

## Q2 2025 Earnings Call *(Corrected version)*

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### ✓ **Event Details**

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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

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### ✓ **Other Participants**

Michael Ryskin - Analyst

Erin Wilson Wright - Analyst

Brandon Vazquez - Analyst

David Westenberg - Analyst

Jonathan D. Block - Analyst

Chris Schott - Analyst

Chris LoBianco - Analyst

Navann Ty - Analyst

Daniel Clark - Analyst

Sidharth Sahoo - Analyst

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## **MANAGEMENT DISCUSSION SECTION**

### **Operator**

Welcome to the Second 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 this call will be available approximately two hours after the conclusion via dial-in or on the Investor Relations section of zoetis.com.

At this time, 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 your host, Steve Frank, Vice President of Investor Relations for Zoetis.

### **Steven Frank**

Thank you, operator. Good morning, everyone, and welcome to the Zoetis second 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, 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 our SEC filings, including, but not limited to, our Annual Report on Form 10-K and our 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, August 5, 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 good morning, everyone. Welcome to our second quarter 2025 earnings call. Thanks to the dedication of our colleagues around the world, we delivered strong broad-based 8% organic operational revenue growth, a reflection of the strength of our innovation engine and the excellence of our customer-focused execution. We also grew adjusted net income 10% on an organic operational basis, underscoring our focus on operational efficiency.

Our International segment grew organic operational revenue 9%, demonstrating our ability to capitalize on key trends that are expanding regional markets. The US grew 7%, excluding the impact of the MFA divestiture. Companion animal grew 8% operationally, while livestock delivered 6% organic operational growth, driven by sustained demand for our trusted, market-leading solutions.

This quarter's performance highlights the strength of our diversified portfolio, with growth across markets, species, franchises and channels, and balanced contributions from price and volume, a testament to our strategy. With organic operational revenue up 9% in the first half, we are delivering in line with our plan and are well-positioned to carry that progress into the second half.

Our consistent performance across economic and competitive cycles reinforces the strength of our business and animal health as one of the most compelling long-term growth sectors. Key franchises collectively delivered another quarter of double-digit performance, underscoring not only their continued momentum, but also the power of our innovation and the disciplined execution that drives value across the business.

As you look closer at our companion animal growth drivers, it's clear that innovation is not only our core competency, it's the most powerful way we live our purpose. And what's equally clear, our key franchises have significant runway for continued, durable growth.

Our Simparica franchise, for example, grew 17% operationally, even after nearly two years of competition. Demand continues to rise for comprehensive triple combination protection, the fastest growing segment in the parasiticide market where Simparica Trio is setting the standard of care, delivering 20% operational revenue growth.

With new entrants, the overall category continues to expand, fueled in part by increased promotional activity that is raising awareness of the benefits of triple combination protection. Thanks to our first mover advantage, strong commercial relationships and preferred position with key veterinary partners, these efforts are often reinforcing our leadership.

Trio remains the trusted first-choice for veterinarians and pet owners alike. In this franchise, our alternative channel strategy, especially in the US, the largest market for parasiticides, remains a key source of diversification and differentiation, helping us meet customers where they are and driving stronger compliance by ensuring pet owners have convenient ongoing access to trusted products. We expect these dynamics to continue for the foreseeable future.

More than 10 years since launch and with over 12 million dogs treated, our key dermatology franchise continues to deliver, growing 11% operationally, a testament to how durable true innovation can be. This quarter's performance was fueled by particularly strong results internationally, where we are seeing increased uptake among new patients and higher compliance.

What continues to set this franchise apart is its depth and versatility. We didn't just create the derm category, we continued to expand it with complementary treatment options that address a range of needs. Apoquel Chew provides added flexibility for pet owners, while Cytoint is convenient injectable solution for longer lasting relief. Together, these modalities help vets personalize care, improve compliance, and deliver high satisfaction, reducing the likelihood of switching and supporting durable franchise performance.

Even after a decade, we see meaningful runway ahead, driven by two powerful dynamics: the continued importance of compliance in chronic disease management and the opportunity to reach more than 20 million dogs who remain under or untreated today.

Our confidence is grounded in what sets us apart. We lead through science, designing solutions that address the most persistent needs in animal health and establishing a standard of care that's not easily surpassed. And as we shared earlier this year, we're confident not only in our market-leading differentiated portfolio today, but in the portfolio of the future already taking shape.

In osteoarthritis or OA pain, Librela declined 7% operationally this quarter. We are actively advancing efforts to accelerate adoption, grounded in both the scale of the opportunity and the positive patient impact we continue to see. In the US alone, 27 million dogs suffer from OA, yet only 9 million are currently treated and, today, we are reaching just 1 million of them.

As with any breakthrough innovation that establishes a new standard of care, adoption rarely follows a straight line. That's why we're taking deliberate steps to develop the market, educating veterinarians and pet owners to ensure a clear understanding of the product's benefit-risk profile and the lasting confidence. In fact, more than 75% of US patients, past and present, report being extremely or very satisfied with Librela's results.

Shaping a new market takes time, but we remain confident in our ability to deliver over the long term. We see significant potential in Librela and we'll continue to invest in unlocking it because the need for chronic pain relief is significant, persistent and deeply personal for our customers. It also reflects how we're thinking more broadly about sustaining growth through continued innovation, access and differentiation.

Globally, across these franchises, more patients remain unaddressed than treated and in many cases, the opportunity to expand care exceeds the current market, particularly outside the US, where rising pet

ownership and medicalization are fueling demand for therapies that support longer, healthier lives, including among aging COVID pets.

In livestock, demand for our portfolio remains strong, with 6% organic operational revenue growth, led by double-digit gains internationally. Across species, this business remains an important driver, reflecting multiple years of strong execution and above-market performance. Broader industry dynamics, including rising US protein consumption, continue to reinforce the long-term fundamentals.

This quarter, we also advanced our pipeline with the conditional license of our avian influenza vaccine for use in lactating dairy cattle in the US. While the revenue impact is limited, it reflects our longer term focus, a company built on purpose and powered by innovation. Altogether, these results highlight the strength and diversity of our portfolio, driving consistent performance from multiple sources across varying market conditions.

Based on our strong first half performance and what we see in the current macro environment, we are raising our full year guidance for organic operational revenue growth to 6.5% to 8%. We are also raising our guidance for organic operational growth in adjusted net income to 5.5% to 7.5%, reflected of continued discipline in execution and cost management.

Looking ahead, we are well-positioned to deliver our full year commitments, supported by durable industry trends and our ability to adapt and execute with focus. Our consistent performance across economic cycles and competitive dynamics reflects the fundamental strength of our business, the breadth of our portfolio and our commitment to delivering differentiated value. That resilience is grounded in the strength of our global manufacturing and commercial capabilities, enabling us to deliver reliably, scale effectively, and support our customers across geographies and market conditions.

As we look to the second half of the year, our focus remains clear: execute with discipline, advance meaningful innovation, and stay deeply connected to the needs of our customers. With the portfolio built to solve real-world challenges and a pipeline aimed at raising the standard of care, we are well-positioned to lead, not just in the markets we serve today, but in shaping the future of animal health.

Thank you for your continued support. And with that, I'll turn it over to Wetteny to walk through the financials. Wetteny?

### **Wetteny Joseph**

Thank you, Kristin, and hello, everyone. In the second quarter, we posted \$2.5 billion in revenue, growing 4% on a reported basis and 8% on an organic operational basis, which excludes the impact of foreign exchange and the MFA investiture. Adjusted net income of \$783 million grew 10% on a reported basis and 10% on an organic operational basis.

Our organic operational revenue growth was down (00:12:02), driven by 4% price and 4% volume. Our performance highlights our diverse and differentiated portfolio with strong growth across species, geographies and channels. This broad-based growth underscores our ability to compete and win across the markets in which we operate, and to generate durable returns in the face of competition and in challenging macroeconomic environments.

Our companion animal portfolio posted \$1.8 billion in revenue, growing 8% operationally. Globally, on an operational basis, our Simparica franchise contributed \$448 million, growing 17% and key dermatology

posted \$460 million, growing 11%.

Our global livestock portfolio contributed organic operational growth of 6% on \$638 million in revenue. Our livestock business has outperformed our expectations thus far this year, growing 7% on an organic operational basis year-to-date compared to low-single digit market growth projections. This also marks the fifth consecutive quarter of organic operational livestock growth above 5%, signaling good momentum that we expect to continue through the remainder of the year.

Now moving on to our Q2 segment results. US revenue grew 4% on a reported basis and 7% on an organic operational basis. Companion animal grew 9% and livestock declined 2% on an organic operational basis. The US companion animal business was driven by the performance of our Simparica and key dermatology franchises, partially offset by a decline in sales of our OA pain mAbs.

We have seen vet clinic activity improved throughout the quarter versus the lows in February. And as expected, our business continues to grow above the market, despite increasing competition across two of our key franchises. Both our Simparica and key dermatology franchises benefited from strong alternative channel sales in the quarter.

In addition to organic growth above the vet channel, we also saw tailwinds from certain retailers increasing their presence in this space. This increased presence will further expand the attractiveness of alternative channels that more and more pet owners are choosing for product fulfillment.

Our Simparica franchise grew 18% in the quarter on \$329 million in revenue. Despite intense competition, Simparica Trio has not experienced year-over-year patient share loss since competition launched almost two years ago. During this time, we have seen triple combination share in vet practices expand from 30% to 45%.

And our retail channel sales, which drive significantly better compliance and stickiness, have more than doubled. Simparica Trio remains the market leader in the triple combination space and the largest product in the largest therapeutic area in animal health.

Key dermatology sales were \$307 million, growing 9% with growth across both Apoquel and Cytoint, with growth coming more from volume than price. We continue to see minimal patient share impact due to competition. We see the strongest growth in our Apoquel Chewable formulation, which provides easier administration than a film-coated tablet and remains differentiated from competitive entrants. Lastly, as a reminder, we saw growth headwinds from the impact of our initial Apoquel Chewable stocking order in the prior year. This impact offsets the new retail stocking tailwinds I noted earlier.

Additionally, our combined OA pain mAbs declined 12% in the US this quarter on \$62 million in sales. Librela declined 16% on \$45 million in revenue. As noted last quarter, our ramp-up for Librela in the US has not gone according to our expectations with headwinds impacting product adoption and creating barriers for vet recommendations. As Kristin mentioned, our demand generation efforts remain focused on education to help vets and pet owners overcome perceived safety concerns with Librela.

Additionally, we are working on Phase IV study to reaffirm the safety and efficacy of Librela when compared to alternative treatments such as NSAIDs. These efforts will help our return to sustained growth and accelerate our trajectory. We remain confident in Librela long term. Solensia declined 3% from \$17 million in sales for the quarter. Organic operational declines of 2% in the US livestock are primarily driven by the timing of supply of ceftiofur.

Moving on to our International segment, revenue grew 3% on a reported basis and 9% on an organic operational basis. Companion animal grew 8% operationally and livestock grew 10% on an organic operational basis. International companion animal growth was driven by our key dermatology and Simparica franchises. Our key dermatology franchise grew 15% operationally, posting \$153 million in revenue internationally, with strong performance across both Apoquel and Cytoint.

Our growth has been largely driven by the efforts of our field force who have been instrumental in driving high engagement with our key corporate accounts. This has continued to expand the market in new patient adoption as well as improved compliance, especially in chronic cases. We continue to see preference for differentiated products, Apoquel Chew and Cytoint, both of which offer benefits in ease of administration and compliance compared to alternatives.

Our international Simparica franchise grew 16% operationally on \$119 million in sales, with double digit growth across both brands. Both brands continued to be among the fastest growing for parasiticide brands across international markets, gaining share despite growing competition. Simparica Trio grew 22% operationally on \$55 million in sales.

Similar to what we are seeing in the US, where less than half of dogs prescribed to parasiticide by a vet are currently receiving triples, many international markets have not yet adopted triple combinations as the standard of care, with 30% of our top 10 markets doing less than \$1 million in Trio sales this quarter. This represents a continued opportunity for market expansion for our Simparica franchise.

Simparica contributed \$64 million in sales, growing 12% operationally. Our growth in both brands has benefited from strong key account relationships, driving stickiness among competitive (00:18:36) conversion, as well as increased utilization and expansion of the overall parasiticide market.

Internationally, our OA pain mAbs grew 4% operationally on \$83 million in combined revenue. International sales of Librela were \$64 million, growing 1% on an operational basis. Despite high vet confidence in Librela in international markets, we are seeing impacts to new patient starts from social media headwinds, particularly in English-speaking markets. We have begun echoing our US efforts internationally to address these concerns.

Solensia sales were \$19 million, growing 17% operationally in the quarter. We have seen high satisfaction and balanced growth across key markets and expansion into Latin American and Asian markets. International livestock grew 10% on an organic operational basis in the quarter, with growth across all of our core species. Performance was driven by swine, partly due to tailwinds from China which are timing related and will gradually normalize in subsequent quarters, as well as vaccine growth in Latin America.

Additionally, we saw strong performance in our fish portfolio, driven by high demand for our vaccines across both Norway and Chile. Poultry growth came primarily from vaccine performance in the Middle East and Asia, driven by increased focus on vaccines after our MFA divestiture. Our cattle business benefited from price contributions, particularly in high inflationary markets.

Now, moving on to the P&L for the quarter. Adjusted gross margins of 73.7% grew 200 basis points on a reported basis. Foreign exchange had a favorable impact of 130 basis points. Excluding FX, we saw higher margins due to favorable impact of our MFA divestiture, as well as benefits from price. This was partially offset by higher manufacturing costs, in line with our expectations, which have been improving as we work through inventory valued by prior year standards.

Adjusted operating expenses increased by 5% operationally. Growth was primarily driven by SG&A increases of 6% operationally, mainly due to the timing of advertising and promotion spend, as well as higher compensation-related expenses. Operational R&D growth was 1% in the quarter, with higher compensation-related expenses partially offset by lower project spend primarily due to timing. Adjusted net income grew 7% operationally and 10% on an organic operational basis. Adjusted diluted EPS grew 9% operationally in the quarter and 13% on an organic operational basis.

Now, moving to guidance for full year 2025. Please note that guidance reflects foreign exchange rates as of late July. Consistent with last quarter, our guidance does not include any assumed impact of future tariffs or policy changes. The impact of currently enacted and assumptions on announced tariffs on our business is slightly higher than our estimate as of our May guidance update. However, we feel we can absorb the incremental impact.

For the year, we are guiding revenue between \$9.45 billion and \$9.6 billion, and raising our organic operational growth to a range of 6.5% to 8%, based on our strong first half performance. While our first half organic operational revenue growth of 9% is above our guidance range, we have highlighted all year that our guidance is reflective of headwinds from launch-related competitive impacts in the second half of the year. There is still significant uncertainty on the timing of these events. Despite these temporary headwinds, we still see significant room for growth long-term.

We have been pleased with the growth of our Simparica and key dermatology franchises despite headwinds in pain and reiterate our expectation that these combined innovative franchises will grow double-digits in 2025. This commitment, along with the strength we have seen in our livestock business highlight the revenue diversity that is fundamental to our continued above-market growth.

We now expect adjusted net income to be in the range of \$2.825 billion to \$2.875 billion, reflecting operational growth of 5.5% to 7.5% on an organic operational basis. The increase in our expected adjusted net income is driven by improved margin expectations due primarily to lower manufacturing costs, the higher revenue outlook and expense management, partially offset by the increased impact of tariffs.

Finally, we expect adjusted diluted EPS to be in the range of \$6.30 to \$6.40 and reported diluted EPS to be in the range of \$5.90 to \$6. Consistent with prior guidance, our EPS projections are based on current share counts and do not consider the future favorable impact of our ongoing share repurchase program.

The first half of the year has not been without its challenges. We have navigated tariffs, an uncertain macro environment, competitive pressures, and challenges with Librela. Through all of this, we have driven gross portfolio growth above our expectations that has given us the confidence to raise our guidance. As we progress into the back half of the year, we remain confident in our ability to meet our commitments as we have done time and again.

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

## **QUESTION AND ANSWER SECTION**

### **Operator**

Absolutely. We'll take our first question from Michael Ryskin with Bank of America. Please go ahead. Your line is open.

**Analyst:**Michael Ryskin

**Question – Michael Ryskin:** Great. Thanks for taking the question and congrats on the quarter, guys. I want to start first with the Trio derm franchises at a high level. You spent a lot of time talking about competition and how you've been able to retain meaningful share and not really seeing any incremental erosion.

I'm just wondering if you've had any change in your go-to-market strategy in terms of how you approach things as you've seen more and more entrants in both of those markets. Are competitors being more aggressive on price? And you called out retail alternate channels. Is that an area you're leveraging to sort of retain your first mover advantage in those markets?

And then for the follow-up, I want to ask on Librela. Kristin and Wetteny, you guys both emphasized the steps you're taking in terms of medical education, post-launch studies, engaging with pet owners. Just want to get a sense of your expectations on timing, when we'll see the benefit for that? When do you think Librela can return to growth, if you think it can start growing again year-over-year later this year or is this more of a 2026 benefit? Thanks.

**Answer – Kristin C. Peck:** Thanks for the question, Mike. Look, we have been very pleased with the performance across both our key derm as well as Simparica and particularly Simparica Trio. As you know, we've been facing direct competition in Trio for a couple of years now, and you've seen the product just absolutely perform. So, in the quarter, you saw Trio grow 20%, 19% in the US. Overall Simparica franchise growing 18% on the quarter and following last year with the first full year of their competition, we grew 25%.

Look, as we've been highlighting for some time now, the triple combination space is still relatively new standard of care that we set in the US, and we continue to lead it. Trio is the leading product across flea, tick and heartworm combination. This is a market segment that grew 45% last year. We continue to see strong growth, and we expect to continue to see that end of the market continue to expand as consumers move from older therapies into triple combinations. And even with competitive entrants, we expect that to continue to happen as more awareness will be created by those. So, we're very confident in the long term being able to do that.

And what I would say is in terms of our go-to-market on this, we have not changed anything. We've remained very disciplined here. And as you note, last year, in particular, we highlighted and we continue to see better price realization. So, we're being very targeted about how we do promotions that will drive long-term growth and patient share in this space. This is why you have not seen us have any patient share loss in any quarter since direct competition has come on with Trio. Again, couldn't be more confident and we're pleased, quite frankly, with how we're executing on that front.

Similarly, with key derm, I mean, we grew 17% last year, largely driven by volume. Of course, we saw some price contribution there as well and you see some price contribution this year. But key derm grew 11% on the quarter. It's 13% on a year-to-date basis. We have been saying for some time now, if you look at the market that's available to us, unaddressed, either untreated or undertreated, it is bigger than the market we're treating today.

That just spells for room for expansion here. And that's before you even consider compliance, which we're seeing nice tailwind from compliance particularly, as you mentioned, in alternative channels where you see increasing compliance, both for Trio as well as key derm. So, again, market's quite large. We are leaders in these markets with multiple products, and we will leverage that leadership position and continue to drive our first mover advantage to continue to lead and grow long-term in these spaces.

So, I'll let Kristin go ahead and take the Librela question.

**Answer – Kristin C. Peck:** Sure. Thanks, Mike. I really think by fundamentally improving the quality of life for dogs with OA pain, Librela is making a big difference. As we mentioned, over 75% of US patients report being extremely or very satisfied with the product, and we are quite focused on how we accelerate the adoption of this.

As you mentioned, we've been focusing a lot on medical education with vets. We've been partnering with key opinion leaders. We even brought in some of our top vets from Europe who had the product for over four years to do a tour in the US, which has been quite impactful.

We're also, as we talked about before, launching a number – we're doing some third-party studies, they're underway right now. They should be reading out beginning in Q4 of this year and into next year. We really think this will help provide even more clinical validation and support, a broader understanding of the product and ultimately adoption.

We're also engaging directly with pet owners to educate them on the burden of osteoarthritis and to build awareness and demand. So, we remain very committed to this. We're seeing the positive impact Librela is having and we're confident in the long-term potential of this product and we continue to be confident in the safety and efficacy.

## Operator

We'll take our next question from Erin Wright with Morgan Stanley. Please go ahead. Your line is open.

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**Analyst:**Erin Wilson Wright

**Question – Erin Wilson Wright:** Great. Thanks. So, it's a little early to talk about 2026, but just in light of the evolving competitive landscape as well as the innovation you have in the pipe, I guess, how are you thinking about your ability to still achieve high-single digit, 6% to 8% kind of operational growth next year? And some of those just like higher level headwinds and tailwinds as we head into not only the second half, but also next year?

And then second question is on margins, were stronger in the quarter. I guess, can you speak to some of the areas that you continue to drive from a cost management perspective and how do you think about the quarterly progression from an operating margin standpoint from here? Were there some timing benefits or other dynamics at play in terms of the operating margin in the quarter? Thanks.

**Answer – Kristin C. Peck:** Thanks, Erin. I'll start and let Wetteny build on this. I mean I think what you've seen in the first half this year, we keep underscoring, is the broad-based results that we're delivering. They're led by the innovation in our portfolio and also excellence in our execution. When we talk about the diversity and durability of our portfolio, that's across markets, it's across species, our pipeline and we really believe this positions us for above-market growth over the long-term.

We've also said that we expect a major market approval every year for the next few years across our pipeline. So, we remain quite confident that we are a secular grower with really strong fundamentals driving not just

the industry, but importantly, Zoetis, with our pipeline. So, Wettey, I don't know if you want to build on that and also address your question on margin?

**Answer – Wettey Joseph:** No, look, I appreciate the question and certainly we're smiling, Erin (00:31:28) knowing that it's a bit early to get into any specifics. But I agree, I think the breadth of our portfolio and the diversification is what's been really driving our execution and expect that to continue as we move ahead. As I mentioned in the prior question from Mike, significant room to expand across our portfolio.

And you've seen really strong momentum in livestock, right? I mean you saw growth in livestock in the quarter at 6%, following 5% and 6%, respectively the last couple of years and we see that momentum continuing. So, these are all elements that we are considering as we build our plans going into next year. On margins, boy, I think you saw margins have played out, at least in gross margins, largely as we expected coming into the year, marginally favorable as you look at the second quarter.

As we said last quarter and when we gave guidance, we do see manufacturing costs being higher as we work through inventory that was built last year and that gets better as we go into the second half. That remains the case for us and we're coming off of the second quarter where we saw that play out again slightly favorably to our plans.

You did see us drive 10% growth in adjusted net income on the quarter, really leveraging through cost management. We'll continue to be very mindful and disciplined about how we do that, while we keep investing in the long-term. I think that's really the balance that we're – we continue to achieve and we've demonstrated we're able to do. And then on top of that, you saw at the EPS level, the contributions from our share buybacks.

We have continuously – do on a regular basis consistently. And as we guide – as we raised the guidance here, we continue to not include any forward buybacks in that, it's only the share count as we exit the current quarter. So, those are all elements that will play out, nothing to note specifically in terms of how that might play out across the second half, I would say.

But I would mention in terms of top line, you are coming up against a very strong third quarter versus last year. Just to remind you, companion animal grew 15% last year in the third quarter. The US companion animal grew 18%. And our assumptions, of course, as we look at the back half of this year in terms of timing of competitive entrants, particularly for derm, is largely in the fourth quarter. So, you kind of have to balance those out in terms of how they play out for the rest of the year.

## **Operator**

We'll take our next question from Brandon Vazquez with William Blair. Please go ahead. Your line is open.

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**Analyst:** Brandon Vazquez

**Question – Brandon Vazquez:** Hello. Good morning. Thanks for taking the question and congrats on a nice quarter. I'll ask two kind of upfront here. One is just on the follow-up on Librela. I'm just kind of curious, what – can you talk a little bit about what you're hearing on Librela, why the slowdown? I think we talked a lot about the positive clinical data around this. I think you even have a randomized controlled trial for Librela that actually read pretty positively against traditional oral medications. So, what are you hearing from the

doctors so we can better understand what vets want to see and know in order to kind of reaccelerate the usage there?

And then the follow-up question I'll ask just quickly here, is there anything more granular, Kristin, you can give us in terms of pipeline, lifecycle innovation, anything like that that we should expect probably, let's call it, over the next 12 to 18 months just to give investors an idea of what kind of drivers there can be for growth? Thank you.

**Answer – Kristin C. Peck:** Thanks, Brandon. I mean, look, what we continue to hear is the difference that Librela is making in the dogs that it's going into. And as we talked about little earlier, pet owners are – 74%, 75% of them are extremely or very satisfied. But clearly, the performance of Librela has been lagging our expectations. And we've certainly faced headwinds that have really impacted patient adoption and the willingness of vets to recommend.

And what vets are saying is, can you empower us with better data to have those conversations, and that's why we've really been focused on the sort of vet education, and importantly investing in several third-party studies that will give the vets the data they need and they feel they need to better understand the product and to really drive the accelerated adoption of the product and that's primarily what we're hearing from vets.

And with regards to the pipeline, we don't have any new updates versus what we provided at JPMorgan this year. But I do want to underscore we are expecting a significant approval in a major market every year for the next few years. We talked about long-acting, osteoarthritis, pain for this year for dog and cat. We talked a lot about what we're expecting in the next 12 to 36 months, you've got approvals within that timeline for long-acting Cytopoint, as well as renal, et cetera. So, we have a strong pipeline. We are expecting a major approval every year in a major market. So, we remain very, very excited about that pipeline.

And I want to underscore that these markets we're talking about are significant markets. Renal is a \$3 billion to \$4 billion market. We talk about oncology, over \$1.5 billion market, even cardiology. So, these are new markets really where very few products exist today. In renal actually, there really are no products other than palliative care. And I think what we continue to demonstrate is our ability to identify opportunities and unmet needs and then deliver new markets. And so we're really excited about that pipeline.

## **Operator**

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

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**Analyst:**David Westenberg

**Question – David Westenberg:** Hi. Thanks for taking the question. So, with just increased competition in oral dermatology, are there any strategies that are to actively leverage and promote Cytopoint, the injectable alternative in order to maintain and potentially grow market share in the overall dermatology franchise? I know you've mentioned about these under-medicalized pets. I mean, is there an opportunity with Cytopoint to kind of go after these and highlight the differentiated benefits of that?

And then can you just remind us what the growth rate of Cytopoint is versus the orals and specifically, have you seen any slowdown in biologics or injectables as a category? And then for my second question, I just wanted to get a clarification on the contract manufacturing human health. There's a big step-up there. Is that something just one-time or is that something that's going to occur? Thank you.

**Answer – Kristin C. Peck:** Sure. I'll start on the dermatology and let Wetteny build on that and then move to your question on contract manufacturing. I first want to underscore that we have three unique offerings in this space, and we believe all three, to be honest with you, remain highly differentiated. If you look at Apoquel, I don't think you would really underestimate the importance of over 10 years of safety and efficacy data on that product. As you think about Chewable, that is a really convenient way to provide Apoquel for pet owners. It doesn't have to be taken with food. It's incredibly palatable. It's not bitter. I think that remains differentiated.

And Cytopoint, we're also investing in a pipeline to support this. So, we're also, as we talked about, expecting approval in the 12 to 36-month timeframe for Cytopoint long-acting. So, we're going to continue to invest across this. All three have a unique position. Cytopoint still remains a preferred solution for many vets. It provides a long-acting relief. It's very convenient for many of them.

It eliminates the need for compliance and things like that for a lot of pet with chronic issues. So, we're going to continue to invest behind all three because as Wetteny underscored, there is still more of a market to create than exists today. And so we're really focused on growing that market and growing adoption of all of our products, which we believe remain differentiated even in the current landscape.

I don't know if there's anything you want to build on that, Wetteny, on dermatology and take this follow-up?

**Answer – Wetteny Joseph:** Sure. Look, the only thing I would mention is we do talk about the \$20 million that are either undertreated or not treated at all. By the way, we are speaking of medicalized dogs here. So, this is an addressable market that's out there for us to continue to penetrate. The point is, this is not just something we're talking about that's going to happen in the future. We have been addressing this. And we have been sort of expanding the market. We're saying we're going to continue to do that.

So, if you look at last year where dermatology grew 17%, the volume growth is double-digits. And so that spells that we are extending the market, both in terms of new patients and compliance are both contributing to that. So, I think that's really important as we talk about what's going to continue to happen, it's not something that has not been already underway.

On contract manufacturing, it's still a relatively small number. I know it moved sort of a higher percentage here, but we're still talking very small for the company. It used to be actually a bit higher. It's come down a bit. You saw a little bit of pickup, but nothing specific to note on that one.

## **Operator**

We'll take our next question from Jon Block with Stifel. Please go ahead. Your line is open.

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**Analyst:** Jonathan D. Block

**Question – Jonathan D. Block:** Thanks, guys. Good morning. Nice quarter. Wetteny, just a couple. What was the companion animal growth in the alternate channel for the quarter, if I've got that framing correct? And then is there a way to quantify some of the stocking I believe that you referenced earlier in the call, just any details you can give there?

And Kristin, anything like international Librela, I mean we're sort of familiar with the struggles or some of the issues in the US. But international, it's been quieter, I think, just from like a headline perspective, yet we did see the growth rate decel and sort of flat-lining if you would year-over-year. So, any comments there? Thanks for the color, guys.

**Answer – Wettney Joseph:** Yeah. I'll start with alternative channels. We have seen really strong growth here. This is one of the elements of our strategy in terms of omni-channel. We are meeting the pet owner where they are. This has been continuously and consistently driving growth for us, which is why, again, when we talk about what's happening in the clinic, you also have to bring that piece in.

Alternative channels are now about 22% of our total US companion animal and has been growing in the mid-20% range, which is what we saw in the quarter, between 25% and 30%. What you refer to in terms of the stocking was specifically within retail. So, when we speak in terms of alternative channels, that is both retail as well as home delivery.

On the retail side, we did see some stocking from a customer that is building position to, again, continue to drive this momentum that we talk about in alternative channels, which, by the way, helps with compliance, which is a very big advantage going that way. That was largely, if not entirely, offset particularly when you look at derm with what we spoke of last year, which is the launch into distribution for Apoquel Chew. So, we talked about that being a headwind for the quarter and in factuality became muted or offset by this element, so roughly around the same.

So, again, no contribution there. I would say, as you look at these puts and takes, whether it's this one on the retail side of alternative channel or China, where we did due to tariffs see a bit of an uptick in the quarter that we talked about that will work itself out through the next couple of quarters or supply in the US for livestock, which is timing. When you put all these together, they all wash themselves out and it becomes a very straightforward quarter in terms of what you saw from us.

**Answer – Kristin C. Peck:** Yeah. And just to answer your question on Librela and international, we're continuing to see really strong information from both vets and pet owners around how Librela continues to make a significant difference in dogs' lives. I think what you saw in the quarter is some of the bleed over from some of the US headwinds. And I think our strategy to address it is really where you saw some of the slowdown was in the English-speaking markets where some of the social media sort of bleeds over there. But we're really focused on the same strategy you see in the US, which is providing these vets greater third-party data to really underscore the difference it's making clinically to build their understanding and to drive a accelerated adoption.

So, this strategy in International is the same as the US. They've got more experience as you've seen there. We're already moved, not just from severe, but into moderate dogs international, and we're really focused on continuing to grow that. But most of the headwinds we saw were really in more of the English-speaking markets and International in the quarter. But we really remain confident in the long-term potential globally for this product, certainly in international, but also in the US.

**Operator**

We will take our next question from Chris Schott with JPMorgan. Please go ahead. Your line is open.

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**Analyst:**Chris Schott

**Question – Chris Schott:** Great. Thanks so much for the questions. I just want to come back to parasiticides. I think you mentioned in the US, you've now moved to about 45% share in vet practices for triples. I was just curious in terms of where you think that market can go over time. So, kind of what in terms of the transition to these newer products are we currently? And maybe whilst also sticking on parasiticides, it sounds like there hasn't been much of an impact from Quattro, but can you just elaborate a bit more what you're seeing competitively with that new entrant coming this year? Thanks so much.

**Answer – Kristin C. Peck:** Sure, Chris, I'll take the call. Look, in terms of parasiticides, as we've talked about, this is really an exciting end of the market that has substantial more room to expand. As we said in January, we expect the continued move into triple combinations as you saw that increase significantly through the vet channel and clearly happening across alternative channels as well. We expect triple combinations to double by the end of 2028. So, that gives you a pretty strong trajectory, which we are seeing play out both again last year and this year. And as the first mover here in the US, the largest market, we continue to be well-positioned.

I think you're seeing this also show up in terms of puppy shares, right? So, about 60% of puppies are immediately going right on to a triple combination in addition to those that will convert over time from older therapies to triples. So, we are seeing this play out, which is why the second part of your question, in terms of what we're seeing from Quattro has been relatively small in terms of anything there, again, given a very high growth in this segment as that market expands, more entrants will do more advertising, more awareness to BGC (00:45:58) that triple combinations are the latest standard of care, will drive more traffic through the clinic where we have an advantage and very high level of satisfaction for our product has been in the market for about five years.

## Operator

We'll take our next question from Steve Scala with TD Securities. Please go ahead. Your line is open.

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**Analyst:**Chris LoBianco

**Question – Chris LoBianco:** Oh. Thank you. This is Chris on for Steve Scala. On tariffs, has animal health been granted an exemption from recently announced EU pharma tariffs? And at a high level, are you seeing any impact of the overall tariff environment on consumer share of wallet spent on animal health or on the share of consumer spending dedicated to vet visits than animal health products? Thank you.

**Answer – Kristin C. Peck:** Sure. Thanks, Chris. Look, I think the tariff environment obviously remains dynamic. I think I want to underscore that Zoetis specifically in animal health is incredibly resilient with strong secular trends. And I think what we're really leaning into is our scale, our diversification, our robust supply chain and portfolio, which gives us confidence in our outlook, not just for this year, but going forward.

Specifically, with regards to your question on are we included, it's not clear as you probably heard from other pharmaceutical CEOs. It's not clear on the announcement, for example, in the UK when that takes place, what is exactly in, what it applies to. I think I want to underscore. Animal health is different than human health. We – specifically Zoetis is different than most human health companies. As you think about our manufacturing, 60% of our global manufacturing is in the US. We've been investing in US manufacturing for years.

And if you think about what we sell in the US, 75% of what we sell in the US we make in the US. We don't have third-party payers. We've got a very diversified supply chain. We've been spending a lot of time in D.C.

advocating for the fact that if they are looking at 232 for a national security issue, we don't think that applies to animal health. Obviously, the decision on 232 has not come down yet. So, we do not know whether we have been excluded, and it still remains pretty unclear with regards to the announcement even with regards to Europe as to where that stands.

But, look, we've embedded in our guidance for the year, anything that's already been enacted or what's announced and we're pretty confident that we can manage costs and we've got the discipline to deliver on the guidance what we gave earlier even in that environment. So, again, we are a strong, resilient industry. We've got multiple strategies to address this over multiple time horizons.

## **Operator**

We'll take our next question from Navann Ty with BNP Paribas. Please go ahead. Your line is open.

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**Analyst:**Navann Ty

**Question – Navann Ty:** Hi. Good morning. Thanks for taking my questions. One pipeline question, do you still expect approval of the long-acting OA pain this year and how is the dialogue with the FDA and/or the EC? And we know that the long-acting will be marketed under a different brand name than Librela and better dosing and COGS. And could you discuss your expectation on the safety profile, if possible? Thank you.

**Answer – Kristin C. Peck:** Sure. We are still expecting approval in a major market for OA pain dissimilar to the guidance we gave before this year for both OA pain in dog and in cat. And to answer your question, this new long-acting monoclonal antibody for OA pain will be a three-month product that would have a longer duration, which we really think gives both vets and pet owners a more convenient option.

It is a new antibody as you mentioned before, and it's targeting a unique binding site, which we believe will lead to longer lasting effects with a 10x lower dose and we are obviously in current conversations, so I certainly can't comment on a label that does not exist yet. But we're very excited for this and our guidance for an approval this year has not changed.

## **Operator**

We'll take our next question from Dan Clark with Leerink Partners. Please go ahead. Your line is open.

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**Analyst:**Daniel Clark

**Question – Daniel Clark:** Great. Thank you. I appreciate the color that you now expect the competing launch in derm to be in 4Q. Just wanted to clarify, was that always when you expect it to launch? And if that's changed, like, how did that impact your expectations for the year? Thank you.

**Answer – Wetteny Joseph:** Yeah. Look, we have been very consistent, though, our approach to guidance, as always, is we expect certain launch-related promotional activity, which are not long-term in nature, to happen when there's a launch. And so when we come into guidance, we model a number of scenarios across the spectrum, both in terms of the time horizon as well as what the label might look like, and how aggressive a competitor might be, again, in that short-term window for launch. And so it puts us across the spectrum similar to the range of guidance that we give.

And so it was always in the back half of the year, with various scenarios that span across that. And as we learn more, we continue to fine-tune those as well. So, that all is reflected in the guidance that we gave today, by the way, which includes a raise both at revenue, adjusted net income, considering these areas as well as the current macro environment that we're operating in.

## **Operator**

And we'll take our next question from Sid Sahoo with HSBC. Please go ahead. Your line is open.

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**Analyst:**Sidharth Sahoo

**Question – Sidharth Sahoo:** Sure. Thanks for taking the question. Congrats on the quarter. I just wanted a quick clarification on the OA pain franchise as in earlier in May, you said that you had clubbed it under other franchise, expect it to grow double digit this year. So, what is the current expectation in the second half? And my second question would be slightly longer term. How do you see faster bottom line growth in terms of when most of the portfolio is basically maturing, where are the opportunities to control cost? Thank you.

**Answer – Wetteny Joseph:** Yeah. The sound wasn't great, but I think I got the gist of the question. We came into the year indicating that we expect our key franchises, so this is across derm, Simparica, as well as OA pain combined will grow double digits. You saw us post 14% growth in the first quarter across those, 11% growth in the second quarter, including the performance on Librela, which we said was below our expectations.

We still delivered double digits. And in the prepared commentary, we are indicating we continue to expect double digit growth across those three. We have not given product-specific guidance. And so your question related to OA pain specifically, this is consistent with how we've approached guidance, and so we won't go into specific expectations for that, but maintain our expectation to double digit growth across the key franchises.

I think the second question you asked, certainly, we remain very disciplined. We continue to look at ways to manage cost across the landscape. That also is important as we continue to look at driving investment in areas that we see growth for the business. However, I will particularly address one piece, which is maturing portfolio. I couldn't – I think if you look at across our key franchises that I just spoke about, as I mentioned earlier, when we look at the addressable market and we size the addressable market by the way, in terms of medicalized pets.

So, they're already seeing a vet on a regular basis. So, they're very much attainable. And we're seeing that size is greater than what we are currently serving today. That gives us ample room in those areas. I think the fact that dermatology has been around, we revolutionized the space 11 years ago, and we're continuing to talk about how much more room there is to grow because in animal health, it does take longer to build these markets, and we continue to expand them as we've demonstrated time again.

This is not a signal that these markets are mature, and we have differentiated products across them. That's not the reason to be disciplined around cost management. That is just good business and to drive delivery to our customers and continue to innovate.

## **Operator**

And there are no further questions on the line at this time. I'll turn the program back to our CEO, Kristin Peck, for any closing comments.

Thank you. As always, I want to thank everybody for joining the call today and, obviously, for your questions. I hope with what you saw in our performance and in our discussion today is that our strategy is clear. We are customer-first and purpose-led as an organization, and we've been able to adapt. We are really built to adapt and we really strongly believe this positions us for sustainable long-term growth, which will create enduring value for our shareholders.

As a leader in what we think is still a very young and fast-growing industry, we have set the standard for innovation and execution. We've been outperforming the market in a complex environment, and we're continuously raising the bar to meet the evolving needs in our industry. And I really think this quarter's performance is a direct result of our colleagues' efforts around the world.

And as we came together in July to celebrate Purpose Month across Zoetis, it was really honestly a powerful reminder of our shared purpose and how that can deliver for animals and for the people who care for them and the communities we serve. So, thank you all so much for joining us today. We look forward to continuing the discussion.

## **Operator**

This does conclude the second quarter 2025 financial results conference call and webcast for Zoetis. Thank you again for your participation and you may now disconnect.