Q4 2024 Earnings Call *(Corrected version)*

Event Details

Date: 2025-02-13
Company: Zoetis, Inc.
Ticker: ZTS-US

Company Participants

Steven Frank - Zoetis, Inc., Vice President-Investor Relations
Kristin C. Peck - Zoetis, Inc., Chief Executive Officer & Director
Wetteny Joseph - Zoetis, Inc., Executive Vice President & Chief Financial Officer

Other Participants

Michael Ryskin - Analyst
Erin Wilson Wright - Analyst
Jonathan D. Block - Analyst
Russell Yuen - Analyst
Balaji Prasad - Analyst
Chris Schott - Analyst
Glen Santangelo - Analyst
Navann Ty - Analyst
Chris LoBianco - Analyst
Andrea Alfonso - Analyst
Daniel Clark - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to the Fourth Quarter and Full Year 2024 Financial Results Conference Call and Webcast for Zoetis. Hosting the call today is Steve Frank, Vice President of Investor Relations for Zoetis. The presentation materials and additional financial tables are currently posted on the Investor Relations section of zoetis.com. The presentation slides can be managed by you, the viewer, and will not be forwarded automatically. In addition, a replay of this call will be available approximately two hours after the conclusion of this call via dial-in or on the Investor Relations section of zoetis.com. At this time, all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation.

It is now my pleasure to turn the floor over to Steve Frank. Steve, you may begin.

Steven Frank

Thank you, operator. Good morning, everyone, and welcome to the Zoetis fourth quarter and full year 2024 earnings call. I am joined today by Kristin Peck, our Chief Executive Officer; and Wetteny Joseph, our Chief Financial Officer. Before we begin, I'll remind you that the slides presented on this call are available on the Investor Relations section of our website, and that our remarks today will include forward-looking statements, that actual results could differ materially from those projections. For a list and description of certain factors that could cause results to differ, I refer you to the forward-looking statements in today's press release and our SEC filings, including, but not limited to, our Annual Report on Form 10-K and our reports on

Form 10-Q. Our remarks today will also include references to certain financial measures which were not prepared in accordance with Generally Accepted Accounting Principles or US GAAP.

A reconciliation of these non-GAAP financial measures to the most directly comparable US GAAP measures is included in the financial tables that accompany our earnings press release and the company's 8-K filing dated today, Thursday, February 13, 2024. We also cite operational results which exclude the impact of foreign exchange.

With that, I will turn the call over to Kristin.

Kristin C. Peck

Thank you, Steve, and good morning, everyone, and welcome to our fourth quarter and full year 2024 earnings call. Today, thanks to the dedication of our purpose-driven colleagues, we reported an excellent full year results, in line with the high end of our November guidance. We delivered double-digit operational revenue growth of 11%, highlighting the strength of our strategy and the enduring demand of our brands, and our relentless focus on execution drove broad-based growth across the business. In the US, revenue grew 11%, while internationally we grew 10% operationally, marking significant revenue milestones even in a competitive landscape. Our ability to grow, defend, and launch products across markets drove 14% operational revenue growth in our companion animal portfolio alongside solid 5% operational revenue growth for our livestock portfolio. Reflecting our commitment to shareholders, adjusted net income grew 15% operationally.

As we look ahead to 2025, we are confident that the drivers of our 2024 success are sustainable, positioning us for continued above-market growth in the mid- to high-single-digit range for this year and beyond. Our confidence is rooted in the diversity of our business model, where multiple growth drivers powered by scientific innovation and commercial excellence works together to create and expand markets. This combination ensured that our market-leading franchises deliver long, and in some cases, decades-long growth tailwinds with significant room for further expansion. While Wetteny will discuss the quarter, I want to highlight some of the drivers that will carry us into 2025. Our global Simparica franchise grew 28% operationally on the year, even amidst competition. This success is fueled by the ongoing shift toward triple-combination treatments, a market that has grown over 40% in the past 12 months.

Currently valued at $2 billion, the global triple-combination market, pioneered and led by Simparica Trio in the US, is projected to more than double to $4.5 billion by 2028. Over 50% of puppies in the US are now on triple-combinations, a clear signal of the market's trajectory, and veterinarians and pet owners tend to stay with trusted, proven solutions, underscoring the importance of our three-year first-mover advantage in triple. This dynamic, combined with the strength of our diverse portfolio and robust channel strategy, driving higher compliance and increasing total value per patient, positions us to continue leading in this critical segment. Our osteoarthritis or OA pain franchises, including Librela and Solensia, grew revenue 80% operationally in 2024. Librela's US launch is the most successful in our history, cementing its blockbuster status in less than four quarters, and has quickly become the fourth largest product in our US pet care portfolio.

As Wetteny mentioned at the JPMorgan Healthcare Conference in January, true disruptive scientific innovation often follows a nonlinear growth trajectory due to the investment, education, and market development required to establish entirely new categories of care. Even so, innovations like Librela are revolutionizing the treatment paradigm, offering new hope for pets and their owners. With nearly 25 million doses distributed globally, we have already helped millions of dogs regain mobility and improve their quality of life. Just as Librela is transforming care for dogs, Solensia is doing the same for cats. Now a blockbuster product, Solensia has redefined OA pain management, driving a meaningful increase in feline veterinary visits. By encouraging proactive care, Solensia is bridging longstanding gaps in medicalization and strengthening the relationship between cat owners and their veterinarians.

This momentum underscores a significant opportunity to drive sustainable growth in the underpenetrated feline segment, and demand for future therapies and long-acting formulations. In our key dermatology franchise, we grew revenue 17% operationally for the year. As we shared at JPMorgan, even with over 25 million dogs treated by our differentiated portfolio to curb itch, the total addressable market is projected to grow to $2.5 billion by 2028, an 11% CAGR. That's because there are still 20 million dogs worldwide who remain untreated or undertreated with a long runway for growth ahead. A diverse, safe, and effective portfolio supported by strong customer satisfaction, brand loyalty, and future long-acting formulation positions us to lead and expand the market, and at the heart of our success is our commitment to living our purpose each day to nurture the world and humankind by advancing care for animals.

That means, as customer preferences evolve, ensuring our treatments are available where and when they are needed, while always championing the essential role of veterinarians. This commitment has shaped our omni-channel strategy, meeting customers where they are, whether at the clinic or through alternative channels. As a result, Simparica Trio and Apoquel are the top-selling products in US retail, contributing meaningfully higher compliance. When combining retail and home delivery, approximately 20% of our US pet care portfolio flows through alternative channels, driving growth and expanding the total market. We expect this trend to continue into 2025. At the same time, we continue to educate veterinarians and pet owners on the benefits and availability of our treatments, helping to drive informed decisions and better health outcomes.

For the year, our livestock portfolio delivered strong 5% operational revenue growth, exceeding our initial expectations and being at the high end of the historical 2% to 4% annual industry growth range. We achieved this result despite the Q4 divestiture of the medicated feed additive product portfolio and certain water soluble products and related assets. The divestiture was a strategic move to streamline our portfolio, enhance operational focus and prioritize high-growth, high-value areas that align with our long-term strategy. And we remain deeply committed to livestock and continue to lead with innovative vaccines and lifecycle solutions, including antibiotic alternatives and advanced therapies that enhance disease prevention and support sustainability aligned with our core capabilities.

As a result of the MFA divestiture, our press release and slides highlight organic operational revenue growth for the full year and fourth quarter, excluding all divested products and adjusted for foreign exchange. Based on this, and building on the momentum from 2024, we are guiding to a range of 6% to 8% organic operational revenue growth in 2025, and we'll continue to provide updates on this metric throughout the year. We also expect organic operational growth in adjusted net income in the range of 6% to 8% in 2025. Excluding the impact of interest and taxes, we expect bottom line growth of 8% to 10%, reflecting the strength of our business fundamentals and the robust secular trends driving our industry. Our strong underlying performance and financial discipline ensure we remain well-positioned to deliver on our value proposition. This guidance underscores the strength of our portfolio and commercial engines as we continue to grow our key franchises.

The industry remains essential and resilient driven by strong underlying demand and the indispensable nature of our work. As we look ahead, we will continue balancing strategic investments in innovation and commercial excellence to sustain our track record of profitable growth and generate long-term value for our

shareholders. In 2025, our success will be anchored in the same key drivers that have propelled us over the past decade. We operate in highly attractive end markets driven by scientific innovation and market-leading franchises. With our global scale, we can launch therapies across geographies and channels, ensuring veterinarians and pet owners has access to the best treatments available. And while the operating environment evolves every year with new entrants, shifting geopolitical dynamics, and an evolving regulatory and trade landscape, our agility positions us to navigate these challenges and capitalize on emerging opportunities.

Our success is driven by the strength of our strategy, differentiated execution, innovative pipeline, our colleagues, and culture. This is evident in our R&D engine where we expect at least one major approval annually over the next several years, with multiple potential blockbusters in our pipeline. These innovations will drive durable, diversified growth across both companion animal and livestock, reinforcing our commitment to addressing unmet needs. Above all, we remain committed to our track record of value creation and delivering performances that outpace the market, positioning Zoetis as a trusted leader in animal health now and in the future. And finally, a sincere thank you to our colleagues whose dedication makes these results possible.

And with that, let me turn it over to Wetteny.

Wetteny Joseph

Thank you, Kristin. To echo your enthusiasm, 2024 was an excellent year. Our full year performance reflects broad-based revenue growth across segments, species, price, and volume. The foundation of our ability to continually outperform the animal health industry comes from the diversity of our portfolio and the channels and markets in which we lead. For the year, we posted revenue of $9.3 billion, growing 8% on a reported basis and 11% operationally, with 6% driven by price and 5% from volume. We raised our revenue guidance throughout the year and ultimately finished above the high end of our initial range. Adjusted net income grew 10% on a reported basis and 15% operationally to $2.7 billion. Global revenue growth was driven by our companion animal portfolio which grew 14% operationally. Leading the way, our Simparica franchise posted $1.4 billion in revenue on the year, growing 28% operationally.

Simparica Trio exceeded $1 billion in revenue globally. Simparica Trio remains the number one selling canine parasiticide in the US and the trusted choice for vets and pet owners. As Kristin mentioned, triple-combination treatments are the fastest-growing segment in animal health and are less than 40% of prescription treatments, signaling significant room for continued growth. In OA pain, we continue to see increased adoption. Librela and Solensia reported combined revenue of $581 million globally for the year, growing 80% operationally. Over a decade since our first launch, our key dermatology franchise posted operational growth of 17%, generating $1.6 billion in revenue. We remain steadfast in our confidence to grow the franchise in the face of competition, and we delivered strong double-digit growth balanced across both Apoquel and Cytopoint.

We expect continued market expansion driven by higher compliance and new patient growth as we have highlighted that a significant portion of this market remains untreated or undertreated. Lastly, our livestock portfolio also had a strong year with $2.9 billion in revenue or 5% operational revenue growth driven primarily by price, while volume growth faced headwinds from the MFA divestiture. On an organic operational basis, livestock grew 7%. Moving on to segment performance for the year. Both the US and international segments saw impressive double-digit revenue growth. The US posted $5.1 billion in revenue, growing 11% on the year; while our international segment reported revenue of $4.1 billion, growing 10% operationally for the full year. US growth was led by our companion animal portfolio which grew 15% driven the performance of our Simparica franchise, our OA pain mAbs, and market expansion across our key dermatology franchise.

The Simparica franchise reached nearly $1 billion in revenue, growing 26%. Simparica Trio was the primary growth driver with $918 million in sales, growing 30%. With high vet and pet owner satisfaction, Trio is the leading parasiticide product in the US. Our ability to grow our volume double-digits, while simultaneously taking price by being more targeted in our promotions, highlights our first-mover advantage. Our OA pain mAbs reported $271 million in sales in the US, growing 197%. In its first full year in the market, Librela generated $201 million in sales and reached blockbuster status in the US market faster than any product in our history, where it is already the first-line choice for severe OA cases. With nearly 40% of dogs suffering from OA at some point in their lifetime, we are confident that Librela will be a contributor to growth for years to come. Solensia posted $70 million in the US revenue for the year, growing 58%.

For the year, Solensia accounted for over 70% of clinic revenue in the feline OA category and has continued to substantially grow the market since launch. Key dermatology had an exceptional year, posting growth of 16% on $1.1 billion in sales. As we highlighted, there is a substantial population of untreated or undertreated dogs with derm conditions. Our double-digit volume growth in key dermatology demonstrates our ability to convert those patients to our differentiated portfolio of treatment options and highlights the continued expansion opportunity in the derm space. US livestock business declined 1% on the year due to the MFA divestiture, which closed on October 31st. Excluding the impact of MFAs, our organic operational US livestock growth was 6%, which was driven by improved supply of ceftiofur. Moving on to our international segment. Revenue grew 5% on a reported basis and 10% operationally for the year.

International performance was favorably impacted by price increases, especially in high inflationary markets, including Argentina, which contributed more than 1.5% to our total company growth for the year. Our international companion animal growth was driven by our Simparica, key dermatology and OA pain mAbs franchises. Our Simparica franchise grew 32% operationally to $357 million in international sales. Performance was driven by Simparica growing 29% operationally to $212 million in sales, driven by performance in Latin America and Eastern Europe. Simparica Trio grew 39% operationally on $145 million in sales, driven by key account growth in Europe, DTC and the positive impact of our Q1 China launch. Key dermatology posted revenues of $551 million for the year, growing 18% operationally. Performance was driven by Apoquel, through new patient growth, especially in Europe. Cytopoint also contributed with new patient growth and compliance in existing patients.

Internationally, our OA pain mAbs grew 34% operationally, posting $310 million in combined revenue. Sales of Librela were $246 million internationally, growing 33% operationally. Solensia sales were $64 million, growing 39% on an operational basis. Our international livestock portfolio grew 8% operationally to $1.9 billion in sales for the year, with growth driven by price as well as strong performance in fish, partially offset by headwinds from swine volumes in China. Moving on to our Q4 results. In the fourth quarter, we posted $2.3 billion in revenue, growing 5% on a reported basis and 6% operationally, with 5% driven by price and 1% from volume. Excluding the impact of our MFA divestiture, our Q4 organic operational growth was 9%, with 4% coming from volume. Adjusted net income of $632 million, grew 11% on a reported basis and 9% operationally. Revenue in the quarter was driven by our innovative companion animal portfolio.

Globally, our Simparica franchise contributed $324 million, growing 21% operationally; our key dermatology franchise posted $417 million, or 11% operational growth; and our OA pain mAbs contributed revenue of $150 million, growing 20% operationally in the quarter. Our livestock portfolio also contributed operational growth of 1% with $726 million in revenue. Livestock organic operational growth in the quarter was 8%. Our global companion animal diagnostics business grew 10% operationally in the quarter on revenues of $96 million. Now, let's move on to our segment results for the quarter. US revenue grew 4% in quarter, with companion animal growing 7% and livestock declining 8% due to our MFA divestiture. On an organic operational basis, excluding the MFA impact, US revenue grew 8% in the quarter, with 12% livestock growth. In companion animal, US performance was driven by growth in our Simparica, key dermatology and OA pain franchises.

Pet owners continue to seek the higher standard of care offered by our innovative products and vet clinic revenue remains healthy, growing 7% on an average spend per visit basis despite declining visits overall. Our

mAbs are driving higher therapeutic visits. Our Simparica franchise posted US growth of 17% with $240 million in revenue for the fourth quarter, led by Simparica Trio. As Kristin highlighted, we expect the triple-combination parasiticide market to more than double by 2028, and higher triple-combo share amongst puppies is a key indicator of where the market is going. Our key dermatology franchise grew 7% in the quarter, generating $270 million in revenue despite clinic stocking headwind from the Apoquel Chewable launch last year. Derm visits were 4% in the quarter, highlighting the willingness of pet owners to treat itch. Cytopoint was the largest driver of growth, driven by preference for injectable treatments.

Apoquel growth continues to be driven by expansion of Apoquel Chewable, benefiting from increased conversion and compliance driven by alternative channels. Our OA pain mAbs, Librela and Solensia posted a combined $71 million in US sales in Q4, growing 22%. Our growth in the quarter is reflective of headwinds from initial clinic stocking in Q4 of 2023. Librela, now entering its second year in the market, generated $53 million, growing 21% on the quarter and reaching more than 1.2 million patients. We remain confident that the market opportunity is significant. Pain-related vet visits increased 15% in the fourth quarter, highlighting the demand that has propelled Librela to the fourth-largest product in our US business and the most successful launch in animal health history. Organic operational growth in US livestock of 12% was primarily driven by the timing of supply of ceftiofur and volume growth in Draxxin.

Moving on to our international segment for the quarter. Revenue grew 6% on a reported basis and 10% excluding the impact of foreign exchange. Companion animal grew 13% operationally and livestock grew 6% operationally. The MFA divestiture did not have a material impact on our international organic operational growth. Our international companion animal portfolio growth was driven by our key dermatology products, our Simparica franchise, and our OA pain mAbs. Our key dermatology products grew 19% operationally, with sales of $147 million in the quarter. Growth in key dermatology was driven by new patients and increased share for both Apoquel and Cytopoint, driven by field force execution and brand marketing campaigns. Preference for chewables continues to increase with conversion to Apoquel Chewable in Europe now at 50%. We saw 32% operational growth in our Simparica franchise internationally with revenue of $84 million on the quarter.

Simparica was the main growth driver, growing 33% operationally on $53 million in revenues. Simparica Trio grew 30% operationally with $31 million in revenues. Internationally, our OA pain mAbs grew 18% operationally, posting $79 million in combined revenue. Librela posted sales of $62 million in the quarter, growing 15% operationally. We see continued growth in prescribing rates, and penetration and reorder rates remain high. Solensia growth of 28% operationally on $17 million of sales is driven by increases in both returning and new OA patients. International livestock reported sales of $477 million in the fourth quarter, growing 6% operationally. Growth came primarily from price in hyperinflationary markets and in cattle. Moving down the P&L. Full year adjusted gross margins of 70.7% grew 50 basis points on a reported basis. Foreign exchange had an unfavorable impact of 40 basis points. Excluding FX, we saw higher margins due to price and favorable mix, partially offset by higher manufacturing costs.

Adjusted operating expenses increased 10% operationally for the year. Growth was driven primarily by SG&A increases of 9% operationally, largely due to higher compensation-related expenses due in part to company performance. Full year G&A growth is inclusive of Q4 growth of 11% operationally, reflective of the acceleration of certain demand-generating activities into Q4 of 2024. R&D spend grew 12% operationally for the year on higher compensation-related expenses due to company performance and increases in project spend related to internal portfolio advancement. Adjusted net income grew faster than revenue at 15% operationally. Adjusted diluted EPS grew 17% operationally for the year. We remain committed to reinvesting in the business while returning capital to shareholders. In 2024, we repurchased $1.9 billion of Zoetis shares, the most in our history. We also reaffirmed our commitment to buying back shares in August when our board approved a new multiyear $6 billion share repurchase program.

Additionally, we increased our dividend rate 15% during the year, while distributing $786 million back to shareholders. In total, we returned over $2.6 billion to shareholders in 2024, an increase of over $800 million versus the prior year. Now, moving on to our guidance for the full year 2025. The strengthening US dollar

throughout 2024 has been a headwind to our reported revenue and adjusted net income projections. As a reminder, we do not forecast foreign exchange and our guidance reflects rates as of late January. Our 2025 guidance reflects foreign exchange headwinds of approximately $250 million to revenue and $50 million to adjusted net income versus 2024. For 2025, we are projecting revenue between $9.225 billion and $9.375 billion, representing an organic operational growth range of 6% to 8%, with growth across both price and volume.

We expect our performance to be driven by our companion animal business with broad-based growth across our Simparica, key dermatology and OA pain franchises. We are projecting these combined innovative franchises to grow double-digits in 2025. Our growth estimates include a range of assumptions for new market entrants and conditions across our business. As a reminder, our guidance does not include products that have not yet been approved. Additionally, guidance does not account for the impact of recent and potential policy changes, including tariffs, tax reform or other regulatory changes. For livestock, 2024 growth was favorably impacted by tailwinds from price, particularly in high inflationary markets, including Argentina. Those impacts normalized as the year progressed, and we do not expect similar tailwinds for 2025. Additionally, our reported growth for livestock will be negatively impacted by our MFA divestiture.

We will continue to provide organic operational comparisons throughout the year to normalize for this impact. We expect our organic operational livestock growth to be in line with the livestock industry growth for the year. Now, moving on to the rest of the P&L. Adjusted cost of sales as a percentage of revenue is expected to be approximately 28%. Our expected margin improvement is driven by favorable product mix, aided by our MFA divestiture. This improvement is partially offset by foreign exchange impacts within our supply chain. Adjusted SG&A expenses for the year are expected to be between $2.3 billion and $2.35 billion. This change is reflective of the normalization of compensation increases tied to 2024 performance as well as the acceleration of certain demand-generating activities into Q4 of the prior year. Adjusted R&D expenses for 2025 is expected to be between $680 million and $690 million.

We are coming off a multiyear cycle of R&D investment at a pace greater than revenue growth, with the output of those investments reflected in the portfolio progress we disclosed at the JPMorgan Conference last month. Adjusted interest expense and other income deductions is expected to be approximately $200 million. Our adjusted effective tax rate for 2025 is expected to be approximately 21%. Adjusted net income is expected to be in the range of $2.7 billion to $2.75 billion, representing growth of 2% to 4% on an operational basis and 6% to 8% on an organic operational basis. Our growth in adjusted net income is impacted by net interest headwinds due to lowering rates on invested cash versus prior years. Additionally, while our adjusted effective tax rate guidance for 2025 is within our historical range, it is at the higher end of the range due to higher taxes on foreign earnings. Our organic operational adjusted net income growth is expected to be 6% to 8%.

If we further exclude the impact of interest and taxes, our bottom line growth is expected to be between 8% and 10%. Lastly, we expect adjusted diluted EPS to be in the range of $6 to $6.10 and reported diluted EPS to be in the range of $5.70 to $5.80. Our EPS projections are based on current share count and do not consider the future impact of our ongoing share repurchase program. In closing, 2024's success was built upon the strength of our broad portfolio and our purpose-driven colleagues. Our success across key brands, geographies, and channels is the foundation which gives us confidence in our ability to sustain above-market growth this year and into the future.

Now, I'll hand things over to the operator to open the line for your questions. Operator?

QUESTION AND ANSWER SECTION

Operator

Thank you. We'll take our first question from Michael Ryskin with Bank of America. Please go ahead.

Analyst: Michael Ryskin

Question – Michael Ryskin: Great. Thanks for taking the question, guys. I've got two related ones. I'll sneak them in together. So first, Wetteny, in your prepared remarks you sort of said you have a range of assumptions for new market entrants and market conditions in the guide. I want to dive into that. There's a lot of competition in the market this year. You already have one on the market for derm; there's a second major Apoquel competitor expected this summer. So explicitly, could you sort of walk us through what you're factoring into the guide, whether it's in terms of color for growth for those products? You kind of gave some broad comments on growth expectations, but also just sort of incremental headwinds from competition and how that could play out. And then tied to that, I guess, are you taking on any incremental investments to support your major brands, derm, combo parasiticides, in terms of go-to-market strategy, commercial efforts maybe in terms of bundling products together, alternative channels?

Just sort of how are you adjusting that in the face of some of that growing competition? Thank you.

Answer – Wetteny Joseph: Thank you, Mike. Happy to take the question on competition. Look, first of all, we have delivered an outstanding 2024 with 11% growth operationally at revenue and 15% adjusted net income. If you look across our key major franchises, we delivered double-digit growth across all three of those major franchises in derm. And in the context of derm, more than a decade in, we're delivering 17% operational growth. (00:35:17) as we usually do with our guidance as we start the year, we take into consideration a number of factors. We have multiple sources of growth. And while we're not providing individual product guidance, what we're saying is these three major franchise areas we expect to drive double-digit growth for us in 2025, and we see the underlying trends that drove our performance in 2024 carries into 2025 with momentum.

Now in terms of competition, we are factoring in various scenarios in terms of what competition might look like. In the case of derm, we expect that to be in the second half of year. Again, not providing individual guidance on derm specifically. But certainly long-term, we expect to continue to drive substantial growth in these categories. If you look at derm for example, we're estimating 20 million dogs globally that are not treated or undertreated. We're treating about 12 million today with Apoquel and Cytopoint. There's still 7 million that are on other therapies like steroids for example, another 13 million that are not getting a prescription drug. So, clearly, the opportunity that remains here is actually pretty vast, and that gives us a lot of confidence in terms of our long-term growth. In terms of investments, look, I think you've seen us do this quite well.

At the same time, we are leveraging other investments we made in our field force, et cetera, to drive operational leverage through the P&L. In the case of putting support behind our key brands, whether it's DTC, whether it's education of veterinarians, et cetera, that's something we have demonstrated an ability to do and they have great returns for us when we do that. We have significant measurements that shows that, and those are areas that we are factoring into our guidance from a spend standpoint.

Operator

Thank you. We'll take our next question from Erin Wright with Morgan Stanley. Please go ahead.

Analyst: Erin Wilson Wright

Question – Erin Wilson Wright: Great. Thanks. I want to dig in a little bit more into Librela. Just can you speak to how vets are responding following the Vet Letter and label change? Like, has that helped them in

terms of understanding kind of how to prescribe? And you mentioned it's not linear, but how do we think about US Librela contributions in terms of what's embedded in the guide for 2025? And just to confirm, the long-actings and other pipeline products are not embedded in your guidance for this year? And then, just the last one, just on the margin improvement year-to-year in 2025. Can you talk a little bit about what's driving that in terms of the mix shift with the MFA divestiture or anything else to call out? Thanks.

Answer – Kristin C. Peck: Thanks, Erin. I'll take Librela questions and let Wetteny take the margin question. A quick answer, no, no new products are included. The long-actings are not included in the guidance as I think Wetteny managed – mentioned. Look, we're really pleased with the launch of Librela. With $581 million in sales across Librela and Solensia and 80% growth on the year, we're really pleased. It is the most successful launch in history, as we've mentioned. It's also now the fourth-largest product for Zoetis with 25 million doses. 40% of dogs suffer from OA, and what we really see as we look forward is continued growth in this category. We did get the Dear Vet Letter, which helps vets understand what the update in adverse events were using real-world data. And we, obviously, showed you the label that we implemented based on that. And I think that really underscores our commitment for transparency, which we've been doing all along with regards to the adverse events.

I would highlight that there were no contraindications, no warnings and no precautions in that label, but we're really pleased to be able to share that with veterinarians, consistent with our purpose and consistent with our commitment, and I think veterinarians have found that quite helpful. That label, as we had mentioned to you many times, is – we expected it to be consistent with our label in international, where we continue to be driving growth, as you saw throughout 2024. So, the US label looks largely like a label in Europe or Canada, and we really look forward to continuing to grow this franchise. Wetteny, do you want to take the second question on margin?

Answer – Wetteny Joseph: Sure. Before I get to the margin, maybe just one more point I'll make on Librela. You asked about how we factored that into our guidance. Clearly, we combined the three major franchise areas and we're calling double-digit growth across those. As you've seen, in Librela, even after three years in the market outside the US and Europe, we delivered 33% growth in Librela in the third year. So, we are expecting annual growth to be strong to robust across these franchises, across the OA pain as we go forward, even if we're not giving specific guidance on individual products. On margins, you're right, MFA divestiture is accretive to our gross margins and our bottom line margins as well. In addition to that, we have mix as we see more of our growth driven by companion animal products that drives favorable mix for us on the margin standpoint as well.

And from a price, as we've said consistently, we are expecting to see price be above the 2% to 3% that we've typically done historically, but below the 6% we did this year or nearly 5% we did in the prior year. Part of that is lower contribution from some of these hyperinflationary markets that we saw in the prior year is why you see that, but still we're taking price, and therefore, that's contributing to our margins. One of the offsets as we've seen with the US dollar strength over the last number of years is FX, and we do see that being an offset in addition to increased manufacturing costs that we have. But net-net – and on the FX side, it's about 50 basis points headwind at the gross margin level.

Operator

Thank you. We'll take our next question from Jon Block with Stifel. Please go ahead.

Analyst: Jonathan D. Block

Question – Jonathan D. Block: Thanks, guys. Good morning. Just Wetteny, any thoughts on the revenue cadence for 2025? Arguably, competition will pick up in some key areas. You called it out, but that's more back part of the year. You got arguably an easy comp in the fourth quarter. So, curious on the cadence. And

then, just for R&D, flat year-over-year, you walked through some of that. Is this sort of a new beginning for you guys, where this can be considered a more leverageable, call it, line item going forward? Thanks.

Answer – Wetteny Joseph: Yeah. So, look, Jon, first, on the revenue cadence, as I mentioned, the most important aspect here is we look at the trends that are driving our business and demand across our products and the momentum we had in 2024, we see that entering into 2025. So, that gives us a lot of confidence and that's baked into our guidance here. As I said on the earlier question, we are factoring a number of scenarios around new entrants that may come in, and those are more so on the back half of the year. So, that would imply a stronger first versus second half. I wouldn't necessarily call out an easy comp in Q4 from an organic operational perspective, maybe from a reported perspective, given the divestiture of MFA. As I said in the prepared commentary, when you factor out the MFA, it's a 9% operational growth – organic operational growth quarter for us.

And then, we had the comps from the prior year where we launched both Librela and Apoquel chew in the fourth quarter of the prior year. When you add that into consideration, the growth rate in the fourth quarter is above 10%. And so, I think that's a solid quarter and I wouldn't call that an easy comp necessarily as we look at 2025. In terms of R&D, look, we're very pleased with the progress that we're seeing across the pipeline, and we showcased those with the updates we provided last month at the JPMorgan Conference. We tend to let the pipeline drive where the investment is and not necessarily deliberately drive that as a leverageable component. Now, we did say two years ago almost at Investor Day, we expected the R&D line to grow above revenue for some time, and then it would sort of move back towards sort of top line revenue growth rate, and we're seeing that.

But I think that's more of a factor of where the pipeline is, certainly, as major items go through certain cycles in development, they tend to drive more spend. And then, as they get on the other side of that, it's not as much. So, that will ebb and flow from time to time, but we don't look at that necessarily as a leverageable line item that we're deliberately moving, because the long-term delivery of our innovation drives where we drive investments there.

Operator

Thank you. We'll take our next question from Brandon Vazquez with William Blair. Please go ahead.

Analyst: Russell Yuen

Question – Russell Yuen: Hi. This is Russell Yuen on for Brandon Vazquez. Thanks for taking the question. So, looking at high level, are you guys able to give us any sense as we go into 2025 on how the entire pet population is kind of trending? Now that we're past COVID years, are we back to normal growth rates and growing year-over-year? Or if not, is there anything we kind of need to keep in mind for the backdrop to get a normalized growth rate? I know we sometimes hear about a lagging effect from weak macro, where pets are not replaced as they die. So, kind of just curious on what you're seeing? Thanks.

Answer – Kristin C. Peck: Sure. What we continue to see is the strength of the human-animal bond and that relationship. If you look back to historical numbers, normally, there's not significant changes in the number of pets. The only one exception, obviously, in the last 12 years was COVID. But we're expecting the pet population to remain relatively stable. That's what it's done historically. I think what's really changed and what's driving the fundamental growth of the industry is the fact that the human-animal bond makes animal health essential and very resilient. 86% of pet owners would spend whatever it takes, and those incremental pets that were adopted during COVID are aging, and as they age, they're going to get more diseases of chronic diseases, et cetera So, we see very strong fundamental drivers with more millennials and Gen Z adopting pets, their relationship with those pets. They're delaying having kids, if they're having kids.

And those pets are important parts of their family's life, and they're making sure that those pets are taken care of. So, we see very strong growth drivers based on the human-animal bond, based on who's adopting those pets, as well as an aging pet population. So, we think those are fundamental drivers that Zoetis' innovation and commercial excellence will only emphasize more.

Operator

Thank you. We'll take our next question from Balaji Prasad with Barclays. Please go ahead.

Analyst: Balaji Prasad

Question – Balaji Prasad: Hi. Good morning. A couple of questions for me. Firstly, Wetteny, you clarified that none of the expected approvals within the next 12 months have been factored into the guidance. Curious to understand, maybe excluding FX, what are the upside risk to guidance that you can see from here? And on the same line, of the three buckets of approvals or drivers, as you can describe that for – is there any way to quantify the approvals (00:46:00) in the second bucket in the 12 to 36 months, what the TAM for these approvals are and what are the investments into this? Thanks.

Answer – Wetteny Joseph: Sure. Look, in terms of confirming that we have not factored in new approvals and that's consistent with how we have approached guidance historically. So, those are not in here. We did highlight how much FX headwind we see at the top line, roughly $250 million, given where spot rates are. And as a reminder, we do not forecast FX. So, the quantification we're providing is strictly off of the current spot rates versus what average rates were through 2024. In terms of upside, look, I think we have a very diverse portfolio and our diversity spans across geography, across our products, et cetera. You saw us deliver across our three major franchises in companion animal, all three had double-digit growth, and double-digit growth in terms of volumes as well. So, I think the underlying trends here are strong as we enter into 2025. We couldn't be more pleased.

Of course, the factors that we put in in terms of where competitive entrants might come in could be a factor that might move us in any direction in terms of the timing of those and what some of the short-term sort of dynamics might be around those. And those are the things that might move us one way or the other, which is why we provide a range in our guidance. But we're very, very excited about how we're entering the year and the demand profile that we're seeing across our products and the opportunities we have before us.

Answer – Kristin C. Peck: I can pick up the second question on the TAMs for the new product categories. I mean, I wanted to start with, we have more drivers of growth to improve the standard of care than any other company, and we – as we talked about in our pipeline we have multiple blockbusters. And at JPMorgan we discussed what the total addressable market for some of these new therapies would be. To your point, in the 12 to 36 months window, we have chronic kidney disease products, and as we mentioned, that's a $3 billion to $4 billion market. We also mentioned oncology, and that's a $1.2 billion to $1.7 billion market. And then, in the longer term, we were also talking about cardiology. I also just want to double-click for a second on the long-acting portfolio, because I really think these are going to be significant growth drivers. There's a lot of people who can't make it in every month.

So, it will both increase compliance, which will grow the market, as well as meet a lot of pet owners who just monthly is too much for them and they would be much more convenient to come in 4 times a year versus 12 times a year. So, we really think as we look at potential approvals, approval every year for the next several years and really more drivers of growth for the short, medium and long-term for the company, we remain really excited about the potential unmet needs that we can address.

Operator

Thank you. We'll take our next question from Chris Schott with JPMorgan. Please go ahead.

Analyst: Chris Schott

Question – Chris Schott: Great. Thanks so much for the questions. Just two for me. First on Librela. Is there any updates in terms of how you're seeing veterinarians approach patient selection as you think about severe patients versus moderate? Is it still skewed more towards severe? Are you starting to make progress on the moderate side? And the second question was on Simparica Trio. Obviously, very healthy growth in 2024. Just any pushes and pulls we should think about for that product specifically in 2025? Thank you.

Answer – Kristin C. Peck: Sure. With regards to Librela, we continue to see in Europe more of our patients be mild to moderate, and that trend has continued. In the US, the beginning part of the launch, we were seeing more severe. They are moving more into moderate again as you get to know the product better, so that will be a key focus of the growth in the US as we move more into the moderate patients. We continue to do blind studies with veterinarians and they continue to be very satisfied with the product, and they continue to intend to prescribe. And I think the more we do and get business into moderate patients, we'll see continued growth there. With regards to assumptions in Trio, we had a phenomenal, across the Simparica franchise, year. Trio is now exceeding $1 billion. It is the number one seller in the US, and it's been on the market four years. Even with significant competition, we saw about a 28% growth.

I think what's important to really remind people is there's still significant growth in this category today. We've got 50% of puppies, which means 50% of puppies are still not on a triple-combination. We think that will continue to grow the market. We think also as you have more and more people on auto-ship, once you start a parasiticide you're very unlikely to switch, so this is a very sticky category. So, even if we see new competition, we continue to believe just as we did (00:50:39) that we could continue to grow this market and grow our share, and I think we continue to demonstrate our ability to do that.

Operator

Thank you. We'll take our next question from Glen Santangelo with Jefferies. Please go ahead.

Analyst: Glen Santangelo

Question – Glen Santangelo: Yeah. Thanks for taking my question. Hey, Wetteny. I just wanted to follow up on some of the comments you made with respect to the organic growth. If you look at the sort of pricing expectation you're building into your assumption this year. I think you said it would be better than your 2% to 3% normalized expectation. So, with sort of half of the operational growth coming from pricing, it seems like you're assuming some modest slowdown on the volume side. Just sort of given that you expect significant double-digit growth in your three major franchises, I guess maybe talk about – if either you or Kristin can talk about maybe some of the other areas of the portfolio where you're maybe seeing some levels of deceleration in volume, and maybe that's just some level of conservatism you're building into your guidance. Thanks.

Answer – Wetteny Joseph: Sure. Happy to do that. As I said, our pricing expectations for 2025 are a bit north of our historical 2% to 3% but below the 6% we presented (00:51:51) in 2024 and roughly 4.5% to 5% the prior two years, so that is certainly a consideration. One other thing I'll remind you is we saw livestock growth in 2024 at roughly 5%. And if you take the MFA divestiture out, it's actually 6% on 2024. We are calling 2% to 4% which is what the industry growth rate is from a livestock standpoint. Again, I will repeat this point which is really, really important. The underlying trends that we see driving demand for our products are entering into 2025. And so, that gives us a lot of confidence in terms of what we're going to see which is a double-digit volume growth across these major franchises in 2024. We are factoring certain competition in there.

And so, depending on how you look at the range, the 6% to 8%, taking what I'm saying on price, at the lower end of the range, yes, you would have slightly more price than volume. At the higher end of the range, you would actually have a balance between price and volume which is what you saw from us excluding hyperinflationary markets in 2024. So, that feels about the same is what we're saying in 2025, depending on where you fall in the range that we're providing on guidance.

Operator

Thank you. We'll take our next question from Navann Ty with BNP Paribas. Please go ahead.

Analyst: Navann Ty

Question – Navann Ty: Hi. Good morning. I have two questions, please. The first one on Librela. If you can discuss any expected impact of the US label changes, if any, on the transition to the moderate population in the US. And then, my second question is on innovation. If you can comment on the blockbuster potential of the expected approvals that you have listed. Thank you.

Answer – Kristin C. Peck: Sure. We were very pleased to implement the new label. We think it helps vets understand the latest data on real-world adverse events. We continue to be incredibly transparent throughout with regards to what we were seeing in other markets and we share that data. So, we really see this as just helping vets better understand. It's consistent with what we have been sharing with them all along, so we don't really think it changes the trajectory much. We think what we're seeing in the US is more moderate patients and continuing to grow that market. And as I mentioned before, the surveys we're doing with vets, they are satisfied with the product and they continue to have an intent to prescribe. What we're really seeing is just the impact it's making on improving the quality of life for so many pets, so we really see continued growth overall in that.

And with your second question on the multiple blockbusters, we're really seeing, as we talked about, the total addressable market for some of these new unmet needs being very significant. The one I'd really focus on the largest is, obviously, chronic kidney disease. That's both for dogs and for cats, and there really are no treatments today. And we – this expanded the size of the total addressable market from our Investor Day, and that was really about better understanding the molecules that we have today and really how they're going to meet that unmet medical need. But also importantly, increases and improvements in diagnostics to be able to better diagnose animals to make sure that we're getting the right patient population aligned with the potential of the product. So, we're very excited as we look at chronic kidney disease, oncology, as well as cardiology to really meet new unmet medical needs that the market has really been looking at.

And as I mentioned before, have more drivers of growth for the short, medium, and long-term to improve the standard of care.

Operator

Thank you. We'll take our next question from Steve Scala with TD Securities. Please go ahead.

Analyst: Chris LoBianco

Question – Chris LoBianco: Thank you. This is Chris LoBianco on for Steve Scala. We just had a question on the pipeline – risk-adjusted and the pipeline opportunities with renal and oncology. Have these assets generated pivotal data yet? And does Zoetis have multiple shots on goal, i.e. multiple late-stage assets for

each of these opportunities? And could these products be placed at a premium compared to Zoetis' (00:55:50)? Thank you.

Answer – Kristin C. Peck: Sure. We don't give specific information with regard to our molecules in animal health. So, the guidance that we've provided with regards to product launching is the guidance that we've got.

Operator

Thank you. We'll go next to Andrea Alfonso with UBS. Please go ahead.

Analyst: Andrea Alfonso

Question – Andrea Alfonso: Yes. Hi. Good morning. Thank you so much for taking my question. I specifically wanted to ask about the dermatology franchise and how you're thinking about your positioning in 2025 from a pricing versus mix standpoint in light of competitive entries? And have you had to amplify some of your education and awareness efforts around efficacy relatively? And then, I guess, finally, what is sort of your view on kind of the mix shift between Cytopoint and Apoquel? Thank you so much.

Answer – Kristin C. Peck: Sure. We are very excited for the performance of dermatology in 2024 with 17% growth with a $1.64 billion portfolio. Importantly, even with competition in Q4, we had 11% revenue growth, and we really are seeing growth in this market overall. I think Wetteny mentioned in his remarks before, we're seeing this market grow 11%. We think by 2028, it will grow to $2.5 billion. And there are 20 million dogs that still remain untreated or undertreated that we can still focus on. So, we see growth here in a few areas. First, higher compliance, getting more animals on auto-ship. Obviously, looking at long-acting portfolio coming as well, we see that as potentially improving compliance, and really going after the undertreated dogs today as well as the untreated dogs. So, we see significant continued growth here for the overall market even with competition.

What we continue to see in other franchises and in other categories is, with new competition, you have new awareness and we continue to grow the category overall.

Answer – Wetteny Joseph: Yeah. I'll just add, from a pricing standpoint, we don't provide product-specific pricing considerations, but I would remind you, in 2024, we saw 17% operational growth and double-digit volume growth despite robust price here. So, we do believe there's opportunity given the remaining untreated pets in this space and opportunity to continue to grow. In terms of the balance, look, we see strong demand for both products. If you look at Cytopoint and Apoquel, Cytopoint in the clinic is preferred, both from a compliance standpoint and having that volume through the clinic. Apoquel in alternative channels when you combine both retail and home delivery, that total is about 40% of our Apoquel volume, and you're seeing that convenience factor, the compliance that that drives, drive significant growth as well. So, in 2024, we actually saw a balanced growth between the two, which is very, very encouraging as we go into 2025.

Operator

Thank you. We'll go next to Daniel Clark with Leerink Partners. Please go ahead.

Analyst: Daniel Clark

Question – Daniel Clark: Great. Thank you. Just wanted to drill down a little bit on the figure that 50% of puppies are on a triple-combo parasiticide. What are the different pushes and pulls that you think could

maybe drive that number higher and how are you thinking about that for 2025?

Answer – Kristin C. Peck: Sure. Again, we think awareness and growth. If you look at it right now, the triple-combination therapy still is less than 40% overall and it's growing at 40%. So, we think that you'll continue to see the more you add new puppies, the more they're on. And once they go on, they're very unlikely to go off. So, we really are excited to see this growth. And what we continue to see as new entrants enter, it only brings more attention to triple-combinations, which is the fastest-growing segment of parasiticides overall. And the triple market today is $2 billion, and we're expecting, as we mentioned before, to grow to $4.5 billion by 2028. So, we just see the natural growth here. And as someone who is first this year, we've had four years, and as additional three years on the market ahead of anybody else, we see really that lead making a big difference in continuing to grow our share and to grow the market overall.

Operator

And there are no further questions at this time. I'll turn it to Kristin for closing remarks.

Okay. Great. As always, thank you, everyone, for your questions, and importantly, for your continued interest in Zoetis. As you heard today, we are extremely pleased with our excellent performance in 2024 and eager to really build on this momentum as we move into 2025. We remain confident in the steady demand for our diverse and our innovative portfolio, which continues to deliver value to our customers and to advance animal health globally. And we're driven by our purpose to advance care for animals, and we remain focused on executing our strategy and filling confidence in our stakeholders and reinforcing our unwavering commitment to our value proposition. We look forward to keeping you updated on our progress as the year progresses. Thanks, everybody.

Operator

Thank you. This does conclude today's program. Thank you for your participation. You may disconnect at any time.

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