BNP Paribas Animal Health Day *(Corrected version)*

Event Details

Date: 2025-05-22
Company: Zoetis, Inc.
Ticker: ZTS-US

Company Participants

Wetteny Joseph - Zoetis, Inc., Executive Vice President & Chief Financial Officer

Other Participants

Navann Ty - Analyst

MANAGEMENT DISCUSSION SECTION

Navann Ty

Hi, good afternoon, good evening, everyone. I'm Navann Ty, I cover Animal Health, including Zoetis at BNP Paribas. Thank you for joining our Second BNP Paribas Animal Health Day, and we will have our penultimate session with Zoetis.

So we previously had IDEXX CFO and Phibro CFO and Elanco CEO, and today I have the pleasure to have the Zoetis team with Wetteny Joseph, Executive VP and CEO – CFO. You joined Zoetis in June 2021 and you spent 15 years at Catalent as a CFO.

And for investors, please feel free to send your question and I'll make sure to include them. So, please, (00:00:50) is the best or you can also use the Open Exchange system and I'll make sure to include your questions. And thanks for those who send the questions ahead.

QUESTION AND ANSWER SECTION

Analyst: Navann Ty

Question – Navann Ty:

Maybe if I go, start with tariffs if – and discuss, and I know you updated your guidance to reflect the impact of tariffs, which, as we understand, primarily driven by imports related to APIs for livestock products coming from China. So would you expect a small upside if China and the US maintain the temporary tariff reduction that was announced on May 12?

Answer – Wetteny Joseph: Well, Navann, first of all, thank you for having us on – at your conference. Look forward to the conversation and of course, tariffs is the first one right off the bat. I think if you look at tariffs, as we said in February when we launched our initial guidance for the year, it's a fluid situation and we would be updating guidance as we knew more throughout the year.

And of course, we came out of the gates with a very strong first quarter at 9% organic operational growth on the quarter, which was really broad-based. But I think it showcased the diversification of the company and the scale and global nature of our business where you saw International posted a 11% organic operational growth, which I think is a good segue to your question, which is what's happening with tariffs right now and what do they reflect.

We did update the guidance to reflect, as we said we would, the net impact of what was already enacted and as we said, they did not include any future tariffs that may come about.

And in that context, the net impact we showed in that caused our adjusted net income growth rate to be revised from 6% to 8%, to 5% to 7%, although we did maintain our organic operational growth in revenue at 6% to 8%.

And so with the recent changes, as you said, a small, I think you described it as a small upside related to China, if what we know now stay in place. But I would remind everyone that this remains fluid. And lastly, we have a number of mitigation opportunities in front of us. Again, going back to the strength and diversification of the business and the global nature of our supply chain means we have a number of mitigation factors we can pull in.

Now, they vary in terms of timing and in terms of impact and also we want to make sure that we are deliberate and thoughtful about when should we exercise them. And so, while the tariff scenarios remain fluid, it wouldn't make sense for us to exercise certain moves that may or may not be necessary. And therefore, the impact you might see in the short-term might give the impression that we have less levers than we do. That's not the case. We have plenty of levers. It's just a matter of, you don't want to pull them any earlier than necessary, given the impact.

So, those vary from short, relatively quick things we can do like moving inventories to the right places to delay the impact of any tariffs, to products that we have sufficient capacity to mix elsewhere within the network where you already have dual sourcing or the regulatory pathway is already cleared because you have dual sourcing, so you can move those around. That's sort of still a near- to mid-term type of actions you can take.

There's pricing and then there's all the way to, do you actually put new money in the ground to actually enhance your manufacturing or supply chain footprint to accommodate tariffs, if we think it's really going to be permanent. That is the last step, and quite frankly, one we would be very careful about because the impact then on the returns that we would see from those is something that that should be considered.

But all of those things are still available to us and continue to iterate our scenarios around what those might look like. And they all remain valid for us, depending on the different markets that you're looking at.

And so, I just wanted to give a more fulsome answer because I think what we said when we gave our results for Q1 in our guidance and the fact that you've seen this impact fall through to the bottom line, might give the wrong impression that we don't have as many mitigations as we do. We do. It's just we're going to wait until these things lock in a little bit more before we start exercising them and see where we go.

Question – Navann Ty: Thank you for that clarification. Also interested to hear about Zoetis and the industry lobbying discussion for an animal health exemption from potential pharma tariffs. It sounds like it's progressing in the right direction from the previous session, but I also wanted to hear your view and how do

you position your arguments? Is that more on the farm animal business, the food supply, in addition to US manufacturing?

Answer – Wetteny Joseph: Look, as the leader – global leader in animal health, we are taking it upon ourselves to show that leadership in terms of the work we're doing here. And I couldn't be more proud of the work we're doing across our teams and including our CEO, who's been to D.C. on a number of occasions, and other members of our teams all the way across the spectrum in terms of topics, it's not just tariffs, it's various items, including tax, etcetera, that we continue to make our impact and influence. And so, I'm very proud of the work we've been doing along those lines.

And no, the efforts are more holistic than just across farm animal. They of course span across companion animal. There are places where we manufacture products for both. And therefore, if you look at our footprint in the US, which accounts for some 60% of our footprint from a manufacturing perspective, 75% of what we sell in the US, we make in the US, and we are a net exporter out of the US in terms of our products. So, we export more than we import into the US.

And as I said, there are opportunities in between those in terms of where you might move things within the network that exists today that will sort of impact that in a positive direction depending on where things land on a more permanent basis around tariffs.

So, we have a, again, global footprint. We're looking across the organization not just for farm animal, but clearly, there are some specific points that need to be highlighted when it comes to farm animal, but it's not the entirety of our focus, certainly. And our manufacturing footprint that we talk about is certainly more fulsome than that. And so, we'll continue to see those as strengths. I think if you look at what the objectives of the administration are, they align very well to where we are today. So we're doing those things already.

Our intellectual property, our IP is 99% in the US. And so that also is why you see the low taxes we pay in the US and all those things. So, I think we have our facts are extremely strong here in the context of the objectives of the administration. And again, we have plentiful mitigation opportunities ahead.

Question – Navann Ty: Thank you. And maybe if we switch to the second topic du jour, in terms of Librela, wanted to ask about – so we no longer expect sequential growth in US Librela, but year-over-year growth is a new confidence in that. So, maybe I'll start with that and I'll follow up with more questions that we received.

Answer – Wetteny Joseph: Yeah. Look, I think if you look at the topic of sequential growth, it's not a change for us. We have been highlighting this point for some time in terms of not being a metric that we track in terms of the progress of a launch and hasn't been the case for other major launches that we've had in the company products that our investors know very well, and are the most enduring brands that we have across animal health. So, certainly that has not been a metric for us and we've been sharing that consistently here.

Clearly, if you look at Librela, the launch of the product, both outside the US, which continues to grow double-digits, by the way, into its fifth year, I think that spells the size of the opportunity that we have. And if you look at patient population that is impacted by OA, we're still, even outside the US, a minority of patients share here in terms of what's left to be had. And so, we're very excited about the space here and I think, it's clear we've articulated that by the numbers.

If you look at the US, it's 27 million dogs that are medicalized. We're not talking – more than that if you look at just the entire population of dogs in the US, but those that see a vet on a regular basis, 27 million of them have OA and if you look at what's being treated, it's only 9 million today. And we – and Librela, has about 1.2

million, 1.3 million of those. So, that is a very small patient share when you think about, than in the broad context of the opportunity in front of us. So we remain very excited about it.

Admittedly, the uptake isn't at the rate that we would have wanted, but we're very clear on what the actions are that we need to take, including continuing to really emphasize the education point with veterinarians, continue to educate vets and pet owners, targeted DTC campaigns on pet owners, as well as really leveraging what, quite frankly, is something that hasn't been leveraged broadly across animal health in the past, but is perhaps more familiar to our investors on the human health side.

It's post launch studies, Phase 4 studies etcetera, that we have been working on and we look forward to leveraging as well to drive those points because there are multiyear large numbers of animals that have been using the product. You can see the efficacy effects of those as well as the safety profile as well. So, we're very excited about the things that we're doing and remain very much focused on what is a very large opportunity ahead that I'm sure will be driving growth for us for a long time to come.

Question – Navann Ty: Thank you. And on the Phase 4 studies, so, have you – has Zoetis started on those? And how do you plan to integrate that into your DTC or how do you plan to use of those Phase 4 studies?

Answer – Wetteny Joseph: The short answer is yes, those are – those have been underway and we'll have more in the future and this is not just a Librela response we're talking about here. This is really an approach that we think will be fruitful as we think about other products in our pipeline that we will be leveraging. So, the short answer is, yes, this is something we've already been doing.

How those get utilized, of course, there are – there's – these things get published into – and there are conversations that that can be had vet-to-vet as well as, where the field force will have to look at specifically what the parameters are, because these are regulated areas in terms of what can be discussed, but these are things that KOLs will be able to speak to as well. And so, lot of, I would say, campaigns, rightfully within the confines of the rules, that we'll be leveraging these for. And again, this is something that should be fairly familiar in terms of usage of Phase 4s and post-launch studies on the human health side.

There is one aspect that I will describe here that we'll be leveraging, that is certainly very, very, very useful in terms of what human health has been doing, although there are aspects of our business in animal health that I think are perhaps underappreciated in terms of the differentiation from human health that I'm sure we'll get into in some parts of this conversation that we've talked about before.

Question – Navann Ty: Thank you. And what has been the vet feedback on the label changes maybe more recently? And I know it's difficult to measure, but have you seen the label changes having a calming effect on social media?

Answer – Wetteny Joseph: I – look, I think if we talk about the vets, certainly the label update is a step in the process that we've been talking to them about for some time prior to that. And the way we contextualize that for them in terms of what we expect to be on the label is precisely what actually is on the label.

The other thing I would say is, the label is very consistent with other labels we have outside the US, if you look at the label, say, in Canada, in the UK, in Switzerland, across the EU, etcetera, where we've seen updates to the label, this one in the US is now resembling more those labels. So this is very consistent and as I said earlier, we're still seeing double-digit growth in markets outside the US, particularly if you look across Europe, and so on, where we've been now – we're now into our fifth year.

So, that is extremely encouraging and I think once the label update came about, vets saw that it was consistent with what we have been saying. So, I think that is at least a confirmatory element for them.

As I said earlier, the uptake is still slower than we would like and we continue to highlight these and share the data. You've seen, for example, recently Frontier Journal published their findings after looking at all of our pharmacovigilance, for example, and why we're (00:14:41) still limitations in terms of how you can talk about those in the context of the US and the FDA. If you look at the metrics that are used by the EMA, so European Medicines Agency, they clearly show that these still – by the way, 25 million doses later, are still in the rare to very rare category, that is below 10 in every 10,000. So, that, I think, continues to underscore the profile of the product.

And the last thing that I'll say is, our conversations and I know our investors do quite a bit of channel checks and talk to vets as well, continues to be that the satisfaction level with the products is very strong. So, those are elements that, again, give us a really strong foundation to continue to do the things I described earlier, which I won't repeat here now in terms of the different execution we're doing, to continue to drive this product.

Question – Navann Ty: Thank you. And also the question that I have to ask on the earnings call of the progress on the US transition to the moderate population, how is it tracking versus your original expectation, or how is it tracking now?

Answer – Wetteny Joseph: Look, as we said, moving to moderate is a very important part of the transition as you think about the trajectory of the launch. We saw outside the US how it took about – I think we were into our second half of our third year, into our fourth year. By the time we said, hey, we are seeing about two-thirds of cases now in mild and moderate cases, which is a target we had for the US to get to much faster than three or four years, right, outside the US.

We're still – just in our – we're still in our second year in the US, but clearly, the trajectory is not putting us where we'd be ahead of what happened in the international markets, which we've talked about in the last call, in terms of how quickly are we seeing that. We have not published what the exact percentages are in terms of moderate to mild in the US as compared to outside the US, but clearly, if you look at Europe, like I said, two-thirds mild and moderate, and that took us north of three years to get to, and we are only in our second year in the US.

Question – Navann Ty: Okay. Thank you. And do you still expect approval – I think the slide said in the US or major international market, so do you expect – do you still expect dose approval of this long-acting for Librela and Solensia equivalent this year?

Answer – Wetteny Joseph: We continue to expect, to the point that we made at the JPMorgan Conference earlier this year, that we're continuing to talk about the excitement we have across the pipeline. Look, this is a highly, highly diverse – diversified business and you saw the impact from our major franchises in the first quarter, where, combined, they grew 14% on an operational basis. So, we continue to see massive opportunity across those.

And the next wave of innovation is in the near-term, given what we shared at the conference and continue to make progress against those. We're not going to give any specific updates to those at this time, at this call, but I think this is something that at least on an annual basis we'll revisit and share with investors where we are. But we're very excited about what's in the pipeline, particularly when you think about the long-acting components of OA and other pieces that we've talked about.

Question – Navann Ty: Okay. And one question that we also had is why is that different, so Librela, the social media response and why is it different and because of the FDA label, which I think are the same, but more than (00:18:29) social media part, why is it different in the US versus outside of the US and what is it – what is driving this?

Answer – Wetteny Joseph: Look, I don't know if I can speculate on why it's different. I think if you go back to when we launched, just for those who've been in the name long enough, you go back to the launch of Librela across Europe, at the time it was 2021 and we were competing for the same inputs that were being used for COVID vaccines for humans at the time, and so we were limited in terms of how much product we could actually produce and release. And so, we were managing carefully on allocation, how much Librela was out there.

At the time, if you look at – if you followed social media, it was actually the opposite effect. People were enthusiastically sharing videos of their dogs on the product and how well they were doing and so forth and it was driving even more demand. Clearly, the shift, as we got to the US, has been different in terms of what we've seen, but it's the same product. It's the same product, same efficacy, same safety profile.

And I think you see in the data that we're sharing around what that looks like in terms of 25 million doses in what – how it's classified using the EMA metrics and we're talking rare to very rare. And I think again, for those who are very familiar with pharmaceutical products on the human side, I think you can look at what that looks like in terms of products that fall in that category. So it's the same product and I can't necessarily – nor will I speculate on the difference in social media this time versus then, but the one thing I would leave you with is, it's the same product.

Question – Navann Ty: Thank you. And also a follow-up on the long-acting. So, you provided some information like the three months (00:20:27) different antibody, unique binding site and 10 times lower dosing range. Maybe if you can tell us more about in terms of COGS, response rate and maybe the pharmacovigilance profile, if possible.

Answer – Wetteny Joseph: Sure. Look, I think there's only so much we're going to share beyond what we did on the call around the profile of the long-acting product. And clearly, we answered the question, which is it's not Librela, it is a monoclonal antibody, obviously it binds to nerve growth factor, but it's a different binding point and the efficacy and so forth is such that the dosing is 10 times the amount. And so, you have a lower amount of product which would translate to less production to get to the same output, and by the way, across the three-month period as well.

So, I think all that directionally says it's a positive when you think about it in the context of COGS, and not only that, but you're talking about – even if it was the same dosing, by the way, you'd be talking about one-third of the injections and therefore, you be talking about fewer units anyway.

And so, I think directionally, this is something that will be beneficial as we contemplate and do a lot of market research and study around what the right pricing would look like, which I'm not going to – even though I introduced the topic, I'm not going to expand on it in terms of what it actually means. But these are components and attributes that we're looking at in terms of that.

Last point I'll make is clearly these are innovative products, right? And if you look at the profile of this products in terms of what they mean from a margin standpoint, it's – these are going to be accretive to the overall company margin profile. So, even if you're looking at a dosing regimen that's a lot less, it's an improvement of over something that's already quite attractive if you look at it – if you look at it that way.

Question – Navann Ty: Thank you. That's very helpful. And discussing the better dosing, can you discuss the potential cannibalization? I mean, first – maybe first, does that – will the long-acting have like a turnaround effect on social media and on the pet owner's perception? And also, second, if you can discuss potential cannibalization on the short-acting Librela?

Answer – Wetteny Joseph: Look, I think if you look at...

Question – Navann Ty: And the better dosing?

Answer – Wetteny Joseph: Look, I think if you look at the profile of the long-acting, first of all, we expect to be some cannibalization, of course. However, we see these as incrementally driving revenue. If you think about this in the context of compliance, for example, both across dogs and cats, but especially cats, what it takes to get a cat to the clinic as you know, Navann, is a bit more effort and energy for pet owners. So, if you can cut that into a third of the number of times and still be compliant, I think that's meaningful from a convenience standpoint and from a compliance perspective.

So, we do believe that these will be incrementally allowing us to drive this market and expand this market by way of the long-actings, even if there is some cannibalization.

The second point I would make is that we would expect the one-month profile to remain in the market. There is absolutely a space for that and that will continue to be the case, and even though there will be some cannibalization, is what I would say on that piece of it. So, we're very excited about these products and what they mean in terms of our ability to drive that in the market and to continue to drive what is a very, very large end-market for us.

Question – Navann Ty: Thank you. That's very helpful. And maybe on the turnaround of the social media, is that – do you – would you expect like a positive pharmacovigilance as well?

Answer – Wetteny Joseph: This is not just with respect to long-actings. Of course, every launch we have, we take the opportunity to step back and look at what are the opportunities on that. If you look at the experience we've had in the US with Librela and the social media impact, these are things that we're factoring in.

And I do think there are opportunities that we're looking at, including leveraging KOLs and specialists in terms of getting them these products in their hands earlier and getting them used to it, so that they can actually speak to more of the generalist vets upfront. And I think that's an important aspect as we look at the Librela experiences and what we're planning to do going forward. And it's not unique to the long-acting. This is what I would say.

But I'm not going to speculate in terms of what social media may or may not be. But certainly there are learnings that we have coming from this that we'll be factoring into the launch of these products.

Question – Navann Ty: Thank you. And maybe on other general innovation, if you can go through the – what explains Zoetis' strong track record in blockbusters with a relatively low R&D to sales, and how you balance short-term lifecycle management and long-term breakthrough innovation?

Answer – Wetteny Joseph: Look, I couldn't be more proud of the track record of our colleagues across Zoetis. I think everything starts with our culture and our purpose and what drives us and then it's rooted in the capabilities that we have.

I've been here now – it's going to be four years, I guess in about a week. After spending 13 years on the human health side, and I got to know quite a bit, particularly with my high level of interest in manufacturing and different technologies that are used, delivery technologies, to deliver medicine to the human body, I carried that into Zoetis in terms of, again, extreme curiosity to understand our capabilities. And I have to tell you, I have just been blown away in terms of the capabilities that we have within Zoetis along those fronts. And I think it shows up in the success that you see, coming out of our innovation, out of our pipeline.

Our spend, I would say, is about average on a percentage basis, but given the higher revenue that we have, it translates to the highest spend in terms of R&D across our industry, and the beauty of it is, if you look at what it takes, even if – so, if you look at a much bigger product market size wise, it's not exponentially higher cost to pursue it from a R&D perspective. Now you may have different hurdles from a technical perspective or from a regulatory perspective, but what that means is those dollars actually go much further, if you think about that in the context of how many programs that you can go after.

Now, we're still very much looking at a consistent level of delivery in terms of innovation that includes both lifecycle innovation and something like the long-actings we were just talking about, is an example of lifecycle innovation, although very meaningful at that, but it's lifecycle innovation. So, if you look at our spend over the years from an R&D perspective, it actually turns out that it's about a 50/50 mix between lifecycle innovation versus net new. And I think that drives, what is – I referred to this earlier, which is that distinction between human health and animal health.

And I think this is really important here. If you think about in the context of launching a new market and building out a market in animal health, on the one hand, on the human health side, you're expected to be much faster because you're talking about third, fourth generation of a therapy for a particular disease state, and so when the new product comes out, it gets approved, which means it's statistically an improvement over the current standard of care. You replace the current standard of care very quickly. That's not the case in animal health.

However, the lifecycle innovation becomes a very important play in that because what that does is, it allows you to not over three or four years, over a decade perhaps, to build out a market and keep adding indications and keep adding elements to it that the customer in this case, the veterinarian and the pet owner or in the case of livestock, the producer, are willing to pay for that incremental innovation.

So, the incremental innovation that you have in lifecycle is actually very important in animal health, and sustains a much longer runway for growth, for any innovation that you have that is more groundbreaking when it first comes out, you keep adding to it. And quite frankly, it's at a lower risk if you think about it, because you already have established the market in terms of, you know what the shipment rate is, you know what the prevalence rate is, you already are embedding yourself in the market, so the incremental innovation comes at a lower risk profile, if you will.

And so, half of our spend typically comes on that side where the other half is what I call net new innovation, is the balance. Now from time to time, if you see a bit of a spike in our spend in R&D, it tends to lean more

towards the net new innovation side. But, in the aggregate, over the long term, you kind of see that balance play out.

Question – Navann Ty: Thank you for that comprehensive answer. And with the long-acting, which you said is a very meaningful lifecycle management, and other innovation that you mentioned at the January conference, would that help Zoetis return to high-single-digit growth in the medium term?

Answer – Wetteny Joseph: Well, the first thing I would say is I'm not sure a return to high-single-digit because we have been delivering high-single-digit growth. And in fact, if you look at our CAGR on an operational constant currency basis over the last five years, it's above the 10-year CAGR in terms of growth rate. And so, we talk about 8% constant currency growth in the company over the last decade, plus the last five years are actually a touch above that, including last year where we delivered a 11% operational growth.

And now we're talking organic because of the divestiture of the MFA portfolio, but I don't think it's a return to high-single-digit growth, I would say sustaining that is the point, and it's the objective. And I think if you look at what we have in our pipeline – and by the way, I have to keep re-emphasizing this, it's what we have in our pipeline and the remaining opportunities in our existing portfolio.

I do think if you look at derm, which might be the most perhaps extreme in terms of how long it's been out there, right, I mean, derm's been out with Apoquel for something like 11, 12 years; Cytopoint about seven or eight years, and we're still printing double-digit growth in derm, and by the way, more volume in that number than price. Of course, there's price in it too. So, I think that says you're still expanding this market. And I think before I pivot the answer to, what does the pipeline give us, I do think we have to underscore the existing portfolio and what it still has ahead of it.

But yes, I am very excited about the pipeline and we endeavor as we make our investments in R&D, as we look at the remaining areas which are very vast in terms of unmet needs. I mean CKD couldn't be a better example of that. I mean, you talk to any veterinarian, you talk to 10 vets and you ask them what is the biggest problem that you have today that is unmet on the companion animal side, I would be very surprised if CKD doesn't come up as number one and number two.

So, I do think the amount of space that we still have, I think this is still very fertile ground to continue to drive growth in terms of R&D and innovation. And yes, that does give me a lot of excitement and confidence in our ability to continue to grow at the rates that we have historically.

Question – Navann Ty: Thank you. And we also mentioned that in the previous session, the competitive advantage in monoclonal antibodies manufacturing. So I think it's only Zoetis and Elanco that have this capacity. So do you expect more monoclonal antibodies competition as well coming in 2026, 2027, but keeping that competitive advantage?

Answer – Wetteny Joseph: Look, we operate with a healthy dose of paranoia, I'll call it, which is someone else is always looking on – working on something that we have put in, but we're leading from the front as a company and I think we have a track record of demonstrating that. And long before I came onboard four years ago, the company's been doing that and we continue to be very excited about the capabilities I talked about that I'm extremely impressed with.

And they spend beyond just R&D by the way and we're talking about what we have in terms of manufacturing scale and what we're talking about as well across our commercial organizations, etcetera, but your question is more specific around manufacturing and scale and monoclonal antibodies, and what I would say is this, of

course, others are working on those, but I think if you look at what we said, number one, we started out with Cytopoint, which was launched eight years ago, which means we were working on mAbs for Cytopoint years before that.

And so just to sort of put that in context in terms of what you might be seeing from others today, which is why in 2023, when we had our Investor Day, we said we have more than 50 mAbs substrates that we're working across our network. I think you'd be hard pressed to find anyone else in our space that has as many. And so, while others may be – and I'm not surprised by that, working on, and they'll launch products I'm sure, and as you mentioned one has already launched, but is a relatively small product because of the context of the size of the market for it.

However, others will come, that is not something that would be a surprise to us. We're not operating on a premise that there won't be. However, we're very, very pleased with our current pipeline. We're very pleased with our current products that we have now, which, by the way, mAbs, if you think Cytopoint plus Solensia and Librela, we're somewhere close to $1 billion of revenues now that are in mAbs in our current slate. So I think, the scale that we've built for that, I think would be, far, far and away, bigger than anything else that I would expect anyone else to have within the animal health space today.

And we continue to invest in that to drive not only the further growth we have for products that we've launched, I talked about 27 million dogs by the way, just in the US, and not even global, I'm talking US medicalized dogs, and cats, etcetera. So, we have lots and lots of opportunity ahead and we've built a sizable sort of capacity and we're still building more to meet those needs. And I believe as competition comes, it's our endeavor to stay that much further ahead.

Question – Navann Ty: Thank you. And I think we have discussed the Merck product and one of the experts we spoke to was saying that JAK second generation and I know Zoetis has also a second generation according to the company definition. But will maybe the Merck second generation have a higher rate of non-responders? Would you agree with that or...

Answer – Wetteny Joseph: I'm not going to speculate...

Question – Navann Ty: (00:35:45).

Answer – Wetteny Joseph: ...on a – yeah, a competitive product that hasn't launched yet. We don't know the label. We haven't – so, what I – I would say this, our product, Apoquel is a second generation JAK, it is JAK selective. So the cytokines that cause itch, right. And so we are very – we were very, very intentional when we worked on the product and I say we, but I wasn't even around at Zoetis, but this is the broad, you know, beat here (00:36:15), worked on this product and it's been out for over a decade. And the satisfaction levels on efficacy and safety are above 90%.

And so I think whether someone else is launching a second generation like ours, what would their profile look like and would there be more non-responders, I won't speculate on, but we're very confident in terms of what we've been able to do and demonstrate over again more than a decade with Apoquel and now have Apoquel Chewable as well, which is again another differentiating point in terms of products.

We have three products across derm and these are three of the biggest products across animal health and with a chewable as well, continuing to actually expand its use. We're very pleased with that. Our chewable penetration conversion across Europe is now around 57%, and across International, it's about 50%, but 57% in Europe, we're clearly the size of the market there. And then in the US, we're north of 30% as we exited the

first quarter of conversion. And the stickiness of Apoquel, by the way, is also very telling to us in terms of just how much vets and pet owners appreciate it and will continue to use it.

So, we're very, very pleased with where we stand in terms of readiness for competition. I won't speculate on someone else's JAK and what it might or might not do until we see what the label looks like.

Question – Navann Ty: Sure. And also before I have a – I go back to a live product (00:37:49) question, what – would you have the possibility of further lifecycle management for Apoquel and Cytopoint, or maybe patent protection, something as you did for the Simparica Trio when you added an additional claim? So is that something that you could also do before the petition enters in derm (00:38:11)?

Answer – Wetteny Joseph: Look we built this derm category, if you look at what we've done over a 12-year span, that we're very pleased with that track record. It remains a very important therapeutic category for us. And so we are hard at work in that category to continue to drive it and to continue to innovate in it.

As I said, the most recent example of that is the chewable formulation that we launched in the US by the way, at the same time, we launched Librela, so, less than two years ago, though, it's been out in the European markets and other markets longer than that, and we continue to work on expansion to other species in derm, as well as long-acting Cytopoint and so on. So, there are various parts of our pipeline that particularly focus on derm as a very important category for us.

This is not one where we are, sitting and waiting to see what the competition does. This is a market that we've led for a long time and we intend to continue to lead.

Question – Navann Ty: Thank you. And on the long-acting, so is the best case scenario that you have a cleaner label than Librela, because of the lower dosage and maybe fewer adverse events? And also just a clarification if you're planning on marketing under different brand than Librela.

Answer – Wetteny Joseph: So, two things I would say, but – and maybe I'll start with the second part of the question then go to the first. In terms of the marketing and what brand it would be, as we said, it is not Librela. It is a different monoclonal antibody that also binds to another grade (00:39:53) factor, so addressing the same needs. So, by definition, because it's a different active, you would not be able to call it the same name. So that's sort of a known.

Then in terms of what would the label look like, that we'll not go into at this point. This is a product that is still going through the process, regulatory wise. I will not make any comments in terms of what the label is, or what it's not going to include and what that profile will look like.

Clearly, with every product that we go after, every need that we aim to deliver an innovative solution for, we start with a profile that we believe is an attractive profile to meet that need for the animal first and foremost, but also for the pet owner who is treating that animal, or is carried there and then the veterinarian.

So we think about that in the wide context around what are the adverse events that this product could have, and what are some of the – what is the efficacy, what is the safety and all those to have a target that we go after and we are relentlessly pursuing that target within the appropriate confines and the work that we do and the capabilities that our teams have to deliver on that.

That is not specific to this long-acting product we're talking about, just in broadly speaking, how we approach. And I think this is why we've had Apoquel for as long as we've had and with the profile that it has, with the second generation JAK that we launched 12 years ago, while others might be potentially – while others have launched a first generation JAK 12 years after we launched the second generation, I think is part of that. And then the other one is someone else may be coming out with a second generation as well.

So, I think that intentionality around the profile is really important to us and that's cut across any product that we do. So, that's not answering your specific question around the long-acting OA pain for dogs necessarily, or for cats, but that is just a premise in terms of a structural foundation that we operate from.

Question – Navann Ty: Thank you. And maybe without going into the label discussion, but do you think the relationship between dosing and adverse events, given that the dosing would be better, is there a relationship that you can discuss already on the safety profile?

Answer – Wetteny Joseph: I will not, no. I will not. I think the comments I made earlier on that, I'll stick to until we have a label. Again, clearly we have a profile that we go after and we pursue that with all the passion and all the capabilities that we have in order to deliver on it.

Question – Navann Ty: Thank you. Fair enough, of course. Maybe I'll go on the gross margin mix contribution and SG&A operating leverage at Zoetis.

Answer – Wetteny Joseph: Sure. Look, I think if you look at the...

Question – Navann Ty: (00:42:39)

Answer – Wetteny Joseph: Sorry – yeah, if you look at our business...

Question – Navann Ty: So, if you can discuss that, that'll be good.

Answer – Wetteny Joseph: Yeah, I'd be happy to. I mean, maybe more of a comment, so I'll just give you my point of view around sort of that context. If you look at our track record and our framework, by the way, is to grow our revenues faster than the industry, I think it's clear that we have consistently done that, on average, 3 points or so, above the industry. And again, we're excited about what's in our existing portfolio and our pipeline to continuing to do that, and then it is to grow the bottom line faster than the top line, which means we're looking for leverage across and down the P&L.

It starts with obviously gross margins, which remain north of 70%, particularly, you saw the MFA divestiture, that being accretive to that profile. The other thing is the mix of the business. So, our companion animal has a higher gross margin profile and as companion animal grows faster than livestock, you will see that mix contribution come through. And all my comments are really more on an operational, which means constant currency basis, of course currency can have varying degrees of effect here, as we've seen over the years.

And then we look for leverage across SG&A. I mean, we've made investments in the business in various parts, in different areas at different times. And so those have been around again, 2022 we made substantial investments in our field force in the US, for example, and we're continuing to bear the benefits of those as we continue to launch products and grow at the rate that we have been since then, on the basis of those, and we continue to drive more productivity through the sales force to keep delivering on that, which would continue to drive SG&A leverage, you can say the same thing across the different parts.

I think R&D is the one that will more consistently be sort of at the revenue growth rate range, give or take. That may be in a given year, a given quarter, that may be above that or below that, but generally speaking, it's not the one that we're necessarily pushing across to leverage, although we are very excited about the opportunities to leverage technology, leverage AI and so forth, to drive and streamline and even move faster through the R&D process, particularly on research to find targets faster.

I'm very excited about those possibilities as we look out into the future and then also preparing dossiers faster to get and deliver to agencies once you've done a clinical trial, all those things. I mean, there are lots and lots of things we are excited about there that could help us drive the speed to market, speed to development and so on. But, generally speaking, it's not a point of – that we're looking for that now.

If you go back last year, we ran 11% operational growth at the top, 15% at the bottom. That's 4 points of separation. And roughly speaking, again, taking FX out of the picture, there was a pretty much equal balance between the leverage you saw through gross margins, through what you saw in SG&A. And so, I think – I'm not promising that sort of balance every single year, but the objective of delivering leverage through P&L, and therefore by definition expanding margins is there. But, certainly our primary focus is driving top line growth that's quality growth and margins that are at or better than our existing product slate.

Question – Navann Ty: Thank you. And maybe the – can you remind us the current exposure to ex-vet channel? And do you expect that to continue to grow next year and medium term? And also, if you can discuss the strength of that channel for Simparica Trio and Apoquel versus the stocking dynamics.

Answer – Wetteny Joseph: Yeah, I'd be happy to do that. Look, we talk a lot about diversification in this business and many times it's such a geographic diversification. So, the US is 55% of our business. But once you get past the US, there's no market that's above 5%. So, lots of diversification there. Then we talk species, right you have companion animal dogs, cats, horses, and then all the livestock species that you have as well, so, eight core species across the board. So, that clearly drives a lot of diversification. Therapeutic categories, more diverse than anyone else in our space.

So, clearly we're in vaccines and parasiticides where most other players are in meaningfully, but then we're in derm and OA pain, and I can go on and on. So, lots of diversification there. The one that we don't maybe talk about this way as much is what you – the point of your question, which is outside of the vet channel, what do we look like? And I think that is another point of diversification that I think is meaningful, and important. And we do expect that those channels to grow faster than the clinic channel as far ahead as we can look.

Though, how sustainable is it at those rates, right, I mean, we're talking 25%, 30% a year. That's not indefinite. But we do expect to see that growth rate outpace the clinic growth rate for some time. And today, if you look at our companion animal business in the US, about 21% of the revenues are coming from those channels, outside of the vet. And for products like Apoquel and Trio – and by the way, when we say outside of the channel, it's retail as well as home delivery, right?

And so if you look at Trio and Apoquel, those are each – about 40% of those products are coming through those alternative channels today, with a little bit of a different mix between retail home delivery across those, but generally speaking, you're talking about 40%. So, 21% of the total US companion animal slate is coming from outside the vet clinic, and the alternative channels.

In terms of – you mentioned inventory dynamics, not a ton to speak of here. I think if you look at what happened at the end of last year in December, there's a little bit of destocking, I would say, in the – on the

retail side as they had some difficulties with getting shipments processed and (00:48:28) so the other things, so it maybe dipped down a little bit in inventory in December, which picked back up in January. So if you look across the two, it sort of neutralized itself.

And that's why I would say the 40% growth you saw in alternative channels or retail in the first quarter, we would think that back down to something closer to 25% or 30%, but not meaningful overall for what we're looking at here.

And then the other thing I would mention, we talked about on the call was we launched, we took Apoquel Chewable to distribution last year and that's spanned both the first and the second quarter. So, in the first quarter it was somewhere in the neighborhood of $6 million worth of incremental revenue, into the first quarter last year. So, that created a comp difference. And so the 10% growth in derm this year would have been about a point higher, but for that impact from last year. And then in the second quarter, we had some more of the shipments into distribution last year.

So, it's actually more than what we saw in the first quarter, close to double that number, in terms of the revenue impact from a year ago. So you do have that sort of dynamic to think about in the second quarter of this year as well. But outside of that, I would say, where we have the most visibility to what's in inventory, it's largely in the US in distribution, right. There's not as much clarity in terms of what's in a clinic inventory, although you can imagine, for those who've been in vet clinics, there's not a ton of space for them to store a lot of inventory anyway.

But if you look at what's in the channels across distribution, and we may have said on the call, we're still running in the range, historical range, but closer to the low end of that range. Since quite frankly, the first quarter of 2023, we've been hovering closer to the low-end of the normalized range for inventory levels in distribution, and it has stayed that way, small ebbs and flows here and there. But generally speaking.

Question – Navann Ty: Thank you. That's very helpful. We know that Zoetis is less exposed to the vet visits than some diagnostics companies, so – but still do you expect vet visits strengthening in 2026? Is that your scenario or not?

Answer – Wetteny Joseph: I'm not going to venture into a forecast into 2026, what's going to happen in the vet visits specifically, Navann. What I would say is this. You asked the question earlier about the alternative channels, and that is part of the answer in terms of what we're seeing now in the clinics versus where the consumer wants to go, where they can, which by the way, drives more compliance when they go to those channels. We're seeing more volume. We're seeing volume uptake on the same sort of treated population, you're seeing increases in volume as they go to those channels. So that is a benefit that we see.

What I would say is that is having an impact on the clinics, right. And that's an advantage that we have in terms of the diversification that plays out, which will continue to have some, all else being equal, although I'm not forecasting what's going to happen in the clinic, what I would say is as long as you're seeing that sort of level of growth in the alternative channels, that will continue to put pressure on the clinic visits itself.

Therapeutic visits is where we focus our attention in the clinic, not overall. And if you look at therapeutic visits over the years, we've seen them really be very strong. In this first quarter, we did see a little bit of – as we've talked about on the call, we did see a little of an impact in terms of therapeutic visits in the clinic in the first quarter, which we continue to watch and we factored those into our thinking for the rest of the year. But overall, that is the focus and our revenue tends to line up more to the revenue to the clinic rather than the overall visits.

And so, if you look at that, you saw revenue in the clinic still up in totality, about 4% from rounding; and revenue per visit was 7%-plus, on the quarter in the clinic. So, again, those are the metrics that tend to align more to our growth profile, if you look across the years.

Question – Navann Ty: Thank you. And maybe – so, two final long-term question is, are you still committed to livestock and diagnostics, or any area of further innovation or potential portfolio reshuffling?

Answer – Wetteny Joseph: Look, the short answer to both of those is yes. We're committed to them. These are great businesses. If you look at livestock, for example, although we don't talk about it as much, we do see opportunity to continue to innovate in that space and we continue to innovate in that space. I think if you look at our press release, earnings release, you've seen more of the feature of the various approvals that come through in those. Even though they're not the size of the impact that you might see in some of the big products on companion animal, they're still meaningful within the context of livestock. And we're very, very pleased and proud of the work our teams are doing on that front.

One example I would say is just if you look at we're the first company to have approvals for high path avian influenza, both on the poultry side and now on the dairy cattle side, there's the conditional licenses from the USDA, I think these are meaningful for our customers, even if they won't be significant from a revenue perspective for us. And I think these are examples of how we're continuing to pursue innovation across the board. I mean, this is our core competency. This is how we go to market, this is how we address unmet needs for customers, which is, number one, what moves us.

And then on the diagnostic side, again, very pleased, you saw us launch a new hematology estimate recently in that space. Customers are very excited about. You've seen us come out with Imagyst and other AI-driven platforms to be able to get results much faster right in the clinic, which changes the dynamic in the conversation that the vet can have with the pet owner while they're still there. So, lots of examples there as well. So, again, that's the common – commonality you can see across all the areas that we operate in, and so that's just an example on the diagnostics side.

But, very much committed to both of those areas and continue to invest across them. And – but, clearly the level of investment we have in companion animal is much bigger than those areas, given the opportunities we continue to see in the size and the returns as well. But our goal is really to maximize – to maximize shareholder returns here and drive long-term – long-term growth for the business at quality growth. And we have multiple levers to do that and we're generating significant cash to continue to invest in those, while driving leverage through our P&L. I think it's a quite attractive equation for us.

Question – Navann Ty: Thank you. Thank you very much. Maybe a final question and then I'll stop there. With the senior pets and the COVID pets becoming senior pets in 2028, overall, is that a tailwind for you – for Zoetis in the industry?

Answer – Wetteny Joseph: Yeah, look, as humans, we look at COVID and we think, wow, it's a very fast five years that's gone by. For pets, they're getting older and this is one of the things we've talked about in the past, maybe we should talk about a bit more really is that the tailwind from those – the increase in adoption we saw not just in the US but across our international markets. This is about the time in the maturity curve for those animals that they are needing some of the more chronic – they develop some of those more chronic conditions. And you start to see the – them come into the equation for more treatments across dermatology, for example, OA pain, etcetera.

So, we're excited about what those will do in the coming years. And so I would say, we are in the early stages of those animals coming back with a frequency that these chronic conditions require and with the treatments that we have. So we continue to innovate, and I do think it's an important one, when you think about our existing products in our pipeline, the size of these markets continue to grow in that context, but also in the context of the pet owner and how they see the pets generationally.

And I think that's going to continue to drive sizes of opportunities upwards, and when you think about it in that context, but appreciate the question.

Thank you very much, Wetteny. That was very, very, very insightful.

Just to mention at 4:00 P.M., we have our last session with the General Mills North America Segment Head. I will be with my colleagues, Max Gumport. But otherwise, thank you very much for listening today to our Second Animal Health Day and thank you again, Wetteny and Zoetis to – for participating again to our Animal Health Day.

It's our absolute pleasure. Enjoy the rest of it. Thanks, Navann.

Thank you.

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