright, Lead Healthcare Services Analyst at Morgan Stanley. We're happy to have with us today, Zoetis' CEO, Kristin Peck with us, as well as CFO, Wetteny Joseph. Thank you so, much for coming. We really appreciate it, and with a lot going on at the company as well.

And so, just first for important disclosures, please see the Morgan Stanley research disclosure website at morganstanley.com/researchdisclosures. If you do have questions, please reach out to your Morgan Stanley sales representative.

So, with that, I think we'll just kick it off with Q&A, if that works for you. so, a lot has been accomplished even this year alone at Zoetis, and obviously, throughout your entire tenure, Kristin. But for this year, the launch of Librela in the U.S. is underway. You're seeing accelerating growth across your broader even companion animal portfolio even for a lot of legacy products.

And you're seeing -- you're divesting your MFA business. So, there's been a lot that's accomplished, and I think that it's sometimes underappreciated, what does Zoetis looks like in three to five years or even longer term than that. But you're seeing 9% to 11% operational growth this year, that's above your 6% to 9% long-term guidance. I guess, what keeps the momentum going here?

Kristin Peck: Sure. I mean we are really excited to have reported what I think is an outstanding first half of the year. I think what has always sustained Zoetis is outstanding innovation. I mean I think we have created categories, and then in categories that are there, we constantly bring new innovation and raise the standard of care.

I think the second is our ability within innovation to out-execute our competitors. And third, I think, is just really disciplined capital allocation, which we can certainly talk about today. And I think 2024 has been just an outstanding example of that across all three. So, from an innovation, really ramping up Apoquel Chewable, Librela, Solensia. The performance that you referenced obviously, 142% in our pain portfolio, 18% in our derm portfolio, that launched 11 years ago. We're still talking about, for the first half, over 20% growth in that derm portfolio. And then if you look at the last quarter and you look at Simparica, Simparica franchise, have got 20-plus as well, about 21 on Trio and 22 overall.

So, I think really across multiple drivers of the business, we continue to innovate and execute. And then I think the MFA deal really talks about that disciplined capital allocation, so, looking at parts of our business where we don't think the return on invested capital is as high, exiting those and then reinvesting that in important growth areas.

Erin Wright: Okay. Great. And then you recently raised your operational growth guidance by about 50 bps. That's to that 9% to 11% I was referencing before, but can you speak to -- and maybe this is a question for you, Wetteny, some of the key components of that 9% to 11% in terms of companion animal versus livestock as well as some of those nuances in Argentina for instance that we should be thinking about, and Librela especially as we head into the second half here.

Wetteny Joseph: Yes, I'd be happy to. Look, we're very pleased with the phenomenal start to the year, the first half, delivering 12% operational growth. And if you dissect that, right, companion animal is growing 16% in the first half and livestock, 4%. We've said livestock is a 2% to 4% grower. This year, maybe a bit above that given some of the contributions from Argentina. And while I'm on the subject of Argentina, it's contributed about two points to our growth in the first half, that as we said all along, we're going to be monitoring the inflation in that market, which is now has been more stabilized at a lower level. And so, we would see the back half contribution be maybe half of that, and we'll continue to watch it. But we factored all those into our second guidance raise in a year and really pleased with the momentum we're seeing across the business and where that contribution is coming in.

But we do expect companion animal to continue to outpace. And we like what we're seeing in terms of continuing to take price but also seeing really strong volume come through as well across our key products. And as we sit here today, we're already well into the third quarter, a little bit past the halfway point, and we'll continue to see that strong momentum well into Q3 as well. So, we're very pleased with what we're seeing.

Erin Wright: Okay. That's good to hear. And then as we think about the mix of your business and the long-term kind of growth aspirations as well as even margin targets, too, but should we think about, with the MFA divestiture, that the long-term growth and margin profile should inflect higher for longer in terms of how we think about the mix of this business?

Wetteny Joseph: Look, for a number of reasons, we have multiple sources of growth that are going to continue to drive the company forward on our execution to Kristin's point. We're executing across launches, obviously, but also defending and expanding different parts of the business all at the same time. So, as we look ahead, certainly, we said last year at our Investor Day, we see the business long term growing in the mid- to high single digits. We're just about to end the first year of our launch of Librela in the U.S. So, we have a long way to go there.

And to Kristin's point, 18% growth on key derm 11 years later, and yet we still see substantially more opportunity to continue to grow that franchise in that market. And then on the parasiticide side, with Chewable combinations, Trio is -- that area continues to have significant more room to continue to move off of collars and topicals into that space. So, we do.

To your point about MFA, it will be accretive to the top line growth rate as well as the margin rate. But at roughly $400 million annualized, around 30% EBITDA margins, it's not going to move the needle substantially.

Erin Wright: Okay. And then price, we're getting a lot of questions from investors just around price. Some of it was tied to what was going on in Argentina, too. So, it's a little bit of an anomaly here. But can you talk about -- it's been a little bit more of a contributor to growth. How much more price can you take into next year? What do you see as the long-term price realization across your business?

Wetteny Joseph: Well, long term, we continue to see opportunity to take price across the business, particularly around our innovative areas. And if you look at so far this year and what we expect for the full year actually is more of a balance around 5% price, which is about two points above what we've done historically. The last couple of years, we've seen more of an elevated price picture with inflation and so on, so, 4% and 5%, if you will.

But as we look ahead, even if we go back to our normalized sort of 3% price given all the other areas of growth that I just talked about a moment ago, we continue to see line of sight into what we said last year in terms of the business' ability to grow along those lines. So, we're very, very pleased with that.

I think even in areas like derm where I talked about 18% growth in the quarter, for example, we still saw about 11% volume in that. So, we are even at mid- to high single-digit price in a category like that, you're seeing strong volume growth come through. So, we do see an opportunity to continue to drive price, even if it's not at the levels that we are now.

Argentina, by the time of the year is all said and done, it will be less than 2%, maybe somewhere around 1% or so percent contribution on a year. The midpoint of our guidance is at 10%. So, we're at two points above what we've done over the last 10 years, if you look at annualized growth and about a point of that is coming from Argentina. So, really strong growth across the rest of the portfolio here.

Erin Wright: Okay. And then let's take a step back and talk about just industry fundamentals. In companion animal, in particular, based on the data that I tracked, we're at 11 consecutive quarters of negative same-store visit trends, which is a long period of time. But you've been fairly resilient through that. And you have an omnichannel approach, for instance, that you will also look at different data like therapeutic visits and that kind of stuff. So, can you talk about your vision of sort of the end market as you see it from a pharmaceutical angle?

Kristin Peck: Sure, I can start. I mean, as we said for a number of years, historically, vet visits grew between 0% and 1%. And historically, we've grown 8% compound annual growth rate. So, we're not really correlated with that. It has been negative at the macro level. But I think the point that you just made was really important. It's not negative at the therapeutic visit level. It's actually growing significantly.

So, pruritic visits are up, pain visits are up. And a lot of what you're seeing in the decrease is either a wellness visit or a visit that was really a pickup of a prescription, which is really the online channel, which grew 27% for us. So, I think what we continue to say is, visits is not the way to look at the pharmaceutical and biologic sector of the business.

It isn't -- there's been no correlation whatsoever. We've been having -- we have an outstanding year, and it's down again, 1.7 -- in our number, 1.7% in Q2, but really pay much more attention to revenue and revenue per visit. So, revenue overall was up 4%, revenue per visit was up 6%. And what that says is there's a really strong pet owner. The consumer is doing well. Majority of those consumers are affluent, millennials and Gen Z who see that pet as a member of their family. It might be, they may not have children. They have more than one pet and they're spending on that.

And so, we see a very healthy market in our view for all the different therapeutics and wellness products that we're selling. And that is not a U.S. comment, that's a global comment. We're really seeing this across Europe. If you look at South America, the pet owner more and more sees that animal is an important part of their family, and they're willing to spend on that animal.

Erin Wright: Okay. And as you think about, since you mentioned also the 27% growth across the online channel, I guess can you remind us how big of an exposure do you have to that channel today? Where does that go over time in terms of across your portfolio where that's applicable? But also, the continued kind of growth across that space, but you also get better economics sometimes across that channel as well. Can you talk a little bit about that?

Wetteny Joseph: Yes, I'd be happy to. So, look, if you look at alternative channels, in 2019, they were about 5% of our companion animal U.S. revenues, right. Today, they're about 15%. And so, that's an area that's grown tremendously in that time span while the companion animal business has grown tremendously, right? So, a much bigger pie, bigger percentage. So, we are seeing that continue to outpace the overall growth. And this is going back to the point that Kristin was just making around just the channel shift that we're seeing in some of our categories.

Now, the clinic is important to us, and we're innovating in many ways with injectable products that have to go through the clinic, but these alternative channels for the convenience that they bring to the pet owner.

And we actually -- not only the economics are roughly equal, maybe slightly better going through those channels versus going to a clinic. But we also get better compliance as the pet owners get products on auto ship, that go [with them]. So, whether you look at Apoquel or Trio, for example, these are two big products for us in those [operating] channels, and we'll continue to see them outpace the growth that we're seeing in the clinic.

Erin Wright: Okay. Okay. And then let's shift gears to Librela. So, we've seen ramping sales on a sequential basis, which is what you've been telling us about for some time, and the U.S. launch has gone well, there has been noise around adverse events, but I think you've been able to navigate that fairly well. Can you talk a little bit about the narrative coming out of that practitioner today in terms of the traction you're seeing for Librela? How you expect that to continue into the second half?

Kristin Peck: Sure. We're really pleased with what we've been seeing, as I think we mentioned on the Q2 call, it's the fastest clinic penetration of any product we've ever launched. We're at

80%-plus penetration in U.S. vet clinics. We're seeing really strong reorder rates. There obviously was a lot of noise as you looked at the early part of the year from social media. But similar to what we saw at International, that has really died down really because the adverse event rate and the adverse events are very consistent globally.

This is an incredibly safe and efficacious product. There's been over 18 million doses given. And I think once the vets got comfortable and the pet owners, we're talking to much more pet owners who have really positive experiences. It's been really strong. And that's why we mentioned in Q2 with a four-week growth we continue to see. We're really excited to get this more into more moderate patients as vets gets more and more comfortable. Sometimes, if you like, move into the fall, we're really excited to get our field force out there with more of our vet clinics talking more about the moderate use cases. This was an important part. As we mentioned, when we launched the product.

One thing we learned in International was we were slower to get some of those moderate cases. And I think we're really focused on getting to the $1 billion for Librela and Solensia, and being able to do that faster. We'll be really getting those moderate cases on faster.

Erin Wright: And where are you at with moderate utilization, if there's a metric or penetration or --

Kristin Peck: It's a little too early in the U.S., but in International, what we're at right now is moderate and mild about 65% of the cases we have in International, and our goal is to get the U.S. there as fast as possible. But when we first launched the product, a majority of the cases were the more severe cases. So, we're working really hard to move it more into moderate right now.

Erin Wright: Okay. And there have been label changes in other geographies. Has there been a label change in the U.S.? I don't think so, as yet, but do you anticipate that? I think you see label changes for nearly all of your products. so, that's typical in animal health. But can you speak to kind of the nature of the label changes that you've seen?

Kristin Peck: Sure. We have had label changes, as we've mentioned for Librela and pretty much most of the other major markets that we operated in a little over a year, 1.5 years after launch. We said we would expect it. We said at Q2 that we began those conversations with the FDA. We expect those label changes to look like the label changes that were in all the other markets. Why? Because that's where we've seen the adverse events. And again, we've been -- we published what those were.

So we would expect our label -- We obviously don't have a decision from the FDA yet. We're -- but we would expect that label to look like the International label. And we've been selling quite well, as you've seen in our growth rates in International with that label. We also believe that most of us in the U.S. have heard a lot about the International label. And so, I don't think this will be a surprise to any vet or any pet owner as we've talked about what those International labels look like so.

Erin Wright: Okay. Okay. Great. And so, a sequential ramp quarter-over-quarter for the back half of the year is something that is -- we can continue to assume in the U.S. market and in International as well?

Kristin Peck: Yes, we've seen strong growth.

Wetteny Joseph: Yes, we'll continue to expect sequential growth across -- just a reminder, Q4 is when we'll lap the launch in the U.S. and then across our International markets, we already lapped the last more significant launches this last quarter. So, that's the only thing.

Erin Wright: Okay. And in Solensia, we don't talk as much about it. But I see your socks and they're supportive of it. And it is a slower ramp just given the nature of that type of market. But can you give us a little bit of update on the traction you're seeing there and the opportunity as you see that longer term?

Kristin Peck: Well, you can answer it since you have the socks.

Wetteny Joseph: Yes. Look, I think if you look at Solensia so far on a year-to-date basis, I think we're about 70% -- 69%, 70% growth year-on-year on the product. So, clearly off of a lower basin as we said from the very beginning, get – developing the market for cats will take some time but we are seeing that consistent growth across the U.S. and the markets across Europe and International. So, we're very pleased with what the product is doing. It's increasing the visits in the clinic. We highlighted that during the earnings this last earnings, if you look at OA pain visits, specifically with feline visits, up significantly in the clinic. So, we are bringing those pet owners into the clinics and continue to drive that product.

I mean, look, if you look at it on a trailing 12-month basis, it's already north of $100 million. So, that's technically a blockbuster already. We won't claim that, although others may claim blockbuster earlier, but we'll do it once we have a full year over $100 million.

Erin Wright: Okay. And it's not just about -- and I'll get to kind of derm and parasiticide as well. But like it's not just about Librela and like Solensia and Cytopoint. There are other monoclonal antibodies in your pipeline that you're focused on. What have you learned since launching those products in terms of the vet reception of this type of therapy and the compliance from the pet owner that was always sort of the question area as we enter the newer space in animal health? And how do you think about the growth prospects across that pipeline in that?

Kristin Peck: Well, we've learned, if you remember back when we got the first conditional license, I want to say it was in 2016 or 2017, most people thought this will be a specialist product, if that's what it is in the human health side. I think what we've demonstrated is, the vets are a lot more comfortable with these technologies than people would have expected. And the pet owners are comfortable getting their injections from their vets.

So, I think that's been great. I think what we are seeing is, it's hard for cats to get in. So, we kind of knew that one. We are trying to get through that. I think this is where long-acting is really going to make a big difference, Even in the dog space, it's a lot to bring your dog in every month. So, we really believe that as we look at the long-acting portfolio, which we've talked about launching in both derm and pain over the next one to two years, we think these long actings are going to address some of the challenges we

have seen, which is just the monthly visit to the vet clinic, especially for cats, but also for dogs, just it's a pain, also the monthly injection fees.

If we can get more long-acting, we think we can significantly increase compliance. But we've really seen a willingness at both the vet and the pet owner and a comfort with not just the technology, but for the pet owners having the vet to be able to do that. So, we've really invested heavily in our pipeline in monoclonal antibodies for many other indications.

As you've seen from our capital expenditures this past year at 700 to 750, investing aggressively in our manufacturing capacity where I think we have a unique competitive advantage. These products have to be made in animal-only monoclonal antibody facilities. They cannot be made in human health facilities, and you must do your pivotal trials at the scale you must launch in. So, it really is an advantage to people who can build the scale early and which we have already products that we can leverage those facilities and continue to grow those to be able to win in monoclonal antibodies, which we think are really a safe and efficacious way of addressing many different disease areas.

Erin Wright: Okay. Great. Switching to derm. Let's talk about, I guess, Apoquel. Can you speak to your ability to kind of maintain the momentum here that you've been seeing but also the competitive landscape, what we've seen from Elanco's product or what we know in terms of a black box warning. How does that change your go-to-market strategy at all with Apoquel or your strategy around Cytopoint or your strategy distributors with this product or the chewable? I guess, can you talk a little bit about that or if it changes at all?

Kristin Peck: Well, we're really optimistic. For starters, we've been expecting competition for, I don't know how many years we've have come at your conference, and we've said, it's coming, it's coming. I think it really is coming this time. So, we've been really well prepared for a long time. I think our strategy was to get Apoquel Chewable out ahead of competition, which we've done. We did put that to your point into distribution, and the answer is while they're going to be launching a film-coated, we're already going to have a nice beef-flavored chew, which will help in compliance for many people. And it's going to be hard to switch somebody from a beef-flavored chew to going backwards to a film-coated tablet.

As I mentioned, we're great in innovation, which is the chew, but we're really great in execution as well. So, we're very confident in our ability not just to defend this market but to grow it. And we think there's two big opportunities to continue to grow it. I mean we're 11 years out and we're printing an 18% growth last quarter across our derm franchise, which is really underscoring why we think there's such growth. The first is around compliance.

So, compliance could be from Cytopoint or Cytopoint, a long-acting derm product. It comes from chew, getting people more comfortable with the beef-flavored chew to remember to give that product, it comes from auto ship. But we also think there's a significant opportunity to continue to grow the market overall. We think there's still 11 million dogs who should be using our products that are not, three million of those are using steroids today. That is a far inferior product to what we've got.

We think those are strong candidates to be moved over to Apoquel. And then there's about eight million dogs who have atopic dermatitis who are not getting a product at the vet, they may be using shampoos or diets or whatever, but we think that's also a big opportunity for us. So, we think, A, we've demonstrated we can compete very effectively with competition. We think we have innovation to help us do that. We also think we can increase compliance, and we also think we can continue to drive this market and continue to grow it.

Erin Wright: Do you think you can continue to take price with Apoquel into next year?

Wetteny Joseph: Yes. Look, price is a component that we've done across our portfolio consistently, right. We've taken two to three points every year. The last couple of years have been a little bit higher. Even this year, if you look at our key derm performance I mentioned earlier, volumes are outpacing price even as we're taking high single-digit price here in this category. So, we'll continue to look at evaluate each product, each market in terms of what the value pricing is for those products and continue to drive it, but we see opportunity to continue to take price.

Erin Wright: And was there any sort of meaningful stocking component in the second -- or in the first half that or anything to think about in terms of the second half from an Apoquel perspective?

Wetteny Joseph: Short answer is no. I mean there's a little bit of stocking on chew that we've talked about on the call, but fairly immaterial.

Erin Wright: And a lot of it does go through the online channel. You said auto ship is important. How do you think about that in comparison to what potentially your competitor could do there in terms of potential limitations with these safety warning and maybe we just need to see the label to understand the competitive dynamics of that. But how much of, for instance, Apoquel goes through auto ship?

Kristin Peck: I think about one third of it in the U.S. currently goes through retail. I don't know how many of that is actually auto ship, but it's about one third goes to the retail channel there. We have very strong relationships. Again, a lot of those, if you look Chewy, will give you the numbers. Auto ship is huge for these types of products. So, we think that's a pretty sticky customer who's pretty happy and doesn't really have a great reason to change.

Erin Wright: And about half of Apoquel is considered chronic and half of that would be like seasonal chronic. Is that the right way to characterize it?

Kristin Peck: I think it's 60% of doses are chronic.

Wetteny Joseph: Yes. About 30% of the patients, but 60% of the doses are on the chronic.

Erin Wright: Okay. And any other competitors in the wings that you're aware of in derm that we should be thinking about? I know Merck had one in the pipeline or other vet?

Wetteny Joseph: Look, as Kristin said, we made exciting competition for a long time. We see tremendous opportunity regardless of the competition to keep growing and expanding this market, which is where we're focused. We don't have as much in this space, as you know, as there is in human health. So, we can't say exactly when someone else will come, but we're not waiting for that. We're pushing, you see, the expansion already in the business.

Erin Wright: Sorry, I have to ask. And then on Simparica Trio, I want to switch gears to parasiticides. You've done -- it's been a tremendous launch for you in terms of the success that you've seen and even the more recent kind of ramp that you've seen in terms of traction there. Can you talk a little bit about where your overall share is now? I guess, how much has converted over to the combination? How much is there more to go? I think people are less concerned about kind of competition, it's already a competitive market to begin with. And yes. Can you give us an update of where share stands, I guess?

Wetteny Joseph: Yes. I think we start overall, overall parasiticides, which is the biggest market in animal health. It's also the most competitive. We still see tremendous opportunity in the market to see that shift from topicals and collars over to orals and then to chewable combinations. In chewable combinations, we believe is still -- and oral is still about a quarter of the volume going through. So, huge opportunity remaining. It's still a relatively new standard of care when you look at chewable combinations.

So, I mean with competition, we expect this end of the market to outpace the overall market growth, which we are a leader in, and first to market. I think by the time you get second, third, competitors coming into a space like this, we don't expect them to make a meaningful impact. Of course, there'll be more DTC, more awareness for pet owners on this standard of care to go to the clinic, and seeking these prescription products. which, as you see in our performance here.

I mean, we haven't quoted the overall market share number, but what we have said is our share in puppies is actually something that we're very excited about because once you get the puppy on the product, you don't tend to switch, right? And given the safety and efficacy and high satisfaction levels that we see, so that's a clear indicator for us because that's higher than our overall share. We believe that's also an indicator for us as we look in the future.

Again, these are areas we're going to continue to put investments behind. Our Trio and our other brands, which we talked about on earnings, on second quarter earnings is, while we expect -- we gave the guidance for the full year and substantial leverage from top to bottom, right? The bottom line is exactly about 450 basis points above the top line. We are putting investments in the back half, including behind Trio and Librela, etc., as well.

Erin Wright: I mean, it’s amazing you came from probably the number one, number five, player in parasiticides to where you are pretty quickly, and that's one of the largest categories or the largest category kind of in companion animal, but you also have Librela where you're basically creating that market. You created atopic dermatitis market in terms of being kind of the first player there. Now where do we stand in terms of now being able to truly bundle around the entire portfolio, leverage the broader innovative offerings and delve into more direct relationships with corporate accounts and more formidable relationships just across the board in terms of your customer base?

Kristin Peck: Okay. I think we've demonstrated that time and time again, and we have very strong relationships with our corporate partners. If you look at whether that's from the largest corporates to some of the up-and-coming corporates right now. And I think the innovation is what helps us lead that. I think having -- being able to partner with them, being able to give them confidence, we're going to help them grow their own practices and their own businesses by bringing innovative products that help them provide the best care and please their customers.

I think our portfolio in monoclonal antibodies is incredibly important. And that's important because that business is going to stay in those clinics and they're going to help those clinics grow. That is often a monthly or hopefully someday, at every three-month product that someone -- that a pet owner is coming into.

So, we're helping those businesses grow and I think that's helping us really cement our partnerships with our corporates and with the independents as well, making sure that vet remains the center of innovation and the go-to person for every pet owner.

Erin Wright: And how do we think about then what's next in parasiticides as well in terms of, you mentioned like, come in every three months? In terms of an injectable, where does that stand in terms of your pipeline? When do we expect a longer-term injectable product in flea, tick and heartworm combination?

Kristin Peck: Sure. We have, as many of you know, and you know we have injectable today on ProHeart 6 and ProHeart 12 for heartworm. We are obviously investing in our pipeline in a combination product as well. We haven't been public about when that would launch.

Erin Wright: Other innovation. So, speaking about CKD, that was another area that you pointed out at your Investor Day. Can you speak to the timing and magnitude of the opportunity there? I think you previously mentioned $1 billion plus/minus kind of category. What's the timeline on that initiative? And how do you see that rolling out or playing out across the globe?

Kristin Peck: Sure. I mean, as I think about our innovation pipeline, we're extremely excited about this. As you look at maybe the last 11 years since we launched Apoquel, we launched sort of Apoquel in a derm portfolio. We've launched new innovations in our parasiticides, and we've launched pain over the last three years. I think there's three huge new categories that we'll be creating. And I don't think that's over the next 11, I think that's over the next five to six years. And that's really around renal CKD, oncology and cardiovascular. We think these are three really big disease areas in animal health where there really are no products today. Most of these are managing symptoms, palliative care, etc., or they're using off-label products from human health.

So, we think these are big disease categories. And again, one thing that I think Zoetis has done a phenomenal job of is create new categories, be able to build those markets. But we also are really excited about what we see as sort of the more near-term sort of the long acting in both our derm portfolio and our pain portfolio. We believe those will launch in the next one to two years. But I would also argue there's still life cycle innovations like in

Apoquel chew that is continuing to extend and grow brands and build compliance and drive growth as well as new indications for our current products.

So, as I think about our innovation portfolio and why we're so optimistic about the future is we'll continue to deliver singles and doubles on life cycle enhancements and new indications, we'll create new billion dollar markets. I think we've demonstrated we can do this, and we've given you line of sight to what we think those next big markets that we'll create are over the next. We said a year ago, five to seven years, so I'd say over the next five to six.

Erin Wright: And can you give us, since we haven't really talked about too much, the production animal market, just where it stands today, key species groups and areas of focus kind of post MFA divestiture and also innovation on that front, too?

Kristin Peck: Sure. Look, livestock generally goes 2% to 4%. We think it will continue to be that. Our goal is to be at the higher end of that range as best we can. And I think innovation is how we get there. Our decision on the MFA divestiture was to really double down on the areas where we think innovation is going to be most relevant. What livestock we pay most attention to is prediction that's genetic, so being able to better predict which animals will be most productive and be healthiest. So, that's our genetics business.

I think prevention, which is our vaccines business. And then in treatment, it’s really around immunomodulation. So, rather than having to use antibiotics, finding ways to keep that animal healthier longer, obviously, the biggest species in livestock is cattle. We'll continue to invest in that. That's both beef and dairy. But we see significant opportunities to continue to look at vaccines across swine as well as in poultry, where we have our vector vaccines portfolio and continuing to grow that out. So, we continue to believe there's really good opportunities across livestock and are excited to invest there.

Erin Wright: And your long-term goal from a margin standpoint was just for margin leverage is kind of how you -- or margin improvement year-over-year. I guess, can you talk about -- you've seen tremendous growth in some of these faster growing higher-margin categories like companion animal, but then the flow-through, maybe people have been looking for a little bit more. Like how do we think about 2025 and beyond and the levers there from a margin perspective?

Wetteny Joseph: Yes. Look, I think I've often said, the business inherently has the ability to continue to expand margins, and we see that, and we commit to that by saying we'll grow the bottom line faster than the top line, right? I think a year like this where our guidance range shows 450 basis point spread to the bottom line above the top line shows just how much of that we're doing. And we're making investments in the business at the same time.

So, there'll be years when it won't be as wide. There will be years it could be wider. But I think the difference is we're not afraid of making investments in the business, where we see that driving a really strong, attractive return and sustaining strong top line growth for us. And that will be the difference. But the ability is there, between mix, with companion animals turning to grow faster than livestock.

We'll drive that, within companion animal, we see mix shift as well as we scale our MABs, that will drive greater margins within that. And you've seen so far this year, leveraging SG&A, too, right? I mean, we said it. We said it during Investor Day. We said we made investments already in our field force. We can launch and drive these products. We're executing across all these three fronts and still leveraging the existing investments we've made. So, you've seen that pull through. We think there's more opportunity to do more of that as well as we work down the bottom of the P&L.

Erin Wright: And we haven't talked too much about diagnostics recently. Just can you give us an update on the diagnostic strategy where it stands today?

Kristin Peck: We're quite excited about the diagnostics. We announced our new hematology platform we'll be launching. That's our OPTICELL line or VetScan OPTICELL. We've really -- when we entered the space, we really believe that disrupting diagnostics is going to be our focus. We launched the IMAGYST platform, which we've already got six indications on that. That's our AI diagnostics in pet care. We're really excited to add hematology and ultimately, to add a new chemistry, a really new platform, which really disrupts the technologies of today.

But we're also really excited to think more around companion diagnostics, the portfolio we just talked about. So, we really think that having both a diagnostics for renal CKD or cardiology or oncology around when you're launching products, I mean some of these diagnostics aren't worth much today because even if you know it, you can't do much about it. But we really believe that if we can launch companion diagnostics and new [analytes] that help us better diagnose and better determine the animals that are going to be most likely to benefit from the products that we're launching in the future, we see this as a big opportunity to really help see the synergies across our portfolio.

So, the new platforms are super exciting to us but we're also really looking at new analytes and new testing to be a companion diagnostic for our future portfolio.

Erin Wright: And you recently went direct with that portfolio across your diagnostics business. Can you talk a little bit about that strategy in terms of leveraging sort of this hybrid approach of distribution and your own direct efforts as well and where that stands? And is there -- are there any changes that we should anticipate in terms of the strategy on that front?

Kristin Peck: No, I think what we realize is we do the best job better than anybody else on direct demand generation. And we really thought there was an opportunity, especially with the innovation that we knew were coming with hematology, etc., to be able to drive conversion to our machines and drive usage and consumable usage.

And I think distribution has been great at taking orders, but they're not great at converting people from one technology to another. And given that it's our aspiration, we want to have more control over that relationship and be able to influence, especially around consumable usage and help them understand how it fits in the rest of our portfolio. We do have a dedicated diagnostic field force, and it's separate than our pharmaceutical and biologics field force, but it works very closely together on account-by-account strategy.

Erin Wright: But any changes across the broader portfolio in terms of leveraging distribution? And what is your mix of direct versus indirect?

Kristin Peck: We do direct demand generation across all of our business. We do leverage distribution for distribution, but not for direct demand generation.

Erin Wright: Okay. And then lastly, as we think about the next couple of quarters here. I guess, any nuances from a modeling perspective that we should be aware of quarter-to-quarter? I know we'll be lapping some of those product launches like in the fourth quarter. But anything else to think about as we head into the second half?

Wetteny Joseph: Sure. I mentioned the lapping of the Librela launch in the U.S. in the fourth quarter. We've already lapped some of the other markets for Librela. But I mentioned on the earnings call that as you look at the back half of the year, we are increasing those investments behind the key product categories and product brands that will impact what you see top to bottom line. So, while I'm very excited about what we're seeing so, far in the quarter, as I mentioned earlier, seeing that momentum continue into Q3. I would expect the bottom line performance to be closer to what the top line is, plus or minus a couple of points and not see that leverage. But for the year, we have the leverage in our guidance range we've committed to at 450 basis points. And then when we get to Q4, I think the bottom line gets a little bit easier on the comps, is how I would describe it.

Erin Wright: Great. Thanks so much. We're excited for what's to come, and I appreciate the time today. Thanks.

Kristin Peck: Thank you.