

11-Jan-2021

# Zoetis, Inc. (ZTS)

JP Morgan Healthcare Conference

## CORPORATE PARTICIPANTS

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

---

## OTHER PARTICIPANTS

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Good morning, everybody. I'm Chris Schott from JPMorgan. And it's my pleasure to be introducing Kristin Peck, CEO of Zoetis, for the next session today. As a reminder, this is going to be a 40-minute session. And after Kristin's presentation, anyone who would like to ask a question, please submit that through the Ask-a-Question box on the screen.

With that, I'm going to turn it over to Kristin.

---

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

Thank you, Chris. It's a pleasure to be here today for the JPMorgan Healthcare Conference. As a longtime participant at JPMorgan, it sort of feels strange not to be flying to San Francisco in January, walking the cramped hallways of the Westin Hotel and being scheduled nonstop from 7:00 AM to 10:00 PM. I certainly hope we'll be together again in 2022.

Today, though, I want to share how proud I am to be part of the healthcare industry that has been and will be such an important part of all of us returning to a safer and more normal existence in the future.

Before I talk about Zoetis and how we perform through COVID-19 and our plans going forward, I want to mention a few legal housekeeping items, which can be found on slide 2. My comments today will include forward-looking statements and non-GAAP measures. And you can find more details on these risks as well as reconciliation of non-GAAP numbers in the slide deck we published this morning and in the SEC filings on our corporate website.

So, let's get started. Moving to slide 3. One of the greatest lessons that Zoetis and its colleagues have affirmed during the pandemic in 2020 was that the work we do in advancing animal care is critically important and essential to the world. Our colleagues rallied around our purpose and our business proved resilient, based on the

fundamental needs for animal companionship, comfort and nutrition, despite the pandemic challenges or perhaps even because of them. So, what has demonstrated clearly why we are the leader in a more than \$40 billion animal health industry and why once again we showed our unique strengths across the continuum of animal care from prediction and prevention to detection and treatment of disease.

Our diverse, innovative and durable portfolio has always given us the ability to adapt and endure through significant shifting market dynamics and economic conditions. And even as the world went into lockdown during COVID-19, we sustained our growth and profitability based on more rapid recoveries in sectors where we were strong like petcare in China, as well as our new product innovations, adaptability to customer needs, and the addition of new businesses. We set key strategic priorities for Zoetis at the beginning of 2020, and we continued on that course throughout the year. While we adjusted some resources and timing to address critical COVID-related needs, our strategic priorities remained our long-term focus.

In the near-term, colleagues' safety and customer supply were the most immediate concerns. And thanks to our flexible and agile teams, we were able to maintain a reliable supply of high-quality products. Our R&D programs remained on track preserving our future pipeline of innovations, and our field force adapted to new ways of supporting customers online via remote installations and technical consultations. Our portfolio, commitment to innovation and strategic focus enabled us to deliver another year of what we expect to be above-market revenue growth and to continue a track record of value creation and stability for our customers and investors.

Turning to slide 4 in a discussion of market trends. Animal health remains a very appealing market for investors based on the consistency and predictability of its fundamental growth drivers, population growth, a growing middle class, demand for sustainable food production, and increasing humanization of pets. In the coming years, however, we see additional trends shaping the industry. In the companion animal market, we expect new product innovations to continue driving the most substantial portion of our growth in the animal health industry, with industry expectations in the mid-single digits for the companion animal market.

Pet owners are playing a more influential role in the care of animals, demanding more convenience and transparency, as well as specialty in chronic care for the pet members of their family. And these bonds have only deepened during COVID-19, as we spend more time at home with our pets. For Zoetis, this means continuing to invest more in direct-to-consumer advertising and online channels for major brands like APOQUEL and Simparica.

It also means pursuing breakthrough innovations like monoclonal antibodies for osteoarthritis pain in dogs and cats and educating pet owners about these chronic conditions. And while veterinarians remain central to the care and treatment of pets, retailing and e-commerce channels are becoming increasingly popular ways to fill prescriptions and get over-the-counter medicines.

During COVID-19, many pet owners converted to these channels out of necessity, but now they may have permanently adopted these channels for convenience. Zoetis looks to offer our products wherever pet owners are choosing to buy them. And we've been developing more online capabilities and relationships to grow our scale on these channels.

While this will become a more important fulfillment option for pet owners, veterinarians will remain central to pet healthcare and prescription decisions. And approximately half of Zoetis' portfolio such as injectables and vaccines will continue being administered in the clinic. Finally, we're seeing more consolidation of veterinary clinics into major accounts.

Many of these global operations are looking for partners who can serve them around the world and provide added value in terms of technical services support, innovation and expertise across the continuum of care are hallmarks of Zoetis' customer value proposition.

In terms of the livestock market trends shown on slide 5, we continue to expect flat to low-single-digit growth in 2021 as the impact from COVID-19 will still be felt. Livestock should increase to probably low to mid-single digits as the COVID recovery picks up and as more innovation is brought to the market over the longer-term. The reality is global demand for protein continues to grow. And the need for greater production efficiency and more sustainable practices presents opportunities for Zoetis to bring innovative new treatments and technology to animal agriculture.

Zoetis has been investing in new areas of research such as digital and data capabilities to capitalize on the long-term future of livestock farming. We've been conducting research on alternatives to antibiotics such as immunotherapies, acquiring and developing data analytics platforms and skillsets and building greater connectivity and cloud-based solutions across our portfolio, all are designed to respond to consumer trends, bring greater value to livestock producers and help them define a more sustainable and digital future of animal agriculture.

With that backdrop, let's move on to why we think Zoetis remains well-positioned to capitalize on the many growth opportunities in animal health. As you can see on slide 6, Zoetis remains the world leader in animal health based on revenue with strong market positions across species, product categories and geographies. We're proud of this leadership position and continue to focus on growing through internal innovation as well as strategic acquisitions and successful market launches in major categories.

By species, we have the number one position in companion animals, cattle and fish products which, in fact, make up nearly 80% of our total revenues. We are number one in other pharmaceuticals based on our dermatology portfolio and anti-infectives. While we're number four in parasiticides, we've been growing faster than the competition in this space based on successful launches of our Simparica and Simparica Trio products for dogs. We also lead in key markets globally, including number one positions in North America and Latin America. This leadership gives us deep and valuable customer insights across markets, species and the continuum of care, while generating the financial strength and flexibility to invest in the next generation of products and services for our customers.

As shown on slide 7, Zoetis has built a strong and diverse portfolio of products over the years. With our top 10 products accounting for only 40% of our total revenue and a strong pipeline of new products, lifecycle enhancements and geographic expansions being introduced each year, that diversity, durability and innovation are among our key competitive advantages.

Our portfolio consists of approximately 300 product lines across seven major product categories and eight species and helps fuel above-market growth rates. In recent years, we've expanded significantly in diagnostics with our integration of the Vetscan, point-of-care systems and our entrance into US reference labs. That portfolio generated \$216 million in sales and grew 12% operationally through the first nine months of 2020.

We have also made smaller acquisitions recently in digital and data, nutritionals and aquaculture as we look to the strength in our portfolio and emerging areas of future growth. And we do all of this while bringing new products and lifecycle innovations into markets with the largest near-term market opportunities. A blockbuster in animal health generates about \$100 million in annual revenue and our 13 leading product lines represent more than one-third of all blockbuster products in the market today.

We have brought three new blockbuster product lines, Apoquel, Cytopoint and Simparica/Simparica Trio, to market in the last several years and we expect that additions to our pain portfolio, Librela and Solensia, will also become blockbusters in the future.

At Zoetis, we pursue multiple pathways shown on slide 8 to deliver value to our customers and grow our business across the continuum of care. First and foremost is our commitment to science-based innovation. With more than 1,100 researchers and scientists as part of our global team, we continuously introduce breakthrough products that can make a meaningful difference to animals and give important new treatment options to veterinarians.

For example, Simparica Trio, a once-monthly chewable combination parasiticide, delivers all-in-one protection for heartworm disease, ticks and fleas, roundworms and hookworms. It was launched in Europe, the US and several other markets in 2020, and it has seen tremendous adoption even amidst the pandemic. Simparica Trio is the latest in a series of next-generation products introduced in our parasiticides portfolio over the last few years. Revolution Plus for cats is based on the same sarolaner molecule as Simparica and Simparica Trio, and it was launched in 2019. And ProHeart 12, which was introduced in 2019, is the only once-yearly injection to prevent heartworm disease in dogs, 12 months of age or older, in the US.

In addition to parasiticides, we're very excited by the first of kind innovations we have developed for monoclonal antibodies to treat osteoarthritis pain in dogs and cats. Librela, which is for dogs, received its first authorization in 2020, and we'll be launching in the EU in the first half of 2021, with additional regulatory submissions for Librela under review by health authorities in the US, Canada, Latin America, and Asia-Pacific. We are progressing with similar regulatory reviews for Solensia, a monoclonal antibody therapy that can help manage osteoarthritis pain in cats, a condition that is vastly underdiagnosed or treated in cats today. Solensia received its first authorization in Switzerland at the end of 2020 along with a positive opinion from the CVMP in the EU.

We expect these breakthrough innovations in pain to significantly expand the category in much the same way our products for allergic itch, Apoquel and Cytopoint, had done in dermatology for dogs. In addition to our internal R&D, we also leverage external innovation in business development to enhance our portfolio. Collaborations with partners like Colorado State University for immunotherapies in livestock, Texas A&M University for emerging infectious diseases or Regeneron in monoclonal antibodies, all complement our own capabilities and keep us at the forefront of animal health research. We continue to make targeted acquisitions to advance solutions in the diagnostics, digital and data spaces, with deals for reference labs and other businesses such as Performance Livestock Analytics and Fish Vet Group in 2020.

Our final pathway to growth is expanding our presence and portfolio in markets around the world. Today, we have a direct sales team in 45 countries and markets. And we market our products in more than 100 countries worldwide. We continue to introduce our industry-leading products into new markets with Simparica's recent launch in China and to expand our business in other emerging markets.

Turning to slide 9. Last year, I introduced five priorities for the next stage of Zoetis' journey: drive innovative growth; enhance customer experience; lead in digital and data analytics; cultivate a high-performing organization; and champion a healthier, more sustainable future. We have made significant progress in each area, but let me hit just a few highlights.

I've already spoken about driving innovation and the significant milestones we see for our monoclonal antibodies for pain, which are an exciting platform with great near and long-term potential. In customer experience, we've learned many lessons during COVID-19 in terms of customer interactions online. While we'll be happy, actually

thrilled, to have more of our people back in clinics and on farms, we will add many of these online tools to our future plans.

In leading digital and data, we're very proud of the new Vetscan Imagyst platform, which features cloud-based artificial intelligence for companion animal diagnostics. We've launched it in several markets and we're making investments to accelerate other developments and protocols beyond fecal testing.

In cultivating a high-performing organization, we made significant strides on our diversity, equity and inclusion initiatives, with many new external partnerships to broaden our pool of diverse candidates and internal focus on education and new colleague resource groups and greater transparency about our numbers and aspirations.

Finally, in the area of sustainability, we formalized our strategy and became the first animal health company to issue a comprehensive ESG review based on leading sustainability frameworks. In the first quarter this year, we expect to share our long-term targets for ESG metrics and continue to build out these programs. I'm very confident these are the right priorities for our future and the progress to-date has been energizing for our leadership and for our colleagues.

Let me turn to our financials. From a revenue growth perspective, Zoetis has continually grown in line or faster than the market, an average of about 8% operational growth per year over the last five years while the market has grown an average of 5%, as you can see on slide 10. In 2020, we naturally saw some impact from COVID-19, most notably in the second quarter, but we saw a more rapid recovery in our companion animal portfolio throughout the year, driven by our parasiticides, key dermatology products and diagnostics.

In livestock, COVID-19 had a more significant impact throughout the year, especially in US cattle, as shift from dining out to eating out (sic) [eating in] at home made a significant effect on the food supply, the food supply chain and producers in the US. While we're mindful of the uncertainty around the world's recovery from the pandemic in 2021, we remain confident in the health of our business based on the resiliency we demonstrated in 2020, especially in petcare, the investments we continue to make in our business and the opportunities to capture growth through innovation.

Turning to slide 11. Another tenet of our value proposition has always been growing adjusted net income faster than revenues over the long term and maintaining strong margins. In 2020, our strong financial position and strategic focus enabled us to maintain our profitability despite the impacts of COVID-19. Over the long term, we will continue supporting revenue growth with new product launches and lifecycle innovations, increased investments in R&D, manufacturing and digital capabilities, and targeted business development.

With that, let's turn to slide 12, and talk about capital allocation, our recent history and future plans. Our financial results have historically allowed us to make important investments for growth while returning excess capital to our shareholders. In 2020, our financial position helped us maintain stability in our operations and gave us flexibility to redeploy resources and address critical needs like colleague safety, logistics and supply chain changes and increased inventory for our customers.

In 2020, we invested approximately \$1 billion internally and externally to support future growth with our R&D, capital expenditures and business development activities. And while we reallocated some cash and resources to address new COVID-related expenses, our overall investment plans stayed in place. We remain committed to reallocating excess capital to shareholders throughout the year. We paid \$380 million in dividends and bought back about \$250 million in shares before we temporarily suspended our share repurchase program. We are

resuming our share repurchase program in the first quarter of 2021 and we announced a 25% dividend increase this past December as a demonstration of our long-term commitment to capital return for our shareholders.

Zoetis has shown continued resiliency, stability and innovation during 2020, and those gains remain the most critical goals for 2021 as we gauge how quickly the COVID-19 virus can be brought under control and the global economy can recover to more normal levels.

As illustrated on slide 13, our long-term value proposition for shareholders continues to be growing our revenue in line or faster than the market, growing our adjusted net income faster than revenue, targeting investment opportunities that are meaningful to customers and create value for shareholders, and returning excess capital to shareholders as we continue to invest in the business.

And finally on slide 14, looking ahead, our major catalyst for growth in 2021 are continued strength in petcare based on parasiticides, dermatology and pain, ongoing expansion in markets outside the US, most notably China, and acceleration of our diagnostics portfolio penetration with reference labs, increased activity and new products.

In conclusion, Zoetis' most recent performance over the last year amidst the pandemic has reaffirmed we are a strong market leader in an essential industry with a portfolio, focus and financials to endure and excel even in challenging times.

Thank you. And now, Chris, would you like to open it up for the Q&A for me and our CFO, Glenn David?

---

## QUESTION AND ANSWER SECTION

### Chris Schott

*Analyst, JPMorgan Securities LLC*

Q

Absolutely. And thanks for the presentation. Maybe just to kick off, and I know, Kristin, you touched on this during the presentation, but just a little bit more color about how you're thinking about overall animal health market growth in 2021. I know it seems like your portfolio should certainly support above-market growth. But when we kind of balance the healthy companion trends we're seeing with some of the challenges in livestock, how are you thinking about just industry growth trends overall as we enter this year?

---

### Kristin C. Peck

*Chief Executive Officer & Director, Zoetis, Inc.*

A

Sure. I think we continue to believe that in the petcare space, as I mentioned in my remarks, that you're going to see growth in the sort of mid-single-digits, as we continue to see. I think that trend, especially because of the level of innovation and really the resiliency of veterinarians around the world [indiscernible] (19:24) their businesses. So, I really think that trend will just continue. I think they readjusted in Q2, Q3. And I think we're really on track there.

I think, livestock, the next year is going to be different than probably the next three to five. I would say flat to – we're really expecting flat globally in livestock, could be very low-single-digits if certain things happen. But I really think our expectation is sort of flat [indiscernible] (19:50). Over the medium to longer term when we're out of this pandemic, and to be clear, what I'm talking about is a return to normal travel, a return to more normal dine-out, more travel and entertainment, I think you'll see it return to sort of low to mid-single-digits. And the difference between low to mid is really going to be innovation coming to the space. Innovation can be cyclical. And right

now, without new innovation, I think you're going to have a problem getting to mid-single, so probably the medium term until you have major innovation. So, Glenn, I don't know if you'd add anything to that.

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. The only thing I'd add is also the seasonalization this year will not be as consistent it may have been in previous years. So, obviously, in 2020, we saw a significant impact in Q2 because of COVID-19. So, the growth rates that you'll see throughout this year in 2021 will probably be a little more variable than you may have seen in the past.

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Yeah. That makes sense. On the companion side of the business, it seems with COVID, we had increased pet ownership kind of, I guess, a rising standard of care for a lot of pets. How durable do you see that trend? And maybe just as you think about how you invest in your business, does that make you think differently about how aggressively you invest or how much resource you put behind assets if there's a greater willingness to pay for, again, some of these therapies that maybe weren't appropriate for animals in the past or weren't used as broadly for animals in the past?

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

It's a good question. I would say, there's two trends you're really talking about in that question. The first is more of like the humanization of pets, pets getting closer. And I do think that's a trend that will continue. I think you've seen so many people spend so much more time at home with their pets. They're noticing more. They're investing more in chronic care. There have been numerous articles that pet associates put out on just that continuing trend. I mean, investing in pets, dog food, care, whatever is almost about \$100 billion market at this point. So, it's a big trend.

But I also think technology is advancing and so we're able to bring therapies to bear that we probably weren't before. I think our example of monoclonal antibodies, artificial intelligence. So I think this is a significant growth driver. And I think what you've seen from us is significant investment in R&D to bring some of these as we see exciting technologies. I mean, there are different opportunities in the livestock versus companion animal space. Chronic disease is not something you manage actually in livestock, but it is here. So I think we are making sure we invest our capital, our R&D dollars and business development around things we think have the greatest trends. But I don't know, Glenn, if you want to talk more about that.

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. The only thing I'd add is also promotionally, right. Very early on in 2020 with the impact of COVID with a lot of the savings that we're seeing from tie and other areas driven by COVID. We shifted that to direct-to-consumer advertising as we saw these trends developing. And those investments provided a very positive return for us in 2020 and will definitely influence our decisions in terms of how we invest behind these brands moving in 2021, particularly behind brands like Apoquel and Simparica Trio.

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

And maybe just on that topic, as we think about 2021, I know you're not giving guidance, but just the cadence of investment. Is this a year we should still think about kind of bottom line growing faster than top line. I'm just trying to get a sense of, with obviously Trio launching nicely, big new category that you're kind of creating the antibodies, how do we balance that kind of OpEx trend versus top line?

---

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. I think as you look at 2021, it's somewhat similar to what you've seen in 2020, right. We're very excited about the short, medium and long-term growth of our business with the innovation that's being brought forward from R&D. So, when you look at 2020, the differential between revenue growth and income growth was not that large. As we move into 2021, there are a number of areas that we're very excited about for the future that we'll continue to invest in. So, as Kristin said, our long-term value proposition is that we will grow income faster than revenue. As we move into 2021, that's a longer-term commitment, right, growing the income faster than revenue. In 2021 because of some of the investments that we'll be looking to make, that differential between revenue growth and income growth may not be as large as what you've seen in the past.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Makes sense. Maybe just pivoting over to the pain antibodies and thinking about that opportunity. I think as we saw with Apoquel on the derm side, you've significantly expanded the market with innovation. It seems like we are set up for a similar dynamic. So, can you help us just maybe compare and contrast the experience of maybe where the derm market was, where it is today, what similarities do you see with pain and is there differences we should think about as we kind of cut short your hands around how large of an opportunity this could be for the company?

---

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

Sure. I'll start and I'll let Glenn build on this. I mean, I think there's a few similarities and I think, by the way, to be clear, dog and cat are actually quite different in how I compare it. When you look at comparing the dermatology opportunity to the canine osteoarthritis opportunity pain, I mean, for starters, there's already have a pretty significant existing market in pain and there's good products. Some of them have challenges either on safety or efficacy. So, in dogs, there's still a large number of dogs who have not been diagnosed and ones that have been diagnosed that are not treated given some of the challenges and the products out there. So, we see a significant opportunity to take what today is a \$400-million market and grow it significantly with the new products. So, get more dogs into the clinic because there's a safer, more efficacious and treat more dogs.

So, I think comparing it to derm, which was not a terribly, well-established market with not a lot of products, I would say, dog pain is probably quite different in the sense I think it already is a pretty significant existing market. But as you compare that to the cat market where there really, in the US at least, really aren't any products. It looks a little bit more like the derm product. The only thing that's different is it's sort of still under-medicalized. They're not brought in. So, it's really going to take a lot more effort on our part to build that market, to let people know that there is a product, you should bring your cat in. And what that looks like is, whereas, an itch dog is very obvious to a dog owner, for those who have them, it's quite different actually with a cat. You really have to like teach a pet owner how to do that. But, Glenn, I don't know if you want to put any numbers around any of that?

---

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. No, I think to your point Kristin the disease awareness is going to be critical similar to what we saw with dermatology. Just to put some numbers behind it, right? Of those medicalized dogs and cats that have osteoarthritis, only 25% today, we believe, are treated. So, because of that, we think there's a significant opportunity to increase the market size, raise disease awareness and drive additional patients into the clinic for treatment.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Sure. And it's really a question on the feline side of the market. I mean, I think in the past, you've talked about maybe like a five-year cycle to kind of build out a new brand. Is that kind of the timelines we should think about here or it's just such a novel therapy in an under, I guess, treated animal type? How do you think about timelines for building that?

---

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. And I think it varies by product and also by investment. I think if you take the Apoquel experience, for example, right, we would have expected a longer ramp-up for Apoquel. But because of the significant innovation we brought to the marketplace, we saw a very rapid initial demand. Obviously, we hope to see that rapid initial demand as well for these products, but that'll be seen in time as we see the response from the marketplace.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Great. Maybe just pivoting over to Simparica Trio. And maybe just to set the table, just as we enter 2021, certainly big launch in 2020, it did well probably not the ideal environment to launch a new drug, but obviously some great trends. Just talk a little bit about your priorities for that brand as we head into, hopefully, a little bit normalized year this year to get that product continuing its momentum?

---

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

Sure. Glenn, do you want to take that?

---

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. So, as you said, Chris, we're really excited about performance we saw year-to-date in 2020 for Simparica Trio, particularly given the point that we really did launch that product right in the peak of the pandemic. But we've seen very strong performance. In the clinics that we've been able to penetrate, our share has exceeded our expectations. As we closed out the year, also we're very excited about the fact that we did end up penetrating the same amount of clinics that we had initially strove for when we started the launch, even pre-pandemic. But it took a little longer because of the pandemic. But the fact that we've reached those same number of clinics gives us confidence in the long term with the potential of the product being similar to when we initially launched it even with the impact of COVID-19. So, obviously, it's a product that we're very excited about. It's a product that we're going to continue to invest behind with both direct-to-consumer advertising as well as continued focus from our field force. So, we're very excited about the growth that we expect to see from Trio on 2021.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Great. And from a competitive standpoint, what's your latest thinking in terms of how that environment is going to develop over time?

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. So, as we've said in the past, obviously, we have limited visibility. It's a competitive launch. We don't expect competition at least in the first half of the year. So, at the earliest, we'd expect competition in the second half of 2021. But again, there's limited visibility in terms of competitors' progression with their R&D programs.

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And maybe just one final one, this just – as you've been kind of looking at how shares evolving, it's a little bit more color where the incremental kind of pet share that's coming from Trio. Is this existing Simparica users converting over? Is it more puppies versus conversions? Just want to get sense of where you see the most traction and what you're most focused on in terms of how the share evolves over time?

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. And that's been one of the positive trends as well that we saw in 2020. We've mentioned a number of times that the cannibalization of Simparica has been well below what we initially expected. Year-to-date, we've actually seen Simparica grow 11% in Q3 year-to-date. So really, we're getting share from other competitors, bringing back people from over-the-counter back to the veterinary market. So we've seen shares coming from many different segments and most optimistically, we're seeing less coming from Simparica. So, very pleased with the performance of the overall portfolio.

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Great. Great. Maybe just to be able to livestock, I think you mentioned kind of longer-term growth maybe being a little bit below the companion side and innovation being one of the dynamics there. Once we get past COVID, just help me think about what are – what's going to drive reacceleration of that segment of the business? And from an innovation standpoint, what are the kind of unmet needs we should be really watching as we think about the industry and Zoetis' portfolio evolving over time?

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

Sure. I mean, as you look at just the fundamentals like the macro level of livestock, I mean, there's an expanding population – global population and more desire as more people enter the middle class around the world to consume more protein. So the fundamentals are really long-term trends. And so, if you look at the expectation of growth of just protein consumption, it's projected to grow 1%, which on a huge market is a significant amount. So that's why we say longer-term, this is a growing market.

I think what we need – what has been lacking over the last few years across the industry is significant innovation to change the standard of care. And so there's significant unmet medical needs as you think about the desire of both producers and consumers to use your antibiotics to keep animals healthier longer to focus more on what I would call individual animal care versus treating the herd. And I think these are the type of technologies that we're invested in.

So, we're looking at opportunities in genetics to make sure we just breed healthier animals. So you make the choice of who you breed based on the animal that's less likely to get sick, et cetera. So you start at genetics. Looking at vaccines, how do we prevent disease with vaccines? How do you invest in things such as diagnostics to better diagnose very quickly and isolate animals at the point of care? So chute-side, barn-side technologies I think is significant. Looking at new alternatives to antibiotics, so immunotherapy, such as our partnership right now with Colorado's [indiscernible] (32:04).

And then we talk a lot about digital and data analytics. Better knowledge of that animal went to breed it, how do you just make the production more efficient today? And that's what producers and consumers want. So do you think there's a lot? It is a little more challenging in livestock, they don't live as long. So you're – there's a more narrow set. And you have to be able to ensure you implement these technologies around the world at different production system. But we continue to believe there are significant exciting opportunities in the livestock space that will drive it back to the low- to mid-single digit growth [indiscernible] (32:37). I don't know, Glenn, did I miss anything there?

---

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah. The only thing I'd add is we're also very excited about continued growth in our emerging markets. So if you look at 2020, as an example, we've continued to see rapid growth in Brazil but also China, right? Our livestock business in China 2020 Q3 year-to-date is growing over 30%. And a lot of that is being driven by the recovery in African swine fever. And we think that recovery continues over a number of years. And we've also seen a significant shift from backyard producers to larger producers which use more of our products. And we think that also bodes very well for the future as well.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

And just to be clear on the growth, I mean this year you're talking about kind of a flattish business, maybe a little bit of growth, obviously COVID is still impacting. Should we think about then there being kind of a bit of a bolus such things normalize then we go back to that growth? Or is it kind of like a new base that we start to grow off of as we kind of think of the world reopening? I'm trying to get a sense of as we think about longer-term kind of CAGRs for livestock.

---

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

A

Yeah, I think if you look at it, Chris, right, if you take the impact from Q2 out of the equation, that's sort of your new base. Obviously, we did have that significant negative impact from Q2 because of the impact of COVID as our customers had to adapt. But if you take that impact out, I think you're sort of looking at the new base in 2020.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Okay. That makes sense. And then just one from about the financial side, maybe on diagnostics, just talk a bit about the kind of build-out of the reference lab piece of the business. I know you made some acquisitions over the last year or year and a half. But as you kind of think of the balance of point of care versus the reference lab, just talk a little bit about that dynamic as you think especially in the competitive environment you're operating in.

---

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

Sure. So, right now, what we've launched here, probably did three acquisitions in the US, have different reference labs geographically spread out. We've been very pleased with the performance of the reference lab business. I mean diagnostics as a business tends to grow at 10%-plus. So, I mean, the nature of the business is great. We are very pleased with how we dealt with what we thought. Our – as we – when we announced these acquisitions, we were clear that this was a longer-term build-out strategy over the next two to five years building out geographic hubs. And I think they're mostly because very different than point of care. This is a scale business geographically just the managing of logistics in this business. So, that is our plan to continue to grow on this. We are very pleased with this expansion.

Our customers really are happy when we can offer the whole set. So, it's just making sure we can do that in a profitable way. So, it's scaling a lab in a region and then moving to the next. And so, we've a detailed plan and a dedicated team looking at the expansion of our reference lab business in the US. And certainly, we'd look to employ a similar strategy in key geographies outside the United States as well. There – to your point, from a competitive situation there, in the US, there is one very large player and then a lot of small ones. So, that's our competition. In reference lab, there's one very large second one and then really small. So, we're...

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Yeah.

Q

---

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

We do believe they're still looking for an alternative. It's quite different outside the United States where it's very fragmented in most geographies where we do think if we can establish a small network to start, we can scale that quite nicely. So it is – we'll pick our geographies again back on the fact that it's not a global game, it is a local game. So, pick your geographies and scale those carefully. But I think reference lab remains an exciting opportunity for growth. And although it may be dilutive in the short-term, we do believe it's the right investment and has very strong – our approach organically has very strong return on invested capital.

A

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Great. Great. And maybe just on that, the US reference lab strategy, given the organic – kind of more organic kind of build we're thinking about over time, how long does it take to get to where ideally you'd like to be from a share perspective? Is it a three-year investment, is this more like 8 to 10 years? I'm trying to sense of how long it takes to build out that infrastructure.

Q

---

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

It's not a 10-year plan. I mean we've looked at – our plan means we have to get to the share that we intend within five years. And that's our focus.

A

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Okay.

Q

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

So, it's not – let's just say it is not a one, two, it is a longer-term. But when I say longer-term, I do not mean 10. Our goal is to get to the share we target within five years.

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Great.

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

That's how we're using.

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Yeah. Let me see from the audience and questions when looking through those though. So one question I get is just we think about innovation, you've had derm, you've had Trio, we've not got the pain antibodies. What are – from a companion perspective, what are the thinking about five-plus years, what are the areas you're most focused on in terms of unmet need that you see Zoetis addressing over time as we go to kind of that next wave of pipeline opportunity?

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

A

Sure. I think as you look at companion animal over time, I think, for starters, they're still significant innovation in some of the largest categories right now as you saw with our launch with Simparica Trio. So I would say even parasiticides which you think is well met, there's still significant opportunities in some of those. But there's also significant opportunities as you look at chronic care. Renal, kidney, I mean, there's lot of diseases longer-term that I think people are looking for. They're looking for easier to administer treatments. They're looking for ones with sometimes better profiles, either whether that's safety or efficacy. So companion animal is a significant opportunity, not just in the therapeutics, I still think there's significant opportunities around diagnostics, there as well. And we have in companion diagnostics to some of our therapies.

So if you can diagnose for example, osteoarthritis earlier before the damage to the bones is done, that's a significant advantage. So looking at earlier biomarkers, in areas like that. So when we think about the opportunities in companion animal, we're really looking across the continuum of care. So everything from predict, prevent, detect, treat, we do think there's lots of diseases as people invest more time in animals and are noticing more.

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Q

Great. And we have time for one last question, just going from the audience here. Just, I think, Glenn, you mentioned livestock being impacted in 2020. We always knew that 2Q, kind of, hit. Just with the vaccine coming on board, so what it seems like easier comps for 2020 years. Just elaborate a little bit more. It seems like the 2021 commentary seems like it might be a little conservative of that business still being flat. And this was – I think we're looking for a little more color. Why wouldn't we think a little bit more of a rebound if conceptually maybe by the second half of the year, we're thinking at a bit more normalized environment that we're operating in?

A

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

Yeah. And Chris, it's a good question there. A couple of factors that we need to consider, right? To your point, with the vaccine coming out and when things will return to normal, right, we do need to see that shift back to foodservices, back to restaurants, back to cafeterias that will bring more stability back to the livestock market. The other thing to consider is the impact of the Draxxin LOE.

As we said, Draxxin is a very large product for us, but it's also a very large product for the overall market in livestock. And to the extent that there is a revenue impact for that or a price impact to the overall market as well, that will be a drag to the overall market growth as well as some of the challenges that we'll experience. So, I think it's a combination of that, as well as just the normalization back between the balance between foodservice and grocery store, as well for the overall livestock market.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Great. Well, I think we just spent our time. Really appreciate the time today. And thanks again for joining us.

---

**Kristin C. Peck**

*Chief Executive Officer & Director, Zoetis, Inc.*

Thanks so much, Chris.

---

**Chris Schott**

*Analyst, JPMorgan Securities LLC*

Thank you.

---

**Glenn C. David**

*Chief Financial Officer & Executive Vice President, Zoetis, Inc.*

Thank you.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.