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Zoetis, Inc. (ZTS)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Third Quarter 2026 Financial Results Conference Call and Webcast for Zoetis. Hosting the call today is Mathieu Aussermeier, Senior Vice President, Corporate Finance for Zoetis. 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 forward 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. 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. Instructions will be given at that time.

It is now my pleasure to turn the call over to Mathieu Aussermeier. You may begin.

Mathieu P. Aussermeier
Senior Vice President-Corporate Finance, Zoetis, Inc.

Thank you, operator. Good morning everyone, and welcome to the Zoetis third quarter 2026 earnings call. I am joined today by Kristin Peck, Chief Executive Officer; and Jay Saccaro, Chief Financial Officer and Chief Operating Officer. This morning we issued a press release announcing our third quarter 2026 financial results.

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Before we begin, I would like to remind you that the release and corresponding earnings presentation, which we will reference during this call are available on the Investor Relations section of our website, and that many of our statements today may be considered forward-looking statements and that actual results could differ materially from those projections.

For a list and description of certain factors that could cause results to differ, I refer you to the forward-looking statements in today's press release and in our company's Exchange Act reports filed with the SEC.

Additionally, today's remarks will include certain non-GAAP financial measures. Reconciliation of these non-GAAP financial measures to the most directly comparable US GAAP measures can be found in our earnings press release and our company's 8-K filing dated today, November 5, 2026.

We will also reference reported and organic operational growth. Organic operational growth excludes the effect of foreign currency, as well as acquisitions and divestitures, which individually impact Zoetis' growth by 1% or more. Unless otherwise stated, all revenue growth performance metrics will be based on organic operational performance.

With that, I will turn the call over to Kristin. Kristin?

Kristin C. Peck

Chief Executive Officer & Director, Zoetis, Inc.

Thank you, Mathieu. Good morning, everyone, and thank you for joining us. Today, we reported our third quarter results with revenue and adjusted net income both declining in line with our expectations. Our diversified portfolio provided some resilience and we focused on defending leadership positions with investments in key franchises. At the same time, [audio gap] (00:03:11) continued advancing the portfolio and innovation pipeline.

While challenging dynamics are continuing, we are seeing progress in the actions we are taking and have narrowed our full year revenue guidance to the high end of our range. As I walk you through our performance, I want to put the industry and company results in perspective and outline how we are positioning Zoetis for the near and long term.

But first, I'm pleased to welcome Jay to his first earnings call with Zoetis. He brings a strong track record and a valuable combination of financial and operating experience, and we're excited to have him on the team.

With that, let me start with what we see across the industry. As you all know, animal health remains a long-term secular growth industry, driven by a growing global population looking to eat more protein and adopt and care for more pets. Like most industries, however, animal health is not immune to cyclical factors, which affect pet care and livestock differently.

In developed pet care markets, veterinary service costs have risen 50% since 2022, well ahead of general inflation. Alongside softer consumer confidence, that cost pressure is making pet owners more value conscious and deliberate when making trade-offs to care for their pets.

The mix of pets is also changing. High housing costs are affecting home ownership and pet adoption, with fewer dogs joining households, as cat ownership continues to grow. Because dogs are more medicalized than cats, this shift also affects underlying demand for veterinary services. These pressures are reflected in the continued weakness in US clinic visits, which are down 3% year-to-date across categories. These dynamics, combined with intense competition in key franchises, continued to weigh on our Companion Animal revenue this quarter.

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At the same time, the bond between people and their pets remains strong. In the US, the Human Animal Bond Research Institute's latest survey found that 98% of pet owners experience health benefits from their pets, and 91% said knowing about those benefits makes them more likely to maintain their pet's health. That enduring bond is an important foundation for our industry. But it exists alongside real barriers. 37% of people planning to get a pet cited the cost of ownership as a concern.

As the industry leader, we are focused on meeting customers where they are. That means working with veterinary practices to support their profitability and success, while developing programs to help pet owners manage the cost of care.

In contrast, Livestock is benefiting from growing demand for quality protein sources. We're also seeing growing demand on animal health to improve productivity, support food security, and adopt a One Health approach. That demand has contributed to historic industry growth, and for Zoetis, underscores the strength of a broad and diverse portfolio.

And while we expect Livestock to remain a strong contributor over the short, medium and long term, disease, weather, and local production cycles will continue to influence year-to-year results. And diversity matters, not only across species, but across geographies. Growth conditions vary significantly from market to market, reflecting differences in economic and geopolitical conditions, species mix, and regulatory environment.

In many developed markets, pet care represents a larger and more medicalized share of the animal health market, while in many emerging markets, livestock does. As a result, the same economic shift can affect markets in very different ways. Tariffs and trade flows continue to evolve and our commercial strategies reflect the conditions in each market. That local focus matters because emerging markets are expected to remain the fastest-growing part of animal health, with room to bring more animals into regular care, gain share, and broaden access to innovation, which brings me to what we're doing to defend and grow our leadership.

Building on the actions we've outlined over the past two quarters, today, I'll focus on three priorities: leveraging the diversity of our portfolio, expanding access to established franchises, and advancing innovation. I'll take you through each with examples of how they're showing up across our key franchises.

First, we're leveraging the advantage that comes from the diversity and differentiation of our portfolio. Competition is increasingly playing out product by product, but our range of options within the therapeutic categories and across channels gives us more ways to meet customer needs and compete effectively. Those choices are especially important at our key dermatology franchise where share pressure is most acute.

We are continuing to sharpen commercial execution, directing resources where they can influence customer decisions and reinforcing the value of our differentiated portfolio with vets and pet owners.

For example, we're using that breadth to drive conversion to Apoquel Chew with chew in the room promotion and in-clinic sampling, highlighting a more convenient alternative that can support treatment compliance. At the same time, we expect US approval of long-acting Cytopoint in the fourth quarter, adding a more convenient option for chronic itch, a segment that accounts for more than 60% of global dermatology doses. We're using that added diversity to build awareness for the next option in derm, with a teaser campaign ahead of approval.

Similarly, since the beginning of the year, we faced mounting generic competition for Convenia and Cerenia. We acted swiftly and this quarter we saw the pace of share gains moderate for the first time since entry. And with

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recent FDA approval in the US and its coming launch in Canada, Convenia RTU for Dogs extends the portfolio with a single injection that can provide up to 14 days of treatment.

Second, we're expanding access to our established franchises and investing in the evidence and medical support that help vets navigate a more selective market. When visits are down and owners are weighing the cost of care, the clinical conversation matters. Veterinarians need to identify patients who can benefit and have relevant evidence to support treatment decisions. This is a central role of medical affairs, and one reason we launched the Medical Hub, which houses our scientific insights, publications and educational materials in one place for veterinary teams.

That approach is relevant in parasiticides, where softer end market demand is creating pressure. Even with double-digit declines in US flea, tick and heartworm clinic visits, the Simparica franchise delivered modest growth this quarter as expanded access to Simparica Trio drove growth internationally. Trio's triple combination protection gives vets a differentiated option, supported by recent peer reviewed research on heartworm resistance.

One example of scientific evidence supporting the franchise is a recent peer reviewed speed-of-kill study, available through the Medical Hub and our continued investments in Phase IV studies provides vets with relevant evidence in a more selective market. We also now expect approval of Simparica Duo by year end, ahead of our original timeline, broadening the portfolio and extending access to customers with unmet needs.

This same strategy applies to OA pain where building the category will require sustained efforts to improve disease awareness and help veterinarians identify more patients who could benefit from treatment.

We're clear eyed about the work ahead and measured in our expectations. But at the same time, just four years ago, alternatives to NSAIDs were limited. Today, our portfolio offers dogs and cats monthly or longer-acting three month pain relief. Recent approvals and launches of Lenivia and Portela extend those options, and we believe broader access will build the category over time. These are strong franchises in markets we help build. Our focus is to support customers through current pressures while continuing to invest in their growth.

Third, we continue to advance innovation while remaining disciplined in how we allocate capital. In this environment, that means taking costs out where needed to operate more efficiently while protecting investments in innovation and advancing our robust pipeline. Lifecycle innovation is central to the first. The examples I've discussed in derm, paras and OA pain strengthen established franchises and help create resilience in a pressured market.

We're applying this same approach to Livestock through new formulations and expanded indications across the portfolio, including FDA emergency use authorization of Dectomax for New World screwworm. These extensions help keep our portfolio relevant to evolving customer needs and support franchise contribution over time.

Last year at our Innovation Webcast, we committed to achieving a significant major market approval every year for the next several years. To-date, we have met our 2026 milestones and in some areas moved ahead of schedule.

For example, Convenia RTU has now received approvals in two major markets, both earlier than planned. Beyond lifecycle innovation, we're working to create new categories in areas such as renal disease, oncology, cardiology, and obesity, where diagnosis is essential to identifying patients who may benefit from treatment. That

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makes diagnostics a strategic enabler of this pipeline. Our investments are building the tools and capabilities to support that work.

This quarter, companion animal diagnostics delivered double-digit revenue growth, reflecting increased utilization and contributions from the strategic acquisitions of VitalRADS and VPG. Our market leadership was built on innovation. Sustaining it means extending the franchises we have today while building the capabilities that will enable the future of animal health.

Before I turn it over to Jay, I want to be clear that while the companion animal market remains soft in the quarter, Zoetis' targeted commercial execution has helped mitigate the macro and competitive pressures, and we will continue to adapt our approach as the market evolves. We remain focused on disciplined resource allocation, paired with investments to grow markets and share. At Zoetis, that means directing resources to defend our key franchises today while advancing innovation for the future to drive strong growth over time. We have the portfolio, science, and customer relationships to do just that.

And with that, I am pleased to hand it over to Jay.

James K. Saccaro

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

Thanks, Kristin. I'm excited to be here for my first earnings call with Zoetis. And while I'm just a few months in, my conviction in this company has only grown. The product and organization are world class and the innovation pipeline spanning CKD, oncology and next-generation lifecycle products represents a real catalyst for long-term value creation.

My near-term focus is on understanding our business and operations in detail, ensuring our cost structure is as competitive as our portfolio, and working alongside Kristin and the team to navigate the current market environment with discipline and transparency.

As I deepen my understanding of the business, we will also be evaluating the financial metrics we share related to guidance, and we look forward to sharing an update with you on the fourth quarter call. With that, let's look at the quarter.

We delivered revenue of $2.4 billion, declining 1% on both a reported and organic operational basis, in line with our expectations, driven by a 1% price decline and flat volume.

Our US segment revenue was $1.2 billion, down 6%, driven by declines in Companion Animal from our key dermatology portfolio, as well as the impact of generics on certain brands, while our International segment was $1.1 billion, up 4%, with growth across livestock, parasiticides, and OA pain more than offsetting dermatology headwinds.

We delivered adjusted EPS of $1.75 in the quarter, up 1%, driven by the lower share count due to our ongoing share repurchase activity.

Adjusted gross margin was 71%, down 30 basis points on a reported basis. Foreign exchange had a favorable impact of 30 basis points. On an operational basis, gross margin was down 60 basis points, driven by the impact of our strategic pricing initiatives, product mix, and certain inventory-related charges, partially offset by refunds related to prior tariff assessments.

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Adjusted operating expenses were $749 million, flat operationally, with both adjusted SG&A of $571 million and adjusted R&D of $174 million also flat, reflecting the continued benefit of our cost and productivity programs, including lower incentive compensation and professional services savings, partially offset by increased R&D investments in data and digital initiatives and our broader project portfolio.

Adjusted net income was $720 million, down 7% on an organic operational basis. You'll see that our GAAP results also included $78 million of an impairment charge on previously acquired in-process research and development assets, resulting from updated estimates of development and commercial assumptions.

Let's look more closely at the key drivers of our revenue performance this quarter, starting with Companion Animal where globally, we declined 5% on $1.6 billion in revenue, driven by an 8% decline in the US and flat performance internationally. Within Companion Animal, our performance was driven by key dermatology, which declined 16% globally on $396 million in sales, reflecting competitive headwinds and pricing actions across both segments.

In the US, we declined 13% in the quarter on $266 million in revenue, driven by share loss in Apoquel, which was slowed by our promotional investments, partially offset by volume growth in the chewable formulation, which now represents roughly half of total Apoquel volume.

Cytopoint sales also declined, reflecting canine visit declines of approximately 5% in the quarter, with periodic visits specifically down 3%, as well as broader affordability pressures on pet owner spending. Direct competitive impact from new launches in the injectable dermatology space were minimal.

Internationally, key dermatology was $130 million, down 20%, with pressure most acute in Europe, where new entrants drove volume losses across the Apoquel franchise.

Cytopoint proved more resilient given its differentiation in international markets. In addition to declines in key dermatology, generic competition in Cerenia and Convenia continued to pressure US results. And while volume declines moderated to their lowest level since generics entered the market in Q1, we continue to manage through a challenging competitive dynamic.

Partially offsetting these declines, our Simparica franchise grew 1% on global revenue of $358 million. The results were mixed across our segments. Internationally, we grew 10% on revenue of $99 million, driven by strong Simparica Trio momentum across Europe and Latin America, partially offset by expected erosion in Simparica as customers continue transitioning to the triple combination product.

In the US, the franchise declined 2% on $259 million in revenue as accelerating declines in flea, tick, and heartworm clinic visits were partially offset by volume gains from our cross-portfolio promotion.

Our OA pain mAbs generated $137 million in sales, increasing 2% globally. We continue to see contributions from the launch of Lenivia and Portela in the EU and Canada, which drove 13% growth internationally on $86 million in revenue, with both products gaining traction quickly, and early satisfaction scores from veterinarians and pet owners remaining exceptionally high.

Meanwhile, in the US, OA pain mAbs contributed $51 million in total, declining 12%. Lower OA visits and ongoing safety perception headwinds weighed on Librela adoption and daily sales trends, partially offset by Solensia's resilience, supported by stable patient share and increased feline clinic visits in the quarter.

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Companion animal diagnostics delivered $122 million in revenue, up 13% globally, with double-digit growth in both the US and internationally. Growth was driven primarily by recent acquisitions in both segments, including VitalRADS in the US and VPG in the UK and Ireland, with continued underlying adoption of our point-of-care and Imagyst platforms contributing to the remainder.

Innovation across the Diagnostics portfolio continues to advance, with OptiCell gaining traction in hematology and OmniMax, our next-generation point-of-care analyzer, on the horizon.

Now, moving on to Livestock, which delivered $797 million, up 7%, with contributions across both the US and International. US Livestock grew 5% on $266 million in revenue, supported by reliable Ceftiofur supply, driving cattle performance, broad-based swine growth, and strong poultry vaccine demand.

Internationally, we saw sales of $531 million and growth of 9%, led by cattle strength across the segment and outstanding fish performance, driven by higher vaccination rates in Norway.

Our capital allocation priorities remain unchanged. We'll continue to invest in R&D and internal innovation, the engine of our long-term growth, while remaining disciplined in pursuing bolt-on business development opportunities. After internal reinvestment in business development, excess capital is returned to shareholders, as demonstrated by the $2.4 billion distributed in 2026 through the third quarter in the form of both buybacks and dividends.

Now, turning to our updated full year guidance for 2026. Q3 delivered in line with our expectations, giving us the confidence to update our full year guidance range. We're narrowing our full year revenue guidance to $9.22 billion to $9.32 billion, representing an organic operational decline of negative 2% to negative 1% year-over-year. We're raising our adjusted net income guidance to $2.6 billion to $2.64 billion, representing organic operational decline of negative 7% to negative 5%. We're also raising adjusted diluted EPS to $6.25 to $6.35.

To close, our diverse portfolio and disciplined commercial execution continue to help us navigate an operating environment shaped by competitive pressure in our key Companion Animal franchises, softer clinic visits and ongoing affordability headwinds for pet owners. But we're also seeing strength in Livestock and solid momentum in Diagnostics.

Before I turn it over to the operator, I wanted to share a brief word on 2027. While it's too early to provide specific guidance, we will plan prudently for the upcoming year. We will not be assuming improvements in the macro environment or pet owner spending trends, and we expect the competitive dynamics we've mentioned to remain a factor throughout most of the year.

At the same time, we're encouraged by the commercial strategies we're executing, and most importantly, we're excited about the innovations planned for 2027 and 2028. While we expect limited revenue contribution from these launches in 2027, their impact should build later in the year and into 2028. We look forward to sharing more about this on our Q4 call. Our focus remains on executing with discipline and positioning the business for improved performance over time.

With that, I'll turn it over to the operator for questions. Operator?

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is coming from Chris Schott with JPMorgan. Please go ahead. Your line is open.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Thanks so much for the questions. I guess the first one for me, would be great just to get additional color on the impact the promotional activities you initiated this year are having on the business. I guess specifically, I'm just trying to get my hands around what areas do these seem to be gaining traction and are there areas where you've not yet seen an impact?

And then my second question was just maybe building on some of those 2027 comments that you just made. Just as you think about the various pushes and pulls, just are there any other considerations we should be keeping in mind for next year's numbers? I'm trying to get my hands around directionally, do you see the Street in the right place with both top line and EPS currently? Thanks so much.

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

A

Great. Thanks, Chris. I'll take your first question. I'll let Jay take your second. As we spoke about on our last few calls, our pricing strategy is really focused on retaining [ph] volume (00:27:45) and gaining share. And it's really focused on deliberate analytically supported actions that are protecting list price, but really focusing on gross-to-net investments.

We were quite pleased with the performance of those investments in the quarter specifically, and some of the facts are in our slides that we shared as well. The promotional defense on derm managed to slow US dermatology share loss in the quarter to 4 points in Q3. It was about 7 points in Q2 overall in derm. So really pleased with really slowing that overall decline in share loss there.

As you think about how they came through in our parasiticides, I mean, we're really pleased that we held share in the quarter with Simparica Trio at a 22.5% share. And we remain the market leader in puppies, which I think is a really important future prediction of sales there. So we were very pleased. Again, we're going to stay focused and continue to watch the market as it evolves and make sure we're targeting our investments to make sure we continue to protect share and ultimately grow it. Jay, do you want to take the second?

James K. Saccaro
Executive Vice President, Chief Financial Officer & Chief Operating Officer, Zoetis, Inc.

A

Sure. So look, we're in the middle of our budgeting process as we speak. So it's definitely too early to comment very specifically about 2027, but we did want to share some guiding principles. I think from our perspective, as we approach 2027, we're going to be conservative or prudent as we put together our numbers.

We've seen some macro trends over the last several quarters. We are not going to assume a market change in macro factors. We've seen some competitive dynamics. And while I think we walk away from the third quarter encouraged by the activity from a promotional and commercial standpoint, at the same time, we're not going to assume a change in competitive dynamic in 2027.

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And then, finally, as I come into the role here, one of the things I've spent a lot of time on is the R&D pipeline. It's incredibly exciting the work that our teams are doing, and the impact over time is going to be substantial. At the same time, it's not going to have a huge impact in 2027. And so from our perspective, we're going to be very thoughtful as we put together our plan for 2027. It's – I'm hesitant to comment on Street models or anything like that certainly at this point. We're very excited about the long-term prospects that we have, but we're going to be clear eyed as we approach 2027.

Operator: Thank you. Our next question comes from David Westenberg with Piper Sandler. Please go ahead.

David Westenberg
Analyst, Piper Sandler & Co.

Q

Thank you so much. So we followed parasiticides for a while from topicals to orals to isoxazoline. There's generally been a consistent pattern that a new product will come in, it will get some new generational starts and then the market kind of matures and normalizes. We saw this – when you launched Simparica, the original, you did take share, but NexGard kind of settled in and can kind of continued to grow.

Is that what we think we could see in the 2027, 2028 market with Simparica with some of the new entrants and new categories? What would make it different? What kind of indicators would tell you that maybe growth would normalize in that category in 2027, 2028? And again, I don't want to take away, you did grow 5% in Simparica Trio overall, but just curious on that, and I'll have a follow-up.

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

A

Sure, Dave, I'll take that first question before your follow-up. As I said, we were pleased with the performance of Simparica in the quarter. The franchise globally did about 1%. We did about 4% growth in Trio specifically. As I was just talking about, we're very pleased that in the US, we are the market leader and we maintained our share at 22.5%, which is almost 2 times our next biggest competitor.

I also think it's important, as you think about parasiticides, to split the US from International. We're seeing significantly higher growth in International, overall. And I think you're seeing this because triple combination category, it's still in its infancy there. We're really expanding and entering new markets. So we see Trio as still early in its penetration. And we believe there's really a long runway for growth there. And we're continuing to invest in innovation in this space.

As we also mentioned, we are expecting approval of Simparica Duo by year end, which is ahead of its original timeline. And I think this will continue to broaden our portfolio. So I guess the way we see the market, we think there's still significant opportunity to continue to expand this market from single combinations, from topicals and collars into triple combination, as well as to gain share. We have a very comprehensive portfolio that we think is differentiated and we'll continue to invest there. I'll maybe move to your second question.

David Westenberg
Analyst, Piper Sandler & Co.

Q

Sure. So Simparica – I am sorry. Cytopoint, as you noted, has held in the well. There isn't anything in the market like it right now. Befrena does have a label of four to eight weeks efficacy. Looks pretty competitive as it launches in 2027.

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Can you walk us through both, first, maybe from a defensive strategy perspective early on and then maybe from an offensive strategy as you get your own long-acting product? And can you confirm the long-acting is still on time? I think you said Q4, it's – you do expect approval. How fast is that to roll out? And thank you so much for taking the questions.

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

A

Sure. Thanks. We continue to believe that Cytopoint and the long-acting space in derm is really exciting. As we mentioned, it did fare better in the quarter. I think that's really because there's, really, the customers that are on it are quite pleased with the efficacy of the product overall. As you know, we did have a new entrant in that category in the US. To date, they've had limited share given their supply challenges.

What we are really excited about as we see in this category is to continue to expand it. We are expecting the approval of Cytopoint long-acting this year. We think Cytopoint will help us expand the category. Honestly, it provides a more convenient option that lasts longer, which is really helpful for busy pet owners who coming in every month might be a challenge. I mean, this is part of Zoetis' strategy to continue to innovate in each of our key therapeutic areas to both make sure that we can continue to grow our share as well as expand the market overall.

And we're really – we're pleased to have that product and we look forward to launching it in the first half of next year. So we are on track with Cytopoint long-acting, and we think it will be a great addition to continue to build this brand.

Operator: Thank you. We will move next with Jon Block with Stifel. Please go ahead. Your line is open.

Jonathan D. Block
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks guys. Good morning. Jay, I'm arriving at an implied 4Q 2026 organic revenue growth rate of around negative 3% off an easy comp. So maybe just your thoughts on that. If accurate, any color? And then maybe more importantly, what does this mean for the business looking forward, if you could give us some color there, and then I'll ask the follow-up?

James K. Saccaro
Executive Vice President, Chief Financial Officer & Chief Operating Officer, Zoetis, Inc.

A

Sure. So I think as we think about the fourth quarter, it's really – it really is important to take it in the context of the third and fourth quarter and also the full year. On a full year – on the first half, we were down about 1 point. The third quarter was down a bit more than that. And as we look at the third and fourth quarter together, we're talking about a full year growth rate leading to a decline of negative 1% to negative 2%.

We historically see some seasonality with higher sales in the third quarter and then the fourth quarter. And in this particular case, with the promotional activity that we pursued in the third quarter, we're anticipating a third to fourth quarter decline in the high-single digit range. Very much in line with our expectations, although I would say the market and our performance has been a little bit better than our anticipation. But related to that, we always anticipated a deceleration in the fourth quarter versus the third.

And so as we think about what this means for the overall health of the business, it really is important to consider it in the context of the third quarter as well.

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Jonathan D. Block
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. That's helpful. Thank you. And then I guess just to pivot, Livestock continues to be the bright spot, pardon me, for you guys. You might exit 2026, or pardon me, 2026 might have a comp of high-single digits. So, maybe if you could just give us some thoughts on sustainability of Livestock. Kristin, you mentioned the protein tailwinds and that doesn't look like it's going away anytime soon. But just looking forward for this business, off a high-single digit comp that might add some screwworm tailwinds in there, how do we think about that for 2027 and beyond? Thank you.

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

A

Yeah. We were quite pleased with the performance of Livestock in the quarter. It grew 7% overall. And really underlying that, as you mentioned, is demand for quality protein. And that's really across the globe, I would say. We saw US delivering 5% to the quarter and International at 9% in the quarter. And if you think about that, International Livestock is a higher percentage of our business, as we've talked about. And that growth was really broad overall across species.

And we are confident that Livestock will remain a strong contributor. Obviously, as we see, there's definitely a little more cyclicality historically in Livestock. It's influenced by disease, by weather, by outbreaks, local production cycles overall. But there were a few years, obviously, as you recall, where Zoetis had an LOE and we also had African Swine Fever outbreak. But historically, Livestock is a solid contributor overall as an industry grower and specifically for Zoetis.

We're quite focused in our portfolio, as we've mentioned, around vaccines and genetics and preventatives, which we think has positioned us well as we see strong, continued demand for proteins.

Operator: Thank you. We will move next with Brandon Vazquez with William Blair. Please go ahead.

Brandon Vazquez
Analyst, William Blair & Co. LLC

Q

Hey, good morning. Thanks for taking the questions. Kristin, I wanted to follow-up on your commentary about you guys have been pretty successful, it seems like, in defending share in some of the gross-to-net from promotional activities, maybe for lack of a better phrase, to use there. The question being, do you think that these like gross-to-net promotional activities are short term in nature? Is this something you're doing to combat kind of temporary entrance from competitors, or do you think on a go forward basis that you'll need to keep this new gross-to-net?

And because part of the question is basically like, what are the implications to your margins and your gross margins on a go forward basis within the Companion Animal business?

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

A

Yeah, I mean, it's a great question. I think our focus right now is with a lot of new entrants in both derm and parasiticides. Historically, as you know, in our space, when new entrants came, they expanded the market. We aren't seeing that right now. And so we've had to be a little more focused on some of these gross-to-net investments. Ultimately, we think when share settles out, and historically, you've seen that somewhere between 12 and 18 months.

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And what we're really watching for to know how to tweak, and we're constantly watching every month, but certainly every quarter is how are we seeing those shares stabilize? When we see two quarters where those shares pretty much stayed, we'll have a sense that those shares have stabilized and we can then really focus more on gaining share and growing the market overall.

So, I don't think these are here forever, but I think as Jay mentioned in his remarks, I think some of these new products have only recently entered in certain markets. And this is a market specific investment. And so we think we need to lap those new entrants for both derm and paras to really have a sense of how to continue to adjust our gross-to-net investments.

But I think our strategy, as I mentioned earlier, is making sure at the very least, we defend our share and we're focused on both growing share and growing these markets ultimately.

The reality is there are still way more untreated animals in both of these categories than there are treated animals. So, there's significant opportunities to do that. But I think as you combine both the competitive situation right now and macro, the market itself isn't growing as much, but we do continue to believe that that will happen ultimately as we get through this cycle.

Brandon Vazquez
Analyst, William Blair & Co. LLC

Q

Okay. And on Lenivia, I just wanted to hit on that for a second because that feels like, clearly, one of the areas you guys are still kind of innovators and a fast leader there. Early days of Lenivia. I don't know how many pilot accounts you might be having, but any metrics, any anecdotal feedback you want to share with us just in terms of is this the product you think through 2027 might be able to start to reaccelerate the OA pain management section? Thanks.

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

A

Yeah. We're quite excited on the performance of both Lenivia and Portela, which is a long-acting for cats. We have launched across a number of markets in the EU and Canada. And what we're hearing right now, again, I would like to be clear, this is obviously early days, but the veterinarian satisfaction is high at 97% for Lenivia and about 95% for Portela. Pet owner satisfaction is high at 98%.

And what we're seeing is what we expected, which is that Lenivia and Portela are providing a really good opportunity to grow the market. Having a product that is more convenient, that is once every three months has really helped expand the market.

So, obviously, we've seen some cannibalization, as you saw. But if you looked overall at OA pain in International, we saw growth, and that's really been driven by Lenivia and Portela and sort of the positive both veterinarian and pet owner uptake of those products. We continue to expect approval of Lenivia in the US in 2027. So, we'll be excited to bring that product to the US as well.

Operator: Thank you. Our next question comes from Erin Wright with Morgan Stanley. Please go ahead.

Erin Wilson Wright
Analyst, Morgan Stanley & Co. LLC

Q

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Great. Thanks for taking my question. So, I'm curious if you're seeing – and I'll ask both mine up front, but are you seeing continuing stabilization in the share loss through the fourth quarter and should we anticipate any changes to the pricing and promotion strategy? You did a promotion in August, September. Seems like you feel okay with that. Do you double down? Like, are you doing more in terms of pricing or promotions on that front and are you seeing also a competitive response, a lack of competitive response? You could potentially see stabilization quicker than expected.

And then, I guess my second question is more on kind of margins and into next year and what does this all mean kind of from a margin standpoint? And what are some of – maybe some of the mitigating factors we should consider on the cost side?

And Jay, as you look at this business and you think about some of those opportunities from an efficiency perspective, how do you think about that? Thanks.

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

A

Thanks, Erin. I'll take your first question and I'll let Jay take your second. As we spoke about, we are pleased with the performance of the promotions. We are adjusting month-by-month, quarter-by-quarter with those plans. As I said, we're going to watch overall share and look for overall stabilization. But we also need to be cognizant of when new products will be entering or when supply will be expanding in some of these markets.

So although we're pleased to move from a negative 7% to negative 4%, as we talk about derm share loss overall from Q2 to Q3, our goal is to get that to 0% and to be growing back, to be clear. So we'll continue to watch that. We're pleased that we are slowing that decline right now. Our goal obviously is to get that to stabilization on that share, and importantly, to get that stabilization to as high a share as we possibly can.

So we'll continue to look at the promos we think help drive that. We do like this focus on gross-to-net versus list because it helps us make sure that we have clear outcomes to the programs that we run, clear metrics we can see that we're delivering. And as we think about some of those overall programs, they're really focused on things like measuring new auto-ship starts, new patient starts, loyalty at the clinic. So we'll continue to invest in those.

We have obviously seen some competitive responses, as we expect, but nothing that we weren't expecting overall. And we'll continue to monitor it and provide an update as we get to Q4 on the continued strategy here. Jay, do you want to take the second question?

James K. Saccaro
Executive Vice President, Chief Financial Officer & Chief Operating Officer, Zoetis, Inc.

A

Sure. Just overall, as we think about margins, the full year margin is shaping up in line or better than our expectations. So we're pleased with the progress on both the competitive initiatives we've put in place, but also the cost initiative. You'll note SG&A declines 1% on an overall basis, as we expect, from an overall year standpoint.

Now, and again, it's important not to look at the fourth quarter in isolation. Some of the comments I made relative to revenue impact not only gross margin, but also impact SG&A leverage in the quarter. So you have to look at it in a broader context, second half or even more broadly than that.

Now, as we go to next year, there's a couple of drivers that we're going to be very focused on. First of all, we do have a world-class manufacturing and supply chain organization. I've been really impressed with the work that

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that team is doing. The amount of manufacturing of product that we have done is just astounding. And so using that as a competitive advantage, especially in this environment, I think can be really, really important to our success over time, but also in 2027.

And then secondly, I noted SG&A declines this year. As we look to next year, we'll continue to focus on savings initiatives. We have opportunity. We've pursued some cost savings initiatives this year. We'll have further impact from those next year. At the same time, we'll continue to invest in R&D for success. I think one of the things I've walked away from over the last several months, the remarkable pipeline that we have in place. So we're going to fund those initiative for success. There will be some benefit in 2027, but much more prominent 2028 and 2029. So we'll fund those for success, but really target gross margin and SG&A or cost of goods and SG&A as areas where we focus our initiatives on.

Operator: Thank you. Our next question comes from Matt Dellatorre with Goldman Sachs. Please go ahead.

Matt Dellatorre
Analyst, Goldman Sachs & Co. LLC

Q

Great. Good morning and thanks for the question. Maybe just on derm, if we look at the franchise sales decline, could you just help us break out how that splits between volume and some of the price gross-to-net promotions?

And then in the last quarter, you all highlighted that retail channel growth had moderated at – versus prior being more of an offset to some of the clinic weakness. Could you just give us an update there on what you're seeing and if the outlook has improved at all? Thanks so much.

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

A

Sure. I'll let Jay take some of the specifics on the derm breakout you're looking on volume versus price. And then I can take the – why don't I – I'll start on the first one and then Jay can take the one on derm. What we saw in the quarter overall is the retail sector, whether you think of both online and in-store, as you compare it to 2025, that growth has slowed. Home delivery, on the other hand, has been stronger as we look at it.

What we were very pleased with in the quarter that I think helped contribute to the defense of both Simparica and derm is real investments in retail, relooking at our mAb pricing there, which I think has made us more – has really strengthened us in the retail channel overall. So we're continuing to invest there. A lot of pet owners find that quite convenient. We're seeing advantages to compliance there overall. So we'll continue to invest in that sector.

I think, overall, given it's had such strong number of years, that growth is slowing a little bit with more of that getting made up more recently as you think about home delivery. But I don't know if you want to take the question on derm.

James K. Saccaro
Executive Vice President, Chief Financial Officer & Chief Operating Officer, Zoetis, Inc.

A

Sure. So overall, as we think about the entire third quarter performance, we highlighted in our remarks earlier, roughly flat volume with down 1% or so in price. Dermatology had a little bit more of a prominent impact than that from a pricing standpoint, but overall the franchise was down 16%. Price contributed and it was higher than the corporate average price decline with volume down the lion's share of it though.

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So really, that's the shape of the trajectory. As we think about the pricing changes, really it was virtually all, in fact, it was all gross-to-net investments that we made versus any changes to list price across the portfolio of derm.

Operator: Thank you. Our next question comes from Navann Ty with BNP Paribas. Please go ahead.

Navann Ty
Analyst, BNP Paribas Securities Corp.

Q

Hi. Good morning. Thanks for taking my questions. Can you discuss further the international Companion Animal performance, which was flat this quarter? Have you seen more competitive or macro pressure there? And then in OA pain, if you could discuss cannibalization in the markets where you have launched Lenivia and Portela?

And maybe my last question on the breakthrough innovation pipeline, if you're on track for the late 2027 approval. Thank you.

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

A

Sure. I'll start on the first, and Jay, you can let me know if you have anything you want to build. We did see flat growth overall in International in the quarter. That really had to do with similar trends that you might have seen in some of the developed markets in Europe with pressure overall on derm. We did see strong growth overall in parasiticides there.

So I think some of the same sort of trends we've been seeing overall in markets where we've had new competitors entering. And if you go market by market, obviously there you have to see that the timing may obviously switch overall.

I think your second question was on breakthrough innovation. I believe we are very excited, as Jay said, around our innovation. We – as we mentioned, we're committed to achieving a significant major market approval every year for the next several years. We were really pleased that all the milestones that we have outlined for 2026 are on track, and we've got a few that have moved forward.

We'll see a number of launches of some of these products into 2027. We'll see those ramp as we go through the year, obviously. But also very excited, to your point, on the breakthrough innovation. Those are the creation of new categories as we outlined in some of our slides. That's around conditions such as chronic kidney disease, cardiology, oncology, obesity, diabetes, anxiety. These are important new categories where there are very limited products out there today. And this is something that Zoetis has always been known for, really creating new categories and bringing innovation. So we remain quite excited on all these.

And importantly, we look forward to sharing a more comprehensive update to that pipeline at JPMorgan, where we'll update all the sort of expectations as we look at the years to come.

Operator: Thank you. We will move next with Christopher LoBianco with TD Cowen. Please go ahead.

Chris LoBianco
Analyst, TD Cowen

Q

Hello. Thanks for taking our question. We had two. First, can you quantify the impact of any one-time factors or one-offs in the quarter like stocking or one-time purchases? And second, can you provide any color on the product profile of Simparica Duo? Is this product meant for Rx or OTC usage? Thank you.

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James K. Saccaro
Executive Vice President, Chief Financial Officer & Chief Operating Officer, Zoetis, Inc.

A

Sure. As it relates to one-time items, really, in the third quarter, we did have the promotional activity that I commented on, and that really impacts the shape of sales growth between the third and fourth quarters. And so that's something that we periodically do. You'll recall, we've done these in past years. As we evaluate 2027, we'll evaluate the appropriate promotional activity.

But beyond that, which did sort of impact the sales contour between Q3 and Q4, there were really no one-time items to point out. And like I say, that's something that we'll evaluate next year, what is the right shape of promotions as we go through the year. As it relates to the product profile?

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

A

Yeah. For Duo, we're quite excited to get – expect approval for Duo this year and launch it next year. It will be an Rx product. It is not an over-the-counter product. It will be part of the Simparica family. The focus of this product is meeting an unmet need, which is there's many areas of the country where there's flees, ticks and intestinal worms, but heartworm is not a major area, or areas where heartworm is huge and they want to move to our product ProHeart, and it really meets that need. So it's a product really focused on flee, tick, heartworm and intestinal worms. So we're excited to get approval there and then add this to our overall Simparica family.

Operator: Thank you. We will move next with Andrea Alfonso with UBS. Please go ahead.

Andrea Alfonso
Analyst, UBS Securities LLC

Q

Yeah, thank you so much for squeezing me in. I – my question was really – I appreciate all the color that you provided on sort of the competitive – [ph] definitive (00:53:34) competition by channel. I guess any color on the efforts by channel? How does it vary between retail versus independents, and how do we think about the competitive intensity there?

And then I guess, separately, I'll squeeze this in, is with two big distributors coming together imminently, how are you approaching distributor relationships versus more direct engagement with practices? Thank you so much.

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

A

Sure. I'll take those questions as a comprehensive, because I think what you're really talking about overall is channel. And I think as we think, you have to pay attention to all those. Obviously, we have had a strength in the corporate side historically. We'll continue to invest there. We think there's still a lot more that our teams are focused there on making sure if there's – we're one of two, we want to be the largest there. So there's very targeted promotions meeting each of those individual corporate strategies there.

It's also focusing on independents. We have a loyalty program there that we're quite focused on. That's obviously part of our targeted promotions as we talked about, is how do we gain share in some of those independents. So we'll be focused there. We talked a lot about investing in sort of retail where you get an opportunity for auto-ship. There's really great movements as well in the box store side as well. So these are all important.

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And as we think about distribution, they've always been an important channel for us. Some of our customers prefer to place one order across all those. So we're going to continue to and make sure that we're available wherever both the vet and the pet owner wants to access our products. And so we'll look at channels holistically and make sure we have the targeted strategy to meet each of those different channels' needs.

Operator: Thank you. We will move next with Steven Dechert with KeyBanc Capital Markets. Please go ahead.

Steven Dechert
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, thanks for the question. I guess just on the gross-to-net investments on the vet clinic side, where are you in the process of sort of the product bundling with clinics? Have you mainly worked through all those contracts, and how often can you revisit those contracts for further changes?

And then on key derm internationally on the organic growth being down 20%. Little worse maybe than we expected. But I guess Numelvi and Zenrelia really have been in that market in Europe for a while. So, I guess, just maybe what changed this quarter with the competitive dynamic? Thanks.

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

A

Sure. So your – I'll – your first question on gross-to-net and product bundling, we have always had a broad portfolio. We have the broadest portfolio. We've always been able to leverage that portfolio as we think about overall promotions. We're going to continue to do that. As we think about some of those clinics, we look at our overall share there, we try to make sure that they're buying across our portfolio.

I think that will remain, Steve, an important strategy for us. We're obviously seeing some competitors try to copy that where they can, but they don't have as broad a portfolio. But importantly, as we've talked about before, it's really the innovation that we bring that pulls this forward. And as we think about the approvals we had this year and all the launches we're going to have next year, I think that sets up that portfolio play that we're talking about.

And we look at each of those programs on a quarter-by-quarter basis. The contracts, as you think about some of the corporates, the – each contract is slightly different. Normally, there are two to three-year contracts where you can obviously revisit those. But we're very pleased with how we're positioned there. And again, I think our innovation is what really differentiates us overall.

And your question on derm in International, you were referencing Europe where we have had some of that competition for a while, but International is quite broad, as you know. And I think the competitive dynamics are quite different in different markets as you think about even some of our top five markets, if you pull in, say, Brazil or Australia, in some of those markets, these are products that are sold almost like over the counter in retail stores where the strategies are quite different. And I think some of our competitors are positioned a little differently than us, as well as some of those pricing dynamics in some of those other markets.

So, yes, the Europe might look a little bit more in some of the markets like the US. But as you get outside of Europe, those market dynamics are quite unique in certain large markets that are top five markets for us such as, say, Brazil or Australia.

Operator: Thank you. And there are no further questions in queue. I will now turn the call back over to CEO Kristin Peck for any additional or closing remarks.

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Kristin C. Peck

Chief Executive Officer & Director, Zoetis, Inc.

Well, thanks, everyone, for joining us today. As always, we really appreciated your questions and your continued interest in Zoetis, and we look forward to keeping you updated at future conferences and seeing you again on the Q4 call next year. Thanks, everybody.

Operator: Thank you. This brings us to the end of today's meeting. We appreciate your time and participation. You may now disconnect.

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