10-Sep-2019

Zoetis, Inc. (ZTS)

Morgan Stanley Global Health Care Conference

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

So, I think we should get started. Thanks, everyone, for joining this session with Zoetis. It's very much my pleasure to welcome two leaders of the management team. I did want to mention that we need to refer you to disclaimers at www.morganstanley.com/researchdisclosures.

So, with us today, we have Kristin Peck, who is Executive Vice President and Group President; and Glenn David, who is Executive Vice President and CFO. So, thanks for joining us.

Just to tell you a little bit about their backgrounds briefly. So, Kristin oversees U.S. Operations, Business Development and Strategy at Zoetis. And she has been in that senior role with some different titles of responsibility since 2015 when she joined – or you joined with Pfizer, sorry, as part of the spin. But you took on that role in 2015. And then, Glenn David has over 20 years of experience in finance and operations, and played a key role in leading the company's financials since the IPO in 2013 and took on the CFO role a couple years ago. So, once again, thanks for being here.

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QUESTION AND ANSWER SECTION

Q

So, Kristin, I thought I'd start off with congratulating you on the business execution, and asking you to talk about how Zoetis has been able to outperform its peers despite your much larger size. So, you're outgrowing peers despite your size in the marketplace.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure. I would say, there's – we talk a lot about our interconnected capabilities, which I know doesn't sound too sexy, but it's really important. The first is around innovation in our R&D engine. I think really if you look at our growth, we've been outperforming the market primarily because of innovation, really bringing disruptive novel technologies to the market and complementing that with really important lifecycle innovations.

So, whether you talk about the creation of the dermatology franchise, both in Apoquel and CYTOPOINT, the first monoclonal antibody, if you look at vaccines like Fostera PCV, we've been innovating across the board, and I think that's what's really helped us keep ahead of our competition. But doing that also requires a really strong field force. And one of the things I think makes us unique is the strength of our direct field presence that we do direct demand generation in 45 markets across the world, and we have one of the highest ranked field forces.

So, much of our industry is working with small business owners, whether they be producers or vets, and it's really being a partner to them in their business and having a high-quality field force that's really relevant across the continuum of care makes a big difference. I think we've also been able to seize opportunities through our really strong manufacturing network. What's a little bit different in animal health and human health is the large number of SKUs that we have, given we have eight different species and animals get different diseases in different geographies. The reliable supply is a significant competitive advantage in our industry, and it's something that we've continued to invest a lot of money, time and resources in.

In fact, if you just look at the last year, we guided that we spend an incremental $100 million in CapEx, and that's – a lot of that is really focused on improving our manufacturing network, both the reliability and bringing some of our critical largest products in-house, so we can both ensure the best cost structure on those with the best reliability.

And I think those three capabilities over the last seven years have helped us continue to outpace the market in total growth.

Q

Excellent. That's very helpful. And Glenn, for those in the audience that aren't familiar with a framework of the company's financials and business mix, if you could run through some numbers that would be helpful.

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

A

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Sure. So, from a geographical perspective, it's pretty simple. We're pretty much 50/50 between the U.S. and International, with Brazil being our largest market in the International arena. We then look at it by species, currently we're about 55% Livestock and 45% Companion Animal. And that's actually evolved over the last five or six years since we've been public. When we went public, we were about 65% Livestock and 35% Companion Animal. And because of the innovation that we've been able to bring to the marketplace, with products such as Apoquel, CYTOPOINT, Simparica, Companion Animal has become a bigger portion of our business over time.

When you look at the Livestock sector, the 55%, cattle is our biggest segment there, followed by swine, then poultry, and then fish. So, we're very diversified across species, across geographies, also across therapeutic areas.

Q

And actually while we're on that, so Kristin, I know that you're not responsible for China, but be helpful to frame the size of your China business, why African Swine Fever has not been much of an issue for Zoetis overall, and just talk to those numbers a little bit.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure. So, starting for those who aren't aware, China has had an outbreak of African Swine Fever that's been relatively significant impact on the market overall. Depending on what you believe as to what the government is saying, the challenge is anywhere between 30% of their herd and 70% of their herd. If you believe that it was the 30%, just to give you a context, that's more than the U.S. produces in pork in a year. So, they have already lost.

So, as you think about what that impact is on a company like Zoetis, our overall revenues in China are overall around $200 million, about half of that is swine, around $100 million. Our latest guidance is the impact for this year in 2019 will be about $50 million, hit to our bottom line and sense of business that will lose as a result of African Swine Fever.

That has an impact on the overall growth of the animal health industry. But as you've seen from our last earnings and our updated guidance, the advantage that Glenn talks a lot about just now on our diversification is really important to our story. You can have a hit of $50 million in China and we're going to raise our revenue guidance for the year given strong performance within China itself of our petcare business.

I mean, just doing incredibly well. We recently got approval for Apoquel, but also just the strength of other geographies around the world. I think if you look at African Swine Fever specifically, we do think this will be a positive for Zoetis in the long-term. China will have to industrialize a lot of their production. So, in the long-term, I think this will make Zoetis a more important partner. That's probably a year to two years out. We're hopeful that China will start sourcing some pork from some of other geographies where we are – have a very strong presence. So, hopefully, that should happen. But we don't expect that impact at least in other geographies probably for another 6 to 12 months given they have to get the contract, raise the animals, et cetera. So, it's a little bit of a longer leeway.

Q

Great. And then, back to you, Glenn, just on the numbers. So, in terms of your biggest growth drivers, could you conceptualize those and discuss prospects?

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

A

Absolutely. So, if we look at some of the biggest growth drivers, A, with our existing portfolio, obviously, our dermatology portfolio continues to perform very well. And dermatology consists of both Apoquel and CYTOPOINT. In our Q2 call, we indicated that we expect those two products to contribute over $700 million in revenues in 2019. And they're still exhibiting significant growth over prior year even at that scale. So, they tend to drive a lot of our growth in the coming year – in this year and in the coming years.

Simparica also is another strong growth driver. Seen very positive growth in that product in 2019. And then, as we look to the future, we really see some of our new product innovation driving additional growth. So, our three-way combination parasiticide, which we expect to launch in Q1 of 2020, we expect to drive significant growth for us moving forward, as well as the advancements that we expect to make in monoclonal antibodies for pain. We do expect to launch monoclonal antibody for pain in cats in 2021, which we also expect will be a significant driver of growth.

Q

And I'm sorry. You said the monoclonal antibody in pain for cats is what year again?

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

A

2021.

Q

2021. Okay. Thank you. And so, actually, that sort of puts back to franchise. So – and franchise opportunities. So, Kristin, could you frame the Simparica Trio opportunity at high level? And then, I have some follow-on questions.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure. So, Simparica Trio would be a combination product for flea, tick and heartworm. To give you a sense of what that marketplace is globally, that's about a $4 billion market. Globally, about $3 billion of that is flea and tick, and about $1 billion is in heartworm.

The biggest opportunity for Simparica Trio is the U.S. And so, if you look at that $4 billion and break it out geographically, about $2.5 billion is the U.S. and $1.5 billion is outside the U.S. But the reason that U.S. is such a big opportunity isn't just because of the size of the parasiticide market overall, but because heartworm is not prevalent and an important driver in every market. It's a big important disease in the U.S., in a number of other geographies, Japan, Australia, but not predominantly in Europe. So, as we talk about the Trio opportunity, definitely the U.S. will be one of the largest markets and there'll be some markets outside the U.S. as well.

At the moment, we believe we are likely going to be first to market with a combo. That will be important for us. As many of you who followed us for many years know, we've been underrepresented overall in parasiticides, and part of that was we were not first or second to market in the oral class. We were third to market. So, this will be important for us as we're hoping to be first to market.

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Many people ask what's the difference between us and our next competitor. Our competitors don't make this information public, so we don't know when they're coming with one. But this is an important driver for Zoetis overall, and we've invested very heavily, as Glenn and Juan Ramón have talked about in previous calls, to support this product in the U.S., we have made a significant expansion of our U.S. [Companion Animal] field force by about 13% in the U.S. to make sure that we can provide the greatest share of voice around what we have as an already very strong portfolio that we don't want to lose focus on as we add an important product in one of the biggest categories in the U.S.

So, we have obviously very strong competitors in the space globally, so we know we need to be very aggressive in investing behind this important launch.

Q

That's extremely helpful. And then, could you talk about BI's product, NexGard SPECTRA? So, they're triple. That launched in Europe a few years ago. I believe it was approved in Canada. Maybe you could talk about what you know about that product, the size of it, the – that as a benchmark. And obviously, it was not approved in the U.S. and it's unlikely to be approved given that it doesn't meet the FDA's requirements, but still understanding that ex-U.S. triple product, I think, will be helpful as we think through the opportunity for Trio.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Yeah. I mean, I can start and I think Glenn can build. I mean, it'll give you a sense in which markets obviously heartworm is going to be relevant. So, you can look – that's probably not a bad proxy for that product. But it's hard to really honestly compare the two only because we don't have a label yet for our products. So, understanding both from an efficacy and safety perspective what our label is and how it compares, it'll be easier to say how we would compared to them, but I'm not sure what you got.

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

A

Yeah. So, I think, as you mentioned, the product is not launched in the U.S. It is launched internationally. I think the product has reached blockbuster status, a little over $100 million. But I think it is indicative of where the opportunity is for a triple combination based on the disease prevalence. So, I don't believe the sales have been very strong in markets such as Europe where there's not a big heartworm presence. But in certain of the markets where there is strong heartworm presence, you have seen that product do well. And that does give an indication that there is an opportunity for the combination products in markets where heartworm is prevalent.

Q

And so, what are the big markets ex-U.S. then for heartworm?

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

A

Some of the bigger markets are Australia, Japan, markets outside of Europe.

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Q

Outside of Europe. Okay. And what's the timing for Trio in Australia and Japan?

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

A

So the time, we haven't specified by every individual market, but we do expect to be in the majority of markets in Q1 of 2020.

Q

Okay. Very good. Why don't we pivot to the monoclonal antibody candidates for pain? Kristin, if you could talk about cats first, and then potential timing for dogs?

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure. Starting with the cat market, for those of you who are close to it, cats are under-medicalized relative to dogs globally. That's for a host of different reasons. A part of it is, there's not really been a lot of innovation in the cat space. Part of it is, anyone who has a cat knows it's pretty difficult to pill a cat, and it's pretty difficult to put your cat in a cat carrier and bring it to the vet. So, when you combine all that, there's not a lot of real desire.

The other thing about cats is, they exhibit disease in different ways. They tend to mask a lot of it. So, what we're really focused on as we build this market is creating awareness of what pain and osteoarthritis looks like in a cat and helping pet owners understand that ahead of our launch. And we truly believe that there's real innovation, if they can help their cats feel better, they will bring them in. Right now, even if they have the problem, they bring the cat in, there are really very few options, if any, to address it. So, we see cats more broadly and we're looking at other products we'll be launching in cat.

Medicalizing cats and providing better access to care for cats will be an important driver we think of the industry overall. And as one of the leaders, we believe looking at some innovation in that category, we're investing a lot as we look into 2020 and 2021 on developing that market. There's a lot of reasons to believe we can move the needle on medicalization of cats. There's now cat-only practices. As many of you know, many of the vets will come to your house. There's lots of different ways, including telemedicine, that we can expand the access to care for cats. So, we'll be quite focused on that with our first product looking at in 2021. But we'll also be looking at other monoclonal antibodies for cats.

With regards to dogs...

Q

May I interrupt? So, with respect to cats, do you have any products that can help with socialization because my cat...

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

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Oh God.

Q

My cat, according to my four-year old nephew, looks angry and isn't very interactive. So, any new...

[indiscernible] (00:15:34)

Q

...presence or we're not quite sure what to administer to the cat.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Because cats are different breed, as they say.

Q

Yeah.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Yes. No, I don't [indiscernible] (00:15:43).

Q

Okay. So, onto dogs. We do like our dogs better, so.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

I won't tell your cat. [indiscernible] (00:15:53) helping your cat...

Q

Yes. My cat is like...

[indiscernible] (00:15:55)...

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

And maybe that's my only advice...

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Q

That's the problem.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Don't say that in front of the cat.

Q

Yes.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Okay.

Q

So, with respect to the monoclonal antibody for dogs, is it the same product, is it a different product, and what might be the timing for the new pain opportunities in dogs?

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure, we haven't been public with when exactly the pain opportunity in dogs, it is a different product obviously, so.

Q

Okay. Thank you. Actually, why don't we pause there and see if there are any questions from the audience. Okay. So, when competitors are approved down the line against some of your leading products, your leading growth drivers, specifically the derm products, obviously, the market still has ample room to grow, et cetera. But how will Zoetis react, how will you characterize it when, let's say, one of your larger competitors receives an approval of a product that competes with Apoquel, for example?

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

A

Yeah. So, we've built a very strong franchise within the dermatology space, over $700 million this year, as I've said. So, we do expect others to be trying to follow us and develop products. That being said, I think we've done a very good job at a company and we've demonstrated across a number of our key categories. We do a very good job of lifecycle enhancements and lifecycle development. And that's one way that we're able to protect the revenue streams in the existing products. So, we'll continue to look to that with our dermatology portfolio, we'll expand into other species and other modes of action.

So, we'll be able to help defend that as it is. We also think another competitor in the market will also help in terms of driving the overall market growth as we do think there's opportunity for incremental market growth, particularly

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in the International markets. So, overall, we think we have a very strong franchise between Apoquel and CYTOPOINT, and we'll continue to defend that franchise with lifecycle enhancements as well.

Q

Okay, very good. That's helpful. And then, with respect to the company's move into diagnostics, obviously, that made a lot of sense and you can leverage that globally for decades to come, or longer. Could you just sort of update us on Abaxis, specifically what the year-over-year growth has been recently, the momentum of the business, and how you're going to continue to drive that forward?

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure. I'll start with the strategy and then I'll let Glenn talk about some of the financials. The rationale behind that deal was primarily being an important part of the vets practice, a part that will obviously never leave the clinic. Diagnostics, it's obviously a critical part of how they practice the data that it drives. There is obviously one large dominant player in the U.S. But outside the U.S., it's highly fragmented and not very penetrated. So, the primary driver of that deal was really International growth. And then, in the U.S. business, grow at least with the market and fully gain share. But acknowledged in the U.S., you're operating in a very red ocean.

We've spent most of this year putting our team together in the U.S., combining our diagnostics teams with theirs, and internationally, building out that field force. So, they were very dependent at Abaxis on distribution and we would like to do the same with our rest of portfolio direct demand generation. So, we're largely complete in building that field force outside of the U.S. And as we get to the close of this year, we can exit some of those distribution agreements that we had to keep for at least a year and really look forward to a very strong 2020 with our own field force internationally driving demand.

We're also quite focused this year on addressing some of the connectivity issues that Abaxis had with the practice management systems, which just is an ease-of-use issue for our customers, making sure that data fully integrates into the PIMS systems. And as we look at the first half of 2020, making sure that they're fully integrated into our SAP and all of our other systems, so we can provide a seamless customer experience and better provide a greater value proposition across our portfolio.

So, for customers who are buying diagnostics and petcare, parasiticides, monoclonal antibodies, vaccines, they would get a price based on their total business with us, and that will really be enabled by integrating them into our system. So, being able to provide value across our portfolio is one of the important drivers. So, we're very pleased with the progress so far in the integration and operational. We're looking forward to the connectivity that we've got to get to and then fully integrating into SAP.

And Glenn, I don't know if you want to comment on financials?

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

A

Yeah. So, in terms of the overall financials, just starting at the highest level, if you look at the first half of the year performance for Zoetis as a whole, we grew revenue by 12%. If you take out Abaxis, the revenue growth was 7% because they [ph] weren't in the comparator (00:20:47) in the first half of 2018. Now, Abaxis performance on its own, if you do it on an apples-to-apples basis, in the first half of the year, the portfolio declined, and that's really

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driven by the fact that in the first half of 2018, there were a number of launches within Abaxis that also had some stocking related to them.

Also, once we took over the business, we brought down the inventory levels that existed within the channels, more in line with what we typically keep. So, there's been some destocking in the first half of the year as well. So, that led to some year-over-year negative growth on an apples-to-apples basis. We do expect that growth to accelerate as we move into the second half of the year as we don't have that negative impact of stocking, and we continue to gain momentum in the marketplace.

Q

And just remind us the size of Abaxis relative to overall Zoetis.

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

A

Yeah. So, in Q2, for example, the size of the business was in low- to mid-60s relative to our overall revenue.

Q

Got it. Okay. Thank you. And then, maybe you can just talk about the competitive dynamics. Obviously, you have a huge competitor, but you have a unique global platform that you can leverage.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure. It's very different by geography. So, we'll start with the largest market, obviously, which is the U.S., where there is one very large player that's both in the reference lab and in the point-of-care. And then, there are different competitors when you look at reference lab or point-of-care. So, there's really only one that's in both.

We really think there's an opportunity from a customer perspective to provide a quite different value proposition around flexibility and ease-of-use, which we think can make us differentiated. And combining that with our broad portfolio across multiple therapeutic areas, we think our relevance, obviously, with the customers and our vet clinics is really critical.

We know there's a very large well-entrenched competitor that's in both today. So, it will be – it will require some innovation in that space, truly differentiated tests, truly differentiated modalities that we'll need to bring to market if we're going to gain significant share in the U.S.

Outside the U.S. [indiscernible] (00:22:59), many vet clinics still don't have any point-of-care in there. Some of them use – most of them will use reference labs. They're not even that sophisticated or that consolidate in any one market. [ph] In IDEXX (00:23:09), we've certainly seen that opportunity and is investing aggressively there. But we think we have a significant opportunity. We already have the deep relationship with those vets outside the U.S. and have been there for years, to then bring in a diagnostic opportunity in a specialist, where they would have a trusting relationship with us. So, I mean, I think we're quite focused on investing there.

And certainly, many people ask, will we look at reference lab. Of course, we would. We know that's an important part. And it will vary by geography how we approach that opportunity. But we do think the value proposition along

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with our core portfolio was compelling, but it could be obviously, as we've talked about, even more compelling with reference labs.

Q

Great. Okay. Glenn, with respect to the company's financials, obviously, the progress has been exceptional. But looking forward, how should we think about margin expansion opportunities, both gross margin and on the operating line beyond 2019?

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

A

Absolutely. So, we're still very committed to our overall value proposition of growing adjusted net income faster than revenue, right, which does imply continued margin expansion, although margin expansion isn't our sole goal. It's to continue to drive profitable revenue growth and increase our cash flow.

But when you look at it overall in terms of the areas that will be able to help us continue to improve, so from a gross margin perspective, we indicated that we expect a 200-basis-point improvement in gross margin between 2017 and 2020 based on our supply network strategies. If you look at the guidance that we have currently for 2019, we've already delivered that level of improvement, part of us being able to deliver it ahead of schedule has been, we've had some favorable mix in terms of Companion Animal growing at a faster rate than Livestock, and Companion Animal tends to be a higher margin business. Also, we've had some favorable foreign exchange impacts to our overall margin profile.

And as we move forward, beyond 2019, we still expect to continue to be able to leverage price. Mix will probably be favorable as Companion Animal continues to grow faster than Livestock. Unknowns are foreign exchange and other components that could either positively or negatively impact margins. But we've really been very successful overall improving our gross margins over time.

When you look at it from an operating expense perspective, overall OpEx we expect to grow at a rate lower than revenue. But it varies by expense category. So, R&D is one area where we expect to probably grow more in line with revenue, and to the extent that there are significant opportunities in any particular year, and may even grow beyond revenue.

When you look at the selling expenses, selling expenses will probably grow some place between revenue growth and inflation. So, still getting some leverage from selling expenses, and then general and administrative expenses more in line with inflation. So, when you bring all that together, you should be able to expand margins over time.

Q

Okay. And just following up on your FX point, how much of a benefit has FX been to the gross margin recently? Any way to characterize that, and how should we think about that as a swing factor going forward?

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

A

Yeah. So, we [ph] haven't been (00:26:12) characterizing the specific percentage to-date, but it has been a contributing factor for 2019 probably in the range of about 50 basis points. But we haven't fully [indiscernible]

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(00:26:23) in terms of what we've disclosed externally. That varies over time, right, based on the FX movements, based on where they are geographically...

Q

Yes.

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

A

...versus where we're producing, based on where it is – where it's produced versus where it's sold. Those can be swing factors that will vary every year.

Q

Got it. Okay. And then, maybe you can just update us on a framework for the company's current debt, your annual cash flow from operations, CapEx, just so that we understand how the company's financials are performing...

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

A

Yeah.

Q

...off the income statement.

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

A

Right. So, we have a very strong balance sheet. We're well within our targeted gross debt to adjusted EBITDA range of 2.5 to 3. We generated a significant amount of cash, and our cash flow prioritizations and capital allocation prioritizations continue to be consistent. First, our investments internally, and this year, in particular, our CapEx is expected to be up about $100 million over 2018, really, mainly driven by investments that we're making in manufacturing to make sure that we can continue to support the strong growth that we're seeing in many of our products, but also support the future growth with products that we expect to launch.

We've also made some investments in infrastructure to further support the integration of Abaxis, and those are driving the increase in capital expenses. You've also seen us continue to increase the level of spending in R&D, and we believe that will continue to support the short-, medium- and long-term growth of the company, and we'll continue to do that as well. So, we've made some significant increases in our internal investments. We'll continue to look at business development opportunities that enhance the core portfolio, and then what remains we'll return to shareholders in the form of our dividend and our share repurchase.

Q

Very good. And then, just to wrap up, we just have another minute or two here, I wanted to touch on Livestock to just better understand. Innovation in Livestock at Zoetis, opportunities you see, whether there are any meaningful

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new product launches that will – that could move the needle in the next year or two. And then, also, comment on whether you pursue any branded generics of key competitors' top products. So, for example, Rumensin is a brand that has $300 million in U.S. sales. Wondering if that would be an opportunity or not for a company like Zoetis.

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

Sure. As many people know, who've been following the livestock industry, more specifically the cattle industry, cattle had struggled in the last four years of sort of an absence of innovation as an industry. And I think that has hurt the overall growth in the U.S., specifically there. We are quite focused and we have a number of programs in our R&D portfolio across that we continue to call that continuum of care, so from predict, so we are the leader obviously, as you probably know, in the genetics space and genetic testing. So, really continuing to grow that business.

We're looking, as we talked about, when the acquisition of Abaxis to move more point-of-care diagnostics into the cattle space, probably first in dairy, where we see the opportunity, it's probably the closest and probably the largest. We continue to look at opportunities around vaccines in Livestock. Again, more and more what consumers and vets and producers want us to have to treat as little as possible. And then, we've talked a lot about our acquisition of SMARTBOW in Precision Livestock Farming. So, if you can integrate some of that data and add a smart tag to better predict an animal that's going to get sick or isn't he and we should be focusing on reproduction, that has a lot of value to our customers. And so, we're focusing a lot around innovation in that space.

And then, the last major area of opportunity at Zoetis we're focused on is immunomodulators that can replace some of the anti-infectives in the industry today. And we recently announced a collaboration with Colorado State University to really focus on livestock innovation in this space.

So, we are excited. Obviously, we haven't given guidance in any product that's going to be launched in the next year or so. But this is a big opportunity for the industry and certainly for Zoetis. And we've invested in programs that we really believe in will be coming over in the coming years.

Q

And then, pursuing competitors' top products, I know that you have competitors that, when your products lose exclusivity, they will copy your products and often launch branded generics. Does Zoetis pursue that in Livestock or...

Kristin C. Peck
Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

A

We've done – what we did with Actogain and Engain on the ractopamine molecule. So, we have opportunistically done it. We don't have any that we would comment on at this point, but it has been a space we have done historically, yes.

Unverified Participant

Okay. Very good. Well, we're out of time. Thanks so much for joining us.

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Kristin C. Peck

Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

Thank you.

Unverified Participant

Appreciate you being here.

Kristin C. Peck

Executive Vice President & Group President, U.S. Operations, Business Development and Strategy, Zoetis, Inc.

Thanks so much.

PS: The words in the [] come from the company.

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