

✓ 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
Jonathan D. Block - Analyst
David Westenberg - Analyst
Brandon Vazquez - Analyst
Chris Schott - Analyst
Navann Ty - Analyst
Chris LoBianco - Analyst
Daniel Clark - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to the First Quarter 2025 Financial Results Conference Call and Webcast for Zoetis. Hosting the call today is Steve Frank, Vice President of Investor Relations for Zoetis. 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 the call will be available approximately two hours after the conclusion of this call via dial-in or 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.

It is now my pleasure to turn the floor over to Steve Frank. Steve, you may begin.

Steven Frank

Thank you, operator. Good morning, everyone, and welcome to the Zoetis first quarter 2025 earnings call. I am joined today by Kristin Peck, our Chief Executive Officer; and Wetteny Joseph, our Chief Financial Officer. 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, 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 our SEC filings, including, but not limited to, our Annual Report on

Form 10-K and reports on Form 10-Q. 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, Tuesday, May 6, 2025. We also cite operational results which exclude the impact of foreign exchange.

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

Kristin C. Peck

Thank you, Steve, and welcome everyone to our first quarter 2025 earnings call. By staying laser focused on delivering for our customers, our colleagues drove strong 9% organic operational revenue growth and grew adjusted net income 6% on an organic operational basis.

Our international segment led with 11% organic operational revenue growth, highlighting our global scale and diversification while the US grew 6%, excluding the impact of the MFA divestiture. Growth was balanced across species. Our innovative companion animal portfolio grew 9% operationally, fueled by sustained demand for our diverse, market leading franchises. Livestock grew 7% on an organic operational basis, driven by broad based double digit performance internationally.

Before we go deeper into the quarter, I want to briefly address what is top of mind for many of you. In today's operating environment, the essential nature of our business remains clear. Animals provide companionship and nourishment, and in uncertain times, people will rely on both. It's precisely because of the enduring secular trends and the fundamentals underpinning our innovation led operating model that Zoetis has consistently proven its resilience, even through economic turbulence.

That resilience is embedded in how we operate. From our global footprint and diverse, durable portfolio across species and geographies to our omnichannel presence matrix, manufacturing network and talented field force, combined, those dynamics ensure we're operating from a position of strength as we navigate a fluid environment, shaped by macroeconomic, regulatory, and geopolitical uncertainty.

We are managing these challenges thoughtfully, working to minimize their impact while also seizing opportunities where they exist, so we can continue delivering for our customers, colleagues and shareholders. That means executing our strategy with discipline, supported by a strong balance sheet, operational excellence, thoughtful and strategic capital allocation, and experienced leadership team ready to adapt as needed. Most importantly, we continue to prioritize what matters most, living our purpose and ensuring our products reach the people and animals who depend on them.

With that context, let's pivot back to the quarter. While our performance reflects the strength of our diverse multi-levered strategy, I'll touch on a few of the key growth drivers. In companion animal, our combined key franchises grew double digits operationally fueled by exceptional performance in our international segment, where our trusted brands, even after several years on the market, continued to grow by winning new patients and improving compliance with significant runway to further define the standard of care and deliver meaningful outcome. In parasiticides, our Simparica franchise continues to expand the overall category and is gaining share driven by our omnichannel strategy, meeting customers where they are, whether in the clinic through retail, where Simparica Trio is the top selling parasiticide in the US or via home delivery.

As you've heard us say, we are seeing increased conversion to broad spectrum triple combinations, setting us up for an even longer term growth tailwind. Together, these dynamics positions us well to continue leading through innovation, most recently with Simparica Trio's US label expansion to include flea tapeworm

protection. Similarly, key dermatology has consistently been a high growth category built on innovation, customer trust, and a portfolio that remains the preferred choice for treating allergic itch.

Through years of investment and strong partnerships, we have built brand loyalty and established a clear leadership position. We continue to leverage our first mover advantage by capitalizing on the breadth of our portfolio to grow and sustain share in a dynamic environment. We remain focused on what we can control execution, innovation and customer experience, and we are winning with customers every day. Demand for our portfolio remains strong, fueled by the convenience and the unmatched flexibility we provide to vets and pet owners through our three differentiated products.

At the same time, an estimated 20 million dogs still untreated or undertreated for itch. Advances in diagnostics are helping unlock this opportunity, enabling broader access, earlier intervention and better outcomes. That's why we're confident in the enduring strength of this franchise and our ability to continue leading.

And similarly, building on our track record of scientific innovation, our osteoarthritis pain franchise marks a meaningful advancement in care, delivering strong double-digit growth and approximately 25 million doses distributed globally. While adoption has been more gradual than initially expected, we are encouraged by the foundation we are laying and the long-term potential ahead. We are building and scaling a new category of care, one that requires significant education and engagement. Both veterinarians and pet owners need time and support to fully understand the safety and efficacy profile of newer, more advanced treatments for chronic pain.

And in this economic environment, we're seeing pet owners take a more measured approach to managing chronic conditions, making choices that reflect broader consumer spending trends, which could include adjustments to timing or frequency of care. That said, we see the impact of these therapies every day.

They are safe, effective and improving the quality of life for pets and the people who care for them. To accelerate adoption, improve access and grow the OA pain market, we are taking focused, strategic actions. We are expanding medical education for veterinarians and partnering with key opinion leaders to share best practices.

We're investing in and plan to leverage post-launch studies to generate additional real-world insights for vets. We are engaging directly with pet owners to increase education on the burden of OA pain and the long-term value of treatment. And we are launching 360 campaigns, including targeted direct-to-consumer efforts to build awareness and demand. Though uptake may be slower in the near term, our long-term confidence remains strong, as we build a durable, differentiated market with significant room to grow, especially given the sizable and under-penetrated opportunity ahead.

In livestock, we delivered strong performance with 7% organic operational growth. Through the sale of our MFA portfolio, we consistently reaffirmed our commitment to livestock and our customers because what makes Zoetis unique and reliable is the diversity and durability of our business model. Regardless of portfolio mix, one thing is true, people need to eat and global demand for animal protein will continue to rise. That's why we continue to invest in solutions that protect the health of food producing animals and safeguard supply chains.

Since reporting our results in February, we received conditional licensure from the USDA for avian influenza vaccine for chickens, ensuring we are ready to support customers and regulators wherever the path leads in addressing this evolving threat. And it's during periods of uncertainty that execution matters most. Our experience enables us to rise to the occasion, to stay focused, stay ready, and continue delivering solutions where and when they are needed most.

As we look to the rest of the year, we're encouraged by our first quarter performance and the steady demand for our products, along with the resilience we've consistently seen across the animal health industry. We are maintaining our full-year organic operational revenue guidance range of 6% to 8%, reflecting confidence in the differentiation of our portfolio and our ability to execute in the current environment.

While the operating backdrop remains unpredictable, we believe this range appropriately reflects what we know today and we will remain agile in navigating new uncertainties and embracing new opportunities.

At the same time, based on our current estimates of enacted tariff-related cost impacts, we are updating our full year organic operational adjusted net income to a range of 5% to 7%. And just to clarify, our outlook does not include any potential impact from future tariffs as it's still too early to know how the situation will unfold.

And with that, I will close with this. The performance we share today reflects the dedication of our colleagues around the world, living our purpose, being a trusted solutions provider to our customers, and delivering results through their relentless focus. Uncertainty is top of mind for everyone, but it's not unique to Zoetis. What sets us apart is how we respond. Zoetis has consistently leveraged its innovation-led, customer-first operating model to outperform the market and deliver value for both customers and shareholders. We remain vigilant and agile. We'll draw on our experience navigating complexity, stay clear eyed in our decision-making, and continue moving forward with discipline.

We are confident in the strength of our portfolio, in the promise of our pipeline and our ability to adapt. Most of all, we're confident in the commitment of our teams around the world to lead through change and continue delivering for our customers and shareholders. Because ultimately, what we do matters for the well-being of animals, people and communities.

That's why animal health is both essential and resilient, an industry fueled by long term demand and rising expectations for high quality care. And as the global leader, we recognize our responsibility to lead today and well into the future.

With that, I'll turn it over to Wetteny to walk us through the more detailed financials. Wetteny?

Wetteny Joseph

Thank you. Kristin. In the first quarter, driven by balanced portfolio growth, we posted \$2.2 billion in revenue, growing 1% on a reported basis and 9% on an organic operational basis, which excludes the impact of foreign exchange and the MFA divestiture.

Our organic operational growth was driven by 4% price and 5% volume. Adjusted net income of \$662 million grew 4% on a reported basis and 6% on an organic operational basis. Our companion animal portfolio led the way with \$1.5 billion in revenue, growing 9% operationally.

Globally and on an operational basis, our Simparica franchise contributed \$367 million, growing 19%. Key dermatology posted \$387 million, growing 10%, and our OA pain mAbs reported \$147 million, growing 15% in the quarter. Our livestock portfolio also contributed organic operational growth of 7% on \$645 million in revenue.

Now, moving on to our Q1 segment results. US revenue grew 2% on a reported basis and 6% on an organic operational basis in the quarter, with companion animal growing 8% and livestock declining 2% on an organic operational basis. In companion animal, US growth was driven by our three key franchises while vaccines faced headwinds from supply timing coupled with competitor reentry.

Across the portfolio, alternative channel sales continued to outpace the vet channel, offering greater convenience for pet owners, improving compliance and stickiness. Driven by strong growth in auto ship programs that boost compliance and increase the lifetime value of each dog on treatment, our Simparica franchise posted 17% US growth this quarter on \$260 million in revenue. Additional competitive entrants are accelerating the market's shift to triple combinations where we continue to gain share, thanks to the strength of our field force, our first mover advantage, and ongoing innovation, including expanded label claims.

In key dermatology, sales were \$249 million, up 7%, with growth across both Apoquel and Cytoint, while also reflecting the comparison to last year's initial distribution stocking of Apoquel chewable. Apoquel growth continues to be driven by the retail channel and continued conversion to the chewable, which is easier to administer and promotes daily compliance.

Our OA pain mAbs, Librela and Solensia posted a combined \$65 million in US sales, growing 14%. Librela grew 17% on \$47 million in revenue, and Solensia posted \$18 million in revenue, growing 7%.

To reiterate Kristin's point, building a new category of care takes time, but we remain confident in the sizable market potential. Our foundation is solid and record penetration confirms that veterinarians want better OA solutions.

Organic operational declines of 2% in livestock are primarily driven by declines in Draxxin due to aggressive price competition and the timing of price adjustments in the prior year, as well as the timing of supply of ceftiofur.

Moving on to our international segment, revenue was flat on a reported basis and grew 11% on an organic operational basis. Companion animal grew 10% operationally and livestock grew 12% on an organic operational basis. Similar to the US, international companion animal sales were driven by strong performance in our Simparica, key dermatology, and OA pain franchises.

Our international Simparica franchise, including Simparica and Simparica Trio grew 23% operationally on \$106 million in sales, with both brands driving strong market share gains. Simparica grew 22% operationally on \$61 million in sales, driven by expansion of the combination parasiticide market, especially in Latin America and Eastern Europe. Simparica Trio contributed \$46 million, growing 26% operationally with strong performance across all regions.

Our key dermatology franchise delivered \$138 million in revenue, up 15% operationally, with double-digit growth in both Apoquel and Cytoint. Our performance was driven by field force engagement with vets, leading to new patient starts and improved compliance, especially among chronic cases.

As Kristin highlighted, we're executing globally on our key dermatologic strategic priorities. We continue to show strong progress, driven by continued conversion of Apoquel chewable, which now accounts for 57% of doses in Europe.

Internationally, our OA pain mAbs grew 16% operationally, posting \$82 million in combined revenue. International sales of Librela were \$65 million, growing 14% operationally. Our international efforts have had a significant head start over the US, as we enter our fifth year in some markets. We continue to drive double-digit sales growth and expand both the market and our share. Solensia sales were \$18 million, growing 27% operationally in the quarter. Solensia now holds over half of the feline OA market share in international markets, underscoring the strong demand for an OA solution for cats.

International livestock grew 12% on an organic operational basis in the quarter. Growth was driven by higher price, including some impacts from high inflationary markets. Volume growth, excluding the impact of MFA's

was driven by poultry vaccine growth from key account penetration across Asia, the Middle East, and Latin America. Cattle contributed to growth with a return to a more normal environment in Australia, as well as strong demand across much of South America, Canada, and Mexico. Our fish business saw good vaccine growth across geographies.

Now, moving on to the P&L for the quarter. Adjusted gross margin of 72.1% grew 140 basis points on a reported basis. Foreign exchange had a favorable impact of 220 basis points. Excluding FX, we saw lower margins due to higher manufacturing costs, in line with our expectations and included in our initial guidance in February, which should improve, as we work through inventory valued at prior year standards and unfavorable product mix. This was partially offset by the favorable impact of our MFA divestiture.

Adjusted operating expenses increased 3% operationally. Growth was driven primarily by SG&A increases of 4% operationally, mainly due to higher compensation related expenses and increased direct-to-consumer advertising. R&D declined 2% operationally this quarter due to lower project spend, primarily due to timing.

Adjusted net income grew 2% operationally and 6% on an organic operational basis. Adjusted diluted EPS grew 4% operationally in the quarter and 8% on an organic operational basis, 2% higher than adjusted net income and reflective of a lower share count as a result of our ongoing share buybacks.

Before we get into guidance, I'll expand on the business impact of the tariff landscape. While the current situation remains fluid, we are well positioned to navigate this dynamic environment. We'll be thoughtful and deliberate in our actions, with a clear focus on both near and long-term goals.

We will leverage the diversity of our revenue across geographies and species to seize opportunities for growth, ensure we work to control expenses, price strategically and manage inventory. People and animals depend on our products, and we will continue to deliver for customers.

Now moving to guidance for the full year 2025, which reflects continued confidence in our operating model, while acknowledging that there will be some profitability impacts in the near-term, due to enacted tariffs. Please note that guidance reflects foreign exchange rates as of late April.

For the year, we are guiding revenue between \$9.425 billion and \$9.575 billion, with increases due to favorable foreign exchange when compared to the late January rates used in our initial February guidance, and maintaining organic operational growth of 6% to 8%.

We recognize that there are external factors that are beyond our control. As such, our current guidance does not include any assumed impact of future tariffs, policy changes, or further worsening of the macro environment. We continue to expect broad-based operational growth across our Simparica, key dermatology and OA pain franchises, and reiterate our expectation that these combined innovative franchises will grow double-digits in 2025.

We now expect adjusted net income to be in the range of \$2.775 billion to \$2.825 billion, reflecting operational growth of 5% to 7% on an organic operational basis. Our revised adjusted net income guidance is reflective of the estimated impact of current enacted tariffs while not accounting for any future changes in the tariff landscape.

Lastly, we expect adjusted diluted EPS to be in the range of \$6.20 to \$6.30 and reported diluted EPS to be in the range of \$5.85 to \$5.95. This EPS increase is primarily due to favorable foreign exchange compared to the late January rates, as well as the reduction in our share count due to share repurchases in the quarter, slightly offset by enacted tariffs. As we indicated in February, our EPS projections are based on current share counts and do not consider the future favorable impact of our ongoing share repurchase program.

As we look forward to the remainder of the year, we recognize there is a degree of uncertainty, but we remain confident in our outlook. In the past, our proven, diversified model has delivered steady, predictable and meaningful growth through dynamic environments. We lead in two attractive end markets with strong fundamentals, have a portfolio of market-leading franchises, a sustainable stream of innovation, and a proven track record of execution.

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

QUESTION AND ANSWER SECTION

Operator

Thank you. We'll hear first from Erin Wright with Morgan Stanley. Please go ahead.

Analyst:Erin Wilson Wright

Question – Erin Wilson Wright: Great, thanks. So, first on, I'll do Librela first and then tariffs. I guess, can you speak to what you're seeing across the US market in terms of the Librela label change, how vets are responding relative to your expectations there? And how do you think, the longer-acting OA pain products, could potentially replace or enhance sort of the OA pain offering as we head into potentially next year?

And then, on tariffs, can you describe what exactly is embedded in terms of the gross tariff impact and what mitigation efforts you have? And then, what does it mean when you say enacted tariffs? I guess what tariffs or jurisdictions are you incorporating or product categories, where do you have, I guess, the most exposure, and what sort of is the tariff impact now embedded in guidance? Thanks.

Answer – Kristin C. Peck: Sure. Thanks, Erin. I will take the Librela question. I'll let Wetteny take the tariff question when I'm done. As Wetteny sort of mentioned in his prepared remarks, we had about 15% organic operating growth in Librela across the globe, and the US having about 17%. We're continuing to grow the market, and vet satisfaction remains strong.

Our focus right now is on building and scaling the new category of care, and really focusing on continued education and engagement. Now that the label is settled, we're really focusing on expanding our medical education. We're investing in a number of post-launch studies, as we've talked about, to generate more real-world data. We're also bringing in some key opinion leaders from Europe, who had the product for over five years, to share their experiences in the US, as well as investing in targeted DTC.

So, we continue to have long-term confidence. It remains strong, and we really think Librela is meeting a significant unmet medical need, and remain excited.

Wetteny, do you want to cover the tariff question?

Answer – Wetteny Joseph: Sure. Look, Erin, our guidance today reflects the net impact of the tariffs that are actually already in place, and so that's net of any mitigations that we've already put together here, although the situation remains fluid.

To give you a little bit more color in terms of where the exposure is and what we have reflected today, it's primarily from imports related to APIs for a few of our livestock products coming from China. And then, some

impact from a few of our diagnostics products, as well as certain veterinary accessories.

Zooming out, the situation remains fluid, obviously, and we continue to monitor as well as are actively planning various scenarios depending on where tariffs land. Keep in mind, we have a broad, diverse geographic footprint, and 60% of our manufacturing footprint is actually in the US. So, we export more out of the US than we import into the US. And particularly, when you think about companion animal, vast majority of our sales are actually produced in the US for those, and a good portion of the companion animal sales outside the US are actually produced in the US.

And so, I think when you think about that, our exposure is really likely more from retaliatory tariffs from other jurisdictions. So, most of our exports go to Europe as well as our imports are actually coming from Europe, so you think about that in the context. And, of course, we continue to monitor those. Given our supply chain, as broad as it is, that gives us lots of mitigation opportunities. So, until we know exactly where tariffs land, we won't know exactly how much we'll mitigate. But we do feel confident that our footprint allows us quite a bit of flexibility to do that.

Those will range in terms of timeframe where they can be executed from immediate where it maybe movement of inventories all the way to longer term in terms of what does that mean in terms of our footprint. So, lots of opportunities for us as we look at that. But given our diversity from a geography, product, et cetera standpoint, we feel we are as well-positioned to navigate this as anyone else.

Operator

We'll hear next from Michael Ryskin with Bank of America. Please go ahead.

Analyst:Michael Ryskin

Question – Michael Ryskin: Great. Thanks for taking the question, guys. I'll start on the competitive side of things. I think Wetteny and Kristin, you guys both called out competitive entrants a little bit more in your prepared remarks. Obviously, you've got – you've had NexGard PLUS in the market for a while now and also Credelio Quattro and Zimbralia. (28:52) Just if you could dive into a little bit more of like, where are you seeing the most competitive pressure? How is it taking shape? Is it more in terms of price? Anything you're seeing in terms of pre-stocking, pre-selling? There's a derm competitor expected later this year as well. So, just sort of what have you seen so far? What are you factoring into your guide from the competitive side of things in those categories?

And then a follow-up on Librela, on Erin's question there. I just want to – now that you've had the label change and some of the learnings from the last couple of months, is your assumption for fiscal year 2025 Librela any different than it was before? Do you think you'll be able to offset some of these as you go through the year? Just wondering if your thoughts on the ramp for this year are any different than they might have been three months ago? Thanks.

Answer – Kristin C. Peck: Okay, great. I'll start in on the competitive side and then let Wetteny build off of it. I mean, I think what's really important to note in both dermatology and parasiticides is we were the first mover. And I think that's really important because especially if you look at parasiticides, being the first mover has made a big difference. Really, we've just been growing our share over time, as we've talked about. We obviously had one of the biggest competitors enter over a year ago and we're printing 19% growth overall for the quarter in Trio. So, I think that's incredibly strong.

I think what we're really seeing is that there's still 40% growth in a combined flea, tick, heartworm space. And the more people that enter, the more people get switched into combo therapies from single therapies or

topicals or collars, so we continue to see that regardless of who is entering.

We have an excellent product. It's continued to compete really well in the market. We're really proud of the execution on this in the US and around the globe. So, we've seen competition. We're obviously going to continue to see more competition. I think what's also something to focus on is that right now we have a 40% share in puppies and obviously, once one dog goes on a product, it's rare that it'll switch. So, I think that's a really good indication of where that's going in the future.

As we talked about, we are expecting potentially a new competitor in dermatology. Wetteny can get into the specifics that's baked in. But again, I'd say if you look at dermatology, we have three excellent products that have been in the market for a long time that are accepted that vets have an over 90% satisfaction rate with those products and we are the first mover.

So, I'll let Wetteny talk about what that means in guidance, et cetera and then if you want to follow-up anything else on Librela if you want, Wetteny.

Answer – Wetteny Joseph: Sure. If you look across our three key franchises and I think this will cross over both, your first question on competitive entrants as well as your question on Librela, and I'll double click on that a little bit, Mike.

So, first of all, our large three key franchises, we expect to grow double-digits in 2025. They delivered 14% in the first quarter and remain double-digits in our guidance. I think if you look at these areas, including those that already have competition or where we expect more entrants to come in, the bigger picture is the opportunity that remains, I think, in every area you have large markets, even at the current sizes.

In derm, we still have 20 million dogs that are undertreated or untreated. And clearly with double-digit growth in that category, a decade plus later, we are accessing those expansion opportunities and we have more to go, particularly when you think about international.

If you look at Librela, again, our key franchises are double-digit expectations for the year. We haven't given specific guidance, consistently with the first guidance in February on a particular product. But I think I would share this. We had a very strong launch to this product, in terms of penetration in clinics, in the US, et cetera. If you look at that, that's a strong foundation for us.

And really, if you look at the feedback from vets, they remain very strong in terms of satisfaction. And so with 27 million medicalized dogs in the US alone, with OA and only 9 million being treated, 8 million of those on NSAIDs and 1 million on Librela, I don't think I need to spell out just how vast the opportunity is. And we're still early. And clearly, as the adoption curve is slower than we expected as we said in the prepared commentary, we are doubling down on efforts to drive education and awareness, et cetera.

The industry has seen this before with other products, and we've seen this before, and we're confident in terms of the long-term opportunity here, and our position in it as a first mover and the impact it's making on dogs across the world. So we'll continue to drive those.

Answer – Kristin C. Peck: And the other thing I'd say is we're really seeing this as a huge market opportunity of the future. We've talked for a while that we think the overall market opportunity for us in OA is between \$2 billion and \$3 billion. And we're investing, as you know, in a long acting OA monoclonal antibody that, as we mentioned earlier in the year, we are expecting approval for this year, this would be a long acting three month injection.

It is a new and different antibody than Librela with the unique binding site. And we're expecting the dosing range to be about 10 times lower than Librela. So, obviously we have a lot of confidence in continuing to grow this market, and the potential for this market, given all the things that Wetteny said. And we'll continue to invest in lifecycle innovation behind Librela as well.

Operator

We'll hear next from Jon Block with Stifel. Please go ahead.

Analyst:Jonathan D. Block

Question – Jonathan D. Block: Great. Thanks, guys. Good morning. Hope you can hear me. Okay. Maybe just building on a couple of the prior questions. Wetteny just pretty straightforward, but can you just maybe help us and bridge us to the \$0.20 increase to the 2025 EPS guidance because just, obviously back of the envelope. But even with the advantageous move in FX, the lower interest expense and the lower shares, I'm actually having a hard time getting to \$0.20. And that's arguably before any tariff headwind. I don't know if you can give us like a gross or net tariff impact on that side of the equation.

And then, Kristin, I guess just a little bit more on Librela, pretty direct question. Do we assume or should we assume flat US Librela revenue for the next two to three quarters until the long-acting is out there? I think the targets year in 2025, give or take, is there anything called in the near-term to reaccelerate the US Librela revenues before the long-acting? And then I know you just gave some helpful information on the long-acting. Is that going to carry, call it, a different brand versus Librela? Thanks, guys.

Answer – Wetteny Joseph: Yes, sure. Look, Jon, I'll take the bridge to the EPS raise in dollars for you. If you go back to our initial guidance in February, which used rates from late January versus where rates are as of late April, we are seeing, initially, what we guided to was about a \$200 million headwind related to FX on a reported basis. And that was really reflective of the dollar that strengthened, particularly in the second half of 2024.

If you look at where rates are at the end of April, largely driven, two-thirds of this change is driven by the euro, the pound sterling, and the yen, you are looking at most of that, not all of it, nearly all of it actually, being reversed with the weakening dollar. So that is largely, if not entirely, what's driving the EPS change that you see from us, driven by FX. And I would tie this also with trade policy and tariffs and so on.

So we talk a lot about the impact that has on the organic operational. But it does have somewhat of the opposite effect in terms of what it's doing to the dollar and demand for that. So I do want to make sure that that is, at least, looked at and recognized.

And so the impact you see is here, now in terms of tariffs, net of mitigations, we're calling about \$20 million of headwind that we put in here. And keep in mind, in February we said we did not reflect tariffs and we would do so as we know more. And based on what's enacted, we have that reflected here today. But for that, our organic operational growth in adjusted net income would be the same as it was in February.

Again, giving you a little bit more color in terms of what that impact is. And I gave you some more in terms of how we're positioned as we continue to monitor the situation and where we have mitigation opportunities as we look ahead, hopefully that helps.

In terms of the FX, I do think what you're going to see is it's slightly near flat for the year now with headwinds in the first half and tailwinds in the second half based on where rates are, again, we don't forecast the rates.

We're simply using the spot rates as of late April, and assumed they stay where they are, which we know they won't. This would be the impact, and so that is consistently how we have reflected on FX.

Answer – Kristin C. Peck: So I'll follow-up with your question with regards to Librela. I mean, as you know, we obviously don't give quarterly guidance, but as I mentioned earlier, we are obviously investing to continue to grow and scale this product throughout the year. We're doing all the things we mentioned.

Obviously the medical education, the DTC, we're obviously investing in many post-launch studies to generate real world data; you saw a few of those come out right now. We provided our pharmacovigilance data to Frontiers Journal, which indicated that all individual events are both rare and very rare. We also did a Librela Meloxicam, which had 17 AEs for Meloxicam and four for Librela.

We're continuing to invest in additional real-world studies to support the brand. So we are investing, obviously to grow this brand. We are not waiting for growth until we get a long acting monoclonal antibody. And I think you also said, it will obviously have a different brand. It is a unique antibody. And so obviously, therefore, cannot share the brand of Librela given it's a unique molecule. So that would not have the same branding.

But look, I just want to reiterate. This is a \$2 billion to \$3 billion market. We are only 1 million right now on the product. There's 9 million treated in the United States. But I'd argue – by the way, there's 27 million dogs with OA. So beyond even what's treated today, there's an untreated market as well, so as you look at this. So we see this as a significant opportunity that we're going to continue to invest behind.

Operator

We'll take our next question from David Westenberg with Piper Sandler. Please go ahead.

Analyst:David Westenberg

Question – David Westenberg: Hi. Thanks. I'm going to actually get away from the Librela questions. So Amazon is now selling some of the online drugs, probably I think it's just singles right now, but maybe get it broad spectrum. Can you talk about any changes in your sales and marketing efforts, both in terms of educating vets or direct-to-consumer strategies?

And with Amazon, do you see an acceleration of trends through the alternative channel, or do you think this is just maybe more market share taking, and it would just see the same exact acceleration – or the same exact trends we've seen?

And then, just a really quick one on the FDA and particularly the CMV. Can you tell whether or not there is any potential backlogs or delays in the FDA? I know that the actual reviewers, there hasn't been any cuts in order to that. But, I mean, I think there would be some maybe in some of the support staff that might have like maybe a downstream effect? But, thank you.

Answer – Kristin C. Peck: Sure. I'll start with your second question first. Yes, we are obviously monitoring any changes to both FDA and USDA closely. There obviously were cuts already at FDA, but we have not seen any slowdowns on any of our pipeline products.

As we talked about, we have a very robust pipeline. We work very closely with the FDA. And, look, we're working very closely with the administration, with Congress, and with the regulators to help shape that

evolving environment. We're looking for opportunities to support their efforts on efficiencies, while supporting innovation.

We think there's lots of opportunities to speed innovation. And I have spent a lot of time in D.C. working with them. We really think that innovation is critical as you think about the food supply chain as well as public health, as well as really bringing unmet products to market.

So, it's a real focus of ours here. We have not seen any slowdown in any of our pipeline products currently at the FDA or the USDA, but we are spending a lot of time there making sure we continue to shape this environment.

The second question was on retail growth. I'll start there and see what Wetteny has got to build on it. First, I'd underscore that retail in the quarter grew 40%. That was – obviously, there's a little bit there on some one-time stocking, so Wetteny can get into that. But right now retail is 21% of our US business and this has been growing every year. So, I mean, I think Amazon just one more. But Wetteny, do you want to get into some of the specifics there?

Answer – Wetteny Joseph: Yes, I'd be happy to. I think to your point, if you look at retail and when we talk about alternative channels, we have both retail and home delivery, which we're seeing traction there as well.

If you look at our retail in the quarter, about 40% growth. Some of that as we talked about, in February, we saw a little bit of inventory decrease at the end of December through the holiday season, some of that picked back up in January. So, a little bit of crossing over there, but overall the trend line continues in terms of the strength that we've seen there.

When I zoom out and I think, we talk a lot about diversification in this company, right? We talk about product categories, geographies, species, et cetera. I do think alternative channels also present another level of diversification. We're certainly positioned well to meet the consumer wherever their channel of choice is and that includes in the clinic. And when products move from the clinic to these alternative channels, we're positioned to capitalize on those as well.

So, I think any move by any party, whether Amazon or anyone else, is going to continue to give more choices to the consumer and our products are available to them to be able to drive that. And I think from an economic perspective we've talked about on this call before, they are neutral to positive versus the overall. So, this is another area that we're well-positioned to continue to capitalize on in terms of where our products are.

Answer – Kristin C. Peck: And I think it will also continue to grow the compliance for most of our key products. And we've got significant percentage of our sales currently for both Apoquel and Simparica Trio, over 40% on both, in the retail channel. So, I think Amazon is just one more entrant there.

Operator

We'll hear next from Brandon Vazquez with William Blair. Please go ahead.

Analyst: Brandon Vazquez

Question – Brandon Vazquez: Hey, everyone. Thanks for taking the question. Kristin, you made a comment about – on the Librela side that maybe consumer sentiment or consumer spending was weighing a little bit maybe on compliance. Can you just talk a little bit about what you guys are seeing through April, given kind

of consumer sentiments rolling over a little bit, not just in Librela, but just the broader portfolio, are you seeing meaningful changes in compliance across the board or not? And just kind of the feeling as we're going through the second quarter? And then, one quick model follow-up question, Wetteny. Can you just talk about what price and mix, price and volume expectations are for the rest of the year as well? Thanks.

Answer – Kristin C. Peck: Sure. I think what we talked about in our prepared remarks is, obviously, adoption has been more gradual as you look at sort of the OA pain market. And honestly, some of the more expensive chronic medications right now, than we probably initially expected. But, look, we're really encouraged by the foundation that we're building.

We are starting to see in small pockets a more measured approach to managing chronic conditions. I think consumers are making choices that reflect sort of broader consumer trends. But I think what's great about our portfolio is how broad it is across so many different categories, so if maybe – the most expensive, we also – you can look at an Apoquel, if you look in the dermatology space and we're continuing to see incredibly strong growth right now in wellness.

So, as we always say, we see the animal health industry as incredibly durable and recession-resistant. Obviously, we're not recession-proof. And I think what really sets Zoetis apart in this is that we're more resilient than the industry, given the innovation that we bring to market. We have really disruptive products that meet unmet medical needs. And if you look at a growing global population, whether that's on the food side or in the companion animal side, I think, Zoetis has always weathered these better than others, and we believe we'll continue to do so. Wetteny, do you want to take the second question?

Answer – Wetteny Joseph: Sure. Look up our price and volume mix is consistent with how we saw them coming into the year. And I'll remind you of a few points here. In 2024, we saw strong volume growth, particularly across our key franchises, even as we saw price elevated the last couple of years to the tune of 5% to 6%. We came into this year saying we expect price to be above our historical 2% to 3%, but below those levels from the last couple of years.

And you saw that play out in the first quarter. Our volume growth out of the 9% organic operational growth was 5% volume and 4% price. I would say the direction of travel for the rest of the year would be consistent in terms of that mix.

And one last note is last year, we saw higher contributions from our hyperinflationary markets, particularly when you think about livestock in international, where we're seeing much less of that, though we're seeing some in the first half, in the first quarter here, much less of that this year versus what we saw last year.

Operator

We'll turn now to Chris Schott with JPMorgan. Please go ahead.

Analyst:Chris Schott

Question – Chris Schott: Great. Thanks so much for the questions. Maybe just starting off on dermatology, can you just remind us of your latest expectations for Merck's entrance into the market? What's kind of reflected in guidance on that? And maybe bigger picture on Apoquel. What percent of the market is chewable at this point? And how important is that? I guess, in terms of kind of protecting the franchise competitively.

My second question, obviously, a very solid start to the year. I know you don't give quarterly guidance, but just anything notable we should be watching in terms of quarterly gating as we think about the rest of the

year from here. Thanks so much.

Answer – Wetteny Joseph: Sure. I'll take this and see if Kristin wants to add to it. So when you look at our guidance today, consistent with February, we put a number of scenarios around the timing of competitive entrants as well as any short-term promotional activities that they might have.

This does not take away from our long-term view in terms of the opportunity to continue to expand these markets and are confident that we will continue to drive growth in those, particularly given our first mover advantage. So I want to make sure that it's really well understood that our consideration is more short-term implications around promotions and not long-term confidence that we continue to have in those.

On Apoquel, particularly in terms of chewable conversion if you look at the US, we exited the first quarter around 31% in the aggregate, a little bit higher in the vet clinics and so forth. If you look at international, we're seeing about 50% conversion across international, but in Europe, it's actually about 57%. So we'll continue to see that climb in terms of our position.

And last thing I'll say is coming into a year ago with the launch of chew, we would have anticipated, as we said before, a higher conversion of chew, but I think it's the stickiness of Apoquel, particularly when you think about the satisfaction levels among vets and pet owners, auto ship, et cetera that is actually driving the conversion rate to be lower than we would have said. And I think that's a good signal for us as we compare, prepare for competition. And then, of course, longer term, in terms of expanding the market.

Operator

We'll go now to Navann Ty with BNP Paribas. Please go ahead.

Analyst:Navann Ty

Question – Navann Ty: Hi. Thanks for taking my question. One on Librela, do you expect to pivot back to accessing the moderate population in the US at some point? And a follow-up on the FDA, should you expect the FDA head count reduction to impact your competitors' timeline in derm? And finally, can you discuss the new flea tapeworm indication for Simparica Trio versus Elanco's Credelio Quattro? Thank you.

Answer – Kristin C. Peck: Sure. I'll start with your last one. Yes, we did get approval for the prevention of flea tapeworm. As we said before, this is – we didn't see that, as you know, critically important, obviously we've mentioned this previously. This is just a nice incremental. It certainly makes it very little differentiation between us and others. But as we said before, we don't see this as a major driver. We didn't think it was a major issue before.

With regards to your question on Librela and the shift to moderate patients, that's obviously a key part of our focus right now, and is consistent with all the different levers that we're really focused on right now on making sure we expand medical education, bringing in the international KOLs, et cetera moving into that.

And your last question was on the FDA and the impact on either competitors or long-acting. As I said, we have not experienced any delays at the FDA, and we would think others would share the same view at this point. I obviously can't speak for them. So we're not expecting any issues with the FDA at the moment based on what we know today to be slowing down ours or anyone else's pipeline.

Operator

We'll go next to Steve Scala with TD Cowen. Please go ahead.

Analyst:Chris LoBianco

Question – Chris LoBianco: Hi. Good morning. This is Chris on for Steve. Thanks for taking our question. We have two just on tariffs. First it seems like the Trump administration is pursuing pharmaceutical tariffs under Section 232 national security claim. Based on your interactions with Washington, are animal health products viewed as critical to US national security, and what's the likelihood that US pet products could be excluded from broader sector tariffs? Thank you.

Answer – Kristin C. Peck: Sure. Our team here and me personally have spent a lot of time in DC on the issue of the 232 sectoral tariffs on pharmaceuticals. What we've advocated for and have had a great audience for is what they're trying to solve is not the problem that we see in animal health, and certainly not Zoetis' problem. I actually said, if you want to be the poster child, I think Zoetis it, 60% of our total manufacturing is in the United States, 75% of what we sell in the United States, we make in the United States. And we are a net exporter.

So, in the sense of the desire for security and pharmaceuticals in the United States, I don't really think that animal health or Zoetis is the challenge. We've shared this point of view with a number of people. I think it's too early to tell, which is why we were quite clear in the guidance that this obviously only included currently enacted tariffs.

I would definitely not want to presume where they will ultimately come out on it. But I think we have a very strong argument, and we've been spending a lot of time making sure they understand the differences between animal health and human health, and where our manufacturing is.

Importantly, we've made the case of where our intellectual property is, which is also in the United States, and where the vast majority of our R&D dollars are, which are also in the United States. So, I think we've had a good audience, but I wouldn't presume to predict what the administration will do here.

Operator

We'll turn now to Daniel Clark with Leerink Partners. Please go ahead.

Analyst:Daniel Clark

Question – Daniel Clark: Great. Thank you. Just another question on Librela. When you think about how the launch has progressed versus your initial expectations, is it really on the patient start side or on the months on therapy side that you've seen, like a bigger divergence from where you thought performance was going to be? That's my question. Thank you.

Answer – Wettany Joseph: So, look, I think if you look at the performance of Librela, first of all, just to see just how much interest there is in terms of vets looking for solutions for OA pain, you saw 86% penetration across clinics. And we continue to see very strong satisfaction levels for vets who are using the product. So, I think that really is a great foundation for us.

We've seen a transition into more moderate cases and patient starts and expansion of the market with those that were previously not treated by NSAIDs in Europe, and that continues to be our focus in the US through education of veterinarians and pet owners in terms of the long-term impacts of OA pain over time, which I think are important to note and will continue to drive those.

So, as we said, the uptake hasn't been as fast on the ramp as we'd like, but I think the foundation is strong and certainly undoubtedly the size of the opportunity remains very vast.

Operator

As there are no further questions at this time, I'd like to turn the floor back over to management for any additional or closing comments.

Thank you. As always, I want to thank everyone for joining today, for your questions, and importantly, for your continued interest in Zoetis. Just to summarize, we have the industry's most diverse and durable portfolio, and animal health is essential and both the industry and Zoetis have proven to be resilient across many different economic cycles and all different types of market conditions. And that's why we continue to see steady, sustainable demand for our products across species and geographies.

And as we look ahead, we remain focused on executing our strategy with discipline, while staying agile and responsive to the dynamic world around us. We strongly believe that with our innovation, our global reach, and our dedicated teams, we are confident in our ability to continue to lead this industry forward. So, thanks everyone for joining us and have a great day.

Operator

Thank you. Once again, ladies and gentlemen, that will conclude today's Zoetis event. Thank you for your participation. You may disconnect at this time and have a wonderful rest of your day.