Morgan Stanley Global Healthcare Conference ***(Corrected version)***

Event Details

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Company: Zoetis, Inc.
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Company Participants

James K. Saccaro - Zoetis, Inc., Executive Vice President, Chief Financial Officer & Chief Operating Officer
Kristin C. Peck - Zoetis, Inc., Chief Executive Officer & Director

Other Participants

Erin Wilson Wright - Analyst

MANAGEMENT DISCUSSION SECTION

Erin Wilson Wright

Good afternoon, everyone. My name is Erin Wright. I'm the lead health care services analyst at Morgan Stanley. We're happy to have Zoetis with us today. But first, for more important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures.

And with that, thanks so much for joining us today. We have CEO, Kristin Peck; and CFO and COO – or recently appointed CFO and COO, Jay Saccaro with us as well today. There's a lot to get into. A very pivotal time, I think, for Zoetis.

QUESTION AND ANSWER SECTION

Analyst: Erin Wilson Wright

Question – Erin Wilson Wright: So, we'll get – we'll go ahead and get started. And, Jay, I think you wanted to make some intro remarks, so I'll tee it up for you. And just after a long tenure at Baxter, then at GE Healthcare, why did you choose Zoetis? And now that you're kind of that month in, what are some of those initial observations since you've joined? And any sort of near-term goals you can share?

Answer – James K. Saccaro: Great. First of all, thanks for the invitation to the conference. We appreciate it. Thanks to those who are joining us today. We appreciate your interest in our company. For me, I was really excited about a few things. I think there's a huge value creation opportunity at Zoetis and was really excited to get after that. I also really appreciated the great management team, great CEO. And I also felt like I could contribute in terms of helping the company move forward on the journey.

But really unpacking the value creation piece, from our standpoint, this is an attractive long-term growth market. I know there's been some volatility in the short term. But at the end of the day, it's a large and growing market. Zoetis is the undisputed leader with world-class products, a world-class commercial capability. And then as I looked at the opportunity, one of the things that got me most excited about it was this innovation pipeline. So, we have a series of great products on the market today. But, really, as we look forward to areas like CKD, oncology, and next-generation versions of a number of important products that we sell today, for me, it's going to unlock the next leg of growth. And I was incredibly excited to be part of that.

So, all of those things kind of led me to this value creation thesis, which are – I was excited about. I've come on board for a few weeks now. From my perspective, everything has been confirmatory so far. So, no real surprises one way or the other. Passionate group of people, perhaps that's the one thing that I underestimated. The passion of the people for the mission and the purpose of the company has been remarkable. But we have great, talented individuals. The pipeline is as advertised. So, we'll talk more about that in the coming weeks, months, quarters, and years. But really excited to be there.

As far as priorities, I'm new to the industry. I've been in human health for a really long time. Animal health is a little bit different. So, really spending a lot of time coming up to speed on that particular area.

And then also, what's the value creation agenda for us going forward? So, I laid out all of those things. We have specific plans. And for me, it's about getting up to speed on each of those areas to drive it forward.

QUESTION AND ANSWER SECTION

Analyst: Erin Wilson Wright

Question – Erin Wilson Wright: Okay. Great. And then I want to start with and kick off just because of the more recent kind of changes and shifts. Just can you provide us any comments on how the quarter itself is progressing at this point? What's your confidence in the guidance that you gave at August?

Answer – James K. Saccaro: Sure. I've spent a lot of time coming in, getting up to speed on guidance, obviously, since there have been quite a few short-term dynamics here. And what I would say is, we're confident in the guidance that we've shared. We made certain assumptions about the market. No improvement in the market and things of that nature. The market's evolving as we expected, so we feel good about the guidance, and we look forward to updating that when we see you all in November.

Question – Erin Wilson Wright: Okay. So, digging a little bit more into that, you recently did recalibrate your operational revenue guidance to negative 3% to negative 1%. That's down from the 2% to 5% you were initially kind of forecasting. The high and the low end both reflect some sort of dollar share loss associated with some of the competitive dynamics and more proactive and targeted price actions. What does this mean in terms of kind of where the long-term growth shakes out? And how do we potentially emerge from kind of this period of pressure?

Answer – Kristin C. Peck: Sure. I mean, I think what's important to understand are the two different dynamics that really drove that. And the first of those is sort of the macro of the – of where the industry is. And I think, for the first time, we saw a declining pet care market, and that is just something that is, those of you who cover us for a while, you really haven't seen. We saw paras down 6.7%. Derm, this isn't us, this is the industry. So, I think looking at that sort of macro – and you talked a little bit earlier about vet visits being down, and that's certainly one of the contributing factors, sort of the affordability challenge for a lot of pet owners.

And then more specifically, the second factor is more to do with us, which is, we have been the market leader in some of the key categories that now have new competition. And in a world that's not growing, that competition, when you have close to 100% share in something like derm, it's coming out of us as you think about that new competition entering. So, we did get a third entrant overall in derm against Apoquel, and we've got obviously a new entrant last year in the paras category. So, I think what you're seeing is intense competitive pressure.

And what's historically happened in our industry as new competition enters is it expands the market. There's more people advertising the attractiveness of a market, the big opportunity, et cetera. But what we've seen in a declining market is, the market is not growing. And so, the entrants that are there are competing for the same share overall. And I think those are the dynamics that we – I don't think most of us expected that the market would actually move from growth to declining. And so I think that was really what some of the changes are. We'll sure get into – I'm sure we'll get into some of those details on each of the categories, but I think those are the dynamics.

And when we provided the guide at the Q2 meeting, our assumption is, let's assume those aren't going to get better in the near term. I do think they will get better. So, to your question, is this structural? I think a lot of this is really cyclical, and it will come back. I mean, the one factor that we're continuing to watch is dog adoption and whether or not the dog market is growing. The dog market has declined for the last few years. Cats are up, but cats have not been as medicalized. I don't see that as something that's going to continue forever. Is there one more year? That, we'll see. But I think as most people are looking at, we're looking at how do we get that market to grow. You can get that market to grow by simply stabilizing the pets and then launching the innovation that really has differentiated us. And so what we're super excited about that I think obviously Jay was talking about is launching that innovation pipeline and really creating new markets that don't exist today in important categories.

Question – Erin Wilson Wright: Okay. Great. And so one of the tactics that you're using is price, and so we get a lot of questions on that from investors. Your net price realization now is roughly in that negative 1% to negative 2% for the year, which would imply, let's say, roughly 8% price declines in the second half of 2026 for companion animal. I guess what do you wish investors better understood about the latest pricing strategy? And how important is it for you to preserve volume in what you know is a typically kind of a brand loyal category? Are you willing to pull that price lever until you kind of stabilize volume, knowing that volume would be harder to gain back?

Answer – Kristin C. Peck: Sure. I think there's different dynamics, as we'll talk about in derm versus paras. But I think to answer your first question, what do I really hope investors understand is that this is cyclical, it's not structural. And why do I say that? Well, we're not changing our list price, and neither our competitors. And our competitors have actually taken up their list price over the last few years. And so if we thought this was structural, you would see list prices coming down, and we're not.

What we're seeing is, as people enter the market with new products, they always discount to get penetration, to get on shelf. We certainly saw that. But when the market wasn't growing, they actually were a little more aggressive to make sure they could get on shelf. And then for those of us who are already in the market, we're needing to compete more aggressively there. But that's cyclical. If they were really – if it was structural and there was more of a long-term challenge, you'd see people start to adjust their list prices down. But that's not what we're saying.

And the focus that we have is in gross to net, which is, like, targeted promotion. So, this isn't everybody 10% discount for anyone who wants to buy. This is, you're buying my competitor's product today, we want to be your parasiticide of choice, we'll give you a significant discount to switch to mine. So, we know we're getting the sale when we offer it, and it has a much higher ROI. So, these are very targeted promotions. They're not everyone gets the same thing. The same thing as you think about point of sale for the pet owner. So, we think the return on investment of these promotions is just much higher than a overall change in list price or an overall promotion.

So, we're going to continue to make sure that we protect our share. We do think that really matters as much as we can. In categories like derm, obviously, it's 100%. We'll lose share – some share over time. But our focus is limiting that as much as we possibly can, certainly protecting it for the ones we have now, but making sure as we think about new customers winning more than our fair share of those new customers as well.

Question – Erin Wilson Wright: Okay. And then the rationale for the price cuts is also two-pronged, as you mentioned. It's competition. It's also the macro component, too. But what are the latest – how broad-based should we see some of these latest price actions, whether it's point-of-sale rebates, will that be just on a product-by-product type of basis for consumers that would be more addressing the macro kind of friction? And then there's the bundling tactics. We're watching Merck and what they're doing from a bundling perspective with their derm product. Can't you just do the same?

Answer – Kristin C. Peck: Well, we have been doing the same. And to be honest, as we've talked about over the years, we have the broadest portfolio. And in markets across the world where that is legal to do, which it is not legal everywhere to do, we do leverage our portfolio. So, in the US, we've always had cross-portfolio programs for independent vets. The more you buy with us, the better – more across categories you buy with us, the better pricing. And as I'm sure you know, with our corporates, it's the same.

But I think what makes our value proposition different than what some of our competitors are doing is, part of the reason we get the value we do is because of our innovation. And so, if you really want to get the best pricing on the

new products, you need to be buying across more products. And I think this is where the strength of our pipeline really does differentiate us as we think about both those cross-portfolio programs, as well as corporate contracts.

I mean, I don't think anyone else is launching as many new products in as many categories, which really helps support the vet. It's a good reason for someone to come in. There's now a product for this condition that you didn't have – that you have, that you didn't think there was, or it's a more convenient option for them. So, we really think our ability to continue to drive pet owners into the clinic is one of the strength of working with us.

Question – Erin Wilson Wright: And so when did you start these price actions?

Answer – Kristin C. Peck: You mean the targeted ones we're talking...

Question – Erin Wilson Wright: Yeah.

Answer – Kristin C. Peck: The targeted ones?

Question – Erin Wilson Wright: Yeah.

Answer – Kristin C. Peck: Most of them were started in Q2, and then we really evolved them in Q3. I think what we learned in Q2 – and these are dynamic. These are targeted programs that they're time-bound. So, again, it's not a list price change. So, every quarter we look at them and say, are they meeting the need? Are they achieving the results that we wanted? And if not, let's alter them. And I think our lesson learned in Q2, as we mentioned that on the quarter, was we were going to need to be more aggressive. They weren't – the promotions you're running were not achieving the results we wanted, which is why we announced we would be more aggressive going into the second half of the year. And each quarter of this one (00:11:41), ours will finish in the next week or two, and we'll certainly then assess what we need to do for Q4, et cetera.

Question – Erin Wilson Wright: Okay. And so, is it working? Is it – I think that that's one of the bigger questions that we get from investors, and how is this playing out relative to your expectations. You mentioned that you're confident in the guide earlier, Jay. But are you seeing a competitive response? Because some of this has to do with what competitors are doing in response to what you're doing.

Answer – Kristin C. Peck: Yeah. Well, I mean, it's a circle like...

Question – Erin Wilson Wright: Yeah.

Answer – Kristin C. Peck: ...I mean, we did it based on them. They'll do it based on us. And so, I think for each of us, it's – again, as I say to people that we've met with throughout the morning, this isn't that everyone gets the same price. So, like, it's hard to compare promotion to promotion. So, for example, if I'm going after a competitor paras, that's only offered if you're on my competitor's paras. So, it's not like everyone's getting that offer. So, I think right now, we're pleased so far. I am a frustrated optimist, as you know.

So, nothing is good enough as far as I'm concerned. We'll see what we did well, and then how we can make it even better as we look into it. So – but, again, the quarter is playing out largely as we expected, as I think Jay mentioned. So, there's really no – been no surprises so far.

Question – Erin Wilson Wright: And how can you leverage your corporate relationships when it comes to the competitive environment and really lean into that? Because that's something that's, I think, a competitive advantage for Zoetis.

Answer – Kristin C. Peck: It has been a great competitive advantage, but that competitive advantage is really in building those partnership over many, many years. It's leading with science and innovation with them. It's helping

them grow their businesses, making sure that we educate their new team members when they get there. And it's about having a broad portfolio and really walking them through the pipeline that's coming. And importantly, what it means for their practices.

So, we'll continue to invest heavily in those corporate relationships. We think they're important because they also help us grow the market as well. How do we make sure as we're educating on, for example, renal and chronic kidney disease, how do we start building those markets today? And the corporate partners are really important to us as we think about doing them. Most of them have specialty practices and GP practices, so making sure we're really spending time with those specialists to help build those markets and to help educate the GPs. So, we'll continue to invest both in education portfolio and innovation with those corporate partners.

Question – Erin Wilson Wright: And I think you spoke a little bit on, like, the companion animal side in terms of the macro environment, but you always have some interesting data because you look at kinetic data, you look at other data sources from a therapeutic standpoint, which are sometimes different. But how would you characterize kind of underlying demand environment relative to maybe what you saw in the second quarter or at the beginning of the year? How has it evolved kind of throughout the year in terms of just of core underlying demand trends across the companion?

Answer – Kristin C. Peck: Yeah. I mean, I think what was different than what we expected when we started the year is slower overall in pet care in general. We can get into livestock, which has actually been doing much better. But if you look at the...

Question – Erin Wilson Wright: Yeah.

Answer – Kristin C. Peck: ...US companion animal side, I would say it's slower overall. We're seeing – where the highlights are is diagnostics. That's going great. And that's because as we've talked about, when an animal is sick, they are coming in, and they are therefore doing diagnostics to treat that animal. So, as we look at our business where we're in specialty or we're in urgent or critical care, those customers of ours are doing great, and we're doing quite well there. I think some of the greater pressure has been on more of the wellness-related categories. So, parasiticide, where visits were down 6.7% in the quarter, is where we continue to see more of the pressure overall.

And one of the strengths when you think about wellness for a while where there wasn't a correlation for a long time between wellness visits and our business was, a lot of it was going to online and retail. And that growth is still growing. That's still a double-digit grower. But it's not growing at 30%-plus, which is what it was growing for us for years. So, I think retail and home delivery is still doing well. Home delivery is little faster growing than retail today. But they're both doing well, but they're not growing at 30% overall like they were for a while. So, they're double-digit, but that's, I would say, a dynamic we're continuing to see.

So, convenience, auto-ship, and there are significant advantages as vets get people on home delivery or on auto-ship in retail because the compliance goes up dramatically most of the time when you go there.

Question – Erin Wilson Wright: And the livestock market remains relatively strong. I guess anything to call out on that front in terms of your expectations there? Or what's embedded in the guide?

Answer – Kristin C. Peck: Yeah. I mean, I don't think we all would have expected double-digit growth in livestock this year. And we've had mid-single digits for many years in a row now. I think what is really driving that is GLP-1s and the – historically, we've seen the growth in livestock be in emerging markets as more people enter the middle class and ate more protein. This is people in developed markets who are significantly increasing their protein consumption. I mean, I had my Core Power 42-gram this morning, like many of you, maybe. But I think people are really increasing their protein consumption, and that is what's driving a significant increase overall in livestock.

And so, we're seeing that across species. The fastest-growing global species remain fish and poultry. But we're seeing great strength in the US as we look at our cattle business, both around beef and dairy, et cetera. The animal price is still pretty high. They're still not retaining animals to expand the herd simply because we're getting really

good dollars for those in the market today. So, I think that will – I'm not sure we're going to stay at double-digit for a long time, but I think livestock can remain pretty strong.

And I would just say that underscores – I mean, we were laughing because when we IPO'd with – you're with us back then, livestock was strong and pet care was weak, and then pet care was strong and livestock was weak. And then we had an LOE, and people like get out of livestock, and now livestock is growing at 10%. There's a little diversity of our portfolio that over time really does play out.

Question – Erin Wilson Wright: Yeah. Yeah. You are diversified by product line, species, therapeutic class. And so, let's switch gears then to parasiticides. Where does your market share stands now in terms of the combo parasiticides? And how has this evolved since the launch of a competitor or a couple of competitors, but really just one? In that market, I guess how – what's the opportunity for future share gains in the combo parasiticide market?

Answer – Kristin C. Peck: Yeah. We still have the leading market share for paras in the US. I think we're, I think, almost double the next competitor there. I think that – first, I think we have a best-in-class product. We certainly had a few year advantage. I think what's historically been driving the growth of that market is switching people from singles, from collars, and from topicals into triple combinations. There's still a significant opportunity to continue to grow that market overall. So, we remain excited.

I think our share, we – I think we were up or down – I think we're down about 1% in the quarter. But that's a relatively stable share as we're seeing that. I mean, a little movement here and there overall, but we're really excited to try to get that market back to growth. There's – again, this is really not assuming you have more dogs. You can get that market to growth simply with converting people from collars and topicals and single agents. So, we continue to be excited.

And the other thing I know here is, the market outside of the US is quite different than the market in the US where we've seen much higher growth if you look at our international parasiticides business there. We just launched Simparica Trio in Brazil, for example. These are great new markets we're still launching in. So, I think there's still a significant opportunity to get parasiticides outside the United States to continue to grow those markets.

Question – Erin Wilson Wright: And for Trio, how much of the price actions that you're taking are towards Trio in particular?

Answer – Kristin C. Peck: There's different – I mean, again, we have different strategy. I mean, what's different, again, about parasiticides is, we can target who's – where – are we the primary? Obviously, that's not a target versus where is it (00:18:56). It's a very different competitive market there where there's been some established players actually for a long time. And that's, as you know, been extremely competitive since the very beginning. Parasiticides, for those who are new to our industry, is the single largest category in animal health. It has been in the pet care side, too.

Question – Erin Wilson Wright: Do you think that you had a competitor that came in and did a little bit more of a land-grab initially? Do you think that that has plateaued at all in terms of your ability to – I mean, I think you kind of mentioned it in sort of the share dynamic. Are you seeing that continue?

Answer – Kristin C. Peck: We don't have an update on this quarter. But as you saw, we were, I think, down 1% on market share in the...

Question – Erin Wilson Wright: Yeah.

Answer – Kristin C. Peck: ...last quarter. Again, I don't think these are significant shifts that we're sort of seeing, is what I would say. I mean, look, this will be an incredibly competitive market, and it will continue. It's complicated, as you know, because we've got injectables here with our ProHeart 6 and ProHeart 12, as well as triple combinations and singles. So, we're going to continue to launch more products into this category as well, as we've talked about.

And so we look forward to continuing to grow our share and to be able to target the little sub-markets that exist in parasiticides.

Question – Erin Wilson Wright: Okay. So, that brings me to my next question, which is on the injectable parasiticide front. Like, can you talk about the opportunity there beyond ProHeart? When should we expect some sort of long-acting flea, tick, and heartworm product? Will you be ahead of Merck on that front?

Answer – Kristin C. Peck: I don't have any visibility into the Merck pipeline, so I cannot comment on when they would have a combination product there. For those who don't know, if we have an injectable but it's just heartworm, I think, really, the Holy Grail will be the triple in injectable, which no one has out yet right now. As we saw in our pipeline which we published, we don't expect that product before 2030. You have to time heartworm season exactly correctly to run those full studies. So, that does take a little longer, and you have to be able to do all three.

So, we are – remain excited. We do think there is a significant opportunity there. There's a few reasons why it's attractive. It's guaranteed compliance in diseases like heartworm, for example, where it can be deadly, that's pretty important. And also, I think the vets find it pretty attractive because it all stays in the vet clinic. But importantly, the pet owner doesn't have to worry about remembering every month to give a Simparica Trio to their dog.

Question – Erin Wilson Wright: And then, let's switch gears to derm. So, Apoquel, I guess, where do you think that the derm market share shakes out over the longer term?

Answer – Kristin C. Peck: I'm not exactly sure exactly in every market. There's a – it's a very different competitive dynamic in the different markets, partly based on the different labels that some of our competitors have. We're also really excited to be launching new products in this category as well. We expect approval this year of long-acting Cytopoint, Cytopoint Plus. So, we're – when we get that approval, that will obviously change the dynamic as well.

So, we have a very differentiated portfolio across Apoquel Chew, Apoquel, and Cytopoint. So, we're going to fight for as much possible share. As someone who had arguably almost all of it, historically, we obviously will lose some share there. That is expected. But our goal is to defend it, and to defend it with the differentiation of our portfolio.

Question – Erin Wilson Wright: You talked about the long-acting Cytopoint. But just in general, how long – or how have kind of life cycle innovations such as the chewable tablet, for instance, on Apoquel played out? I guess in the US and internationally, can we expect kind of additional life cycle innovations even beyond that? And then patent protection for Apoquel?

Answer – Kristin C. Peck: Sure. Patent protections, the first LOE we start in 2032. So, we have a decent amount of time on Apoquel, and that's not Apoquel Chew. That's Apoquel film coated. So, we'll continue to invest. This is a huge category and it's got a massive total addressable market. There's still 16 million untreated dogs in the US with dermatology – dermatological conditions. So, we think there's a lot of room to grow this. Again, we got to get pet owners back in and treating this condition to continue to grow the market, but we very much believe we can do that. So, we're excited about the expansion that we can do there. We're excited to bring in life cycle innovation. Certainly, the approval this year, but we'll continue to invest across derm and across species.

Question – Erin Wilson Wright: So, going back to kind of what you were saying in terms of structural versus cyclical and some of the price actions that you're taking, like, when do you think that realistically you start to stabilize? Like – and then you're obviously not going – you're going to have price declines into the second half. We see it in the margins in terms of the trajectory, in terms of what's implied for the second half. That should continue into 2027, assuming that you're not just going to turn around and raise price, right? So, how do we think about now? When do you start to normalize? Are you in the back half of 2027 when that really starts to sort of normalize? And then you can get to a point where, like, now you have a pipeline, then you can bundle around, and then you can have this sort of broader portfolio and have some of the momentum around it, and then actually have price increases?

Answer – Kristin C. Peck: Well, I'd say what I'm looking for, we obviously haven't provided guidance for 2027, so I'm not going to comment exactly on what the guide will be there. But I think the things that we're watching are

twofold.

One, we're looking at with the new competitors who just launched, as you look at in derm in the end of Q1, beginning of Q2, they need to get their product penetrated figure out where that's going to go. That generally takes 18 months. Now we're in a new world. Maybe it'll be faster, maybe it'll be slower. How will I know? Well, you start to see when share shifts start to stabilize, right? When they really don't move after a few months, you're like, okay, I think now we're getting there. So, that's what we're watching. You're still seeing in derm shifts quarter-to-quarter that would say we're not at a stabilized. We wouldn't expect it. Normally, you cannot penetrate a new product in six months. So, historically that takes around 18 months. So, that's what we've been talking about. It could be faster, obviously. We're looking at that.

And I think the second thing we're watching is, when does the market itself, the macro, stabilize? Because, again, part of the promotion is competition. But part of it, we're competing for the same customers because the customer base isn't growing.

So, we're watching both of those because I think if the market starts growing, you can maybe pull back. But this is why I say it's going to be dynamic. We're going to look quarter-to-quarter. We're assessing within a range, how well did our promotion do? Do we want to be more or less aggressive? Do we want to target differently? So, we need to remain dynamic. But our view is, we need to let some of this stuff stabilize. It'll, I think, stabilize a little faster as we think about parasiticides. It's been very competitive. That, I think, we should move a little faster. But with new products that nobody knows as well, in derm, I think it'll take a little longer.

Question – Erin Wilson Wright: And then Cytopoint, with the long-acting Cytopoint, I think you mentioned, is it still on track for...

Answer – Kristin C. Peck: It's on track for approval at the end of this year.

Question – Erin Wilson Wright: At the end of this year. US approval, right?

Answer – Kristin C. Peck: Yes.

Question – Erin Wilson Wright: And then CKD. Well, CKD, I guess I'll tack in oncology as well, were new additional areas that you've discussed. And can you talk a little bit about timing and magnitude of these opportunities? And I think CKD being nearer term, is that correct?

Answer – Kristin C. Peck: Yeah. I think CKD or renal is nearer term, and it's also the biggest is what I would say. What's hard to believe, in human health, there's lots of products. But in animal health, there really are no treatments for renal and chronic kidney disease. So, this is a huge addressable market, give or take, $3 billion.

And what we're really focused on is multiple products and multiple diagnostics and biomarkers. Some of – one of our products that's targeted for approval at the end of next year, so when would we be looking at approval end of next year, is really looking at it's slowing the progression of the disease. So, actually preventing the damage to the kidneys. We'll have other products that will then also treat the symptoms of late-stage. We're going to have some biomarkers that can help diagnose quite early and expand that market as well.

And this is a huge issue for dogs. About 20% of dogs will get kidney disease or renal disease. And the earlier you can diagnose it, the better you can prevent the progression of the disease. And that's really what we're focused on. It's an even bigger issue for cats. As you saw on our innovation pipeline, we also have a product for cats. 40% of cats will get renal and chronic kidney disease. So, that's been around (00:26:41) with every cat should be screened for renal and chronic kidney disease. So, I would say, it's the most near-term opportunity we're looking at, but it's also the biggest. And I would say if you asked vets and you do it in your survey all the time, if you ask them what's their biggest unmet medical need, they will say that.

I think the other one that continues to grow as the total addressable market is oncology. For a while, the question was, would vets treat for cancer? And there's hardly any products today. We have one, Palladia, but there's not a lot of products. But pet owners are testing aggressively already to know if you have cancer even though there's no treatment, which says to me, if you could treat the disease, the market is getting bigger and bigger for that. But what's different in animal health than in human health is, we're going to need to be able to launch oncology products that can be put in a GP. So, we'll start with specialists, train the specialists. The specialists need to train the generalists. But the market needs to be products that are going to be safe enough and make sense even for a GP.

So, we are excited. You saw there's two products in the pipeline. One of those, we believe, will be a blockbuster as well, which, for us, is a product that we think could be $1 billion. For that one, we'll launch one indication and add indications over time as well there. So, we're super excited. Also have a significant pipeline opportunity in cardiology, which we're excited about. And then looking longer term at anxiety, which I'm a big fan of with my dog; as well as diabetes and everybody loves it, obesity, another big category as well.

Question – Erin Wilson Wright: Okay. And then you have some long-acting injectables for OA pain. Do you think that those will start to move the needle for you? Is it more kind of stabilizing in that sort of market post-Librela, or how do you think about the opportunity there?

Answer – Kristin C. Peck: We're quite excited. As we said about all the long-actings, we think they do expand the market for our products. There's a lot of people for whom it just doesn't work personally to go to the vet every single month for an injection. So, we think once every three months is a very different value proposition for people. So, we are quite focused on it.

The data we gave you at Q2 earnings was really through early experience. But what we did see through early experiences, we saw growth in the markets where we had both products, which means that it did cannibalize, but it also provided net growth. And so we are excited at that opportunity. We did full launch in Canada and a few of the EU markets beginning in July. So, we'll have much more information as we think about our Q3 earnings of how that's going in the early stages. So, we just went into full launch there. But very excited and largely aligned with what we said. It will cannibalize some, but we'll also expand the market given the added convenience, et cetera.

Question – Erin Wilson Wright: Generics are seemingly playing more of a role more recently with some outside pressure across Convenia and Cerenia. That was a little bit – how sustainable, I guess, is maybe the right way to phrase it. Do you think that that is – in terms of the price actions that they're taking there, can you kind of – has there been a competitive response from Zoetis on that front? Is that a component to the price actions that you're taking as well?

Answer – Kristin C. Peck: Yeah. This is a very different price action, I would say...

Question – Erin Wilson Wright: Yeah.

Answer – Kristin C. Peck: ...than the price actions you saw in derm and paras. We do have generic competition for Cerenia and Convenia, and they probably aren't big ones that many of you have modeled. But they were blockbuster products, which is why you're seeing the impact a little more aggressively. This is a space where we did take a list price reduction that is structural. In animal health, different than in human health. We tend to lose 20% to 40% over the first two to three years. It's gotten a little faster, more like two years in the last few years as we saw generics, both in livestock and in pet care. So, we did take price actions, and we did reduce our list price in those spaces to make sure we're more competitive. But, again, even there, we're going to be launching Convenia RTU and looking for an approval there in the US, which is ready-to-use, which we think will be much more attractive at a better price point for some larger dogs, et cetera.

So, we continue to innovate even in these spaces. And so we'll continue to look there, but that's slightly different. But as we talked about, we don't really see other products that are large products for us, seeing generic competition, really, before 2032. So, that is – we did take a price action there. So, that was definitely included in the guidance we gave for the second...

Question – Erin Wilson Wright: Any other patent expiries that we should be aware of?

Answer – Kristin C. Peck: No. That's what I was saying. Other than those two...

Question – Erin Wilson Wright: Okay.

Answer – Kristin C. Peck: ...we don't have any large products before 2032.

Question – Erin Wilson Wright: Okay. And then longer term, you previously mentioned growth of mid-single digit to high-single digits or roughly, like, 6% to 9%, assuming that you're a 3-point premium to the overall market. I guess when do you get back to some sort of sustainable rates like that?

Answer – Kristin C. Peck: Well, I think we need to see a few things, as I mentioned before. I think, first, we've got to figure out where the new market growth is going to come out because, I mean, our focus is always growing faster than the market. And I think the first question is, when does the market return to growth? Because in US, I mean, overall, a lot of the growth in the industry right now is being led by livestock overall and diagnostics, which we've been doing great and that's wonderful, but we really do need pet care to recover. International has been doing great as well. So, a lot of the hit has really been in US pet care, to be frank. But US pet care is a significant portion of the industry and obviously for Zoetis.

So, as we look at the value proposition, and we'll obviously provide guidance in 2027, but the things we're watching for is, how do we, first, move that market in the US back to growth, and then once we do that, really deliver on that pipeline. And, again, I don't think there's anyone with a stronger pipeline. We've got a blockbuster product coming every year for the next few years, and a lot of these in new markets that don't even exist today where I think we can really grow the market. So, I think that's what we're looking at. But we'll obviously provide guidance next year.

Question – Erin Wilson Wright: When you talk about Apoquel, and I want to use this as sort of an example, too. Like, when you're going into a vet clinic and they're using either – or they're deciding between kind of different products, how much does price come into play? Like, where are you finding success in terms of driving stability across Apoquel? Where are you not? And in – when they're making that decision to put what foot on the shelf, like, how are they making that decision? And where are you seeing Apoquel shake out?

Answer – Kristin C. Peck: Yeah. I mean, for starters, I don't think there's very many clinics that aren't stocking Apoquel or Apoquel Chewable. I mean, we are the market leader, obviously, there. I think what I'm fighting about is not are you stocking me. But as you bring in a new patient, making sure that I get more than my fair share of those new patients is what we're focusing on because I think we have a pretty loyal setup. So, for starters, we have a much longer safety and efficacy data. We have more data than almost anybody else. So, I think confidence, we're focusing really on the confidence in our product and making sure, reminding them that we have a chewable. No one else does. That's going to be a lot easier to administer for your pet.

And a lot of it's also just around the relationship we have with that vet, investing in their education, investing across the portfolio, bringing innovation. And so, sometimes if they're like, well, I can go with this or this, I want to make sure that we're the partner of choice, and that really means making sure we support those veterinarians in their education and helping them – that helping them with their business, things like that, that I think are really important, making sure they know the innovation we're going to be bringing to make them the heroes of the future, making sure they have the treatments to address some of the unmet medical needs.

So, it's a long-term investment in a relationship. And it's, as you know, very different in animal health than it is in human health. We have very deep relationships with our customers. They buy our products directly. So, it is investing in that relationship, which remains really important for us.

Question – Erin Wilson Wright: And so where would you say then your share is of new patients with Apoquel now?

Answer – Kristin C. Peck: I don't think we've put out that data.

Question – Erin Wilson Wright: Okay. Or overall share of Apoquel?

Answer – Kristin C. Peck: I think we ended up the quarter in the US at around 87%, I believe.

Great. Okay. Okay. Well, thanks so much. I appreciate...

Thank you.

...the time today, and I appreciate meeting you as well, Jay. Thanks.

Great to meet you.

Yes.

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