William Blair Growth Stock Conference ***(Corrected version)***

Event Details

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Company: Zoetis, Inc.
Ticker: ZTS-US

Company Participants

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

Other Participants

Brandon Vazquez - Analyst

MANAGEMENT DISCUSSION SECTION

Brandon Vazquez

00:00:05 Hi, everyone. Thank you for joining us this afternoon. I'm Brandon Vazquez, for those of you we haven't met. For – I have to read off this real quick. I'm the research analyst here at William Blair covering medical devices and animal health. And for a complete list of research disclosures and potential conflicts of interest, please go to our website at williamblair.com.

00:00:26 I'm excited to have here Zoetis's CFO, Wetteny Joseph. He is going to go through a couple of minutes of intro, and then we'll host a little bit of a fireside chat as we typically do in this because we're – we try to keep these presentations in the presentation session a little higher level. I'll keep the fireside chat a little bit higher level, but a little topical on what's going on. And then after that, we'll go to a breakout room. Breakout, I have it here, breakout Meyer (00:00:48). And then, we'll go into a little bit more detail. So, I'll let Wetteny go first, and then we'll chat a little bit.

Wetteny Joseph

00:00:57 Thank you, Brandon. Good afternoon, everyone. Given I'm sure we have a fair amount of ground to cover with the fireside chat, I will keep my opening comments relatively brief, particularly for those who may be new to the Zoetis name. We are the leader in animal health, and our purpose is really centered on nurturing our world and humankind by advancing animal care. And we advance animal care via innovation. We'll spend a little bit of time talking about here. As well as how we scale our solutions globally and drive a customer-centric delivery approach in terms of how we execute.

00:01:44 We have more than 75 years' track record, and truly underpinned by both scientific and commercial expertise across the business, which yielded to about $9.5 billion of revenue last year across really strong long-term end markets for us. We have broad diversification across the business, as you can see on the page, across diagnostics, medicines, vaccines, including biodevices and genetic testing, et cetera. That diversity extends to who we serve as well in terms of the core species that we cover across eight core species, of course, companion animal representing about 70% of the business with the balance of 30% driven across livestock.

00:02:43 And so, we get to benefit from the long-term trends related to companion animal, but certainly have livestock participation, which we have seen really strong growth on over the last few years as well. Our existing portfolio is the broadest in our industry and the deepest as well. It happens to also have 18 blockbusters. And in animal health, that's roughly $100 million of revenue in a given year. And we continue to drive differentiation through our innovation. And our innovation engine also has the promise of the future with an approximate or potential 12 additional blockbusters stemming from key areas of the greatest unmet need across animal health with a renal, with chronic kidney disease focus, in particular oncology, cardiology, obesity, as well as anxiety.

00:03:42 Now, if you look at our capital allocation priorities, it is relatively straightforward. Given where the industry is and the amount of unmet need that remains, and the innovation engine that we have built over the years, we see tremendous opportunity to invest in the business, first and foremost. That comes by way of what we do in our R&D as well as capital we deploy within our manufacturing to scale the innovation that we work on and that we bring to market.

00:04:12 And then, of course, we pursue business development that accelerate the strategies that we have in mind. And lastly and very consistently, we return capital back to shareholders via a balance between dividends and share buybacks given the tremendous opportunity we have and ability to generate free cash flow on a consistent basis.

00:04:36 So with that, I'm going to turn it over to Brandon, and we'll go through the Q&A.

Brandon Vazquez

00:04:41 Great. Okay. Wetteny, thank you for the intro there. I think, as you'd mentioned, there's plenty of topics to discuss here.

QUESTION AND ANSWER SECTION

Analyst: Brandon Vazquez

00:04:51 **Question – Brandon Vazquez:** I want to talk about the animal health market overall. Let's start in the companion animal side, in part because I want to compare it to what it has historically been. You guys have talked about this before. It's a pretty good, I think, like a mid-single, maybe 5% growth market. But lately, we've been talking about, and you're not the only one, in many of my consumer expos, healthcare companies have been talking about a little bit of consumer weakness, little pockets here and there.

00:05:14 So first, just level set us on, like, what is historically this market? What is the growth within this market in the companion animal side? And then, what're you seeing recently? Where might you be seeing some pockets of weakness, if there are any?

00:05:27 **Answer – Wetteny Joseph:** Sure. Look, across the last decade or so, we have seen animal health deliver somewhere between 4% to 6% growth globally. Zoetis has a proven track record of leading the way with that, largely driven by innovation. And it's not just in a one- or two-year period where you bring out new products. It's how we have, through expansion of those markets and continuing lifecycle innovation, extend sort of the growth tailwind that we get from our innovation.

00:05:56 And what we are seeing now, we've seen over the last couple of quarters is some more adverse picture when we look at the macro, and it's showing up in terms of how the consumer pet owners are extending dosage intervals, for example, or delaying visits to the clinic is how it's showing up. And it's compounded. And you see it also more in the therapeutic categories, which are more important to us versus overall visits. But you also see it more concentrated around the large corporate clinics, given the cumulative effect of price increases that we've seen over the years.

00:06:38 Now, that happens to also be happening at the same time that we see more competition in some categories. Although I would say this, competition is not foreign to Zoetis. We operate in markets within animal health that have always been highly competitive. If you think about parasiticides, for example, the largest market in animal health, it is intensely competitive. It has always been. And we clearly have shown an ability to grow in that market and gain share over the years, similarly in vaccines and livestock, et cetera.

00:07:10 And so, we're seeing this sort of adverse macro condition play out at the same time that we're seeing more competition in categories like derm, where we haven't seen as much competition, clearly. Given our position here other than we're competing against steroid use for dermatological issues or over-the-counter or non-treatment at all. That's our competition. Now, you have others that are launching products in this space. We remain very much differentiated. But in the window, as they're launching and are being more aggressive in terms of their promotional pricing that are lasting longer, you see that compounding with the macro piece that we talk about.

00:07:46 **Question – Brandon Vazquez:** Okay. Let's stick with the macro first, and we'll follow up on the competition comments as well. But are there – as you think of where you might be seeing pockets of macro, you mentioned you have a broad portfolio already of parasiticides, maybe $300 to $500 annually if I look at online how much a Trio might cost, and then, you might have like an injectable like Librela or Cytopoint. Are there certain pockets within the portfolio that are being impacted more than others by macro?

00:08:13 **Answer – Wetteny Joseph:** So, look, I think there's a combination. It's hard to bifurcate the two pieces. Certainly, they both are having an impact. They might vary a little bit from one category to another. Clearly, when you saw comments I just made around dermatology, with the onset of new competition, it might be a little bit more competition impacting the macro. But there's a little bit of macro there as well, which is demonstrated by the fact that you saw visits in now we're talking US specific. Obviously, we run a global business. But visits in the quarter for pruritic in the clinic were down about 2% on the quarter. So clearly, that has some effect across from our overall demand and macro standpoint before you get into what happens then within competition, right.

00:08:52 And in the case of parasiticides, which as I said, has always been highly competitive there. It's a little bit more of the macro than it is of the competition that's playing out in terms of what we're seeing right now. We saw the height of launch promotions happen last year, about the second half of last year. Since then, we've seen some sequential improvement in terms of our overall share, which was only modestly affected before that anyway. We see sequential improvement.

00:09:17 So, it's been very stable for us overall. Particularly, when we think about puppy share, which is very much a leading indicator, it remains above our overall share, and it's been very consistent as well for us. So, that's how we bifurcate – just to pick on those two. Clearly, the macro environment has implications beyond just these two therapeutic categories, but these are the ones I know that are top of mind for everyone.

00:09:39 **Question – Brandon Vazquez:** Has macro gotten worse as we've gone into 2026? I mean, we've been talking about vet visit declines for several years now. Is there something about 2026 macro only that has gotten worse this year or is it just that it's compounding with other headwinds like competition?

00:09:53 **Answer – Wetteny Joseph:** It's a little bit of both, Brandon. Look, we've been talking about the fact that overall visits don't – are not as determinative for us for years. And you've seen us post really strong growth despite overall business being down anywhere from 1% to 3% since 2022 following 2021 in the peaks there. A combination of things have enabled that. It's been innovation as we launch products that were ramping, for example, Trio ramping, et cetera, after the 2020 launch, and launching OA pain for a period of time, that was really driving a tailwind for us.

00:10:30 And by the way, really strong growth that was outpacing what's happening in the clinic, and to some extent, making up for some of the clinic headwinds in what's happening outside of the clinic in terms of alternative channels that were growing at much higher rates. Now, they're still growing faster than the clinic, but not at the rate that they were two or three years ago. So, when you combine those in terms of the overall macro picture, it starts to compound with the competitive launches.

00:10:54 **Question – Brandon Vazquez:** Okay. And maybe the last one on macro, and we'll move on to some other topics. But because, again, like, we want to keep this high picture. And I think one of the big questions I keep getting for all of animal health right now is I think people can appreciate this is a resilient market, but it's not an immune market to macro, as we're seeing. So, if this is historically a 4% to 6% growth market, what're we talking about now, right? Like, what do you think the market is going to grow at through 2026? What're you kind of implying within your guidance at this point?

00:11:22 **Answer – Wetteny Joseph:** So, look, I think it's important to talk about what don't we see changing. We spent a lot of time so far in this conversation just covering some of the cyclical things that we're seeing across the business. What we are seeing long term is the secular tailwinds that drive these major market areas continuing to be strong long term. The human-animal bond driving pet spend across the world, not just in the US, continues to be a really strong feature. The consumer is actually spending more. It's just that the cumulative effect of price that has been taken, particularly in the clinics, larger clinics in the US, is having an effect on volume versus price.

00:12:00 But in the last quarter, for example, overall revenue for clinics actually were up about 3%, with visits being down about 3%. So, about 6% of price is putting some of that additional pressure on volume. But you see strength in terms of pet owners spending. If anything goes wrong with the animal, they're spending it on diagnostics, and they're spending on emergency care, which continue to really do really well in this environment as well. So, I do think it's important to think about, where is the pet owner, they remain – in fact, they're even more engaged in the care of their pets than they ever were. And so, that is a strength, I would say, long term that's going to carry this industry in addition to innovation.

00:12:37 And then on livestock side, of course, you've seen continued strength in terms of animal protein consumption, you saw strength in diagnostics, et cetera. So, those are the things that have not been as impacted. In the long term, we continue to see that being the future for the business overall that we will continue to lead.

00:12:54

Question – Brandon Vazquez: Okay. As we think about Q1 results, and this is a little bit tricky because you guys don't guide on a quarterly basis, so I'll acknowledge that upfront, so. But this may be a helpful question for us to understand, though, the trajectory of how the business is going into the year. We're talking about macro. We're talking about competition. These are the two things that are headwinds to the business right now. I think the Street, as you can see obviously by the stock, the Street was a little surprised by the Q1 results. Were either of those dynamics surprising to you in Q1 or did Q1 unfold the way that you thought it would?

00:13:25 **Answer – Wetteny Joseph:** When we look at each of these components, there're elements that we certainly saw and that started late last year, for example, the competitive launches. The timing of those may vary, but we've known competition is coming for some time. We know what the effect of what some of the tactics that are used are. It's the combination of these things, plus the impact they had in terms of distributors and retailers replenishing their inventories that impacted the quarter more meaningfully than expected. It's the combination, not an individual item, if you will, is what happened with the quarter and the impact that we saw.

00:14:03 Now, we've reflected those in the guidance for the rest of the year. To your point, we won't give guidance by quarter, but a few things that I would remind everyone of. Number one, we came into 2026 expecting to see a first half versus second half dynamic. Is it more pronounced now with the results of the first quarter? Sure. Are we expecting an uptick in terms of significant improvement in vet clinic visits for the rest of the year? No. Are we expecting the macro to be significantly better? No. Or the competition intensity to reduce significantly? No.

00:14:36 However, if you look at sequential execution across a number of our products in key categories, you see improvement as we go through the year. You see an easier comp in the back half of the year stemming from last year. By the way, we had a 9% growth first half last year. We ended the year at 6%. So, you saw the deceleration in the back half of the year. So, there's an easier comp we have there.

00:14:57 You haven't asked about Librela, but let's talk about OA pain and what we saw in the first quarter. We saw the first – we've been seeing how that's going to stabilize over time. You saw the stabilization play out, including sequential, albeit modest growth in Librela. And as we go to the back half of the year, the comps get a lot easier for that as well. So, there's a combination there.

00:15:17 One last point I would make is we're not anticipating an uptick in terms of pull-through as we see the back half. It's really the comps that create a dynamic where you see a higher growth rate at the back-end versus the front-end.

00:15:30 **Question – Brandon Vazquez:** Okay. Let's pivot a little bit and talk more about kind of the innovation pipeline. This is, of course, an innovation-driven story, and I think a sector that's heavily new product cycle-driven. You touched on Librela, so maybe we'll segue into there because that's probably the nearest term kind of new market for you guys. It is developing. What is it about, as you went into Q1, that is finally kind of stabilizing this business because I think that'll help us set the base for them to talk about? What is it that's giving you confidence that this can actually return to growth in the back half of 2026?

00:16:00 **Answer – Wetteny Joseph:** Sure. When you have a multi-pronged strategy that we've been executing now, we've been talking about it for better part of a year, it's hard to pinpoint one element to say this is the piece that's having the greatest impact versus the other.

00:16:12 I'll start high level. The OA pain opportunity remain very, very significant. And you can see in the US, for example, it's somewhere between 25 million and 27 million dogs that suffer from OA pain, with about 9 million being treated and being treated largely with NSAIDs, which tells you that both clinicians and pet owners want to treat this. And we're doing a lot to help educate more and more to the pet owners, in particular, around the fact that this is a progressive disease that has other downstream implications as well if it's not treated and that is resonating with pet owners, as well as with veterinarians in terms of sharing data with them, what we're seeing across the world, real-world data, et cetera, in terms of how the product is. And you continue to see positive opinions around the risk benefit profile of the products. So, those all – all those are contributing to driving this.

00:17:06 As we look ahead, we also have the approvals of the long-acting upon us with Lenivia and Portela that are starting to launch in markets in Canada and parts of Europe. We anticipate additional approvals in other markets. And as we get into next year in the US, et cetera, that will continue to help drive and access this market, because the convenience factor, for example, of having a three-month injection versus a one month, particularly for more moderate cases that are more chronic, that for years are going to require monthly injection, that's a tall ask for a pet owner. And we believe firmly that will be additive in terms of the picture, but give flexibility to both pet owners and veterinarians in terms of how to treat in this category.

00:17:47 So, we remain very much looking forward to continue to drive the expansion in this market, both in terms of driving that for the existing products and then the contributions from new products that will come out as well.

00:18:00 **Question – Brandon Vazquez:** Okay. Talk to us a little bit also – this is probably the nearest term, we have long-acting Cytopoint coming soon, and then there's renal, others. Talk to us a little bit about the pipeline, especially for those who are newer to the story in the next several years. What are – what's the pipeline of the next kind of three or four biggest drugs that we should be thinking about?

00:18:17 **Answer – Wetteny Joseph:** Yeah. So clearly, the OA pain launch and how that has transpired over the last couple of years has created a bit of a challenge for us in terms of the additive element, in terms of growth across the horizon. As we look ahead, we have a number of launches and approvals in terms of lifecycle innovation that's going to contribute to our growth. And then, we anticipate in the net new big areas to start to get approvals towards the back half of next year to start the new innovation cycle, if you will, for the company.

00:18:49 Meanwhile, to your point, in terms of the areas that are going to continue to drive value for us, you mentioned Cytopoint, a product that has very high satisfaction levels. We're very excited about the anticipated approval for long-acting Cytopoint towards the end of this year with launch early next year that will drive that. We have seen approval in Canada for Convenia RTU, for example, and we anticipate over the next few years to see approvals in other markets for that product, one that has some generic competition against it currently.

00:19:22 We've seen label improvements and geo expansion of products, even like Trio with the launch in Brazil recently. We've seen label expansion to include flea-induced tapeworm. So, prevention of that on the label for Trio. So, lots and lots of things that our R&D function and our manufacturing teams, et cetera, have been working on. And you're seeing the impact that those will have over time before we start to get into the renal chronic kidney disease oncology, and it's one that we can talk about.

00:19:51 **Question – Brandon Vazquez:** Okay. As we think about like a Cytopoint later this year, we think about a renal later in 2027, how do we think – especially now in the context of Librela that I think you guys have had some learnings is maybe the way I'd phrase it and how to launch that and how to make sure it's a durable trajectory. How do we think of the launch of new products like this? So, you've given us a guidance for late 2026 Cytopoint. I think a late 2027 renal. Correct me if those are wrong, but what does that mean for when they will ramp and be more meaningful to the P&L?

00:20:18 **Answer – Wetteny Joseph:** Yeah. As we've been talking about for some time now, one of the observations coming through the Librela experience has been the need to make sure that we spend time and investing that time with specialists to get their hands on the product and get really familiar with it and using it so that they can be part of the voice, if you will, to the general practitioners that get their hands on a monoclonal antibody. And that approach, particularly when you consider we're getting into more and more therapeutic categories where you're treating sick (00:20:46) animals, that's going to be increasingly important.

00:20:50 So, we're preparing for that evolution in terms of how we approach launching products in a number of ways. Number one, you saw us talk about some changes we made to our go-to-market in the US in terms of field force. While we look to optimize that and get even better reach and frequency across the field force, where we saw opportunities to reduce some of the head count in that area, we reinvested components of that into professional services veterinarians, we're actually calling them vets, which is an important piece when you think about the pipeline that's coming in terms of how we might leverage those conversations and the input from vet-to-vet conversations that can happen. So, that's one example.

00:21:33 In terms of how we go about the launches, we're going about them in a very deliberate manner, where we will do early experience and exposure specialists first, get feedback and input from them to factor into the rest of the rollout as we launch in other markets, which means you have a slightly slower beginning to help you accelerate later on as we continue in terms of the launch across those products. And certainly, that's the approach we're taking with the long-acting OA pain product and Lenivia, as well as what we are contemplating with respect to chronic kidney disease oncology and other components that will come.

00:22:09 **Question – Brandon Vazquez:** Okay. And remind me the long-acting Lenivia just to make sure that we have this right. Is that coming to the US in 2026 as well, approval in 2026?

00:22:14 **Answer – Wetteny Joseph:** We have said that's a 2027 approval expectation.

00:22:21 **Question – Brandon Vazquez:** 2027. Okay. Got it. In the general presentation here, I want to make sure we touch on it. I don't give it enough love, the livestock side of the business, especially because the position we're in right now in – especially around the world, cattle prices are high. It feels like a really attractive market. Tell us about the durability of growth on that side. What should that be through 2026 plus, and what are kind of the tailwinds helping that business?

00:22:46 **Answer – Wetteny Joseph:** Sure. Thank you for asking a livestock question. I think it's an important growth driver for the business. And if you've seen over the last three years coming into 2026, you've seen us deliver mid-single-digit growth, somewhere between 6% and 7% over the last three years. We came into this year very strong with the first quarter performance, double-digit growth there, and we continue to expect mid-single-digit to high-single-digit growth in livestock for the year.

00:23:10 And to your point, where we see sustaining the growth that we're seeing across livestock right now in a number of factors. Number one, you see, long term, by the way, population growth, another 2 billion people will be on this planet as you look out over the next 30 or so years. And the incremental protein production that's going to be necessary to feed the population is going to be a secular tailwind here. We're also seeing increased income levels across emerging markets, where they're looking for more quality animal proteins to consume. That's certainly part of the tailwind. And then, we see in markets like the US, particularly driven by GLP-1s and so on, increased animal protein consumption that's driving some tailwind here as well.

00:23:55 Now, the fastest-growing protein, animal protein categories are poultry and fish. We are number one in fish. We have some very effective vaccines that have been driving our growth in that globally for us. We continue to be the market leader in that spectrum. In poultry, we have opportunity to continue to expand. We're getting more and more approvals. You may have seen vector (00:24:15) vaccines that are delivered via the biodevices that we actually have a leading market share in globally as well. So, we see continued opportunity continue to increase our presence across protein around the world.

00:24:29 But clearly, we have a very broad spectrum in terms of species that we cover in livestock, which also drive the diversification across the business and help us capitalize on the growth wherever it might be around the world.

00:24:40 **Question – Brandon Vazquez:** Okay. What – how do we think about innovation in that products in that side? Where – is it – this is predominantly vaccines. Are there any other big areas that you are investing in in the livestock side?

00:24:50 **Answer – Wetteny Joseph:** You certainly see prevention being the leading pathway to drive growth here. This is where the demand is around the world. So, vaccines, first and foremost, other elements, genetics, right. So, we talk about Zoetis. We happen to play across prevention, genetics, and so forth as we see vaccines being a key component when it comes to livestock. This is why I used the example in the poultry and vector vaccines and how those are delivered in overall on – in eggs as well. And again, having the leading share of the devices that do that.

00:25:25 Similarly, in the aqua, fish business across cattle, et cetera, around the world, these are – this is the leading area. They are parasiticide prevention in livestock that's also driving areas. There have been disease burden in certain areas that we continue to pursue solutions for. So, livestock is, again, an attractive end market for us, and we continue to drive innovation in that space. Although it's not talked about as much because the size of individual markets don't get to the sizes that we talk about in terms of derm, et cetera, but they're very meaningful.

00:26:03 **Question – Brandon Vazquez:** Yeah. Maybe last minute or two here. On the P&L, on the financial side. your stock right now is trading at the lowest multiple, I think, since you guys have gone public. How do you think about using your free cash flow, your balance sheet to get aggressive on share buybacks? I know you guys have used the balance sheet a little bit already for that. So, level set us where you are with that, and thoughts on a go-forward basis to use that.

00:26:25 **Answer – Wetteny Joseph:** Sure. Look, both dividends and share buybacks are important pillars within our overall capital allocation priorities. The type of products and unmet need that still exist in animal health means that our primary focus has been and will continue to be in investing in the business to pursue driving solutions that are meaningful in terms of advancing animal care, which I mentioned earlier as being our primary purpose.

00:26:53 Having said that, we do generate significant cash in -- at Zoetis, and you've seen us deploy that via acquisitions. But even after CapEx and everything else, we delivered last year $2.3 billion of free cash flow. And so, that gives us opportunities to both pay dividend that has increased over the years as well as pursue share buybacks. And we, in December, also tapped into the balance sheet to do more of that. Where the stock is trading right now, by the way, we still have $1.8 billion remaining from the last authorization that we received from the board.

00:27:29 As of the end of Q1, we still have $1.8 billion. So clearly, that gives us plenty of firepower to continue to execute on. And we do take into consideration current market conditions and share price into that equation. But consistently buying back shares is something that we have demonstrated over the years, and we'll continue to do that.

00:27:46 Okay. Great. We'll end here for the presentation, and we'll go out to Meyer (00:27:50) for the breakout session. We'll start there in 10 minutes. Thanks, everybody.

Thanks.

Thanks, Wetteny.