APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Zoetis Q2 2025 Results

Share Price	US$149.02
Fair Value Range	US$157.58 - US$183.84
Date	12 August 2025

RESULTS SUMMARY

Zoetis delivered strong second-quarter results, with total revenue up 8% organically to US$2.5bn. US revenue grew 7%, while international operations rose 9%. Sales of both companion animal and livestock grew 8% and 6%, respectively. Operating expenses grew by 5%, primarily driven by 6% growth in selling and general administration expenses, leading to a 10% increase in organic net income.

The business remains solid, supported by a durable global portfolio and a steady pipeline of innovative products. Companion animal sales were fuelled by strong demand for Simparica Trio, with the ongoing shift toward triple-combinations, making it the fastest growing segment in animal health, and dermatology products. Management expects double-digit growth across these categories in 2025. Livestock growth was supported by growth across all core species in the international segment. Notably, growth was primarily underpinned by swine, partly due to tailwinds in China, and vaccine growth in Latin America.

Looking ahead, management modestly increases its guidance and now expects 6.5% - 8% (prior 6% - 8%) growth in operational revenue and 5.5% - 7.5% (prior 5% - 7%) growth in adjusted net income, based on the strong performance in the first half of the year.

OUR LONG-TERM INVESTMENT VIEW

- Zoetis has introduced more than 2 000 new products and innovations in the last decade alone and currently boasts 15 top-selling drugs, making up more than a third of the global industry's top sellers. revenue. The portfolio is durable, with the top products/lines average market life of 30 years. A growing global population, increasing middle class and higher protein consumption together with the increasing humanisation of pets and rising demand for animal healthcare across species represent predictable, sustainable growth drivers for Zoetis.
- Zoetis is the market leader in several species, product categories and geographies. The market leading species' categories represents 90% of their portfolio revenue. Their leadership position is retained through innovation and above market growth rates.
- Zoetis operates in an industry with a lack of third party/government payors and has a direct relationship with veterinarians and livestock farmers. This allows Zoetis' approximate 4100 field force members to establish strong relationships with customers and better understand and respond quicker to customer needs. Predominantly growth has been attained from enhancing existing products and Zoetis' agility in innovation is underpinned by the "first to know and fast to market" philosophy (due to a results-driven culture and well-seasoned management), where it can continue to sell its top-selling products, while investing in new products. This gives it a significant advantage and a barrier to entry for new competitors.

UNPACKING THE Q2 2025 RESULTS

High level numbers

- **Group revenue** increased 7% operationally, driven by an 8% increase in companion animal sales and 6% increase in livestock sales. Both the US and international segments performed well, achieving operational growth of 7% and 9%, respectively. Total revenue growth was driven by a 4% positive price impact and a 4% increase in volumes. Key franchises continued

Investing for growth

Zoetis strengthened its portfolio with strategic approvals and label expansions across major markets. Highlights included Simparica Trio's exclusive claim in Japan for preventing flea tapeworm infections; Solensia's approval in South Korea for feline osteoarthritis pain; and a conditional US license for an avian influenza vaccine in dairy cattle. Other updates included Revolution Plus gaining new claims in Australia, the to deliver a combined double-digit growth.

- **Gross margin** improved by 200 bps to 73.7%, driven by 130 bps favourable foreign currency impact, favourable impact of MFA divesture, and benefits from price.
- While selling and general administration costs were 5% higher, they marginally increased by 20 bps to 24.6% of revenue, while R&D costs remained flat year on year. Overall, **adjusted net income** increased by 10% to US$783m.
- Consequentially, adjusted **diluted earnings per share** increased 13% organically to US$1.76.
- **Net debt** increased by 10.9% to US$5.1bn driven by an increase in capital expenditure.

Operational Performance

- **US** (55% of revenue) revenue increased by 4%to US$1.36bn on a reported basis and 7% organically, driven by 9% growth in companion animals and a decline of 2% in livestock. Companion's strong performance continued due to strong demand for Simparica Trio (+18%) and key dermatology products (+9%), partially offset by lower sales of osteoarthritis pain products Librela and Solensia, which declined 16% and 3% respectively. Simparica Trio share of vet practices increased from 30% to 45%. Both Simparica Trio and dermatology franchises benefitted from strong alternative channel sales in the quarter, despite increased competition. Livestock declined primarily due to a timing of supply of ceftiofur. Higher gross margins were partially offset by higher operating costs, resulting in a 7% increase in segment earnings.
- **International** performed well as operational revenue increased by 9% to US$1.1bn. However, currency movements and divestures limited reported revenue growth to 3%. Companion animal sales rose by 8%, driven by strong demand for Simparica (+16%) and dermatology (+15%) products underpinned by the field force driving high engagement levels. Livestock sales grew by 10%, supported by growth across core species. Performance was driven by swine, partly due to tailwinds in China and vaccine growth in Latin America. Strong demand for vaccines boosted fish sales in Norway and Chile, poultry growth in the Middle East and Asia, and cattle sales through price gains in high-inflation markets.

EU and the Philippines; Fostera receiving enhanced swine safety and needle-free administration approvals in Brazil and Australia; and Suvaxyn securing EU clearance for needle-free microdose delivery to prevent porcine respiratory reproductive syndrome.

Librela remains a central growth driver despite safety concerns, which management emphasise are within normal parameters. A new safety study is underway to reinforce confidence. Growth is also supported by dermatology, Simparica Trio, and a next-generation pipeline featuring extended-duration Librela and Cytopoint, as well as expansion into emerging therapeutic areas like renal and oncology.

Looking ahead

For FY25, management expect operational revenue growth of 6.5% - 8% to US$9.45bn - US$9.6bn and adjusted net income of US$2.8bn - US$2.88bn. The higher growth outlook reflects a strong first half, with lower manufacturing costs and robust demand expected to offset competitive pressures and tariffs in the second half.

The bottom line

Zoetis has a robust portfolio of market-leading, long-lasting products, supported by a strong and direct sales force that drives deeper and faster customer insights. This enables continuous innovation in animal care, supporting the company's growth and leadership position.

Backed by industry tailwinds such as rising pet ownership and protein consumption, and underpinned by disciplined capital allocation, Zoetis remains a compelling long-term investment as reflective of the share price trading below our fair value range.