

Company Name: Zoetis Inc. (ZTS)  
Event: Stifel 2025 Jaws and Paws Conference  
Date: May 29, 2025

<<Jonathan Block, Analyst, Stifel Institutional>>

Great. Thank you. Good morning. Jon Block with Stifel. Next up, we have Zoetis, and pleased to be joined by their CFO, Wettey Joseph. A lot to discuss, so I'll dive right in. I might have to alter my first question just based on tariff news that never stops in the flow.

But I will start with tariffs more broadly. Wettey, one of your competitors size the potential impact from specific form of tariffs, if they were to be implemented? And is there a way to think about that impact to Zoetis even at a high level?

<<Wettey Joseph, Executive Vice President and Chief Financial Officer>>

Well, Jon, great to be with you at the conference. Tariffs, of course, the top of mind for everyone and continues to be a fluid situation and we continue to monitor it. We also, as we highlighted on the call, last month or earlier this month, we have a number of levers to pull in terms of mitigation for tariffs, those range in terms of short-term to longer-term items.

Executing on them though, hinges on when things sort of stop moving, where you know where you're going after and what the implications are and what do you do them. So we're very confident in the number of levers that we have to go after this. We try to be helpful in terms of what is the exposure we have across the globe. Of course, we have a global supply chain. If you look at the U.S., and you can do some quick math on this, 75% of everything we sell in the U.S. is actually made in the U.S.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay.

<<Wettey Joseph, Executive Vice President and Chief Financial Officer>>

We also export more out of the U.S. than we import. So that other 25% that come in, we actually export more than that. In terms of what goes outside of the U.S. – from the U.S. manufacturing. And so that puts us in a position where effectively we are doing with the administration is trying to do, which is have more manufacturing in the U.S. and have the IP in the U.S., 99% of our IP is in the U.S. as well.

So I think these parameters give you a little bit of a sense, depending on what the tariff ends up being to run some math on at all cost of sales. If its X percentage, what is that? And so you can kind of run that through and get some range, but it varies by country

and territory, et cetera. Now we continue to do our best campaign for our industry and for us as a company given those stats that I gave you that really position us well in terms of our presence in the U.S. and the base that we have for manufacturing and so on.

<<Jonathan Block, Analyst, Stifel Institutional>>

And any high-level thoughts on how that campaigning, we had Elanco up here earlier is going for the industry as a whole in regards from exemption from those potential tariffs?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Look, it's hard to say until it's done, what it will look like. We endeavor to have exceptions for our industry again for the reasons I already stated. So I won't go back through those. And by the way, we've been making investments in the U.S. As you're aware, we have a facility that we're building in the Atlanta area. We've been making investments across our network in the U.S. for the last number of years.

So the percentages that I shared with you can only go from where they are higher...

<<Jonathan Block, Analyst, Stifel Institutional>>

Even more with the administration is trying to accomplish.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Exactly. So I do think those position as well, but ultimately, we'll see where those fall. And regards to where they fall, as I said earlier, we have a number of mitigations that we can go. Everything from shifting inventories to delay the impact, to leveraging the current network to move products around where, particularly if it's already dual source, where you can source from a different location depending on where it's going, you can mitigate some of those.

And then if you have capacity, even if it's not already dual source, you can go through a route, now that takes longer, of course. And then you look at price. And then the very last thing you would look at is do you put new dollars on the ground in terms of establishing some footprint somewhere. I think that will be a very, very long shot, I would say, in terms of doing that as the supply chain is built to optimize getting products to customers reliably supplying for them and managing our cost base.

So I think that will be something that we would be very careful about doing. But all the steps I described prior to that are available to us. When we talk about 20 – and last point I'll make – when we talk about the impact of 2025, I want to make sure this is not – this is the net impact that we're talking about here, which has gotten marginally better since we had our earnings call, I don't want that to give a sense as to what ultimately we're able to do in terms of mitigation. We're talking about a very short time frame. As I

said, you want to see where everything settles because there are implications as you make movements across the network.

<<Jonathan Block, Analyst, Stifel Institutional>>

Then you can pull the levers.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

You pull levers once you know where it lands versus the short-term where you – we may need to have some mitigation, but not as much as you would otherwise.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay. And as usual, I usually am looking at my questions, but if you have questions, yeah.

<<Unidentified Analyst>>

Just on the topic farm tariffs is 75% in the U.S. – with U.S., is that mostly farm or companion animal or both? I would assume that the administration, if there were tariffs that we prioritize, the farm side as being the national security issue versus companion animal, I'm just asking.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

It's both. You might see slightly higher percentage of farm products in domestic for some regulatory reasons I'm not going to get into right now, but I would say considered both but slightly higher perhaps farm animal in country for country.

<<Unidentified Analyst>>

Is that fair.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

That will be a fair comment.

<<Unidentified Analyst>>

Thank you.

<<Jonathan Block, Analyst, Stifel Institutional>>

Great. And again, guys, if you have questions to up your hand. I'm going to shift gears a little bit. The cadence for 2025, Wetteny, anything to call out as we think about that 6%

to 8% organic operational revenue growth, 1Q was solid. It was 9%. Is the thought that 1Q is sort of likely the high watermark for the year? And then when we think about 1H versus 2H, 1H is sort of at the high end of the annual guidance 2H what happens? The comps get a little bit tougher? You might have competition coming to market, so 1H at the high end, 2H at the lower end when we think about cadence for 2025.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

We're very, very pleased with a respond start to the year at 9% on an organic operational basis. Of course, that neutralizes the effects of the MFA portfolio that we sold as well as FX, so very pleased with that start.

What would be helpful, although we don't get into guidance by quarter is the fact that we took into consideration a number of factors as we always do every year in terms of what we expect to happen on the year, are there competitive launches for new products that were contemplating. And based on the best information we have, when do we think that might be. Again, there are short-term impacts that we can expect from those, although there are significant opportunities to continue to expand and grow those markets longer-term.

And so we prepare for those scenarios in the guidance that we provide in February of each year. Given that we're expecting competitive launch in the derm area in the second half of the year, that de facto says, then would be anticipating a higher first half than second half.

Now I won't get into again any more specific than that in terms of the cadence on a quarter-by-quarter basis. A couple of things that might be helpful also, as you saw in the first quarter, in derm, we had a comp relative to the launch of our true product into distribution. The initial launch was the October prior to that at the same time, we launched Librela, however, we moved the distribution in March and then in April. So for Q1, I would say there's about 1 point of impact to the derm growth rate from the initial stocking to distribution from a year ago March.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

And then in April, the dollar amount is actually double what it was in March in the April numbers to kind of consider when you think about second quarter around the derm piece...

<<Jonathan Block, Analyst, Stifel Institutional>>

Specific to the derm?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Yeah. Other than that, there's really not a whole tone that I would highlight here on a quarter-by-quarter basis.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay. That was helpful. And let me just maybe work down the P&L a little bit. And sort of apply the same question on the bottom line, you're expecting 5% to 7% adjusted net income growth for the year. 1Q was smack in the middle. It was 6%. I mean, is there something unusual specific to 2Q?

When I look at Street estimates, the Street reflects a more muted adjusted net income growth for 2Q below that band. It might be closer to 2% to 3%. So there's something within the cost structure in 2Q that we should be taking into account? Or is it more linear in nature versus the top line?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Yeah. Look, I wouldn't say its linear, and for the reason that we stated on the call, which is if you look at as we expected coming into the year from a cost of sales standpoint, we got some inventory that's priced at – costed at 2024 dollars that are higher than what we have in our standards as we look at 2025. You saw that impact in the first quarter. You would continue to see that through the second quarter before you get to the back half where you start consuming products, so.

<<Jonathan Block, Analyst, Stifel Institutional>>

So that washes through a little bit.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

That washes through in the second half. That's something I would say is relatively consistent to the first quarter in terms of that. Otherwise, not a lot that I would highlight.

<<Jonathan Block, Analyst, Stifel Institutional>>

Fair enough. Picking up my head, looking around. Okay. 1Q 2025 commentary, there was something that struck me, I was a little bit surprised. On the earnings call, you and Kristin talked a bit about some pressures that you were seeing. I think you phrased it with chronic higher-end medications.

And if you could elaborate on that, I think it will be helpful. Was that sort of a Librela-specific comment? Or was it more broad-based? And if it was more broad-based, what

does it apply to? Because actually Cytopoint had a good quarter. It was up low-double digits, specific to 1Q.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Look, I would contextualize this as follows. It's still within a quarter that we delivered 9% organic operational growth. So now we're talking about some more specifics around what we saw in the quarter, particularly in the U.S. from a clinic activity perspective. And there, anecdotally, we saw, particularly in the February month, where we saw that bounce back in March and April some impact coming in from consumer confidence and reaction that showed up in more of the premium products, including Cytopoint, even though Cytopoint had a strong quarter, as you just highlighted, and OA pain, which is more of the chronic, more premium products. Again, despite that, given the diversification we have across the business, by the way.

<<Jonathan Block, Analyst, Stifel Institutional>>

That's a 9%.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

We end up with a 9% organic operational growth. You saw international growth at 11% on an operational basis. By the way, we've seen over the years, what I think may be a little bit not talked about enough is if you track our companion animal growth outside the U.S., I know there's a lot of focus on U.S. companion animal, but the growth rate between the U.S. and international has been about the same for years.

And yet, there's substantially more room to grow if you look at where medicalization rates, et cetera, are outside the U.S. So I think there's a lot there that we'll continue to capitalize on given our portfolio and our innovation across that slate. But again, going back to your point, this is despite all this, you saw 9% organic operational growth from.

<<Jonathan Block, Analyst, Stifel Institutional>>

And correct me, I thought when you were starting to answer the question, you said some of that started to surface in March and went into April. Was that correct?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

No. The opposite, actually, it really was more in February, and we saw bounce back up from there.

<<Jonathan Block, Analyst, Stifel Institutional>>

So those pressures on the high-end chronic were more pronounced in February than started to subside?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

That's right.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay. Okay. I'm going to try to rock and roll through what I call your starting five products and I'll begin with dermatology. 20 million worldwide dogs remain untreated. So clearly, a massive opportunity still exists. Yet the year-over-year revenue growth has decelerated for four straight quarters. You touched on this a little bit earlier, but how do we think about the moving parts?

You've got the tailwinds. The tailwinds include large market opportunity. Next-gen, what I call next-gen Cytoint, we'll get to that in a little bit. But the headwinds you've got, the Merck, Jack, you threw out some of the stocking from 2Q as well. How do we balance the continued deceleration versus here's a large market opportunity where you're dominant and the possible reacceleration?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

We are very pleased with the key derm performance that we've seen across the quarters that you mentioned. By the way, if you go back, in the first half of 2024, we were up against some very easy comps. If you recall, Q1 of 2023, you had destocking across the network in the U.S., which created really a much easier comp as we got into the first half. You saw that play out across companion animal in the first half.

Now throughout – you continue to see double-digit growth in derm, by the way, through the back half of last year and into the first quarter of this year. And as you mentioned, I think you have the attributes correctly, there are 20 million either under treated or untreated dogs across the world. By the way, we're treating about 12 million.

So the number that we can go after and we'll continue to go after is higher than what we're treating today. It's a massive opportunity to continue to expand the market beyond that, by the way, there's also better compliance on those that are being treated. And so if you look at what's happening, particularly in the U.S. in these alternative channels for the same number of patients, we're seeing more volume because the product – about 40% of Apoquel, by the way, is sold outside of the clinic in the alternative channels.

What you're seeing is better compliance because it's more convenient to get the product to the pet owner, et cetera. So I think about it in those two dimensions, there's compliance opportunity to continue to grow and expand the market and then there's 20 million, which is significantly more than those that we're treating today.

So as we look at the products that we have, Cytoint, Apoquel, Apoquel chewable, and as you mentioned, you'll have more questions on Cytoint to ask, we have a

broad base of products to meet the consumers' needs and over a decade of efficacy and high level of satisfaction that protects and continues to drive the product.

<<Jonathan Block, Analyst, Stifel Institutional>>

Still a material opportunity, what I call same-store sales. So taking those 12 million that are on the medication, making them more compliant, as well as the 20 million untreated new stores, if you would, that you could bring into the equation.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

That's right.

<<Jonathan Block, Analyst, Stifel Institutional>>

Let's go to the next-gen IL-31. If I've got it correct, the next-gen long-acting pain will come first. You guys have sort of signaled that.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Yes.

<<Jonathan Block, Analyst, Stifel Institutional>>

The next-gen IL-31 is that still teed up for at some point 2026. And help me, is that also a different molecule? Will that be branded differently than Cytopoint?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Look, we're very excited about continuing to innovate and drive this market and to go after, again, the compliance point, which by the way, when you have a three-month injectable that drives compliance. So going back to the point about getting more expansion out of the existing dogs that are being treated that goes to that point as well.

In January, we shared some data around the pipeline and when we expect products to be approved across key markets. And so we're very excited about this next wave of innovation across the company, which, by the way, on top of the opportunities we see in the existing franchises, right? And in that, we said our long-acting OA pain products would come first in the next 12 months in the 12 months to 36 months, we put the long-acting derms.

<<Jonathan Block, Analyst, Stifel Institutional>>

Like those are 12, okay.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

I'm not giving more specifics than that, although we're excited about again, continue to drive that product category and continue to innovate across the business.

<<Jonathan Block, Analyst, Stifel Institutional>>

How about the molecule question and the branding question for next-gen IL-31, I'll call it?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Right. So we won't get into a ton more detail than we shared there. But I think if you look at those charts we specifically called long-acting OA pain rather than a specific brand, whereas we said long-acting Cytopoint specifically, if that's helpful. But again, I won't get into a whole lot more detail on those products in terms of what the profile would look like beyond what we shared.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay. And maybe I'll jump to the long-acting pain and then I'll go back to just OA pain. For the next generation, I think you've talked about three months and one-tenth the drug, and so I'm not going to scientists and I'm not going to challenge a whole lot of what you're about to say. But maybe just help frame that for the audience.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Well, I think you gave me a lot of credit that I'm going to get into a lot of site-specific data on this, but I won't speak to what's driving the titers or the yields, et cetera. However, I do think it's phenomenal when you think about that we'll have a product that will last three times longer but a much lower quantity of it, which drives COGS in the favorable direction.

Now put it into context, though, these are premium products with relatively high margins in terms of our innovative products. So if you think about how much of that is cost of sales, and then you apply that to us. So it's helpful. Not going into a time more details on what the label is going to look like, et cetera, here. But again, we're very excited about the next wave of innovation when you think about long-acting and what that will do from a compliance perspective. And we do expect this to be incremental revenue growth for us across the spectrum to go after a market that is quite large.

I mean just to reiterate a little bit here, if you look at dogs loan from an OA pain perspective in the U.S. alone. Again, this is a global opportunity we see. But in the U.S. alone, there are 27 million medicalized dogs, which means they see the vet on a regular basis, with OA, 27 million. And today, NSAIDs are treating about 8 million, and the Librela treating about just north of 1 million. That just tells you how much substantial opportunity there is to expand this market.

<<Jonathan Block, Analyst, Stifel Institutional>>

And to push a little bit on the earnings call, I asked how this will be branded. And I thought Kristin sort of said, hey, silly, it's got to be a different molecule. So it's got to be branded differently and here telling me the next-gen Cytosol still going to carry Cytosol. So is it – it has to be branded differently? Or is this a concerted effort by Zoetis to sort of say, let's reset the stage here a little bit and intentionally brand the next-gen pain thing other than Librela?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Look, it's a unique antibody. It still binds to the north worth factor, but it's a unique antibody itself. And so that necessitates that you can't call it the same name, Librela. So again, I won't get into a whole lot of details on a product that's not yet approved or launched and you don't have a label, et cetera, yet, but that's what goes behind that. Please.

<<Unidentified Analyst>>

Just follow-up on that, maybe when I [indiscernible] (0:18:31) what was really the impetus to have this new different antibody? Was it for COGS reason or was the original Librela really difficult to make it into a three-month so you sort of had to have a new one or any other reason?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Look, with every product that we go after, any target that we go after, we're looking for a profile in terms of what the product is going to do from an efficacy and safety perspective. And we let that our scientists go to work to deliver on that. If that happens to be a new target, a new molecule, a new large molecule in terms of antibody, then that's what it is. Again, I'm not going to get into a whole lot of beyond my knowledge base in terms of the scientific reasons for it. I can tell you it's not a COGS necessarily objective that you're going after. In the end again, you have a much higher yield on the product and better titers that drives the COGS pieces that we're sharing here, but that would not be your target per se.

<<Unidentified Analyst>>

And remind us, is this a first half or a second half?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

It's not a reminder, because we haven't said no timeframe, but it is an approval in 12 months in a major market is what we said in January.

<<Jonathan Block, Analyst, Stifel Institutional>>

Maybe one more down that road and then I'll pivot back to Librela. The different molecule, the way it binds, is there a thought or should we be on the look at what it's approved from a label perspective, fewer issues around a taxi and other neurological issues?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Far too early to get into what the label is going to look like for a product that's not making its way through the regulatory process. So I'll leave it at that.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay, fair enough. Let me rewind then and go back to OA pain and Librela. I think you guys were very transparent in the quarter. You talked about a softer ramp on the most recent conference call. Softer ramp still did \$40 million out of the gate in the first quarter, et cetera. What's the near-term strategy to reinvigorate the trajectory? I think you talked about additional studies, some European KOLs because the product has been over there for a number of years, and then eventually the long act can come into market. Is this something that can have an immediate impact? Or is this something that might take several quarters to play out?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

I'm glad you mentioned the \$40 million out of the gates. And not only that, if you look across the metrics, this is a phenomenal launch of a product. And we have a chart that I keep picturing where you look at how long it took for any other product to penetrate in clinics in the U.S. to the tune of 60% something, which we did immediately, and then we got into 80%-something, penetration on the product. The amount of time it took to do this is faster than anything we've ever launched and any other products that ever been launched. So clearly, there is a significant demand for that profile of a product to treat OA pain compared to what's been used historically for those that are treated, which again only about a third are being treated with NSAIDs. And so clearly, there's a significant demand for this product.

And so we look at that. In terms of – as we look ahead, in terms of the launch, of course, we were learning from what we've seen across Librela. We're doing a number of things to drive this. So our comments last month or earlier this month was really about the speed that we wanted to see the product move into more moderate and mild cases in terms of the trajectory there, and we're acknowledging that it's lower than what we would have expected, nonetheless, a very successful launch at that. So we're executing across a number of fronts to drive this.

And look, we know launching products. We shared the case study on Cytoint in January as well. When we launch products in animal health, we're building a new

market. And so it doesn't tend to be a very linear sequential phenomenon. We've seen that previously. However, we are focused on educating the vets with the data. We are bringing KOLs because they've had the product for a lot longer across Europe, whether it's the UK, France, Germany, et cetera. We're bringing them actually to the U.S. to go on towards talking to veterinary practitioners to budge give them what they're seeing across years of use of the product, et cetera. We're doing Phase 4 post-launch studies that basically track animals across years that are using the product that will showcase both safety and efficacy measures. And so lots of levers that we're pulling that we believe will drive the trajectory in the direction we want.

<<Jonathan Block, Analyst, Stifel Institutional>>

And in the more immediate term, can we take some solids. I think it was the \$47 million, I believe that was in U.S. 1Q 2025 Librela. But 2Q is the biggest quarter in companion animal. You've got some seasonal favorability. You took price beginning of the year, so that's not so much sequentially. But like your confidence that near-term, we can see this somewhat reinvigorated as we head into seasonally favorable quarter.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

I'll stop short of a Q2 specific indication in terms of where we'll be. Again, we're very pleased with not only the overall quarter in terms of 9% organic operational growth, we're very pleased across our key franchises to deliver 14% organic operational growth on the quarter, and we continue to expect those franchises, including OA and dermatology and [indiscernible] (0:23:45) to grow double digits for the year.

<<Jonathan Block, Analyst, Stifel Institutional>>

We're going to move on, we're going to hit parasiticides. We've got seven minutes to go. Trio up high teens in the quarter, that product continues to be tremendous for you guys. That was despite some initial inroads from Elanco's Credelio Quattro, you guys both have better labels relative to NexGard PLUS in some ways. So what are you seeing in that market? Is it just rising tide lifts all boats and the number of puppies going on a broad spectrum? Did you see any difference as a new competitor came in or their share wins mostly coming from maybe a NexGard PLUS?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

We really think this is a tremendous opportunity, and we're at the forefront of it with a product that was launched three years before anyone else did in the U.S., the biggest market for parasiticides, particularly triple combinations. So Trio has continued to perform exceptionally well for us. As we highlighted, only about a third of prescription oral parasiticides are in triple combinations today, right, as we exited last year, only about a third. It grew 40% last year.

So clearly, this is the new standard, that is going to continue to outpace the overall parasiticide space. And as others launch products doing more DTC and more awareness for super combinations, you'll continue to see that drive the overall market. We've been gaining patient share in this space for quite some time. It has helped what is a very broad portfolio of parasiticides that we have, but it's helped us to really gain in position from fifth globally to second globally. And so we continue to be very, very pleased with how Trio is performing with 25% diversity of competition from the player that is actually a global leader in parasiticides. So we're very, very pleased. And as you said, puppies are now about 60%, puppies are going on to triple combinations. But it's only about a third of the oils that are in...

<<Jonathan Block, Analyst, Stifel Institutional>>

So a lot of incremental strips.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

So you can see where the market is going, clearly.

<<Jonathan Block, Analyst, Stifel Institutional>>

Okay. I want to spend maybe five minutes or certainly a couple of minutes on the margins, right? And so I went back and I looked at my model and come up with questions and just sort of taking a high-level look. The implied OM, I believe, this year is somewhere around 39% for 2025. It was 38.4% in 2021. And this is with the divestiture of the lower-margin MFA business along the way. During that time, top line has been huge. It's been up high single digits, even low double digits. So can you talk to why haven't we seen more margin expansion over that multiyear period with such healthy top line and moving on a lower margin business as well?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Yes. Look, I think if you look at the – our metrics that we shared last year, we grew the top line 11%. We grew the bottom line on an adjusted net income basis, 15%. Now I think if you look at the operating margins, one of the headwinds we've seen over the years has been FX. And I do think that sort of muddies the picture a bit. But if you go back and track over the last three years, in 2022, we did 8% on top, 11% on the bottom. Then we did 7% and 7%, we did 11% and 15%. So each year, we're growing the bottom line effectively faster than the top line on average about 2 points, give or take.

And so, we clearly are between the mix shift towards more companion animal price through execution and leverage across our SG&A and OpEx, you're seeing us deliver a faster bottom line and top line. But I do think FX has been one of the noisy pieces in here, if you're looking at the math across that period.

<<Jonathan Block, Analyst, Stifel Institutional>>

And this year, the 6% to 8% organic operational and the 5% to 7% adjusted net income, I know there's some moving parts, but can we expect that to sort of revert back to what you were just alluding to next year where bottom out strips top?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Look, this is part of our framework value proposition, right? We will grow the top line faster than the market, and the market is growing between 4% and 6% consistently. And we've grown consistently more than – about 3 points or so above the market. And so I think that's one and then growing the bottom line faster than the top line. So I think that gives you sort of a range in terms of what that looks like.

This year, in particular, if you look at it from an operational perspective, we are growing – if you look at the guide, it's about 2 points above the top line until you get to the tax line and interest, right? And so given the rate cuts last year, we've averaged about \$2 billion of cash in the prior year. So the interest income component is what's driving us and then about 1 point of differential in tax. So if you look right below – above that line, you see us delivering higher bottom than top as well. So I think this is something we've consistently done in terms of how we look at the equation through the P&L and how we execute across that, we commit to this, and we'll continue to drive to that end.

<<Jonathan Block, Analyst, Stifel Institutional>>

Maybe if you could just spend maybe the last minute, and I know we didn't get a lot into lifestyle. But going back to the alternative channel comment, the 40% growth, it's really robust and healthy, obviously. One can look at that in a couple of ways and run some implied math on what it means into the non-alternative or largely the vet channel. And so we did some of that work, and it might imply like low single-digit growth into the non-alternative for the past couple of quarters. And that's even with price. So maybe even flattish on a volume basis. How do you make sure that you're feeding both mouths properly, right? I don't want to say alienate the vets because you're bringing them so much innovation but it is the alternative channel. And so how do you make sure you're balanced appropriately in that regard?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

A couple of things I would say, we have set the company up and are executing across multiple channels is another diversification play for us, just like geographic diversification and product categories, et cetera. So we're trying to meet the consumer in the channel of their choice. And now if you look at a small molecule that can be delivered across these alternative channels, you see and the consumer go there more and more, which is impacting what's happening in the clinic. So we look at this across the board versus one channel versus another in terms of meeting those needs.

Now you've seen this – the alternative channels grow about 25%, 30%, much, much, much faster than on-clinic growth rates, and we expect that to continue for some time, though I won't say it's in perpetuity. And those channels, by the way, you get more compliance to the point that I was making earlier, where the convenience of getting the products shipped directly to the consumer is helping there.

So if you look at Trio, for example, about 40% of our Trio sales in the U.S., are going through those alternative channels, about 40% of our Apoquel sales in the U.S. are going through those alternative channels as well. In the aggregate, it's about 21% of our U.S. companion animal sales are going through those alternative channels.

One piece I'll say as we run out of time here, I just want to make sure I cover this, in terms of the track record you just highlighted, this is what's happening in the clinic. Keep in mind, in this first quarter, we also had a comp from the prior year, where in terms of vaccines for companion animals, we had a competitor that was out of stock that gave us some tailwind in the prior year, and they came back into stock. And there's a little bit of supply timing as well. So I'd be careful in terms of looking at that statistic just across what happened this last quarter versus what was happening last year. But overall, we're very pleased with the overall performance across companion animal across the globe as well.

<<Jonathan Block, Analyst, Stifel Institutional>>

And just to make sure I've got the comments and then we can conclude correctly, I just want to go back to where you started it. So 1Q 2024, if I have that right, I had some sell-in as you opened up the Trio, I believe, to distribution. Is that where you're going? That happened in March, that happened a little bit more prominently into April. So we should take that into account. But also 1Q 2025 face that for 1Q 2024. But 1Q 2025 had a little bit like an Amazon stock in as well, as that channel opened up? Or was there any stocking pardon me, specific to 1Q 2025?

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

There is no stocking in 1Q 2025, to note here. If you look across our slate, we have the most data in distribution channels in the U.S., less so in the clinics because they're spread out, by the way, generally, they don't have much room to store much inventory anyway. If you look – if you track distributor inventory levels in the U.S., they've been running at the low end of the range since Q1 of 2023.

<<Jonathan Block, Analyst, Stifel Institutional>>

Probably a function of interest rates.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

There's nothing of note in the first quarter from an inventory standpoint.

<<Jonathan Block, Analyst, Stifel Institutional>>

Fair enough. Covered a lot. Thanks very much, Wetteny. I appreciate it.

<<Wetteny Joseph, Executive Vice President and Chief Financial Officer>>

Thanks, Jon.