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Zoetis, Inc. (ZTS)

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CORPORATE PARTICIPANTS

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

OTHER PARTICIPANTS

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Great. So, good morning, everybody. On behalf of Morgan Stanley, this is Dave Risinger. I cover both major and specialty pharmaceuticals. And it's very much my pleasure to welcome the two leaders of the Zoetis' management team this morning. I do need to refer you to disclaimers at www.morganstanley.com/researchdisclosures, and just note that if you're a member of the press, we ask that you disconnect and reach out to Morgan Stanley public relations.

So, this morning I want to welcome Kristin Peck, who is the CEO of Zoetis; and Glenn David, who's Executive Vice President and CFO. And we are going to get right into it.

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QUESTION AND ANSWER SECTION

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

So, I guess to start off, Kristin. So, congratulations on the exceptional business execution despite COVID during your inaugural year as CEO. Could you just discuss how Zoetis has been able to execute so well despite all of the disruptions and continue to outperform its peers?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. First of all, thanks for having us, David. It's good to be here. I think it starts off with our colleagues who have a single focus on animal health and have been very focused on our customers throughout this, whether those were our manufacturing workers who kept all the essential medicines we have in full supply during the entire period, or our sales colleagues who have been partnering with their customers to make sure that they could support them in their businesses and innovate new ways of serving their customers, or our R&D, which has stayed on track, as you know, throughout this process. We have a diverse and global portfolio that has served us well. Certainly, we've seen great strength in the companion animal space throughout COVID; more pet adoption, as you've seen. We'll talk about probably later increasing spend on their pets.

But the livestock sector has seen some challenges. But I think what you've seen is great support for our customers, a strong portfolio, as we said, through different economic downturn. Certainly, never a pandemic and a recession simultaneously, but our business has demonstrated throughout the last eight years given its diversification and global nature that we can withstand these things. And I think our outperformance has everything to do with our culture at Zoetis and the strength of our colleagues.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Right. And could you then just go into a little bit more detail on companion animal trends? So, if you could just update us on the momentum and give us a sense for where the business is trending. Obviously, you've provided enough data on the 2Q call, but things have continued to progress and there has been even more of a return to normal. So, perspective on that would be helpful.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. I'll start, and I think Glenn can kick in with some stuff there, too. We've seen what you've been reporting largely, which is a return to sort of normal vet visits. We'd say our vet flat for last year. They go up and down week-to-week. Obviously, last week with the fires in the West Coast, they went down a little bit, as you know, some of those visits.

But, overall, we'd say vet visits are where they were a year ago, which is just, by the way, an incredible recovery and says so much about the creativity of our customers to do curbside pickup and other approaches. But we are seeing some increased trends in spend per visit. So, Glenn, do you want to sort of build on that?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

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Yeah. To the point, right, we've seen very strong performance in companion animal, particularly in the second quarter, where we grew 13% and saw a strong momentum towards the end of the quarter. And we've seen that momentum continue into Q3 as well with the visits stabilizing and the increased spend per visit.

Also, we're benefiting from the strength of our portfolio and the innovation we brought to the market, A, with continued growth in our dermatology portfolio and also with strong performance in Simparica Trio. And when we talked about our guidance for 2020 on the Q2 call, we indicated that one of the things that would bring us towards the higher end of the guidance was continued strong performance in the companion animal sector, and that is something that we're continuing to see in Q3. So, the momentum has been very positive.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

And could you speak to the increased spend per visit a little bit more to help us understand that.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. I mean, I think we're all trying to figure out a little bit what's driving that. I think there's a few things that we're starting to see in that. The first is still a fear of a potential second wave, so people are buying more doses often at each vet visit. I think the vet visits are also the vet is recommending a course of action, and since they call the vet and they're not there, I think you're seeing more – I think they're starting to realize that if they make a recommendation, they're seeing more uptick in those recommendations, and I think you're seeing strong growth in diagnostics. So, it's hard to know exactly how long that will last. I think with their buying doses ahead often, so I think we should be careful in the sense that it's really going to be a sustained trend.

But I think we are seeing a positive sense of like people are taking more of the vet's recommendations and the vets were getting more comfortable recommending without – in the beginning, it was sort of low because they weren't having that conversation with the pet owners since they're in the car, but they found creative ways of dealing with that, calling the pet owner in the car, etcetera. So, we are seeing the spend for that on diagnostics, as well as on taking recommendations and then sometimes buying additional doses per visit.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you. And with respect to pricing, maybe we'll just stay on companion animal for now, your long term expectation has been for positive net price of 2% to 3%. Is that what you continue to see this year?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Actually, it is, and the pricing is trending really very much in line with those long term expectations. So, year-to-date, we've seen a little over 2% net price benefit, and that's been very consistent across US and international, as well as across companion animal and livestock, with all of those areas realizing net price increase of around 2% to 3% on a year-to-date basis. So, price is very consistent with the long term [inaudible] (00:07:00).

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. So, you touched on livestock being in that 2% to 3% range as well. Given that the farmers have had a very difficult time, why don't they ask for lower prices and why hasn't COVID impacted pricing this year?

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Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

So, in terms of the pricing, that is something that we set at the beginning of the year and that's something that we manage throughout the year. It's important to understand that, overall, pharmaceuticals are a relatively low percentage of the overall cost of raising the animals. And because of the benefit we bring and also the technical services we're able to provide to our customers, we are able to maintain our price.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. So then another high-level question, Kristin, please. Could you talk about alternate channels, explain how much of Zoetis' companion animal revenue is currently generated outside of the vet clinics? I assume it's an extremely small percentage, but I don't know how you quantify that. And then also, provide some perspective on balancing your support of vet clinics with pursuing additional business in alternate channels?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. I can start and then Glenn can build on it. If you look at 2019, it was about 5% of our US business. It was very small, as we've always said. We are seeing significant growth, however, in that spend. I also say like it's a very – it's a US trend. It also is a trend in some other markets around the world, such as Australia, et cetera but it's not the sort of alternative channels defined as retail and online, the e-commerce channel. It's a much more of a US trend right now than in other markets. There are few markets outside the US such as Brazil and Australia that do a significant business in retail or online. The growth we've seen this year has been dramatic. We saw this trend going but I think COVID has certainly accelerated it. But, Glenn, do you want to put some of that into more context?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah, absolutely. So as you said, Kristin, right, the alternate channels are really most relevant to our US Companion Animal business. And just to break out the numbers a bit; in 2019 US Companion Animal is about $2 billion but it's important to understand that about 50% to 60% of that portfolio needs to be administered within the vet clinic. It's also important understand that all of our portfolio, pretty much all of our portfolio does still require the prescription from a veterinarian. So the veterinarian is still at the center of that decision.

In terms of the alternative channels, in 2019, to Kristin's point, it was about 5% percent of our US Companion Animal business, so call it around $100 million. And we have seen that rapidly increasing in 2020. So for context, in Q2 alone, we sold about $50 million through that alternative channel. And you also asked about supporting the vets while supporting the alternative channels. One way we do that is through a minimum advertised pricing and that really establishes a level playing field across all of the channels.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

So, could you explain that a little more? You mentioned minimum advertised pricing.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. A minimum advertised price means when we sell – the agreement to sell to the channels historically, go back a year, a year and a half, we didn't actually sell to retail stores or to online since we weren't sure sort of how

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they were treating the customer, their properties, et cetera. We verified everyone we sell to. But the agreement is that for each product, there is a minimum advertised price, in other words, if they're selling Apoquel or Simparica, the price they need to charge for that and they can't advertise a price lower than that so that it moves away from the vet.

The vet can price anywhere they want but the vet is aware what the minimum advertised price or MAP price is. And so, the point is that ensures that each of the channels has an opportunity for profit but that they can't undercut the other channel. So it ensures now anyone can price above that. We don't – that's up to every channel how they do it but it creates a more level playing field. It's common across our industry. So, as you look at all the major pharmaceutical companies who sell, they all have the same exact process of a minimum advertised price across channels. Again, you have the opportunity to charge more if the channel wants to do so but they can't charge under that.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then you mentioned minimum advertised price. What about real price?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

So, they could offer, for example, we're running a special this month that if you spend over $100, we'll give you $50 off. That actually would be a reduction in overall price, but it wouldn't be specific to our product. So, they can run specials to their customers for different promotions they want to do, but it can't be specifically on our products. They could be, if you buy my product, you get a discount on your basket, for example. That's what I mean.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

They can't say – example, if Apoquel is, let's say, $1, they can't say Apoquel on sale $0.75. Now, if they want to give you $0.25 off for spending $100 on Apoquel, then they can do that. But they can't advertise our products at a lower than the MAP pricing.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay. So, and then – sorry, I haven't had my coffee this morning. So, I just want to understand this a little bit better. So, you had mentioned the ability to discount on a basket. Is that something that the manufacturer would typically drive and participate in or is that just something...

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

No.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

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Okay.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

That depends if they want to get a customer to move to their channel or their company, let's say, Chewey wanted to get a customer they say, for your first purchase, get 10% off. So, it's not driven by manufacturer. It's driven normally by them on a special they want to run. We could choose to run a special if we wanted on our products, but then everyone would have the same specials. Do you see what I'm saying?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Yeah. And also just for context, the price that we realize at Zoetis is pretty consistent across these channels. It's not a deterioration to our overall price going into these channels.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

Yeah. Okay. All right. That's helpful. Thank you very much. Okay. So, then let's turn to the franchises and products. Could you just discuss Zoetis' unique dermatology portfolio and the potential for further innovation please, Kristin?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

Sure. We are quite proud and quite excited about the success of our dermatology portfolio. There's two main products in that globally, Apoquel, which is a small molecule oral, as well Cytopoint, which is a monoclonal antibody. And vets have a choice between the two and they make a decision based on what the best product is based on the specific conditions the dog has whether it's acute or chronic, how well the dog needs to tolerate a product, how compliant a pet owner is in providing the product, etcetera.

So, right now, we have a significant share of the dermatology space, which as you probably recall five or six years ago with a very small market since there was really no innovation that was terribly effective. But with both Apoquel and Cytopoint, we brought significant innovation to the category. And we continue to see great growth. As a result, we've been investing heavily behind these products certainly with direct to consumer as we've seen quite successfully in the US. We're looking at potential innovation in different ways, obviously expansion of the product we have now as we look at this incremental innovation there with potentially also new products and new species in that sector as well.

As you know, to-date, we have not had competition but as we've said before, we certainly do expect competition at some point. This is a huge market. We would be surprised if somebody else doesn't enter the market soon. We know a few people working. But at this point in time, the favor question I know you're going to ask me is when is competition coming? And as always in our space, we don't have great data but we can confidently say we don't expect any competition for the rest of 2020 and at least for the first half of 2021 since we haven't heard any noise certainly in the channel of anyone coming too soon. But I would say I don't know if that's for sure but that is our expectation at the moment.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

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Okay. Thank you. And then with respect to the market, so you said five to six years ago, it was a very small market. How big is the market today?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

So, from a revenue perspective, we have the great majority of the share. So, last year in 2019, we did about $750 million in revenue for this portfolio, for our Derm portfolio. And our market share data is really mostly in the US. But from a dollar perspective in the US, we're well over 80% share. So, we are the great majority of the market as the alternative is steroids, which is priced very low. So, we really are a big proportion of the market.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

Got it. Thank you. And then, can we pivot to Simparica Trio, please? You could talk about the launch ramp so far and the market opportunities that you see them in the US and ex-US.

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Sure. So, for Simparica Trio, the launch ramp has been very positive. We mentioned, for Q2, we saw sales around $44 million and, year-to-date, we've had sales almost $60 million or $59 million. We also at that point, because of the impact of COVID-19, we had revised our guidance for the incremental sales for Simparica Trio down from our initial expectation of around $150 million to about $100 million to $125 million.

What we're seeing today is that while we haven't been able to penetrate as many clinics as we might have if COVID didn't happen, our share within those clinics had been more positive. We're also seeing that Simparica continues to perform very well and even on a year-to-date basis with the Trio launch, Simparica is up 13% in the first half of the year. So with that and what we're seeing now, we would expect the Simparica incremental revenue probably to be more in line with our initial expectations of around $150 million or $125 million to $150 million. So, the launch has been going very well especially when you consider the impact of COVID-19. And obviously, we're very excited about the potential for this product launching into a very large market. The market for parasiticide is over $4 billion with the majority of that being in the US and heartworm also being a much bigger factor within the US than it is outside of the US.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Got it. And so, those figures that you are providing were obviously global figures for Trio and Simparica. Is that right?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Yes. Correct.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

All right. Could you just discuss ProHeart 12 and how it dovetails with regular Simparica?

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Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. I think they're very symbiotic and the decision on whether to give Simparica Trio or Simparica with ProHeart is really often dependent on the risk of the dogs and then as well as individual patients and pet owner lifestyle. For those who don't know, ProHeart 12 is an injectable for heartworm, so if you have a pet owner that's not great with compliance, sometimes this is a really good recommendation assuming given at the vet clinic and it lasts the full year. So, if you want to ensure 100% compliance and health, a lot of vets that will select that. It really depends on just the pet owner and the vet's perspective on sort of the risk, the relative risks of both fleas and ticks as well as intestinal worm. So, it goes quite well. You either can do Simparica Trio or you can do a Simparica with a ProHeart.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Then pivoting to new innovation, obviously, you're planning to launch monoclonal antibodies for pain for both cats and dogs next year. With respect to the mechanism, so obviously anti-NGFs have been associated with worsening osteoarthritis risk in humans. But I believe that Zoetis has been able to rule this out in companion animals. Can you just confirm that and then provide some more perspective on when in 2021 you can launch these products for cats and dogs?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. I can start and, Glenn, certainly build on this. We were very happy to get a positive [indiscernible] (20:39) opinion in the EU on Librela which is the dog version. We received that last week, so which with another 60 days we're in the administrative period, we're hopeful that we would get an approval this year and launch some time in Q1 of next year in the EU. We continue to expect the exact same timing for the US we've given before which is sometime in 2021 for an approval in the US. So, we're quite excited.

You asked the question about comparing dogs to humans. We haven't seen some of those same risks in different species with a different biology and so, obviously, they can have different potential patterns. We haven't seen those. We have very rigorous requirements with our regulators as for the packages that we present to them for all of our products. So, so far, we have not seen any of those safety issues in our products. We would continue to watch it as with regulators. But we haven't really seen that.

We remain excited about the space as well for cats. For dogs, the value of the space is around $400 million today, and we're hoping that we can grow that market with a truly innovative product. The category doesn't really exist today in cats at all. I don't know, Glenn, if you'd add anything to that.

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

No. The only thing I'd add to that, obviously, we're excited about both products and we do believe that they do have blockbuster potential in Animal Health, which has sales of greater than $100 million.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Kristin, could you spell the name of the product in Europe? And will it have the same name in the US?

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Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

Sure. It is a global name and Librela, L-I-B-R-E-L-A.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

Thank you. And could you talk a little bit more about the $400 million dog market today? Is that US? And could you bucket different categories of products?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Yes. So the $400 million, that is a global number, and we are a leader in that space today with our product, Rimadyl. Obviously, we do believe that we will bring innovation to that market and grow it greater. When you look at the – what we were able to do with the dermatology portfolio, as Kristin mentioned, that was a very small market initially but bringing new innovation, we were able to grow that market significantly. And we would hope to be able to do that by bringing that new innovation to this market as well.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

And could you talk a little bit more about Librela, the administration, the efficacy versus Rimadyl?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

Unfortunately, we cannot. It is not approved. We don't have a label yet. So we don't have it approved so it's had to sort of compare that at this point. I mean, it's an injectable versus an oral, so that would be one difference. But in the sense of a label, we don't have a label yet until we have an approval.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

And how often are the injections for Librela?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

Again, until I have a label, I can't answer that question.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Sounds like a legal deposition.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

I mean, I don't mean it to sound that way but we're very careful with the regulators I mean just for some context why I say that is Cytopoint has a very different duration in the US and outside the US. The US is up to 60 days and the EU is 30. So the same regulator looked at the same data package and decided very different things. So, I don't mean to sound legal, but given that we have one product with extremely different dosing in two different

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geographies and they actually change the mix for take on that as well, I try not to judge. Regulators have their own perspective, so I don't want to make a statement unless I am sure of it.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay. That's actually helpful color. I was kidding, but I appreciate it.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Okay. No problem.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Okay. So with respect to pivoting, let's go to the US livestock business recovery. Where does that stand? And then could you also talk about innovation in livestock?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. So if you look at livestock overall, just putting this in context, about 60% of our livestock business is outside the US and about 40% of the business is in the US. Outside of the US, certainly, as you saw, we had challenges, but given the diversity of that business, it actually performed sort of better than the US business. The US business has a high concentration, as you know, in the cattle side. COVID had a pretty dramatic effect on the livestock business across the US. That was a few things, one, moving from dining out at restaurants and travel and tourism to dining in. People just consumed less of that and that obviously drove prices down.

We also had some impact of shutdowns in packing plants. The packing plants are largely back open, so if you look at the future there, I mean, they were always open. Their capacity is closer to 100%. So, we're not seeing that. But I think we've said that we're expecting – if you look at sort of the US cattle business, we're not expecting a full recovery there until likely the second half of 2021, assuming we can get a vaccine and you see an uptick in sort of the dine-out spaces. But what's really, I think, holding this market together is also trade. So, I think looking at what China is buying and that sort of factor, so as we're looking at the market, we are expecting it to continue to be challenged.

And as you look at sort of what's happening in the second half of the year, you still have animals out there, especially in cattle, they will move, they are being treated, albeit at probably lower levels. The movement isn't as great. But as we look at sales out versus sales in, which is important in livestock, the sales out has been more consistent. Sales in, which for us is selling into our distributor partners, I think they're getting a little more confident as you look into the second half of the year at least right now. But we are expecting a difficult challenging time certainly for pork and for cattle into the, I would say, probably, the first half of next year. Glenn, I don't know if you want to add any more color to that.

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

No, I think that was right on, Kristin. I think the only thing that we say is, also with COVID-19, there has been some disruption in terms of the buying patterns of our customers as well. So, in Q2, for example, we saw, because of the impact of COVID, a little less buying and inventories at slightly lower levels, where things have begun to normalize and stabilize in Q3, that will impact our results as well.

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David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

So, there were lower inventory levels at the end of the second quarter than at the end of the first quarter.

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

There are lower inventory levels at the end of the second quarter of 2020 than they were at the end of the second quarter of 2019.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

I see. Okay. And then, Kristin, what did you mentioned about sales out?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

That's what we're saying. Demand has been – I think there's been some concern, obviously, understandably for all businesses with regards to our customers going to pay, were the other businesses staying in business. So, I think that why Glenn is alluding to the buying patterns, if you will, to distributors and others, and even some of our end users.

The usage probably was about consistent because the animals were there, but their buying patterns of how much inventory a distributor or a customer wanted to sit on depended on their own cash position, to be honest with you. And so I think what Glenn is trying to say is sales in, which we sell to a distributor, they made their own decisions on buying patterns.

And then even a customer made his own decision on how much inventory they wanted to sit on, and we're seeing some of that level out. I think the buying pattern between Q2 and Q3 had been different, but it has a lot to do with people confidence and their own cash flow positions.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Very helpful. Could you discuss aquaculture's sea lice opportunity and potential timing?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Glenn, do you want to take that one, or let me take it? We've got Alpha Flux. I mean, it's not a huge sector obviously for us. We were excited to launch Alpha Flux, which is for sea lice. I don't know how many people follow the aquaculture space, but the single largest issue in aquaculture is sea lice. It is literally a little piece of lice who would sit on a fish. It's the single largest issue.

We were very excited with the launch of that. We haven't given overall guidance. These is a small sector for us, but we were very excited to get more into this space. The parasiticide space and specifically sea lice is the single largest category in aquaculture.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

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And where was that launched?

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

I believe it was in Chile, was the main market there, Glenn?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Yes. Yeah. That was launched in Chile, and we do have a similar product in Norway as well.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

And just for context, so when did those products get introduced?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Alpha Flux in Chile was more towards the second half of last year. The product in Norway has been on the market for a longer period of time.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.
A

But 2019 for Chile.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Great. And then pivoting to potential competitive pressures, are there any key products to face new generic competition? I believe there's at least one, Draxxin, but it would be helpful to understand how big of a product that is and when you expect generics in Europe and in the US.

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Yeah. As you mentioned, Draxxin is the biggest product that we do expect to face generic competition. Obviously, it's one of our top products. It's over $300 million in sales. And we do expect significant competition, probably in the US beginning in Q1of 2021, we would expect competition. We have seen a lot in the marketplace of a number of different competitors being prepared to launch. So we typically four generic products anywhere between 20% to 40% impact of our sales over time. Given the size of this product and the level of competition we expect, we do expect there to be a significant generic competition and impact to our sales definitely as we go into 2021.

David R. Risinger
Analyst, Morgan Stanley & Co. LLC
Q

And ex-US?

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

So ex-US, there is also a generic competition. The breakout of the sales between US and ex-US is roughly 50/50. We have begun to experience some of that generic competition already outside of the US.

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David R. Risinger
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. Thank you. Maybe we could pivot and just finish up. We're actually running over time here. But I don't want to finish without asking you, Kristin, to talk about your diagnostics and reference lab initiatives. Maybe just to start, if you could put the current revenue in context and then discuss the opportunities you see ahead and how quickly these businesses can grow.

Kristin C. Peck
Chief Executive Officer & Director, Zoetis, Inc.

A

Sure. We're quite pleased with our diagnostic portfolio and its growth. Obviously, we have a significant point of care business that when we bought it largely in the US, we've been very pleased with the strategy when we purchased that business. It was really a huge opportunity outside the US to grow that business. And that has done quite well.

If you look at the US, which is a very competitive market, it's much more of a red ocean. If you look international, it's a much more of a blue ocean. Fewer vet clinics actually have point of care diagnostics in international and the usage in the clinics that have it is still less. So, we see significant opportunity and we've been quite pleased with the growth internationally. And in the US, growing, but obviously much more competitive space.

And as we said all along, taking share in the US will take a much longer period of time. It will be much slower. We did enter the reference lab space last year. We've been very pleased with the growth of that business. It's still very small. It's in the US. Our goal there was to acquire some small labs in the US and then build on those organically. So, to expand that network.

As we said when we launched the strategy, we are expecting that to take a few years in the US to get that reference lab space to be a significant player. But we think from a return on invested capital perspective, the mixture of small BD with strong organic build makes a lot of sense, and we intend to take that same strategy to international. We see diagnostics as an important part of a vet clinic business. It's an important part of informing what are the right treatments, vaccines, etcetera, for a pet. So we think it's very synergistic with our core portfolio.

It also grows at double digits, so it's also a very strong growth driver. So – and I think it links into our continuum of care strategy, which we want to provide for our vets, which is looking at each visit as an end-to-end thought. So, whether it'd be an itchy dog, diagnosing that, looking at therapeutics, looking at, in certain category, a vaccine, etcetera. We want to make sure that we have a full suite of products for all the different customer journeys and pet journeys that they visit the vet.

So, I don't know, Glenn, if there's anything you want to build on that.

Glenn C. David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

No. The only thing I'd add is just the size of the business for us in 2019. Our total diagnostics business was a little over $300 million. There was a human health component of that that came over as part of the acquisition. The animal health piece of that is around $268 million. As Kristin said, late in the year last year, we did acquire a number of reference labs business. So that will assist us in our growth. And also, as Kristin mentioned, this is a very rapidly growing market, so we would expect this to grow faster than our overall portfolio moving forward.

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David R. Risinger
Analyst, Morgan Stanley & Co. LLC

That's great. Well, thank you so much. We covered a lot of ground. Really appreciate you taking the time and sharing all of your insights and perspectives, and I hope you have a great rest of the week. Operator, you can close out this call.

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