

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended
September 30, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35797

Zoetis Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

46-0696167

(I.R.S. Employer Identification No.)

10 Sylvan Way, Parsippany, New Jersey

(Address of principal executive offices)

07054

(Zip Code)

(973) 822-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	ZTS	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer **Accelerated filer** **Non-accelerated filer** **Smaller reporting company** **Emerging growth company**

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2024, there were 451,165,011 shares of common stock outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue	\$ 2,388	\$ 2,151	\$ 6,939	\$ 6,331
Costs and expenses:				
Cost of sales	701	638	2,012	1,833
Selling, general and administrative expenses	565	525	1,693	1,586
Research and development expenses	167	152	500	440
Amortization of intangible assets	35	38	107	112
Restructuring charges and certain acquisition and divestiture-related costs	5	16	51	45
Interest expense, net of capitalized interest	57	59	174	180
Other (income)/deductions—net	(16)	6	1	(151)
Income before provision for taxes on income	874	717	2,401	2,286
Provision for taxes on income	182	121	486	469
Net income before allocation to noncontrolling interests	692	596	1,915	1,817
Less: Net income/(loss) attributable to noncontrolling interests	10	—	10	(2)
Net income attributable to Zoetis Inc.	\$ 682	\$ 596	\$ 1,905	\$ 1,819
Earnings per share attributable to Zoetis Inc. stockholders:				
Basic	\$ 1.51	\$ 1.29	\$ 4.18	\$ 3.94
Diluted	\$ 1.50	\$ 1.29	\$ 4.18	\$ 3.93
Weighted-average common shares outstanding:				
Basic	452.9	460.3	455.4	461.9
Diluted	453.5	461.4	456.1	463.0
Dividends declared per common share	\$ —	\$ —	\$ 0.864	\$ 0.750

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(MILLIONS OF DOLLARS)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income before allocation to noncontrolling interests	\$ 692	\$ 596	\$ 1,915	\$ 1,817
Other comprehensive (loss)/income, net of tax ^(a) :				
Unrealized (losses)/gains on derivatives for cash flow hedges, net of tax of \$(1) and \$1 for the three months ended September 30, 2024 and 2023, respectively, and \$(1) and \$0 for the nine months ended September 30, 2024 and 2023, respectively	(4)	3	(5)	—
Unrealized (losses)/gains on derivatives for net investment hedges, net of tax of \$(7) and \$5 for the three months ended September 30, 2024 and 2023, respectively, and \$(2) and \$1 for the nine months ended September 30, 2024 and 2023, respectively	(23)	18	(5)	5
Foreign currency translation adjustments	21	60	(2)	(6)
Benefit plans: Actuarial gains, net of tax of \$0 and \$0 for the three months ended September 30, 2024 and 2023, respectively, and \$0 and \$1 for the nine months ended September 30, 2024 and 2023, respectively	—	—	—	4
Total other comprehensive (loss)/income, net of tax	(6)	81	(12)	3
Comprehensive income before allocation to noncontrolling interests	686	677	1,903	1,820
Less: Comprehensive income/(loss) attributable to noncontrolling interests	10	—	10	(2)
Comprehensive income attributable to Zoetis Inc.	\$ 676	\$ 677	\$ 1,893	\$ 1,822

^(a) Presented net of reclassification adjustments, which are not material in any period presented.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)	September 30, 2024 (Unaudited)	December 31, 2023
Assets		
Cash and cash equivalents ^(a)	\$ 1,714	\$ 2,041
Accounts receivable, less allowance for doubtful accounts of \$19 in 2024 and \$18 in 2023	1,411	1,304
Inventories	2,416	2,564
Assets held for sale	314	—
Other current assets	427	434
Total current assets	6,282	6,343
Property, plant and equipment, less accumulated depreciation of \$2,657 in 2024 and \$2,594 in 2023	3,298	3,204
Operating lease right-of-use assets	223	230
Goodwill	2,744	2,759
Identifiable intangible assets, less accumulated amortization	1,186	1,338
Noncurrent deferred tax assets	409	206
Other noncurrent assets	215	206
Total assets	\$ 14,357	\$ 14,286
Liabilities and Equity		
Short-term borrowings	\$ —	\$ 3
Accounts payable	404	411
Dividends payable	—	198
Accrued expenses	725	683
Accrued compensation and related items	335	382
Income taxes payable	97	110
Liabilities associated with assets held for sale	26	—
Other current liabilities	115	102
Total current liabilities	1,702	1,889
Long-term debt, net of discount and issuance costs	6,574	6,564
Noncurrent deferred tax liabilities	172	146
Operating lease liabilities	181	188
Other taxes payable	274	271
Other noncurrent liabilities	220	237
Total liabilities	9,123	9,295
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, \$0.01 par value: 6,000,000,000 authorized; 501,891,243 and 501,891,243 shares issued; 451,549,789 and 458,367,358 shares outstanding at September 30, 2024, and December 31, 2023, respectively	5	5
Treasury stock, at cost, 50,341,454 and 43,523,885 shares of common stock at September 30, 2024 and December 31, 2023, respectively	(6,889)	(5,597)
Additional paid-in capital	1,163	1,133
Retained earnings	11,806	10,295
Accumulated other comprehensive loss	(851)	(839)
Total Zoetis Inc. equity	5,234	4,997
Equity attributable to noncontrolling interests	—	(6)
Total equity	5,234	4,991
Total liabilities and equity	\$ 14,357	\$ 14,286

^(a) As of September 30, 2024 and December 31, 2023, includes \$4 million and \$2 million of restricted cash, respectively.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

Three months ended September 30, 2024									
Zoetis									
(MILLIONS OF DOLLARS AND SHARES)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance, June 30, 2024	501.9	\$ 5	48.0	\$ (6,464)	\$ 1,146	\$ 11,124	\$ (845)	\$ (6)	\$ 4,960
Net income	—	—	—	—	—	682	—	10	692
Other comprehensive loss	—	—	—	—	—	—	(6)	—	(6)
Deconsolidation of noncontrolling interests	—	—	—	—	—	—	—	(4)	(4)
Share-based compensation awards ^(a)	—	—	—	2	17	—	—	—	19
Treasury stock acquired ^(b)	—	—	2.3	(427)	—	—	—	—	(427)
Balance, September 30, 2024	501.9	\$ 5	50.3	\$ (6,889)	\$ 1,163	\$ 11,806	\$ (851)	\$ —	\$ 5,234

Three months ended September 30, 2023									
Zoetis									
(MILLIONS OF DOLLARS AND SHARES)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance, June 30, 2023	501.9	\$ 5	41.2	\$ (5,126)	\$ 1,098	\$ 9,543	\$ (895)	\$ (4)	\$ 4,621
Net income	—	—	—	—	—	596	—	—	596
Other comprehensive income	—	—	—	—	—	—	81	—	81
Share-based compensation awards ^(a)	—	—	(0.2)	9	18	1	—	—	28
Treasury stock acquired ^(b)	—	—	1.4	(252)	—	—	—	—	(252)
Balance, September 30, 2023	501.9	\$ 5	42.4	\$ (5,369)	\$ 1,116	\$ 10,140	\$ (814)	\$ (4)	\$ 5,074

Shares may not add due to rounding.

^(a) Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with exercises of employee share-based awards. Also includes the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards to satisfy tax withholding requirements. For additional information, see *Note 12. Share-based Payments* and *Note 13. Stockholders' Equity*.

^(b) Reflects the acquisition of treasury shares in connection with the share repurchase program and includes excise tax accrued on net share repurchases. For additional information, see *Note 13. Stockholders' Equity*.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED) - Continued

Nine months ended September 30, 2024									
Zoetis									
(MILLIONS OF DOLLARS AND SHARES)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance, December 31, 2023	501.9	\$ 5	43.5	\$ (5,597)	\$ 1,133	\$ 10,295	\$ (839)	\$ (6)	\$ 4,991
Net income	—	—	—	—	—	1,905	—	10	1,915
Other comprehensive loss	—	—	—	—	—	—	(12)	—	(12)
Deconsolidation of noncontrolling interests	—	—	—	—	—	—	—	(4)	(4)
Share-based compensation awards ^(a)	—	—	(0.5)	15	30	—	—	—	45
Treasury stock acquired ^(b)	—	—	7.3	(1,307)	—	—	—	—	(1,307)
Dividends declared	—	—	—	—	—	(394)	—	—	(394)
Balance, September 30, 2024	501.9	\$ 5	50.3	\$ (6,889)	\$ 1,163	\$ 11,806	\$ (851)	\$ —	\$ 5,234

Nine months ended September 30, 2023									
Zoetis									
(MILLIONS OF DOLLARS AND SHARES)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance, December 31, 2022	501.9	\$ 5	38.1	\$ (4,539)	\$ 1,088	\$ 8,668	\$ (817)	\$ (2)	\$ 4,403
Net income/(loss)	—	—	—	—	—	1,819	—	(2)	1,817
Other comprehensive income	—	—	—	—	—	—	3	—	3
Share-based compensation awards ^(a)	—	—	(0.7)	34	28	(1)	—	—	61
Treasury stock acquired ^(b)	—	—	5.0	(864)	—	—	—	—	(864)
Dividends declared	—	—	—	—	—	(346)	—	—	(346)
Balance, September 30, 2023	501.9	\$ 5	42.4	\$ (5,369)	\$ 1,116	\$ 10,140	\$ (814)	\$ (4)	\$ 5,074

Shares may not add due to rounding.

^(a) Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with exercises of employee share-based awards. Also includes the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards to satisfy tax withholding requirements. For additional information, see *Note 12. Share-based Payments* and *Note 13. Stockholders' Equity*.

^(b) Reflects the acquisition of treasury shares in connection with the share repurchase program and includes excise tax accrued on net share repurchases. For additional information, see *Note 13. Stockholders' Equity*.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(MILLIONS OF DOLLARS)	Nine Months Ended September 30,	
	2024	2023
Operating Activities		
Net income before allocation to noncontrolling interests	\$ 1,915	\$ 1,817
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	374	365
Share-based compensation expense	55	43
Asset write-offs and asset impairments	16	27
Loss on assets held for sale	22	—
Net gain on sale of businesses, excluding transaction costs	—	(118)
Provision for losses on inventory	71	82
Deferred taxes	(186)	(40)
Other non-cash adjustments	11	(6)
Other changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	(134)	(54)
Inventories	(113)	(497)
Other assets	(14)	(119)
Accounts payable	5	(9)
Other liabilities	36	(27)
Other tax accounts, net	(10)	(8)
Net cash provided by operating activities	2,048	1,456
Investing Activities		
Capital expenditures	(439)	(534)
Acquisitions, net of cash acquired	(8)	(155)
Purchase of investments	(4)	(3)
Proceeds from derivative instrument activity, net	11	23
Proceeds from sale of businesses, net of cash sold	—	96
Net proceeds from sale of assets	1	4
Other investing activities	(2)	2
Net cash used in investing activities	(441)	(567)
Financing Activities		
Decrease in short-term borrowings, net	(3)	—
Principal payments on long-term debt	—	(1,350)
Payment of consideration related to previous acquisitions	(5)	(3)
Share-based compensation-related proceeds, net of taxes paid on withholding shares	(10)	18
Purchases of treasury stock, including excise taxes paid	(1,305)	(857)
Cash dividends paid	(592)	(520)
Net cash used in financing activities	(1,915)	(2,712)
Effect of exchange-rate changes on cash and cash equivalents	(19)	(4)
Net decrease in cash and cash equivalents	(327)	(1,827)
Cash and cash equivalents at beginning of period	2,041	3,581
Cash and cash equivalents at end of period	\$ 1,714	\$ 1,754
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	\$ 657	\$ 586
Interest, net of capitalized interest	205	225
Amounts included in the measurement of lease liabilities:		
Operating cash flows - operating leases	46	42
Financing cash flows - finance leases	1	—
Non-cash transactions:		
Capital expenditures	4	4
Excise tax accrued on net share repurchases, not paid	12	7
Lease obligations obtained in exchange for right-of-use assets - operating	39	74

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

Zoetis Inc. (including its subsidiaries, collectively, Zoetis, the company, we, us or our) is a global leader in the animal health industry, focused on the discovery, development, manufacture and commercialization of medicines, vaccines, diagnostic products and services, biodevices, genetic tests and precision animal health. We organize and operate our business in two geographic regions: the United States (U.S.) and International.

We directly market our products in approximately 45 countries across North America, Europe, Africa, Asia, Australia and South America. Our products are sold in more than 100 countries, including developed and emerging markets. We have a diversified business, commercializing products across eight core species: dogs, cats and horses (collectively, companion animals) and cattle, poultry, swine, fish and sheep (collectively, livestock); and within eight major product categories: parasiticides, vaccines, dermatology, anti-infectives, pain and sedation, other pharmaceutical, animal health diagnostics and medicated feed additives.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) can be condensed or omitted. Balance sheet amounts and operating results for subsidiaries operating outside the U.S. are as of and for the three and nine months ended August 31, 2024 and August 31, 2023.

Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year.

Certain reclassifications of prior year information have been made to conform to the current year's presentation.

We are responsible for the unaudited condensed consolidated financial statements included in this Form 10-Q. The condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. The information included in this interim report should be read in conjunction with the financial statements and accompanying notes included in our 2023 Annual Report on Form 10-K.

In the third quarter of 2024, we concluded that we were no longer the primary beneficiary of a variable interest entity (VIE) that was previously consolidated. The effects of the deconsolidation were not material to the condensed consolidated financial statements.

3. Accounting Standards

Recently Issued Accounting Standards

In December 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The new guidance requires expanded annual and interim disclosures for significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss. This update is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The update is to be applied retrospectively to all periods presented in the financial statements. Early adoption is permitted. The adoption of this guidance will impact our disclosures only and we do not expect it to have an impact on our consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax disclosures. The new guidance requires standardized categories for the effective tax rate reconciliation, disaggregation of income taxes paid and other income tax-related disclosures. This update is effective for fiscal years beginning after December 15, 2024. We are currently evaluating the impact that the new guidance will have on our notes to the consolidated financial statements.

4. Revenue

A. Revenue from Product Sales

We offer a diversified portfolio of products which allows us to capitalize on local and regional customer needs. Generally, our products are promoted to veterinarians and livestock producers by our sales organization which includes sales representatives and technical and veterinary operations specialists, and then sold directly by us or through distributors, retailers or e-commerce outlets. The depth of our product portfolio enables us to address the varying needs of customers in different species and geographies. Many of our top-selling product lines are distributed across both of our operating segments, leveraging our research and development (R&D) operations and manufacturing and supply chain network.

Over the course of our history, we have focused on developing a diverse portfolio of animal health products, including medicines, vaccines and diagnostics, complemented by biodevices, genetic tests and a range of services. We refer to all different brands of a particular product, or its dosage forms for all species, as a product line. We have approximately 300 comprehensive product lines, including products for both companion animals and livestock, within our major product categories.

In the first quarter of 2024, we modified the list of major product categories to include a category for pain and sedation products, which were previously included within other pharmaceutical products. The prior period presentation has been revised to reflect the new product category.

Our major product categories are:

- **parasiticides:** products that prevent or eliminate external and internal parasites such as fleas, ticks and worms;

- **vaccines:** biological preparations that help prevent diseases of the respiratory, gastrointestinal and reproductive tracts or induce a specific immune response;
- **dermatology:** products that relieve itch associated with allergic conditions and atopic dermatitis;
- **anti-infectives:** products that prevent, kill or slow the growth of bacteria, fungi or protozoa;
- **pain and sedation:** products that alleviate pain, primarily associated with osteoarthritis and postoperative pain;
- **other pharmaceutical:** antiemetic, reproductive and oncology products;
- **animal health diagnostics:** testing and analysis of blood, urine and other animal samples and related products and services, including point-of-care diagnostic products, instruments and reagents, rapid immunoassay tests, reference laboratory kits and services and blood glucose monitors; and
- **medicated feed additives:** products added to animal feed that provide medicines to livestock.

Our remaining revenue is derived from other non-pharmaceutical product categories, such as nutritionals, as well as products and services in biodevices, genetic tests and precision animal health.

Our companion animal products help extend and improve the quality of life for pets; increase convenience and compliance for pet owners; and help veterinarians improve the quality of their care and the efficiency of their businesses. Growth in the companion animal medicines, vaccines and diagnostics sector is driven by economic development, related increases in disposable income and increases in pet ownership and spending on pet care. Companion animals are also living longer, deepening the human-animal bond, receiving increased medical treatment and benefiting from advances in animal health medicine, vaccines and diagnostics.

Our livestock products primarily help prevent or treat diseases and conditions to allow veterinarians and producers to care for their animals and to enable the cost-effective production of safe, high-quality animal protein. Human population growth and increasing standards of living are important long-term growth drivers for our livestock products in three major ways. First, population growth and increasing standards of living drive demand for improved nutrition, particularly through increased consumption of animal protein. Second, population growth leads to greater natural resource constraints driving a need for enhanced productivity. Finally, as standards of living improve and the global food chain faces increased scrutiny, there is more focus on food quality, safety and reliability of supply.

The following tables present our revenue disaggregated by geographic area, species and major product category:

Revenue by geographic area

(MILLIONS OF DOLLARS)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
United States	\$ 1,346	\$ 1,174	\$ 3,817	\$ 3,344
Australia	83	84	239	248
Brazil	101	101	301	276
Canada	66	63	202	183
Chile	31	31	93	109
China	61	69	205	255
France	36	34	111	102
Germany	57	50	166	148
Italy	31	26	95	87
Japan	33	34	109	120
Mexico	39	42	129	119
Spain	35	30	100	94
United Kingdom	80	78	230	209
Other developed markets	148	127	413	374
Other emerging markets	220	187	670	605
	2,367	2,130	6,880	6,273
Contract manufacturing & human health	21	21	59	58
Total Revenue	\$ 2,388	\$ 2,151	\$ 6,939	\$ 6,331

Revenue by major species

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
U.S.				
Companion animal	\$ 1,068	\$ 908	\$ 3,046	\$ 2,588
Livestock	278	266	771	756
	1,346	1,174	3,817	3,344
International				
Companion animal	541	506	1,662	1,540
Livestock	480	450	1,401	1,389
	1,021	956	3,063	2,929
Total				
Companion animal	1,609	1,414	4,708	4,128
Livestock	758	716	2,172	2,145
Contract manufacturing & human health	21	21	59	58
Total Revenue	\$ 2,388	\$ 2,151	\$ 6,939	\$ 6,331

Revenue by species

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Companion Animal:				
Dogs and Cats	\$ 1,551	\$ 1,354	\$ 4,516	\$ 3,931
Horses	58	60	192	197
	1,609	1,414	4,708	4,128
Livestock:				
Cattle	391	374	1,132	1,102
Poultry	139	127	410	397
Swine	131	129	388	404
Fish	70	57	177	158
Sheep and other	27	29	65	84
	758	716	2,172	2,145
Contract manufacturing & human health	21	21	59	58
Total Revenue	\$ 2,388	\$ 2,151	\$ 6,939	\$ 6,331

Revenue by major product category

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Parasiticides	\$ 530	\$ 465	\$ 1,634	\$ 1,465
Vaccines	468	449	1,365	1,308
Dermatology	453	397	1,234	1,048
Anti-infectives	274	264	819	796
Pain and sedation	219	147	634	408
Other pharmaceutical	169	166	478	514
Animal health diagnostics	101	95	286	284
Medicated feed additives	91	86	242	257
Other non-pharmaceutical	62	61	188	193
	2,367	2,130	6,880	6,273
Contract manufacturing & human health	21	21	59	58
Total Revenue	\$ 2,388	\$ 2,151	\$ 6,939	\$ 6,331

B. Revenue from Contracts with Customers

Contract liabilities reflected within *Other current liabilities* as of December 31, 2023 and 2022, and subsequently recognized as revenue during each of the first nine months of 2024 and 2023 were \$4 million. Contract liabilities as of September 30, 2024 and December 31, 2023 were \$21 million and \$11 million, respectively.

Estimated future revenue expected to be generated from long-term contracts with unsatisfied performance obligations as of September 30, 2024 is not material.

5. Acquisitions and Divestitures

A. Acquisitions

During the third quarter of 2023, we acquired 100% of the issued share capital of PetMedix Ltd. (PetMedix), a privately held research and development stage animal health biopharmaceutical company based in the United Kingdom, which develops antibody-based therapeutics for companion animals. The purchase price included upfront cash consideration of \$111 million, excluding \$19 million of cash acquired, \$5 million in cash withheld for customary post-closing adjustments, and contingent consideration up to \$100 million based on the achievement of certain milestones. There are additional contingent payments to be made to the seller upon receipt of payments from a third party related to a preexisting collaboration arrangement between PetMedix and the third party. The initial fair value assessment of the contingent consideration and additional contingent payments is not material and the transaction did not have a material impact on our condensed consolidated financial statements.

During the third quarter of 2023, we also completed the acquisition of adivo GmbH (adivo), a privately held research and development stage animal health biopharmaceutical company based in Germany. The transaction did not have a material impact on our condensed consolidated financial statements.

B. Divestitures

During the second quarter of 2024, we entered into a definitive agreement where Phibro Animal Health will acquire Zoetis' medicated feed additive product portfolio, certain water soluble products and related assets for \$350 million, subject to customary closing adjustments. Net assets and liabilities related to the sale met all the criteria to be classified as held for sale during the second quarter of 2024. We have determined that this future divestiture does not qualify for reporting as a discontinued operation, as it does not represent a strategic shift that has or will have a major effect on our operations and/or financial results. Proceeds upon the closing of this transaction were received in the fourth quarter of 2024. See *Note 17. Subsequent Event* for additional information.

As of September 30, 2024, major classes of assets held for sale and liabilities associated with assets held for sale are summarized below:

(MILLIONS OF DOLLARS)	September 30, 2024
Assets held for sale	
Accounts receivable, less allowance for doubtful accounts	\$ 1
Inventories	162
Other current assets	2
Property, plant and equipment, less accumulated depreciation	108
Operating lease right-of-use assets	2
Goodwill ^(a)	12
Identifiable intangible assets, less accumulated amortization	26
Noncurrent deferred tax assets	2
Other noncurrent assets	9
Loss on assets held for sale ^(a)	(10)
Total Assets Held for Sale	\$ 314
Liabilities associated with assets held for sale	
Accounts payable	\$ 11
Accrued expenses	8
Accrued compensation and related items	1
Other noncurrent liabilities	6
Total Liabilities Associated with Assets Held for Sale	\$ 26

^(a) We recorded a loss on assets held for sale of \$22 million in the *Condensed Consolidated Statements of Income* during the nine months ended September 30, 2024. Of the loss on assets held for sale, \$12 million is allocated to goodwill and the remaining \$10 million relates to selling costs to be recognized upon closing and foreign currency translation losses to be reclassified out of accumulated other comprehensive income into earnings upon closing of the transaction.

During the second quarter of 2023, we received net cash proceeds of \$93 million (\$99 million sales proceeds, net of cash sold of \$6 million) for the sale of a majority interest in our pet insurance business, Pumpkin Insurance Services. We recorded a net pre-tax gain of \$101 million within *Other (income)/deductions—net*, which includes \$24 million related to the remeasurement of our retained noncontrolling investment to fair value. We also completed the divestiture of Performance Livestock Analytics, part of our precision animal health business in the third quarter of 2023. The transaction did not have a material impact on our condensed consolidated financial statements.

6. Restructuring Charges and Other Costs Associated with Acquisitions and Divestitures

In connection with our cost-reduction/productivity initiatives, we typically incur restructuring charges associated with workforce reductions and site closings. In connection with our acquisition and divestiture activities, we typically incur costs associated with executing the transactions. Acquisition activity may also include integrating the acquired operations, which may include expenditures for consulting and the integration of systems and processes, product transfers and restructuring the company, which may include charges related to employees, assets and activities that will not continue in the company. Divestiture activity may also include costs to separate the divested operations, which may include expenditures for consulting and the disintegration of systems and processes, transfer costs, and restructuring charges which may include charges related to employees, assets and activities that will not continue in the company's ongoing operations. All operating functions can be impacted by these actions, including sales and marketing, manufacturing and R&D, as well as functions such as business technology, shared services and corporate operations.

The components of costs incurred in connection with restructuring initiatives, acquisitions and divestitures are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Restructuring charges and certain acquisition and divestiture-related costs:				
Acquisition-related costs	\$ —	\$ 3	\$ 1	\$ 7
Divestiture-related costs ^(a)	7	—	11	—
Restructuring charges, net ^(b) :				
Employee termination costs, net	(2)	8	39	33
Asset impairment charges	—	1	—	1
Exit costs	—	4	—	4
Total Restructuring charges and certain acquisition and divestiture-related costs	\$ 5	\$ 16	\$ 51	\$ 45

^(a) Divestiture-related costs consisted of costs related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets.

^(b) The restructuring charges for the nine months ended September 30, 2024 primarily consisted of employee termination costs related to organizational structure refinements, partially offset by a reversal of certain employee termination costs as a result of a change in strategy from our 2015 operational efficiency initiative.

The restructuring charges for the three and nine months ended September 30, 2023 primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives.

The change in our restructuring accrual is as follows:

(MILLIONS OF DOLLARS)	Accrual
Balance, December 31, 2023 ^(a)	\$ 35
Provision	46
Reserve adjustment	(7)
Utilization and other^(b)	(28)
Balance, September 30, 2024^(a)	\$ 46

^(a) At September 30, 2024 and December 31, 2023, included in *Accrued expenses* (\$44 million and \$26 million, respectively) and *Other noncurrent liabilities* (\$2 million and \$9 million, respectively).

^(b) Includes adjustments for foreign currency translation.

7. Other (Income)/Deductions—Net

The components of *Other (income)/deductions—net* are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Royalty-related income ^(a)	\$ (2)	\$ (1)	\$ (5)	\$ (36)
Interest income	(23)	(23)	(79)	(79)
Identifiable intangible asset impairment charges ^(b)	—	6	11	17
Loss on assets held for sale ^(c)	—	—	22	—
Other asset impairment charges	—	1	—	1
Net gain on sale of business ^(d)	—	—	—	(101)
Foreign currency loss ^(e)	5	19	42	41
Other, net	4	4	10	6
Other (income)/deductions—net	\$ (16)	\$ 6	\$ 1	\$ (151)

^(a) For the nine months ended September 30, 2023, predominantly associated with a settlement for underpayment of royalties in prior periods.

^(b) For the nine months ended September 30, 2024, represents asset impairment charges related to our aquaculture business.

For the three months ended September 30, 2023, primarily represents asset impairment charges related to our diagnostics business.

For the nine months ended September 30, 2023, primarily represents asset impairment charges related to our precision animal health and diagnostics businesses.

^(c) Represents a loss on assets held for sale related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets. For additional information, see *Note 5. Acquisitions and Divestitures*.

^(d) Relates to the gain on sale of a majority interest in our pet insurance business. For additional information, see *Note 5. Acquisitions and Divestitures*.

^(e) Primarily driven by costs related to hedging and exposures to certain emerging and developed market currencies.

8. Income Taxes

A. Taxes on Income

Our effective tax rate was 20.8% and 16.9% for the three months ended September 30, 2024 and 2023, respectively. The higher effective tax rate for the three months ended September 30, 2024, compared with the three months ended September 30, 2023, was primarily attributable to a benefit from the tax loss on the divestiture of Performance Livestock Analytics recorded in the third quarter of 2023, higher net discrete tax expenses and a less favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs), partially offset by a higher benefit in the U.S. related to foreign-derived intangible income. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

Our effective tax rate was 20.2% and 20.5% for the nine months ended September 30, 2024 and 2023, respectively. The lower effective tax rate for the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, was primarily attributable to a higher benefit in the U.S. related to foreign-derived intangible income, lower net discrete tax expenses and a more favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs), partially offset by a benefit from the tax loss on the divestiture of Performance Livestock Analytics recorded in the third quarter of 2023. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

In 2022, the company implemented an initiative to maximize its cash position in the U.S. This initiative resulted in a tax benefit in the U.S. in connection with a prepayment from a related foreign entity in Belgium which qualifies as foreign-derived intangible income; however, this income tax benefit was deferred to 2023 and 2024. A portion of this benefit was recognized during the three and nine months ended September 30, 2024 and 2023.

The global minimum tax provisions (Pillar Two) resulting from the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting project are effective beginning in 2024 and the impact of these provisions is included in our effective tax rate for the three and nine months ended September 30, 2024.

B. Deferred Taxes

As of September 30, 2024, the total net deferred income tax asset of \$237 million is included in *Noncurrent deferred tax assets* (\$409 million) and *Noncurrent deferred tax liabilities* (\$172 million).

As of December 31, 2023, the total net deferred income tax asset of \$60 million is included in *Noncurrent deferred tax assets* (\$206 million) and *Noncurrent deferred tax liabilities* (\$146 million).

C. Tax Contingencies

Uncertain Tax Positions

As of September 30, 2024, the net tax liabilities associated with uncertain tax positions of \$217 million (exclusive of interest and penalties related to uncertain tax positions of \$36 million) are included in *Other taxes payable*.

As of December 31, 2023, the net tax liabilities associated with uncertain tax positions of \$209 million (exclusive of interest and penalties related to uncertain tax positions of \$27 million) are included in *Other taxes payable*.

Our tax liabilities for uncertain tax positions relate primarily to issues common among multinational corporations. Any settlements or statute of limitations expirations could result in a significant decrease in our uncertain tax positions. Substantially all of these unrecognized tax benefits, if recognized, would impact our effective income tax rate. We do not expect that within the next twelve months any of our uncertain tax positions could significantly decrease as a result of settlements with taxing authorities or the expiration of the statutes of limitations. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but our estimates of uncertain tax positions and potential tax benefits may not be representative of actual outcomes, and any variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. Finalizing audits with the relevant taxing authorities can include formal administrative and legal proceedings, and, as a result, it is difficult to estimate the timing and range of possible changes related to our uncertain tax positions, and such changes could be significant.

Status of Tax Audits and Potential Impact on Accrual for Uncertain Tax Positions

We are currently under income tax audit by the U.S. Internal Revenue Service (IRS) for tax years 2017 and 2018. In July 2024, the IRS issued Notices of Proposed Adjustment (NOPA) related to the one-time mandatory deemed repatriation tax incurred on the 2018 U.S. Federal Income Tax return. In September 2024, the IRS issued a Revenue Agent Report for the adjustments identified in the NOPA. As of September 30, 2024, the additional tax liability, based on the income adjustment proposed by the IRS under the NOPA, is approximately \$450 million, excluding interest and penalties.

Based on current facts and circumstances, we disagree with the IRS' position and will defend our position taken on the 2018 U.S. Federal Income Tax return. We believe the amount previously accrued related to this uncertain tax position remains appropriate, but we will continue to evaluate the adequacy of our tax reserve as the audit progresses. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in our tax audits are not consistent with management's expectations, we could be required to adjust our provision for income taxes and this amount could be material to our financial statements.

9. Financial Instruments

A. Debt

Credit Facilities

In December 2022, we entered into an amended and restated revolving credit agreement with a syndicate of banks providing for a multi-year \$1.0 billion senior unsecured revolving credit facility (the credit facility), which expires in December 2027. Subject to certain conditions, we have the right to increase the credit facility to up to \$1.5 billion. The credit facility contains a financial covenant requiring us to not exceed a maximum total leverage ratio (the ratio of consolidated net debt as of the end of the period to consolidated Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA) for such period) of 3.50:1. Upon entering into a material acquisition, the maximum total leverage ratio increases to 4.00:1, and extends until the fourth full consecutive fiscal quarter ended immediately following the consummation of a material acquisition. In addition, the credit facility contains other customary covenants.

We were in compliance with all financial covenants as of September 30, 2024 and December 31, 2023. There were no amounts drawn under the credit facility as of September 30, 2024 or December 31, 2023.

We have additional lines of credit and other credit arrangements with a group of banks and other financial intermediaries for general corporate purposes. We maintain cash and cash equivalent balances in excess of our outstanding short-term borrowings. As of September 30, 2024, we had access to \$56 million of lines of credit which expire at various times and are generally renewed annually. There were no borrowings outstanding related to these facilities as of September 30, 2024 and \$3 million of borrowings outstanding related to these facilities as of December 31, 2023.

Commercial Paper Program

In February 2013, we entered into a commercial paper program with a capacity of up to \$1.0 billion. As of September 30, 2024 and December 31, 2023, there was no commercial paper outstanding under this program.

Senior Notes and Other Long-Term Debt

On November 8, 2022, we issued \$1.35 billion aggregate principal amount of our senior notes (2022 senior notes), with an original issue discount of \$2 million. These notes are comprised of \$600 million aggregate principal amount of 5.400% senior notes due 2025 and \$750 million aggregate principal amount of 5.600% senior notes due 2032. On February 1, 2023, the net proceeds were used to redeem in full, upon maturity, the \$1.35 billion aggregate principal amount of our 3.250% 2013 senior notes due 2023.

Our senior notes are governed by an indenture and supplemental indentures (collectively, the indenture) between us and Deutsche Bank Trust Company Americas, as trustee. The indenture contains certain covenants, including limitations on our and certain of our subsidiaries' ability to incur liens or engage in sale-leaseback transactions. The indenture also contains restrictions on our ability to consolidate, merge or sell substantially all of our assets. In addition, the indenture contains other customary terms, including certain events of default, upon the occurrence of which the senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the senior notes of any series, in whole or in part, at any time by paying a "make whole" premium, plus accrued and unpaid interest to, but excluding, the date of redemption. Upon the occurrence of a change of control of us and a downgrade of the senior notes below an investment grade rating by each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, we are, in certain circumstances, required to make an offer to repurchase all of the outstanding senior notes at a price equal to 101% of the aggregate principal amount of the senior notes together with accrued and unpaid interest to, but excluding, the date of repurchase.

The components of our long-term debt are as follows:

(MILLIONS OF DOLLARS)	September 30, 2024	December 31, 2023
4.500% 2015 senior notes due 2025	\$ 750	\$ 750
5.400% 2022 senior notes due 2025	600	600
3.000% 2017 senior notes due 2027	750	750
3.900% 2018 senior notes due 2028	500	500
2.000% 2020 senior notes due 2030	750	750
5.600% 2022 senior notes due 2032	750	750
4.700% 2013 senior notes due 2043	1,150	1,150
3.950% 2017 senior notes due 2047	500	500
4.450% 2018 senior notes due 2048	400	400
3.000% 2020 senior notes due 2050	500	500
	6,650	6,650
Unamortized debt discount / debt issuance costs	(56)	(60)
Cumulative fair value adjustment for interest rate swap contracts	(20)	(26)
<i>Long-term debt, net of discount and issuance costs</i>	\$ 6,574	\$ 6,564

The fair value of our long-term debt was \$6,334 million and \$6,319 million as of September 30, 2024 and December 31, 2023, respectively, and has been determined using a third-party model that uses significant inputs derived from, or corroborated by, observable market data, including benchmark security prices and Zoetis' credit spreads (Level 2 inputs).

The following table provides the principal amount of debt outstanding, as of September 30, 2024, by scheduled maturity date:

(MILLIONS OF DOLLARS)	2024	2025	2026	2027	2028	After 2028	Total
Maturities	\$ —	\$ 1,350	\$ —	\$ 750	\$ 500	\$ 4,050	\$ 6,650

Interest Expense

Interest expense, net of capitalized interest, was \$57 million and \$174 million for the three and nine months ended September 30, 2024, respectively, and \$59 million and \$180 million for the three and nine months ended September 30, 2023, respectively. Capitalized interest expense was \$9 million and \$26 million for the three and nine months ended September 30, 2024, respectively, and \$7 million and \$19 million for the three and nine months ended September 30, 2023, respectively.

B. Derivative Financial Instruments

Foreign Exchange Risk

A significant portion of our revenue, earnings and net investment in foreign affiliates is exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk, in part, through operational means, including managing same-currency revenue in relation to same-currency costs and same-currency assets in relation to same-currency liabilities. Depending on market conditions, foreign exchange risk is also managed through the use of various derivative financial instruments. These derivative financial instruments serve to manage the exposure of our net investment in certain foreign operations to changes in foreign exchange rates and protect net income against the impact of translation into U.S. dollars of certain foreign exchange-denominated transactions.

All derivative financial instruments used to manage foreign currency risk are measured at fair value and are reported as assets or liabilities on the Condensed Consolidated Balance Sheets. The derivative financial instruments primarily offset exposures in the Australian dollar, British pound, Canadian dollar, Chinese renminbi, euro and Norwegian krone. Changes in fair value are reported in earnings or in *Accumulated other comprehensive loss*, depending on the nature and purpose of the financial instrument, as follows:

- For foreign currency forward-exchange contracts not designated as hedging instruments, we recognize the gains and losses that are used to offset the same foreign currency assets or liabilities immediately into earnings along with the earnings impact of the items they generally offset. These contracts essentially take the opposite currency position of that reflected in the month-end balance sheet to counterbalance the effect of any currency movement. The vast majority of the foreign currency forward-exchange contracts mature within 60 days and all mature within four years.
- For foreign exchange derivative instruments that are designated as hedging instruments against our net investment in foreign operations, changes in the fair value are recorded as a component of cumulative translation adjustment within *Accumulated other comprehensive loss* and reclassified into earnings when the foreign investment is sold or substantially liquidated. These instruments include cross-currency interest rate swaps and foreign currency forward-exchange contracts. Gains and losses excluded from the assessment of hedge effectiveness are recognized in earnings (*Interest expense, net of capitalized interest*). The cash flows from these contracts are reflected within the investing section of our Condensed Consolidated Statements of Cash Flows. These contracts have varying maturities and all mature within one year.

Interest Rate Risk

The company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rates and to reduce its overall cost of borrowing.

- In anticipation of issuing fixed-rate debt, we may use forward-starting interest rate swaps that are designated as cash flow hedges to hedge against changes in interest rates that could impact expected future issuances of debt. Unrealized gains or losses on the forward-starting interest rate swaps are reported in *Accumulated other comprehensive loss* and are recognized in earnings over the life of the future fixed rate notes. When the company discontinues hedge accounting because it is no longer probable that an anticipated transaction will occur within the originally expected period of execution, or within an additional two-month period thereafter, changes to fair value accumulated in other comprehensive income are recognized immediately in earnings.
- During the period from 2019 to 2022, we entered into forward-starting interest rate swaps with an aggregate notional value of \$650 million. We designated these swaps as cash flow hedges against interest rate exposure related principally to the issuance of fixed-rate debt to refinance our 3.250% 2013 senior notes due 2023. Upon issuance of our 2022 senior notes, we terminated these contracts and received \$114 million in cash from the counterparties for settlement. The settlement amount, which represented the fair value of the contracts at the time of termination, was recorded in *Accumulated other comprehensive loss*, and will be amortized into income (offset to *Interest expense, net of capitalized interest*) over the life of the 5.600% 2022 senior notes due 2032.
- As of September 30, 2024, we had outstanding forward-starting interest rate swaps, having an effective date and mandatory termination date in March 2026, to hedge against interest rate exposure related principally to the anticipated future issuance of fixed-rate debt to be used primarily to refinance our 4.500% 2015 senior notes due 2025.
- We may use fixed-to-floating interest rate swaps that are designated as fair value hedges to hedge against changes in the fair value of certain fixed-rate debt attributable to changes in the benchmark of the Secured Overnight Financing Rate (SOFR). These derivative instruments effectively convert a portion of the company's long-term debt from fixed-rate to floating-rate debt based on the daily SOFR rate plus a spread. Gains or losses on the fixed-to-floating interest rate swaps due to changes in SOFR are recorded in *Interest expense, net of capitalized interest*. Changes in the fair value of the fixed-to-floating interest rate swaps are offset by changes in the fair value of the underlying fixed-rate debt. As of September 30, 2024, we had outstanding fixed-to-floating interest rate swaps that correspond to a portion of the 3.900% 2018 senior notes due 2028 and the 2.000% 2020 senior notes due 2030. The amounts recorded during the three and nine

months ended September 30, 2024 for changes in the fair value of these hedges are not material to our condensed consolidated financial statements.

During the first quarter of 2023, we executed amendments to certain of our interest rate swap contracts, which changed the floating rate index from LIBOR to SOFR. These amendments did not have a material impact on our condensed consolidated financial statements.

Outstanding Positions

The aggregate notional amount of derivative instruments are as follows:

(MILLIONS)	Notional	
	September 30, 2024	December 31, 2023
Derivatives not Designated as Hedging Instruments:		
Foreign currency forward-exchange contracts	\$ 1,965	\$ 1,948
Derivatives Designated as Hedging Instruments:		
Foreign exchange derivative instruments (in foreign currency):		
Euro	750	650
Danish krone	475	600
Swiss franc	25	25
Forward-starting interest rate swaps	\$ 200	\$ 100
Fixed-to-floating interest rate swap contracts	\$ 250	\$ 250

Fair Value of Derivative Instruments

The classification and fair values of derivative instruments are as follows:

(MILLIONS OF DOLLARS)	Balance Sheet Location	Fair Value of Derivatives	
		September 30, 2024	December 31, 2023
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward-exchange contracts	Other current assets	\$ 17	\$ 11
Foreign currency forward-exchange contracts	Other current liabilities	(14)	(11)
Total derivatives not designated as hedging instruments		\$ 3	\$ —
Derivatives Designated as Hedging Instruments:			
Forward-starting interest rate swap contracts	Other noncurrent assets	\$ 12	\$ 12
Foreign exchange derivative instruments	Other current assets	17	5
Foreign exchange derivative instruments	Other noncurrent assets	—	11
Foreign exchange derivative instruments	Other current liabilities	(17)	(20)
Foreign exchange derivative instruments	Other noncurrent liabilities	—	(1)
Fixed-to-floating interest rate swap contracts	Other noncurrent liabilities	(20)	(26)
Total derivatives designated as hedging instruments		(8)	(19)
Total derivatives		\$ (5)	\$ (19)

The company's derivative transactions are subject to master netting agreements that mitigate credit risk by permitting net settlement of transactions with the same counterparty. The company also has collateral security agreements with certain of its counterparties. Under these collateral security agreements each party is required to post cash collateral when the net fair value of derivative instruments covered by the collateral agreement exceeds contractually established thresholds. At September 30, 2024, there was \$12 million of collateral received and \$22 million of collateral posted related to derivative instruments recorded in *Other current liabilities* and *Other current assets*, respectively. At December 31, 2023, there was \$13 million of collateral received and \$33 million of collateral posted related to derivative instruments recorded in *Other current liabilities* and *Other current assets*, respectively.

We use a market approach in valuing financial instruments on a recurring basis. Our derivative financial instruments are measured at fair value on a recurring basis using Level 2 inputs in the calculation of fair value.

The amounts of net gains/(losses) on derivative instruments not designated as hedging instruments, recorded in *Other (income)/deductions—net*, are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Foreign currency forward-exchange contracts	\$ 11	\$ 16	\$ 12	\$ (20)

These amounts were substantially offset in *Other (income)/deductions—net* by the effect of changing exchange rates on the underlying foreign currency exposures.

The amounts of unrecognized net (losses)/gains on interest rate swap contracts, recorded, net of tax, in *Accumulated other comprehensive loss*, are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Forward-starting interest rate swap contracts	\$ (3)	\$ 5	\$ —	\$ 5
Foreign exchange derivative instruments	\$ (23)	\$ 18	\$ (5)	\$ 5

Gains on interest rate swap contracts, recognized within *Interest expense, net of capitalized interest*, are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Foreign exchange derivative instruments	\$ 4	\$ 4	\$ 12	\$ 14

The net amount of deferred gains related to derivative instruments designated as cash flow hedges that is expected to be reclassified from *Accumulated other comprehensive loss* into earnings over the next 12 months is not material.

10. Inventories

The components of inventory are as follows:

(MILLIONS OF DOLLARS)	September 30, 2024	December 31, 2023
Finished goods	\$ 1,049	\$ 1,147
Work-in-process	951	966
Raw materials and supplies	416	451
<i>Inventories</i>	\$ 2,416	\$ 2,564

11. Goodwill and Other Intangible Assets

A. Goodwill

The components of, and changes in, the carrying amount of goodwill are as follows:

(MILLIONS OF DOLLARS)	U.S.	International	Total
Balance, December 31, 2023	\$ 1,532	\$ 1,227	\$ 2,759
Other ^(a)	(17)	2	(15)
Balance, September 30, 2024	\$ 1,515	\$ 1,229	\$ 2,744

^(a) Includes adjustments for the reclassification of goodwill of \$24 million to *Assets held for sale* related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets, as well as foreign currency translation. For additional information, see *Note 5. Acquisitions and Divestitures: B. Divestitures*.

The gross goodwill balance was \$3,280 million and \$3,295 million as of September 30, 2024 and December 31, 2023, respectively. Accumulated goodwill impairment losses were \$536 million as of September 30, 2024 and December 31, 2023.

B. Other Intangible Assets

The components of identifiable intangible assets are as follows:

(MILLIONS OF DOLLARS)	As of September 30, 2024			As of December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets Less Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets Less Accumulated Amortization
Finite-lived intangible assets:						
Developed technology rights	\$ 1,931	\$ (1,164)	\$ 767	\$ 1,986	\$ (1,101)	\$ 885
Brands and tradenames	370	(245)	125	383	(246)	137
Other	276	(196)	80	270	(190)	80
Total finite-lived intangible assets	2,577	(1,605)	972	2,639	(1,537)	1,102
Indefinite-lived intangible assets:						
Brands and tradenames	66	—	66	88	—	88
In-process research and development	141	—	141	141	—	141
Product rights	7	—	7	7	—	7
Total indefinite-lived intangible assets	214	—	214	236	—	236
<i>Identifiable intangible assets</i>	\$ 2,791	\$ (1,605)	\$ 1,186	\$ 2,875	\$ (1,537)	\$ 1,338

C. Amortization

Amortization expense related to finite-lived acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in *Amortization of intangible assets* as it benefits multiple business functions. Amortization expense related to finite-lived acquired intangible assets that are associated with a single function is included in *Cost of sales, Selling, general and administrative expenses* or *Research and development expenses*, as appropriate. Total amortization expense for finite-lived intangible assets was \$42 million and \$128 million for the three and nine months ended September 30, 2024, respectively, and \$46 million and \$141 million for the three and nine months ended September 30, 2023, respectively.

12. Share-based Payments

The Zoetis 2013 Equity and Incentive Plan, Amended and Restated as of May 19, 2022 (Equity Plan), provides long-term incentives to our employees and non-employee directors. The principal types of share-based awards available under the Equity Plan may include, but are not limited to, stock options, restricted stock and restricted stock units (RSUs), deferred stock units (DSUs), performance-vesting restricted stock units (PSUs) and other equity-based or cash-based awards.

The components of share-based compensation expense are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Stock options / stock appreciation rights	\$ 2	\$ 3	\$ 8	\$ 6
RSUs / DSUs	10	10	31	27
PSUs	6	4	16	10
Share-based compensation expense—total ^(a)	\$ 18	\$ 17	\$ 55	\$ 43

^(a) For the three and nine months ended September 30, 2024 and 2023, we capitalized less than \$1 million of share-based compensation expense to inventory.

During the nine months ended September 30, 2024, the company granted 270,450 stock options with a weighted-average exercise price of \$195.84 per stock option and a weighted-average fair value of \$50.90 per stock option. The fair-value based method for valuing each Zoetis stock option grant on the grant date uses the Black-Scholes-Merton option-pricing model, which incorporates a number of valuation assumptions. The weighted-average fair value was estimated based on the following assumptions: risk-free interest rate of 4.06%; expected dividend yield of 0.88%; expected stock price volatility of 27.02%; and expected term of 4.1 years. Stock options granted prior to 2023 generally vest after three years of continuous service from the date of grant and have a contractual term of 10 years. Beginning in 2023, stock options granted are subject to graded vesting over three years from the date of grant and have a contractual term of 10 years. The values determined through this fair-value based method generally are amortized on a straight-line basis over the vesting term into *Cost of sales, Selling, general and administrative expenses*, or *Research and development expenses*, as appropriate.

During the nine months ended September 30, 2024, the company granted 246,112 RSUs, with a weighted-average grant date fair value of \$195.10 per RSU. RSUs are accounted for using a fair-value-based method that utilizes the closing price of Zoetis common stock on the date of grant. RSUs granted prior to 2023 generally vest after three years of continuous service from the date of grant. Beginning in 2023, RSUs granted are subject to graded vesting over three years from the date of grant. The values generally are amortized on a straight-line basis over the vesting term into *Cost of sales, Selling, general and administrative expenses*, or *Research and development expenses*, as appropriate.

During the nine months ended September 30, 2024, the company granted 101,099 PSUs with a weighted-average grant date fair value of \$268.71 per PSU. PSUs are accounted for using a Monte Carlo simulation model. The units underlying the PSUs will be earned and vested over a three-year performance period, based upon the total shareholder return of the company in comparison to the total shareholder return of the companies

comprising the S&P 500 stock market index at the start of the performance period, excluding companies that during the performance period are acquired or no longer publicly traded (Relative TSR). The weighted-average fair value was estimated based on volatility assumptions of Zoetis common stock and an average of the S&P 500 companies, which were 26.2% and 30.6%, respectively. Depending on the company's Relative TSR performance at the end of the performance period, the recipient may earn from 0% to 200% of the target number of units. Vested units are settled in shares of the company's common stock. PSU values are amortized on a straight-line basis over the vesting term into *Cost of sales, Selling, general and administrative expenses, or Research and development expenses*, as appropriate.

13. Stockholders' Equity

Zoetis is authorized to issue 6 billion shares of common stock and 1 billion shares of preferred stock.

In December 2021, our Board of Directors authorized a \$3.5 billion multi-year share repurchase program. As of September 30, 2024, there was \$200 million remaining under this authorization. In August 2024, our Board of Directors authorized a new multi-year share repurchase program of up to \$6 billion of our outstanding common stock. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions, business needs and available liquidity.

Accumulated other comprehensive loss

Changes, net of tax, in accumulated other comprehensive loss, were as follows:

(MILLIONS OF DOLLARS)	Currency Translation Adjustments				
	Cash Flow Hedges	Net Investment Hedges	Other Currency Translation Adjustments	Benefit Plans Actuarial Gains/(Losses)	Accumulated Other Comprehensive Loss
Balance, December 31, 2023	\$ 85	\$ 18	\$ (944)	\$ 2	\$ (839)
Other comprehensive loss, net of tax	(5)	(5)	(2)	—	(12)
Balance, September 30, 2024	\$ 80	\$ 13	\$ (946)	\$ 2	\$ (851)
Balance, December 31, 2022	\$ 90	\$ 41	\$ (944)	\$ (4)	\$ (817)
Other comprehensive income/(loss), net of tax	—	5	(6)	4	3
Balance, September 30, 2023	\$ 90	\$ 46	\$ (950)	\$ —	\$ (814)

14. Earnings per Share

The following table presents the calculation of basic and diluted earnings per share:

(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator				
Net income before allocation to noncontrolling interests	\$ 692	\$ 596	\$ 1,915	\$ 1,817
Less: Net income/(loss) attributable to noncontrolling interests	10	—	10	(2)
Net income attributable to Zoetis Inc.	\$ 682	\$ 596	\$ 1,905	\$ 1,819
Denominator				
Weighted-average common shares outstanding	452.9	460.3	455.4	461.9
Common stock equivalents: stock options, RSUs, PSUs and DSUs	0.6	1.1	0.7	1.1
Weighted-average common and potential dilutive shares outstanding	453.5	461.4	456.1	463.0
Earnings per share attributable to Zoetis Inc. stockholders—basic	\$ 1.51	\$ 1.29	\$ 4.18	\$ 3.94
Earnings per share attributable to Zoetis Inc. stockholders—diluted	\$ 1.50	\$ 1.29	\$ 4.18	\$ 3.93

The number of stock options outstanding under the company's Equity Plan that were excluded from the computation of diluted earnings per share, as the effect would have been antidilutive, were not material for the three and nine months ended September 30, 2024 and 2023.

15. Commitments and Contingencies

We and certain of our subsidiaries are subject to numerous contingencies arising in the ordinary course of business. For a discussion of our tax contingencies, see *Note 8. Income Taxes*.

A. Legal Proceedings

Our non-tax contingencies include, among others, the following:

- Product liability and other product-related litigation, which can include injury, consumer, off-label promotion, antitrust and breach of contract claims.
- Commercial and other matters, which can include product-pricing claims and environmental claims and proceedings.
- Patent litigation, which typically involves challenges to the coverage and/or validity of our patents or those of third parties on various products or processes.

- Government investigations, which can involve regulation by national, state and local government agencies in the U.S. and in other countries.

Certain of these contingencies could result in losses, including damages, fines and/or civil penalties, and/or criminal charges, which could be substantial.

We believe that we have strong defenses in these types of matters, but litigation is inherently unpredictable and excessive verdicts do occur. We do not believe that any of these matters will have a material adverse effect on our financial position. However, we could incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations or cash flows in the period in which the amounts are paid.

We have accrued for losses that are both probable and reasonably estimable. Substantially all of these contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions.

Amounts recorded for legal and environmental contingencies can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions.

The principal matters to which we are a party are discussed below. In determining whether a pending matter is significant for financial reporting and disclosure purposes, we consider both quantitative and qualitative factors in order to assess materiality, such as, among other things, the amount of damages and the nature of any other relief sought in the proceeding, if such damages and other relief are specified; our view of the merits of the claims and of the strength of our defenses; whether the action purports to be a class action and our view of the likelihood that a class will be certified by the court; the jurisdiction in which the proceeding is pending; any experience that we or, to our knowledge, other companies have had in similar proceedings; whether disclosure of the action would be important to a reader of our financial statements, including whether disclosure might change a reader's judgment about our financial statements in light of all of the information about the company that is available to the reader; the potential impact of the proceeding on our reputation; and the extent of public interest in the matter. In addition, with respect to patent matters, we consider, among other things, the financial significance of the product protected by the patent.

Ulianopolis, Brazil

In February 2012, the Municipality of Ulianopolis (State of Para, Brazil) filed a complaint against Fort Dodge Saúde Animal Ltda. (FDSAL), a Zoetis entity, and five other large companies alleging that waste sent to a local waste incineration facility for destruction, but that was not ultimately destroyed as the facility lost its operating permit, caused environmental impacts requiring cleanup.

The Municipality is seeking recovery of cleanup costs purportedly related to FDSAL's share of all waste accumulated at the incineration facility awaiting destruction, and compensatory damages to be allocated among the six defendants. We believe we have strong arguments against the claim, including defense strategies against any claim of joint and several liability.

At the request of the Municipal prosecutor, in April 2012, the lawsuit was suspended for one year. Since that time, the prosecutor has initiated investigations into the Municipality's actions in the matter as well as the efforts undertaken by the six defendants to remove and dispose of their individual waste from the incineration facility. On October 3, 2014, the Municipal prosecutor announced that the investigation remained ongoing and outlined the terms of a proposed Term of Reference (a document that establishes the minimum elements to be addressed in the preparation of an Environmental Impact Assessment), under which the companies would be liable to withdraw the waste and remediate the area.

On March 5, 2015, we presented our response to the prosecutor's proposed Term of Reference, arguing that the proposed terms were overly general in nature and expressing our interest in discussing alternatives to address the matter. The prosecutor agreed to consider our request to engage a technical consultant to conduct an environmental diagnostic of the contaminated area. On May 29, 2015, we, in conjunction with the other defendant companies, submitted a draft cooperation agreement to the prosecutor, which outlined the proposed terms and conditions for the engagement of a technical consultant to conduct the environmental diagnostic. On August 19, 2016, the parties and the prosecutor agreed to engage the services of a third-party consultant to conduct a limited environmental assessment of the site. The site assessment was conducted during June 2017, and a written report summarizing the results of the assessment was provided to the parties and the prosecutor in November 2017. The report noted that waste is still present on the site and that further (Phase II) environmental assessments are needed before a plan to manage that remaining waste can be prepared. On April 1, 2019, the defendants met with the Prosecutor to discuss the conclusions set forth in the written report. Following that discussion, on April 10, 2019, the Prosecutor issued a procedural order requesting that the defendants prepare and submit a technical proposal outlining the steps needed to conduct the additional Phase II environmental assessments. The defendants presented the technical proposal to the Prosecutor on October 21, 2019. On March 3, 2020, the Prosecutor notified the defendants that he submitted the proposal to the Ministry of the Environment for its review and consideration by the Prosecutor. On July 15, 2020, the Prosecutor recommended certain amendments to the proposal for the Phase II testing. On September 28, 2020, the parties and the Prosecutor agreed to the final terms and conditions concerning the cooperation agreement with respect to the Phase II testing. Phase II testing began the week of October 14, 2024. The consultant will provide a report upon completion of the testing.

B. Guarantees and Indemnifications

In the ordinary course of business and in connection with the sale of assets and businesses, we indemnify our counterparties against certain liabilities that may arise in connection with the transaction or related to activities prior to the transaction. These indemnifications typically pertain to environmental, tax, employee and/or product-related matters and patent-infringement claims. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications are generally subject to threshold amounts, specified claim periods and other restrictions and limitations. Historically, we have not paid significant amounts under these provisions and, as of September 30, 2024, recorded amounts for the estimated fair value of these indemnifications were not material.

16. Segment Information

Operating Segments

We manage our operations through two geographic operating segments: the U.S. and International. Each operating segment has responsibility for its commercial activities. Within each of these operating segments, we offer a diversified product portfolio, including parasiticides, vaccines, dermatology, anti-infectives, pain and sedation, other pharmaceutical, animal health diagnostics and medicated feed additives, for both companion animal and livestock customers. Our chief operating decision maker uses the revenue and earnings of the two operating segments, among other factors, for performance evaluation and resource allocation.

Other Costs and Business Activities

Certain costs are not allocated to our operating segment results, such as costs associated with the following:

- *Other business activities*, includes our Client Supply Services contract manufacturing results, our human health business, and expenses associated with our dedicated veterinary medicine research and development organization, research alliances, U.S. regulatory affairs and other operations focused on the development of our products. Other R&D-related costs associated with non-U.S. market and regulatory activities are generally included in the international commercial segment.
- *Corporate*, includes enabling functions such as information technology, facilities, legal, finance, human resources, business development, certain diagnostic costs and communications, among others. These costs also include certain compensation costs, certain procurement costs and other miscellaneous operating expenses not charged to our operating segments, as well as interest income and expense.
- Certain transactions and events such as (i) *Purchase accounting adjustments*, where we incur expenses associated with the amortization of fair value adjustments to inventory, intangible assets and property, plant and equipment; (ii) *Acquisition and divestiture-related costs*, where we incur costs associated with acquiring and integrating newly acquired businesses, such as transaction costs and integration costs, as well as divestiture-related costs; and (iii) *Certain significant items*, which comprise substantive, unusual items that, either as a result of their nature or size, would not be expected to occur as part of our normal business on a regular basis, such as restructuring charges and implementation costs associated with our cost-reduction/productivity initiatives that are not associated with an acquisition or divestiture, certain asset impairment charges, certain legal and commercial settlements and the impact of divestiture-related gains and losses.
- *Other unallocated* includes (i) certain overhead expenses associated with our global manufacturing operations not charged to our operating segments; (ii) certain costs associated with finance that specifically support our global manufacturing operations; (iii) certain supply chain and global logistics costs; and (iv) certain procurement costs.

Segment Assets

We manage our assets on a total company basis, not by operating segment. Therefore, our chief operating decision maker does not regularly review any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

Selected Statement of Income Information

(MILLIONS OF DOLLARS)	Earnings		Depreciation and Amortization ^(a)	
	Three Months Ended		Three Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
U.S.				
Revenue	\$ 1,346	\$ 1,174		
Cost of sales	258	228		
Gross profit	1,088	946		
Gross margin	80.8 %	80.6 %		
Operating expenses	199	202		
Other (income)/deductions-net	—	—		
U.S. Earnings	889	744	\$ 20	\$ 19
International				
Revenue ^(b)	1,021	956		
Cost of sales	321	306		
Gross profit	700	650		
Gross margin	68.6 %	68.0 %		
Operating expenses	157	156		
Other (income)/deductions-net	1	1		
International Earnings	542	493	25	24
Total operating segments	1,431	1,237	45	43
Other business activities	(137)	(124)	9	9
Reconciling Items:				
Corporate	(306)	(258)	31	33
Purchase accounting adjustments	(35)	(39)	35	39
Acquisition and divestiture-related costs	(7)	(3)	—	—
Certain significant items ^(c)	(1)	(23)	—	—
Other unallocated	(71)	(73)	1	—
Total Earnings^(d)	\$ 874	\$ 717	\$ 121	\$ 124

^(a) Certain production facilities are shared. Depreciation and amortization is allocated to the reportable operating segments based on estimates of where the benefits of the related assets are realized.

^(b) Revenue denominated in euros was \$234 million and \$206 million for the three months ended September 30, 2024 and 2023, respectively.

^(c) For the three months ended September 30, 2023, primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives, as well as certain asset impairment charges related to our diagnostics and precision animal health businesses.

^(d) Defined as income before provision for taxes on income.

(MILLIONS OF DOLLARS)	Earnings		Depreciation and Amortization ^(a)	
	Nine Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
U.S.				
Revenue	\$ 3,817	\$ 3,344		
Cost of sales	707	645		
Gross profit	3,110	2,699		
Gross margin	81.5 %	80.7 %		
Operating expenses	593	602		
Other (income)/deductions-net	—	—		
U.S. Earnings	2,517	2,097	\$ 65	\$ 58
International				
Revenue ^(b)	3,063	2,929		
Cost of sales	976	912		
Gross profit	2,087	2,017		
Gross margin	68.1 %	68.9 %		
Operating expenses	491	473		
Other (income)/deductions-net	1	1		
International Earnings	1,595	1,543	73	67
Total operating segments	4,112	3,640	138	125
Other business activities	(411)	(354)	29	24
Reconciling Items:				
Corporate	(893)	(722)	96	95
Purchase accounting adjustments	(107)	(124)	107	118
Acquisition and divestiture-related costs	(12)	(8)	—	—
Certain significant items ^(c)	(77)	45	—	—
Other unallocated	(211)	(191)	4	3
Total Earnings^(d)	\$ 2,401	\$ 2,286	\$ 374	\$ 365

^(a) Certain production facilities are shared. Depreciation and amortization is allocated to the reportable operating segments based on estimates of where the benefits of the related assets are realized.

^(b) Revenue denominated in euros was \$694 million and \$627 million for the nine months ended September 30, 2024 and 2023, respectively.

^(c) For the nine months ended September 30, 2024, primarily consisted of employee termination costs related to organizational structure refinements, a loss on assets held for sale related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets, as well as asset impairment charges related to our aquaculture business, partially offset by a reversal of certain employee termination costs as a result of a change in strategy from our 2015 operational efficiency initiative.

For the nine months ended September 30, 2023, primarily consisted of a gain on the sale of a majority interest in our pet insurance business, partially offset by employee termination costs related to organizational structure refinements and certain asset impairment charges related to our precision animal health and diagnostics businesses.

^(d) Defined as income before provision for taxes on income.

17. Subsequent Event

On October 31, 2024, we completed the divestiture of our medicated feed additive product portfolio, certain water soluble products and related assets. We do not expect the closing of the divestiture to have a material impact to our consolidated financial statements. See *Note 5. Acquisitions and Divestitures* for additional information regarding the transaction.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview of our business

Zoetis is a global leader in the animal health industry, focused on the discovery, development, manufacture and commercialization of medicines, vaccines, diagnostic products and services, biodevices, genetic tests and precision animal health. For over 70 years, we have been innovating ways to predict, prevent, detect, and treat animal illness, and continue to stand by those raising and caring for animals worldwide - from veterinarians and pet owners to livestock farmers and ranchers.

We manage our operations through two geographic operating segments: the United States (U.S.) and International. Within each of these operating segments, we offer a diversified product portfolio for both companion animal and livestock customers in order to capitalize on local and regional trends and customer needs. See Notes to Condensed Consolidated Financial Statements — *Note 16. Segment Information*.

We directly market our products to veterinarians and livestock producers located in approximately 45 countries across North America, Europe, Africa, Asia, Australia and South America, and are a market leader in nearly all of the major regions in which we operate. Through our efforts to establish an early and direct presence in many emerging markets, such as Brazil, Chile, China and Mexico, we believe we are one of the largest animal health medicines and vaccines businesses as measured by revenue across emerging markets as a whole. In markets where we do not have a direct commercial presence, we generally contract with distributors that provide logistics and sales and marketing support for our products.

Our companion animal and livestock products are primarily available by prescription through a veterinarian. On a more limited basis, in certain markets, we sell certain products through retail and e-commerce outlets. We also market our products by advertising to veterinarians, livestock producers and pet owners.

We believe our investments in one of the industry’s largest sales organizations, including our extensive network of technical and veterinary operations specialists, our high-quality manufacturing and reliability of supply, and our long track record of developing products that meet customer needs, has led to enduring and valued relationships with our customers. Our research and development (R&D) efforts enable us to deliver innovative products to address unmet needs and evolve our product lines so that they remain relevant for our customers.

We have approximately 300 product lines that we sell in over 100 countries for the prediction, prevention, detection and treatment of diseases and conditions that affect various companion animal and livestock species. The diversity of our product portfolio and our global operations provides stability to our overall business. For instance, in livestock, impacts on our revenue that may result from disease outbreaks or weather conditions in a particular market or region are often offset by increased sales in other regions from exports and other species as consumers shift to other animal proteins.

A summary of our 2024 performance compared with the comparable 2023 periods follows:

(MILLIONS OF DOLLARS)	Three Months Ended September 30,		% Change		
			Total	Related to	
	2024	2023		Exchange	Operational ^(a)
Revenue	\$ 2,388	\$ 2,151	11	(3)	14
Net income attributable to Zoetis	682	596	14	(2)	16
Adjusted net income ^(a)	716	629	14	(1)	15

(MILLIONS OF DOLLARS)	Nine Months Ended September 30,		% Change		
			Total	Related to	
	2024	2023		Exchange	Operational ^(a)
Revenue	\$ 6,939	\$ 6,331	10	(2)	12
Net income attributable to Zoetis	1,905	1,819	5	(9)	14
Adjusted net income ^(a)	2,061	1,888	9	(7)	16

^(a) Operational results and adjusted net income are non-GAAP financial measures. See the *Non-GAAP financial measures* section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for more information.

Our operating environment

For a description of our operating environment, including factors which could materially affect our business, financial condition, or future results, see "Our Operating Environment" in the MD&A of our 2023 Annual Report on Form 10-K. Set forth below are updates to certain of the factors disclosed in our 2023 Annual Report on Form 10-K.

Quarterly Variability of Financial Results

Our quarterly financial results are subject to variability related to a number of factors including, but not limited to: the decline in global macroeconomic conditions, competitive dynamics, the regional conflict in the Middle East, geopolitical tensions with and economic uncertainty in China, inflation, global supply chain disruption, variability in distributor inventory stocking levels as a result of expected demand and promotional activities, weather patterns, herd management decisions, regulatory actions, disease outbreaks, product and geographic mix, timing of price increases and timing of investment decisions.

Disease Outbreaks

Sales of our livestock products have in the past, and may in the future be, adversely affected by the outbreak of disease carried by animals. Outbreaks of disease may reduce regional or global sales of particular animal-derived food products or result in reduced exports of such products, either due to heightened export restrictions or import prohibitions, which may reduce demand for our products. Also, the outbreak of any highly contagious disease near our main production sites could require us to immediately halt production of our products at such sites or force us to incur substantial expenses in procuring raw materials or products elsewhere. Alternatively, sales of products that treat specific disease outbreaks may increase.

Foreign Exchange Rates

Significant portions of our revenue and costs are exposed to changes in foreign exchange rates. Our products are sold in more than 100 countries and, as a result, our revenue is influenced by changes in foreign exchange rates. For the nine months ended September 30, 2024, approximately 41% of our revenue was denominated in foreign currencies. We seek to manage our foreign exchange risk, in part, through operational means, including managing same-currency revenue in relation to same-currency costs and same-currency assets in relation to same-currency liabilities. As we operate in multiple foreign currencies, including the Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese renminbi, euro and other currencies, changes in those currencies relative to the U.S. dollar will impact our revenue, cost of goods and expenses, and consequently, net income. Exchange rate fluctuations may also have an impact beyond our reported financial results and directly impact operations. These fluctuations may affect the ability to buy and sell our goods and services between markets impacted by significant exchange rate variances. For the nine months ended September 30, 2024, approximately 59% of our total revenue was in U.S. dollars. Our year-over-year total revenue growth was unfavorably impacted by approximately 2% from changes in foreign currency values relative to the U.S. dollar. For operations in highly inflationary economies, we translate monetary items at rates in effect at the balance sheet date, with translation adjustments recorded in *Other (income)/deductions—net*, and we translate non-monetary items at historical rates.

Non-GAAP financial measures

We report information in accordance with U.S. generally accepted accounting principles (GAAP). Management also measures performance using non-GAAP financial measures that may exclude certain amounts from the most directly comparable GAAP measure. Despite the importance of these measures to management in goal setting and performance measurement, non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and, therefore, have limits in their usefulness to investors and may not be comparable to the calculation of similar measures of other companies. We present certain identified non-GAAP measures solely to provide investors with useful information to more fully understand how management assesses performance.

Operational Results

We believe that it is important to not only understand overall revenue and earnings results, but also “operational” results. Operational results is a non-GAAP financial measure defined as revenue or earnings results excluding the impact of foreign exchange. This measure provides information on the change in revenue and earnings as if foreign currency exchange rates had not changed between the current and prior periods to facilitate a period-to-period comparison. We believe this non-GAAP measure provides a useful comparison to previous periods for the company and investors, but should not be viewed as a substitute for U.S. GAAP reported results.

Adjusted Net Income and Adjusted Earnings Per Share

Adjusted net income and the corresponding adjusted earnings per share (EPS) are non-GAAP financial measures of performance used by management. We believe these financial measures are useful supplemental information to investors when considered together with our U.S. GAAP financial measures. We report adjusted net income to portray the results of our major operations, and the discovery, development, manufacture and commercialization of our products, prior to considering certain income statement elements. We define adjusted net income and adjusted EPS as net income attributable to Zoetis and EPS before the impact of purchase accounting adjustments, acquisition and divestiture-related costs and certain significant items.

We recognize that, as an internal measure of performance, the adjusted net income and adjusted EPS measures have limitations, and we do not restrict our performance management process solely to these metrics. A limitation of the adjusted net income and adjusted EPS measures is that they provide a view of our operations without including all events during a period, such as the effects of an acquisition, divestiture or amortization of purchased intangibles, and do not provide a comparable view of our performance to other companies. The adjusted net income and adjusted EPS measures are not, and should not be viewed as, a substitute for U.S. GAAP reported net income attributable to Zoetis and reported EPS. See the *Adjusted Net Income* section below for more information.

Analysis of the condensed consolidated statements of income

The following discussion and analysis of our statements of income should be read along with our condensed consolidated financial statements and the notes thereto included elsewhere in *Part I—Item 1* of this Quarterly Report on Form 10-Q.

(MILLIONS OF DOLLARS)	Three Months Ended September 30,			%	Nine Months Ended September 30,			%
	2024	2023	Change		2024	2023	Change	
Revenue	\$ 2,388	\$ 2,151	11	\$ 6,939	\$ 6,331	10		
Costs and expenses:								
Cost of sales	701	638	10	2,012	1,833	10		
<i>% of revenue</i>	29.4 %	29.7 %		29.0 %	29.0 %			
Selling, general and administrative expenses	565	525	8	1,693	1,586	7		
<i>% of revenue</i>	24 %	24 %		24 %	25 %			
Research and development expenses	167	152	10	500	440	14		
<i>% of revenue</i>	7 %	7 %		7 %	7 %			
Amortization of intangible assets	35	38	(8)	107	112	(4)		
Restructuring charges and certain acquisition and divestiture-related costs	5	16	(69)	51	45	13		
Interest expense, net of capitalized interest	57	59	(3)	174	180	(3)		
Other (income)/deductions—net	(16)	6	*	1	(151)	*		
Income before provision for taxes on income	874	717	22	2,401	2,286	5		
<i>% of revenue</i>	37 %	33 %		35 %	36 %			
Provision for taxes on income	182	121	50	486	469	4		
<i>Effective tax rate</i>	20.8 %	16.9 %		20.2 %	20.5 %			
Net income before allocation to noncontrolling interests	692	596	16	1,915	1,817	5		
Less: Net income/(loss) attributable to noncontrolling interests	10	—	—	10	(2)	*		
Net income attributable to Zoetis Inc.	\$ 682	\$ 596	14	\$ 1,905	\$ 1,819	5		
<i>% of revenue</i>	29 %	28 %		27 %	29 %			

*Calculation not meaningful

Revenue

Three months ended September 30, 2024 vs. three months ended September 30, 2023

Total revenue increased by \$237 million, or 11%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, an increase of \$297 million, or 14%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- price growth of approximately 6%;
- volume growth from new products of approximately 3%;
- volume growth from other in-line products of approximately 3%; and
- volume growth from key dermatology products of approximately 2%.

Foreign exchange decreased reported revenue growth by approximately 3%.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Total revenue increased by \$608 million, or 10%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, an increase of \$779 million, or 12%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- price growth of approximately 7%;
- volume growth from new products of approximately 3%; and
- volume growth from key dermatology products of approximately 2%.

Foreign exchange decreased reported revenue growth by approximately 2%.

Costs and Expenses

Cost of sales

(MILLIONS OF DOLLARS)	Three Months Ended			% Change	Nine Months Ended		
	September 30,				September 30,		
	2024	2023		2024	2023	Change	
Cost of sales	\$ 701	\$ 638	10	\$ 2,012	\$ 1,833	10	
% of revenue	29.4 %	29.7 %		29.0 %	29.0 %		

Three months ended September 30, 2024 vs. three months ended September 30, 2023

Cost of sales as a percentage of revenue was 29.4% in the three months ended September 30, 2024, compared with 29.7% in the three months ended September 30, 2023. The decrease was primarily as a result of:

- price increases;
- favorable product mix;
- lower inventory charges; and
- favorable foreign exchange,

partially offset by:

- unfavorable manufacturing and other costs; and
- higher freight costs.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Cost of sales as a percentage of revenue remained flat at 29.0% in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023 primarily as a result of:

- price increases;
- favorable product mix;
- lower freight costs; and
- lower inventory charges,

fully offset by:

- unfavorable manufacturing and other costs; and
- unfavorable foreign exchange.

Selling, general and administrative expenses

(MILLIONS OF DOLLARS)	Three Months Ended			% Change	Nine Months Ended		
	September 30,				September 30,		
	2024	2023		2024	2023	Change	
Selling, general and administrative expenses	\$ 565	\$ 525	8	\$ 1,693	\$ 1,586	7	
% of revenue	24 %	24 %		24 %	25 %		

Three months ended September 30, 2024 vs. three months ended September 30, 2023

SG&A expenses increased by \$40 million, or 8%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, primarily as a result of:

- an increase in certain compensation-related costs;
- higher professional and consulting costs;
- higher selling and distribution costs; and
- increased technology project investments,

partially offset by:

- favorable foreign exchange;
- lower advertising and promotion costs due to timing of marketing activities; and
- lower contract labor costs.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

SG&A expenses increased by \$107 million, or 7%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, primarily as a result of:

- an increase in certain compensation-related costs;
- higher selling and distribution costs;
- higher professional and consulting fees;
- higher logistics and freight costs; and

- an increase in technology project investments,
- partially offset by:
- favorable foreign exchange;
 - the reduced impact of purchase accounting adjustments; and
 - lower advertising and promotion costs due to timing of marketing activities.

Research and development expenses

(MILLIONS OF DOLLARS)	Three Months Ended September 30,			% Change	Nine Months Ended September 30,			% Change
	2024	2023			2024	2023		
Research and development expenses	\$ 167	\$ 152		10	\$ 500	\$ 440		14
% of revenue	7 %	7 %			7 %	7 %		

Three months ended September 30, 2024 vs. three months ended September 30, 2023

R&D expenses increased by \$15 million, or 10%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, primarily as a result of:

- an increase in certain compensation-related costs to support innovation and portfolio progression;
- higher spend in project investments;
- increased costs due to recent acquisitions; and
- higher depreciation expense.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

R&D expenses increased by \$60 million, or 14%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, primarily as a result of:

- an increase in certain compensation-related costs to support innovation and portfolio progression;
- higher spend in project investments;
- increased costs due to recent acquisitions;
- higher other operating costs; and
- higher depreciation expense.

Amortization of intangible assets

(MILLIONS OF DOLLARS)	Three Months Ended September 30,			% Change	Nine Months Ended September 30,			% Change
	2024	2023			2024	2023		
Amortization of intangible assets	\$ 35	\$ 38		(8)	\$ 107	\$ 112		(4)

Amortization of intangible assets decreased in the three and nine months ended versus the comparable prior year periods primarily due to asset impairments taken in 2023 and assets that became fully amortized, partially offset by intangible assets placed in service in 2023.

Restructuring charges and certain acquisition and divestiture-related costs

(MILLIONS OF DOLLARS)	Three Months Ended September 30,			% Change	Nine Months Ended September 30,			% Change
	2024	2023			2024	2023		
Restructuring charges and certain acquisition and divestiture-related costs	\$ 5	\$ 16		(69)	\$ 51	\$ 45		13

Three months ended September 30, 2024 vs. three months ended September 30, 2023

Restructuring charges and certain acquisition and divestiture-related costs were \$5 million and \$16 million in the three months ended September 30, 2024 and 2023, respectively. Restructuring charges and certain acquisition and divestiture-related costs in the three months ended September 30, 2024 primarily consisted of costs related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets. Restructuring charges and certain acquisition and divestiture-related costs in the three months ended September 30, 2023 primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives, as well as costs related to recent acquisitions.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Restructuring charges and certain acquisition and divestiture-related costs were \$51 million and \$45 million in the nine months ended September 30, 2024 and 2023, respectively. Restructuring charges and certain acquisition and divestiture-related costs for the nine months ended September 30, 2024 primarily consisted of employee termination costs related to organizational structure refinements, as well as costs related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets, partially offset by a reversal of certain employee

termination costs as a result of a change in strategy from our 2015 operational efficiency initiative. Restructuring charges and certain acquisition and divestiture-related costs in the nine months ended September 30, 2023 primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives, as well as costs related to recent acquisitions.

Interest expense, net of capitalized interest

(MILLIONS OF DOLLARS)	Three Months Ended		%	Nine Months Ended		%
	September 30,			September 30,		
	2024	2023	Change	2024	2023	Change
Interest expense, net of capitalized interest	\$ 57	\$ 59	(3)	\$ 174	\$ 180	(3)

Three months ended September 30, 2024 vs. three months ended September 30, 2023

Interest expense, net of capitalized interest, decreased in the three months ended September 30, 2024 versus the comparable prior year period. The decrease was primarily as a result of higher capitalized interest in the current period associated with capital projects to support our future growth.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Interest expense, net of capitalized interest, decreased in the nine months ended September 30, 2024 versus the comparable prior year period. The decrease was primarily as a result of higher capitalized interest in the current period associated with capital projects to support our future growth and a higher debt balance during a portion of the prior year period.

Other (income)/deductions—net

(MILLIONS OF DOLLARS)	Three Months Ended		%	Nine Months Ended		%
	September 30,			September 30,		
	2024	2023	Change	2024	2023	Change
Other (income)/deductions—net	\$ (16)	\$ 6	*	\$ 1	\$ (151)	*

* Calculation not meaningful

Three months ended September 30, 2024 vs. three months ended September 30, 2023

The change in *Other (income)/deductions—net* in the three months ended September 30, 2024 versus the comparable prior year period was primarily as a result of lower foreign currency losses in the current period and certain asset impairment charges related to our diagnostics and precision animal health businesses in the prior year period.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

The change in *Other (income)/deductions—net* in the nine months ended September 30, 2024 versus the comparable prior year period was primarily as a result of a gain on the sale of a majority interest in our pet insurance business in the prior year period, royalty-related income in the prior year period that was predominantly associated with a settlement received from a third-party for underpayment of royalties related to prior periods, a loss on assets held for sale related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets in the current period, as well as certain asset impairment charges related to our aquaculture business in the current period, partially offset by certain asset impairment charges related to our precision animal health and diagnostics businesses in the prior year period.

Provision for taxes on income

(MILLIONS OF DOLLARS)	Three Months Ended		%	Nine Months Ended		%
	September 30,			September 30,		
	2024	2023	Change	2024	2023	Change
Provision for taxes on income	\$ 182	\$ 121	50	\$ 486	\$ 469	4
Effective tax rate	20.8 %	16.9 %		20.2 %	20.5 %	

The global minimum tax provisions (Pillar Two) resulting from the OECD Base Erosion and Profit Shifting project are effective beginning in 2024 and the impact of these provisions is included in our effective tax rate for the three and nine months ended September 30, 2024.

Three months ended September 30, 2024 vs. three months ended September 30, 2023

Our effective tax rate was 20.8% and 16.9% for the three months ended September 30, 2024 and 2023, respectively. The higher effective tax rate for the three months ended September 30, 2024, compared with the three months ended September 30, 2023, was primarily attributable to a benefit from the tax loss on the divestiture of Performance Livestock Analytics recorded in the third quarter of 2023, higher net discrete tax expenses and a less favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs), partially offset by a higher benefit in the U.S. related to foreign-derived intangible income. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Our effective tax rate was 20.2% and 20.5% for the nine months ended September 30, 2024 and 2023, respectively. The lower effective tax rate for the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, was primarily attributable to a higher benefit in the U.S. related to foreign-derived intangible income, lower net discrete tax expenses and a more favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs), partially offset by a benefit from the tax loss on the divestiture of Performance Livestock Analytics recorded in the third quarter of 2023. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

Operating Segment Results

On a global basis, the mix of revenue between companion animal and livestock products was as follows:

(MILLIONS OF DOLLARS)	Three Months Ended September 30,		% Change		
			Total	Related to	
	2024	2023		Foreign Exchange	Operational
U.S.					
Companion animal	\$ 1,068	\$ 908	18	—	18
Livestock	278	266	5	—	5
	<u>1,346</u>	<u>1,174</u>	15	—	15
International					
Companion animal	541	506	7	(4)	11
Livestock	480	450	7	(8)	15
	<u>1,021</u>	<u>956</u>	7	(6)	13
Total					
Companion animal	1,609	1,414	14	(1)	15
Livestock	758	716	6	(5)	11
Contract manufacturing & human health	21	21	—	(2)	2
	<u>\$ 2,388</u>	<u>\$ 2,151</u>	11	(3)	14

(MILLIONS OF DOLLARS)	Nine Months Ended September 30,		% Change		
			Total	Related to	
	2024	2023		Foreign Exchange	Operational
U.S.					
Companion animal	\$ 3,046	\$ 2,588	18	—	18
Livestock	771	756	2	—	2
	<u>3,817</u>	<u>3,344</u>	14	—	14
International					
Companion animal	1,662	1,540	8	(4)	12
Livestock	1,401	1,389	1	(7)	8
	<u>3,063</u>	<u>2,929</u>	5	(5)	10
Total					
Companion animal	4,708	4,128	14	(2)	16
Livestock	2,172	2,145	1	(5)	6
Contract manufacturing & human health	59	58	2	—	2
	<u>\$ 6,939</u>	<u>\$ 6,331</u>	10	(2)	12

Earnings by segment and the operational and foreign exchange changes versus the comparable prior year period were as follows:

(MILLIONS OF DOLLARS)	Three Months Ended September 30,		% Change		
			Total	Related to	
	2024	2023			Foreign Exchange
U.S.					
Revenue	\$ 1,346	\$ 1,174	15	—	15
Cost of Sales	258	228	13	—	13
Gross Profit	1,088	946	15	—	15
Gross Margin	80.8 %	80.6 %			
Operating Expenses	199	202	(1)	—	(1)
Other (income)/deductions-net	—	—	*	*	*
U.S. Earnings	889	744	19	—	19
International					
Revenue	1,021	956	7	(6)	13
Cost of Sales	321	306	5	(8)	13
Gross Profit	700	650	8	(5)	13
Gross Margin	68.6 %	68.0 %			
Operating Expenses	157	156	1	(6)	7
Other (income)/deductions-net	1	1	—	13	(13)
International Earnings	542	493	10	(5)	15
Total operating segments	1,431	1,237	16	(2)	18
Other business activities	(137)	(124)	10		
Reconciling Items:					
Corporate	(306)	(258)	19		
Purchase accounting adjustments	(35)	(39)	(10)		
Acquisition and divestiture-related costs	(7)	(3)	*		
Certain significant items	(1)	(23)	(96)		
Other unallocated	(71)	(73)	(3)		
Total Earnings	\$ 874	\$ 717	22		

* Calculation not meaningful

(MILLIONS OF DOLLARS)	Nine Months Ended September 30,		% Change		
			Total	Related to	
	2024	2023		Exchange	Operational
U.S.					
Revenue	\$ 3,817	\$ 3,344	14	—	14
Cost of Sales	707	645	10	—	10
Gross Profit	3,110	2,699	15	—	15
Gross Margin	81.5 %	80.7 %			
Operating Expenses	593	602	(1)	—	(1)
Other (income)/deductions-net	—	—	*	*	*
U.S. Earnings	2,517	2,097	20	—	20
International					
Revenue	3,063	2,929	5	(5)	10
Cost of Sales	976	912	7	(3)	10
Gross Profit	2,087	2,017	3	(8)	11
Gross Margin	68.1 %	68.9 %			
Operating Expenses	491	473	4	(4)	8
Other (income)/deductions-net	1	1	—	(39)	39
International Earnings	1,595	1,543	3	(9)	12
Total operating segments	4,112	3,640	13	(3)	16
Other business activities	(411)	(354)	16		
Reconciling Items:					
Corporate	(893)	(722)	24		
Purchase accounting adjustments	(107)	(124)	(14)		
Acquisition and divestiture-related costs	(12)	(8)	50		
Certain significant items	(77)	45	*		
Other unallocated	(211)	(191)	10		
Total Earnings	\$ 2,401	\$ 2,286	5		

* Calculation not meaningful

Three months ended September 30, 2024 vs. three months ended September 30, 2023

U.S. operating segment

U.S. segment revenue increased by \$172 million, or 15%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, reflecting an increase of \$160 million in companion animal products and \$12 million in livestock products.

- Companion animal revenue increased primarily due to growth in sales of our mAb products for osteoarthritis (OA) pain, Librela[®] and Solensia[®], Simparica Trio[®] and key dermatology products.
- Livestock growth was primarily due to increased sales of cattle and swine products. Sales of cattle and swine products grew due to supply availability in the current year compared to the prior year period.

U.S. segment earnings increased by \$145 million, or 19%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, primarily due to higher revenue, partially offset by higher cost of sales.

International operating segment

International segment revenue increased by \$65 million, or 7%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023.

Operational revenue increased by \$125 million, or 13%, driven by growth of \$58 million in companion animal products and \$67 million in livestock products.

- Companion animal operational revenue growth was driven primarily by the growth in sales of key dermatology products, our mAb products for OA pain, Librela and Solensia, small animal parasiticides and vaccine products.
- Livestock operational revenue growth was due to increased sales of cattle, poultry, fish and swine products, partially offset by declines in sheep products. Sales of cattle products grew primarily due to price, increased demand and improved supply, partially offset by market conditions in China. Sales of products in our poultry portfolio grew primarily due to price and key account penetration. Sales of products in our fish portfolio grew due to increased vaccine sales in Norway. Sales of products in our swine portfolio grew as a result of price, favorable market conditions and key market penetration. Sales of sheep products declined primarily due to poor market conditions.
- Additionally, International segment revenue was unfavorably impacted by foreign exchange which decreased revenue by \$60 million, or 6%, primarily driven by the Argentinian peso, Brazilian real, Turkish lira, Mexican peso and Japanese yen.

International segment earnings increased by \$49 million, or 10%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023. Operational earnings growth was \$76 million, or 15%, primarily due to higher revenue, partially offset by higher cost of sales and operating expenses.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

U.S. operating segment

U.S. segment revenue increased by \$473 million, or 14%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, reflecting an increase of \$458 million in companion animal products and \$15 million in livestock products.

- Companion animal revenue increased primarily due to growth in sales of Simparica Trio, our mAb products for OA pain, Librela and Solensia and key dermatology products, partially offset by lower sales of our small animal antiemetic product, Cerenia, and small animal diagnostics.
- Livestock growth was due to increased sales of cattle and swine products, partially offset by lower sales of poultry products. Sales of cattle products grew due to timing of supply partially offset by price. Sales of products in our poultry portfolio declined primarily as a result of the expanded use of lower cost alternatives and generic competition.

U.S. segment earnings increased by \$420 million, or 20%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, primarily due to higher revenue and lower operating expenses, partially offset by higher cost of sales.

International operating segment

International segment revenue increased by \$134 million, or 5%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023. Operational revenue increased by \$305 million, or 10%, driven by growth of \$190 million in companion animal products and \$115 million in livestock products.

- Companion animal operational revenue growth was driven primarily by the growth in sales of our mAb products for OA pain, Librela and Solensia, key dermatology products, vaccine products and small animal parasiticides.
- Livestock operational revenue growth was due to increased sales of cattle, poultry and fish products, partially offset by a decline in sheep products. Sales of cattle products grew due to price, partially offset by volume declines as compared to the prior year period due to prior year supply recoveries. Sales of products in our poultry portfolio grew due to price and demand generation efforts in key poultry markets. Sales of our fish portfolio grew due to increased vaccine sales in Norway, partially offset by lower sales of anti-infective products in Chile. Sales of sheep products declined primarily due to poor market conditions.
- Additionally, International segment revenue was unfavorably impacted by foreign exchange which decreased revenue by \$171 million, or 5%, primarily driven by the Argentinian peso, Turkish lira, Japanese yen, Brazilian real, Chinese renminbi and Russian ruble.

International segment earnings increased by \$52 million, or 3%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023. Operational earnings growth was \$179 million, or 12%, primarily due to higher revenue, partially offset by higher cost of sales and operating expenses.

Other business activities

Other business activities includes our Client Supply Services contract manufacturing results, our human health business and expenses associated with our dedicated veterinary medicine research and development organization, research alliances, U.S. regulatory affairs and other operations focused on the development of our products. Other R&D-related costs associated with non-U.S. market and regulatory activities are generally included in the International segment.

Three months ended September 30, 2024 vs. three months ended September 30, 2023

Other business activities net loss increased by \$13 million in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, reflecting an increase in R&D costs due to an increase in higher project investments, certain compensation-related costs to support innovation, acquisitions and other operating costs.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Other business activities net loss increased by \$57 million in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, reflecting an increase in R&D costs due to an increase in higher project investments, certain compensation-related costs to support innovation, acquisitions and other operating costs.

Reconciling items

Reconciling items include certain costs that are not allocated to our operating segments results, such as costs associated with the following:

- **Corporate**, which includes certain costs associated with information technology, facilities, legal, finance, human resources, business development, certain diagnostic costs and communications, among others. These costs also include certain compensation costs, certain procurement costs, and other miscellaneous operating expenses that are not charged to our operating segments, as well as interest income and expense;
- Certain transactions and events such as **Purchase accounting adjustments, Acquisition and divestiture-related costs** and **Certain significant items**, which are defined below; and
- **Other unallocated**, which includes (i) certain overhead expenses associated with our global manufacturing operations not charged to our operating segments; (ii) certain costs associated with finance that specifically support our global manufacturing operations; (iii) certain supply chain and global logistics costs; and (iv) certain procurement costs.

Three months ended September 30, 2024 vs. three months ended September 30, 2023

Corporate expenses increased by \$48 million, or 19%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, primarily due to higher compensation-related costs and investments in information technology.

Other unallocated expenses decreased by \$2 million, or 3%, in the three months ended September 30, 2024, compared with the three months ended September 30, 2023, primarily due to higher manufacturing costs and freight charges, partially offset by lower scrap charges and favorable foreign exchange.

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Corporate expenses increased by \$171 million, or 24%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, primarily due to higher compensation-related costs, a settlement received from a third-party for underpayment of royalties in the prior year period, unfavorable foreign exchange and investments in information technology.

Other unallocated expenses increased by \$20 million, or 10%, in the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, primarily due to unfavorable foreign exchange, higher manufacturing costs, higher inventory obsolescence, scrap and other charges, partially offset by lower freight charges.

See Notes to Condensed Consolidated Financial Statements—*Note 16. Segment Information* for further information.

Adjusted net income

General description of adjusted net income (a non-GAAP financial measure)

Adjusted net income is an alternative view of performance used by management, and we believe that investors' understanding of our performance is enhanced by disclosing this performance measure. The adjusted net income measure is an important internal measurement for us. Additionally, we measure our overall performance on this basis in conjunction with other performance metrics. The following are examples of how the adjusted net income measure is utilized:

- senior management receives a monthly analysis of our operating results that is prepared on an adjusted net income basis;
- our annual budgets are prepared on an adjusted net income basis; and
- other goal setting and performance measurements.

Purchase accounting adjustments

Adjusted net income is calculated prior to considering certain significant purchase accounting impacts that result from business combinations and net asset acquisitions. These impacts, primarily associated with certain acquisitions, include amortization related to the increase in fair value of the acquired finite-lived intangible assets and depreciation related to the increase/decrease to fair value of the acquired fixed assets. Therefore, the adjusted net income measure includes the revenue earned upon the sale of the acquired products without considering the aforementioned significant charges.

While certain purchase accounting adjustments can occur through 20 or more years, this presentation provides an alternative view of our performance that is used by management to internally assess business performance. We believe the elimination of amortization attributable to acquired intangible assets provides management and investors an alternative view of our business results by providing a degree of parity to internally developed intangible assets for which R&D costs previously have been expensed.

A completely accurate comparison of internally developed intangible assets and acquired intangible assets cannot be achieved through adjusted net income. These components of adjusted net income are derived solely from the impact of the items listed above. We have not factored in the impact of any other differences in experience that might have occurred if we had discovered and developed those intangible assets on our own, and this approach does not intend to be representative of the results that would have occurred in those circumstances. For example, our R&D costs in total, and in the periods presented, may have been different; our speed to commercialization and resulting revenue, if any, may have been different; or our costs to manufacture may have been different. In addition, our marketing efforts may have been received differently by our customers. As such, in total, there can be no assurance that our adjusted net income amounts would have been the same as presented had we discovered and developed the acquired intangible assets.

Acquisition and divestiture-related costs

Adjusted net income is calculated prior to considering transaction, integration and disintegration costs associated with significant business combinations, net asset acquisitions and divestitures. These incremental costs are excluded as they are incurred to acquire and integrate, or dispose and disintegrate, certain businesses as a result of the acquisition or disposal decision and are unique to each transaction. We have made no adjustments for the resulting synergies from these transactions.

We believe that viewing income prior to considering these charges provides investors with a useful additional perspective because the significant costs incurred in a business combination, net asset acquisition or divestiture result primarily from the need to eliminate duplicate assets, activities or employees—a natural result of acquiring or disposing of a fully integrated set of activities. For this reason, we believe that the costs incurred to convert disparate systems, to close duplicative facilities or to eliminate duplicate positions (for example, in the context of a business combination) can be viewed differently from those costs incurred in the ordinary course of business.

The integration and disintegration costs associated with a business combination, asset acquisition or divestiture may occur over several years, with the more significant impacts generally ending within three years of the transaction. Because of the need for certain external approvals for some actions, the span of time needed to achieve certain restructuring, integration or disintegration activities can be lengthy. For example, due to the regulated nature of the animal health medicines, vaccines and diagnostic business, the closure of excess facilities can take several years, as all manufacturing changes are subject to extensive validation and testing and must be approved by the U.S. Food and Drug Administration and/or other regulatory authorities.

Certain significant items

Adjusted net income is calculated excluding certain significant items. Certain significant items represent substantive, unusual items that are evaluated on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual nature. Unusual, in this context, may represent items that are not part of our ongoing business; items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis; items that would be nonrecurring; or items that relate to products that we no longer sell. While not all-inclusive, examples of items that could be included as certain significant items would be costs related to a major non-acquisition or divestiture-related restructuring charge and associated implementation costs for a program that is specific in nature with a defined term, such as those related to our non-acquisition or divestiture-related cost-reduction and productivity initiatives; amounts related to disposals of products or facilities that do not qualify as discontinued operations as defined by U.S. GAAP; certain asset impairment charges; adjustments related to the resolution of certain tax positions; significant currency devaluation; the impact of adopting certain significant, event-driven tax legislation; or charges related to legal matters. See Notes to Condensed Consolidated Financial Statements—*Note 15. Commitments and Contingencies*. Our normal, ongoing defense costs or settlements of and accruals on legal matters made in the normal course of our business would not be considered certain significant items.

Reconciliation

A reconciliation of net income attributable to Zoetis, as reported under U.S. GAAP, to adjusted net income follows:

(MILLIONS OF DOLLARS)	Three Months Ended			%	Nine Months Ended		
	September 30,		Change		September 30,		%
	2024	2023			2024	2023	
GAAP reported net income attributable to Zoetis	\$ 682	\$ 596	14	\$ 1,905	\$ 1,819	5	
Purchase accounting adjustments—net of tax	27	30	(10)	83	98	(15)	
Acquisition and divestiture-related costs—net of tax	5	3	67	9	7	29	
Certain significant items—net of tax	2	—	*	64	(36)	*	
Non-GAAP adjusted net income ^(a)	\$ 716	\$ 629	14	\$ 2,061	\$ 1,888	9	

*Calculation not meaningful

^(a) The effective tax rate on adjusted pretax income was 20.8% and 19.6% for the three months ended September 30, 2024 and 2023, respectively.

The higher effective tax rate for the three months ended September 30, 2024, compared with the three months ended September 30, 2023, was primarily attributable to a less favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs) and higher net discrete tax expenses, partially offset by a higher benefit in the U.S. related to foreign-derived intangible income. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible and non-taxable items.

The effective tax rate on adjusted pretax income was 20.3% and 20.5% for the nine months ended September 30, 2024 and 2023, respectively.

The lower effective tax rate for the nine months ended September 30, 2024, compared with the nine months ended September 30, 2023, was primarily attributable to a higher benefit in the U.S. related to foreign-derived intangible income and a lower net discrete tax expenses, partially offset by a less favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs). Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible and non-taxable items.

A reconciliation of reported diluted earnings per share (EPS), as reported under U.S. GAAP, to non-GAAP adjusted diluted EPS follows:

Earnings per share—diluted ^(a) :	Three Months Ended			%	Nine Months Ended		
	September 30,		Change		September 30,		%
	2024	2023			2024	2023	
GAAP reported EPS attributable to Zoetis—diluted	\$ 1.50	\$ 1.29	16	\$ 4.18	\$ 3.93	6	
Purchase accounting adjustments—net of tax	0.06	0.06	—	0.18	0.21	(14)	
Acquisition and divestiture-related costs—net of tax	0.01	0.01	—	0.02	0.02	—	
Certain significant items—net of tax	0.01	—	*	0.14	(0.08)	*	
Non-GAAP adjusted EPS—diluted	\$ 1.58	\$ 1.36	16	\$ 4.52	\$ 4.08	11	

* Calculation not meaningful

^(a) Diluted earnings per share was computed using the weighted-average common shares outstanding during the period plus the common stock equivalents related to stock options, restricted stock units, performance-vesting restricted stock units and deferred stock units.

Adjusted net income includes the following charges for each of the periods presented:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Interest expense, net of capitalized interest	\$ 57	\$ 59	\$ 174	\$ 180
Interest income	23	23	79	77
Income taxes	191	153	526	487
Depreciation	79	76	242	220
Amortization	7	9	25	27

Adjusted net income, as shown above, excludes the following items:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Purchase accounting adjustments:				
Amortization and depreciation	\$ 35	\$ 39	\$ 107	\$ 118
Cost of sales	—	—	—	6
Total purchase accounting adjustments—pre-tax	35	39	107	124
Income taxes ^(a)	8	9	24	26
Total purchase accounting adjustments—net of tax	27	30	83	98
Acquisition and divestiture-related costs:				
Acquisition-related costs	—	3	1	7
Divestiture-related costs ^(b)	7	—	11	—
Restructuring costs	—	—	—	1
Total acquisition and divestiture-related costs—pre-tax	7	3	12	8
Income taxes ^(a)	2	—	3	1
Total acquisition and divestiture-related costs—net of tax	5	3	9	7
Certain significant items:				
Other restructuring charges and cost-reduction/productivity initiatives ^(c)	(2)	12	39	36
Certain asset impairment charges ^(d)	—	11	11	21
Loss on assets held for sale ^(e)	—	—	22	—
Net gain on sale of business ^(f)	—	—	—	(101)
Other	3	—	5	(1)
Total certain significant items—pre-tax	1	23	77	(45)
Income taxes ^(a)	(1)	23	13	(9)
Total certain significant items—net of tax	2	—	64	(36)
Total purchase accounting adjustments, acquisition and divestiture-related costs, and certain significant items—net of tax	\$ 34	\$ 33	\$ 156	\$ 69

^(a) Income taxes include the tax effect of the associated pre-tax amounts, calculated by determining the jurisdictional location of the pre-tax amounts and applying that jurisdiction's applicable tax rate. For the three and nine months ended September 30, 2023, income taxes in *Certain significant items* also includes a benefit from the tax loss on the divestiture of Performance Livestock Analytics, partially offset by a tax expense related to changes to prior years' tax positions with regard to the one-time mandatory deemed repatriation tax under the Tax Cuts and Jobs Act.

^(b) Represents costs related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets.

^(c) For the nine months ended September 30, 2024, primarily consisted of employee termination costs related to organizational structure refinements, partially offset by a reversal of certain employee termination costs as a result of a change in strategy from our 2015 operational efficiency initiative.

For the three and nine months ended September 30, 2023, primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives.

^(d) For the nine months ended September 30, 2024, represents certain asset impairment charges related to our aquaculture business.

For the three and nine months ended September 30, 2023, represents certain asset impairment charges related to our precision animal health and diagnostics businesses.

^(e) Represents a loss on assets held for sale related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets.

^(f) Primarily represents a net gain on the sale of a majority interest in our pet insurance business.

The classification of the above items excluded from adjusted net income are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Cost of sales:				
Purchase accounting adjustments	\$ 1	\$ 1	\$ 3	\$ 10
Inventory write-offs	—	2	—	2
Other	1	—	1	—
<i>Total Cost of sales</i>	2	3	4	12
Selling, general & administrative expenses:				
Purchase accounting adjustments	3	4	9	18
Other	2	—	2	—
<i>Total Selling, general & administrative expenses</i>	5	4	11	18
Research & development expenses:				
Purchase accounting adjustments	1	1	2	1
<i>Total Research & development expenses</i>	1	1	2	1
Amortization of intangible assets:				
Purchase accounting adjustments	30	33	93	95
<i>Total Amortization of intangible assets</i>	30	33	93	95
Restructuring charges and certain acquisition and divestiture-related costs:				
Acquisition-related costs	—	3	1	7
Divestiture-related costs	7	—	11	—
Employee termination costs	(2)	8	39	33
Asset impairments	—	1	—	1
Exit costs	—	4	—	4
<i>Total Restructuring charges and certain acquisition and divestiture-related costs</i>	5	16	51	45
Other (income)/deductions—net:				
Net gain on sale of business	—	—	—	(101)
Asset impairment charges	—	8	11	18
Loss on assets held for sale	—	—	22	—
Other	—	—	2	(1)
<i>Total Other (income)/deductions—net</i>	—	8	35	(84)
Provision for taxes on income	9	32	40	18
Total purchase accounting adjustments, acquisition and divestiture-related costs, and certain significant items—net of tax	\$ 34	\$ 33	\$ 156	\$ 69

Analysis of the condensed consolidated statements of comprehensive income

Changes in other comprehensive income for the periods presented are primarily related to foreign currency translation adjustments and unrealized gains/(losses) on derivative instruments. The foreign currency translation adjustment changes result from the strengthening or weakening of the U.S. dollar as compared to the currencies in the countries in which we do business. Unrealized gains/(losses) on the changes in the fair value of derivative instruments are recorded within *Accumulated other comprehensive income/(loss)* and reclassified into earnings depending on the nature and purpose of the financial instrument, as described in *Note 9. Financial Instruments* of the Notes to Condensed Consolidated Financial Statements.

Analysis of the condensed consolidated balance sheets

September 30, 2024 vs. December 31, 2023

For a discussion about the changes in *Cash and cash equivalents*, *Short-term borrowings* and *Long-term debt, net of discount and issuance costs*, see “*Analysis of financial condition, liquidity and capital resources*” below.

Accounts receivable, less allowance for doubtful accounts increased primarily as a result of higher net sales in the period.

Inventories decreased primarily due to a reclassification of certain assets to *Assets held for sale* and higher sales than anticipated for certain products, partially offset by the build-up of certain products for increased demand.

Assets held for sale and *Liabilities associated with assets held for sale* primarily reflects the reclassification of certain accounts related to the planned sale of our medicated feed additive product portfolio, certain water soluble products and related assets. See *Note 5. Acquisitions and Divestitures* of the Notes to Condensed Consolidated Financial Statements.

Property, plant and equipment increased primarily as a result of capital spending, partially offset by depreciation expense and a reclassification of certain assets to *Assets held for sale*.

Identifiable intangible assets, less accumulated amortization decreased primarily as a result of amortization expense and a reclassification of certain assets to *Assets held for sale*. See *Note 11. Goodwill and Other Intangible Assets* of the Notes to Condensed Consolidated Financial Statements.

The net changes in *Noncurrent deferred tax assets, Noncurrent deferred tax liabilities, Income taxes payable* and *Other taxes payable* primarily reflect adjustments to the accrual for the income tax provision, the timing of income tax payments and the tax impact of various acquisitions.

Accrued expenses increased primarily due to employee termination costs related to organizational structure refinements and the timing of payments for other expenses.

Accrued compensation and related items decreased primarily due to the payments of 2023 annual incentive bonuses, payments for sales incentive bonuses and savings plan contributions to eligible employees, as well as the timing of the bi-weekly payroll, partially offset by the accrual of 2024 annual incentive bonuses, sales incentive bonuses and savings plan contributions to eligible employees.

Other current liabilities increased primarily due to an increase in deferred revenue.

Other noncurrent liabilities decreased primarily due to the reversal of certain employee termination costs as a result of a change in strategy from our 2015 operational efficiency initiative, the mark-to-market adjustment of derivative instruments and the reclassification of certain liabilities to *Liabilities associated with assets held for sale*.

For an analysis of the changes in *Total Equity*, see the Condensed Consolidated Statements of Equity and Notes to Condensed Consolidated Financial Statements— *Note 13. Stockholders' Equity*.

Analysis of the condensed consolidated statements of cash flows

(MILLIONS OF DOLLARS)	Nine Months Ended		\$ Change
	September 30,		
	2024	2023	
Net cash provided by (used in):			
Operating activities	\$ 2,048	\$ 1,456	\$ 592
Investing activities	(441)	(567)	126
Financing activities	(1,915)	(2,712)	797
Effect of exchange-rate changes on cash and cash equivalents	(19)	(4)	(15)
Net decrease in cash and cash equivalents	\$ (327)	\$ (1,827)	\$ 1,500

Operating activities

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Net cash provided by operating activities was \$2,048 million for the nine months ended September 30, 2024, compared with \$1,456 million for the nine months ended September 30, 2023. The increase in operating cash flows was primarily attributable to higher inventory build-up of certain products in the prior period for increased demand and to mitigate potential supply constraints, as well as higher net income adjusted by non-cash items.

Investing activities

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Our net cash used in investing activities was \$441 million for the nine months ended September 30, 2024, compared with net cash used in investing activities of \$567 million for the nine months ended September 30, 2023. The net cash used in investing activities for the nine months ended September 30, 2024 was primarily due to capital expenditures. The net cash used in investing activities for the nine months ended September 30, 2023 was primarily due to capital expenditures and acquisitions, partially offset by net proceeds on the sale of a majority interest in our pet insurance business and net proceeds from derivative instrument activity.

Financing activities

Nine months ended September 30, 2024 vs. nine months ended September 30, 2023

Our net cash used in financing activities was \$1,915 million for the nine months ended September 30, 2024, compared with net cash used in financing activities of \$2,712 million for the nine months ended September 30, 2023. The net cash used in financing activities for the nine months ended September 30, 2024 was primarily attributable to the purchase of treasury shares and related payment of excise taxes, the payment of dividends and taxes paid on withholding shares, partially offset by proceeds in connection with the issuance of common stock under our equity incentive plan. The net cash used in financing activities for the nine months ended September 30, 2023 was primarily attributable to the repayment of the \$1.35 billion aggregate principal amount of our 2013 senior notes due 2023 in February 2023, the purchase of treasury shares, the payment of dividends and taxes paid on withholding shares, partially offset by proceeds in connection with the issuance of common stock under our equity incentive plan.

Analysis of financial condition, liquidity and capital resources

While we believe our cash and cash equivalents on hand, our operating cash flows and our existing financing arrangements will be sufficient to support our cash needs for the next twelve months and beyond, this may be subject to the environment in which we operate. Risks to our meeting future funding requirements are described in *Global economic conditions* below.

Selected measures of liquidity and capital resources

Certain relevant measures of our liquidity and capital resources follow:

(MILLIONS OF DOLLARS)	September 30, 2024	December 31, 2023
Cash and cash equivalents	\$ 1,714	\$ 2,041
Accounts receivable, net ^(a)	1,411	1,304
Short-term borrowings	—	3
Long-term debt	6,574	6,564
Working capital	4,580	4,454
Ratio of current assets to current liabilities	3.69:1	3.36:1

^(a) Accounts receivable are usually collected over a period of 45 to 75 days. For the nine months ended September 30, 2024 compared with December 31, 2023, the number of days that accounts receivables were outstanding remained within this range. We regularly monitor our accounts receivable for collectability, particularly in markets where economic conditions remain uncertain. We believe that our allowance for doubtful accounts is appropriate. Our assessment is based on such factors as past due aging, historical and expected collection patterns, the financial condition of our customers, the robust nature of our credit and collection practices and the economic environment.

For additional information about the sources and uses of our funds, see the *Analysis of the condensed consolidated balance sheets* and *Analysis of the condensed consolidated statements of cash flows* sections of this MD&A.

Credit facility and other lines of credit

In December 2022, we entered into an amended and restated revolving credit agreement with a syndicate of banks providing for a multi-year \$1.0 billion senior unsecured revolving credit facility (the credit facility), which expires in December 2027. Subject to certain conditions, we have the right to increase the credit facility to up to \$1.5 billion. The credit facility contains a financial covenant requiring us to not exceed a maximum total leverage ratio (the ratio of consolidated net debt as of the end of the period to consolidated Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA) for such period) of 3.50:1. Upon entering into a material acquisition, the maximum total leverage ratio increases to 4.00:1, and extends until the fourth full consecutive fiscal quarter ended immediately following the consummation of a material acquisition. In addition, the credit facility contains other customary covenants.

We were in compliance with all financial covenants as of September 30, 2024 and December 31, 2023. There were no amounts drawn under the credit facility as of September 30, 2024 or December 31, 2023.

We have additional lines of credit and other credit arrangements with a group of banks and other financial intermediaries for general corporate purposes. We maintain cash and cash equivalent balances in excess of our outstanding short-term borrowings. As of September 30, 2024, we had access to \$56 million of lines of credit which expire at various times and are generally renewed annually. There were no borrowings outstanding related to these facilities as of September 30, 2024 and \$3 million of borrowings outstanding related to these facilities as of December 31, 2023.

Domestic and international short-term funds

Many of our operations are conducted outside the U.S. The amount of funds held in the U.S. will fluctuate due to the timing of receipts and payments in the ordinary course of business and due to other reasons, such as business development activities. As part of our ongoing liquidity assessments, we regularly monitor the mix of U.S. and international cash flows (both inflows and outflows). Actual repatriation of overseas funds can result in additional U.S. and local income taxes, such as U.S. state income taxes, local withholding taxes, and taxes on currency gains and losses.

Global economic conditions

Global financial markets may be impacted by macroeconomic, business and financial volatility. Challenging economic conditions in recent years have not had, nor do we anticipate that it will have, a significant impact on our liquidity. Due to our operating cash flows, financial assets, access to capital markets and available lines of credit and revolving credit agreements, we continue to believe that we have the ability to meet our liquidity needs for the foreseeable future. As markets change, we continue to monitor our liquidity position. There can be no assurance that a challenging economic environment or an economic downturn will not impact our liquidity or our ability to obtain financing in the future.

Debt securities

On November 8, 2022, we issued \$1.35 billion aggregate principal amount of our senior notes (2022 senior notes), with an original issue discount of \$2 million. These notes are comprised of \$600 million aggregate principal amount of 5.400% senior notes due 2025 and \$750 million aggregate principal amount of 5.600% senior notes due 2032. On February 1, 2023, the net proceeds were used to redeem in full, upon maturity, the \$1.35 billion aggregate principal amount of our 3.250% 2013 senior notes due 2023.

Our senior notes are governed by an indenture and supplemental indentures (collectively, the indenture) between us and Deutsche Bank Trust Company Americas, as trustee. The indenture contains certain covenants, including limitations on our and certain of our subsidiaries' ability to incur liens or engage in sale lease-back transactions. The indenture also contains restrictions on our ability to consolidate, merge or sell substantially all of our assets. In addition, the indenture contains other customary terms, including certain events of default, upon the occurrence of which, the senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the senior notes of any series, in whole or in part, at any time by paying a "make whole" premium, plus accrued and unpaid interest to, but excluding, the date of redemption. Upon the occurrence of a change of control of us and a downgrade of the

senior notes below an investment grade rating by each of Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, we are, in certain circumstances, required to make an offer to repurchase all of the outstanding senior notes at a price equal to 101% of the aggregate principal amount of the senior notes together with accrued and unpaid interest to, but excluding, the date of repurchase.

Our outstanding debt securities are as follows:

Description	Principal Amount	Interest Rate	Terms
2015 Senior Notes due 2025	\$750 million	4.500%	Interest due semi annually, not subject to amortization, aggregate principal due on November 13, 2025
2022 Senior Notes due 2025	\$600 million	5.400%	Interest due semi annually, not subject to amortization, aggregate principal due on November 14, 2025
2017 Senior Notes due 2027	\$750 million	3.000%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2027
2018 Senior Notes due 2028	\$500 million	3.900%	Interest due semi annually, not subject to amortization, aggregate principal due on August 20, 2028
2020 Senior Notes due 2030	\$750 million	2.000%	Interest due semi annually, not subject to amortization, aggregate principal due on May 15, 2030
2022 Senior Notes due 2032	\$750 million	5.600%	Interest due semi annually, not subject to amortization, aggregate principal due on November 16, 2032
2013 Senior Notes due 2043	\$1,150 million	4.700%	Interest due semi annually, not subject to amortization, aggregate principal due on February 1, 2043
2017 Senior Notes due 2047	\$500 million	3.950%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2047
2018 Senior Notes due 2048	\$400 million	4.450%	Interest due semi annually, not subject to amortization, aggregate principal due on August 20, 2048
2020 Senior Notes due 2050	\$500 million	3.000%	Interest due semi annually, not subject to amortization, aggregate principal due on May 15, 2050

Credit ratings

Two major corporate debt-rating organizations, Moody’s and S&P, assign ratings to our short-term and long-term debt. A security rating is not a recommendation to buy, sell or hold securities and the rating is subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

The following table provides the current ratings assigned by these rating agencies to our commercial paper and senior unsecured non-credit-enhanced long-term debt:

Name of Rating Agency	Commercial Paper	Long-term Debt		Date of Last Action
	Rating	Rating	Outlook	
Moody’s	P-2	Baa1	Positive	March 2024
S&P	A-2	BBB	Stable	December 2016

Share repurchase program

In December 2021, our Board of Directors authorized a \$3.5 billion multi-year share repurchase program. As of September 30, 2024, there was \$200 million remaining under this authorization. In August 2024, our Board of Directors authorized a new multi-year share repurchase program of up to \$6 billion of our outstanding common stock. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions, business needs and available liquidity. Share repurchases may be executed through various means, including open market or privately negotiated transactions. During the first nine months of 2024, 7.3 million shares were repurchased for \$1,295 million, which excludes a \$12 million accrual for excise tax on net share repurchases.

Off-balance sheet arrangements

In the ordinary course of business and in connection with the sale of assets and businesses, we may indemnify our counterparties against certain liabilities that may arise in connection with a transaction or that are related to activities prior to a transaction. These indemnifications typically pertain to environmental, tax, employee and/or product-related matters, and patent-infringement claims. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications are generally subject to threshold amounts, specified claim periods and other restrictions and limitations. Historically, we have not paid significant amounts under these provisions and, as of September 30, 2024 and December 31, 2023, recorded amounts for the estimated fair value of these indemnifications are not material.

New accounting standards

There were no accounting standards that were recently issued but not adopted as of September 30, 2024 that the Company expects to have a material impact on its condensed consolidated financial statements.

Forward-looking statements and factors that may affect future results

This report contains “forward-looking” statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We generally identify forward-looking statements by using words such as “anticipate,” “estimate,” “could,” “expect,” “intend,” “project,” “plan,” “predict,” “believe,” “seek,” “continue,” “outlook,” “objective,” “target,” “may,” “might,” “will,” “should,” “can have,” “likely” or the negative version of these words or comparable words or by using future dates in connection with any discussion of future performance, actions or events.

In particular, forward-looking statements include statements relating to our future actions, business plans or prospects, prospective products, product approvals or products under development, R&D costs, timing and likelihood of success, competing products, future operating or financial performance, future results of current and anticipated products and services, product and supply chain disruptions, strategies, sales efforts, expenses, production efficiencies, production margins, anticipated timing of generic market entries, anticipated timing of divestitures, integration of acquired businesses, interest rates, tax rates, changes in tax regimes and laws, foreign exchange rates, growth in emerging markets, the outcome of

contingencies, such as legal proceedings or investigations, plans related to share repurchases and dividends, government regulation and financial results. These statements are not guarantees of future performance, actions or events. Forward-looking statements are subject to risks and uncertainties, many of which are beyond our control, and are based on assumptions that could prove to be inaccurate. Among the factors that could cause actual results to differ materially from past results and future plans and projected future results are the following:

- the possible impact and timing of competing products, including generic alternatives, on our products and our ability to compete against such products;
- unanticipated safety, quality or efficacy concerns or issues about our products;
- the decline in global economic conditions, including the regional conflict in the Middle East, economic weakness in China and inflation;
- the economic, political, legal and business environment of the foreign jurisdictions in which we do business;
- consolidation of our customers and distributors;
- changes in the distribution channel for companion animal products;
- disruptive innovations and advances in medical practices and technologies;
- an outbreak of infectious disease carried by animals;
- failure to successfully acquire businesses, license rights or products, integrate businesses, form and manage alliances or divest businesses;
- restrictions and bans on the use of and consumer preferences regarding antibacterials in food-producing animals;
- perceived adverse effects linked to the consumption of food derived from animals that utilize our products or animals generally;
- increased regulation or decreased governmental support relating to the raising, processing or consumption of food-producing animals;
- adverse weather conditions and the availability of natural resources;
- the impact of climate change on our activities and the activities of our customers and suppliers, including, for example, altered distribution and intensity of rainfall, prolonged droughts or flooding, increased frequency of wildfires and other natural disasters, rising sea levels, and rising heat index;
- product launch delays, inventory shortages, recalls or unanticipated costs caused by manufacturing problems and capacity imbalances;
- failure of our R&D, acquisition and licensing efforts to generate new products and product lifecycle innovations;
- difficulties or delays in the development or commercialization of new products;
- illegal distribution and/or sale of our products or the misuse or off-label use of our products;
- legal factors, including product liability claims, antitrust litigation and governmental investigations, including tax disputes, environmental concerns, laws and regulations regarding data privacy, commercial disputes and patent disputes with branded and generic competitors, any of which could preclude commercialization of products or negatively affect the profitability of existing products;
- fluctuations in foreign exchange rates and potential currency controls;
- governmental laws and regulations affecting domestic and foreign operations, including without limitation, tax obligations and changes affecting the tax treatment by the U.S. of income earned outside the U.S. that may result from pending or possible future proposals;
- failure to protect our intellectual property rights or to operate our business without infringing the intellectual property rights of others;
- a cyberattack, information security breach or other misappropriation of our data;
- failure to generate sufficient cash to service our substantial indebtedness; and
- the other factors set forth under “Risk Factors” in Item 1A. of Part I of our 2023 Annual Report on Form 10-K.

However, there may also be other risks that we are unable to predict at this time. These risks or uncertainties may cause actual results to differ materially from those contemplated by a forward-looking statement. You should not put undue reliance on forward-looking statements. Forward-looking statements speak only as of the date on which they are made. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or by the rules and regulations of the SEC. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q and 8-K reports and our other filings with the SEC. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the above to be a complete discussion of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A significant portion of our revenue and costs are exposed to changes in foreign exchange rates. In addition, our outstanding borrowings may be subject to risk from changes in interest rates and foreign exchange rates. The overall objective of our financial risk management program is to seek to manage the impact of foreign exchange rate movements and interest rate movements on our earnings. We manage these financial exposures through operational means and by using certain financial instruments. These practices may change as economic conditions change.

For a complete discussion of our exposure to interest rate and foreign exchange risk, refer to *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no material changes from the information discussed therein.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation as of September 30, 2024, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective at a reasonable level of assurance in alerting them in a timely manner to material information required to be disclosed in our periodic reports filed with the SEC.

Changes in Internal Control over Financial Reporting

During our most recent fiscal quarter, there has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION**Item 1. Legal Proceedings**

The information required by this Item is incorporated herein by reference to Notes to Condensed Consolidated Financial Statements—*Note 15. Commitments and Contingencies* in *Part I—Item 1*, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in the “Our Operating Environment” and “Forward-Looking Statements and Factors That May Affect Future Results” sections of the MD&A and in Part I, Item 1A. “Risk Factors,” of our 2023 Annual Report on Form 10-K, which could materially affect our business, financial condition, or future results and which are incorporated by reference herein. There have been no material changes from the risk factors disclosed in our 2023 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In December 2021, our Board of Directors authorized a \$3.5 billion multi-year share repurchase program. As of September 30, 2024, there was \$200 million remaining under this program. In August 2024, our Board of Directors authorized a new multi-year share repurchase program of up to \$6 billion of our outstanding common stock.

The following table provides information with respect to the shares of the company’s common stock repurchased during the three months ended September 30, 2024:

	Issuer Purchases of Equity Securities ^(a)			Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
	Total Number of Shares Purchased ^(b)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	
July 1 - July 31, 2024	691,089	\$177.89	676,214	\$502,595,908
August 1 - August 31, 2024	937,732	\$182.41	937,047	\$6,331,664,747
September 1 - September 30, 2024	691,557	\$190.56	690,968	\$6,199,536,894
	<u>2,320,378</u>	<u>\$183.49</u>	<u>2,304,229</u>	<u>\$6,199,536,894</u>

^(a) Amounts exclude the impact of excise tax on net share repurchases.

^(b) The company repurchased 16,149 shares during the three-month period ended September 30, 2024 that were not part of the publicly announced multi-year share repurchase authorization. These shares were reacquired from employees to satisfy tax withholding requirements on the vesting of restricted shares from equity-based awards.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information**Rule 10b5-1 Trading Arrangements**

Kristin Peck, Chief Executive Officer, adopted a pre-arranged trading plan on September 12, 2024, that is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. Ms. Peck’s plan provides for (i) the sale of up to 52,000 shares of Zoetis common stock between December 13, 2024 and December 31, 2025 and (ii) the gifting of up to \$300,000 worth of Zoetis common stock to a charitable fund between December 13, 2024 and December 31, 2025.

Roxanne Lagano, Executive Vice President, General Counsel and Corporate Secretary, adopted a pre-arranged trading plan on September 13, 2024, that is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. Ms. Lagano’s plan provides for the sale of (i) between December 16, 2024 and December 16, 2025, up to 4,339 shares of Zoetis common stock and (ii) between February 11, 2025 and December 16, 2025, 100% of the net shares (net of tax withholding) resulting from the vesting of 4,858 gross shares of Zoetis common stock relating to equity awards, subject to certain conditions.

Item 6. Exhibits

Exhibit 31.1	Chief Executive Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 31.2	Chief Financial Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 32.1	Chief Executive Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
Exhibit 32.2	Chief Financial Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
EX-101.INS	Inline XBRL INSTANCE DOCUMENT
EX-101.SCH	Inline XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
EX-101.CAL	Inline XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
EX-101.LAB	Inline XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
EX-101.PRE	Inline XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT
EX-101.DEF	Inline XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
EX-104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wetteny Joseph, certify that:

1. I have reviewed this Quarterly Report of Zoetis Inc. on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 4, 2024

By:

/s/ WETTENY JOSEPH

Wetteny Joseph

Executive Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350, I, Kristin C. Peck, Chief Executive Officer, hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Zoetis Inc. for the period ended September 30, 2024 (the "Report") (1) fully complies with Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zoetis Inc.

November 4, 2024

By: _____
/s/ KRISTIN C. PECK
Kristin C. Peck
Chief Executive Officer

