06-Aug-2026

Zoetis, Inc. (ZTS)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

Steven Frank
Vice President-Investor Relations, Zoetis, Inc.

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

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

OTHER PARTICIPANTS

Erin Wilson Wright
Analyst, Morgan Stanley & Co. LLC

Brandon Vazquez
Analyst, William Blair & Co. LLC

Michael Ryskin
Analyst, BofA Securities, Inc.

David Westenberg
Analyst, Piper Sandler & Co.

Chris Schott
Analyst, JPMorgan Securities LLC

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

Daniel Grosslight
Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Second 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 zoetis.com. The presentation slides can be managed by you, the viewer, and will not be forwarded automatically. In addition, a replay of this call will be available approximately two hours after the conclusion of this call via dial-in or on the Investor Relations' section of zoetis.com. 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, Zoetis, Inc.

Thank you, operator. Good morning everyone, and welcome to the Zoetis second quarter 2026 earnings call. I am joined today by Kristin Peck, Chief Executive Officer; and Wetteny Joseph, Chief Financial Officer. This morning we issued a press release announcing our 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 Exchange Act 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 the earnings press release and our company's 8-K filing dated today, August 6, 2026. We will also reference reported and organic operational growth. Organic operational growth excludes the effect of foreign currency as well as acquisitions and divestitures, which individually impact Zoetis' growth by 1% or more. Unless otherwise stated, all revenue growth performance metrics will be based on organic operational performance.

With that, I'll turn the call over to Kristin.

Kristin C. Peck

Chief Executive Officer & Director, Zoetis, Inc.

Thank you, Steve. Good morning, everyone, and thank you for joining us today. I will start with the operating environment, because it's important context for both our performance and the actions we're taking. As we have discussed in prior quarters, the companion animal market is being shaped by several interconnected forces. Those dynamics continued in the second quarter, and in some areas, intensified. Veterinary clinic visits declined across markets, extending a multi-year trend that has occurred alongside price increases that has outpaced broader consumer inflation. As a result, pet owners have become more selective in how they spend, which is showing up in visitation patterns and purchasing decisions.

In parallel, clinic revenue has increasingly shifted toward urgent and emergency care, while premium, preventative and chronic care remain under pressure. These are broad pet care market dynamics and not unique to Zoetis, but they matter more for us because of where we lead. Competitive intensity has increased, and many of the categories facing the greatest pressure are categories Zoetis pioneered or helped establish as standards of care. Historically, when more companies invest behind a therapeutic category, that activity helps expand the market by increasing disease awareness, deepening veterinary engagement, and educating pet owners. This is not what we are seeing today.

Instead, in a slower growth market, the nature of competition has changed. New entrants are using higher levels of discounting, rebates, cross-portfolio, bundling and other incentives to compete for existing patients. And overall, these headwinds have created near-term pressure. At the same time, the level of competitive activity reinforces the enduring attractiveness of the categories Zoetis has helped shape over many years. Our ability to maintain leadership positions, even amid simultaneous competitive launches, gives us confidence in the actions we are taking to strengthen our near-term position and create the right foundation for growth over time.

With that, I will turn to our second quarter performance, which reflects these dynamics and fell short of our expectations. On an organic operational basis, revenue and adjusted net income declined 1% and 2%, respectively. By segment, revenue grew 6% internationally, supported by broad-based growth in emerging markets, while the US declined 7%. Our diversified portfolio continue to provide resilience with livestock delivering another quarter of strong 11% revenue growth. However, that strength was more than offset by continued pressure across key parts of our companion animal portfolio, which declined 6% in the quarter. Looking ahead, we have updated the outlook for the year to reflect our first half results and the headwinds we expect to continue in the near-term.

We are moving with urgency as we navigate the current environment. Throughout today's call, you'll hear me discuss the actions we are taking to maintain our leadership and drive growth. We are focused on sharpening commercial execution, strengthening our competitive position, exercising greater cost discipline, and continuing to invest in the innovation that we believe will define the next chapter of growth for Zoetis. We are also evolving our leadership team to more closely align with our talent and organizational structure with the execution of these initiatives. In June, we promoted Abhay Nayak to EVP and President of our U.S. Commercial Operations.

Abhay previously led our Global Diagnostics division and demonstrated that he is a high impact leader who can drive strong revenue growth, while also advancing innovation and building out key capabilities. Now, in his new role, Abhay is laser-focused on driving stronger performance and accountability in our U.S. Commercial Operations. As we announced today alongside our earnings report, Jay Saccaro will also be joining Zoetis as our EVP, Chief Financial Officer and Chief Operating Officer. This is a newly created role that will give Jay broad oversight of our finance functions, as well as global manufacturing and supply.

We are in an important moment that requires speed and agility, and this change is all about enabling faster decision-making, greater connectivity across the supply chain, and accelerated turnaround from strategic planning to execution. We are confident that we found the right leader with the right background to step into this new role. Jay possesses the unique combination of skills we are seeking. He comes to Zoetis with an impressive background in life sciences, having served as CFO of both GE Healthcare and Baxter. He also has a track record of designing and executing strategies that balance investments in innovation with operational rigor. I look forward to partnering closely with Jay, and I know he's eager to get started in a few weeks on August 17th.

And I want to take a moment to express my sincere gratitude to Wetteny. Wetteny has been a valued partner to me at every turn over the past five years. I know I speak for the board and everyone at Zoetis when I thank him for his strong leadership and many important contributions, and we wish him all the best in his next chapter. With that, let's dive deeper into each of our key franchises. I will start with our key dermatology franchise, where the broader companion animal pressures are most visible. The dynamics affecting this franchise remain largely consistent with what we described last quarter, but the pace and intensity of pressure increased in the second quarter and continued to weigh on top line growth.

In Q2, the category itself continued to soften. In the US, for example, canine periodic clinic visits remained down more than 2% in the second quarter. Historically, growth in alternative channels, particularly for Apoquel, helped offset softer clinic traffic. But in the current environment, growth in those channels also moderated, reflecting broader end market softness across the category. At the same time, competitive activity intensified globally, with new entrants using higher levels of launch-related promotional incentives to establish share. This resulted in continued share pressure, especially in a market that is not expanding.

Given the market size and intensity, our strategy is clear, compete with discipline, reinforce the differentiated value of our portfolio, and direct incremental sales and marketing dollars where they can have the greatest impact, protecting share, influencing demand and driving conversion. This is how we manage the portfolio, focusing resources where the need is immediate, while continuing to support our broader companion animal priorities with discipline. Targeted pricing and affordability actions are also being deployed where appropriate, helping us stay competitive in the near-term, while preserving the value of our franchise.

And innovation remains central to the strategy. The anticipated US approval of long-acting Cytopoint later this year would strengthen our dermatology portfolio, with another differentiated option, helping veterinarians deliver effective care with greater convenience and value for pet owners. In parasiticides, the Simparica franchise was flat in the quarter, with double-digit international growth, offset by continued pressure in the US. The dynamics vary by market, but the common thread is that affordability, channel behavior, and promotional activity are playing a larger role in purchase decisions for pet owners and veterinarians.

Internationally, the franchise benefited from increased usage, as well as the continued launch of Simparica Trio in Brazil, reinforcing the relevance of triple combination protection in markets where adoption is still building. In the US, franchise performance was pressured by continued clinic dynamics, including declines in flea, tick and heartworm visits, as well as more competitive and promotional environment. Unlike in prior periods, growth in retail was not enough to offset. We are taking targeted actions to stabilize performance, including more competitive pricing, enhanced pet owner promotions, and competitive capture where we see the greatest opportunity to protect and grow volumes.

Elsewhere, in our small animal [ph] parent (00:12:26) portfolio, we benefited from the breadth and diversity of our offerings, with revolution growing on increased feline visits, highlighting the value of having multiple ways to drive essential preventative care in dogs and cats.

Turning to canine OA pain. Revenue declined in the quarter against a strong comparison. While we saw both year-over-year and sequential growth internationally, with contributions from Lenivia, US performance remained under pressure with canine pain-related visits declining more than 2% in the quarter. For canine OA pain, medical affairs remains one of the most important levers for category development.

This is a market where specialist engagement and scientific education are essential to strengthening veterinarian confidence and expanding use. With Librela and the early wave of market approvals for long-acting Lenivia, including most recently in Great Britain and Switzerland, we are giving vets greater flexibility and convenience. Encouraging early experience is driving the acceleration of Lenivia launches in Canada and Europe, reinforcing our conviction in the long-term opportunity and belief that this expanded portfolio can help bring the category back to growth over time. Separately, feline OA pain grew in the quarter, demonstrating continued traction in a category that remained early in its development.

The context here is important. While overall clinic visits remain pressured, feline visits were a positive outlier in the quarter, and recent industry research points to a more durable feline opportunity, with kitten cohorts remaining above pre-pandemic baselines. At the same time, cats remain historically under-medicalized, with a meaningful gap between the number of cats in households and the number receiving regular veterinary care. That gap is especially relevant in OA pain, where the condition remains underdiagnosed and undertreated. Since the launch of Solensia, we have seen how innovation can help begin to close that gap, expanding feline clinic visits and giving vets a new reason to engage cat owners.

Portela builds on that progress, with three-month long-acting profile, its launch in Canada and the EU provides veterinarians a broader set of options and greater convenience in treating feline OA pain. Early feedback has been encouraging, reinforcing our confidence this expanded portfolio can help build the category over time and support continued medicalization.

Turning to companion animal diagnostics. Revenue grew 12% in the quarter, reflecting sustained demand for diagnostic tools and services, particularly in urgent and emergency care. During the quarter, we expanded the capabilities of Vetscan Opticell, further strengthening our point-of-care diagnostic offering.

We also completed the acquisition of VitalRADS, a veterinary teleradiology services platform, which will extend our capabilities beyond in vitro testing and into veterinary imaging interpretation, supporting our vision of a more complete end-to-end virtual reference lab. Together, these developments reinforce why diagnostics is an important catalyst for Zoetis, and a clear example of how we're deepening our customer relationships. Our platform strengthen veterinary workflows, increase our daily relevance in the clinic, and help veterinarians move from diagnostic insight to treatment decisions faster.

And as earlier detection becomes increasingly important, our diagnostic capabilities can support adoption, reinforce standards of care, and create a stronger launch pathway for our pipeline. We are also continuing to advance our diagnostics pipeline with Vetscan OmniMax, our new multimodal chemistry platform, and one of our potential blockbuster opportunities, with commercial validation still expected by year-end. In livestock, we delivered strong 11% growth in the quarter, with an especially strong contribution from the US. Performance was led by cattle and poultry, reflecting continued demand for our broad portfolio of medicines and vaccines that help producers protect animal health, improve productivity, and manage evolving disease threats.

In cattle, increased demand for Dectomax related to New World screwworm incursion underscores the role Zoetis plays as a trusted partner when veterinarians and producers need effective tools quickly. Poultry also contributed meaningfully, with growth driven primarily by vaccines in key markets, supported by our hatchery programs, new contracts, and tender wins.

I also want to highlight the broad-based strength we saw in emerging markets, with contributions across livestock, companion animal and diagnostics. That performance reflects the value of our global footprint and ability to capture demand across a diverse set of markets.

Stepping back, these results reinforce two important points; first, the near-term pressures affecting parts of our companion animal and our full year outlook; and second, the value of our diversified portfolio to provide balance. That combination is why we are staying disciplined on costs, targeted in commercial investment, and focused on advancing the innovation that it can expand markets over time. With that context, we are revising our full year outlook to reflect the market conditions we expect to persist in the near-term, and the actions we are taking in response. Since our last call, pressure in parts of our companion animal portfolio has been more pronounced than our prior outlook assumed, as reflected in our Q2 results, which fell below our expectation.

The change is driven by primarily continued clinic visit declines, more value conscious pet owner behavior, and elevated promotional activity in key categories, particularly dermatology and US parasiticides. We now expect organic operational revenue growth to decline 3% to 1%, and organic operational growth to decline 9% to 5% in adjusted net income. Even as we navigate near-term pressure, we are confident in the long-term fundamentals and in our abilities to lead through this cycle by defending leadership positions, investing behind the highest return opportunities, and continuing to build the next wave of innovation.

Before I close, I want to recognize our colleagues around the world, whose focus and commitment to customers are critical to delivering against our priorities and close with how we are thinking about the path forward. We are operating in a more competitive and value conscious environment than we have seen in recent years, and we are not assuming the market gets easier. We are adapting to the market in front of us. We are responding with focus and discipline, sharpening execution in companion animal, allocating capital with discipline, exercising greater cost discipline, and continuing to advance the innovation that has always differentiated Zoetis.

At the same time, the longer-term fundamentals of animal health remain strong. Our current portfolio gives us scale and resilience. Our pipeline, with 12 potential blockbusters over the next several years, creates meaningful opportunity to shape standards of care and create new markets. We're also investing in the ecosystem around animal health. Our latest sustainability report highlights the completion of the Driven to Care aspiration we set in 2021, and our continued investment in the resilience of veterinary healthcare teams around the world, because leading in animal health is not only about the products we bring to market, it's about strengthening the system of care.

Zoetis has built leading categories before. We know how to defend them, evolve them, and build what comes next. So while we are realistic about the near-term environment reflected in our updated guidance, we remain confident in the long term strength of our business and our ability to lead animal health into the next chapter. Wetteny will walk through our financial results in a moment. But before I hand it over, I want to say thank you again. We appreciate everything he's done over the last five years, and his commitment to ensuring a smooth transition.

So with that, Wetteny?

Wetteny Joseph

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

Thank you for the kind words, Kristin. Zoetis is a remarkable company with a strong foundation, talented people, and a bright future ahead. It has been a privilege to serve as CFO for the past five years. As Kristin noted, I remain as a special advisor on financial matters until early 2027 to help ensure a smooth transition for all. I look forward to watching Zoetis success for years to come. I know great things lie ahead for this team. With that, let me turn to our financial results for the second quarter. Second quarter global revenue was $2.5 billion, flat on a reported basis and down 1% on an organic operational basis, driven by a 1% decline in volume, with price approximately flat.

In response to competitive conditions, we took select, targeted actions across various franchises, with select investments in dermatology and price adjustments on Cerenia and Convenia in the US in response to generic competition. These actions weighed on near-term price realization in the quarter, as well as on the full year expectations in our revised guidance, but they are deliberate and targeted steps to protect volume, defend share and support long-term franchise health. Adjusted net income was $781 million, down 2% on an organic operational basis. Importantly, we continued to demonstrate strong P&L discipline, protecting profitability through cost actions, while staying focused on the investment behind our highest return opportunities.

Our global companion animal revenue was $1.7 billion, down 6% in the quarter. Key dermatology was $395 million, down 16%. The category remained affected by softer demand, including lower periodic visits in the US, alongside elevated competitive activity. We have begun taking actions grounded and competing with discipline, reinforcing the differentiated value of our portfolio and focusing resources where they most effectively protect share and support demand. OA pain mAbs delivered $147 million, down 3% globally. Canine OA pain mAbs, which consists of the combined sales of Librela and Lenivia, delivered $105 million, down 8%.

Feline OA pain mAbs, consisting of Solensia and Portela, delivered $42 million, up 12%. We saw early contributions from Lenivia and Portela in the EU and Canada, and we were encouraged by the initial experience program as we broadened the OA pain portfolio internationally. We recently announced full launch in those markets, and continue to expect expansion into other markets in the coming year. Simparica franchise was $442 million, flat globally. Simparica Trio posted $350 million, down 1%, while Simparica posted $91 million, up 4%.

Internationally, the franchise delivered strong growth, driven by Simparica Trio's continued market share gains and broad-based Simparica performance across most markets, while in the US, softer end market demand and a more competitive environment weighed on both price and volume. We also continue to see generic headwinds on Cerenia and Convenia in the US, and we have adjusted pricing accordingly. Companion animal diagnostics delivered $118 million, up 12%. Growth was driven by the continued adoption of innovative diagnostic technologies, including Vetscan Imagyst and Opticell. This business continues to perform well and reinforces the value of our recent innovation in the space. Livestock delivered $731 million, up 11%, supported by broad-based demand for healthy and affordable protein globally, improved supply, and elevated cattle demand, particularly in the US.

Now, let's move on to our segment results for the quarter. US revenue was $1.3 billion, down 7%. US companion animal was $1 billion, down 11%. The quarter reflected continued pressure from clinic traffic and affordability dynamics, alongside intensifying competition in key franchises. At the same time, we are moving with urgency, sharpening our commercial execution, deploying targeted leverage to defend share, and taking the steps necessary to stabilize performance in this environment. US key dermatology was $251 million, down 18%. For Apoquel, price has become a more prominent factor in prescribing decisions, while softer periodic visits have created a more challenging demand environment. Together, these factors have a magnifying effect on the impact of competition.

We deployed targeted gross to net investments to defend volume and slow share loss, which results in lower realized price in Apoquel. In alternative channels, we faced a tougher comparison from prior year retailer dynamics. But even normalizing for these factors, growth moderated and was not enough to offset clinical declines. Cytopoint's decline in the quarter reflects broader clinic and affordability pressures, creating headwinds for premium therapy adoption broadly across companion animal. In the US, our dermatology franchise remains the clear market leader, with approximately 86% of in-clinic share in Q2, despite share declining 5 points sequentially and 10 points year-over-year.

We continue to see a meaningful pool of untreated and undertreated atopic dogs, and we remain focused on demand generation and new patient adoption over time. US Simparica franchise was $308 million, down 6%, reflecting softer flea, tick and heartworm visits, and a more competitive and promotional environment. Simparica Trio maintained its position as the clear market leader in oral parasiticides, holding in-clinic market share of approximately 21% in Q2, nearly double that of its nearest competitor. Our puppy share of approximately 28% meaningfully outpaced overall share, signaling continued room for expansion even as the broader market declined and competitive pressure intensified.

US OA pain mAbs were $51 million, down 18%. Canine OA pain mAbs were $34 million, down 24%, reflecting a high year-over-year comparison, softer clinic visit trends and the same value-conscious environment that is impacting other premium therapies. Importantly, veterinarian and pet owner satisfaction and confidence in Librela remains high and the long-term opportunity remains significant. We remain focused on driving patient adoption and access over time, as well as broadening our offering with our expected Lenivia approval. Feline OA pain mAbs were $17 million, down 2%, as pet owner affordability pressures on premium therapies offset an otherwise encouraging improvement in feline clinic visits in the quarter.

Cerenia and Convenia generic competition continued to drive our decline this quarter. Our pricing actions are beginning to support those recapture, albeit at a lower price point. US livestock was $222 million, up 23%, reflecting industry dynamics as well as the strength of our portfolio and the durability of underlying demand across the business. Performance was driven by broad-based strength in cattle, supported by favorable producer economics, improved product supply, and elevated demand for parasiticides in response to the New World screwworm outbreak, a combination that resulted in a particularly strong quarter. We do expect second half growth to moderate from Q2's pace to the mid-single-digit range, as several of the dynamics that contributed to Q2's outperformance are transitory.

Overall, the fundamentals of our US livestock business remains solid and we remain confident in the long-term outlook, supported by continued strong underlying demand and the breadth of our product portfolio. Turning to international performance, we delivered revenue of $1.2 billion, up 6%. Growth was broad-based across parasiticides, OA pain, diagnostics and livestock, partially offset by continued pressure in key dermatology. International companion animal delivered $664 million, up 5%. Developed markets, particularly in Europe, remained more competitive and demand has been uneven. Even in that backdrop, we're holding our ground by staying disciplined on price and promotions and executing market-by-market commercial actions.

Emerging markets again provided a meaningful tailwind, supported by continued category development and less competition. International Simparica franchise was $134 million, up 19%. Simparica Trio delivered $67 million, up 34%, reflecting the continued expansion of the triple combination standard-of-care with broad-based growth driven by market share gains and key account wins. Simparica was $67 million, up 7%, with broad-based demand across regions, reflecting the continued strength of the brand and effective commercial execution, particularly in markets where lower heartworm prevalence drives demand for single agent protection.

Key dermatology was $144 million, down 13%, with the dynamics we described at the segment level playing out most visibly in this franchise. Pressure was most pronounced in developed European markets, where competitive penetration has been deepest and the promotional environment most intense. Our approach has been disciplined. We defend share where it matters most. We enforce the differentiated value of our portfolio and tailor actions market-by-market to compete effectively, while protecting the long-term value of the franchise.

International OA pain mAbs was $96 million, up 7% internationally, driven by the early launch contribution of Lenivia and Portela in the EU and Canada, which reflects the broadening of our OA pain franchise internationally. Canine OA pain mAbs delivered $71 million, up 2%, driven by the contributions from Lenivia. We saw some moderation in Librela as patients migrated to the new long-acting formulation, a dynamic we anticipated, and one that we view as net positive for the overall franchise. Similarly, our feline OA pain mAbs delivered $24 million, up 24%, driven by the launch of Portela. It is worth noting that the contributions from both Lenivia and Portela this quarter reflect limited early experience launches, making these initial results particularly encouraging as we transition into full launch across the EU and Canada.

International livestock was $509 million, up 6%. Cattle delivered strong growth internationally in the quarter, supported by continued global protein demand and improved product availability across key markets. This strength was partially offset by weaker performance in Brazil, reflecting macroeconomic headwinds and lower medicalization, following the end of mandatory foot and mouth disease vaccinations. Poultry continued its strong performance, primarily driven by the Middle East and Asia, supported by deeper penetration with key accounts and favorable meat price dynamics.

Now, let me walk down the P&L. Adjusted gross margin was 72.9%, down approximately 40 basis points on a reported basis. Foreign exchange was an unfavorable impact of roughly 50 basis points. Excluding FX, gross margin increased about 10 basis points, reflecting lower manufacturing costs and productivity, partially offset by unfavorable mix. Adjusted operating expenses were $764 million, down 2% operationally. This reflects continued progress in our comprehensive cost and productivity program, and disciplined spend management across the organization, while continuing to prioritize investment behind our highest-return growth opportunities and innovation pipeline.

Adjusted SG&A was $586 million, down 4% operationally, driven primarily by lower compensation-related expenses and reduced discretionary spend. Adjusted R&D was $173 million, up 4% operationally, driven mainly by timing of project spend. Adjusted net income was $781 million, down 2% on an organic operational basis.

Turning to capital deployment. We repurchased over $550 million of shares in the quarter, above our historical quarterly average, excluding the convertible-funded buyback in Q4 of last year. We view this level of buyback activity as a deliberate and attractive use of capital at our current valuation, reflecting our confidence in the long-term strength of the business, and our commitment to returning value to shareholders. Benefiting from the lower share count, adjusted diluted EPS was $1.87, up 4% year-over-year.

Now, turning to our updated guidance for full year 2026. Our outlook reflects the operating environment we see today, particularly in parts of US companion animal and the actions we are taking to manage through this period with discipline, as well as the strong contribution we have seen from livestock and diagnostics, and the expectation of continued growth from those businesses. The foreign exchange rates embedded in our guidance are as of late July. We are revising our full year revenue guidance to a range of $9.12 billion to $9.32 billion, representing a decline of 3% to 1% year-over-year on an organic operational basis, reflecting the continued pressure we are seeing across key companion animal franchises and ongoing challenges with vet clinic visits and affordability, including our gross to net actions to defend share.

We are also incorporating sales trends through July, which have not yet indicated market stabilization. The high end of our range assumes contained competitive and pricing pressures in the second half, with manageable share losses in dermatology and parasiticides, and continued strength in livestock and diagnostics. The low end reflects a scenario where competitive and pricing pressures accelerate, with greater derm and paras share losses, July weakness carrying through the second half, and slower livestock uptake. We now expect adjusted net income to be in the range of $2.57 billion to $2.62 billion, representing a decline of 9% to 5% year-over-year on an organic operational basis, reflective of the revenue headwinds noted above, partially offset by the cost and productivity actions we are executing across the organization.

Finally, we are updating our EPS expectations. We now expect adjusted diluted EPS of $6.15 to $6.25, and reported diluted EPS of $5.55 to $5.65. Overall, this guidance reflects a realistic view of the near term, while we continue to invest behind the pipeline and take the actions needed to strengthen execution and position the business for improved momentum.

To close, we're operating in a dynamic environment. Some US companion animal categories are facing near-term pressure, while international, livestock and diagnostics are performing well, and demonstrating the resilience of our portfolio. We are focused on what we control: sharpening commercial execution, deploying targeted investments to protect volume and share, and maintaining cost discipline, while continuing to advance the innovation that supports long-term growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from Erin Wright with Morgan Stanley. Your line is open.

Erin Wilson Wright
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for taking the questions. So I want to talk a little bit about the targeted price actions that you're taking and what's baked into guidance on that front in terms of overall net price realization in the second half, and is this just your primary stabilization lever at this point? And can you talk about some of the timing of those actions? And can you detail, kind of, the overall dollar share loss you anticipate in derm and Simparica that's embedded in the guide at this point, and the levels of conservatism you have in the guide on the US companion animal front, kind of, how that changed over the course of the quarter in terms of your thoughts there?

And then just a bigger picture question for Kristin, taking a step back here, and there's been a number of leadership appointments and organizational changes, not just more recently, but over the past several years in some of the key functions like Head of R&D, COO, companion and others. So I guess, how do you think about the balance of organizational stability, and then also your continuing effort to evolve the leadership team? And do you feel like now you're at a point where that's largely in place and you can execute on the strategy? Just wanted to hear your thoughts there. Thanks.

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

A

Thanks, Erin. I think, that was many questions on very different topics, but we look forward to taking it. I'll start at the top. You asked about the targeted pricing. As we talked about before, I think, the demand for pet care and the structural tailwinds remain where they are and remain strong. I think, what we're talking about from a pricing perspective, and we've been really actively going after this for the last few months, is looking not at changing overall list price as we've talked about, it's focusing on growth to net, and we're doing this because we think our real focus is protecting our volume and gaining share.

And to do that, if you overall change your list price, that is a permanent structural change versus investing in what we're doing, which is gross to net investments, which are really targeted, they're time bound, and they can demonstrate clear value, because really, when you're thinking about these things, it's maintaining your share at a clinic, it's at point-of-sale with a pet owner, it may be a new start. So our real focus around gross to net pricing investments, which you saw us do in the quarter, but we're accelerating as we go through the second half, is really focused on our goal, which is, how do we maintain our volume or gain it, how do we focus on protecting or gaining share, and that's why we're focused on those overall pricing sets.

As we think about the overall guide, we really focused on looking at the environment that we're operating in, Erin. It's understanding both the macro environment that we're operating in, as well as some of the competitive pressures. And I think, Wetteny really talked about that, as we look at the guide right now, we're assuming the persistence of the trends that we've currently seen, both in the softer end market demand as well as really believing that in this environment the competitive situation will be people persisting in more promotional activity.

And we're going to be aggressive as we think about gross to net investments and rebates and pricing and pet owner or point-of-sale to make sure that we protect our volume in a market that may not be growing as fast. As we talk about the leadership question, which you asked me about, overall, I am really excited about the team we have and the team we continue to build. We've had some retirements, obviously, over the last years and some changes. But I'm really focused on ensuring we have the team to focus and be able to deliver in the environment that we have, and that's really been the focus of what we've been doing. So I think, that better, I'm sure we'll get into some of these questions, certainly on the guide more as we get through the call.

Operator: We'll move next to Brandon Vazquez with William Blair. Your line is open.

Brandon Vazquez
Analyst, William Blair & Co. LLC

Q

Hey, thanks for taking the question. Maybe I'll try to do a two-parter too, because one of them is just a clarification on what you had just mentioned, Kristin. But when you're talking about gross to net pricing, can you just maybe clarify exactly what that means? There's a lot of questions around the pricing dynamics going on right now. Will Zoetis be realizing a net lower ASP based on that language you're using, what does that mean for margins? And then maybe the broader question I had for you guys is, can you just compare and contrast the updated guidance versus the old guidance? What are maybe the two or three key items that changed within those assumptions? Thanks.

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

A

Sure. Thanks, Brandon. I'll take your first one, and let Wetteny take the more detailed question on the guide. To be clear on what we're talking about with regards to pricing is, we are not changing the list price of our products. Again, this is a permanent structural change that really changes the market going forward, and is very hard to pull back once you do it. What we're talking about is investments, and what in the industry it is called gross-to-net. So a promo to maintain share at a clinic, it might be a cross-portfolio bundling that if you buy a product, you get a discount, it would be at point-of-sale to a pet owner to make it more affordable. This is what we mean by gross-to-net. We feel strongly about protecting both the short-term volume and share that we have, but while doing that invest in the long-term value of our franchises, and that's why we want to be clear, we are not, and we've said this all year, lowering our overall list price, but we are going to be aggressive in defending our volume and protecting our share as we think about promotions and rebates. I'll let Wetteny get into the second question more broadly on guide.

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Sure. Brandon, in terms of comparing the old guide and the new guide, a few things that I would highlight here. First of all, what Kristin just highlighted with respect to the gross-to-net investments that we're making, in this guidance not only are we assuming that the level of macro and competitive pressure persist, those are reflected, I would say, on the high end of the guidance, the low end of the guidance, we're contemplating that they would actually accelerate. And if they accelerate, that would mean we would also do so in terms of the actions we're taking from a gross-to-net perspective, which would have additional implications. So that's the stress test, the low end of the guidance for us. One other thing we have not touched on with respect to this guidance is, there has been some more FX headwinds. So I would put it to around $60 million, $65 million of top line headwind, about $30 million of bottom line headwind from FX in terms of the dollar implications here, guidance-to-guidance.

Operator: We'll move next to Michael Ryskin with Bank of America. Your line is open.

Michael Ryskin
Analyst, BofA Securities, Inc.

Q

Great. Thanks for taking the question. You touched on price a number of times. I want to ask about some of the other actions you're taking. We've seen through some of our channel checks, and some pretty aggressive job cut announcements. You've talked about cost controls. Just wondering, how much that's already rolled in, how much you're expecting in the second half, and you could stay on that front, I guess, just other levers you're taking besides price to maybe try to stem some of the bleeding here. And then if I could squeeze in a quick follow up, the new 2026 guide, you framed the upside and downside scenarios a number of times, but in terms of the competitive landscape, can I ask what your assumptions are sort of like exiting the year? I know you don't have a 2027 number yet, but just do you think you can return to growth? Like will we have absorbed all the incremental competition by the end of this year, or do you think that there's still something we're going to be talking about next year and beyond? Just trying to look forward to how you see this playing out. Thanks.

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Sure. I'll take the first one. Mike. You're right. We've been talking about price so far on this call, but there are many other actions that we're taking. Certainly there's a lot of focus on commercial execution. What we're doing with respect to how we allocate, dollars and investments across DTC and how we drive demand with customers, et cetera, et cetera, so in that light. But we're also managing cost. We alluded to this on the last couple of calls, in fact, and you'll see the impact of the deliberate and meaningful actions that we're taking across our cost base to align to what the current operating environment is that we are facing, while we're still investing in areas that are really important for the long term growth and value creation of the company.

So areas like R&D and parts of commercial, et cetera, we're continuing to prioritize, but we're taking the actions that we need. And you see that already playing out in the results. The second quarter, you saw SG&A down 4% year-on-year, and some of those actions are also reflected in our manufacturing costs that are down year-on-year that are contributing to where gross margins are landing for us. Of course, these will continue to draw benefits as we go through the back half of the year and into next year, and to the extent that the actions that we've been taking, some of which we already contemplated in the prior guidance.

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

A

Yeah. And to get to your second half of question, which I think is just looking at how do we see the competitive environment and how does it evolve while we get to the end of the year and we look into 2027, as you imagine, we're obviously not providing 2027 guidance today. But I mean, look, as I think Wetteny has mentioned, and certainly in our script we talked about, we think, with a new competitor entering in Q2 in the US in derm, we think that our volume and our market share will continue to be under pressure. That is assumed. And I think that will take some time to work out. Is that six months, is that 12 months, is that 18 months, I can't tell you. And we'll see, we're really focused on commercial actions to protect that share. But given we just got a new entrant in Q2 in the US, and it's still in other markets around the world, I think, we're really looking at the end of 2026 and 2027 about making sure that our differentiated portfolio across Apoquel, Apoquel Chew, Cytopoint and importantly, expecting the approval this year of long-acting Cytopoint, about defending those and growing those.

I mean, our hope also is eventually that we continue to grow these markets, which is also our intent right now. But in this highly competitive space we're in now, where the pet owner affordability challenge is meaning some of these markets really aren't growing, particularly in derm and paras is under pressure, we are going to be aggressive in defending our share and protecting our market share and working to grow those, but making sure if they're not growing, that we are at least protecting our share. And so we'll continue to do that. And I think, as you saw in our guide on both the low and the high end, we're assuming the competitive environment that we're operating in and some of the macro challenges that are certainly compounding that, that we're going to be aggressive in this environment.

Operator: We'll move next to Dave Westenberg with Piper Sandler. Your line is open.

David Westenberg
Analyst, Piper Sandler & Co.

Q

Thank you for taking the question. First, I wanted to maybe compliment on the guide here. You missed by in the tens of millions, and you are lowering by almost a $0.5 billion, which, obviously, like we're getting really good feedback from investors right now about that. Saying that, we still need to talk about that Q2. So it's a little bit of a continuation of Erin's question around that. Can you clarify how much of the Q2 deterioration now is market contraction versus maybe some competitive pressure? And if there is a way to maybe quantify ASPs, I know you're not talking about pricing, you're talking about more like rebates, but it will have a net impact on ASPs. So if you can quantify that, that would be great. And then just pivot on kind of the same topic. You laid a great plan around like SG&A and the strategic rebates. I know a lot of contract, particularly like with corporate groups and whatnot, tend to have these two-year kind of things. So how do we think about changes in rebates and that kind of thing, knowing that some of your customers have a two-year basis? And again, sorry for the length, but I did also, I did want to at least call out the prudence and the guide there. Thank you.

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

A

Thanks. Do you want to take that first one?

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

Yeah. Dave. I'll take the first one. In terms of what we're seeing in Q2, certainly we don't guide by quarter. So it's a matter of what our expectations are for the year and what we're tracking internally. And certainly, I would describe Q2 was coming in below our expectations. Now, to the core of your question, trying to bifurcate between what is macro versus what is competitive, and it's not something that we would give precision around. However, I would say, both are impactful and meaningfully impactful. And they start to converge on each other, because in a market that is not growing, certainly the competitive actions lasts longer and they're more impactful. And our response to those are also more meaningful with respect to the gross-to-net. So now that becomes something we do.

Just to give you a couple of examples, if you look at the broad macro, certainly visits, therapeutic visits and wellness visits in the US, flea, tick, heartworm was down about 7%. Of course, every major category, you see downtrends on visits that have an impact. OA pain are down, so were derm, north of 2%. So in each of those areas, that's a macro reflection. And by the way, a product like Cytopoint, for example, we saw some headwinds that are largely, if not, entirely related to that macro versus some competitive friction. So I would say, there's not a bifurcation that I can give you, but both were certainly impactful. And the response that we're doing is also contributing to it.

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

A

Yeah. And I mean, I appreciate that it's very easy for you all to see list price, to see a gross-to-net is very hard to see, and it's very hard to see because it will be dependent by promos we'll run in any given month. It may be dependent to your other points on specific contracts with a customer. So for example, it may be for a customer to put us as their first into – say, they'll give us X share, we give Y pricing. So the contracts that we do are generally, give or take, two to three years. And so some of those are locked in right now, but some of those are up. And so those are, I know, for you all going to be a little bit hard to see. I think we'll try to help you. But just to sort of build on that, we're going to make sure that we take the actions we need to protect share and to protect volume. And so that's what you'll see in the gross-to-net. There's no way to really see that as an overall because that would be, again, customer-specific, maybe event-specific. So it might be a new start, et cetera. So that's where you're going to see some of those overall.

Operator: We'll move next to Chris Schott with JPMorgan. Your line is open.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much. I just wanted to just touch a little bit more on the duration of some of these promotions. Are these initiatives we should assume continue until macro gets better, or is this more about the competitive dynamics you're facing with these new launches, and as that competitive landscape normalizes? I'm just really trying to get my hands around what it's going to take or your ability to back off these promotions at the right time, like, what the factors we should be watching that would enable that. My second question was maybe also just on livestock, obviously a very strong quarter. I think you said some of that was transitory. Can you just give us a sense of what type of growth it's realistic to expect for the livestock business as we think about the second half of the year? Thanks so much.

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

A

Sure. So I'll take your first question, which is really on what's the duration of some of these promos. I mean, there's always been some promotional activity, as you've seen, in our industry. So that's not new. I would say, the intensity of the promotions is both a combination, I'll talk about, where it comes in to both the macro and the competitive situation. And so where you see cross-portfolio and things like that, I think that's really focused for us right now on the competitive space that we're in. So I think, as you look at some of the dedicated promos on competition, that'll be quite different. So in any given therapeutic area, there is either – more of a headwind.

So I think, Wetteny just mentioned it, as you think about Cytopoint, that's pretty much macro. We don't really have a competitor that's gotten full supply against that product. I think, let's be clear, as you think about derm, it is mostly a competitive situation that is driving the derm situation. As you think about paras, I think it's a little more macro, and we say that because as you look at both wellness visits down 7% overall in the quarter, but importantly, the deceleration of growth across alternative channels, which had been making up for, again, you've seen paras under attack in a sense from a wellness visits for a while now. But I think, what's really changed in the parasiticides category has been also alternative channels.

So in any given therapeutic area, it might be more competition or it might be more the macro situation. But I think, what we're really seeing and what would be the signs, I think, that's really the essence of your question, what we see. As we get to more of a stabilization of share, as we look at quarter-over-quarter, that starts to stabilize, I think, you'll see us pull back, because, again, our aggressive promos and rebating and point-of-sale right now is focused, as I mentioned, on protecting our share and making sure we protect our volume. So as we see that stabilize, I think, those are going to be the signs that would say that we'll step off some of those gross-to-net investments.

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

And I'll take, Chris, the question on livestock. Look, we've been very pleased with the performance on livestock, not only in the quarter but also on a year-to-date basis. I would say, there are strong fundamentals here that we believe to be sustainable, likely in the mid- to high-single-digit range when we look at this year. We look at the second quarter, particularly in the US, we grew total globally 11%, right? The US was up 23%. Now, in that context, we're saying some of the drivers were transitory. For example, timing of supply for certain products that we had really affected the quarter, as well as demand that we're seeing for injectable parasiticides, driven by New World screwworm, for example, in the US. So when we parse those out, we would put the quarter in the US into the high-single-digit range, I would say, on a normalized basis. And again, for the year, we continue to expect strong fundamentals to drive livestock performance.

Operator: We'll take our next question from Jon Block with Stifel. Your line is open.

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

Q

Thanks, guys. Good morning. Also a two-parter. Wetteny, what's the update for 2026 price realization? Has that changed versus, I think, prior it was 1% to 2% guidance for price this year, and just want to verify that the gross to net would show in that updated number, if there is one, and where that update is coming from as a key franchise. Is it other when you fight back against the generics? And then, Kristin, regarding the promos, is it derm, is it paras, is it both? I thought you mentioned that's US-specific. I just want to verify that. And just to tack on to that last one, maybe a difficult question. Kristin, do you have the better products? Like, do you have the better AD/JAK product? Apoquel was revolutionary, but it's 10 years old. Trio was revolutionary, but you do have others that are resonating with a marketing approach. So it's one thing to ramp up the promos. But I think, the other key question here is the products in the field and are they up to snuff to compete effectively. Thanks.

Wetteny Joseph
Executive Vice President & Chief Financial Officer, Zoetis, Inc.

A

So I'll take the first part of your question, Jon. Certainly, you saw in the quarter price was flat. You're seeing the impact of the gross-to-net responses that we've already covered on this call at length, so I won't repeat those. And so what that would translate into, if you look at the guidance we just issued, on the range, it could be in the 0% to minus 1%, potentially minus 2% as you get towards the low end of the guidance, given our response will also be accelerated with respect to what competitors are doing, which are largely competing on price today in these categories. So that's why I would range-bound it for you in terms of what this means for the year.

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

A

Yeah. And to answer your second question, which is on the promos, or is it just derm, are we talking about paras, are we talking about both? It is most definitely both. And we're also looking at cross-portfolio bundling because I think we have a very strong portfolio. We continue and we said on every call that we continue to have differentiated products in each of these categories. But when pet owner affordability becomes a big issue, it becomes a question of good enough. We absolutely have differentiation in both Trio, in Apoquel, in Apoquel Chewable, we have a chewable. We have more safety, more efficacy than anybody else who we're competing against in these markets, whether we're talking about Cytopoint, even Cytopoint long-acting, we will continue to defend that differentiation.

But we're also – we don't want to be naive and believe that, in this competitive environment with people offering significant promotional or rebate discounts to someone now say, well, I'll try the other one and see how it is, we are starting to see in Europe people switch back after experiencing it. But our focus has to be on overall value, and our value is in the differentiation and the safety and efficacy of our products. But right now, we also have to admit that in a macro environment where affordability is a much bigger issue, we want to make sure that we're meeting our customers where they are and understanding that we need to be defending the share. And if a low enough price may come and try another product, we want to discourage that behavior. So we're really focused again on the differentiation on the overall value. But understanding the macro environment we operate in is a little bit different than it used to be.

Operator: We'll take our next question from Daniel Grosslight with Citi. Your line is open.

Daniel Grosslight
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking the question. One of your competitors noted that there's been a very high correlation between direct-to-consumer channel investment and market share gains. I know you mentioned the alt channel has decelerated a bit this quarter into the back half of the year. But I'm curious how, if at all, are you changing your marketing channel strategy, your investments in DTC, and if you are also seeing a correlation between, or a high ROI between direct-to-consumer investment and market share retention. Thanks.

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

A

Sure. Obviously, we are heavily invested in direct-to-consumer, but importantly to this question, part of direct-to-consumer is actually advertising on at a retail center or at an online site. And we do see very strong ROI. And you see the strongest ROI, and this would be obvious, because you're really focusing when you're on those sites on conversion. So you already have someone who you know is looking for the product and you're converting it. So by far, we would absolutely agree the highest ROI in direct-to-consumer advertising is at like at the retailer where someone's actually searching for a product and you're helping convert them, and you already have an interested party. We've also been really focused on continuing to grow markets as well. That ROI is important, but that's a longer-term ROI versus the ROI we're seeing as you invest at point-of-sale, either in the clinic or in retail, et cetera. So we are very focused as we think about these gross-to-net investments and this direct-to-consumer advertising at point-of-sale, whether that'd be in a clinic, whether that'd be on a website or whether that'd be in a store.

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

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

Great. Thanks, everybody for joining us today. And as always, really appreciate your questions and your interest in Zoetis. We know this is a moment that demands even greater focus and execution, and we look forward to keeping you updated on our progress. I also want to reiterate that we remain confident in the long-term fundamentals of animal health, and the strength and differentiation of our portfolio and our pipeline and our ability to create value. Thanks for joining us.

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