

# Third Quarter 2022 Financial Results

November 3, 2022



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# Forward-looking Statements

*This presentation contains forward-looking statements, which reflect the current views of Zoetis with respect to: business plans or prospects, future operating or financial performance, future guidance, future operating models; disruptions in our global supply chain; R&D costs; timing and likelihood of success; expectations regarding products, product approvals or products under development, expected timing of product launches; the impact of the coronavirus (COVID-19) global pandemic and any recovery therefrom on our business, supply chain, customers and employees; expectations regarding the performance of acquired companies and our ability to integrate new businesses; expectations regarding the financial impact of acquisitions; future use of cash, dividend payments and share repurchases; tax rate and tax regimes and any changes thereto; and other future events. These statements are not guarantees of future performance or actions. Forward-looking statements are subject to risks and uncertainties. If one or more of these risks or uncertainties materialize, or if management's underlying assumptions prove to be incorrect, actual results may differ materially from those contemplated by a forward-looking statement. Forward-looking statements speak only as of the date on which they are made. Zoetis expressly disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. A further list and description of risks, uncertainties and other matters can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, including in the sections thereof captioned "Forward-Looking Statements and Factors That May Affect Future Results" and "Item 1A. Risk Factors," in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K. Such risks and uncertainties may be amplified by the COVID-19 global pandemic and its potential impact on the global economy and our business. These filings and subsequent filings are available online at [www.sec.gov](http://www.sec.gov), [www.zoetis.com](http://www.zoetis.com), or on request from Zoetis.*

# Non-GAAP Financial Information

*We use non-GAAP\* financial measures, such as adjusted net income, adjusted diluted earnings per share, adjusted operating expenses, adjusted gross margin, operational results (which excludes the impact of foreign exchange), adjusted EBIT margin, organic operational growth and normalized organic operational growth to assess and analyze our results and trends and to make financial and operational decisions. We believe these non-GAAP financial measures are also useful to investors because they provide greater transparency regarding our operating performance. The non-GAAP financial measures included in this presentation should not be considered alternatives to measurements required by GAAP, such as net income, operating income, and earnings per share, and should not be considered measures of liquidity. These non-GAAP financial measures are unlikely to be comparable with non-GAAP information provided by other companies. Reconciliations of non-GAAP financial measures and most directly comparable GAAP financial measures are included in the tables accompanying our earnings release and are posted on our website at [www.zoetis.com](http://www.zoetis.com).*

*\*GAAP refers to U.S. generally accepted accounting principles.*

# Kristin Peck

Chief Executive Officer

# Key Takeaways

## Global Growth in 3Q

- Generated 5% operational<sup>1</sup> revenue growth and 2% operational<sup>1</sup> increase in adjusted net income<sup>2</sup>, with revenue in the U.S. increasing 2% and International up 8% operationally.
- Companion animal revenue grew 10% operationally, as we continue to see strong demand globally for Simparica Trio and other parasiticides, our key dermatology products, small animal vaccines and monoclonal antibodies for pain.
- As anticipated, our livestock portfolio declined 3% operationally in the quarter, primarily due to generic competition in cattle and poultry, supply constraints internationally in swine and cattle products, offset by growth in aquaculture and poultry, and certain international markets.

## Updated Guidance for 2022

- While we remain confident in the strength and growth drivers of our business, we are lowering 2022 guidance to reflect lower than expected sales in the second half of the year related to continued supply constraints, veterinary workforce challenges and recent changes to foreign exchange rates.
  - Revenue range of \$8.000B and \$8.075B, with operational<sup>1</sup> growth of 7% to 8%.
  - Adjusted net income range of \$2.270B and \$2.310B, with operational<sup>1</sup> growth of 9% to 11%.

<sup>1</sup> Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

<sup>2</sup> Adjusted net income (a non-GAAP financial measure) is defined as reported GAAP net income, excluding purchase accounting adjustments, acquisition-related costs and certain significant items.

# Wetteny Joseph

Executive Vice President  
and Chief Financial Officer

# Income Statement Highlights

	Third Quarter		
	2022*	2021*	Change
Revenue	\$2,002	\$1,990	1%
Reported Net Income	529	552	(4)%
Reported Diluted Earnings Per Share	\$1.13	\$1.16	(3)%
Adjusted Net Income <sup>1</sup>	566	597	(5)%
Adjusted Diluted Earnings Per Share <sup>1,2</sup>	\$1.21	\$1.25	(3)%

\* Millions of dollars, except per share data

<sup>1</sup> Adjusted net income and adjusted diluted earnings per share (non-GAAP financial measures) are defined as reported net income and reported diluted earnings per share, excluding purchase accounting adjustments, acquisition-related costs and certain significant items.

<sup>2</sup> Adjusted diluted earnings per share decrease of 3% includes 7% unfavorable foreign exchange impact, and operational growth of 4%.

# Adjusted Income Statement Highlights

	Third Quarter				
	2022*	2021*	Change	Foreign Exchange	Operational <sup>1</sup>
Revenue	\$2,002	\$1,990	1%	(4)%	5%
Adjusted Cost of Sales <sup>2</sup>	605	583	4%	(2)%	6%
<i>as a percent of revenue<sup>3</sup></i>	30.2%	29.3%	NA	NA	NA
Adjusted SG&A Expenses <sup>2</sup>	493	496	(1)%	(4)%	3%
Adjusted R&D Expenses <sup>2</sup>	134	132	2%	(2)%	4%
Adjusted Operating Expenses <sup>4</sup>	633	633	—%	(3)%	3%
Effective Tax Rate on Adjusted Income <sup>2</sup>	20.9%	16.7%	NA	NA	NA
Adjusted Net Income <sup>2</sup>	\$566	\$597	(5)%	(7)%	2%

\* Millions of dollars, NA – Not applicable

<sup>1</sup> Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

<sup>2</sup> Adjusted net income and its components (non-GAAP financial measures) are defined as reported GAAP net income and its components, excluding purchase accounting adjustments, acquisition-related costs and certain significant items. Adjusted cost of sales, adjusted selling, general and administrative (SG&A) expenses, adjusted research and development (R&D) expenses, and adjusted tax expenses are income statement line items prepared on the same basis, and, therefore, components of the overall adjusted income measure.

<sup>3</sup> Adjusted gross margin (a non-GAAP financial measure) was 69.8% and 70.7% in the third quarter of 2022 and 2021, respectively.

<sup>4</sup> Adjusted operating expenses (a non-GAAP financial measure) of \$633 million in the third quarter of 2022 and 2021 includes adjusted amortization of intangible assets of \$6 million and \$5 million in the third quarter of 2022 and 2021, respectively.

# U.S. Segment Performance

	Third Quarter		
	2022*	2021*	Change
Revenue	\$1,090	\$1,065	2%
Companion Animal	819	775	6%
Livestock	271	290	(7)%
Cost of Sales	204	199	3%
Gross Profit	886	866	2%
<i>Gross Margin</i>	81.3%	81.3%	NA
Operating Expenses	206	183	13%
Other (Income)/Deductions - net	1	—	**
Earnings <sup>1</sup>	\$679	\$683	(1)%

\* Millions of dollars, NA – Not applicable, \*\*Calculation not meaningful

<sup>1</sup> Defined as income before provision for taxes on income.



# International Segment Performance

	Third Quarter				
	2022*	2021*	Change	Foreign Exchange	Operational <sup>1</sup>
Revenue	\$889	\$904	(2)%	(10)%	8%
Companion Animal	452	427	6%	(11)%	17%
Livestock	437	477	(8)%	(8)%	—%
Cost of Sales	256	273	(6)%	(7)%	1%
Gross Profit	633	631	—%	(11)%	11%
<i>Gross Margin</i>	71.2%	69.8%	NA	NA	NA
Operating Expenses	150	152	(1)%	(10)%	9%
Other (Income)/Deductions - net	(3)	(4)	(25)%	(5)%	(20)%
Earnings <sup>2</sup>	\$486	\$483	1%	(11)%	12%

\* Millions of dollars, NA – Not applicable, \*\*Calculation not meaningful

<sup>1</sup> Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

<sup>2</sup> Defined as income before provision for taxes on income.

# International Segment Performance

	Third Quarter				
	2022*	2021*	Change	Foreign Exchange	Operational <sup>1</sup>
<b>Total International</b>	<b>\$888.8</b>	<b>\$903.4</b>	<b>(2)%</b>	<b>(10)%</b>	<b>8%</b>
Australia	79.5	69.8	14%	(8)%	22%
Brazil	70.6	78.1	(10)%	(1)%	(9)%
Canada	56.5	55.3	2%	(4)%	6%
Chile	30.9	32.6	(5)%	(2)%	(3)%
China	92.1	71.5	29%	(6)%	35%
France	27.8	30.7	(9)%	(13)%	4%
Germany	43.3	47.4	(9)%	(15)%	6%
Italy	23.6	30.4	(22)%	(12)%	(10)%
Japan	37.0	43.3	(15)%	(20)%	5%
Mexico	32.6	31.3	4%	(1)%	5%
Spain	28.6	32.3	(11)%	(13)%	2%
United Kingdom	59.7	61.1	(2)%	(14)%	12%
Other Developed Markets	120.5	126.4	(5)%	(13)%	8%
Other Emerging Markets	186.1	193.2	(4)%	(11)%	7%

\* Millions of dollars

<sup>1</sup> Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

# Financial Guidance

## Selected Line Items

(millions of dollars, except per share amounts)

### Full Year 2022

Revenue	\$8,000 to \$8,075
<i>Operational growth</i> <sup>1</sup>	<i>7% to 8%</i>
Adjusted cost of sales as a percentage of revenue <sup>2</sup>	Approximately 30%
Adjusted SG&A expenses <sup>2</sup>	\$1,970 to \$2,000
Adjusted R&D expenses <sup>2</sup>	\$530 to \$540
Adjusted interest expense and other (income)/deductions-net <sup>2</sup>	Approximately \$215
Effective tax rate on adjusted income <sup>2</sup>	Approximately 20%
Adjusted diluted EPS <sup>2</sup>	\$4.83 to \$4.90
Adjusted net income <sup>2</sup>	\$2,270 to \$2,310
<i>Operational growth</i> <sup>1,3</sup>	<i>9% to 11%</i>
Certain significant items and acquisition-related costs <sup>4</sup>	\$20 to \$25
Reported diluted EPS	\$4.51 to \$4.59

The guidance reflects foreign exchange rates as of late October 2022 and includes the assumed impacts as a result of fluctuations in foreign exchange rates relative to the U.S. dollar compared to weighted average foreign exchange rates from 2021, as noted above.

<sup>1</sup> Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

<sup>2</sup> Adjusted net income and its components and adjusted diluted EPS are defined as reported GAAP net income and its components and reported diluted EPS excluding purchase accounting adjustments, acquisition-related costs and certain significant items. Adjusted cost of sales, adjusted selling, general and administrative (SG&A) expenses, adjusted research and development (R&D) expenses, and adjusted interest expense and other (income)/deductions-net are income statement line items prepared on the same basis, and, therefore, components of the overall adjusted income measure. Effective tax rate on adjusted income (a non-GAAP financial measure) equals the adjusted provision for taxes on income (a non-GAAP financial measure) divided by adjusted income before provision for taxes on income (a non-GAAP financial measure). Adjusted net income and its components, adjusted diluted EPS, and the effective tax rate on adjusted net income, are presented solely to permit investors to more fully understand how management assesses performance. Adjusted net income and its components and adjusted diluted EPS are not, and should not be viewed as, substitutes for U.S. GAAP net income and its components and diluted EPS.

<sup>3</sup> We do not provide a reconciliation of forward-looking non-GAAP adjusted net income operational growth to the most directly comparable GAAP reported financial measure because we are unable to calculate with reasonable certainty the foreign exchange impact of unusual gains and losses, acquisition-related expenses, potential future asset impairments and other certain significant items, without unreasonable effort. The foreign exchange impacts of these items are uncertain, depend on various factors, and could have a material impact on GAAP reported results for the guidance period.

<sup>4</sup> Primarily includes certain nonrecurring costs related to acquisitions and other charges.

# Q&A



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# Appendix



# Reconciliation Of Reported Growth To Non-GAAP Financial Measures

	Three months ended September 30,				
	2022*	2021*	Change	Foreign Exchange	Operational <sup>1</sup>
<u>Revenue by Product Category</u>					
Key Dermatology	\$343	\$321	7%	(4)%	11%
Diagnostics ( <i>companion animal</i> )	78	89	(12)%	(3)%	(9)%
<u>Revenue by Product</u>					
Simparica Trio	172	122	41%	(2)%	43%
	Nine months ended September 30,				
	2022*	2021*	Change	Foreign Exchange	Operational <sup>1</sup>
<u>Revenue by Product Category</u>					
Key Dermatology	\$966	\$845	14%	(4)%	18%

\* Millions of dollars

<sup>1</sup> Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

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