

✓ **Event Details**

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Company: Zoetis, Inc.
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✓ **Company Participants**

Steven Frank - Zoetis, Inc., Vice President-Investor Relations
Kristin C. Peck - Zoetis, Inc., Chief Executive Officer & Director
Wetteny Joseph - Zoetis, Inc., Executive Vice President & Chief Financial Officer

✓ **Other Participants**

Erin Wilson Wright - Analyst
Michael Ryskin - Analyst
Brandon Vazquez - Analyst
Jonathan D. Block - Analyst
David Westenberg - Analyst
Balaji Prasad - Analyst
Glen Santangelo - Analyst
Chris Schott - Analyst
Navann Ty - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

- 00:00:09 Welcome to the Third Quarter 2024 Financial Results Conference Call and Webcast for Zoetis. Hosting the call today is Steve Frank, Vice President of Investor Relations for Zoetis.
- 00:00:22 The presentation materials and additional financial tables are currently posted on the Investor Relations section of Zoetis.com. The presentation slides can be managed by you, the viewer and will not be forwarded automatically. In addition, a replay of this call will be available approximately two hours after the conclusion of this call via dial-in or on the Investor Relations section of Zoetis.com.
- 00:01:22 At this time, all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation.
- 00:01:30 It is now my pleasure to turn the floor over to Steve Frank, Steve you may begin.

Steven Frank

- 00:01:37 Thank you, operator. Good morning, everyone, and welcome to the Zoetis third quarter 2024 earnings call. I am joined today by Kristin Peck, our Chief Executive Officer; and Wetteny Joseph, our Chief Financial Officer.

00:01:49

Before we begin, I'll remind you that the slides presented on this call are available on the investor Relations section of our website. And that our remarks today will include forward looking statements and that actual results could differ materially from those projections.

00:02:04 For a list and description of certain factors that could cause results to differ, I refer you to the forward looking statement in today's press release and our SEC filings, including but not limited to, our annual report on Form 10-K and our reports on form 10-q.

00:02:19 Our remarks today will also include references to certain financial measures which were not prepared in accordance with generally accepted accounting principles or US GAAP. A reconciliation of these non-GAAP financial measures to the most directly comparable US GAAP measures is included in the financial tables that accompany our earnings press release, and the company's 8-K filing, dated today, Monday, November 4th, 2020. We also site operational results which exclude the impact of foreign exchange.

00:02:49 And with that, I will turn the call over to Kristin.

Kristin C. Peck

00:02:52 Thank you, Steve, and good morning, everyone. Thank you for joining our 2024 third quarter earnings call. Let me start by thanking our dedicated, purpose driven colleagues who helped us deliver another excellent quarter.

00:03:04 Building on the strong momentum from the first half of the year, revenue grew 14% operationally and adjusted net income is up 15% operationally. We saw balanced double digit growth across the business, driven by steady demand for our key franchises. US grew 15% and international revenue grew 13% operationally. Our innovative companion animal portfolio grew 15% operationally, while livestock grew 11% on an operational basis. Our consistent growth is fueled by a diverse, durable and science driven portfolio, carefully crafted through a deep understanding of our customers evolving needs.

00:03:44 By maintaining a strong focus on innovation, we set the standard for improving patient outcomes, higher customer satisfaction, and strong partnerships with veterinarians and pet owners. Our osteoarthritis pain franchise, Librela and Solensia, continues to make a transformative impact by addressing a critical unmet need, delivering 97% operational revenue growth globally.

00:04:09 From our conversations with customers around the world, it's clear that our safe, effective solutions are making a meaningful difference in patients' lives. We recognize the profound impact of our work, which only strengthens our commitment to developing this market. We have navigated this path before and understand that building a new category of care requires a steady, strategic approach. As we lap the US Librela launch, we continue to grow share even in a market where canine pain visits typically slow down from Q2 to Q3. In fact, Librela is actively disrupting this trend by driving more clinic visits and increasing engagement. With \$55 million in US quarterly sales, we see significant opportunity to further expand share and utilization. In just 11 months, we have treated 1 million dogs compared to an estimated 8 million receiving other treatments, and Librela has already become the fourth largest product in US pet care. This highlights the demand and long term growth potential, reinforcing our confidence in the franchise's billion dollar trajectory.

00:05:19 With record market penetration in the US, we're only scratching the surface of broader utilization potential. We estimate that an additional 17 million dogs are suffering from untreated OA. That's because before Librela, NSAIDs were the only option for vets, which many untreated dogs could

not tolerate due to pre-existing conditions. Globally, Librela opportunity is equally significant, with OA pain estimated to affect nearly 40% of dogs. And importantly, in the US, we see a similar non-linear growth curve to Europe, where revenue grew 18% operationally, year-over-year in year four of launch.

- 00:06:01 Given our results there, we are poised to create and expand this market domestically. Drawing on that experience is key to positioning Librela as the preferred pain treatment by highlighting its safe, effective and convenient choice for vets. We will leverage our strong partnerships and continue collaborating with veterinarians to expand treatment adoption, shifting away from two decades of reliance on NSAIDs. Results and trends like these reaffirm what we've long understood, the human animal bond is undeniable.
- 00:06:32 Today's generation of pet owners see their pets as integral members of their family, and expect human quality care.
- 00:06:39 Monoclonal antibodies, increasingly important in human health, are a prime example of how we are bringing that same kind of innovation to animal health, with treatments like Librela and Solensia. Our Simparica franchise continues to deliver impressive results as well, growing 27% operationally. While our science backed innovations have created entirely new categories in animal health, we have also set the standard for competing in established markets. Through close collaboration with customers, we understood that overcoming first mover advantage requires two differentiations and long term loyalty is earned with products that stand out in both safety and efficacy. The success of our Simparica franchise expanded the total parasiticides market and demonstrated that improving patient outcomes is not zero sum, especially with a significant unmet needs.
- 00:07:32 In 2020, we pioneered the US triple-combination parasite market with Simparica Trio offering comprehensive protection against fleas, ticks and heartworms in one monthly chewable. Trio is now the number one vet prescribed parasiticide with over 13 million dogs treated in just four years and 86% of pet owners report high satisfaction.
- 00:07:54 Despite increased competition, Trio prescription rates continue to climb as triple combination products are gaining share, supported by our field forces scale and excellence in driving customer engagement, and our commitment to making our products accessible through the most convenient channels for pet owners has solidified Trio's retail leadership.
- 00:08:14 Looking ahead to 2025, we anticipate a dynamic landscape but foresee two key outcomes. First, consistent with historic trends, the overall addressable market will grow. Second, having more options will accelerate education of vets and pet owners, increasing awareness of the benefits of broad spectrum protection will drive conversion to triple combination treatments. With our significant head start, proven efficacy and convenience, along with our trusted relationships, we believe Simparica Trio will remain the preferred choice even as new products enter the market.
- 00:08:49 Similarly, 16% operational revenue growth across our key dermatology franchise demonstrates how disruptive innovation and strategic lifecycle enhancement drive sustained growth. Over a decade ago, we identified a crucial unmet need in veterinary medicine, a solution for canine dermatological itch that balance safety and efficacy. Itch impacts the well-being of both pets and their owners. It's heartbreaking to see dogs struggling to find relief from persistent discomfort.
- 00:09:18 We were first to address this challenge. Thanks to our relentless focus on innovation and execution, in just a decade, the market grew from \$70 million to over \$1.5 billion, and growing. But we didn't just enter the market. We built it, cultivated it, and continuously evolved it, creating the

industry's first billion dollar franchise. As a result, today, Apoquel is the number one prescribed medication in animal health and the market and our customers have grown alongside us. And when vets wanted other options, we delivered truly differentiated first line treatment like Cytoint, the first monoclonal antibody to treat itch and Apoquel Chew a convenient chewable that enhances compliance.

- 00:10:02 These therapies are trusted by veterinarians worldwide, bringing relief to over 23 million dogs globally. And we believe they are the best treatment options. And it's not only our product portfolio that sets us apart, it's our "customer-focused approach to development." Vets trust our products for their rigorous safety standards and confidence in dosing regimens that allow for chronic, uninterrupted use. Our research-driven approach to JAK inhibition selectively ensures that our treatments can be used safely, alongside other medications, including vaccines.
- 00:10:38 With over 20 million dogs globally with untreated or undertreated itch, the dermatology market growth potential is vast. Our proven performance reflects our commitment to expanding access and providing trusted first-line solutions. Similar to our experience in parasitology, we expect optionality will grow the overall market, a market where Zoetis has two first-line treatments that are known for being safe, effective and trusted. Even with alternatives, satisfied customers are far less likely to switch, and we continue to deliver the solutions they trust and rely on. Innovation, execution and relentless focus on customer needs are the cornerstones of our key market-leading franchises.
- 00:11:21 Turning to livestock, we recently closed the sale of our medicated feed additive and certain water soluble product portfolios to Phibro Animal Health. This transaction is a prime example of Zoetis' disciplined capital allocation strategy, allowing us to focus our investments on areas with the highest growth potential aligned with our core capabilities.
- 00:11:41 We remain deeply committed to livestock, sharpening our focus on key areas of innovation, including preventative, antibiotic alternatives and genetics. For example, in September, we announced a strategic partnership with Danone to leverage Zoetis' genetic testing capabilities in promoting sustainable dairy production.
- 00:12:01 This collaboration aims to help dairy producers and Danone's global supply chain improve animal health and productivity, with a focus on animal well-being. This strengthens long-term industry resilience while also reducing environmental impacts.
- 00:12:17 Looking ahead, we anticipate the livestock industry to grow 2% to 4% annually, and we aim to be at the higher end of that range. Innovation will be a key driver of that growth. And to that end, we have updated our guidance to reflect strong performance across our key franchises, along with impacts primarily from the MFA divestiture. Wetteny will dive into the details there.
- 00:12:40 With 12% operational revenue growth through the first three quarters, we have outpaced our initial expectations, a testament to our agility in navigating a complex environment. As we look to Q4, we anticipate a return to our previous level of above-market growth and remain on track to meet our revised full year guidance, with strong momentum going into 2025. This quarter's results highlights the strength of our diverse, durable portfolio and unwavering commitment to delivering for our customers.
- 00:13:10 Before I close, I want to extend my sincere gratitude to our colleagues. They embody our purpose, support our customers, and drive our exceptional performance. Their dedication is what truly makes the difference. With their passion and commitment, we feel positive about our ability to deliver on the four key tenets of our value proposition: to grow revenue faster than the market, to

invest in innovation and growth capabilities, to grow adjusted net income faster than revenue, and to return excess capital to shareholders.

00:13:40 With that, I'll turn it over to Wetteny.

Wetteny Joseph

00:13:43 Thank you, Kristin, and good morning, everyone. To reiterate, innovation and execution underpinned an excellent third quarter, driven by the strength of our diverse and differentiated portfolio.

00:13:56 Another quarter of double-digit operational growth, across species and geographies. The remarkable performance of our companion animal portfolio highlights the willingness of pet owners to spend on the health and well-being of their pets, and the value of our products to pet owners and veterinary practices.

00:14:17 Our livestock growth underscores the essential and growing need for animal protein around the world, and the important role our products play in helping producers keep their herds healthy.

00:14:28 Put simply, we provide critical solutions central to animal health. Our success is directly tied to our customers and our first-to-market innovations continue to fuel the growth and success of their practices.

00:14:44 In the third quarter, we posted \$2.4 billion in revenue, growing 11% on a reported basis and 14% operationally, with 8% driven by volume and 6% from price. Adjusted net income of \$716 million grew 14% on a reported basis and 15% operationally.

00:15:08 Revenue growth in the quarter was driven by our innovative companion animal portfolio. Globally, OA pain mAbs contributed \$151 million. Our Simparica franchise posted \$333 million, and our key dermatology franchise contributed revenue of \$449 million. Our livestock portfolio also contributed strong growth with \$758 million in revenue.

00:15:35 Regarding our OA pain mAbs, Librela and Solensia, in Europe, after just 3.5 years on the market, Librela and Solensia are the leading treatments for OA pain and are driving market expansion by broadening treatment options across cases. As Kristin mentioned, many of these patients were previously untreated because they could not tolerate NSAIDs. In Europe and the US, Librela expansion into this patient group represents a significant market growth opportunity. In the US, the growing importance of mAbs cannot be understated. While overall US clinic visits are down, particularly for prescription-only visits that are moving to alternative channels, therapeutic visits such as those for OA are on the rise.

00:16:24 In the US, Librela has brought almost 0.5 million new patients to the OA pain category since launch, by expanding the market with a new standard of care. Our performance within the Simparica franchise highlights our ability to meet the evolving needs of pet owners by delivering safe, effective products through convenient channels such as retail, where Trio is the top-selling pharmaceutical. Parasiticides is the largest, most competitive therapeutic category in animal health, and we have substantially increased our market share by being the first to market in the US with a trusted differentiated product.

00:17:04 Since the launch of Trio, we have gone from number five in this category to number two, with clear triple-combination market leadership. And in the first year of competition in US triple

combinations, we grew revenue by more than 25% and increased our market share. In the US, we estimate almost 60% of medicalized dogs are not on triple combination products. The increased share of voice from new entrants should accelerate the shift to triple combinations where we have the first-to-market advantage.

- 00:17:39 We continue to win with puppies where Trio is the preferred choice for these new patients, signaling strong growth potential. Earlier, Kristin highlighted the deliberate balance between safety and efficacy with our key dermatology products. Apoquel delivered on that and quickly became one of the most important products in clinics. We understood our customers wanted more convenient options for derm treatment, and we delivered. We have multiple derm products with unique value propositions for both the vet and the pet owner.
- 00:18:11 All of our products can be used on acute, seasonal and chronic cases and have years of real-world vet and pet owner satisfaction. As we face new competition, we remain confident in our growth trajectory. We have proven experience defending established brands and we are confident that our portfolio of first-line treatments remain among the most important products in vet clinics.
- 00:18:37 Now let's move to segment results. US revenue grew 15% in the quarter, with companion animal growing 18% and livestock growing 5%. US companion animal performance was driven by our OA mAbs, including the launch of Librela, as well as continued adoption and compliance of Simparica Trio and our key dermatology franchise.
- 00:19:00 We continue to grow above market, driven by increased therapeutic treatment for OA and dermatology. Veterinarians preference for injectables and evolving pet owner preference for retail convenience and home delivery, which also boost compliance with oral medications.
- 00:19:17 Our OA pain mAbs, Librela and Solensia posted a combined \$73 million in US sales in Q3. Librela generated \$55 million, primarily on increased clinic utilization. Penetration has reached 85%, faster than any product in our history. A crucial first step in our successful launch was ensuring clinic availability. And again, we are just scratching the surface with OA.
- 00:19:44 Just as we've seen with our key dermatology franchise, addressing unmet needs with revolutionary treatment can deliver long-term growth, and we believe Librela will be a growth tailwind for years ahead.
- 00:19:57 Solensia posted \$18 million in revenue or 50% growth. While the incidence rate for OA in cat is similar to dogs at around 40%, there were very few treatment options for cats prior to Solensia.
- 00:20:10 Since Solensia' launch in the US two years ago, we have seen feline OA patients increase over 70%. With current feline medicalization rates significantly lower than dogs, boosting feline treatment presents a significant untapped opportunity.
- 00:20:29 Simparica Trio posted US growth of 29% with \$237 million in revenue. We previously highlighted Trio's momentum through the first year with competition and our expectations remain high. As we have seen with previous generations of parasiticides, secondary entrants served to accelerate conversion from older therapies. But in the absence of meaningful differentiation, they do not erode market share. In addition to robust volume growth for Trio, we continue to see the benefit of price, driven by our lower promotional environment and more thoughtful discounting across our customer base.
- 00:21:12

In US key dermatology, we saw 17% growth or \$303 million for the quarter. Apoquel was the largest driver, with outsized contributions from the retail channel. Apoquel Chewable growth outpaced tablet cannibalization declines, benefiting from increased conversion and compliance. Cytopoint growth continues to be driven by preference for injectables.

- 00:21:37 US livestock grew 5% in the quarter, primarily driven by volume growth in cattle, where we continue to see improved supply of ceftiofur. This growth was partially offset by (00:21:47) price declines.
- 00:21:51 Moving on to our international segment. Revenue grew 7% on a reported basis and 13% operationally in the quarter. International livestock grew 15% operationally and companion animal grew 11% operationally.
- 00:22:07 International livestock grew 15% operationally in the quarter with equal contributions from volume and price. Cattle was the largest growth contributor, driven by the impact of price in high inflationary markets as well as volume growth from higher demand and improved supply. Poultry growth was driven by price and key account penetration.
- 00:22:29 Lastly, fish saw strong volume growth in Norway driven by high demand for our vaccines as well as the impact of a soft comparable period last year. International companion animal growth was driven by our Simparica, key dermatology, and OA pain mAbs franchises. Our international Simparica franchise grew 28% operationally, with \$75 million in sales.
- 00:22:55 Performance was driven by Simparica Trio, growing 39% operationally to \$31 million in sales, benefiting from key account growth in Europe, DTC, and the positive impact of our Q1 China launch. Simparica grew 22% operationally on \$44 million in sales, driven primarily by Eastern Europe and Brazil.
- 00:23:19 Our international key dermatology franchise contributed \$146 million of revenue and 13% operational growth, with double-digit operational growth in Apoquel and Cytopoint.
- 00:23:30 Growth was driven by Apoquel with strong DTC success, especially in European markets. Europe is also benefiting from strong adoption of Apoquel Chewable, where we now see more than half of doses dispensed coming from the chewable formulation. Our key dermatology franchise continues to expand internationally. Many countries are still in the early stages of derm market development and increases in medicalization as well as the benefits that chewable and injectables can offer provide a significant run rate for growth.
- 00:24:04 Internationally, our OA pain mAbs grew 27% operationally, posting \$78 million in combined revenue. International sales of Librela were \$62 million, growing 26% operationally. Growth of Librela was driven by higher use in Europe, as well as market expansion and share gains in second wave launch markets. We see opportunity for continued market expansion from converting existing NSAID patients and increasing months on therapy. Solensia sales were \$16 million, growing 32% on an operational basis.
- 00:24:43 Now moving on to the P&L for the quarter. Adjusted gross margin of 70.7% grew 20 basis points with increases from price and mix, offset by higher manufacturing costs. Adjusted operating expenses increased 9% operationally. Growth was driven primarily by SG&A expenses of 9% operationally, largely due to higher compensation-related expenses due to company performance.
- 00:25:10

R&D grew 10% operationally in the quarter on higher compensation related expenses due to company performance and increases in project spend related to internal portfolio advancements. Adjusted net income grew faster than revenue at 15% operationally. Adjusted diluted EPS grew 17% operationally for the quarter.

00:25:31 Now moving on to guidance for the full year 2024. Our raised revenue guidance reflects continued strong performance of our key franchises, partially offset by a reduction to sales for the divestiture of our medicated feed additive product portfolio and certain water soluble products completed October 31. As Kristin highlighted, we remain committed to livestock and see opportunities in several therapeutic areas, enhanced by our strategic partnerships and focus. Please note that guidance reflects foreign exchange rates as of mid-October.

00:26:08 For the year, we expect revenue between \$9.2 billion and \$9.3 billion, a range of 10% to 11% operational growth. This is both an increase and a narrowing of our revenue range versus our prior full year guidance. We now expect adjusted net income to be in the range of \$2.67 billion to \$2.695 billion, representing operational growth of 13.5% to 14.5%.

00:26:38 Finally, we expect adjusted diluted EPS to be in the range of \$5.86 to \$5.92 and reported diluted EPS to be in the range of \$5.33 to \$5.39. We have seen outstanding performance in 2024 thus far with broad-based growth from our key innovative products across species and geographies, and we remain very positive on the remainder of the year and beyond. Our guidance, combined with our year-to-date results, does signal some expected deceleration in our revenue growth rate for Q4 specifically.

00:27:16 As a reminder, revenue growth in Q4 will be impacted by the MFA divestiture, reflecting a reduction of two months of US sales and one month from our international business out of our results in Q4. Additionally, we also saw the impact of stocking from the launch of both Librela and Apoquel Chewable in Q4 of last year. Normalizing for these items, Q4 will be more in line with our historical growth rate. We remain confident in underlying demand and market dynamics as we move into the fourth quarter and then 2025. Our outlook for next year remains positive.

00:27:58 We continue to see favorable trends in our key franchises, including OA, dermatology and Simparica as well as momentum from alternative channels. While we anticipate the recent tailwinds from higher inflation to normalize, our recent performance has significantly outpaced price-driven gains alone.

00:28:19 Additionally, we expect headwinds in China to normalize in Q4 and moving into next year. We estimate these headwinds have had approximately one percentage unfavorable impact to our growth this year that should normalize in 2025. We are confident in our continued ability to grow above the animal health market, driven by the strength of our portfolio, pipeline and our dedicated colleagues.

00:29:04 Now, I'll hand things over to the operator to open the line for your questions. Operator?

QUESTION AND ANSWER SECTION

Operator

00:29:12 We'll take our first question from Erin Wright of Morgan Stanley.

Analyst:Erin Wilson Wright

- 00:29:17 **Question – Erin Wilson Wright:** Great. Thanks for taking my question. A two-parter here. So first on Librela, how should we be thinking about the quarterly progression from here in terms of US Librela? And how has the experience been in terms of reorder rates and the months on therapy relative to your internal expectations? And then just how we should think about that quarterly progression given the stocking dynamics in the fourth quarter and into 2025?
- 00:29:37 And then, as we think about bigger picture here, just several moving pieces into 2025 from a profit perspective. I guess, you continue to invest in innovation, Librela's scale. You have favorable mix also from MFA sale. Like, how do you think about the level of investments that you need to make next year and sort of how much you're going to let sort of the enhanced product mix more skewed towards that companion animal actually flow through in terms of margin expansion next year as well? So how do you think about those headwinds and tailwinds, I guess, into 2025? Thanks.
- 00:30:19 **Answer – Kristin C. Peck:** Thanks, Erin. I'll start with overall Librela and move to Wetteny on sort of quarterly cadence and the 2025 question you had. Look, we are really pleased with the performance globally with Librela with 123% growth, really remain committed to being a \$1 billion franchise. And if you look at just the quarterly progression to date, it's been the most successful launch in our company's history. In the US, we have an 85% penetration rate. Globally, we're averaging over 90%.
- 00:30:48 In the first 12 months, we've already got 1 million patients on the product. And we believe we've got a significant runway for growth. With only 1 million patients on that and 8 million still on NSAIDs, we think there's a really large addressable market. We can focus on higher compliance. So we're very optimistic on that. I'll let Wetteny get into the quarterly cadence going forward, as well as your 2025 question as well.
- 00:31:13 **Answer – Wetteny Joseph:** Yeah, Erin, as Kristin said, Librela has been our most successful launch in the history of the company by every metric that we look at, including penetration and also first 12 months revenue and in – approximately \$192 million. As you know, we don't tend to give guidance down to an individual product for an individual quarter. But what I would say in terms of the cadence of Librela is that we'll continue to see and exiting this year, into next year, we expect to see strong growth given our penetration, as Kristin said, about 1 million dogs being treated compared to NSAIDs that are at about 8 million.
- 00:31:52 And so, we know launching these major franchises that are new standards of care take time. And one other item that is certainly clear when you look at the historical visits around OA pain, as Kristin said in the prepared commentary, we do tend to see a peak in Q2 coming down in Q3 and then typically comes back up a bit in Q4, but not to the level of Q2. So that's another element that I would give you to sort of consider as you think about what to expect through the end of the year and going into 2025.
- 00:32:27 Now, with respect to your second part of your question around considerations and profitability, et cetera. Look, we continue to demonstrate our ability to grow above the animal health market. We certainly see that in our performance this year. On a year-to-date basis, we're at 12%.
- 00:32:43 We just raised guidance again for the third time this year, clearly well above the market and outgrowing our adjusted net income faster than our top line, including in this quarter, which, as you recall, last call, we highlighted the fact that we are increasing some of our investments as we exit this year, and we still delivered faster adjusted net income.

00:33:03 And so, as we look ahead, this is a core tenet of our value proposition that we'll continue to be mindful of, and we have the opportunity here as we look ahead to leverage investments we've made in the past, including field force investments in the US, and we see opportunity to continue to leverage those, even as we continue to drive growth and launch products across the market.

00:33:22 We will continue to see some investments in DTC behind our key brands. Again, we're building a market, something we have demonstrated an ability to build markets, expand them and defend them if you look at what we're doing across our portfolio right now and an important part of that will be DTC and advertising and promotion behind these products as we go into next year.

00:33:43 We would anticipate, again, as I've said before, the business has an inherent ability to grow the bottom line faster than the top, as you see the mix, as well as price that we're able to take. How much we deliver in any given year may vary depending on the levels of investments we're making, but we remain committed to growing the bottom line faster.

Operator

00:34:02 Our next question is from Michael Ryskin of Bank of America.

Analyst:Michael Ryskin

00:34:08 **Question – Michael Ryskin:** Great. Thanks for taking the question, guys. I want to follow up on a couple of points you touched on there. First, just in the quarter, thinking about Librela progression year-to-date, I know you had some stocking/destocking dynamics earlier in the year, just making sure for Librela, for Trio, for derm, was there anything like that in the third quarter in terms of inventory management with customers, people stocking for year-end or maybe destocking? Any promotions? Anything like that? I just want to make sure we're looking at "clean numbers" here, especially with some competing launches going on for some of these things.

00:34:41 And then, two, I want to touch a little bit on the MFA component. You updated the guide for that divestment for the fourth quarter, as you touched on, two months in the US, one OUS. How should we think about full year 2025 impact in terms of updating our numbers? I think it's roughly \$350 million in annual revenues, but anything you can say in terms of how much SG&A spend, how much R&D spend falls into that just so we can start to true up our models for next year? Thanks.

00:35:10 **Answer – Kristin C. Peck:** Sure. First off, it was a clean quarter across our entire business in the US and abroad. So there's no stocking dynamics or inventory buildups there. But I'll let Wettyen take the more detailed question on MFAs.

00:35:22 **Answer – Wettyen Joseph:** Yeah, sure. Look, to Kristin's point, if you look at inventory levels, particularly across distributors in the US, which we have visibility into, not as much visibility obviously across clinics individually, but our inventory levels remain closer to the low end of our historical averages, similar to where we were over a year ago in Q1 after the destocking. So I would say that.

00:35:45 And then with Librela, keep in mind, this is a cold-chain product, that is being shipped directly to the clinics and not going through distribution. So it's really a product – and given our penetration levels that we highlighted two quarters ago, there's not incremental penetration to really influence inventory levels here. So I thought I would add that to the answer you already received.

00:36:07 With MFAs, just a reminder of what we have disclosed previously, this is a business last year, 2023 full year did about \$400 million and about 30% margins. So I think that gives you -- and by the way, seasonality here is roughly linear across the year. So if you look at the divestiture this year, it's about half of a quarter.

00:36:29 With two months of the US and one month of international, you can run the numbers here in terms of what the impact is exiting this year. And then what that would be for next year because we'd have three and a half quarters in the number in 2024 that we'll be comping against. And I think that should give you -- even though I'm not getting to specifics on SG&A versus R&D, et cetera, I think that gives you an impact on through the P&L.

Operator

00:36:54 Our next question is from Brandon Vazquez of William Blair.

Analyst: Brandon Vazquez

00:37:00 **Question – Brandon Vazquez:** Hi, everyone. Thanks for taking the question. I want to focus on parasiticides and Simparica Trio. It's been really not a strong segment for you guys, especially Trio. Can you talk a little bit about despite more competition in the market, why you guys seem to be taking care, perhaps it's something on the commercial side and maybe some of the execution you guys have there? So just any color there and how much that can continue into 2025.

00:37:23 And then a quick follow-up is just if there's any -- Wetteny, for you, if there's any price mix commentary you could give us on the quarter, especially in the companion animal side? Thank you.

00:37:33 **Answer – Kristin C. Peck:** Sure. Thanks, Brandon. Look, we're really proud of the performance of Trio. It is the number one prescribed parasiticide. It's already been used in over 13 million dogs. I think that the real focus here for us is Simparica growing 27% globally is really having a phenomenal product. I think it starts with that. I think we were first to market with Trio, which I think has made a big difference. We've also been able to grow that product tremendously leveraging alternative channels, which today is about 20% of that.

00:38:04 But I think what's really underscoring all this is that the oral flea, tick and heartworm market is growing 45% year-over-year. And that growth is moving more people into the oral category. And as you look at puppy share, which I think is a really good indicator of where we're going in the future, Trio has a 35% share in puppies.

00:38:24 So I think between being a first mover advantage, having a phenomenal product, that's got comprehensive coverage, it's convenient. It's a chewable. I think it's a great product. And look, we partnered very closely with all of our customers and certainly with our corporates. And I think you're seeing the customers are really pleased with the product. So we see strong momentum going into next year.

00:38:44 And I'll underscore some of the comments that Wetteny said in his prepared remarks, which is what we've seen continuously as new entrants enter the market is the expansion of the oral flea, tick and heartworm market. And that is what we're expecting next year into 2025. So, Wetteny, do you want to take the second half of the question?

00:39:00

Answer – Wetteny Joseph: Sure. In terms of price mix and volume here, as you heard in the prepared commentary, the 14% operational growth in the quarter, it was 8% volume and 6% price. Now your question, if it's related specifically to parasiticides and the Trio performance, I would say, it's about balanced with a slightly more volume than price.

00:39:19 Here, keep in mind, as we've stated previously, we have more targeted promotions as well as discounts to our customers, which is actually driving better price realization and not just price increases, if you will, here on this product, which, again, has been a phenomenal execution, I would say, and contribution to the growth that you're seeing on Trio specifically.

Operator

00:39:46 Our next question is from Jon Block of Stifel.

Analyst:Jonathan D. Block

00:39:51 **Question – Jonathan D. Block:** Thanks, guys. Good morning. First one, are there any different marching orders for the sales force as US Librela now largely moves from, call it, new practice adoption to more driving utilization and getting into mild to moderate. Maybe the tack on to that would be any specific thoughts about 4Q revenue from US Librela, did you commit to Q-over-Q growth? Because – just want to follow up there. It seems to be the only noise in the quarter, quite honestly.

00:40:21 And then the second one would just be any high-level building blocks for 2025 revenue? Wetteny, you mentioned China headwinds of a point this year. I'm guessing for the most part, that unwinds. You've got Librela, their trajectory, obviously, some of the other key franchises. So again, even at a high level, any building blocks for us to take into consideration. Thanks, guys.

00:40:44 **Answer – Kristin C. Peck:** Sure. I would say there's not any new sales marching orders. I think it's a lot more of continuing to focus on getting clinics, have more experience across not just severe but moving into moderate, which we started probably a little while ago. That was a key focus even for us at launch. So we'll continue to focus on growing the brand there. But I think it's really sticking with the key messages of the safety of the product, the efficacy of the product and really demonstrating continuously the opportunity to look at the 8 million patients currently on NSAIDs and switching those NSAID patients over to Librela, assuming that that's the right product for that pet overall.

00:41:22 So we remain, again, very, very pleased with this launch. And given how pleased we are at the launch, I think we're going to continue down the same tactics that we have, certainly now that we've got the penetration, it's really focusing on expanding the use, out of just not just severe, but obviously in moderate as well as really talking about the opportunity given the different pet's medical needs to switch from NSAIDs. So I'll turn the second part of the question over to Wetteny on building blocks for 2025.

00:41:48 **Answer – Wetteny Joseph:** Sure, Jon. Look, we look forward to sharing our 2025 guidance on our next call in February. And just maybe a few reminders here that might be helpful in terms of directionally where we're headed, right? We have several sources of growth, and we continue to see strong underlying demand across our portfolio in most markets where we operate.

00:42:09 Our outlook for derm and for Trio remain very positive exiting this year and going into next year. We expect to see continued strong growth across our OA pain franchise on a year-over-year basis.

And even if you have more normalized pricing, we would expect those to be above, slightly above our historical pricing contribution of 2% to 3%.

00:42:34 And as I covered in the prepared commentary, China will be more normalized as we exit this year starting in Q4 and into next year. And so you have less of a headwind going into next year, which was almost a full point in the current year.

00:42:49 The last piece I would give is just a reminder on the MFA and water soluble product portfolio, removing those and I shared those numbers already in terms of what those products did last year. So hopefully, that's helpful in terms of getting you into some sort of ballpark here.

Operator

00:43:06 Our next question is from David Westenberg of Piper Sandler.

Analyst:David Westenberg

00:43:12 **Question – David Westenberg:** Hi. Thank you for taking the question and congrats on a great quarter. So I just want to little bit touch on macro real quick. Just in terms of how you price relative to veterinary CPI? Is that ever a consideration? And as we go into next year, do you also consider some of the clinic growth assumptions that we've seen. Yes, you are isolated in a lot of ways because you can buy off channel. However, those initial scripts do need to come on visits, and we've seen visits for the last year being quite down.

00:43:44 Now, and then just a second on a clarification, Wetteny, I think you said in your prepared remarks, a reasonable promotion environment or something along the lines of that. Can you clarify what you mean if you meant Zoetis an industry-wide?

00:43:57 And specifically, I'm thinking about some of the promotion environments, beginning of next year as we enter a parasiticide season, you'll have a full season of Quattro might be lapping some of the promotions from NexGard PLUS, I don't know anything like that. So if I could just get a clarity there? Thank you.

00:44:14 **Answer – Kristin C. Peck:** Sure. Thanks, David. I'll start with your first one and Wetteny, if I miss anything, please build on it. As we think about pricing, obviously, we start with the pricing environment and the overall inflation environment in any given market where we compete. But the primary thing that we really focus on is a product-by-product, SKU-by-SKU view of our differentiation and the marketplace overall.

00:44:35 And I know you referenced that visits were down. I mean we continue to say visits are not a good proxy for how animal health and more particularly how Zoetis does. Really, what you're seeing is some of those wellness visits and a lot of those are products pick up, products visits. And a lot of that is going over to the alternative channel, which continues to grow very strongly.

00:44:56 But if you look at the visits for our particular products, around dermatology or around pain, they're up. And so I think we're really focused on what is the innovation and what is the value that our product provides to both the vet and the pet owner. And I think that is what really primarily drives our pricing strategy overall. I'll turn the second question on the pricing – the promotional environment to you, Wetteny.

00:45:18 **Answer – Wetteny Joseph:** Sure. Look, the only thing I would add to the visits is even as overall visits are down in the US, if you look at the key therapeutic areas for us, OA pain visits up double digits. Derm visits are up even as more and more of our Apoquel products are being sold through the retail channel. So I think that really spells it and consistent with what we've been sharing for some time now.

00:45:44 And then if you look at alternative channels, it has been a significant growth driver for us across the US pet care, which, of course, reduces some of the dependency on clinic visits as well as the auto ship and higher compliance that that drives. Alternative channels were up actually 34% year-on-year on the quarter, again, demonstrating that point.

00:46:05 As far as promotional activities, my comment here is you see far more disciplined promotional environment this year, particularly when you compare it to last year when we were up against a new competitor in the triple combination parasiticide space. So that comment really is to say, there's not as much promotional activity here and that we are more targeted in terms of our discounting to our customers.

Operator

00:46:30 Our next question is from Balaji Prasad of Barclays.

Analyst:Balaji Prasad

00:46:38 **Question – Balaji Prasad:** Hi. Good morning and thanks for taking the questions. Two from me, one speaking a bit more about 2025. Could you comment about – comment on the incremental growth drivers and headwinds, especially that you see in 2025. And Wetteny, especially as we think about OpEx, again, I don't want to get into guidance, but if you can just comment on the pushes and pulls towards your OpEx spend in the year.

00:47:02 Secondly, with regard to Simparica Trio again, can you comment on what kind of move, in terms of the 57 million dogs that you have provided that could move to isoxazolines, what's the pace of conversion that could be achieved on a realistic basis? Thanks.

00:47:23 **Answer – Kristin C. Peck:** Sure. Wetteny, do you want to take this?

00:47:30 **Answer – Wetteny Joseph:** Sure. The first point in terms of next year, and again, I look forward to providing more specific guidance in February here. Balaji, look, I think as we said in Investor Day, we see opportunity to leverage our SG&A from an OpEx perspective. We have been running R&D driven by our portfolio and our pipeline progression faster than revenue. I think you see that coming in closer to revenue this year. We'll get into more detail in that in terms of what we would expect into next year, but that's certainly one consideration.

00:48:00 I think when I think about other pushes and pulls, there's been a lot of conversations around Argentina this year. I think, one thing to keep in mind is, as we have highlighted, the pricing that we have taken in Argentina this year, you get in other hyperinflationary markets for that matter. Again, if you expect a more normalized pricing environment, and we would anticipate slightly above where our historical rate is, that incremental price you see from Argentina this year, which is actually on a declining basis, Q1 was the peak, it would come down in Q2 and then Q3, and we expect Q4 to be closer to 1%, I think that would be an item to consider as we go through next year.

00:48:41 But one important point, though, is, if you work down the P&L, that has actually had significant headwinds through inflation to the middle of the P&L. And then from an FX perspective, if you look at the reported results, the net impact of Argentina year-over-year is actually negative across the P&L. So I think that's really important points to keep in mind as you're thinking about SG&A.

00:49:04 And then the other point on – as we look at the parasiticides market and what we expect to happen here, we've seen this before. This is the same that we saw, say, almost a decade ago with the launch of oral isoxazolines, you saw a really continual transition into those that continue to grow the market substantially. And clearly, when you look at the percentage of puppies that are getting put on a triple combination, which is much higher than the overall percentage of dogs that are on paras, so about a third of the prescription parasiticides are in triple combinations, but over 50% of puppies are. And so, that gives you a strong indication of what's going to continue to happen in that market. The split between how much is going from other orals versus collars and topicals is not something we have specificity on. But needless to say, that is where the market is going is towards those triple combinations.

00:50:00 **Answer – Kristin C. Peck:** Yeah. And, Balaji, I would just encourage you to look at our slides from today because we show you some of the graphs of what that actually looks like. And I think with a double-digit growth the fourth year on the market, I think it speaks for itself as well.

Operator

00:50:13 Our next question comes from Glen Santangelo of Jefferies.

Analyst:Glen Santangelo

00:50:18 **Question – Glen Santangelo:** Yeah. Thanks for taking my question. Kristin, it sounds like the company is confident in its ability to take another year of above-average price increases. And I'm kind of curious, like, what's sort of given you that confidence and – given the evolving competitive landscape and the current macro climate? And then just a sort of part of that, could you give us an update on what percentage of the companion business is flowing through alternate site versus the vet office, and if that's having any impact on any sort of pricing or customer trends that we should be aware of. Thanks.

00:50:51 **Answer – Kristin C. Peck:** Sure. I'll start with your second question. Retail grew 34%. I think it's a little bit over – I mean, Wetteny, you can correct me, around 10% of the US business at this point. (00:51:00)

00:51:02 **Answer – Wetteny Joseph:** It's closer to 15%. If you look at all alternative channels, that's retail, online, as well as brick and mortar, and home delivery as well combined.

00:51:11 **Answer – Kristin C. Peck:** Yeah. No, I think it's growing very strongly in the US. I mean, look, we look at overall pricing, again, I'd go back to where I started before, which is we look product by product and the innovation we're bringing. And I think what we've really talked about continuously is the diverse, durable and innovative portfolio that Zoetis has across species and globally. And so, that's how we price our products. And we've continued as we've seen competition, for example, in parasiticides. Been continuously taking price there as well, where we see the convenience and the benefits that Simparica Trio offers. So, I don't have anything new to add there. I'm not sure, Wetteny, if you do.

00:51:44

Answer – Wetteny Joseph: Look, I think, if you look at this year, right, we are taking price. If you take Argentina out, it's somewhere in the 4.5% to 5% range across the rest of our portfolio, right? And despite that, you see significant volume growth. This quarter, I think, is a testament to that, 8% volume growth and 6% price.

00:52:02 And so if you look at our key product areas, in key derm, you see price, as well as substantial volume growth. So, we think there's room for us to continue that, given the value that we bring with these innovations.

Operator

00:52:19 Our next question is from Chris Schott of JPMorgan.

Analyst:Chris Schott

00:52:24 **Question – Chris Schott:** Great. Thanks. Just two questions for me. Maybe first on Apoquel, can you just elaborate a little bit about how you're thinking about the impact from the Zenrelia launch. And maybe specifically, should we anticipate any slowdown to your growth due to some of their promotion activities? Are you expecting relatively limited impact there?

00:52:40 And then my second question would be on Librela uptake. Just any comments of how US compliance is trending relative to your expectations? I know it's early, but just anything notable in some of those initial trends? Thank you.

00:52:52 **Answer – Kristin C. Peck:** Sure, I'll start with Apoquel and then, Wetteny, if you want to build on Librela uptake question. Yes, I mean, another strong quarter, obviously, from Apoquel. We had 16% growth across the quarter. I think it's the number one product out there. It's got 11 years of safety, huge satisfaction rates across both consumers and veterinarians with a 90% satisfaction rate. And I think our focus with the product is continuing to grow the category.

00:53:19 We think there's an opportunity for higher compliance to address under or untreated dogs to convert the 3 million dogs that are on other treatments, and 8 million dogs currently not on therapy. We're very confident in our ability to compete with this product, given the satisfaction, given the safety, and given the efficacy overall. We're very proud of the performance of this and we look forward to strong performance obviously going forward in 2025 and beyond.

00:53:44 Want to take Librela update?

00:53:46 **Answer – Wetteny Joseph:** Yeah, sure. Look, I think, as we've said before, this is our most successful launch ever in the company's history. And I think while it's a little bit early to get into a ton of detail around compliance in the US specifically, I always like to look at our international markets, which will continue to see strong double-digit growth across those markets for years out.

00:54:06 And when we look at the transition into more moderate cases, which now represent more than 60% of cases across Europe, for example, that's driving up months on therapy to be above seven months and compliance rates that are exceptionally high in that market.

00:54:26 So, I think this gives you an indication of where the market is and given the efficacy and the revolutionary profile of this product, what it can do and what it's actually doing across markets

outside the US. And we're very pleased with where we are in the launch trajectory here in the US as well.

Operator

00:54:47 Our next question is from Steve Scala of TD Cowen.

Unidentified speaker

00:54:52 **Question – Unidentified speaker:** Hi. This is Chris (00:54:52) on for Steve Scala. Congrats on a strong quarter and thanks for taking our questions. We had two. First, Zoetis has its best confidence in above-industry average sales growth, what is your level of confidence in being able to maintain this growth long term based only on current on-market products without contributions from pipeline of business development?

00:55:11 And then second, how many competitive launches are you expecting in 2025? And how is this uncertainty impacting your thoughts on how conservative initial 2025 guidance will be? Thank you.

00:55:22 **Answer – Wetteny Joseph:** Sure. I'll give that a shot. Look, I think if you look at our history over a decade, we have outperformed the market by 3 points on average. I would argue, if you look at the market growth rates this year, it's even above that. Now, your question is how -- what's our confidence level and be able to sustain that. We're very confident in our ability to sustain that given our existing portfolio and bifurcating between existing portfolio and new launches is not something I'm going to venture into because that is ingrained into how we go to market and how we continue to invest in solving for our customers' greatest challenges.

00:55:58 It's hard for me to give you what the growth rate would be without that. But what I would say is, it's really important to note that, it's not only when we launch a brand new innovation in a new area, is a continued lifecycle innovation that we drive, which is almost historically 50% of our R&D spend. So we continue to grow the market and expand the market, adding additional claims as we go along the way, which is how we, over time, build markets. And I know, there's a lot of questions around sequential growth, et cetera, it's not really about the sequential growth. It's never really super linear, it's over time, building the market that once you build it, it's also very sticky because you've established the standard and someone else has to come with something that is significantly differentiated in order to overtake you. And that's what drives our business. So we're very confident in continuing to be able to outperform the industry.

Operator

00:56:58 We'll move next to Navann Ty of BNP Paribas.

Analyst:Navann Ty

00:57:04 **Question – Navann Ty:** Hi. Good morning. Thanks for taking my question. One on competition and one on innovation. So on competition, can you expand on which levers is Zoetis using to defend Apoquel versus Zenrelia? Would that be – or is it DTC, about the safety, about near-term pricing or anything else? And for Credelio Quattro, did you plan any promotions around that launch, maybe to a lesser extent that when you were facing NexGard PLUS? And then on innovation, are you able to discuss progress around the long-acting injectables, monoclonal

antibodies in parasiticide side and longer term innovation in CKD, oncology and cardiology? Thank you.

00:57:49 **Answer – Kristin C. Peck:** Sure. With regards to competition, and your first question, I think, was on the derm space, we remain very confident in our ability to continue to grow our overall dermatology franchise whether that's Apoquel, Apoquel Chewable, or Cytopoint, even with the new competition. We think, again, our 11 years of safety and efficacy competing against a product with a box warning I think is quite strong. I think our satisfaction, we'll continue to do the same tactics we always did. We don't see any need to change any of those. That's really around building deep relationships with our customers, sharing the performance of the product, investing in direct-to-consumer. We don't really see a need given the competition either, with Zenrelia or also Credelio Quattro.

00:58:32 What we continue to see is Wetteny remarked in his opening statement, is that really when new entrants come, it grows the market overall. They invest more in direct-to-consumer advertising and you'll see more of a conversion over to the oral isoxazoline class. So we remain very confident. We're not planning on changing any of our promotional tactics when you think about both the entrant in derm as well as the additional entrants into the Paris.

00:58:58 And look, we expect everyone will enter Paris, and that will only grow the category overall. As you think about innovation, as we talked about at our Investor Day, we really see long acting across all of our key franchises, an important driver of growth. We haven't yet given specific guidance on when those launches will be, but those will be more of the near-term launches, as we mentioned in previous sessions.

Operator

00:59:19 And there are no further questions at this time. I'd be happy to return the call to Kristin Peck for closing comments.

00:59:28 Thanks, and thank you all for joining us. As always, we really appreciate your questions and importantly, your interest in Zoetis. The animal health industries are prudently proven, it's resilient, and our work remains essential, not only for animals, but for the people and the communities and the economy is impacted globally. So looking ahead, we are excited to strengthen our market leadership by leveraging this resilience and driving long-term growth and value creation.

00:59:53 And with that, I want to thank you for your continued trust as you move forward with confidence and purpose committed to shaping the future of animal health. Thanks for joining us.

Operator

01:00:03 Thank you. This does conclude today's call. You may now disconnect, and everyone, have a great day.