AZ STOCKS
Stocks from A to Z

Zoetis

A quality leader going through a major competitive test

DEEP DIVE

November 2026

COMPANY PROFILE

Zoetis

THESIS

Zoetis dominates the global animal health market, but a sharp correction completely changed how the market sees it. The analysis assesses whether the current weakness is a structural problem or an opportunity to invest in a long-term leader.

THE COMPANY

Zoetis discovers, develops, manufactures and sells medicines, vaccines, diagnostics and other animal health tools. It sells about 300 product lines in more than 100 countries.

It works across eight main species and combines a companion animal business, with higher growth and margins, with a livestock business that provides diversification and stability.

TARGET PRICE
USD 110

UPSIDE / DOWNSIDE
+36.9%

SECTOR
Healthcare

EXCHANGE
NYSE

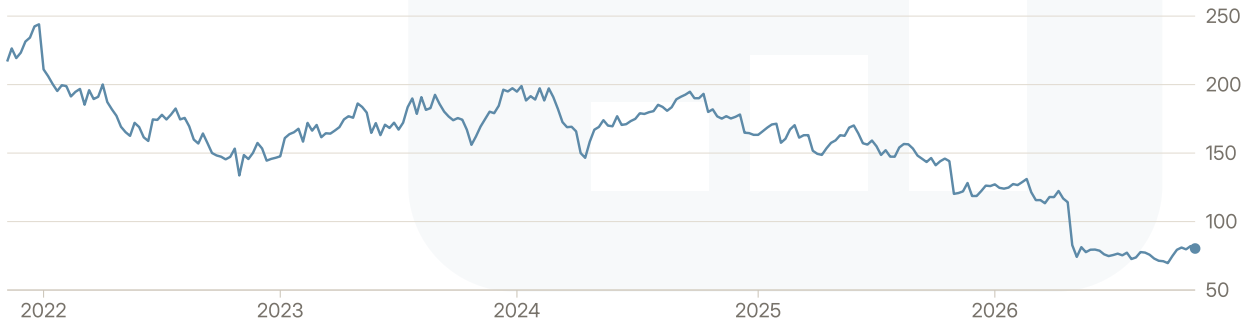
CURRENCY
USD

LAST UPDATED
November 2026

MARKET DATA AS OF 2026-11-06

PRICE	52-WEEK RANGE	5-YEAR CHANGE	BETA (5Y)
USD 80.34	68.77 – 132.49	-63%	0.64

WEEKLY SHARE PRICE, LAST 5 YEARS



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Contents

01	Introduction	05
02	Business model	06
03	Business quality	08
04	Management and capital allocation	14
05	Competitive position	15
06	The bulls vs. the bears	18
07	Valuation	19
08	Conclusion	22

SECTION 01

Introduction

Zoetis is one of those companies that for a long time seemed to need little explanation. Global leadership, good products, deep relationships with veterinarians, extraordinary margins and an industry supported by two very clear trends: rising spending on pets and the permanent need to improve livestock productivity and health.

For years the stock reflected that quality. The market was willing to pay high multiples for a business that combined organic growth, margin expansion, recurrence and a relatively low perception of risk.

But the story changed. In 2025 reported growth slowed to 2%, although organic operational growth was 6%. And in the first quarter of 2026 a more uncomfortable signal appeared: the US companion animal business fell 11%, hit by weaker demand, more competition, price sensitivity, generics and lower Librela sales. Meanwhile, the international business and livestock held up much better.

During the rest of the year the situation got worse. In August the company sharply cut its outlook and today expects 2026 sales to fall between 1% and 2% organically, when at the start of the year it expected growth of 2% to 5%. The stock, which closed 2024 at USD 163, now trades around USD 80.

That changes the analysis. Is the current slowdown something temporary, or are we facing a structurally more competitive stage for its most important franchises?

History

The history of Zoetis begins inside Pfizer. In 1950, the drugmaker's researchers discovered Terramycin, an antibiotic that marked the group's entry into animal health. Over the following decades, Pfizer Animal Health built a global platform of medicines, vaccines and biological products for companion and production animals.

In 2013, Pfizer separated the business through an initial public offering. Zoetis began trading as an independent company focused exclusively on animal health. The separation made it possible to allocate capital, research and commercial management to an industry with very different dynamics from human pharma.

Since then, the company has broadened its scope. To traditional medicines and vaccines it added diagnostics, genetics, devices, digital solutions and, above all, biological products based on monoclonal antibodies. Zoetis stopped being just a maker of veterinary drugs and became an animal care platform that seeks to predict, prevent, detect and treat disease.

SECTION 02

Business model

Zoetis discovers, develops, manufactures and sells medicines, vaccines, diagnostics, biodevices, genetic tests and precision tools. It sells about 300 product lines in more than 100 countries and works across eight main species: dogs, cats, horses, cattle, pigs, poultry, fish and sheep.

The company organizes its operations into **two geographic segments: the United States and International**. However, to understand the business it is more useful to split it by type of animal: companion animal and livestock.

Mix 2025	Ingresos (USD M)	% del total
Animales de compañía	6.587	≈70%
Livestock	2.764	≈29%
Contract manufacturing y human health	116	≈1%
Total	**9.467**	**100%**

The **companion animal** business has higher growth, better margins, more innovation and a more direct relationship with consumer spending. The **livestock** business is less profitable, but provides diversification, geographic stability and exposure to the need to produce animal protein efficiently, safely and sustainably.

Companion animals

This division includes medicines for dermatology, parasiticides, vaccines, pain treatments, anti-infectives, sedation, diagnostics and other specialties. Its direct customers are usually veterinarians and distributors; the end user is the pet owner.

Demand is supported by an emotional relationship that has grown stronger and stronger. Pets live longer, receive more diagnoses, access more sophisticated treatments and, in more and more households, are considered part of the family. This does not make spending completely immune to the economic cycle, but it does increase willingness to pay for products that improve quality of life.

The veterinary channel also acts as a competitive barrier. Professionals do not choose only on price: they need efficacy, safety, ease of administration, trust in the manufacturer and technical support. When a product shows good clinical results, it can create habits that are hard to change.

Livestock

Livestock includes products for cattle, pigs, poultry, fish and sheep. The value proposition is different: the customer evaluates economic return, productivity, mortality, feed conversion, disease prevention and food chain safety.

This business is usually more exposed to commodity prices, livestock cycles, disease outbreaks, regulatory decisions and pressure to reduce antibiotics. In exchange, it has essential demand. The world population needs protein and producers seek to produce more with fewer resources. Vaccines, diagnostics, genetics and precision monitoring are increasingly important tools to achieve that.

Main franchises

Zoetis does not depend on a single product, but there is relevant concentration. In 2025, Simparica and Simparica Trio represented about 16% of sales, while Apoquel and Apoquel Chewable contributed about 12%. Together with Cytopoint, Librela and the ceftiofur line, **the five most important products represent about 42% of revenue. The top ten reached 57%**.

Simparica and Simparica Trio: an oral parasiticide for dogs. It grew to become Zoetis's main product, but it also attracted competition. In 2026 the company acknowledged competitive pressure and greater price sensitivity in the US.

Apoquel, Apoquel Chewable and Cytopoint: Apoquel treats itching associated with allergic and atopic dermatitis with an oral molecule. Cytopoint uses an injectable monoclonal antibody that neutralizes a specific pathway linked to itching. The company estimates that the global canine dermatology market can keep growing over the next decade, driven by diagnosis, penetration and new therapies. The problem is that success invites competition. The first quarter of 2026 confirmed that the dermatology franchises face more intense pressure in the US.

Librela and Solensia: monthly monoclonal antibodies to relieve pain associated with osteoarthritis. They are an important innovation because they target nerve growth factor and offer an alternative to traditional treatments, especially in older animals or those that cannot take certain drugs.

Diagnostics, genetics and precision

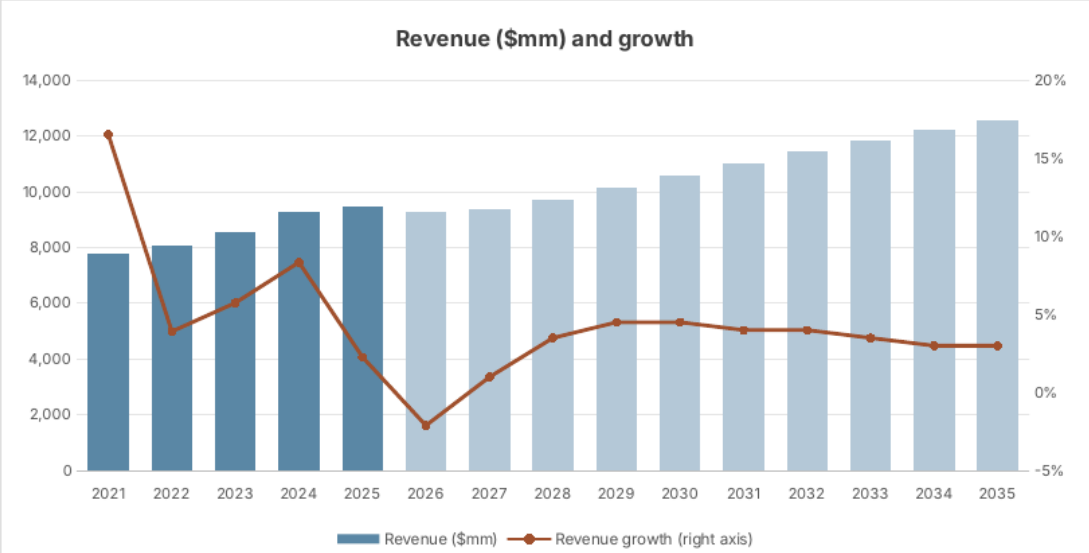
Zoetis also participates in companion animal diagnostics, veterinary laboratories, genetics and precision tools for livestock. These businesses are small compared with medicines, but strategically they have value because they broaden the customer relationship and generate data.

The long-term vision is to build a care ecosystem: predict, prevent, detect and treat. The more points of the process Zoetis covers, the harder it is to replace it with a stand-alone supplier.

SECTION 03

Business quality

Revenue



Source: author's analysis based on Tikr data.

Sales grew 5.7% in 2023, 8.3% in 2024 and 2.3% in 2025. The reported 2025 figure partly understates underlying performance: organic operational growth was 6%, while divestitures, currency and order timing affected the comparison.

The mix improved. Companion animal rose from 65% of sales in 2023 to about 70% in 2025. This is usually positive for margins, but it also increases dependence on US consumers and on a few premium franchises.

PERFORMANCE BY GEOGRAPHY

Zoetis divides its operations into the United States and International. The US concentrates the premium companion animal franchises and has very high margins. International offers more diversification, more exposure to livestock and, in many markets, still lower penetration of advanced treatments.

USD M	2023	2024	2025	Variación 2025
Estados Unidos	4.555	5.074	5.097	≈0%
Internacional	3.911	4.102	4.254	3,7%
Otros	78	80	116	45%

The US was practically flat in 2025. Growth in companion animal, driven by Simparica Trio, dermatology and diagnostics, was offset by the fall in livestock after the MFA divestiture and by lower Librela sales. International grew 4% reported and 5% operationally, supported by companion animal and a broader recovery in livestock.

The divergence widened in the first quarter of 2026. The US fell 8%, while International rose 17% reported and 9% operationally. In terms of the thesis, this has two readings. The negative one is that the most profitable market faces pressure. The positive one is that Zoetis has a global platform able to cushion the impact.

I would not assume that international growth will offset a structural weakness in the US indefinitely. But I would not analyze the US decline as if it represented the whole company either. The regional mix reduces volatility and creates multiple paths to recovery.

THE FIRST QUARTER OF 2026: WHAT CHANGED

The first quarter was weak: consolidated revenue grew 3% reported, helped by a favorable currency effect, but fell 1% operationally and was flat on an organic operational basis. The weakness was concentrated in US companion animal.

The company mentioned four factors: softer end demand, a more intense competitive environment, macroeconomic price sensitivity and generic pressure on Convenia and Cerenia. Librela also fell again. These factors should not be grouped as a single problem because they have different durations.

- Price sensitivity may improve if the economic environment and vet visits normalize.
- Competition in dermatology and parasiticides is probably structural and requires a sustained commercial response.
- Generic erosion is permanent for the affected products, although it is part of the normal portfolio cycle.
- Librela's evolution will depend on clinical evidence, veterinarian confidence and regulatory communication.

Latest results: third quarter of 2026

In early November Zoetis reported third-quarter results:

- **Sales:** USD 2.4 billion, down 1% both reported and organically.
- **United States:** fell 6%. Companion animal fell 8% because of price sensitivity, competition in dermatology and generics, while livestock grew 5%.
- **International:** grew 4%. Companion animal was flat organically and livestock grew 9%, driven by cattle and fish.

- **Dermatology:** sales of Apoquel and Cytopoint fell 16% globally, to USD 396 million. In the US they fell 13%, although the market share loss moderated to about 4 points, versus about 7 points in the second quarter. In Europe the pressure from new competitors is greater. The company expects approval of a long-acting version of Cytopoint in the fourth quarter and its launch in the first half of 2027.
- **Pain:** US sales of Librela and Solensia fell 12%, to USD 51 million, because of fewer visits and doubts about Librela's safety.
- **Simparica:** the franchise grew 1%, with Simparica Trio +4% globally and a 22.5% share in the US. It also received an emergency authorization to treat New World screwworm in dogs.
- **Profitability:** adjusted EPS was USD 1.75 (+3%), helped by buybacks. Reported EPS fell 12%, to USD 1.44, because of the costs of a comprehensive cost and productivity program and asset impairments of USD 89 million.

The figure that best explains the problem is **vet visits** in the US: they fell 3% so far this year and canine visits 5% in the quarter. According to the company, the cost of veterinary services has risen 50% since 2022, and that is starting to hold back pet owners' spending.

The company adjusted its 2026 guidance: sales of USD 9.22-9.32 billion, an organic decline of 1% to 2%, and adjusted EPS of USD 6.25-6.35. Savings from the cost program will start to show in 2027 and will be larger in 2028 and 2029. For 2027 the company does not assume an improvement in consumption and expects competitive pressure to continue for much of the year. In the first nine months it returned USD 2.4 billion to shareholders through dividends and buybacks.

Vertical analysis

INCOME STATEMENT

Fiscal year Income Statement — % of revenue	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(33.7%)	(33.2%)	(32.7%)	(30.6%)	(30.5%)	(29.5%)	(30.3%)	(30.0%)	(29.4%)	(28.1%)	**(29.1%)**	**(29.4%)**
Gross Profit	**66.3%**	**66.8%**	**67.3%**	**69.4%**	**69.5%**	**70.5%**	**69.7%**	**70.0%**	**70.6%**	**71.9%**	**70.9%**	**70.6%**
Selling General & Admin Expenses	(26.9%)	(25.0%)	(25.4%)	(26.1%)	(25.7%)	(25.7%)	(24.9%)	(25.2%)	(25.0%)	(24.9%)	**(25.0%)**	**(25.1%)**
R&D Expenses	(7.7%)	(7.2%)	(7.4%)	(7.3%)	(6.9%)	(6.5%)	(6.7%)	(7.2%)	(7.4%)	(7.4%)	**(7.3%)**	**(7.0%)**
Total Operating Expenses	**(36.4%)**	**(33.9%)**	**(34.9%)**	**(35.9%)**	**(35.0%)**	**(34.3%)**	**(33.4%)**	**(34.1%)**	**(33.9%)**	**(33.6%)**	**(33.9%)**	**(33.9%)**
Operating Income	**30.0%**	**32.9%**	**32.5%**	**33.5%**	**34.5%**	**36.1%**	**36.3%**	**35.9%**	**36.7%**	**38.3%**	**37.0%**	**36.7%**
Interest Expense	(3.4%)	(3.3%)	(3.5%)	(3.6%)	(3.5%)	(2.9%)	(2.7%)	(2.8%)	(2.4%)	(2.3%)	**(2.5%)**	**(2.6%)**
EBT Incl. Unusual Items	**25.1%**	**28.7%**	**29.0%**	**28.8%**	**29.9%**	**32.0%**	**32.9%**	**34.4%**	**33.8%**	**35.5%**	**34.6%**	**33.7%**
Income Tax Expense	(8.4%)	(12.5%)	(4.6%)	(4.8%)	(5.4%)	(5.8%)	(6.7%)	(7.0%)	(6.9%)	(7.3%)	**(7.0%)**	**(6.7%)**
Net Income	**16.8%**	**16.3%**	**24.5%**	**24.0%**	**24.5%**	**26.2%**	**26.2%**	**27.4%**	**26.9%**	**28.2%**	**27.5%**	**27.0%**
EBITDA	34.7%	37.1%	37.4%	39.6%	40.4%	41.2%	41.2%	40.8%	41.4%	42.9%	**41.7%**	**41.5%**

Source: author's analysis based on Tikr data.

Historically, Zoetis has shown extraordinarily consistent profitability. Gross margin went from **66.3% in 2016 to 71.9% in 2025**, reflecting a business with strong differentiation, high pricing power and a mix increasingly oriented toward innovative companion animal products.

Selling, general and administrative expenses stayed relatively stable at around **25% of sales**, while R&D investment ranged between **6.5% and 7.7%**, a high level that makes sense for a company whose growth depends largely on innovation and the continuous launch of new therapies. As a result, GAAP operating margin improved steadily from **30.0% in 2016 to 38.3% in 2025**, placing Zoetis among the most profitable companies in the whole pharmaceutical industry. In the first quarter of 2026,

adjusted operating margin was about 37.8%, versus 38.7% a year earlier. The compression was relatively moderate at the consolidated level: adjusted gross margin stayed practically stable, but SG&A and especially R&D grew faster than revenue. The weakness was much more visible in the US segment, where earnings fell 11% because of the contraction in companion animal and the associated negative operating leverage.

BALANCE SHEET

Fiscal year Balance Sheet — % of total assets	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Total Cash And Short Term Investments	**9.7%**	**18.2%**	**15.8%**	**16.8%**	**26.5%**	**25.1%**	**24.0%**	**14.3%**	**14.0%**	**14.9%**	**14.4%**	**18.5%**
Total Receivables	**11.9%**	**11.6%**	**9.6%**	**9.4%**	**7.4%**	**8.2%**	**8.1%**	**9.1%**	**9.2%**	**10.3%**	**9.6%**	**9.0%**
Inventory	19.6%	16.6%	12.9%	12.2%	12.0%	13.8%	15.7%	17.9%	16.2%	15.7%	**16.6%**	**15.9%**
Total Current Assets	**44.3%**	**49.1%**	**40.8%**	**41.1%**	**48.6%**	**49.9%**	**50.3%**	**44.4%**	**42.0%**	**43.8%**	**43.4%**	**46.1%**
Net Property Plant And Equipment	18.1%	16.7%	15.4%	18.4%	17.6%	18.7%	19.9%	24.1%	25.4%	25.7%	**25.1%**	**22.8%**
Long-term Investments	–	–	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	–	**0.1%**	**0.1%**
Goodwill	19.4%	17.6%	23.4%	22.5%	19.8%	19.3%	18.4%	19.3%	19.1%	17.9%	**18.8%**	**18.8%**
Other Intangibles	16.1%	14.8%	19.0%	16.4%	12.6%	10.6%	9.2%	9.4%	7.9%	6.5%	**7.9%**	**8.7%**
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Current Liabilities	**14.6%**	**12.7%**	**11.3%**	**15.6%**	**15.9%**	**12.9%**	**21.2%**	**13.2%**	**24.0%**	**14.5%**	**17.2%**	**17.2%**
Long-Term Debt	58.4%	57.7%	59.8%	51.5%	48.6%	47.5%	44.1%	46.1%	36.8%	58.6%	**47.2%**	**46.6%**
Capital Leases	–	–	–	1.4%	1.2%	1.1%	1.2%	1.4%	1.3%	1.3%	**1.3%**	**1.3%**
Total Liabilities	**80.4%**	**79.2%**	**79.7%**	**76.5%**	**72.3%**	**67.3%**	**70.5%**	**65.1%**	**66.5%**	**78.5%**	**70.0%**	**69.6%**
Total Equity	**19.6%**	**20.8%**	**20.3%**	**23.5%**	**27.7%**	**32.7%**	**29.5%**	**34.9%**	**33.5%**	**21.5%**	**30.0%**	**30.4%**
Total Debt	**58.4%**	**57.7%**	**59.9%**	**57.6%**	**54.7%**	**48.8%**	**54.7%**	**47.9%**	**48.0%**	**60.2%**	**52.0%**	**51.9%**
Net Debt	48.7%	39.5%	44.1%	40.8%	28.2%	23.8%	30.7%	33.6%	34.0%	45.3%	**37.6%**	**33.5%**

Source: author's analysis based on Tikr data.

The balance sheet reflects a business intensive in intangible assets, something to be expected given the weight of acquisitions, patents and intellectual property in the pharmaceutical sector.

In recent years there has been a gradual increase in **Property, Plant & Equipment**, which went from about **18% of assets in 2016 to 25.7% in 2025**, reflecting the expansion of production capacity to meet expected demand growth.

The relative weight of goodwill and intangibles fell gradually, as a result of the amortization of identifiable assets, certain portfolio moves and the growth of the rest of the assets. There are no impairments that materially change the reading of the balance sheet.

On the liability side, Zoetis maintains a perfectly manageable level of debt. Although during 2025 it issued new debt to fund share buybacks, the company continues to generate enough operating cash flow to maintain a solid financial structure.

CASH FLOW

Fiscal year Cash Flow — % of revenue	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Net Income	**16.8%**	**16.3%**	**24.5%**	**24.0%**	**24.5%**	**26.2%**	**26.2%**	**27.4%**	**26.9%**	**28.2%**	**27.5%**	**27.0%**
Total Depreciation & Amortization	**4.8%**	**4.1%**	**4.9%**	**6.2%**	**5.9%**	**5.1%**	**4.9%**	**4.9%**	**4.7%**	**4.7%**	**4.7%**	**4.8%**
Stock-Based Compensation	0.8%	0.8%	0.9%	1.1%	0.9%	0.7%	0.8%	0.7%	0.8%	0.9%	**0.8%**	**0.8%**
Cash from Operations	**14.6%**	**25.4%**	**30.7%**	**28.7%**	**31.9%**	**28.5%**	**23.7%**	**27.5%**	**31.9%**	**30.7%**	**30.0%**	**28.4%**
Capital Expenditure	(4.4%)	(4.2%)	(5.8%)	(7.3%)	(6.8%)	(6.1%)	(7.3%)	(8.6%)	(7.1%)	(6.6%)	**(7.4%)**	**(7.1%)**
Cash Acquisitions	(1.8%)	(1.5%)	(34.3%)	(3.1%)	(1.7%)	(0.2%)	(3.9%)	(1.8%)	(0.1%)	(0.3%)	**(0.7%)**	**(1.2%)**
Cash from Investing	**(4.4%)**	**(5.1%)**	**(38.8%)**	**(8.1%)**	**(8.6%)**	**(5.9%)**	**(10.9%)**	**(9.1%)**	**(3.4%)**	**(7.9%)**	**(6.8%)**	**(7.4%)**
Total Debt Issued	**–**	**23.2%**	**25.8%**	**–**	**18.6%**	**–**	**16.7%**	**0.0%**	**–**	**40.6%**	**13.6%**	**11.5%**
Total Debt Repaid	**(8.3%)**	**(14.1%)**	**–**	**(0.1%)**	**(7.5%)**	**(7.8%)**	**–**	**(15.8%)**	**(0.0%)**	**(16.2%)**	**(10.7%)**	**(8.0%)**
Repurchase of Common Stock	(6.1%)	(9.4%)	(12.0%)	(10.0%)	(3.7%)	(10.0%)	(20.2%)	(12.8%)	(20.2%)	(34.3%)	**(22.4%)**	**(19.5%)**
Common Dividends Paid	(3.8%)	(3.9%)	(4.2%)	(5.0%)	(5.7%)	(6.1%)	(7.6%)	(8.1%)	(8.5%)	(9.4%)	**(8.7%)**	**(7.9%)**
Cash from Financing	**(18.5%)**	**(4.7%)**	**9.2%**	**(15.2%)**	**1.8%**	**(23.9%)**	**(11.2%)**	**(36.4%)**	**(28.7%)**	**(19.8%)**	**(28.3%)**	**(24.0%)**
Free Cash Flow	10.2%	21.1%	24.9%	21.3%	25.1%	22.3%	16.4%	19.0%	24.8%	24.1%	**22.6%**	**21.3%**

Source: author's analysis based on Tikr data.

One of Zoetis's greatest attractions is its enormous ability to turn accounting profit into cash.

Operating cash flow has historically represented between **24% and 32% of sales**, very high levels even by pharmaceutical industry standards.

The main cash outflows are investments in production capacity and the share buyback program. The latter has gained relevance in recent years and explains much of the recent increase in leverage.

Even considering these investments, Zoetis maintains a **Free Cash Flow Margin close to 24%**, showing an exceptional ability to generate cash on a recurring basis.

Financial ratios

- **Growth**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Growth												
Revenue growth		8.6%	9.8%	7.5%	6.6%	16.5%	3.9%	5.7%	8.3%	2.3%	**5.5%**	**7.4%**
EBIT growth		19.4%	8.2%	10.9%	9.7%	22.2%	4.4%	4.6%	10.7%	6.6%	**7.3%**	**9.7%**
Diluted EPS growth		6.1%	67.4%	6.1%	10.0%	24.9%	5.2%	12.9%	7.9%	10.1%	**10.3%**	**12.2%**
Change in diluted shares (dilution / buybacks)		(1.0%)	(1.2%)	(1.0%)	(0.6%)	(0.4%)	(1.5%)	(1.7%)	(1.5%)	(2.4%)	**(1.9%)**	**(1.5%)**

Source: author's analysis based on Tikr data.

Sales grew 2.3% in 2025 (6% on an organic operational basis) and EBIT 6.6%. The share count fell 2.4% thanks to buybacks.

- **Profitability**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Profitability												
Gross margin	66.3%	66.8%	67.3%	69.4%	69.5%	70.5%	69.7%	70.0%	70.6%	71.9%	**70.9%**	**70.6%**
SG&A % revenue	26.9%	25.0%	25.4%	26.1%	25.7%	25.7%	24.9%	25.2%	25.0%	24.9%	**25.0%**	**25.1%**
R&D % revenue	7.7%	7.2%	7.4%	7.3%	6.9%	6.5%	6.7%	7.2%	7.4%	7.4%	**7.3%**	**7.0%**
EBIT margin	30.0%	32.9%	32.5%	33.5%	34.5%	36.1%	36.3%	35.9%	36.7%	38.3%	**37.0%**	**36.7%**
EBITDA margin (EBIT + D&A)	34.7%	37.1%	37.4%	39.6%	40.4%	41.2%	41.2%	40.8%	41.4%	42.9%	**41.7%**	**41.5%**
Net margin	16.8%	16.3%	24.5%	24.0%	24.5%	26.2%	26.2%	27.4%	26.9%	28.2%	**27.5%**	**27.0%**
Stock-based compensation % revenue	0.8%	0.8%	0.9%	1.1%	0.9%	0.7%	0.8%	0.7%	0.8%	0.9%	**0.8%**	**0.8%**
Effective tax rate	33.3%	43.5%	15.7%	16.7%	18.0%	18.2%	20.5%	20.3%	20.3%	20.4%	**20.4%**	**20.0%**

Source: author's analysis based on Tikr data.

Gross margin rose from 66.3% in 2016 to 71.9% in 2025 and EBIT margin from 30% to 38.3%. EBITDA margin was 42.9% and net margin 28.2%. These are among the highest margins in the whole pharmaceutical industry.

- **Cash flow and reinvestment**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Cash flow & reinvestment												
Cash from operations % revenue	14.6%	25.4%	30.7%	28.7%	31.9%	28.5%	23.7%	27.5%	31.9%	30.7%	**30.0%**	**28.4%**
FCF margin (TIKR FCF / revenue)	10.2%	21.1%	24.9%	21.3%	25.1%	22.3%	16.4%	19.0%	24.8%	24.1%	**22.6%**	**21.3%**
FCF conversion (FCF / net income)	60.5%	129.9%	101.7%	89.0%	102.1%	85.2%	62.7%	69.2%	92.4%	85.4%	**82.3%**	**79.0%**
Capex % revenue	4.4%	4.2%	5.8%	7.3%	6.8%	6.1%	7.3%	8.6%	7.1%	6.6%	**7.4%**	**7.1%**
D&A % revenue	4.8%	4.1%	4.9%	6.2%	5.9%	5.1%	4.9%	4.9%	4.7%	4.7%	**4.7%**	**4.8%**
Capex / D&A	0.9x	1.0x	1.2x	1.2x	1.1x	1.2x	1.5x	1.8x	1.5x	1.4x	**1.6x**	**1.5x**
D&A % beginning net PP&E		15.9%	19.9%	23.2%	18.6%	16.5%	15.2%	14.0%	12.7%	12.2%	**12.9%**	**14.1%**
Acquisitions % revenue	1.8%	1.5%	34.3%	3.1%	1.7%	0.2%	3.9%	1.8%	0.1%	0.3%	**0.7%**	**1.2%**

Source: author's analysis based on Tikr data.

Operating cash flow was 30.7% of sales and free cash flow 24.1%. CapEx was 6.6% of sales, 1.4 times depreciation, because of the expansion of production capacity.

- **Working capital**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Working capital												
Receivables days (DSO)	68.2	68.6	64.9	63.3	55.4	53.2	54.9	55.7	51.9	61.3	**56.3**	**55.4**
Inventory days (DIO)	332.9	295.8	266.8	268.7	291.6	305.8	349.9	365.6	309.7	333.3	**336.2**	**332.9**
Payables days (DPO)	58.7	54.1	60.0	57.4	81.8	69.3	60.4	58.6	58.1	66.8	**61.2**	**62.7**
Cash conversion cycle (DSO + DIO − DPO)	342.3	310.3	271.7	274.7	265.1	289.7	344.4	362.7	303.4	327.8	**331.3**	**325.6**
Deferred revenue % revenue	–	–	–	0.1%	–	–	0.1%	0.0%	0.1%	–	**0.1%**	**0.0%**
Operating NWC % revenue	32.7%	30.5%	26.0%	25.2%	23.2%	22.2%	28.6%	30.1%	22.5%	25.6%	**26.1%**	**25.8%**

Source: author's analysis based on Tikr data.

Zoetis collects in 61 days and pays in 67, but holds about 330 days of inventory. That is why operating working capital equals 25.6% of sales. It is common in the pharmaceutical sector, which needs safety stock and must meet strict regulatory standards.

- **Returns on capital**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Returns on capital												
NOPAT = EBIT × (1 − normalized tax rate)	1,171	1,398	1,513	1,678	1,841	2,249	2,349	2,456	2,719	2,900	**2,692**	**2,535**
Invested capital = debt + equity − cash & ST inv.	5,223	5,175	6,933	7,422	7,607	7,848	8,987	9,788	9,612	10,332	**9,911**	**9,313**
ROIC = NOPAT / average invested capital		26.9%	25.0%	23.4%	24.5%	29.1%	27.9%	26.2%	28.0%	29.1%	**27.8%**	**28.1%**
ROIC incl. cash = NOPAT / average (debt + equity)		22.0%	19.7%	18.6%	17.9%	19.9%	19.7%	20.1%	23.2%	23.9%	**22.4%**	**21.4%**
Pre-tax ROIC = EBIT / average invested capital (reference)		33.6%	31.2%	29.2%	30.6%	36.4%	34.9%	32.7%	35.0%	36.4%	**34.7%**	**35.1%**
ROE = net income / average equity		52.6%	71.9%	61.3%	50.5%	49.0%	47.3%	49.9%	50.9%	66.0%	**55.6%**	**52.6%**
ROA = net income / average total assets		10.6%	14.7%	13.4%	13.0%	14.8%	14.7%	16.0%	17.4%	18.0%	**17.2%**	**16.2%**

Source: author's analysis based on Tikr data.

ROIC was 29% in 2025 and has stayed between 23% and 29% throughout the decade. The 66% ROE is boosted by buybacks and ROA was 18%.

- **Leverage and liquidity**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Leverage & liquidity												
Net debt (debt − cash & ST inv.)	3,724	3,389	4,748	4,714	3,834	3,304	4,584	4,797	4,842	7,001	**5,547**	**4,906**
Net debt / EBITDA	2.2x	1.7x	2.2x	1.9x	1.4x	1.0x	1.4x	1.4x	1.3x	1.7x	**1.5x**	**1.4x**
Interest coverage (EBIT / interest expense)	8.8x	10.0x	9.2x	9.4x	10.0x	12.5x	13.3x	12.8x	15.1x	16.3x	**14.8x**	**14.0x**
Debt / (debt + equity), book	74.9%	73.5%	74.7%	71.1%	66.4%	59.9%	65.0%	57.8%	58.9%	73.7%	**63.4%**	**63.0%**
Current ratio	3.03	3.85	3.60	2.63	3.05	3.86	2.37	3.36	1.75	3.03	**2.71**	**2.87**

Source: author's analysis based on Tikr data.

Net debt rose to USD 7,001 million at the end of 2025 (1.7 times EBITDA) because the company issued debt to buy back stock. Interest coverage is 16 times and the current ratio 3 times. The level of debt is manageable.

- **Shareholder returns and valuation**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Shareholder returns & market valuation (TIKR, at fiscal year end)												
Dividends + buybacks % FCF	98.2%	62.9%	64.8%	70.4%	37.7%	72.1%	169.2%	110.1%	115.4%	181.1%	**135.5%**	**129.6%**
EV / EBITDA	17.8x	19.8x	21.2x	27.3x	30.8x	37.1x	21.8x	27.4x	20.5x	14.9x	**20.9x**	**24.3x**
EV / revenue	6.2x	7.3x	7.9x	10.8x	12.4x	15.3x	9.0x	11.2x	8.5x	6.4x	**8.7x**	**10.1x**
P/E	32.2x	40.6x	28.8x	42.0x	48.0x	56.7x	32.3x	38.7x	29.6x	20.7x	**29.7x**	**35.6x**
FCF yield (FCF / market cap)	1.9%	3.2%	3.5%	2.1%	2.1%	1.5%	1.9%	1.8%	3.1%	4.1%	**3.0%**	**2.5%**

Source: author's analysis based on Tikr data.

In 2025 Zoetis returned 181% of its free cash flow through dividends and buybacks, funding the difference with debt. At the end of 2025 it traded at 15 times EBITDA and 21 times earnings, far below the 25-35 times EBITDA of previous years.

SECTION 04

Management and capital allocation

Management team

Zoetis is led by **Kristin Peck**, CEO since early 2020 and part of the company practically since its separation from Pfizer.

Before taking over as chief executive she held various strategic roles in operations, corporate strategy and business development, which allowed her to know practically every area of the business in depth.

Since she became CEO, the company has executed very consistently. Beyond the difficulties of the macroeconomic environment, Zoetis managed to keep expanding margins, launch successful new products and strengthen its leadership in both companion animals and livestock.

In my opinion, one of management's biggest successes was prioritizing innovation over acquisitions. Instead of pursuing large corporate deals, the company kept strengthening its portfolio through its own research and small acquisitions, generally focused on complementing technological capabilities or expanding its pipeline.

Capital allocation

I believe Zoetis allocated capital in a very disciplined way over the last decade.

The priority is still to invest in research and development, where it spends about **7% of sales** on a recurring basis. This sustains a solid pipeline and maintains leadership in multiple therapeutic categories.

Second, the company keeps investing in production capacity. The steady increase in PP&E in recent years reflects precisely that expansion strategy to support the expected growth of the business.

Finally, surplus cash is returned to shareholders through growing dividends and, above all, share buybacks. These buybacks were particularly aggressive in recent years, contributing significantly to earnings per share growth, although they also meant a moderate increase in leverage.

Overall, Zoetis's capital allocation was disciplined for much of the last decade, especially in R&D, innovation and production expansion. However, the 2025 buybacks deserve a more critical assessment: the company spent more than USD 3.2 billion buying back stock and funded a relevant part with new debt, shortly before the business went through a slowdown and the stock fell sharply. This does not currently compromise solvency, but it does reduce financial flexibility and shows that even quality management can allocate capital at prices that later turn out to be unattractive.

In 2026 the company kept buying back stock at a high pace: it returned USD 2.4 billion in the first nine months. At least it is now doing so at much lower prices than in 2025, which makes those buybacks more reasonable.

SECTION 05

Competitive position

Industry

Estimates of the size of the global animal health market vary significantly depending on the categories included. Some sources include medicines, vaccines, diagnostics, services and other solutions, so there is no single perfectly comparable figure. **Zoetis estimates the market could approach USD 90 billion by 2035**, supported by rising spending on pets, improving standards of care and growing global demand for animal protein. The company defines itself as the global leader and holds leading positions in practically every major region.

The main structural tailwinds of the sector are:

- **Humanization of pets**, with owners spending more and more on prevention, diagnosis and chronic treatments.
- **Greater penetration of pet insurance**, which reduces price sensitivity at the vet's office (in the long term).
- **Population and income growth in emerging markets**, which drives demand for animal protein and, with it, the need for vaccines and anti-infectives for livestock.
- **Animal health risk** (disease outbreaks such as New World screwworm, avian flu or African swine fever), which paradoxically can act as a one-off demand catalyst: in June 2026, the confirmation of a screwworm case in Texas boosted Zoetis and Elanco shares on expectations of higher demand for treatments.

The business itself, however, shows in 2026 that it is not immune to the consumer cycle: when household discretionary spending adjusts, the frequency of vet visits and spending on dermatology or pain control (more "optional" categories than a mandatory vaccine) are among the first to feel it.

Main competitors

No single competitor replicates Zoetis's scale and diversification across species and categories. So the analysis is best done by segment.

Livestock and vaccines: The largest rivals are **Merck Animal Health** (a division of Merck & Co.) and **Boehringer Ingelheim Animal Health** (private, ~USD 6-7 billion of revenue), both with a strong presence in vaccines and biologicals for cattle and poultry. They are competitors of comparable scale in this specific category, although neither has Zoetis's combined exposure to companion animals.

Companion animal and dermatology: The most relevant competitor today is **Elanco Animal Health** (NYSE: ELAN), another pharmaceutical spin-off (from Eli Lilly). In 2024-2025 Elanco launched two products that compete directly with Zoetis's largest franchises: Zenrelia (an oral JAK inhibitor, an

alternative to Apoquel for canine allergic dermatitis, with a lower monthly price) and Credelio Quattro (a combination parasiticide). In studies Zenrelia showed efficacy at least comparable to Apoquel. This competition is one of the explicit reasons Zoetis itself cited when cutting guidance in 2026.

Elanco, however, is not a competitor on Zoetis's level financially: it has less than half the revenue (~USD 4.7 billion in 2025), an adjusted EBITDA margin of just 19.2% (vs. Zoetis's ~43%) and net leverage of 3.8x-4.1x EBITDA, a result of the debt taken on in its spin-off and past acquisitions (Bayer Animal Health). It is a more commercially aggressive company because it has more to gain, but it is structurally weaker.

Diagnostics: In veterinary diagnostics, the benchmark player is **IDEXX Laboratories** (NASDAQ: IDXX), not Zoetis. IDEXX is a smaller company by revenue (~USD 4.3 billion in 2025) but of exceptional quality: it grew 10% in 2025, with an operating margin of 31.6%-31.8% and ROIC of ~34%, well above its cost of capital. Zoetis competes in this category, but is a secondary player compared with IDEXX's leadership in lab equipment, consumables and clinic software.

SWOT analysis

Fortalezas	Debilidades
Liderazgo global y marcas veterinarias de confianza	Concentración creciente en companion animal y productos clave
Márgenes y retorno sobre capital superiores	Dependencia de distribuidores y canal veterinario
R&D, manufacturing y alcance regulatorio global	Deuda neta relevante y capital de trabajo intensivo
Portafolio amplio y diversificación por especies	Desaceleración reciente en Estados Unidos

Oportunidades	Amenazas
Mayor gasto por mascota y envejecimiento animal	Nuevos competidores en dermatología y parasiticidas
Anticuerpos monoclonales y nuevas especialidades	Farmacovigilancia y reputación de Librela
Diagnóstico, genética y precisión animal	Genéricos y pérdida de exclusividad
Crecimiento internacional y penetración de livestock	Sensibilidad a precios, canal online y consolidación de clientes

Source: author's analysis.

Porter's five forces

Rivalry among competitors: medium-high

The industry is concentrated in a few global players, but each category has intense competition. The success of the premium franchises attracts investment and launches. Rivalry has increased especially in US companion animal.

Threat of new entrants: low-medium

Discovering a candidate may be possible for a small biotech, but registering, manufacturing and selling it globally requires capital, experience and commercial access. Many new entrants end up partnering with or selling to established companies.

Supplier power: low-medium

Zoetis has scale to negotiate, although certain ingredients, diagnostic components and biological processes may depend on specialized suppliers. Manufacturing complexity increases the importance of quality and continuity.

Customer power: medium and rising

Veterinarians are fragmented, but distributors, clinic chains, retailers and e-commerce are gaining scale. The largest distributor represents 16% of sales. Customer power increases when there are comparable alternatives or when the end consumer is more price sensitive.

Threat of substitutes: medium

There are therapeutic substitutes, generics and, in some cases, human products used off-label. However, safety, veterinary indication and convenience reduce substitution for differentiated products.

SECTION 06

The bulls vs. the bears

What do the bulls say?

The first argument is the **quality of the business**: 72% gross margin, 38% EBIT margin, ROIC close to 30% and free cash flow of 24% of sales. These are the numbers of one of the best companies in its industry.

The second is **leadership and diversification**: Zoetis is the largest animal health player in the world, with almost 300 product lines, eight species and more than 100 countries. Livestock and International keep growing and cushion the fall in the US.

The third is **valuation**: at about 11 times expected 2026 EBITDA, the stock trades far below its five-year average. The market seems to be valuing Zoetis as if the current weakness were permanent.

What do the bears say?

The first argument is **competition**: Elanco and other competitors are already taking share in dermatology, the most profitable franchise. That pressure is not temporary.

The second is the **consumer**: vet visits are falling because the service has become much more expensive, and dermatology or pain treatments are among the first to be cut.

The third is **Librela**: the main launch of recent years keeps falling because of doubts about its safety, and new pipeline products will contribute little until 2028.

SECTION 07

Valuation

I built a ten-year **discounted cash flow (DCF)** model with two methods for the terminal value: **perpetuity growth** and an **exit multiple on EBITDA**. The target price is the average of both in the base case.

Model inputs and assumptions

2. Operating drivers by scenario (explicit forecast)

Driver	Δ vs Base	FY2023A	FY2024A	FY2025A	3Y avg	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Forecast year #						*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Revenue growth ▸ selected scenario		5.7%	8.3%	2.3%	**5.4%**	**(2.1%)**	**1.0%**	**3.5%**	**4.5%**	**4.5%**	**4.0%**	**4.0%**	**3.5%**	**3.0%**	**3.0%**
Best case	2.0%					(0.1%)	3.0%	5.5%	6.5%	6.5%	6.0%	6.0%	5.5%	5.0%	5.0%
Base case						(2.1%)	1.0%	3.5%	4.5%	4.5%	4.0%	4.0%	3.5%	3.0%	3.0%
Worst case	(2.5%)					(4.6%)	(1.5%)	1.0%	2.0%	2.0%	1.5%	1.5%	1.0%	0.5%	0.5%
Gross margin ▸ selected scenario		70.0%	70.6%	71.9%	**70.9%**	**71.0%**	**71.2%**	**71.5%**	**71.8%**	**72.0%**	**72.0%**	**72.0%**	**72.0%**	**72.0%**	**72.0%**
Best case	0.5%					71.5%	71.7%	72.0%	72.3%	72.5%	72.5%	72.5%	72.5%	72.5%	72.5%
Base case						71.0%	71.2%	71.5%	71.8%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Worst case	(1.0%)					70.0%	70.2%	70.5%	70.8%	71.0%	71.0%	71.0%	71.0%	71.0%	71.0%
EBIT margin ▸ selected scenario		35.9%	36.7%	38.3%	**37.0%**	**35.5%**	**35.0%**	**35.5%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**
Best case	1.5%					37.0%	36.5%	37.0%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
Base case						35.5%	35.0%	35.5%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Worst case	(3.5%)					32.0%	31.5%	32.0%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
Capex % of revenue ▸ selected scenario		8.6%	7.1%	6.6%	**7.4%**	**6.5%**	**6.5%**	**6.0%**	**6.0%**	**5.5%**	**5.5%**	**5.5%**	**5.5%**	**5.5%**	**5.5%**
Best case	–					6.5%	6.5%	6.0%	6.0%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Base case						6.5%	6.5%	6.0%	6.0%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Worst case	0.5%					7.0%	7.0%	6.5%	6.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Source: author's analysis.

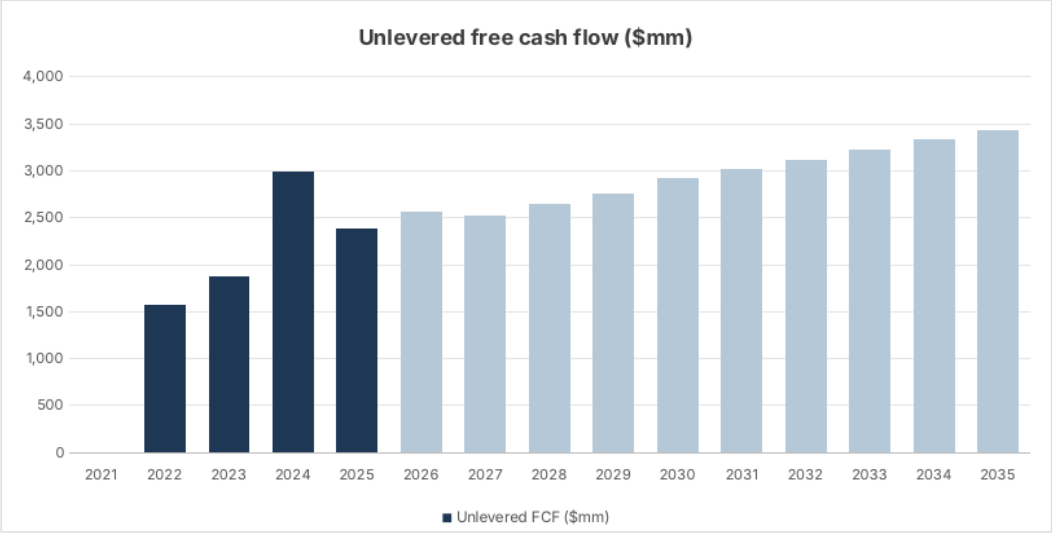
Revenue growth: in the Base Case I project a 2.1% decline in 2026, in line with guidance. For 2027 I project just 1% growth, because the company has already said that competitive pressure and consumer weakness will continue. From 2028 growth recovers to 3.5-4.5% with new launches and then converges to 3%.

Margins: gross margin stays close to 71-72%. EBIT margin falls to 35.5% in 2026 and 35% in 2027, because of promotions, lower scale in the US and R&D investment. It then gradually recovers to 36%, without returning to the 38% of 2025.

CapEx: 6.5% of sales in 2026 and 2027, gradually falling to 5.5% as the expansion of production capacity matures.

What does each scenario mean?

- **Base Case:** the decline in the US stops in 2027, new launches contribute from 2028 and margin stabilizes at a level somewhat below its history.
- **Best Case:** vet visits recover, long-acting Cytopoint regains share in dermatology and the cost program delivers more than expected. It adds 2 points of growth per year and 1.5 points of EBIT margin.
- **Worst Case:** the loss of share in dermatology and parasiticides continues, Librela does not recover and promotions pressure margins. It subtracts 2.5 points of growth and 3.5 points of EBIT margin.



Source: author's analysis.

Discount rate (WACC)

5. Discount rate (WACC)		Value
Risk-free rate		4.9%
Equity beta (levered)	x	0.85
Equity risk premium		4.2%
Country risk premium		-
Cost of equity		8.5%
Pre-tax cost of debt		5.0%
Tax rate (debt tax shield)		20.0%
After-tax cost of debt		4.0%
Market value of equity	$ mm	32,538
Total debt	$ mm	9,313
Debt / (Debt + Equity)		22.3%
Equity / (Debt + Equity)		77.7%
WACC		7.5%

Source: author's analysis.

I use a 4.9% risk-free rate, a 4.2% equity risk premium and a beta of 0.85 (the five-year historical beta is 0.64, but the company's risk profile is higher today than in the past). The result is a **cost of equity of 8.5%**. For debt I use a 5% pre-tax cost. With a capital structure of 78% equity and 22% debt at market values, the **resulting WACC is 7.5%**.

To go from Enterprise Value to Equity Value I subtracted estimated net debt of USD 7,813 million, which includes leases and the effect of the 2026 buybacks. I use 405 million diluted shares.

Model results

PERPETUITY METHOD

With 2.5% perpetual growth and a 20% return on new invested capital, the model gives an Enterprise Value of USD 53,548 million and an Equity Value of USD 45,735 million, equivalent to **USD 112.93 per share**.

Zoetis Inc.

ZTS · Discounted Cash Flow · Perpetuity Growth Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

INTRINSIC VALUE PER SHARE

$112.93

Current share price	$80.34
Upside / (downside)	+40.6%

VALUATION SUMMARY

Enterprise value	53,548
Equity value	45,735
PV of forecast cash flows	19,654
PV of terminal value	33,894
Terminal value % of EV	63.3%
Implied exit EV / EBITDA	12.8x

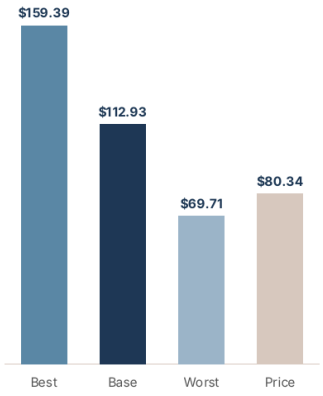
KEY ASSUMPTIONS

WACC (year 1)	7.5%
Terminal WACC	7.5%
Terminal growth (g)	2.5%
RONIC (terminal)	20.0%
Net debt & other claims	7,813
Diluted shares (mm)	405.0

SCENARIOS

Scenario	Terminal growth	Enterprise value	Equity value	Value per share	Upside
Best case	3.0%	72,368	64,555	**$159.39**	+98.4%
Base case	2.5%	53,548	45,735	**$112.93**	+40.6%
Worst case	2.0%	36,045	28,232	**$69.71**	(13.2%)
Current share price				*$80.34*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

	Terminal growth rate (g)				
WACC / g	1.5%	2.0%	2.5%	3.0%	3.5%
6.5%	$127.63	$135.50	$145.36	$158.04	$174.99
7.0%	$114.13	$120.07	$127.33	$136.42	$148.12
7.5%	$102.90	$107.46	**$112.93**	$119.62	$127.99
8.0%	$93.42	$96.97	$101.16	$106.19	$112.35
8.5%	$85.32	$88.10	$91.36	$95.21	$99.83

Source: author's analysis.

In the Best Case the value is **USD 159.39** and in the Worst Case **USD 69.71**.

With a WACC half a point lower, the value rises to USD 127; with one half a point higher, it falls to USD 101.

EBITDA MULTIPLE METHOD

Applying a **12x** multiple to EBITDA in the last projected year of the Base Case (15x in the Best Case and 8x in the Worst Case), the model gives an Enterprise Value of USD 51,397 million and an Equity Value of USD 43,584 million, equivalent to **USD 107.61 per share**.

Zoetis Inc.

ZTS · Discounted Cash Flow · Exit Multiple Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$107.61

Current share price	$80.34
Upside / (downside)	+33.9%

VALUATION SUMMARY

Enterprise value	51,397
Equity value	43,584
PV of forecast cash flows	19,654
PV of terminal value	31,743
Terminal value % of EV	61.8%
Implied perpetual growth	1.8%

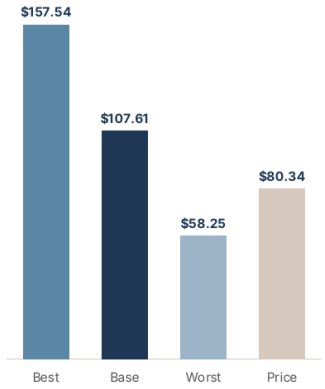
KEY ASSUMPTIONS

WACC (year 1)	7.5%
Terminal WACC	7.5%
Exit EV / EBITDA	12.0x
EBITDA, final forecast year	5,116
Net debt & other claims	7,813
Diluted shares (mm)	405.0

SCENARIOS

Scenario	Exit multiple	Enterprise value	Equity value	Value per share	Upside
Best case	15.0x	71,617	63,804	**$157.54**	+96.1%
Base case	12.0x	51,397	43,584	**$107.61**	+33.9%
Worst case	8.0x	31,404	23,591	**$58.25**	(27.5%)
Current share price				*$80.34*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

Exit EV / EBITDA multiple

WACC / multiple	10.0x	11.0x	12.0x	13.0x	14.0x
6.5%	$102.41	$109.52	$116.64	$123.75	$130.87
7.0%	$98.39	$105.21	$112.03	$118.84	$125.66
7.5%	$94.55	$101.08	**$107.61**	$114.15	$120.68
8.0%	$90.87	$97.13	$103.39	$109.65	$115.91
8.5%	$87.35	$93.35	$99.35	$105.35	$111.35

Source: author's analysis.

12x is a prudent multiple for Zoetis: it is below where it trades today and far below its historical average of more than 20x. It implies 1.8% perpetual growth.

In the Best Case the value is **USD 157.54** and in the Worst Case **USD 58.25**.

Reading both methods together

Averaging both methods in the base case, I arrive at a **target price of USD 110 per share**, compared with a market price of USD 80.34. That is an upside of about 37%.

The Worst Case (between USD 58 and USD 70) shows there is still downside if the current weakness turns out to be permanent. But the base case does not require Zoetis to grow as it used to: it is enough for it to stabilize and keep margins somewhat below its history.

SECTION 08

Conclusion

Zoetis went, in a matter of months, from being one of the most "boring and reliable" companies to suffering one of the biggest falls of the year. That kind of reversal usually generates two kinds of reaction: that of those who assume the business is broken, and that of those who see an opportunity in the panic.

My reading, with the data in hand, is closer to the second, although with nuances. The international and livestock businesses are still healthy. The decline is concentrated in US companion animal, where a more price-sensitive consumer, fewer vet visits and more aggressive competition in dermatology came together. It is a real problem, but it is not evidence that Zoetis's leadership in animal health has disappeared. It is still the reference player, with the scale, pipeline and cash generation to respond.

At the same time, one has to be honest about what changed: the company sharply cut its outlook, debt rose just before a weak year, and competition in the most profitable franchises is now more real than hypothetical. **It is not the same risk profile Zoetis had a couple of years ago.**

My model gives a **target price of USD 110 per share**, versus a current price of USD 80.34, an upside of about 37%. That does not make it a risk-free buy: the Worst Case shows that, if the weakness proves more permanent than temporary, there is still downside.

I believe Zoetis is still a quality company with high margins, consistent cash generation, a manageable balance sheet and market leadership, which today trades at a significant discount because of a concrete problem. For those with a horizon of several years and tolerance for a recovery that may not be linear, the current price looks more attractive than at any time in recent years. **I would consider starting with a small position and increasing it only if the coming quarters confirm that the decline in the US is stopping**, with two concrete signals to watch: the launch of long-acting Cytopoint and the 2027 guidance.

Before finishing, I think it is important to make a clarification. Publishing an analysis of a company does not necessarily mean I have a bullish view or that I consider it a good investment right now. My intention is to present an analysis as objective as possible, and then share my personal opinion on the thesis. Even when a valuation shows an attractive upside, that does not automatically mean there is a buying opportunity. The Adobe analysis is a good example: the valuation suggested an intrinsic value above the market price and, even so, it concluded it was not a good time to invest. That is where the hardest, and also most interesting, part of investing comes in, the "artistic" part: combining quantitative analysis with judgment about the quality of the business, the risks, the context and the margin of safety.

Alan



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