

Animal Health Deep Dive: Where the Puck is Headed and Why

Summary

We explore different analyses below to figure out the tailwinds/headwinds across the various Animal Health companies:

- **Elanco.** We make the argument for improving leverage (G&A) and why a +5% top-line bogey for 2026 may prove conservative
- **Zoetis.** Following 3Q25 results, the Street's 2026/2027 revenue expectations were revised lower, which helps alleviate our prior concern. However, we pro-forma GM (MFA) to show why the Street's 2026E may be aggressive. Separately, 3Q25 key franchise volume showed a solid q/q deceleration (10-Q) along with less pricing power
- **IDEXX.** We normalize 2025 VetLab Consumables growth, which helps make the case that our Consumables growth estimate in 2026 (+11.3%) is low. Additionally, International CAG Diagnostics recurring revenue growth has significant momentum (prior to product cycle), which can also drive 2026 upside
- **Trupanion.** We unveil our consumer diligence (n = 500), which shows Trupanion is fishing in the wrong pond. This helps explain PAC's deteriorating returns

Key Points

Elanco (ELAN, \$21.42, Buy)

1. **Leverage.** In 2025, Elanco started breaking out S&M and G&A in its filings. G&A leverage has recently started to take hold (~140 bps of leverage in 3Q25), while S&M investments have been robust to support new products. G&A leverage should be furthered by Elanco Ascend in 2026 and beyond, and we expect solid ROI from the S&M investments that are supporting new products.
2. **2026 Revenue Growth.** We modestly raise our 2026 constant currency revenue growth estimate (to +4.9%). Importantly, we feel that it may still prove conservative as price contribution likely accelerates to +3% in 2026 (Credelio Quattro and Zenrelia to aid price for the first time) from +2% in 2025. As a result, the implied 2026 "ask" for volumes (+2%) appears modest considering ongoing innovation traction.
3. **Valuation.** Elanco now trades at a modest premium to Zoetis based on NTM and STM EPS estimates. On page 3, we show the crossover in 2026 and 2027 revenue and EBITDA growth between the two companies, with Elanco now expected to post faster revenue and EBITDA growth for the next two years.
4. **Exporior.** We will continue to monitor Exporior's growth, as we believe the product will end 2026 with sales approaching \$200MM in a ~\$350MM U.S. / Canadian market. On page 4, we show Elanco's more modest Farm Animal sales growth excluding Exporior revenue, which is likely below market in 2025 and 2026.

Zoetis (ZTS, \$118.80, Hold)

1. **Gross Margin.** One of our prior concerns - the Street's 2026/2027 revenue projections - has now been mitigated, but we believe the Street's 2026 GM may be too high. Below, we lay out 2024 GM pro-forma for the MFA sale, which implies 2025 GM is modestly down (-30 bps) y/y, or likely down more adjusted for FX. Why would 2026 GM increase if high-margin Dermatology sales are under increasing pressure? Without an answer to this question, our 2026/2027 EPS estimates are below consensus.
2. **Key Franchise Volumes.** In Zoetis' 10-Q filings, the company breaks out volume growth from key franchises, which represents the Dermatology franchise (Apoquel/Cytoint), Simparica Family, and pain mAbs (Librela/Solensia). For 3Q25, key franchise volume was -1% y/y (likely -2% normalized for Apoquel stocking), a reversal from the +4% and +3% in 1Q25 and 2Q25, respectively. The deceleration is a concern and implies that price realization was less pronounced in 3Q25, which might be a function of increasing competition.
3. **Heat Map Updated.** Following 3Q25 results, we leverage 10-Qs to again break down Zoetis' revenue across 10 products (for details see page 4 of our recent September Numelvi pricing diligence report). Our updated heat map reflects Apoquel's contribution to growth stepping down from +80 bps in 2025 to +40 bps in 2026, and further to +20 bps in 2027.
4. **R&D Day.** At the upcoming December 2nd R&D Day, we expect details around Zoetis' oncology and renal therapeutic initiatives, which are likely multi-billion dollar TAMs. That said, we remain concerned that the revenue ramps associated with these products will take longer to cultivate (diagnosed by the Veterinarian) relative to Dermatology/Pain which can be diagnosed by the pet owner. Our 2027 operational revenue growth estimate of +4.3% is 90 bps below consensus.

Continued on page 2: IDEXX and Trupanion. Exhibits/Analysis on pages 3-8

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All relevant disclosures and certifications appear on pages 14 - 18 of this report.

Company	Symbol	11/17/25	Market Cap (mm)	Rating		Target Price	
		Price		To	From	To	From
Elanco Animal Health Incorporated	ELAN	\$21.42	\$10,641.5	Buy	--	\$27.00	--
IDEXX Laboratories, Inc.	IDXX	\$669.00	\$53,971.6	Buy	--	\$775.00	--
Trupanion, Inc.	TRUP	\$36.34	\$1,583.0	Hold	--	\$42.00	\$45.00
Zoetis Inc.	ZTS	\$118.80	\$52,652.2	Hold	--	\$130.00	\$140.00

IDEXX (IDXX, \$669.00, Buy)

- Identifying Future Consumables Upside.** We normalize 2025 Consumables growth for Rapid Assay tailwinds (Pancreatic Lipase) and arrive at +12.1% underlying growth. This includes some inVue revenue, but inVue's contribution should build in 2026 relative to 2025 (FNA) and the company will have a full year contribution from Cortisol on Catalyst. Our 2026 Consumables organic revenue growth estimate is +11.3%. We see upside.
- Low Implied "Ask" on U.S. CAG.** International CAG Dx recurring organic revenue growth has been accelerating (page 6). 3Q25 was +13.6%, or +12.6% days-adjusted. The accelerating growth is before inVue or Cancer Dx take hold, and prior to increased commercial investments, which are now underway. With International accounting for ~35% of WW CAG Dx recurring sales, a low-teens growth rate (+13-14%) would contribute ~500 bps to overall CAG Dx recurring organic revenue growth, leaving a low "ask" for U.S. CAG Dx recurring growth (+6%) to reach the Street's overall +8.7% 2026 CAG Dx recurring estimate.
- SOTP Aids Valuation (a bit).** On page 6, we show the Companion Animal Group's EBIT as a percentage of total. In 2015, CAG accounted for ~75% of total EBIT. In 2026, it will approach ~95%. Investors pay for CAG, not LPD, which helps ease our overall valuation concerns (to an extent).
- Visits Getting Better...Slowly.** Our latest Vetsource visit findings show that October improved **a bit** versus September. Overall, wellness remains under pressure, which is preventing a greater turn in overall visits, but investors should remember that not all visits are created equal. The diagnostic attachment rate associated with a non-wellness visit is greater relative to wellness, which aids the IDEXX premium (and diagnostic frequency).

Trupanion (TRUP, \$36.34, Hold)

- Fishing in the Wrong Pond.** In our consumer diligence (n = 500), we asked current and prospective pet owners about their interest in purchasing pet insurance. As seen on page 7, ~70% of consumers stated that the maximum amount per month that they would be willing to spend on pet insurance is \$70 or below. This compares to Trupanion's ARPU of \$82. The industry growth is not in Trupanion's sweet spot, and it is evident as increasing levels of acquisition spending yields poor incremental returns.
- Running Harder to Stay in Place.** The table on page 7 shows Trupanion's challenge of trying to add subscribers when consumers are looking for more affordable plans. In 3Q23, Trupanion spent \$14.2MM acquiring 66.7K pets. In 3Q25, the pet acquisition cost increased by 23% to \$18.5MM, but the number of pets acquired declined to 63.5K. **Trupanion is spending more to acquire less.** As a result, the company's IRR declined from 42% in 3Q23 to 28% in 3Q25.
- Market Share Losses Continue.** We leverage the NAPHIA data to show that Trupanion has lost market share in each of the last seven years. The company's pursuit of lower end plans such as PHI and Furkin remains ongoing (has been elusive for five years) and as a result, Trupanion is not effectively reaching all subsets of potential customers. The market share losses likely continue in 2025.
- The 2019 Shareholder (SH) Letter.** In the 2019 SH letter, then CEO Darryl Rawlings laid out projections for several KPIs, including the number of subscription pet months. On page 8, we show that the company was initially running ahead of its pet month target, aided by the COVID puppy boom. However, this has reversed. Trupanion is now basically at parity with a cross-over likely to occur in 2026 and beyond as Trupanion struggles to keep pace with industry growth due to its suboptimal pricing plans.

Exhibits/Analysis begin on page 3.

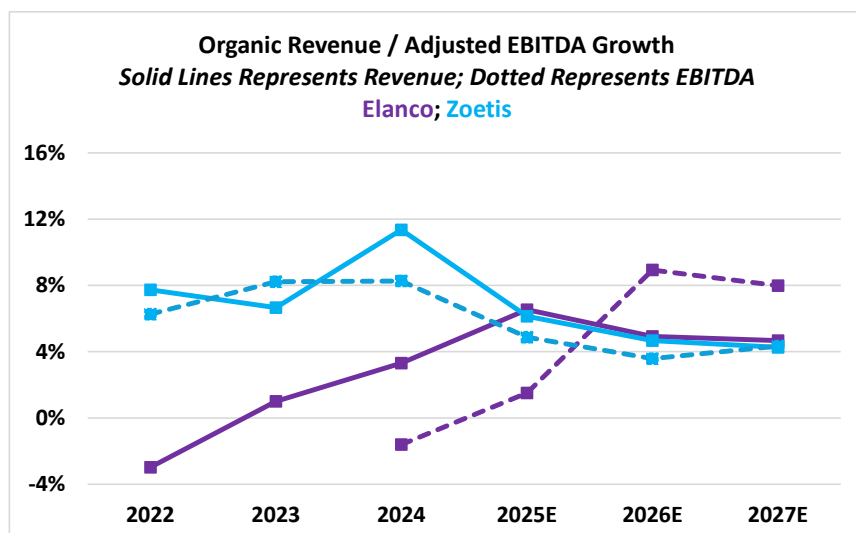
Elanco Animal Health

- **G&A Synergies.** Elanco began detailing the company's G&A expenses in their 2024 10-K. Below, we lay out G&A margin and display that leverage within this line item picked up notably in 3Q25. We believe the G&A leverage trend will continue into 2026 and contribute to the company's margin expansion goals, in addition to the greater mix of higher margin innovation revenue, and Elanco Ascend initiatives.

(\$MMs)	2022	2023	1Q24	2Q24	3Q24	4Q24	2024	1Q25	2Q25	3Q25
Total Revenue	\$4,411	\$4,417	\$1,205	\$1,184	\$1,030	\$1,020	\$4,439	\$1,193	\$1,241	\$1,137
G&A Expense	\$495	\$502	\$127	\$122	\$133	\$123	\$505	\$116	\$128	\$131
G&A Margin (%)	11.2%	11.4%	10.5%	10.3%	12.9%	12.1%	11.4%	9.7%	10.3%	11.5%
y/y expansion (contraction)		0.1%					0.0%	(0.8%)	0.0%	(1.4%)

Source: Company reports

- **Revenue and EBITDA Growth.** Elanco's stock currently trades at a modest STM P/E premium relative to Zoetis, as compared to the historical discount (3-year average of -12x). That said, we now expect Elanco to grow revenue faster in 2025, as seen below. Further, and perhaps more importantly, Elanco's margins are half of Zoetis', and we believe the margin expansion opportunity is significant over the next 12-24 months. Elanco's margin expansion opportunities should allow for EBITDA growth to outstrip Zoetis, thereby justifying the current premium valuation, in our view.



Source: Company reports and Stifel estimates

*Elanco's 2022 & 2023 adjusted EBITDA omitted due to Aqua divestiture

- **Volume vs. Price.** Below, we break down Elanco's organic revenue growth into volume and price. Elanco has stated that price contribution in 2025 is expected to be +2%, and given our +6.5% organic revenue growth estimate, the exercise implies volume growth of +4.5%. Looking to 2026, we believe price contribution increases to +3%, and therefore we back into an implied volume growth estimate of +1.9% to arrive at our +4.9% organic revenue growth estimate (Street: +4.9%). We believe the 2026 implied volume growth sets a bar that has the ability to be walked up as the year progresses. While price is included in the innovation revenue figures we provide in the second exhibit, these four products alone can contribute roughly all of our anticipated revenue growth for 2026.

	2023	2024	2025E	2026E
Organic Revenue Growth	1.0%	3.3%	6.5%	4.9%
Price	4.0%	3.0%	2.0%	3.0%
Volume	-3.0%	0.3%	4.5%	1.9%

Source: Company reports and Stifel estimates

\$Millions	2025E	2026E
Innovative Products		
Zenrelia	58	109
Credelio Quattro	140	233
Exporior	193	230
IL-31 mAb	0	25
Total Revenue	391	596
Y/Y Growth (%)		52.6%
Growth Contribution (%)		4.4%

Source: Stifel estimates

- Farm Animal.** Exporior has posted solid growth for Elanco in 2024-2025, inclusive of the product's expanded heifer clearance. The product is fast approaching \$200MM in sales and for a U.S./Canadian market sized at ~\$350MM, we question the runway remaining and, below, we outline Farm Animal revenue growth ex-Exporior. We believe additional geographies for Exporior can expand the revenue opportunity beyond \$350MM and the slow rebuild of the herd can also act as a multi-year tailwind. Our 2026 Farm Animal revenue estimate implies +3% growth ex-Exporior, which we feel comfortable with given the company's confidence in its poultry leadership (called out as a 2026 tailwind) and the benefits seen across the Farm Animal portfolio from other innovative products.

Growth Analysis	1Q24	2Q24	3Q24	4Q24	2024	1Q25	2Q25	3Q25	4Q25E	2025E	2026E
Exporior Sales (\$)	16	24	27	36	103	50	44	48	50	193	230
Farm Animal ex-Exporior	509	521	503	534	2,067	496	539	545	561	2,141	2,197
% growth y/y	-3%	12%	0%	-3%	1%	-3%	3%	8%	5%	4%	3%

Source: Company reports and Stifel estimates

- Thoughts on Upcoming Investor Day.** Looking forward to Elanco's December 9th investor day, we believe the company will roll out a path and formula to sustained +MSD% revenue growth and faster bottom line growth, benefiting from the company's ongoing margin enhancement initiatives (including Elanco Ascend). We anticipate that the R&D team led by Dr. Ellen de Brabander will lay out their pipeline displaying a steady cadence of launches including IL-31 and next-gen pain products.

Zoetis

- A Look at Pro-Forma GM.** In 2025, reported gross margins are expected to increase roughly 100 bps from 2024 levels. However, 2025 benefits from the sale of the low gross margin MFA business, which was completed at the end of October 2024. In the table below, we lay out 2024 GM pro-forma for the MFA sale, which implies 2025 GM is modestly down (-30 bps) y/y, or likely down more adjusted for FX. Our 2026 GM estimate is 70 bps below the Street, which leads to our below consensus EPS estimate

Zoetis MFA Pro Forma Gross Margin Exercise										
	1Q24	2Q24	3Q24	4Q24	2024	1Q25	2Q25	3Q25	4Q25E	2025E
Reported Revenue	\$2,190.0	\$2,361.0	\$2,387.7	\$2,317.0	\$9,255.7	\$2,220.0	\$2,460.0	\$2,400.4	\$2,363.5	\$9,443.9
Adj. Gross Profit	\$1,548.0	\$1,694.0	\$1,688.7	\$1,611.0	\$6,541.7	\$1,600.0	\$1,813.0	\$1,718.4	\$1,637.5	\$6,768.9
Adj. Gross Margin	70.7%	71.7%	70.7%	69.5%	70.7%	72.1%	73.7%	71.6%	69.3%	71.7%
y/y expansion/contraction						1.4%	1.9%	0.9%	-0.2%	1.0%
MFA Revenue*	\$93.8	\$93.8	\$93.8	\$46.9	\$328.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Assumed MFA Gross Margin	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Implied MFA Gross Profit	\$32.8	\$32.8	\$32.8	\$16.4	\$114.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pro Forma Revenue (ex-MFA)	\$2,096.3	\$2,267.3	\$2,294.0	\$2,270.1	\$8,927.6	\$2,220.0	\$2,460.0	\$2,400.4	\$2,363.5	\$9,443.9
Pro Forma Gross Profit (ex-MFA)	\$1,515.2	\$1,661.2	\$1,655.9	\$1,594.6	\$6,426.9	\$1,600.0	\$1,813.0	\$1,718.4	\$1,637.5	\$6,768.9
Pro Forma Gross Margin (ex-MFA)	72.3%	73.3%	72.2%	70.2%	72.0%	72.1%	73.7%	71.6%	69.3%	71.7%
y/y expansion/contraction						-0.2%	0.4%	-0.6%	-1.0%	-0.3%

*Assumes \$375MM FY24 MFA revenue per mgmt. commentary with equal contribution per quarter

Source: Company reports and Stifel estimates

- **Our Heat Map.** Following 3Q25 results, we leverage 10-Qs to again break down Zoetis' revenue across 10 products (for details [see page 4](#) of our recent September Numelvi pricing diligence reports). Our updated heat map reflects Apoquel's contribution to growth stepping down from +80 bps in 2025 to +40 bps in 2026, and further to +20 bps in 2027. While Parasiticides 2025-2027 contribution remains robust, it is at half the level seen in 2024, and we expect Livestock's 2026/2027 contribution to fade after a relatively robust 2024 and 2025.

Stifel Heat Map Estimates				
	2024	2025E	2026E	2027E
Total Revenue Growth contribution (%pts):				
APOQUEL	1.9%	0.8%	0.4%	0.2%
Cytopoint	1.0%	0.4%	0.4%	0.4%
Simparica Family	3.4%	1.8%	1.5%	1.4%
Other CA Parasiticides	(0.8%)	0.2%	0.1%	0.1%
Pain mAbs	3.1%	(0.0%)	0.1%	0.5%
Pain & Sedation (ex-mAbs)	(0.1%)	0.1%	0.1%	(0.2%)
CA Dx	0.1%	0.5%	0.4%	0.3%
Remaining "Legacy" CA	0.4%	(0.1%)	0.2%	0.3%
Livestock	2.2%	2.2%	1.5%	1.3%
Contract Manufacturing	0.0%	0.3%	0.1%	(0.0%)
Total organic revenue growth	11.4%	6.1%	4.7%	4.3%

Source: Company reports and Stifel estimates

- **Key Franchise Volumes.** In Zoetis' 10-Q filings, the company breaks out volume growth from key franchises, which represents Dermatology (Apoquel/Cytopoint), Simparica Family, and pain mAbs (Librela/Solensia). For 3Q25, key franchise volume was -1% y/y (likely -2% normalized for Apoquel stocking), a reversal from the +4% and +3% in 1Q25 and 2Q25, respectively. The deceleration is a concern and implies that price realization was less pronounced in 3Q25, which might be a function of increasing competition.

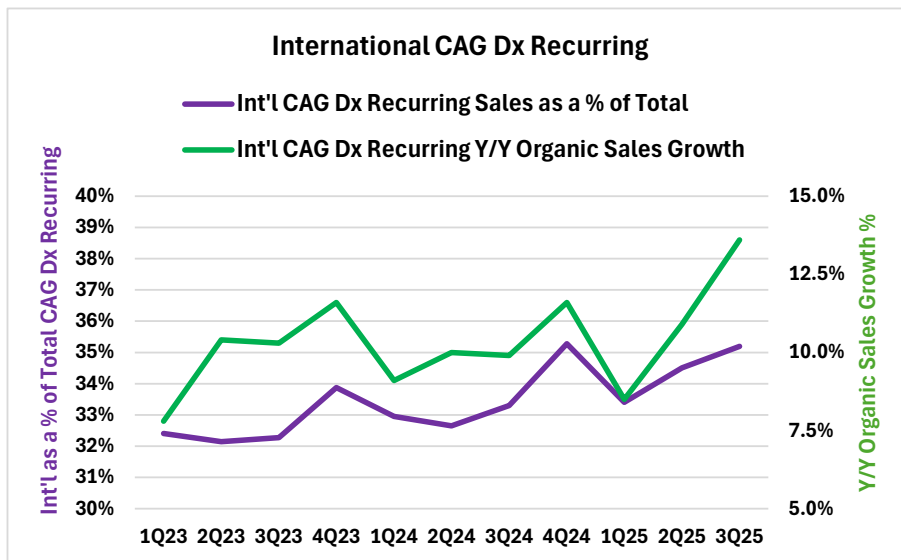
IDEXX

- **2026 Consumables Upside.** We normalize 2025 Consumables growth for Rapid Assay tailwinds (Pancreatic Lipase) and arrive at +12.1% underlying growth. This includes some inVue revenue, but inVue's contribution should build in 2026 relative to 2025 (FNA capability) and the company will have a full year contribution from Cortisol on Catalyst. Our 2026 Consumable organic revenue growth estimate is +11.3%, with the deceleration suggesting likely upside.

Underlying Consumables Organic Growth ex-Rapid Assay Conversion Tailwind					
	1Q25	2Q25	3Q25	4Q25E	FY25
VetLab Consumables Sales	\$344.8	\$375.1	\$387.8	\$380.9	\$1,488.6
Organic Consumables Growth (Y/Y)	10.5%	13.6%	15.9%	12.6%	13.2%
Organic Dollar Change (Y/Y)	\$36.2	\$51.0	\$61.8	\$48.0	\$196.9
\$ Benefit from Rapid Assay Lipase Conversion	\$4.3	\$5.0	\$5.6	\$1.8	\$16.6
Underlying Consumables \$ Change	\$31.8	\$46.0	\$56.2	\$46.2	\$180.3
Underlying Consumables Y/Y Organic Growth	9.2%	12.3%	14.5%	12.1%	12.1%

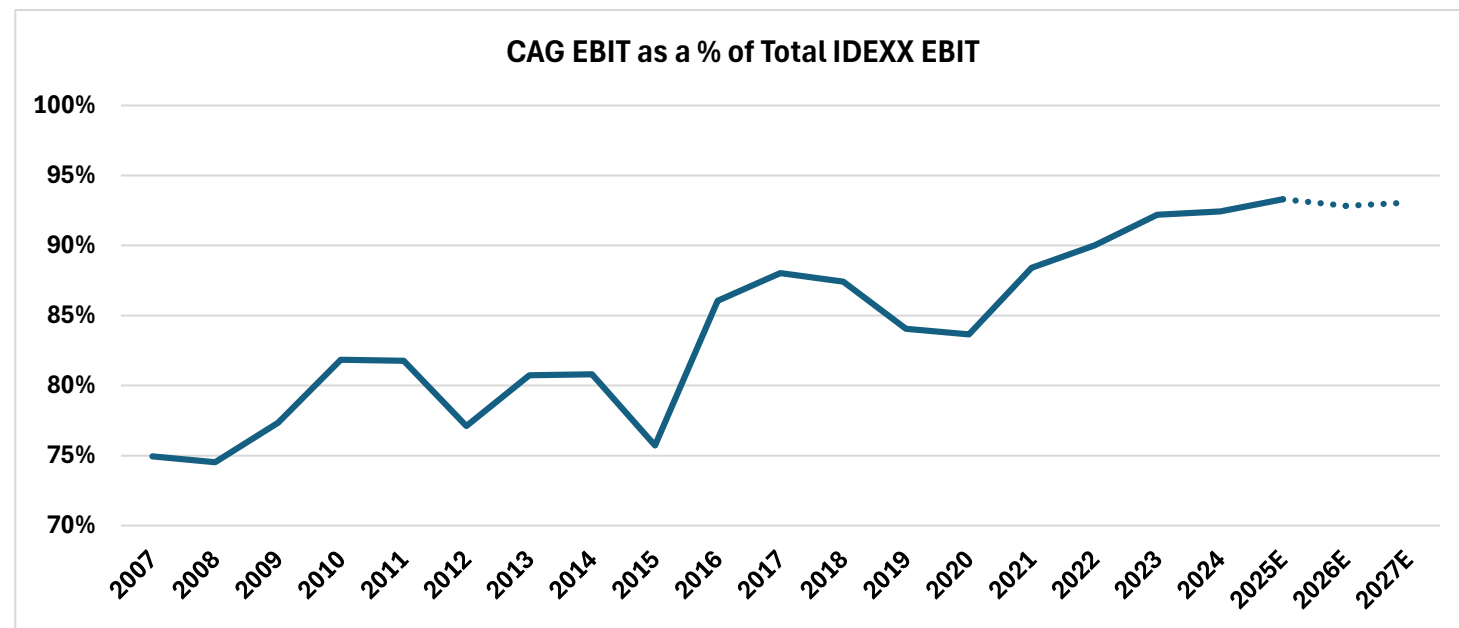
Source: Company reports and Stifel estimates

- **International Success Lowers the Bar for the U.S.** As we show on the next page, International CAG Dx recurring organic revenue growth has been accelerating. In 3Q25, revenue was +13.6%, or +12.6% days-adjusted. The accelerating growth is before inVue or Cancer Dx take hold, and prior to increased commercial investments, which are now underway. With International accounting for ~35% of WW CAG Dx recurring sales, a low-teens growth rate (+13-14%) would contribute ~500 bps to overall CAG Dx recurring organic revenue growth, leaving a low "ask" for U.S. CAG Dx recurring growth (+6%) to reach the Street's overall +8.7% 2026 CAG Dx recurring estimate.



Source: Company reports

- Thoughts on SOTP.** Below, we lay out the Companion Animal Group's EBIT as a percentage of total since 2007. In 2015, CAG accounted for ~75% of total EBIT. In 2026, it will approach ~95%. Investors pay for CAG, not LPD, which helps ease our overall valuation concerns (to an extent).



Source: Company reports and Stifel estimates

Trupanion

- Consumer Survey: Pet Insurance.** We introduce data from our newest survey in collaboration with a third-party consumer provider. In our October survey, ~67% of the 500 surveyed consumers own at least one dog or cat. Of those that own a dog or cat, 4.6% have pet insurance. We then asked current and prospective pet owners the maximum amount per month they would spend on pet insurance. As seen below, ~70% of consumers stated that the maximum amount per month that they would be willing to spend on pet insurance is \$70 or below compared to Trupanion's 3Q25 ARPU of \$82.01. Our concern remains that Trupanion is fishing in a much smaller pond relative to the competition as the company's ~\$82 per month ARPU plan costs the consumer ~\$1,000 per year. This is not where the industry's growth resides, and it is evident as increasing levels of acquisition spend yields poor incremental returns.

Maximum Amount	N	%
Under \$30	104	31%
\$31-40	29	9%
\$41-50	33	10%
\$51-60	28	8%
\$61-70	45	13%
\$71-80	30	9%
\$81-90	13	4%
\$91-100	36	11%
\$101 or more	21	6%
n =	339	

Source: Stifel Proprietary Consumer Survey

- Decelerating IRR and Incremental PAC.** The table below shows Trupanion's challenge of trying to add subscribers when consumers are looking for more affordable plans. In 3Q23, Trupanion spent \$14.2MM acquiring 66.7K pets. In 3Q25, the pet acquisition cost increased by 23% to \$18.5MM, but the number of pets acquired actually declined to 63.5K. **Trupanion is spending more to acquire less.** As a result, the company's IRR declined from 42% in 3Q23 to 28% in 3Q25.

	3Q23	3Q24	3Q25
Net acquisition cost (\$Thousands)	\$14,173	\$15,063	\$18,467
New pets enrolled*	66,710	62,036	63,516
Quarterly pet acquisition costs (PAC)	\$212	\$243	\$291
Internal Rate of Return (IRR)	42%	36%	28%

Source: Company reports and Stifel estimates

*Includes core Trupanion and other N.A. products

- Market Share.** We draw upon our prior NAPHIA market share exercise as further explanation of Trupanion losing ground to competition. N.A. pet insurance market growth decelerated to +12% y/y in 2024, down from +17% in 2023, +22% in 2022, and a peak of +27% in 2021. We estimate Trupanion's North America share finished at 14.1% in 2024, down from 17.5% in 2019, with y/y declines occurring in each of the last seven years.

	2019	2020	2021	2022	2023	2024
U.S. Insured Pets	2,517,122	3,101,956	3,970,535	4,849,540	5,681,744	6,405,541
Y/Y Growth	+17%	+23%	+28%	+22%	+17%	+13%
Canada Insured Pets	302,424	352,631	432,533	508,730	577,785	619,303
Y/Y Growth	+12%	+17%	+23%	+18%	+14%	+7%
N. America Insured Pets	2,819,546	3,454,587	4,403,068	5,358,270	6,259,529	7,024,844
Y/Y Growth	+16%	+23%	+27%	+22%	+17%	+12%
2yr CAGR	+17%	+19%	+25%	+25%	+19%	+15%
TRUP N.A. Sub. Pets	494,026	577,957	704,333	840,862	951,426	990,212
TRUP N.A. Sub. Share	17.5%	16.7%	16.0%	15.7%	15.2%	14.1%
Y/Y Share Change	(0.22%)	(0.79%)	(0.73%)	(0.30%)	(0.49%)	(1.10%)

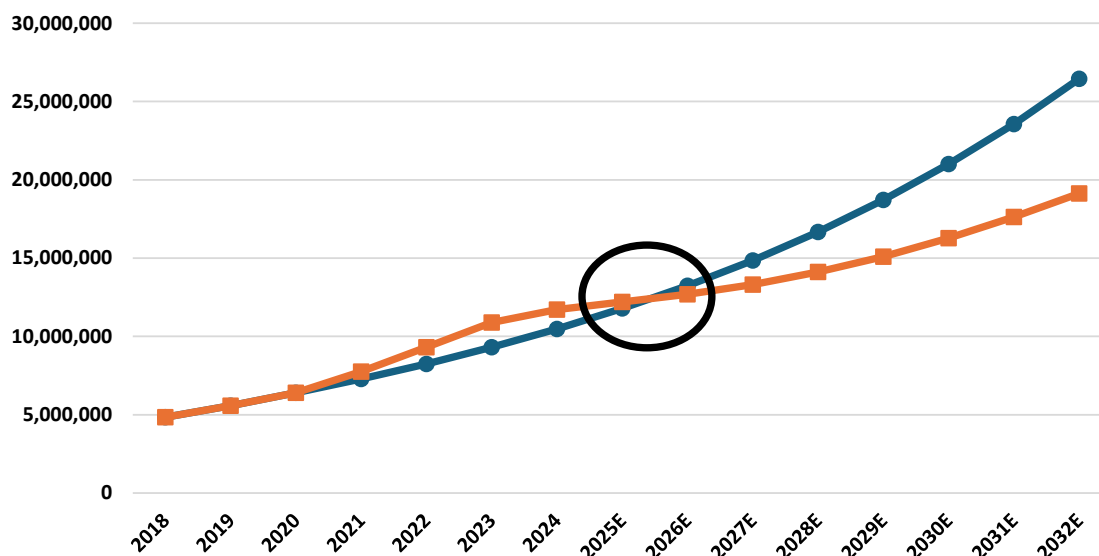
Source: NAPHIA

- 2019 Shareholder Letter vs. Current Model.** Next, we look back to Trupanion's 2019 Shareholder letter where the company laid out its internal discounted cash flow model with inputs including total pet months from 2018-2032. We overlay our model's total pet months

across the same time frame. From the 2021-2023 timeline, Trupanion outperformed prior internal projections as the industry benefited from the COVID pandemic puppy boom. Interestingly, a crossover appears likely to start to take hold in 2026E as the chart begins to reflect the cumulative impact of Trupanion underperforming internal expectations over the past 12-24 months. The difference in pet months reaches 7.3MM by 2032.

Total Subscription Pet Months

2019 SH Letter; Stifel Model



Source: Company reports and Stifel estimates

Investment Thesis

Elanco Animal Health Incorporated (ELAN)

Our Buy rating is predicated upon our more upbeat diligence around Elanco's Pet Health Innovation including Zenrelia and Credelio Quattro, which are key drivers to the company's long-term growth goals including Innovation revenue guidance of \$840MM-\$880MM in 2025. Our positive diligence on their Innovation bucket gives us confidence in the products' ability to help drive long-term revenue growth of +MSD %, along with margin expansion.

IDEXX Laboratories, Inc. (IDXX)

We believe the long-term company fundamentals remain intact. IDEXX is capturing market share across multiple modalities, international momentum is increasing, and diagnostics in the veterinary office will likely continue to play an increasingly important role. Additionally, we believe that veterinary visits volume is improving, and IDEXX's innovation portfolio will aid CAG Dx recurring revenue growth in coming years.

Trupanion, Inc. (TRUP)

Looking forward, we believe Trupanion's differentiated offering (Express direct pay, Territory Partners, transparent pricing) will continue to resonate with consumers. However, scale in the business remains somewhat elusive, and the competitive landscape seemingly is intensifying, which could exert more demands on out-year pet acquisition cost (PAC).

Zoetis Inc. (ZTS)

Our Hold rating is supported by our diligence, which suggests that competitive inroads in Zoetis' key markets (Dermatology and Parasiticides) may be material, and performance from the company's OA pain franchise (Librela and Solensia) will likely not be enough to offset impacts to total company growth.

Company Description

Elanco Animal Health Incorporated (ELAN)

Elanco Animal Health is one of the largest players in the Animal Health industry, and focuses on the development and manufacturing of preventive and therapeutic products in pets and farm animals. In 2020, Elanco acquired the animal health business of Bayer AG, increasing the scale of the business and gaining broader exposure to different geographies, business segments and selling channels. Elanco plans to launch many new products over the coming years, supported by its strong R&D capabilities. The company's current portfolio, including products acquired from Bayer, is anchored by blockbuster products such as the Advantage family, Seresto, and Interceptor Plus in pets, as well as Rumensin and Maxiban in farm animals.

IDEXX Laboratories, Inc. (IDXX)

IDEXX Laboratories, Inc. develops, manufactures, and distributes a range of products/services for the companion animal veterinary, livestock and poultry, water testing, and dairy markets. The company is a market leader in each of its three primary business segments: (1) Companion Animal Group (CAG), which provides diagnostics and information technology products/services to the veterinary market; (2) Livestock and Poultry Diagnostics (LPD), which focuses on the health of livestock and poultry; and (3) Water, which offers products used to improve water quality. In addition, IDEXX has two smaller businesses consisting of products designed for milk quality and products for human point-of-care diagnostic testing (OPTI Medical).

Trupanion, Inc. (TRUP)

Trupanion, Inc. provides medical insurance plans for cats and dogs through a direct-to-consumer monthly subscription service. The company's plans are currently offered throughout the United States, Canada, and other regions. The combination of Trupanion's structural cost advantages and extensive and proprietary database of claims received enable the company to accurately price the risk of any pet based on its unique characteristics and pass along greater value to the consumer in the form of higher claims payout ratios relative to other providers. Trupanion's target market opportunity is large and underpenetrated, as evidenced by the LSD% of total U.S. cats and dogs that are covered by insurance.

Zoetis Inc. (ZTS)

Zoetis Inc. is the market leader in global sales of medicines and vaccines for animal health. The company discovers, develops, manufactures, and markets a broad portfolio of products for the livestock and companion animal (CA) industries. Zoetis' products serve veterinarians, livestock producers, and owners of farm and companion animals in more than 100 countries. The company's diverse portfolio of more than 300 product lines extend across eight species and seven major product categories. Zoetis aims to grow its revenue and earnings by leveraging its industry-leading direct sales organization, breadth of product offering, and investments in R&D.

Target Price Methodology/Risks**Elanco Animal Health Incorporated (ELAN)**

Our target price of \$27 is predicated on a target EV/EBITDA multiple of approximately ~16x applied to our 2027 adjusted EBITDA estimate.

Risks to our target price include: (1) regulatory restrictions and clinical delays could adversely impact Elanco; (2) Elanco's sales could be negatively impacted by the introduction of generic alternatives and other factors that make its products less competitive; (3) Elanco has a significant amount of debt on its balance sheet, and its inability to de-lever represents a risk to the business.

IDEXX Laboratories, Inc. (IDXX)

Our target price of \$775 reflects a target EV/adjusted EBITDA multiple of ~33x applied to our 2027 adjusted EBITDA estimate.

Risks to our target price include a weakening economy that could negatively impact demand for veterinary care, increased competition that could pressure IDEXX's market share and hurt the current pricing environment, and a longer-than-expected return on the investments to support recent international initiatives.

Trupanion, Inc. (TRUP)

Our \$42 target price (previously \$45) is based on a discounted cash flow analysis using a 3.0% terminal growth rate and 10.0% discount rate.

Risks to our rating and target price include: (1) incorrect assumptions made by Trupanion on lifetime value of a customer, which could lead the company to overspend on member acquisition costs and limit returns on investments; (2) increased competition, which could result in market share losses for Trupanion and / or slower than expected growth; (3) regulatory compliance with risk-based capital requirements, which may cause the company to retain capital that otherwise would have been used to support growth initiatives; (4) claims could exceed excess reserves and have a material impact on Trupanion's financial condition; and (5) valuation due to the lack of comparable publicly traded pet insurance companies.

Zoetis Inc. (ZTS)

Our target price of \$130 (previously \$140) is predicated on a P/E multiple of ~19x applied to our 2027 EPS estimate.

Risks to our target price include: lower-than-expected sales from Zoetis' OA pain mAb portfolio; increased competition from generics or new animal health biotech companies, which could negatively impact Zoetis' market share and hurt the current pricing environment; potential restrictions or bans on the use of specific antibacterials in some food-producing animals; and macroeconomic conditions, which could lower the demand for Zoetis' animal health products.

Elanco Animal Health, Inc.

QUARTERLY INCOME STATEMENT

Fiscal Year End - December

(\$ in millions, except per share data)

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	2022	2023	2024				2024	2025E				2025E	2026E				2026E	2027E
			Mar	June	Sept	Dec		Mar	Jun	Sep	DecE		MarE	JunE	SepE	DecE		
Total Revenue	\$4,411	\$4,242	\$1,174	\$1,135	\$1,030	\$1,020	\$4,359	\$1,193	\$1,241	\$1,137	\$1,086	\$4,656	\$1,303	\$1,309	\$1,165	\$1,139	\$4,916	\$5,152
Cost of Sales	1,913	1,860	503	475	492	501	1,971	508	532	536	523	2,099	553	558	544	547	2,201	2,293
Gross Profit	\$2,498	\$2,383	\$671	\$660	\$538	\$519	\$2,388	\$685	\$709	\$601	\$562	\$2,557	\$751	\$751	\$621	\$592	\$2,715	\$2,859
Research & Development	321	327	87	89	87	81	344	94	92	89	87	362	100	101	90	88	379	397
Marketing, Selling, Administrative	1,266	\$1,251	330	339	323	300	1,292	341	400	351	337	1,429	370	418	355	342	1,485	1,534
Total Operating Expenses	1,587	1,578	417	428	410	381	1,636	435	492	440	423	1,790	470	518	445	429	1,863	1,930
Adjusted EBITDA	\$1,017	\$886	\$280	\$251	\$163	\$177	\$872	\$276	\$238	\$198	\$173	\$885	\$308	\$261	\$204	\$191	\$964	\$1,041
Operating Income	\$911	\$805	\$254	\$232	\$128	\$138	\$752	\$250	\$217	\$161	\$139	\$767	\$280	\$233	\$176	\$163	\$852	\$929
Net Interest Expense	221	221	52	51	46	46	195	40	38	34	56	168	49	47	46	45	187	154
Other Expense (Income)	25	33	4	4	1	(5)	4	7	12	(1)	2	20	5	5	5	5	20	20
Pre-Tax Income	\$665	\$551	\$198	\$177	\$81	\$98	\$554	\$203	\$167	\$128	\$80	\$579	\$227	\$181	\$125	\$113	\$645	\$755
Income Tax Expense	120	128	29	30	15	26	100	19	36	34	32	121	48	38	26	24	135	159
Effective Tax Rate	18.1%	23.3%	14.8%	16.9%	18.5%	26.6%	18.1%	9.2%	21.6%	26.6%	40.0%	20.9%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Non-GAAP Net Income	\$545	\$422	\$169	\$147	\$66	\$72	\$454	\$184	\$131	\$94	\$48	\$458	\$179	\$143	\$99	\$89	\$510	\$596
Shares Outstanding	492.2	493.7	496.0	497.1	497.7	498.4	497.3	499.1	500.1	496.8	497.3	498.3	497.6	497.9	498.2	498.5	498.1	499.8
EPS - Non-GAAP (Diluted)	\$1.11	\$0.86	\$0.34	\$0.30	\$0.13	\$0.14	\$0.91	\$0.37	\$0.26	\$0.19	\$0.10	\$0.92	\$0.36	\$0.29	\$0.20	\$0.18	\$1.02	\$1.19
Adjustments	\$1.27	\$3.35	\$0.28	\$0.40	(\$0.65)	\$0.16	\$0.23	\$0.24	\$0.24	\$0.26	\$0.27	\$1.00	\$0.25	\$0.25	\$0.23	\$0.22	\$0.95	\$0.95
EPS - GAAP (Diluted)	(\$0.16)	(\$2.50)	\$0.06	(\$0.10)	\$0.78	(\$0.02)	\$0.68	\$0.13	\$0.02	(\$0.07)	(\$0.17)	(\$0.08)	\$0.11	\$0.04	(\$0.03)	(\$0.04)	\$0.07	\$0.24
<u>Margin Analysis</u>																		
Gross Margin	56.6%	56.2%	57.2%	58.1%	52.2%	50.9%	54.8%	57.4%	57.1%	52.9%	51.8%	54.9%	57.6%	57.4%	53.3%	52.0%	55.2%	55.5%
Research & Development	7.3%	7.7%	7.4%	7.8%	8.4%	7.9%	7.9%	7.9%	7.4%	7.8%	8.0%	7.8%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
Marketing, Selling, Administrative	28.7%	29.5%	28.1%	29.9%	31.4%	29.4%	29.6%	28.6%	32.2%	30.9%	31.0%	30.7%	28.4%	31.9%	30.5%	30.0%	30.2%	29.8%
Total Operating Expenses	36.0%	37.2%	35.5%	37.7%	39.8%	37.4%	37.5%	36.5%	39.6%	38.7%	39.0%	38.4%	36.1%	39.6%	38.2%	37.7%	37.9%	37.5%
Adjusted EBITDA Margin	23.1%	20.9%	23.9%	22.1%	15.8%	17.4%	20.0%	23.1%	19.2%	17.4%	15.9%	19.0%	23.6%	19.9%	17.5%	16.8%	19.6%	20.2%
Operating Margin	20.6%	19.0%	21.6%	20.4%	12.4%	13.5%	17.3%	21.0%	17.5%	14.2%	12.8%	16.5%	21.5%	17.8%	15.1%	14.3%	17.3%	18.0%
Pre-Tax Margin	15.1%	13.0%	16.9%	15.6%	7.9%	9.6%	12.7%	17.0%	13.5%	11.3%	7.4%	12.4%	17.4%	13.8%	10.7%	9.9%	13.1%	14.7%
Net Margin	12.3%	10.0%	14.4%	13.0%	6.4%	7.0%	10.4%	15.5%	10.6%	8.3%	4.4%	9.8%	13.7%	10.9%	8.5%	7.8%	10.4%	11.6%
<u>Growth Analysis</u>																		
Revenue (Y/Y)	-7.4%	-3.8%	-3.5%	12.7%	0.4%	2.8%	2.8%	1.6%	9.3%	10.4%	6.4%	6.8%	9.2%	5.5%	2.5%	4.9%	5.6%	4.8%
Revenue (Q/Q)			18.3%	-3.3%	-9.3%	-1.0%		17.0%	4.0%	-8.4%	-4.5%		20.1%	0.4%	-11.0%	-2.3%		
Adjusted EBITDA (Y/Y)	-4.0%	-12.9%	-22.4%	29.6%	-14.0%	25.4%	-1.6%	-1.4%	-5.3%	21.5%	-2.5%	1.5%	11.7%	9.7%	3.0%	10.3%	8.9%	8.0%
Adjusted EBITDA (Q/Q)			97.9%	-10.2%	-35.2%	8.8%		55.6%	-13.8%	-16.8%	-12.7%		78.2%	-15.3%	-21.9%	-6.4%		
Operating Income (Y/Y)	-1.6%	-11.7%	-25.4%	38.5%	-22.9%	5.7%	-6.5%	-1.6%	-6.5%	25.8%	0.7%	2.0%	12.1%	7.4%	9.3%	17.2%	11.1%	9.0%
Operating Income (Q/Q)			94.6%	-8.7%	-44.8%	7.8%		81.2%	-13.2%	-25.8%	-13.7%		101.7%	-16.9%	-24.5%	-7.5%		
Net Income (Y/Y)	3.8%	-22.5%	-22.7%	80.4%	-24.1%	101.6%	7.4%	9.4%	-10.9%	42.4%	-32.9%	0.9%	-3.0%	8.9%	4.9%	85.0%	11.3%	17.0%
Net Income (Q/Q)			372.7%	-12.8%	-55.1%	8.9%		156.5%	-29.0%	-28.2%	-48.6%		270.7%	-20.3%	-30.9%	-9.5%		
EPS - Non-GAAP (Y/Y)	3.1%	-22.7%	-23.2%	78.7%	-24.6%	100.2%	6.6%	8.7%	-11.4%	42.7%	-32.7%	0.7%	-2.7%	9.4%	4.6%	84.5%	11.4%	16.6%
EPS - Non-GAAP (Q/Q)			371.6%	-13.0%	-55.2%	8.8%		156.2%	-29.1%	-27.8%	-48.7%		270.4%	-20.3%	-30.9%	-9.5%		

Source: Company reports and Stifel estimates

IDEXX Laboratories Inc.

QUARTERLY INCOME STATEMENT

Fiscal Year End - December

(\$ in millions, except per share data)

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	2019	2020	2021	2022	2023	2024				2024	2025E				2025E	2026E				2026E	2027E
						Mar	June	Sept	Dec		Mar	June	Sept	DecE		MarE	JuneE	SeptE	DecE		
Total Revenue	\$2,406.9	\$2,706.7	\$3,215.4	\$3,367.3	\$3,661.0	\$964.1	\$1,003.6	\$975.5	\$954.3	\$3,897.5	\$998.4	\$1,109.5	\$1,105.2	\$1,066.6	\$4,279.7	\$1,130.1	\$1,195.5	\$1,175.5	\$1,144.8	\$4,645.8	\$5,066.6
Total Cost of Operations	1,041.4	1,135.6	1,325.9	1,363.0	1,471.0	371.0	384.4	379.5	383.6	1,518.6	375.0	414.7	421.9	423.7	1,635.4	420.8	443.0	442.5	449.7	1,756.0	1,895.2
Total Gross Profit	\$1,365.5	\$1,571.0	\$1,889.4	\$2,004.3	\$2,190.0	\$593.1	\$619.2	\$596.0	\$570.7	\$2,378.9	\$623.4	\$694.7	\$683.4	\$642.9	\$2,644.4	\$709.2	\$752.5	\$732.9	\$695.1	\$2,889.8	\$3,171.3
Sales and Marketing	418.2	434.4	486.7	524.5	566.1	149.5	142.7	146.3	150.1	588.5	156.2	161.1	159.2	165.3	641.8	176.4	173.7	168.0	175.0	693.1	746.2
General and Administrative	247.9	263.3	309.7	326.2	351.8	92.0	95.7	91.9	101.1	380.8	100.2	98.7	105.9	101.5	406.3	103.3	109.3	110.8	106.7	430.1	463.7
Research and Development	133.2	141.2	161.0	174.8	191.0	52.6	55.5	54.0	57.7	219.8	59.1	61.9	63.4	60.5	244.9	65.1	66.2	66.2	63.0	260.4	274.9
Operating Expenses	799.3	839.0	957.4	1,025.6	1,108.8	294.1	293.9	292.1	309.0	1,189.1	315.4	321.7	328.5	327.3	1,293.0	344.8	349.2	345.0	344.6	1,383.6	1,484.8
Adjusted EBITDA	\$694.9	\$863.0	\$1,084.1	\$1,142.4	\$1,262.9	\$348.2	\$378.0	\$356.5	\$310.6	\$1,393.2	\$356.6	\$423.7	\$405.9	\$367.9	\$1,554.1	\$414.5	\$455.6	\$439.1	\$407.7	\$1,716.9	\$1,915.0
Operating Income	\$566.2	\$732.0	\$932.0	\$978.8	\$1,081.1	\$299.0	\$325.3	\$303.9	\$261.7	\$1,189.8	\$307.9	\$373.0	\$354.8	\$315.6	\$1,351.4	\$364.5	\$403.3	\$387.9	\$350.5	\$1,506.2	\$1,686.5
Interest Expense, Net	(30.6)	(32.5)	(29.4)	(38.8)	(36.0)	(3.5)	(4.7)	(5.0)	(5.3)	(18.5)	(6.5)	(10.7)	(10.1)	(11.0)	(38.2)	(9.6)	(9.4)	(8.4)	(7.8)	(35.2)	(27.0)
Pretax Income	\$535.6	\$699.5	\$902.7	\$940.0	\$1,045.2	\$295.5	\$320.6	\$298.9	\$256.4	\$1,171.3	\$301.5	\$362.4	\$344.8	\$304.6	\$1,313.2	\$354.9	\$393.9	\$379.6	\$342.6	\$1,471.0	\$1,659.5
Income Tax (Non-GAAP)	95.4	89.0	157.8	199.8	212.9	59.9	70.6	66.1	40.2	236.8	65.4	68.4	70.2	67.6	271.5	72.7	83.1	80.1	72.3	308.2	347.8
Tax Rate (Non-GAAP)	17.8%	12.7%	17.5%	21.3%	20.4%	20.3%	22.0%	22.1%	15.7%	20.2%	21.7%	18.9%	20.4%	22.2%	20.7%	20.5%	21.1%	21.1%	21.1%	21.0%	21.0%
Provision for Income Tax (GAAP)	94.4	79.9	157.8	180.9	216.1	59.9	55.8	66.1	40.2	222.0	67.4	68.4	70.2	67.6	273.6	72.7	83.1	80.1	72.3	308.2	347.8
Effective Tax Rate (GAAP)	18.1%	12.1%	17.5%	21.0%	20.4%	20.3%	21.5%	22.1%	15.7%	18.9%	21.7%	18.9%	20.4%	22.2%	20.8%	20.5%	21.1%	21.1%	21.1%	21.0%	21.0%
Loss Attributable to Non-Controlling Interest	0.1	0.4	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income - Non-GAAP	\$440.1	\$610.1	\$744.8	\$740.2	\$832.2	\$235.6	\$250.0	\$232.8	\$216.1	\$994.6	\$236.1	\$294.0	\$274.6	\$237.0	\$1,041.7	\$282.1	\$310.8	\$299.5	\$270.3	\$1,162.7	\$1,311.7
Shares Outstanding ¹	87.5	86.7	86.6	84.6	84.0	84.0	82.4	82.1	82.5	82.2	81.9	81.0	80.7	80.3	81.0	79.8	79.3	79.0	78.8	79.2	77.7
EPS - Non-GAAP adjusted	\$5.03	\$7.04	\$8.60	\$8.75	\$9.91	\$2.81	\$3.00	\$2.80	\$2.62	\$11.23	\$2.88	\$3.63	\$3.22	\$2.95	\$12.87	\$3.54	\$3.92	\$3.79	\$3.43	\$14.68	\$16.88
Adjustments	(50.14)	(50.33)	\$0.00	(50.72)	\$0.15	\$0.00	(50.56)	\$0.00	\$0.00	(50.56)	\$0.08	\$0.00	\$0.19	\$0.00	\$0.08	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
EPS - As Reported (GAAP)	\$4.89	\$6.71	\$8.60	\$8.03	\$10.06	\$2.81	\$2.44	\$2.80	\$2.62	\$10.67	\$2.96	\$3.63	\$3.40	\$2.95	\$12.95	\$3.54	\$3.92	\$3.79	\$3.43	\$14.68	\$16.88
Margin Analysis																					
Gross Margin	56.7%	58.0%	58.8%	59.5%	59.8%	61.5%	61.7%	61.1%	59.8%	61.0%	62.4%	62.6%	61.8%	60.3%	61.8%	62.8%	62.9%	62.4%	60.7%	62.2%	62.6%
Sales and Marketing	17.4%	16.1%	15.1%	15.6%	15.5%	15.5%	14.2%	15.0%	15.7%	15.1%	15.6%	14.5%	14.4%	15.5%	15.0%	15.6%	14.5%	14.3%	15.3%	14.9%	14.7%
General and Administrative	10.3%	9.7%	9.6%	9.7%	9.6%	9.5%	9.5%	9.4%	10.6%	9.8%	10.0%	8.9%	9.6%	9.5%	9.5%	9.1%	9.1%	9.4%	9.3%	9.3%	9.2%
Research and Development	5.5%	5.2%	5.0%	5.2%	5.2%	5.5%	5.5%	5.5%	6.0%	5.6%	5.9%	5.6%	5.7%	5.7%	5.7%	5.8%	5.5%	5.6%	5.5%	5.6%	5.4%
Operating Expenses	33.2%	31.0%	29.8%	30.5%	30.3%	30.5%	29.3%	29.9%	32.4%	30.5%	31.6%	29.0%	29.7%	30.7%	30.2%	30.5%	29.2%	29.4%	30.1%	29.8%	29.3%
Operating Margin	23.5%	27.0%	29.0%	29.1%	29.5%	31.0%	32.4%	31.2%	27.4%	30.5%	30.8%	33.6%	32.1%	29.6%	31.6%	32.3%	33.7%	33.0%	30.6%	32.4%	33.3%
Pretax Margin	22.3%	25.8%	28.1%	27.9%	28.5%	30.6%	31.9%	30.6%	26.9%	30.1%	30.2%	32.7%	31.2%	28.6%	30.7%	31.4%	33.0%	32.3%	29.9%	31.7%	32.8%
Net Margin	18.3%	22.5%	23.2%	22.0%	22.7%	24.4%	24.9%	23.9%	22.7%	24.0%	23.6%	26.5%	24.8%	22.2%	24.3%	25.0%	26.0%	25.5%	23.6%	25.0%	25.9%
Percentage Analysis																					
Rev Growth (Y/Y)	8.8%	12.5%	18.8%	4.7%	8.7%	7.1%	6.4%	6.6%	5.8%	6.5%	3.6%	10.6%	13.3%	11.8%	9.8%	13.2%	7.8%	6.4%	7.3%	8.6%	9.1%
Rev Growth (Q/Q)						6.9%	4.1%	-2.8%	-2.2%		4.6%	11.1%	-0.4%	-3.5%		5.9%	5.8%	-1.7%	-2.6%		
Operating Income (Y/Y)	15.2%	29.3%	27.3%	5.0%	10.5%	13.1%	9.8%	10.4%	6.7%	10.1%	3.0%	14.7%	16.8%	20.6%	13.6%	18.4%	8.1%	9.3%	11.1%	11.5%	12.0%
Operating Income (Q/Q)						21.9%	8.8%	-6.6%	-13.9%		17.7%	21.1%	-4.9%	-11.1%		15.5%	10.7%	-3.8%	-9.7%		
Net Income (Y/Y)	16.7%	38.6%	22.1%	-0.6%	12.4%	17.1%	11.5%	9.7%	11.1%	12.3%	0.2%	17.6%	17.9%	9.6%	11.5%	19.5%	5.7%	9.1%	14.1%	11.6%	12.8%
Net Income (Q/Q)						21.1%	6.1%	-6.9%	-7.2%		9.2%	24.5%	-6.6%	-13.7%		19.0%	10.2%	-3.7%	-9.7%		
EPS - Fully Taxed (Y/Y- Adj)	17.9%	39.9%	22.3%	1.7%	13.3%	17.1%	12.3%	10.9%	13.0%	13.3%	2.7%	21.1%	14.8%	12.7%	14.6%	22.7%	8.0%	17.7%	16.2%	14.1%	15.0%
EPS - Fully Taxed (Q/Q)						21.1%	6.8%	-6.5%	-6.6%		10.1%	25.9%	-11.3%	-8.3%		19.8%	10.9%	-3.3%	-9.4%		
EPS - Fully Taxed (Y/Y- GAAP)	14.7%	37.2%	28.3%	-6.7%	25.4%	10.1%	-8.7%	10.9%	13.0%	6.0%	5.6%	48.9%	21.4%	12.7%	21.4%	19.4%	8.0%	11.3%	16.2%	13.4%	15.0%

Source: Company reports and Stifel estimates.

Trupanion, Inc.

Quarterly Income Statement

Fiscal Year End - Dec

(\$ in millions, except per share data)

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	2022	2023	2024				2024	2025E				2025E	2026E				2026E	2027E
			Mar-24	Jun-24	Sep-24	Dec-24		Mar-25	Jun-25	Sep-25	Dec-25E		Mar-26E	Jun-26E	Sep-26E	Dec-26E		
Subscription revenue	596.6	712.9	201.1	208.6	219.0	227.8	856.5	233.1	242.2	252.7	259.1	987.0	267.0	273.6	281.9	289.7	1,112.2	1,239.7
(-) Claims expenses	432.8	539.7	151.5	154.6	155.5	159.5	621.1	167.4	172.1	177.1	181.3	697.9	190.4	194.3	198.7	203.5	786.9	877.1
% of revenue	72.5%	75.7%	75.3%	74.1%	71.0%	70.0%	72.5%	71.8%	71.1%	70.1%	70.0%	70.7%	71.3%	71.0%	70.5%	70.3%	70.7%	70.7%
(-) Variable expenses	58.6	69.2	19.4	19.8	20.6	20.9	80.7	21.2	22.0	22.5	23.1	88.7	23.8	24.4	24.8	25.5	98.4	110.3
(-) Fixed expenses	25.9	33.7	10.6	11.2	12.2	12.4	46.4	14.4	14.6	14.1	14.5	57.6	15.5	15.6	16.1	16.2	63.4	66.6
Subscription adjusted operating income	\$79.3	\$70.2	\$19.6	\$23.0	\$30.8	\$35.0	\$108.3	\$30.0	\$33.4	\$39.1	\$40.2	\$142.6	\$37.4	\$39.4	\$42.3	\$44.5	\$163.5	\$185.7
% of revenue	13.3%	9.8%	9.7%	11.0%	14.0%	15.3%	12.6%	12.9%	13.8%	15.5%	15.5%	14.5%	14.0%	14.4%	15.0%	15.4%	14.7%	15.0%
Other revenue	308.6	395.7	105.0	106.2	108.5	109.5	429.2	108.9	111.4	114.2	114.5	449.0	113.3	115.9	118.8	117.9	465.8	475.1
(-) Claims expenses	212.9	287.9	81.2	75.6	82.5	85.4	324.7	79.3	82.7	85.4	82.4	329.8	82.7	84.6	86.7	86.1	340.0	342.1
(-) Variable expenses	72.5	75.8	16.5	23.1	18.1	17.3	75.1	21.7	20.5	20.7	23.5	86.4	22.1	22.6	23.8	23.6	92.0	100.9
(-) Fixed expenses	13.3	18.7	5.6	5.7	6.0	6.0	23.2	6.7	6.7	6.4	6.4	26.2	6.6	6.6	6.8	6.6	26.5	25.5
Other adjusted operating income	\$9.9	\$13.4	\$1.7	\$1.8	\$1.8	\$0.8	\$6.2	\$1.2	\$1.4	\$1.8	\$2.2	\$6.5	\$1.9	\$2.1	\$1.5	\$1.7	\$7.2	\$6.6
Total revenue	905.2	1,108.6	306.1	314.8	327.5	337.3	1,285.7	342.0	353.6	366.9	373.5	1,436.0	380.3	389.5	400.7	407.6	1,578.0	1,714.7
(-) Claims expenses	645.7	827.6	232.7	230.3	238.0	244.9	945.8	246.7	254.8	262.5	263.7	1,027.7	273.1	278.9	285.4	289.6	1,126.9	1,219.1
(-) Variable expenses	131.0	145.0	35.9	42.9	38.7	38.2	155.8	42.9	42.5	43.2	46.5	175.2	45.9	46.9	48.6	49.1	190.4	211.3
(-) Fixed expenses	39.2	52.5	16.2	16.8	18.2	18.4	69.6	21.2	21.4	20.4	20.9	83.9	22.1	22.2	22.8	22.8	89.9	92.1
Total adjusted operating income	\$89.3	\$83.5	\$21.3	\$24.8	\$32.6	\$35.8	\$114.5	\$31.2	\$34.8	\$40.9	\$42.3	\$149.2	\$39.3	\$41.5	\$43.8	\$46.1	\$170.7	\$192.2
Subscription acquisition cost	79.8	70.2	15.0	15.8	16.8	16.9	64.4	17.6	18.3	20.4	21.0	77.3	22.2	22.6	23.7	24.3	92.8	106.6
% of Subscription revenue	13.4%	9.8%	7.4%	7.6%	7.7%	7.4%	7.5%	7.6%	7.5%	8.1%	8.1%	7.8%	8.3%	8.3%	8.4%	8.4%	8.3%	8.6%
Other business acquisition cost	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Development expenses	7.8	5.1	1.2	1.7	1.5	1.3	5.6	1.4	0.9	1.2	1.0	4.6	0.5	0.5	0.5	0.5	2.0	4.0
Stock-based compensation expense	32.5	31.9	7.4	8.4	8.1	8.0	31.9	9.5	9.3	9.3	11.3	39.4	11.0	11.0	11.0	11.0	44.1	49.0
Depreciation and amortization	10.9	12.5	3.8	4.4	4.4	3.9	16.5	3.8	4.0	4.1	5.0	16.8	4.2	4.4	3.5	6.1	18.1	20.0
Business combination transaction costs / other	0.4	4.2	0.0	0.0	0.0	5.3	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain (loss) from investment in JV	(0.3)	(0.2)	(0.1)	(0.0)	(0.0)	0.0	(0.2)	(0.3)	0.0	0.0	0.0	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0
Operating income (loss)	(\$43.0)	(\$40.7)	(\$6.1)	(\$5.5)	\$1.7	\$0.3	(\$9.5)	(\$1.5)	\$2.3	\$5.9	\$4.0	\$10.7	\$1.4	\$3.0	\$5.1	\$4.1	\$13.7	\$12.6
Interest expense	4.3	12.1	3.6	3.7	3.8	3.4	14.5	3.2	3.7	2.8	2.6	12.3	2.6	2.6	2.6	2.6	10.3	10.3
Other income, net	(3.1)	(7.7)	(2.8)	(3.2)	(3.5)	(4.8)	(14.4)	(3.2)	(11.9)	(3.5)	(3.5)	(22.2)	(4.0)	(4.0)	(4.0)	(4.0)	(16.0)	(16.0)
Pre-tax income (loss)	(44.2)	(45.0)	(6.9)	(5.9)	1.5	1.7	(9.6)	(1.4)	10.5	6.6	4.9	20.6	2.9	4.4	6.5	5.6	19.4	18.3
Income tax expense (benefit)	0.5	(0.3)	(0.0)	(0.0)	0.0	0.0	(0.0)	0.0	1.1	0.7	1.0	2.9	0.6	0.9	1.3	1.1	3.9	3.7
Net income (loss)	(44.7)	(44.7)	(6.9)	(5.9)	1.4	1.7	(9.6)	(1.5)	9.4	5.9	4.0	17.8	2.3	3.6	5.2	4.5	15.5	14.7
Basic shares outstanding	40.8	41.4	41.9	42.1	42.2	42.4	42.2	42.8	42.9	43.1	43.3	43.0	43.5	43.7	43.9	44.1	43.8	44.6
Diluted shares outstanding	40.8	41.4	41.9	42.1	42.8	42.9	42.2	42.8	43.3	43.6	44.3	46.0	46.5	46.7	44.9	45.1	46.8	45.6
Diluted EPS (GAAP)	(\$1.10)	(\$1.08)	(\$0.16)	(\$0.14)	\$0.03	\$0.04	(\$0.23)	(\$0.03)	\$0.22	\$0.13	\$0.09	\$0.39	\$0.05	\$0.08	\$0.12	\$0.10	\$0.33	\$0.32
Total adjusted EBITDA	\$0.7	\$6.4	\$4.8	\$7.4	\$14.5	\$19.4	\$46.1	\$12.2	\$16.6	\$19.6	\$20.4	\$68.8	\$17.2	\$19.0	\$20.2	\$21.9	\$78.3	\$83.9

Source: Company reports and Stifel estimates

Industry Update
November 17, 2025

Zoetis

QUARTERLY INCOME STATEMENT

Fiscal Year End - December

(\$ in Millions, except per share data)

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	2019	2020	2021	2022	2023	2024				2024	2025E				2025E	2026E				2026E	2027E
						Mar	Jun	Sep	Dec	2024	Mar	Jun	Sep	DecE	2025E	MarE	JunE	SepE	DecE	2026E	2027E
Net Sales	\$6,260	\$6,675	\$7,776	\$8,080	\$8,544	\$2,190	\$2,361	\$2,388	\$2,317	\$9,256	\$2,220	\$2,460	\$2,400	\$2,363	\$9,443	\$2,360	\$2,547	\$2,525	\$2,494	\$9,925	\$10,349
Cost of Sales	<u>1,891</u>	<u>2,030</u>	<u>2,289</u>	<u>2,440</u>	<u>2,548</u>	<u>642</u>	<u>667</u>	<u>699</u>	<u>706</u>	<u>2,714</u>	<u>620</u>	<u>647</u>	<u>682</u>	<u>725</u>	<u>2,674</u>	<u>661</u>	<u>708</u>	<u>725</u>	<u>775</u>	<u>2,868</u>	<u>3,025</u>
Gross Profit	\$4,369	\$4,645	\$5,487	\$5,640	\$5,996	\$1,548	\$1,694	\$1,689	\$1,611	\$6,542	\$1,600	\$1,813	\$1,718	\$1,638	\$6,769	\$1,699	\$1,839	\$1,800	\$1,719	\$7,057	\$7,324
SG&A	1,564	1,659	1,971	1,980	2,130	544	578	560	619	2,301	554	605	570	617	2,346	585	621	596	646	2,448	2,531
R&D	455	462	507	538	613	161	171	166	186	684	157	172	169	195	693	172	183	181	179	715	731
Amortization of Intangibles	19	25	23	26	22	5	4	5	4	18	4	5	4	5	18	5	5	5	5	20	20
Operating Expenses	<u>2,038</u>	<u>2,146</u>	<u>2,501</u>	<u>2,544</u>	<u>2,765</u>	<u>710</u>	<u>753</u>	<u>731</u>	<u>809</u>	<u>3,003</u>	<u>715</u>	<u>782</u>	<u>743</u>	<u>817</u>	<u>3,057</u>	<u>762</u>	<u>809</u>	<u>782</u>	<u>830</u>	<u>3,183</u>	<u>3,282</u>
Operating Income	\$2,331	\$2,499	\$2,986	\$3,096	\$3,231	\$838	\$941	\$958	\$802	\$3,539	\$885	\$1,031	\$975	\$821	\$3,712	\$937	\$1,030	\$1,018	\$889	\$3,874	\$4,042
Other, Net	186	244	238	219	160	48	51	41	29	169	37	48	49	43	177	48	48	48	46	190	206
Income Before Income Tax	\$2,145	\$2,255	\$2,748	\$2,877	\$3,071	\$790	\$890	\$917	\$773	\$3,370	\$848	\$983	\$926	\$778	\$3,535	\$889	\$982	\$970	\$843	\$3,684	\$3,836
Provision for Income Taxes	390	413	511	583	618	156	179	191	141	667	186	200	172	163	721	187	206	204	177	774	807
Effective Tax Rate	18.1%	18.3%	18.6%	20.2%	20.1%	19.7%	20.1%	20.8%	18.2%	19.8%	21.9%	20.3%	18.6%	21.0%	20.4%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Attributed to Noncontrolling Interests	0	0	-2	0	0	0	0	10	0	10	0	0	0	0	0	0	0	0	0	0	0
Net Income	\$1,755	\$1,843	\$2,239	\$2,297	\$2,457	\$634	\$711	\$716	\$632	\$2,693	\$662	\$783	\$754	\$615	\$2,814	\$702	\$776	\$766	\$666	\$2,910	\$3,029
Shares Outstanding (Fully Diluted)	481.8	478.6	476.7	470.4	462.3	458.8	456.0	453.5	451.1	454.9	448.0	445.5	443.2	442.2	444.7	441.2	440.2	439.2	438.2	439.7	435.7
Non-GAAP EPS	\$3.64	\$3.85	\$4.70	\$4.88	\$5.32	\$1.38	\$1.56	\$1.58	\$1.40	\$5.92	\$1.48	\$1.76	\$1.70	\$1.39	\$6.33	\$1.59	\$1.76	\$1.74	\$1.52	\$6.62	\$6.95
Adjustment for Extraordinary Items	(0.53)	(0.43)	(0.43)	(0.39)	(0.24)	(0.08)	(0.19)	(0.07)	(0.11)	(0.46)	(0.07)	(0.15)	(0.08)	(0.09)	(0.38)	(0.09)	(0.09)	(0.09)	(0.09)	(0.36)	(0.36)
GAAP EPS	\$3.11	\$3.42	\$4.27	\$4.49	\$5.07	\$1.31	\$1.37	\$1.50	\$1.29	\$5.47	\$1.41	\$1.61	\$1.63	\$1.30	\$5.94	\$1.50	\$1.67	\$1.65	\$1.43	\$6.26	\$6.59
Dividends per share	\$0.65	\$0.80	\$1.00	\$1.30	\$1.50	\$0.43	\$0.43	\$0.43	\$0.43	\$1.73	\$0.50	\$0.50	\$0.50	\$0.50	\$1.99	\$0.57	\$0.57	\$0.57	\$0.57	\$2.29	\$2.63
<u>Margin Analysis</u>																					
Cost of Sales	30.2%	30.4%	29.4%	30.2%	29.8%	29.3%	28.3%	29.3%	30.5%	29.3%	27.9%	26.3%	28.4%	30.7%	28.3%	28.0%	27.8%	28.7%	31.1%	28.9%	29.2%
Gross Profit	69.8%	69.6%	70.6%	69.8%	70.2%	70.7%	71.7%	70.7%	69.5%	70.7%	72.1%	73.7%	71.6%	69.3%	71.7%	72.0%	72.2%	71.3%	68.9%	71.1%	70.8%
SG&A	25.0%	24.9%	25.3%	24.5%	24.9%	24.8%	24.5%	23.5%	26.7%	24.9%	25.0%	24.6%	23.7%	26.1%	24.8%	24.8%	24.4%	23.6%	25.9%	24.7%	24.5%
R&D	7.3%	6.9%	6.5%	6.7%	7.2%	7.4%	7.2%	7.0%	8.0%	7.4%	7.1%	7.0%	7.0%	8.3%	7.3%	7.3%	7.2%	7.2%	7.2%	7.2%	7.1%
Amortization of Intangibles	0.3%	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Operating Expenses	32.6%	32.1%	32.2%	31.5%	32.4%	32.4%	31.9%	30.6%	34.9%	32.4%	32.2%	31.8%	31.0%	34.6%	32.4%	32.3%	31.8%	31.0%	33.3%	32.1%	31.7%
Operating Income	37.2%	37.4%	38.4%	38.3%	37.8%	38.3%	39.9%	40.1%	34.6%	38.2%	39.9%	41.9%	40.6%	34.7%	39.3%	39.7%	40.4%	40.3%	35.6%	39.0%	39.1%
Other, Net	3.6%	3.5%	2.9%	2.7%	2.8%	2.2%	2.2%	2.4%	2.2%	2.4%	1.7%	2.0%	2.4%	2.6%	2.4%	2.0%	1.9%	2.4%	2.5%	2.5%	2.6%
Income Before Income Tax	34.3%	33.8%	35.3%	35.6%	35.9%	36.1%	37.7%	38.4%	33.4%	36.4%	38.2%	40.0%	38.6%	32.9%	37.4%	37.7%	38.6%	38.4%	33.8%	37.1%	37.1%
Net Income	28.0%	27.6%	28.8%	28.4%	28.8%	28.9%	30.1%	30.0%	27.3%	29.1%	29.8%	31.8%	31.4%	26.0%	29.8%	29.7%	30.5%	30.3%	26.7%	29.3%	29.3%
<u>Growth Analysis (Y/Y)</u>																					
Net Sales	7.5%	6.6%	16.5%	3.9%	5.7%	9.5%	8.3%	11.0%	4.7%	8.3%	1.4%	4.2%	0.5%	2.0%	2.0%	6.3%	3.5%	5.2%	5.5%	5.1%	4.3%
Operational growth	10.3%	8.7%	15.0%	7.8%	7.2%	11.9%	11.1%	13.6%	6.4%	10.7%	4.8%	4.8%	-0.5%	1.3%	2.6%	3.9%	4.2%	5.0%	5.6%	4.7%	4.3%
Cost of sales	0.8%	7.4%	12.8%	6.6%	4.4%	9.9%	10.8%	10.1%	-2.9%	6.5%	-3.4%	-3.0%	-2.4%	2.7%	-1.5%	6.6%	9.4%	6.3%	6.8%	7.3%	5.5%
Gross profit	10.6%	6.3%	18.1%	2.8%	6.3%	9.3%	7.4%	11.4%	8.4%	9.1%	3.4%	7.0%	1.8%	1.7%	3.5%	6.2%	1.4%	4.7%	5.0%	4.3%	3.8%
SG&A	7.9%	6.1%	18.8%	0.5%	7.6%	9.2%	5.3%	7.5%	10.1%	8.0%	1.8%	4.7%	1.8%	-0.3%	2.0%	5.6%	2.6%	4.6%	4.7%	4.3%	3.4%
R&D	5.8%	1.5%	9.7%	6.1%	13.9%	13.4%	17.1%	9.9%	6.9%	11.6%	-2.5%	0.6%	1.8%	4.8%	1.3%	9.6%	6.4%	7.1%	-8.2%	3.2%	2.2%
Amortization of intangibles	18.8%	31.6%	-8.0%	13.0%	-15.4%	-16.7%	-33.3%	0.0%	-20.0%	-18.2%	-20.0%	25.0%	-20.0%	25.0%	0.0%	25.0%	0.0%	25.0%	0.0%	11.1%	0.0%
Operating expenses	7.5%	5.3%	16.5%	1.7%	8.7%	9.9%	7.4%	8.0%	9.2%	8.6%	0.7%	3.9%	1.6%	1.0%	1.8%	6.6%	3.5%	5.2%	1.6%	4.1%	3.1%
Operating Income	13.5%	7.2%	19.5%	3.7%	4.4%	8.8%	7.3%	14.1%	7.7%	9.5%	5.6%	9.6%	1.8%	2.3%	4.9%	5.9%	-0.1%	4.4%	8.3%	4.4%	4.3%
Net Income	15.1%	5.0%	21.5%	2.6%	7.0%	4.5%	9.1%	13.8%	11.1%	9.6%	4.4%	10.1%	5.4%	-2.8%	4.5%	6.0%	-0.9%	1.5%	8.4%	3.4%	4.1%
Non-GAAP EPS	16.3%	5.7%	22.0%	4.0%	8.9%	5.9%	10.8%	15.8%	13.3%	11.4%	6.9%	12.7%	7.9%	-0.8%	6.9%	7.6%	0.3%	2.4%	9.4%	4.6%	5.1%

Source: Company reports and Stifel estimates

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