

> **Call Participants**

Presentation

Operator

Welcome to the First Quarter 2026 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 www.zoetis.com. The presentation slides can be managed by you, the viewer, and will not be forwarded automatically. In addition, a replay of this call will be available approximately two hours after the conclusion of this call via dial-in or on the Investor Relations section of www.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. [Operator Instructions] It is now my pleasure to turn the call over to Steve Frank. Steve, you may begin.

Steven Frank, Vice President, Investor Relations

Thank you, operator. Good morning, everyone, and welcome to the Zoetis first quarter 2026 earnings call. I am joined today by Kristin Peck, Chief Executive Officer, and Weteney Joseph, Chief Financial Officer. This morning, we issued a press release announcing our first quarter 2026 financial results. Before we begin, I would like to remind you that the release and corresponding earnings presentation, which we will reference during this call, are available on the Investor Relations section of our website, and that many of our statements today may be considered forward-looking statements, and that actual results could differ materially from those projections. For a list and description of certain factors that could cause results to differ, I refer you to the forward-looking statements in today's press release and in our company's reports filed with the SEC.

Additionally, today's remarks will include certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most directly comparable US GAAP measures can be found in our earnings press release and our company's 8-K filing dated today, May 7, 2026. We also reference reported and organic operational growth, organic operational growth excludes the effect of foreign currency, as well as acquisitions and divestitures, which individually impact Zoetis growth by 1% or more. Unless otherwise stated, all revenue growth performance metrics will be based on organic operational performance. And with that, I'll turn the call over to Kristin?

Kristin Peck, Chief Executive Officer

Thank you, Steve. Good morning, everyone, and welcome to our first quarter 2026 earnings call. I'll start with the headline numbers we reported today. On an organic operational basis, revenue was flat and adjusted net income grew 1%. Our international segment delivered 10% organic operational revenue growth, while the US declined 8%. By species, livestock delivered 12% organic operational revenue growth, while companion animal declined 4% operationally. To level set, the quarter unfolded differently than expected, particularly in companion animal. We saw a convergence of interconnected dynamics shaping decisions at the point of care. I'll outline each along with their impact and what we're doing about it.

First, pricing in veterinary clinics continues to rise, though at a slower pace, adding to multiyear increases and lower clinic traffic. Second, pet owners demonstrated increased price sensitivity with softer demand for premium products in preventive and chronic care, where Zoetis leads amid a more cautious spending environment. Third, competition intensified across key pet care categories including dermatology and parasiticides, with additional pressure in vaccines from certain generics. While competition is not new to us,

what was different in Q1 was the pace and level of activity. More entrants across more markets, with competitors leaning more heavily on aggressive pricing and incentives for extended periods of time to drive share, particularly in a softer end market. And fourth, in contrast to what we've seen historically, these new entrants have not yet translated into overall market expansion. Taken together, the result is a more price sensitive and competitive environment. Pet owners delayed routine visits, extended dosing, and had new lower cost options, compounded by winter storms that further reduced clinic visits, all without the benefit of underlying market growth.

As the market leader with significant share in premium products, we are at a point where our growth is less driven by new product cycles as we progress our blockbuster pipeline, which we expect to begin delivering significant value toward the end of '27 and into '28. These dynamics increased our exposure, particularly compared to new entrants just launching into these categories and competing primarily on price. You see these dynamics most clearly in our key dermatology and Simparica franchises, where we saw declines in the quarter. In key dermatology, even with the industry's broadest and most differentiated portfolio, we were not able to fully offset the combined impact of increased order price sensitivity and the lack of market expansion, which drove share pressure. That said, we do see a path for the market to return to growth over time, and we continue to invest in long-term growth while taking decisive near-term action to compete more effectively. We also remain on track advancing Cytopoint Plus, which we expect will further strengthen our dermatology leadership.

In parasiticides, this imperative franchise saw similar dynamics, but more pronounced in the US. Fewer patient visits drove lower prescription volumes and impacted new patient starts and compliance with retail growth also moderating. Importantly, in the US, while competitive launches earlier in 2025 put pressure on share largely through aggressive promotions, we saw that stabilizing with share levels mirroring prior year by quarter end, and puppy share still well above our overall patient share. International markets continue to deliver strong growth in the quarter, supported by the ongoing geographic expansion of our portfolio, partially offsetting the US. Despite pressure on revenue, we are pleased with the improving US share trends and our ability to maintain a leadership position in a more constrained market. And across both franchises, while you can see these impacts geographically in today's results, this is more fundamentally about portfolio mix against the backdrop of the shifting demand trends I mentioned. Demand softness across key developed pet care markets underscores that this is not isolated while emerging markets continue to provide runway for expansion.

Now, turning to OA pain. While the broader trends for this category are consistent with what we saw in derm and paras, competitive dynamics are less of a factor here. In the quarter, Solensia continued to perform well while Librela drove the year-over-year OA decline. That said, sequentially, Librela has stabilized in the US with roughly flat growth. This US stabilization reflects the continued execution across our multi-pronged strategy with a strong emphasis on medical education and specialist engagement, which is helping build veterinarian prescribing confidence. Findings like those published by the Veterinary Medicines Directorate in the UK confirming Librela's positive benefit/risk profile, are important inputs into the education effort. And we saw an improvement in our conversations with vets in that market following the report. And as mentioned on previous calls, we expect additional label updates. These are a normal part of the ongoing regulatory review and provide more information to support appropriate use. We are also in the early phases of our Lenivia and Portela launches in certain European markets and Canada, which will expand the OA pain franchise and support the long-term growth trajectory. And early feedback continues to be encouraging. Looking more broadly across companion animal, diagnostics continues to be a source of strength. Performance in the quarter was driven by strong international momentum, with modest US growth against a strong comparison period and slower placement activity. Expansion in reference labs drove performance alongside strength in chemistry and hematology with continued progress in Imagyst. This is consistent with the broader shift we see across pet care, where spending remains resilient in areas tied to urgent and diagnostic care.

Turning to livestock, we again delivered broad-based performance. Underlying market conditions remained favorable, with sustained protein demand driving stronger producer profitability and enabling continued investment in herd health and productivity. Performance was supported by our bios portfolio, particularly in

cattle and poultry, where disease outbreaks and increased adoption reinforce the importance of prevention alongside strong performance in fish, benefiting from favorable vaccination timing and in swine. As a result, livestock remains a strong source of growth, with solid end market demand and a more focused portfolio following the MFA divestiture. Our performance this quarter underscores the value of our diversified portfolio, while also highlighting where we need to take action to maintain our leadership and regain momentum in pet care markets where the consumer is under pressure and the competition is increasing. We are doing this on multiple fronts.

First, we are sharpening execution across our core commercial levers with a clear focus on capturing demand more effectively. That starts with how we engage veterinarians, where we are focusing on integrated solutions that make better use of our broad portfolio and help strengthen clinic economics. We're also focused on improving execution in priority markets through localized action plans to more consistently convert demand into prescriptions. For pet owners, we're investing in targeted DTC activity, simplifying point of sale choices with clear loyalty and affordability options, and ensuring convenient authorized access across clinics, retail and home delivery. And in livestock, we're reinforcing continuity of supply and responsiveness in key products end markets, ensuring demand is not constrained by availability.

Second, we're accelerating our science-to-scale model, shortening time from approval to launch and translating that into growth. That includes prioritizing near-term launches and advancing convenience-led lifecycle innovation with our portfolio to create new ways to compete, including long-acting mAbs, Procerta, and the recent Canadian approval of Convenia RTU, which expands access to a ready-to-use, cost-effective formulation.

Third, we announced an agreement to acquire a new animal genomics business, expanding our capabilities in livestock genetics. This reflects our broader approach to targeted business development, where we continue to be strategic in pursuing opportunities to unlock new sources of growth over time.

Finally, we are sharpening our approach to capital allocation while continuing to invest in our key growth priorities. As reflected in our adjusted net income, we acted decisively as growth softened in the quarter and launched a comprehensive cost and productivity program, further tightening discretionary spending, driving procurement and operating efficiencies, and assessing organizational levers to deliver a leveraged P&L in 2026 and beyond. We have clear priorities and a proven track record of execution, and we are confident these actions will position us to better navigate the current environment and improve performance over time.

Looking ahead, our focus is on improving our trajectory over the balance of the year. Zoetis is providing updated guidance based on the current operating environment and the presentation of its financials for fiscal year alignment. For the full-year, on an organic operational basis, we expect revenue growth of 2% to 5% and adjusted net income growth of 2% to 6%. This quarter reflects pressure in part of our companion animal portfolio, where market growth has slowed and competition has intensified. As we bridge to Zoetis' next wave of innovation driven growth, execution, commercial effectiveness, portfolio optimization, and enhanced cost discipline will play a greater role in driving performance, especially in this environment. We are actively managing through this period and our conviction in the underlying strength of our business, and what enables Zoetis to win has not changed.

Animal health remains a durable and essential industry, underpinned by the strength of the human animal bond and sustained global demand for protein. We operate from a position of strength. With leadership in the category we've helped build, a diversified portfolio across species, geographies and channels and the colleagues and capabilities to compete effectively in a dynamic environment. Our near-term focus is clear, sharpen commercial execution and compete with precision while positioning the business to deliver the next wave of innovation. We are doing this with a pipeline that includes 12 potential blockbusters and more than \$7 billion in additional market opportunity as we extend our leadership into entirely new categories of care. We have helped define the standards of care that exist today, and we expect to play a leading role in what comes next as we deliver our next wave of innovation. We've demonstrated our ability to perform in different environments, and we will do so again. And we remain committed to delivering long-term value for our

shareholders. We're executing with discipline today, while continuing to invest in the innovation that will drive tomorrow's growth. With that, I will hand it over to Wetteny.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Thank you, Kristin, and good morning, everyone. As Kristin highlighted, our quarterly performance reflects multiple converging dynamics. Macro driven price sensitivity, weighing on certain aspects of pet owner spending, ongoing pressure on vet clinic visits, and an increasingly competitive landscape in which price continues to be a key differentiator. These dynamics have led to performance that is below our expectations this quarter, but we are confident in our near-term efforts to drive demand and cost discipline, as well as our industry leading portfolio and pipeline, which we believe will continue to drive growth in the longer term. Now, I'll walk you through our financial results for the first quarter, which as a reminder, are reflective of an aligned calendar year.

For the first quarter, we reported global revenue of \$2.3 billion, growing 3% on a reported basis and flat on an organic operational basis, with 2% growth coming from price, offset by 2% decline in volume. As we previewed last quarter, our Q1 2026 financial results were positively impacted by certain operational changes made in connection with our fiscal year alignment for subsidiaries outside of the United States. As referenced in our press release this morning and now posted under supplemental materials in the Quarterly Results section of our Investor Relations website, we have provided additional information in connection with our fiscal year alignment, including recast financial information on a quarterly basis for 2025 and annually for 2024 and 2025 to help with comparisons. You will note that for most quarters, the overall differences are relatively immaterial. However, I draw your attention to the \$128 million revenue decrease on a recast basis from our previously reported Q4 2025 revenue. See the recast information on Page 3 of the supplemental material.

As we described last quarter, certain operational changes made in connection with our fiscal realignment resulted in the acceleration of the timing of sales, which led to an approximate \$30 million increase in the sales that we reported for our international segment for Q4 2025. The balance of the \$128 million decrease in recast Q4 2025 revenue, or approximately \$100 million resulted in a corresponding increase in Q1 2026 sales in our international segment. This \$100 million difference was driven by the change that we previously referenced in the timing of price increases in certain international markets and the delayed processing of customer orders that we referenced in our full-year 2025 results, as well as by differences in the performance of the business in comparing Q4 2025 to a stronger Q4 2024. Excluding the approximately \$100 million that shifted from Q4 2025 to early 2026 as a result of our fiscal year alignment, globally, we would have seen a 5% organic operational decline in the quarter, adjusted net income of \$646 million, with 2% on a reported basis and 1% on an organic operational basis.

Turning to our franchises, our global companion animal portfolio posted \$1.5 billion in revenue, declining 4%. Key dermatology recorded \$347 million in revenue, down 11% versus the prior year. Consumer sentiment is pressuring aspects of pet owners' spend in several key markets, as we are facing increased competition globally for Apoquel, and despite our strong label, price has played a larger role in the decision process. While Cytoint is also impacted by the vet claim dynamic. As a monoclonal antibody with a longer duration of treatment, Cytoint switching to recent JAKi competitors has been low. Our OA pain mAbs, Librela and Solensia, posted a combined \$140 million in revenue, declining 8%. Librela sales were \$101 million, declining 13%. Librela trends have stabilized in the US, where we saw encouraging signs that our efforts are gaining traction. Solensia posted \$39 million in revenue, growing 6%. Our Simparica franchise contributed \$385 million globally, declining 1%. Simparica Trio declined 1% on sales of \$297 million, while Simparica declined 3% on sales of \$88 million.

Additionally, we have seen recent generic competition impacting two companion animal products, Convenia, an antibiotic treatment for bacterial skin infections, and Cerenia, the market-leading small animal antiemetic. While not considered part of our innovative core, these brands are both blockbusters and have lost meaningful share in the quarter due to price driven generic competition. Our global companion animal

diagnostics business posted \$113 million in revenue, growing 10% driven by expansion of our reference lab business as well as growth in chemistry and hematology driven by recently launched Vetscan OptiCell.

Moving on to livestock, which performed well in the quarter on \$720 million in global revenue, growing 12% with broad based growth across geographies and species, as well as price and volume. Favorable producer economics drove higher demand, particularly in cattle. Combined with improved product supply and commercial wins, this provides solid foundation for sustained livestock growth, further supported by the long-term secular tailwinds of rising global protein consumption. While our performance is driven by the declines in our companion animal business in the US and certain developed markets internationally, this quarter highlights the benefit that having a global cross-species portfolio can have in challenging market conditions.

Now, let's move on to our segment results for the quarter. US revenue was \$1.1 billion in the quarter, declining 8%. US companion animal posted \$865 million, declining 11%. Before going into our brand performance, I wanted to highlight some of the broader impacts we've seen across our US companion animal business. The global trends we have mentioned around competition and consumer price sensitivity are very prevalent in the US market. Additionally, distributor and retail channel purchasing patterns were also a headwind this quarter, reflecting the lower end market demand. Historically, Q1 distributor inventories start the quarter higher than they ended as distributors typically buy ahead of price increases and promotions. This quarter, our promotions underperformed expectations and end market demand softened. So distributors and retail partners took longer to work through their opening inventories and engaged in less replenishment activity. As a result, our sales into distributors and retail partners lagged their sales-out to customers compared with the prior year quarters. These overarching drivers have impacted much of our US companion animal portfolio.

Our key dermatology products posted \$215 million in revenue, declining 13% in the US. Apoquel has continued to face competitive headwinds consistent with our expectations, with price remaining the primary differentiator, driving some shifts toward lower cost alternatives. However, the impact has been more pronounced than we had expected. Share loss is being amplified by a derm market with declining patient volume in the clinic. Unlike prior competitive cycles, we do not currently have the benefit of underlying market expansion to cushion the revenue effect of competitive share shifts, though, we do see a path for the market to return to growth over time with significant untreated, undertreated dogs in the space. Cytopoint trends were consistent with the global picture, primarily impacted by the vet clinic dynamics rather than JAKi competition. The US Simparica franchise reported \$238 million in revenue, declining 8% in the quarter. Simparica Trio posted \$222 million in sales, declining 8%. Despite modest year-over-year declines due to additional entrants, our share has improved sequentially versus the second half of last year, when we saw the impact of competitive launch promotions, which pressured our share, but also expanded the triple combination market. That dynamic that is not providing the same market tailwind in the quarter.

We continue to see market contraction with softness in the clinic, driven by lower flea, tick and heartworm visits, as well as a slowing of alternative channel sales driven partly by script denials in retail. Our market leading share in puppies remains stable. In the US, our OA pain mAbs posted \$55 million, declining 15%. Librela contributed \$37 million, declining 22%. US Librela revenue increased sequentially for the first time in six quarters and vet and pet owner satisfaction ratings remained stable. Additionally, despite declines in the canine OA pain market, our patient share has remained stable since the second half of 2025. Looking ahead, the comparative periods become more favorable as the year progresses, and combined with the stabilization we are seeing, we believe the underlying foundation of the business continues to strengthen. Solensia grew 2% in the quarter on \$18 million in sales, with feline OA visits holding relatively flat year-over-year. Generic competition in Convenia and Cerenia also contributed to the US companion animal decline.

Our US livestock business posted broad-based growth of 7% in the quarter, reporting \$225 million in sales. We saw growth across all species, driven primarily by cattle and improved supply of ceftiofur as well as the impact of strong demand generated from our spring promotions. Poultry and swine also delivered meaningful contributions with poultry growth driven by increased vaccine adoption and disease outbreaks and swine benefiting from improved supply.

Moving on to our international segment, for the quarter, revenue grew 17% on a reported basis and 10% on an organic operational basis, posting \$1.1 billion in revenue. Excluding the impact of the previously noted \$100 million in sales that shifted from Q4 2025 to early 2026 as a result of our fiscal year alignment, our international segment growth was flat for the quarter. International companion animal reported \$654 million in sales, growing 7%. The competitive and macroeconomic headwinds we have seen in the US do exist in parts of our international business, but are largely concentrated in developed markets where conditions more closely resemble the US environment. In many of our emerging markets, where the standard of care is still maturing, we believe that meaningful market expansion opportunities remain, and that distinction is evident in our international results this quarter.

Our international Simparica franchise grew 14% on \$147 million in sales. Simparica Trio posted sales of \$76 million, growing 29%, driven by key account penetration in major markets and the benefit of our recent launch in Brazil. Simparica reported \$71 million in revenue, which was flat on the quarter impacted by conversion to Trio in Brazil. Partially offsetting our growth in the quarter, key dermatology posted \$131 million in revenue internationally, down 5%. For Apoquel, similar to the US, competitive pressures and macro price sensitivity, which are more pronounced in developed markets where Apoquel has a larger presence are having a compounding impact on sales. Similar to the US, Cytoint performance is holding up better than Apoquel. Our OA pain mAbs posted \$85 million in sales internationally, declining 2%. Librela reported \$64 million in sales, down 7%. As Kristin noted, positive benefit/risk findings have helped strengthen our medical education efforts around Librela, and we have seen a meaningful improvement in our conversations with veterinarians. Valencia grew 10% on \$21 million in sales. Additionally, our international small animal vaccines products grew 13% in the quarter, driven by increased usage of Fel-O-Vax in China.

International livestock contributed \$495 million with growth of 14%, with broad-based growth across all of our core species. We saw growth in cattle, swine and poultry driven by disease outbreaks, commercial wins, especially in vaccines and improved supply. In fish, we continue to benefit from improved pricing on our Bordetella vaccine, as well as volume growth for market expansion into the Faroe Islands.

Now, let's move down the P&L. Adjusted gross margins of 71.8% declined approximately 10 basis points on a reported basis. Foreign exchange had an unfavorable impact of approximately 150 basis points. Excluding FX, we saw a 140 basis points improvement in margins due to benefit from price and lower manufacturing costs, partially offset by product and geographical mix. Adjusted operating expenses increased by 3% operationally due to higher compensation related expenses, as well as increased freight and logistics costs. Adjusted net income grew 1%. Adjusted diluted EPS grew 7%, including a 3% benefit from our convertible debt funded share repurchases.

Now, moving onto guidance for the full-year 2026. Our updated guidance is reflective of the current operating environment, as well as the presentation of our financials on an aligned fiscal calendar basis. Foreign exchange rates used in our guidance are as of late April. We are revising our full-year revenue guidance to a range of \$9.68 billion to \$9.96 billion, with growth of 2% to 5% based on the current operating environment. It is worth noting that our fiscal year alignment was anticipated to provide approximately 200 basis points to 250 basis points of tailwind to full-year revenue growth. However, the challenging operating environment we experienced in Q1 and the expectations that carry for the remainder of the year more than offset that contribution. We now expect adjusted net income to be in the range of \$2.87 billion to \$2.95 billion, with growth of 2% to 6%, reflective of the comprehensive cost and productivity programs Kristin mentioned earlier. Finally, we are updating our reported diluted and adjusted diluted EPS guidance ranges to \$6.35 to \$6.50 and \$6.85 to \$7.00, respectively.

While Q1 reflected a more challenging environment than we anticipated, particularly in US companion animal, where the convergence of price sensitivity, lowered clinic traffic and intensified competition was more pronounced than expected, our path forward is clear. We are taking decisive action to sharpen commercial execution and drive cost discipline. Looking ahead, while we have appropriately reflected the near-term environment in our updated guidance, we remain confident in the underlying strength of our diversified portfolio and our ability to deliver the next cycle of innovation driven growth in the years ahead. We remain

committed to delivering long-term value for our shareholders. Now, I'll hand things back to the operator for your questions. Operator?

Operator

Thank you. [Operator Instructions] We'll take our first question from Michael Ryskin with Bank of America. Your line is open.

Michael Ryskin, Bank of America

Great. Thanks for taking the question. I'm going to throw a couple in here real quick. So, one, Kristin for you. Just maybe a high-level big picture one. From what we see in the market, competition appears to still be at a relatively early point. We think it's only going to get worse from here. You've got a number of competing products that are still early in the launch cycle or haven't even launched yet at all. And with this increased competitive landscape, the macro consumer pressures, we think that's going to persist for some time, maybe as much as one or two years, if not longer. So when you talk about working through the challenges you're seeing, you call out pipeline innovation as an offset from what we can tell, some of the bigger product launches you have are still a couple years out. So what can you specifically do more in the near term to turn the ship around in the face of this growing competitive pressure and the consumer challenges?

And then if I could squeeze in a second one real quick for— more for Wetteny. The math is a little bit messy given the calendarization impact. Maybe bear with me. But you called out the 200 bps, 250 bps impact from calendar. For 1Q specifically, you did zero organic under the new math. Under the old calendar, maybe that comes out to something like down 4% or down 5% given the \$100 million benefit, and yet you're guiding to something like low single to mid-single-digit growth for the full-year. That seems like a pretty aggressive ramp. You've got easier comps in the second half. You do have the 4Q benefit from the calendar switch. But can you just bridge that for us? Is there anything else factoring in that will get you to that full-year number after this 1Q print? Thanks.

Kristin Peck, Chief Executive Officer

Thanks, Mike. I'll start and then Wetteny can build on your second question. Essentially, what we saw in the quarter was the economic and sustained price increases that the pet owner has experienced in the clinic. This has obviously made them much more sensitive, but also, as you saw, led to a decrease in vet visits, especially in some of the key therapeutic areas that we're in such as paras, OA pain, dermatology, et cetera. And I think this combined with an increase in price driven competition, as people saw the pressures that the pet owners on, I think you saw more promotions and more price competition there. And really what happened is that the market did not grow. Historically, as you've seen over the last few years, when we had competition increasing in paras, the market grew. And I think what changes is that with new competition, we didn't see that market grow.

I think the difference, I think we might have with you as to what we see in the future is we are seeing positive trends. As Wetteny and I mentioned in our remarks, as you look at paras, for example, we have actually gained share from the end of last year to this year. And we ended the quarter, as we mentioned, pretty close to where we were last year before the competition entered. So again, our focus will be on expanding the markets. But as I think as you look at paras, we're pleased at the progress that we continue to make there. We're also pleased with Librela, we saw stabilization of that product. As we look to the rest of the year, we continue to believe we can return that product to growth overall. Obviously, in the first half of the year, we have some tough comparable periods. But I think as we move through the year, we'll continue to gain share there and to grow.

Obviously, in dermatology, we do continue to see new entrants, but we think we have a strong differentiated portfolio there. We're also excited to be adding long-acting Cytoint as we look to the end of the year. And look, we are sharpening our focus on execution with our commercial strategy. We're going to continue with veterinarians, leveraging the broad portfolio that we have and providing them integrated solutions to help capture share. We're going to focus with pet owners, as I mentioned, leveraging DTC to help broaden that

market. But importantly, focus on affordability, which is clearly a major issue for them at the point of sale through loyalty and affordability options we're providing. We'll also focus as well at retail and home delivery to optimize access there. So we think we've got us a strong portfolio there that we can continue to build on. And I also don't want to undermine the strength that we saw in diagnostics and livestock in the US and across the globe. But with that Wetteny, I'll turn it over to you.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Yes, Mike. The first thing to really note here, and importantly, is that our initial guidance already contemplated some first-half to second-half dynamics. Now, clearly, the quarter ended up below our expectations. But this dynamic around the persistence of competition in macro was something we contemplated and we are seeing. And so we expect those to continue in the guidance that we give today. But to the point Kristin just raised, we do see stabilization in a number of areas, including Librela. With our OA pain franchises, we are launching our long acting products in a couple of markets, in a few markets here in the quarter as well, and across our Simparica franchise and so forth.

Now, as we noted in our prepared commentary, you heard that this end market demand softness also caused purchasing patterns to be a headwind for us in the quarter. But we ended the quarter at a level that we believe is also normalized for how we go from here versus being a headwind, given they ordered less during the quarter, than they were shipping out to clinics. So, with those and the actions that we are taking, we have widened the range in the guidance given we do see remaining uncertainty in the markets that we operate, but we're also executing against those, hence the guidance that we have issued today.

Operator

We'll move next to Erin Wright with Morgan Stanley. Your line is open.

Erin Wright, Morgan Stanley

Great, thanks. I want to dig into that a little bit more. So what does guidance imply now for the quarterly progression for companion animal? I guess, given the implied ramp here, even backing out the easy realignment comp in the fourth quarter, which is about a point, like, are you baking in some distributor or retail then restock? Is that what you're implying after the destocking? Why is that just given the increasing competition, and how much of a headwind was that in the quarter? And were there significant changes in purchasing patterns, I guess at retail as well? You mentioned script denials. Can you talk a little bit more about that? And is that vets now going back to their typical conflicts of interest there with online scripts and denying scripts there.

And can you clarify a little bit more about what we're lapping here from last year in terms of stocking and destocking dynamics? Because I want to make sure we're aware, given some of the unforeseen dynamics in the current quarter on stocking/destocking dynamics and how much you're leveraging the channel? And I guess one bigger picture question just on guidance as well, you talk about the 200 basis points benefit from the accounting change now embedded in the guide. I just want to confirm, one point of that will not recur in 2027. So as we think about 2027 and beyond, how do you mitigate that? And when could we get back to your typical 6 to 8% operational revenue growth? Thanks.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Sure. Erin, look, with respect to unpacking the guidance, starting with companion animal, and then we'll get to your bigger picture question in terms of costs going into 2027. We are not embedding an assumption that inventory picks up in terms of the level of inventory that is in distribution. We typically don't do that. As you may recall, you've been around with us for a long time. In '23, we saw quite a step-down in terms of level of inventory that distributors take. We have not assumed that those would come back into the channel, and they have not. We've been operating at a range that is well below where we were pre-2023. And within that range, we're now operating at the low end of that new range, if you follow, as we exit the first quarter of

2026. So we are not baking in some rebound in that. It is reflective of what the end market demand has been, and it's reflected in the performance that we shared today with respect across our key franchises.

And so, what we are embedding here, and by the way, we are also assuming headwinds related to competition that has to launch and continued pressure in terms of what we're seeing from a competitive and macro perspective. And so the script denials have been an impact as we look at retail. Retail continued to grow faster than the clinic though, but not at the rate that it had been over the last couple of years. If you go back to last year and the year before, you were seeing retail growth somewhere in the 25% to 30% range. That growth rate in retail is in the low double digits as we look at this quarter, somewhere in the 10% or so range in retail. So, clearly, a step-down. And part of that is what we're seeing in terms of script denials. Again, we're not assuming those necessarily come back. It's really the actions that we're taking to drive commercial execution, as well as the easier comps that we face as we get into the back half of the year that's playing here.

Now, we won't get ahead in terms of what 2027 looks like. Clearly, the 200 basis points, 250 basis points that we're talking about is a combination of coming into Q1, and then what the Q4 comp is versus the prior year. And so, that will clearly be a headwind you go into 2027, all else being equal. However, we are executing to what the market is showing both in the pipeline to drive performance there as well as the bottom line, which is why you see a guidance that shows leverage through the P&L down to the bottom line.

Operator

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

Brandon Vazquez, William Blair

Hey, thanks for taking the question. Maybe I can start with a high level question. Kristin, you were talking a lot about the headwinds you guys are seeing from a macro perspective. Let's just ignore some of the competitive and company specific issues. But we're talking about price being a lever here. We're talking about markets not expanding. We're talking about more competition, even generic competition. These are all very uncharacteristic, I think, of what this market historically used to be. It used to be resilient. It used to take price. It used to not really have a lot of generics. And it used to be powered by brand. And so, the question being, it feels like what you're describing is entering a new world in this market, one that maybe is less durable and less attractive for Zoetis. Is that true? Clearly, you guys are assuming something improves. What is it that's giving you hope that this kind of reverses back into the old animal health market we used to know?

Kristin Peck, Chief Executive Officer

Sure. For starters, I'd say, look, the demand for veterinary care remains structurally very strong given the importance of the human animal bond and the large number of untreated populations, that's clear. If you look and as I mentioned in my prepared remarks, we're continuing to see strength in urgent care, and we're continuing to see strength in diagnostics and areas like that, which says to me, the pet owner still wants to get care. I think they're in a period where they're a little bit struggling with the price increases over the last few years. We ultimately believe that will stabilize. I think that clinics are really trying to address that and trying to get the pet owners back in. As you know, us and others have mentioned, we saw about 3% growth of revenue in the clinic, but that was all driven continued by price with clinic visits down about 3%. Ultimately, that will stabilize. We firmly believe that.

We're also really optimistic, as we've seen in the sequential trends we've seen in areas like OA pain and in paras. We think that the strength of our portfolio, the differentiation, the innovation we provide, will endure. I don't think we're moving to a world of generics. We are not expecting generics in any of our key categories. We're not expecting it in dermatology. We're not expecting it in pain or in paras in the near term. So, for the next, many years, we will not see that. There, certainly, as we saw in, Cerenia and Convenia, which are blockbuster products, but not ones we talk about. We did see some increased competition from generics there.

The competition we see today is not generic in our major therapeutic areas. Its products that have launched that we've been in categories we've been in for a while. We ultimately believe some of these price driven promotions will stabilize over time. And we also believe that differentiation, I think we have with our portfolio, the strength of our brand and importantly, the strength of the service we provide veterinarians will endure. So, no, I don't see it the way you do. I think innovation matters. I think the service you provide matters. And I think ultimately, given the strength of the human animal bond and the structural demand for veterinary care, that this will stabilize over time.

Operator

We'll take our next question from Chris Schott with J. P. Morgan. Your line is open.

Chris Schott, JPMorgan

Great. Thanks for the questions. Just two for me. Can you just comment on your latest assumption around pricing this year, given some of the comments you're making around the promotional activity you're seeing from your competitors? Is that something you're reacting to on price on your side? Or is that more, we should be thinking about share loss on as we think about these near-term dynamics?

And the second question, sorry if I missed this in the remarks, but when I think about US companion growth and what's reflected in guidance, can you just talk a little bit about how we should be thinking about growth for this year? I know you're assuming recovery from the down 12% this quarter, but is this a business we should assume is down this year within livestock and some of the international dynamics driving growth? Or do you think this is a business that can kind of get back to flat or growing as we go through the year? Thank you.

Kristin Peck, Chief Executive Officer

Sure. I'll start on the first one and then Wetteny can take the guide. As we've always said, we are not planning to compete through price as our main strategy. Our focus, as always, will remain on our differentiated portfolio, the breadth of it, the service we provide and execution. We are a premium, innovative brand and that is not going to change. We did take price, as you saw in the quarter. I think we can continue. And Wetteny can talk, where it is relative to historic price challenges. Obviously, in areas where we're seeing generic competition, we have taken selective price actions there. We'll obviously continue to leverage promotions, but our priority remains innovation, differentiation and service to our customers. And we continue to believe we can take price, albeit maybe at lower levels right now given the challenges we're facing right now. But I'll let Wetteny put that into perspective and also talk about impact on the guide.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Chris, as you know, we don't typically provide guidance down to the species, but I would share a couple of things that I think might be helpful for you. Just keep in mind, we are running a global diversification business with companion animal both in the US and outside the US. And in the quarter, our international segment companion animal grew 7%. I would add also, given the dynamics that we described and the headwinds that were created in the quarter, including how distributors order pattern and retail had a more pronounced effect on the first quarter. We do see stabilization across companion animal as we go with the key franchises. And what we're seeing now is we expect our key franchises to grow in the low to mid single digits, which is a step down from what we said when we initially issued guidance. And so, when you take all that into consideration, yes, we do expect livestock to continue to drive momentum here. Our livestock is in the mid to high-single-digit growth range for the year. But the balance would be growth across companion animal without getting into specifics on guidance.

Operator

We'll move next to Jon Block with Stifel. Your line is open.

Jonathan Block, Stifel Financial Corp.

Thanks, guys. Good morning. Maybe just the first one, Wetteny, I believe you said the channel is now normalized. I do think that US pet health numbers surprised everyone. So is there a way of calling out the impact in 1Q '26 from the channel? What that was specific to US pet health? And then Kristin just, to back up at a higher level, I'm just trying to dig in on the competitive response. And maybe I was a little confused. So is anything changing from Zoetis among your approach to call it the atopic derm or the Trio franchises regarding price? If it's not sort of unilateral, are there any targeted promotions or no? Because it seemed like you acknowledge the consumer wants a cheaper alternative or is looking for that? And then I was a bit confused if Zoetis is pivoting there and trying to deliver on that, or just really focus on the bundling and the services? Thanks.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Yes, perhaps, Jon, I'll take the normalization point around inventory. Clearly it is, I would say, difficult to separate out the macro and the soft in-market demand versus what the patterns are and what distributors and retailers did in terms of adjustments. Again, they ordered less from us than they were shipping out to customers given the soft in-market demand and promotions that did not execute to the level that we expected coming into the year. And so that certainly had a pronounced impact. But I would put that back to the macro and the competitive dynamics that we're seeing and the impact it has in terms of end market demand.

Kristin Peck, Chief Executive Officer

So, Jon, I'll build off the second part of your question. My point is we're not overall lowering our list price on product. We'll continue to run promos as we always have, seasonal promos for paras. We can do cross portfolio promos in the United States, leveraging both derm and other categories. But I think what I was really focusing on is addressing the affordability issue, which is actually a pet owner. That's not what we sell into the vet. It's the pet owner at point of sale. We've always had loyalty programs, as you know. But those loyalty programs are, you scan your receipt and then you get a cash back card to spend later. Given the affordability issue, that is more urgent, we're looking at more point of sale loyalty programs, more ability to deal at point of sale with the challenges the pet owner may be having economically. So our real focus there is not as much on the vet but on the pet owner issue. We have these programs today, but as I said, we're looking to alter them to make sure we can do that more at point of sale versus just over time where they can use it, in a month or two, et cetera. We're really trying to make sure we address that with our programs, both in the United States and across the globe.

Operator

We'll move next to Steve Dechert with KeyBanc. Your line is open.

Steven Dechert, KeyBanc Capital Markets

Hey, thanks for the questions. I guess just first on price sensitivity, is that still limited to the Gen Z and millennial age groups, or is that spread more into other age groups now? And then just on Lenivia, as you move closer to US launch next year, how tied is the performance of that drug do you expect it to be tied to Librela or should we view those as two completely separate products? Thanks.

Kristin Peck, Chief Executive Officer

Sure. So I'll start with your question with regards to Lenivia. With regards to Lenivia, we did get approval in certain markets in the EU and in Canada, and we just launched that product. So we look forward to having more information on how that launch is going as we go into the next quarter. As we talked about, this is not long acting Librela. We think the efforts, the multi-pronged strategy we've been executing across OA pain, really focusing on awareness that treating OA pain as a serious condition is important. Making sure we spend time with vets and specialists understanding OA pain will continue to be important. Also making sure we share the science and the positive experience that many of our customers have and investing in that Phase 4

research. We think building this understanding of OA pain will be important as we launch long acting. Certainly, that's what we're experiencing right now in certain markets in the EU and in Canada. And we think that long acting provides, again, to the issue that pet owners are having on convenience as well as affordability a great new option. So we're excited for that.

I think you asked the second question with regards to demographics on Gen Z and millennials. I think affordability is more based on the economic situation that a pet owner is in. It's not just based on age, to be honest. So we're really targeting the affordability issue, not a generation, but just pet owners overall who are facing those challenges.

Operator

And we'll move next to Navann Ty with BNP Paribas. Your line is open.

Navann Ty, BNP Paribas

Hi. Thanks for taking my questions. A follow-up on the pricing strategy. So you discussed the pricing against that price sensitivity. And I'm also curious about your pricing strategy to defend against the competitive pressure in derm, which is further intensifying, and also your pricing strategy for your upcoming innovation in renal oncology and cardiology if that price sensitivity environment is maintained. And then I have a second question on derm specifically, because we are seeing that the competitor has raised prices on the JAKi. So would you say that the competition is now not only on price, but also some efficacy and frontline use as well? Thank you.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Sure, Navann. I'll take your question on pricing strategy. And look, the way we approach pricing is always down to each market, each product. And what is the value that we bring and what is the competitive landscape at the time. And especially Kristin referenced earlier, we now have an aggregate price expectation. This is not by product, of course, for the company that's in the 1 to 2% range. When we started the year 2 to 3%, and we've been higher than over the last couple of years. So, clearly, we have adjusted our expectations, not getting down to specific pricing actions and strategy on a specific product for competitive reasons here on this call. But certainly we are taking those into consideration. And as we launch new products, we should do extensive market research prior to launch. We, of course, will be looking at what is the value that we're bringing in clinically and what is the willingness to pay for that which you continue to see sustaining across the industry? So that will be what we'll put into place.

In terms of competitors' prices, look, as we've said historically, we've seen competitors come in with list prices that are somewhat slightly below where ours are, but with aggressive promotions initially to get the products embedded into clinics and so forth. So we've certainly seen that. The pricing seriousness in the market is translating to that lasting longer, I would say, than we've seen historically. But they are in many instances and include your reference one, are raising prices well above where we're raising. It still remains that there's a gap between where our pricing is versus where theirs is, but it is closing in effect. And so we'll continue to monitor those, but also executing on our actions against those, including the breadth and strength of our portfolio.

Operator

We'll move next to Daniel Clark with Leerink Partners. Your line is open.

Daniel Clark, Leerink Partners

Great. Thank you. Also, I wanted to ask about the 2026 updated guide. How are you thinking about the macro and competitive intensity as we head through the year? Should we expect similar levels of both as we saw in 1Q through the rest of the year, I guess, how are you thinking about that? And then secondarily, I just wanted to quickly ask, how much did key derm grow ex-US if we strip out any of the alignment impact? Thank you.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Sure. In terms of our expectations on the macro, we are expecting that to persist. And so, we're not expecting a rebound nor a significant deterioration in terms of what the macro looks like. We've seen the impact that it has both in terms of end market demand and therefore, directly impacts to where distributors and retailers are replenishing their inventory levels, which created a headwind for us. And so, that's the answer on that one. In terms of key derm and what the implications might be related to FYA, we have not broken those down to individual products, to individual markets to be able to get to that level. We believe we've been very helpful in our comments, which is what the overall impact is and what we would have expected to be the guidance impact, which is around 200 basis points to 250 basis points lift in our guidance. And clearly, given the performance we've seen and the persistence that we're expecting in the macro and competitive dynamics, that has not come to fruition in the guidance that we're given today.

Operator

We'll move next to Andrea Alfonso with UBS. Your line is open.

Andrea Alfonso, UBS

Hi. Good morning, guys. I just have a quick question around margins. So, the gross margins you did 71.8% this quarter. And it looks like your updated guidance calls for 71.5% for the full-year. I know you don't provide quarterly guidance, but just sort of looking at the trajectory for the remainder of the year, it does look like you're lapping a pretty tough comp in 2Q. I guess more broadly, how do you think about that trajectory and frame the levers that you have at your disposal to deliver there, given that pressure on some of your higher gross margin products? And then if I could squeeze in a separate housekeeping question, if you could just confirm that the 2% to 5% revenue growth outlook, constant currency, does not include any benefit from Neogen potentially closing in the second half? Thanks so much, guys.

Wetteny Joseph, Executive Vice President and Chief Financial Officer

Sure, I'll take both of those. If you look at our gross margins in the quarter, they were down about 10 basis points. But if you strip out the impact of FX, they're actually up about 140 basis points. So we've been very pleased with the execution across our manufacturing enterprise. And certainly you see that reflected in our performance in the quarter. We continue to drive actions across the company, including in this segment, that will contribute to the performance for the year and the leverage that we have on the P&L.

Do keep in mind that the mix in terms of products is an element to consider here. As you've seen in our guidance and as I shared just a moment ago, we expect livestock to continue to drive momentum here and grow faster than companion animal. There is some mix impact to that with respect to what you see in gross margins. And in terms of FX, you've seen the US dollar impact in terms of revenue, but that has some converse effects when you get down to cost of sales. So that is a consideration here as well. In terms of where you're comparing in terms of comps as we go through the rest of the year, but very pleased with the performance in terms of what we're doing on cost of sales, despite the mix that we see and some geographical implications as well.

With respect to the guidance range on 2% to 5%, we do take a number of factors into consideration, including when competitive launches are going to come in, how aggressive they'll be. And so that range, which we widened by a point here for the uncertainty associated with those is inherent. So, within the guidance range you could have the impact of potential, the closing of the deal with Neogen within that range.

Operator

We'll move next to Steve Scala with TD Cowen. Your line is open.

Unidentified Analyst

Hi, this is Chris on for Steve Scala. Thank you for taking my questions. First, what is Zoetis' level of interest and confidence in FTC approval of large-scale transformational business development? And second, do you see any opportunity to significantly pull forward launch timelines for products for new markets like renal and oncology, e.g., by changing trial designs or filing based on surrogate endpoints? Thank you.

Kristin Peck, Chief Executive Officer

So, sure, let me start with your BD question. As always, our focus is on incremental BD. We don't see transformational BD as a major strategy for the company. As we've spoken about before from a capital allocation perspective, first and foremost, we are investing in our business. We obviously will continue to look at business development. And I think Neogen is a great example where we think there are incremental technologies or additional portfolios such as what we've done in Australia for sheep, et cetera. So we'll continue to look for that. You should not expect large transformational BD. I think the deal like Neogen, is what our sweet spot has historically been and will continue to be. Is there a second part of your question? I think there is.

Unidentified Analyst

Just on launch timelines and potential to pull forward filings for some of the newer market products got renal and oncology?

Kristin Peck, Chief Executive Officer

The pull forward? Sure. We're always focused as we think about our pipeline of, how we can pull forward. I would say anything that you see in the next few years is already in clinical trials. We're certainly partnering with the FDA, myself and the other industry leaders to look at ways to speed innovation and to find new innovation pathways with the FDA. We're certainly leveraging AI, as I've spoken about before, within our portfolio, both in discovery, research, development, and importantly, preparing our dossiers for submission. We think all that can certainly speed it up. And we're also focused on, once we get approval, how we can speed time from approval to end market across our portfolio.

Operator

Thank you. At this time, we've reached our allotted time for questions. I'll now turn the call back over to Kristin for any additional or closing remarks.

Kristin Peck, Chief Executive Officer

As always, everyone, thank you for your questions and your continued interest in Zoetis. I do want to recognize before we close our colleagues around the world whose commitment to their customers and their resilience has really helped us navigate this environment. We will continue to keep you updated on our progress and our priorities. We are focused on executing with discipline to position the business to return to growth, and we remain committed to delivering long-term value for our shareholders. Thanks so much for joining us today.

Operator

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

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