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 March 31, 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	**46-0696167**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10 Sylvan Way, Parsippany, New Jersey	**07054**
(Address of principal executive offices)	(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 April 26, 2024, there were 456,295,137 shares of common stock outstanding.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	**2024**	2023
Revenue	**$ 2,190**	$ 2,000
Costs and expenses:		
Cost of sales	**643**	588
Selling, general and administrative expenses	**547**	505
Research and development expenses	**162**	142
Amortization of intangible assets	**37**	37
Restructuring charges and certain acquisition-related costs	**4**	21
Interest expense, net of capitalized interest	**58**	63
Other (income)/deductions—net	**(8)**	(53)
Income before provision for taxes on income	**747**	697
Provision for taxes on income	**148**	146
Net income before allocation to noncontrolling interests	**599**	551
Less: Net loss attributable to noncontrolling interests	**—**	(1)
Net income attributable to Zoetis Inc.	**$ 599**	$ 552
Earnings per share attributable to Zoetis Inc. stockholders:		
Basic	**$ 1.31**	$ 1.19
Diluted	**$ 1.31**	$ 1.19
Weighted-average common shares outstanding:		
Basic	**458.0**	463.5
Diluted	**458.8**	464.6
Dividends declared per common share	**$ 0.432**	$ 0.375

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Net income before allocation to noncontrolling interests	**$ 599**	$ 551
Other comprehensive loss, net of tax[(a)]:		
Unrealized losses on derivatives for cash flow hedges, net of tax of $0 and $(1) for the three months ended March 31, 2024 and 2023, respectively	**—**	(2)
Unrealized gains/(losses) on derivatives for net investment hedges, net of tax of $5 and $(2) for the three months ended March 31, 2024 and 2023, respectively	**16**	(6)
Foreign currency translation adjustments	**(18)**	(7)
Benefit plans: Actuarial gains, net of tax of $0 and $1 for the three months ended March 31, 2024 and 2023, respectively	**—**	4
Total other comprehensive loss, net of tax	**(2)**	(11)
Comprehensive income before allocation to noncontrolling interests	**597**	540
Less: Comprehensive loss attributable to noncontrolling interests	**—**	(1)
Comprehensive income attributable to Zoetis Inc.	**$ 597**	$ 541

[(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)	**March 31, 2024** (Unaudited)	December 31, 2023
Assets		
Cash and cash equivalents[(a)]	**$ 1,975**	$ 2,041
Accounts receivable, less allowance for doubtful accounts of $20 in 2024 and $18 in 2023	**1,293**	1,304
Inventories	**2,651**	2,564
Other current assets	**440**	434
Total current assets	**6,359**	6,343
Property, plant and equipment, less accumulated depreciation of $2,673 in 2024 and $2,594 in 2023	**3,251**	3,204
Operating lease right of use assets	**225**	230
Goodwill	**2,759**	2,759
Identifiable intangible assets, less accumulated amortization	**1,295**	1,338
Noncurrent deferred tax assets	**232**	206
Other noncurrent assets	**227**	206
Total assets	**$ 14,348**	$ 14,286
Liabilities and Equity		
Short-term borrowings	**$ 24**	$ 3
Accounts payable	**405**	411
Dividends payable	**198**	198
Accrued expenses	**691**	683
Accrued compensation and related items	**272**	382
Income taxes payable	**230**	110
Other current liabilities	**89**	102
Total current liabilities	**1,909**	1,889
Long-term debt, net of discount and issuance costs	**6,562**	6,564
Noncurrent deferred tax liabilities	**136**	146
Operating lease liabilities	**184**	188
Other taxes payable	**277**	271
Other noncurrent liabilities	**228**	237
Total liabilities	**9,296**	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; 456,947,205 and 458,367,358 shares outstanding at March 31, 2024, and December 31, 2023, respectively	**5**	5
Treasury stock, at cost, 44,944,038 and 43,523,885 shares of common stock at March 31, 2024 and December 31, 2023, respectively	**(5,928)**	(5,597)
Additional paid-in capital	**1,126**	1,133
Retained earnings	**10,696**	10,295
Accumulated other comprehensive loss	**(841)**	(839)
Total Zoetis Inc. equity	**5,058**	4,997
Equity attributable to noncontrolling interests	**(6)**	(6)

[a] As of March 31, 2024 and December 31, 2023, includes $2 million of restricted cash.

See notes to condensed consolidated financial statements.

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

	Three months ended March 31, 2024								
	Zoetis								
						Accumulated			
				Additional		Other			
	Common Stock		Treasury Stock		Paid-in	Retained	Comprehensive	Noncontrolling	Total
(MILLIONS OF DOLLARS AND SHARES)	Shares	Amount	Shares	Amount	Capital	Earnings	Loss	Interests	Equity
Balance, December 31, 2023	501.9	$ 5	43.5	$ (5,597)	$ 1,133	$ 10,295	$ (839)	$ (6)	$ 4,991
Net income	**—**	**—**	**—**	**—**	**—**	**599**	**—**	**—**	**599**
Other comprehensive loss	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**—**	**(2)**
Share-based compensation awards [(a)]	**—**	**—**	**(0.4)**	**11**	**(7)**	**—**	**—**	**—**	**4**
Treasury stock acquired [(b)]	**—**	**—**	**1.8**	**(342)**	**—**	**—**	**—**	**—**	**(342)**
Dividends declared	**—**	**—**	**—**	**—**	**—**	**(198)**	**—**	**—**	**(198)**
Balance, March 31, 2024	**501.9**	**$ 5**	**44.9**	**$(5,928)**	**$ 1,126**	**$10,696**	**$ (841)**	**$ (6)**	**$5,052**

	Three months ended March 31, 2023								
	Zoetis								
						Accumulated			
				Additional		Other			
	Common Stock		Treasury Stock		Paid-in	Retained	Comprehensive	Noncontrolling	Total
(MILLIONS OF DOLLARS AND SHARES)	Shares	Amount	Shares	Amount	Capital	Earnings	Loss	Interests	Equity
Balance, December 31, 2022	501.9	$ 5	38.1	$ (4,539)	$ 1,088	$ 8,668	$ (817)	$ (2)	$ 4,403
Net income/(loss)	—	—	—	—	—	552	—	(1)	551
Other comprehensive loss	—	—	—	—	—	—	(11)	—	(11)
Share-based compensation awards [(a)]	—	—	(0.4)	17	(9)	(1)	—	—	7
Treasury stock acquired [(b)]	—	—	1.7	(285)	—	—	—	—	(285)
Dividends declared	—	—	—	—	—	(174)	—	—	(174)
Balance, March									

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)	Three Months Ended March 31, 2024	2023
Operating Activities		
Net income before allocation to noncontrolling interests	**$ 599**	$ 551
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	**126**	120
Share-based compensation expense	**18**	9
Asset write-offs and asset impairments	**2**	1
Provision for losses on inventory	**17**	16
Deferred taxes	**(43)**	8
Other non-cash adjustments	**(3)**	(1)
Other changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	**(12)**	27
Inventories	**(98)**	(235)
Other assets	**(9)**	(24)
Accounts payable	**(3)**	22
Other liabilities	**(125)**	(63)
Other tax accounts, net	**126**	118
Net cash provided by operating activities	**595**	549
Investing Activities		
Capital expenditures	**(140)**	(223)
Acquisitions, net of cash acquired	**—**	(7)
Purchase of investments	**(1)**	(1)
Proceeds from derivative instrument activity, net	**10**	13
Net proceeds from sale of assets	**1**	2
Other investing activities	**(1)**	—
Net cash used in investing activities	**(131)**	(216)
Financing Activities		
Increase in short-term borrowings, net	**21**	1
Principal payments on long-term debt	**—**	(1,350)
Share-based compensation-related proceeds, net of taxes paid on withholding shares	**(8)**	4
Purchases of treasury stock	**(339)**	(283)
Cash dividends paid	**(198)**	(174)
Net cash used in financing activities	**(524)**	(1,802)
Effect of exchange-rate changes on cash and cash equivalents	**(6)**	(3)
Net decrease in cash and cash equivalents	**(66)**	(1,472)
Cash and cash equivalents at beginning of period	**2,041**	3,581
Cash and cash equivalents at end of period	**$ 1,975**	$ 2,109
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	**$ 59**	$ 20
Interest, net of capitalized interest	**68**	89

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 months ended February 29, 2024 and February 28, 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.

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. We are currently evaluating the impact that the new guidance will have on our notes to the 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 each of 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

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
United States	**$ 1,163**	$ 1,005
Australia	**73**	82
Brazil	**101**	84
Canada	**61**	50
Chile	**31**	39
China	**76**	102
France	**41**	34
Germany	**51**	45
Italy	**28**	26
Japan	**37**	39
Mexico	**44**	39
Spain	**32**	33
United Kingdom	**77**	68
Other developed markets	**127**	122
Other emerging markets	**228**	215
	2,170	1,983
Contract manufacturing & human health	**20**	17
Total Revenue	**$ 2,190**	$ 2,000

Table of Contents

Revenue by major species

(MILLIONS OF DOLLARS)	Three Months Ended March 31, 2024	2023
U.S.		
Companion animal	**$ 898**	$ 721
Livestock	**265**	284
	1,163	1,005
International		
Companion animal	**552**	504
Livestock	**455**	474
	1,007	978
Total		
Companion animal	**1,450**	1,225
Livestock	**720**	758
Contract manufacturing & human health	**20**	17
Total Revenue	**$ 2,190**	$ 2,000

Revenue by species

(MILLIONS OF DOLLARS)	Three Months Ended March 31, 2024	2023
Companion Animal:		
Dogs and Cats	**$ 1,384**	$ 1,153
Horses	**66**	72
	1,450	1,225
Livestock:		
Cattle	**391**	399
Poultry	**139**	139
Swine	**127**	142
Fish	**45**	49
Sheep and other	**18**	29
	720	758
Contract manufacturing & human health	**20**	17
Total Revenue	**$ 2,190**	$ 2,000

Revenue by major product category

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Parasiticides	**$ 504**	$ 432
Vaccines	**452**	429
Dermatology	**363**	292
Anti-infectives	**281**	288
Pain and sedation	**194**	116
Other pharmaceutical	**156**	178
Animal health diagnostics	**82**	93
Medicated feed additives	**77**	87
Other non-pharmaceutical	**61**	68
	2,170	1,983
Contract manufacturing & human health	**20**	17
Total Revenue	**$ 2,190**	$ 2,000

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 the first three months of 2024 and 2023 were $2 million and $1 million, respectively. Contract liabilities as of March 31, 2024 and December 31, 2023 were $13 million and $11 million, respectively.

Estimated future revenue expected to be generated from long-term contracts with unsatisfied performance obligations as of March 31, 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 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, Cost-Reduction and Productivity Initiatives

In connection with our cost-reduction/productivity initiatives, we typically incur costs and charges associated with workforce reductions and site closings. In connection with our acquisition activity, we typically incur costs and charges associated with executing the transactions, 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. 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 cost-reduction/productivity initiatives are as follows:

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Restructuring charges and certain acquisition-related costs:		
Integration costs[a]	**$ —**	$ 1
Restructuring charges, net[b]:		
Employee termination costs, net	**4**	20
Total Restructuring charges and certain acquisition-related costs	**$ 4**	$ 21

[a] Integration costs represent external, incremental costs directly related to integrating acquired businesses and primarily include expenditures for consulting and the integration of systems and processes, as well as product transfer costs.

[b] The restructuring charges for the three months ended March 31, 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 months ended March 31, 2023 primarily consisted of employee termination costs related to organizational structure refinements.

(MILLIONS OF DOLLARS)	Accrual
Balance, December 31, 2023[a]	$ 35
Provision	**11**
Reserve adjustment	**(7)**
Utilization and other[b]	**(12)**
Balance, March 31, 2024[a]	**$ 27**

[a] At March 31, 2024 and December 31, 2023, included in Accrued expenses ($25 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:

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Royalty-related income[(a)]	**$ (2)**	$ (34)
Interest income	**(32)**	(33)
Foreign currency loss[(b)]	**19**	9
Other, net	**7**	5
Other (income)/deductions—net	**$ (8)**	$ (53)

(a) For the three months ended March 31, 2023, predominantly associated with a settlement for underpayment of royalties in prior periods.

(b) 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 19.8% and 20.9% for the three months ended March 31, 2024 and 2023, respectively. The lower effective tax rate for the three months ended March 31, 2024, compared with the three months ended March 31, 2023, was primarily attributable to a higher benefit in the U.S. related to foreign-derived intangible income and a more 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 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 months ended March 31, 2024 and 2023.

The global minimum tax provisions (Pillar Two) resulting from the Organisation for Economic Co-operation and Development (OECD) Based 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 months ended March 31, 2024.

B. Deferred Taxes

As of March 31, 2024, the total net deferred income tax asset of $96 million is included in Noncurrent deferred tax assets ($232 million) and Noncurrent deferred tax liabilities ($136 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

As of March 31, 2024, the net tax liabilities associated with uncertain tax positions of $212 million (exclusive of interest and penalties related to uncertain tax positions of $29 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.

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 March 31, 2024 and December 31, 2023. There were no amounts drawn under the credit facility as of March 31, 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 March 31, 2024, we had access to $60 million of lines of credit which expire at various times and are generally renewed annually. There was $3 million of borrowings outstanding related to these facilities as of March 31, 2024 and December 31, 2023. In addition, there was $21 million of other short-term borrowings as of March 31, 2024.

Commercial Paper Program

In February 2013, we entered into a commercial paper program with a capacity of up to $1.0 billion. As of March 31, 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)	**March 31, 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	**(59)**	(60)
Cumulative fair value adjustment for interest rate swap contracts	**(29)**	(26)
Long-term debt, net of discount and issuance costs	**$ 6,562**	$ 6,564

The fair value of our long-term debt was $6,156 million and $6,319 million as of March 31, 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 March 31, 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 $58 million and $63 million for the three months ended March 31, 2024 and 2023, respectively. Capitalized interest expense was $8 million and $6 million for the three months ended March 31, 2024 and 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 of up to two years.

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, included in Net cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows. 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 March 31, 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 March 31, 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 months ended March 31, 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 March 31, 2024	Notional December 31, 2023
Derivatives not Designated as Hedging Instruments:		
Foreign currency forward-exchange contracts	**$ 2,194**	$ 1,948
Derivatives Designated as Hedging Instruments:		
Foreign exchange derivative instruments (in foreign currency):		
Euro	**650**	650
Danish krone	**575**	600
Swiss franc	**25**	25
Forward-starting interest rate swaps	**$ 100**	$ 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 March 31, 2024	December 31, 2023
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward-exchange contracts	Other current assets	**$ 10**	$ 11
Foreign currency forward-exchange contracts	Other current liabilities	**(7)**	(11)
Total derivatives not designated as hedging instruments		**$ 3**	$ —
Derivatives Designated as Hedging Instruments:			
Forward-starting interest rate swap contracts	Other noncurrent assets	**$ 14**	$ 12
Foreign exchange derivative instruments	Other current assets	**12**	5
Foreign exchange derivative instruments	Other noncurrent assets	**15**	11
Foreign exchange derivative instruments	Other current liabilities	**(7)**	(20)
Foreign exchange derivative instruments	Other noncurrent liabilities	**—**	(1)
Fixed-to-floating interest rate swap contracts	Other noncurrent liabilities	**(30)**	(26)
Total derivatives designated as hedging instruments		**4**	(19)
Total derivatives		**$ 7**	$ (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 March 31, 2024, there was $17 million of collateral received and $30 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 losses on derivative instruments not designated as hedging instruments, recorded in Other (income)/deductions—net, are as follows:

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Foreign currency forward-exchange contracts	**$ (1)**	$ (16)

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

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Forward-starting interest rate swap contracts	**$ 2**	$ (1)
Foreign exchange derivative instruments	**$ 16**	$ (6)

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

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Foreign exchange derivative instruments	**$ 4**	$ 5

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)	**March 31, 2024**	December 31, 2023
Finished goods	**$ 1,120**	$ 1,147
Work-in-process	**1,051**	966
Raw materials and supplies	**480**	451
Inventories	**$ 2,651**	$ 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]	—	—	—
Balance, March 31, 2024	**$ 1,532**	**$ 1,227**	**$ 2,759**

[a] Includes adjustments for foreign currency translation.

The gross goodwill balance was $3,295 million as of March 31, 2024 and December 31, 2023. Accumulated goodwill impairment losses were $536 million as of March 31, 2024 and December 31, 2023.

B. Other Intangible Assets

The components of identifiable intangible assets are as follows:

(MILLIONS OF DOLLARS)	**As of March 31, 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	**$ 1,986**	**$ (1,139)**	**$ 847**	$ 1,986	$ (1,101)	$ 885
Brands and tradenames	**383**	**(249)**	**134**	383	(246)	137
Other	**270**	**(192)**	**78**	270	(190)	80
Total finite-lived intangible assets	**2,639**	**(1,580)**	**1,059**	2,639	(1,537)	1,102
Indefinite-lived intangible assets:						
Brands and tradenames	**88**	**—**	**88**	88	—	88
In-process research and development	**141**	**—**	**141**	141	—	141
Product rights	**7**	**—**	**7**	7	—	7
Total indefinite-lived intangible assets	**236**	**—**	**236**	236	—	236
Identifiable intangible assets	**$ 2,875**	**$ (1,580)**	**$ 1,295**	$ 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 $44 million and $47 million for the three months ended March 31, 2024 and 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:

	Three Months Ended **March 31,**	
(MILLIONS OF DOLLARS)	**2024**	2023
Stock options / stock appreciation rights	**$ 3**	$ 1
RSUs / DSUs	**10**	7
PSUs	**5**	1
Share-based compensation expense—total[a]	**$ 18**	$ 9

[a] For the three months ended March 31, 2024 and 2023, we capitalized less than $1 million of share-based compensation expense to inventory.

During the three months ended March 31, 2024, the company granted 265,800 stock options with a weighted-average exercise price of $196.14 per stock option and a weighted-average fair value of $51.00 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 27.03%; 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 three months ended March 31, 2024, the company granted 236,220 RSUs, with a weighted-average grant date fair value of $195.91 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 three months ended March 31, 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 March 31, 2024, there was $1.2 billion remaining under this authorization. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions and business needs.

Accumulated other comprehensive loss

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

(MILLIONS OF DOLLARS)	Currency Translation Adjustments			Benefit Plans	
	Cash Flow Hedges	Net Investment Hedges	Other Currency Translation Adjustments	Actuarial Gains/(Losses)	Accumulated Other Comprehensive Loss
Balance, December 31, 2023	$ 85	$ 18	$ (944)	$ 2	$ (839)
Other comprehensive income/(loss), net of tax	**—**	**16**	**(18)**	**—**	**(2)**
Balance, March 31, 2024	**$ 85**	**$ 34**	**$ (962)**	**$ 2**	**$ (841)**
Balance, December 31, 2022	$ 90	$ 41	$ (944)	$ (4)	$ (817)
Other comprehensive (loss)/income, net of tax	(2)	(6)	(7)	4	(11)
Balance, March 31, 2023	$ 88	$ 35	$ (951)	$ —	$ (828)

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 **March 31,** **2024**	2023
Numerator		
Net income before allocation to noncontrolling interests	**$ 599**	$ 551
Less: Net loss attributable to noncontrolling interests	**—**	(1)
Net income attributable to Zoetis Inc.	**$ 599**	$ 552
Denominator		
Weighted-average common shares outstanding	**458.0**	463.5
Common stock equivalents: stock options, RSUs, PSUs and DSUs	**0.8**	1.1
Weighted-average common and potential dilutive shares outstanding	**458.8**	464.6
Earnings per share attributable to Zoetis Inc. stockholders—basic	**$ 1.31**	$ 1.19
Earnings per share attributable to Zoetis Inc. stockholders—diluted	**$ 1.31**	$ 1.19

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 months ended March 31, 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. The parties have been unable to secure a start date for the Phase II testing and have confirmed with the Municipality that the earliest testing could begin is sometime after May 2024.

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 March 31, 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-related activities, where we incur costs associated with acquiring and integrating newly acquired businesses, such as transaction costs and integration 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, 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 **March 31,**		Three Months Ended **March 31,**	
	2024	2023	**2024**	2023
U.S.				
Revenue	**$ 1,163**	$ 1,005		
Cost of sales	**217**	203		
Gross profit	**946**	802		
Gross margin	**81.3 %**	79.8 %		
Operating expenses	**190**	188		
Other (income)/deductions-net	**—**	—		
U.S. Earnings	**756**	614	**$ 24**	$ 19
International				
Revenue[(b)]	**1,007**	978		
Cost of sales	**313**	291		
Gross profit	**694**	687		
Gross margin	**68.9 %**	70.2 %		
Operating expenses	**159**	151		
Other (income)/deductions-net	**—**	1		
International Earnings	**535**	535	**23**	21
Total operating segments	**1,291**	1,149	**47**	40
Other business activities	**(132)**	(114)	**9**	8
Reconciling Items:				
Corporate	**(288)**	(208)	**32**	32
Purchase accounting adjustments	**(37)**	(42)	**37**	39
Acquisition-related costs	**—**	(1)	**—**	—
Certain significant items[(c)]	**(6)**	(22)	**—**	—
Other unallocated	**(81)**	(65)	**1**	1
Total Earnings[(d)]	**$ 747**	$ 697	**$ 126**	$ 120

(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 $223 million and $204 million for the three months ended March 31, 2024 and 2023, respectively.

(c) For the three months ended March 31, 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 months ended March 31, 2023, primarily consisted of employee termination costs related to organizational structure refinements.

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

17. Subsequent Event

On April 28, 2024, Zoetis and Phibro Animal Health Corporation announced that they have 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. This transaction is expected to be complete in the second half of 2024.

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 period follows:

	Three Months Ended March 31,		% Change	Related to	
(MILLIONS OF DOLLARS)	**2024**	2023	Total	Foreign Exchange	Operational[a]
Revenue	**$ 2,190**	$ 2,000	10	(2)	12
Net income attributable to Zoetis	**599**	552	9	(14)	23
Adjusted net income[a]	**634**	607	4	(11)	15

[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, inflation, Russia’s invasion of Ukraine, the regional conflict in the Middle East, geopolitical tensions with and economic uncertainty in China, 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, competitive dynamics, 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 three months ended March 31, 2024, approximately 43% 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, including, for example the devaluation of the Argentine peso, 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 three months ended March 31, 2024, approximately 57% 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-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 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.

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Revenue	**$ 2,190**	$ 2,000	10
Costs and expenses:			
Cost of sales	**643**	588	9
% of revenue	**29.4 %**	29.4 %	
Selling, general and administrative expenses	**547**	505	8
% of revenue	**25 %**	25 %	
Research and development expenses	**162**	142	14
% of revenue	**7 %**	7 %	
Amortization of intangible assets	**37**	37	—
Restructuring charges and certain acquisition-related costs	**4**	21	(81)
Interest expense, net of capitalized interest	**58**	63	(8)
Other (income)/deductions—net	**(8)**	(53)	(85)
Income before provision for taxes on income	**747**	697	7
% of revenue	**34 %**	35 %	
Provision for taxes on income	**148**	146	1
Effective tax rate	**19.8 %**	20.9 %	
Net income before allocation to noncontrolling interests	**599**	551	9
Less: Net loss attributable to noncontrolling interests	**—**	(1)	*
Net income attributable to Zoetis Inc.	**$ 599**	$ 552	9
% of revenue	**27 %**	28 %	

*Calculation not meaningful

Revenue

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Total revenue increased by $190 million, or 10%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, an increase of $239 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 4%; and
- volume growth from key dermatology products of approximately 3%,

partially offset by:

- volume decrease from other in-line products of approximately 2%.

Foreign exchange decreased reported revenue growth by approximately 2%.

Costs and Expenses

Cost of sales

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Cost of sales	**$ 643**	$ 588	9
% of revenue	**29.4 %**	29.4 %	

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Cost of sales as a percentage of revenue remained flat at 29.4% in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, primarily as a result of:

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

fully offset by:

Table of Contents

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

Selling, general and administrative expenses

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Selling, general and administrative expenses	**$ 547**	$ 505	8
% of revenue	**25 %**	25 %	

Three months ended March 31, 2024 vs. three months ended March 31, 2023

SG&A expenses increased by $42 million, or 8%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, primarily as a result of:

- an increase in certain compensation-related costs;
- higher advertising and promotion costs;
- higher selling and distribution costs; and
- an increase in technology project investments,

partially offset by:

- favorable foreign exchange; and
- the reduced impact of purchase accounting adjustments.

Research and development expenses

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Research and development expenses	**$ 162**	$ 142	14
% of revenue	**7 %**	7 %	

Three months ended March 31, 2024 vs. three months ended March 31, 2023

R&D expenses increased by $20 million, or 14%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, primarily as a result of:

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

Amortization of intangible assets

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Amortization of intangible assets	**$ 37**	$ 37	—

Restructuring charges and certain acquisition-related costs

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Restructuring charges and certain acquisition-related costs	**$ 4**	$ 21	(81)

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Restructuring charges and certain acquisition-related costs were $4 million and $21 million in the three months ended March 31, 2024 and 2023, respectively. Restructuring charges and certain acquisition-related costs for the three months ended March 31, 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. Restructuring charges and certain acquisition-related costs in the three months ended March 31, 2023 primarily consisted of employee termination costs related to organizational structure refinements.

Table of Contents

Interest expense, net of capitalized interest

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Interest expense, net of capitalized interest	**$ 58**	$ 63	(8)

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Interest expense, net of capitalized interest, decreased in the three months ended March 31, 2024 versus the comparable prior year period. The decrease was primarily as a result of a higher debt balance during a portion of the prior year period.

Other (income)/deductions—net

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Other (income)/deductions—net	**$ (8)**	$ (53)	(85)

Three months ended March 31, 2024 vs. three months ended March 31, 2023

The change in Other (income)/deductions—net in the three months ended March 31, 2024 versus the comparable prior year period was primarily as a result of 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, as well as higher foreign currency losses in the current period.

Provision for taxes on income

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
Provision for taxes on income	**$ 148**	$ 146	1
Effective tax rate	**19.8 %**	20.9 %	

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Our effective tax rate was 19.8% and 20.9% for the three months ended March 31, 2024 and 2023, respectively. The lower effective tax rate for the three months ended March 31, 2024, compared with the three months ended March 31, 2023, was primarily attributable to a higher benefit in the U.S. related to foreign-derived intangible income and a more 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 items and non-taxable items.

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 months ended March 31, 2024.

Operating Segment Results

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

	Three Months Ended March 31,		% Change		
				Related to	
(MILLIONS OF DOLLARS)	**2024**	2023	Total	Foreign Exchange	Operational
U.S.					
Companion animal	**$ 898**	$ 721	25	—	25
Livestock	**265**	284	(7)	—	(7)
	1,163	1,005	16	—	16
International					
Companion animal	**552**	504	10	(4)	14
Livestock	**455**	474	(4)	(6)	2
	1,007	978	3	(5)	8
Total					
Companion animal	**1,450**	1,225	18	(2)	20
Livestock	**720**	758	(5)	(4)	(1)
Contract manufacturing & human health	**20**	17	18	2	16
	$ 2,190	$ 2,000	10	(2)	12

Table of Contents

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 March 31, 2024	Three Months Ended March 31, 2023	% Change Total	% Change Related to Foreign Exchange	% Change Related to Operational
U.S.					
Revenue	**$ 1,163**	$ 1,005	16	—	16
Cost of Sales	**217**	203	7	—	7
Gross Profit	**946**	802	18	—	18
Gross Margin	**81.3 %**	79.8 %			
Operating Expenses	**190**	188	1	—	1
Other (income)/deductions-net	**—**	—	*	*	*
U.S. Earnings	**756**	614	23	—	23
International					
Revenue	**1,007**	978	3	(5)	8
Cost of Sales	**313**	291	8	1	7
Gross Profit	**694**	687	1	(7)	8
Gross Margin	**68.9 %**	70.2 %			
Operating Expenses	**159**	151	5	(3)	8
Other (income)/deductions-net	**—**	1	*	*	*
International Earnings	**535**	535	—	(9)	9
Total operating segments	**1,291**	1,149	12	(4)	16
Other business activities	**(132)**	(114)	16		
Reconciling Items:					
Corporate	**(288)**	(208)	38		
Purchase accounting adjustments	**(37)**	(42)	(12)		
Acquisition-related costs	**—**	(1)	*		
Certain significant items	**(6)**	(22)	(73)		
Other unallocated	**(81)**	(65)	25		
Total Earnings	**$ 747**	$ 697	7		

* Calculation not meaningful

Three months ended March 31, 2024 vs. three months ended March 31, 2023

U.S. operating segment

U.S. segment revenue increased by $158 million, or 16%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, reflecting an increase of $177 million in companion animal products offset by a decrease of $19 million in livestock products.

- Companion animal revenue increased due to growth in sales of Simparica Trio, key dermatology, our mAb products for osteoarthritis (OA) pain, Librela and Solensia and small animal vaccines, partially offset by lower sales of small animal diagnostics and our small animal antiemetic product, Cerenia. Growth in the quarter was also due in part to a favorable comparative period in the prior year that was negatively impacted by distributor de-stocking, timing of promotional activity and pricing dynamics.
- Livestock revenue declined due to declines in sales of cattle, swine and poultry products. Sales of cattle products declined due to price and timing of prior year supply. Sales of swine products declined due to lower sales of vaccines, anti-infectives and price. Sales of products in our poultry portfolio declined due to lower sales of medicated feed additives, vaccines and biodevices.

U.S. segment earnings increased by $142 million, or 23%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, primarily due to higher revenue, partially offset by higher cost of sales and operating expenses.

International operating segment

International segment revenue increased by $29 million, or 3%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023. Operational revenue increased by $79 million, or 8%, driven by growth of $70 million in companion animal products and $9 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, as well as growth in sales of key dermatology, vaccine products and small animal parasiticides.
- Livestock operational revenue growth was due to increased sales of cattle and poultry products, partially offset by declines in sheep, swine and fish products. Sales of cattle products grew due to price, partially offset by volume declines as compared to the prior year period and unfavorable market conditions. Sales of products in our poultry portfolio grew due to price and demand generation efforts in key poultry

markets. Sales of sheep products declined primarily as a result of unfavorable weather and supply constraints. Sales of swine products declined due to lower sales in China and generic competition, partially offset by price. The decline in our fish portfolio was primarily as a result of lower sales of anti-infective products in Chile, partially offset by increased vaccine sales in Norway.

- Additionally, International segment revenue was unfavorably impacted by foreign exchange which decreased revenue by $50 million, or 5%, primarily driven by the Argentinian peso, Turkish lira, Japanese yen, Chinese renminbi and Russian ruble.

International segment earnings were flat in the three months ended March 31, 2024, compared with the three months ended March 31, 2023. Operational earnings growth was $46 million, or 9%, 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 March 31, 2024 vs. three months ended March 31, 2023

Other business activities net loss increased by $18 million in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, reflecting an increase in R&D costs due to an increase in certain compensation-related costs to support innovation, higher project investments 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-related activities** 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 March 31, 2024 vs. three months ended March 31, 2023

Corporate expenses increased by $80 million, or 38%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, primarily associated with a settlement received from a third-party for underpayment of royalties in the prior year period, higher compensation-related costs, unfavorable foreign exchange and investments in information technology.

Other unallocated expenses increased by $16 million, or 25%, in the three months ended March 31, 2024, compared with the three months ended March 31, 2023, primarily due to unfavorable foreign exchange and higher manufacturing costs, partially offset by lower freight charges and lower inventory obsolescence, scrap and other 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-related costs

Adjusted net income is calculated prior to considering transaction and integration costs associated with significant business combinations or net asset acquisitions because these costs are unique to each transaction and represent costs that were incurred to acquire and integrate certain businesses as a result of the acquisition decision. We have made no adjustments for the resulting synergies.

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 result primarily from the need to eliminate duplicate assets, activities or employees––a natural result of acquiring 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 costs associated with a business combination 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 and integration 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-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-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:

	Three Months Ended March 31,		%
(MILLIONS OF DOLLARS)	**2024**	2023	Change
GAAP reported net income attributable to Zoetis	**$ 599**	$ 552	9
Purchase accounting adjustments—net of tax	**29**	34	(15)
Acquisition-related costs—net of tax	**—**	1	*
Certain significant items—net of tax	**6**	20	(70)
Non-GAAP adjusted net income[(a)]	**$ 634**	$ 607	4

*Calculation not meaningful

(a) The effective tax rate on adjusted pretax income was 19.7% and 20.5% for the three months ended March 31, 2024 and 2023, respectively.

The lower effective tax rate for the three months ended March 31, 2024, compared with the three months ended March 31, 2023, was primarily attributable to a higher benefit in the U.S. related to foreign-derived intangible income and a more 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.

Table of Contents

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

	Three Months Ended March 31,		%
	2024	2023	Change
Earnings per share—diluted[(a)]:			
GAAP reported EPS attributable to Zoetis —diluted	**$ 1.31**	$ 1.19	10
Purchase accounting adjustments—net of tax	**0.06**	0.07	(14)
Acquisition-related costs—net of tax	**—**	—	*
Certain significant items—net of tax	**0.01**	0.05	(80)
Non-GAAP adjusted EPS—diluted	**$ 1.38**	$ 1.31	5

* 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:

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Interest expense, net of capitalized interest	**$ 58**	$ 63
Interest income	**32**	33
Income taxes	**156**	156
Depreciation	**81**	72
Amortization	**8**	9

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

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Purchase accounting adjustments:		
Amortization and depreciation	**$ 37**	$ 39
Cost of sales	**—**	3
Total purchase accounting adjustments—pre-tax	**37**	42
Income taxes[a]	**8**	8
Total purchase accounting adjustments—net of tax	**29**	34
Acquisition-related costs:		
Integration costs	**—**	1
Total acquisition-related costs—pre-tax	**—**	1
Income taxes[a]	**—**	—
Total acquisition-related costs—net of tax	**—**	1
Certain significant items:		
Other restructuring charges and cost-reduction/productivity initiatives[b]	**4**	20
Other	**2**	2
Total certain significant items—pre-tax	**6**	22
Income taxes[a]	**—**	2
Total certain significant items—net of tax	**6**	20
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	**$ 35**	$ 55

[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.

[b] For the three months ended March 31, 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 months ended March 31, 2023, primarily consisted of employee termination costs related to organizational structure refinements.

Table of Contents

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

	Three Months Ended March 31,	
(MILLIONS OF DOLLARS)	**2024**	2023
Cost of sales:		
Purchase accounting adjustments	**$ 1**	$ 4
Total Cost of sales	**1**	4
Selling, general & administrative expenses:		
Purchase accounting adjustments	**3**	7
Total Selling, general & administrative expenses	**3**	7
Research & development expenses:		
Purchase accounting adjustments	**1**	—
Total Research & development expenses	**1**	—
Amortization of intangible assets:		
Purchase accounting adjustments	**32**	31
Total Amortization of intangible assets	**32**	31
Restructuring charges and certain acquisition-related costs:		
Integration costs	**—**	1
Employee termination costs	**4**	20
Total Restructuring charges and certain acquisition-related costs	**4**	21
Other (income)/deductions—net:		
Other	**2**	2
Total Other (income)/deductions—net	**2**	2
Provision for taxes on income	**8**	10
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	**$ 35**	$ 55

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

March 31, 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.

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.

Other noncurrent assets increased primarily due to a deposit paid for a manufacturing site purchase in Melbourne, Australia.

Accrued compensation and related items decreased primarily due to the payments of 2023 annual incentive bonuses, savings plan contributions to eligible employees and payments for sales incentive bonuses, 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 decreased primarily due to the mark-to-market adjustment of derivative instruments, partially offset by an increase in collateral received related to derivative contracts.

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.

Table of Contents

Analysis of the condensed consolidated statements of cash flows

(MILLIONS OF DOLLARS)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	$ Change
Net cash provided by (used in):			
Operating activities	**$ 595**	$ 549	$ 46
Investing activities	**(131)**	(216)	85
Financing activities	**(524)**	(1,802)	1,278
Effect of exchange-rate changes on cash and cash equivalents	**(6)**	(3)	(3)
Net decrease in cash and cash equivalents	**$ (66)**	$ (1,472)	$1,406

Operating activities

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Net cash provided by operating activities was $595 million for the three months ended March 31, 2024, compared with $549 million for the three months ended March 31, 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 and higher net income adjusted by non-cash items, partially offset by the timing of receipts and payments in the ordinary course of business.

Investing activities

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Our net cash used in investing activities was $131 million for the three months ended March 31, 2024, compared with net cash used in investing activities of $216 million for the three months ended March 31, 2023. The net cash used in investing activities for the three months ended March 31, 2024 and 2023 was primarily due to capital expenditures.

Financing activities

Three months ended March 31, 2024 vs. three months ended March 31, 2023

Our net cash used in financing activities was $524 million for the three months ended March 31, 2024, compared with net cash used in financing activities of $1,802 million for the three months ended March 31, 2023. The net cash used in financing activities for the three months ended March 31, 2024 was primarily attributable to the purchase of treasury shares, the payment of dividends and taxes paid on withholding shares, partially offset by proceeds related to short-term borrowings and proceeds in connection with the issuance of common stock under our equity incentive plan. The net cash used in financing activities for the three months ended March 31, 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)	**March 31, 2024**	December 31, 2023
Cash and cash equivalents	**$ 1,975**	$ 2,041
Accounts receivable, net[a]	**1,293**	1,304
Short-term borrowings	**24**	3
Long-term debt	**6,562**	6,564
Working capital	**4,450**	4,454
Ratio of current assets to current liabilities	**3.33:1**	3.36:1

[a] Accounts receivable are usually collected over a period of 45 to 75 days. For the three months ended March 31, 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 March 31, 2024 and December 31, 2023. There were no amounts drawn under the credit facility as of March 31, 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 March 31, 2024, we had access to $60 million of lines of credit which expire at various times and are generally renewed annually. There was $3 million of borrowings outstanding related to these facilities as of March 31, 2024 and December 31, 2023. In addition, there was $21 million of other short-term borrowings as of March 31, 2024.

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:

	Commercial Paper	Long-term Debt		
Name of Rating Agency	Rating	Rating	Outlook	Date of Last Action
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 March 31, 2024, there was $1.2 billion remaining under this authorization. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions and business needs. Share repurchases may be executed through various means, including open market or privately negotiated transactions. During the first three months of 2024, 1.8 million shares were repurchased for $339 million, which excludes a $3 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 March 31, 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 March 31, 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, 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, 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 March 31, 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 March 31, 2024 there was $1.2 billion remaining under this program.

The following table provides information with respect to the shares of the company’s common stock repurchased during the three months ended
March 31, 2024:

	Issuer Purchases of Equity Securities[b]			
	Total Number of Shares Purchased[a]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
January 1 - January 31, 2024	365,952	$191.11	364,485	$1,425,213,557
February 1 - February 29, 2024	710,882	$190.45	586,781	$1,314,254,742
March 1 - March 31, 2024	872,982	$181.24	872,704	$1,155,660,310
	1,949,816	$186.45	1,823,970	$1,155,660,310

(a) The company repurchased 125,846 shares during the three-month period ended March 31, 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.

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

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 February 20, 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 May 21, 2024 and April 30, 2025 and (ii) the gifting of up to $300,000 worth of Zoetis common stock to a charitable fund between May 21, 2024 and April 30, 2025.

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)

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Zoetis Inc.

May 2, 2024	By:	/S/ KRISTIN C. PECK
		Kristin C. Peck
		Chief Executive Officer and Director
May 2, 2024	By:	/S/ WETTENY JOSEPH
		Wetteny Joseph
		Executive Vice President and Chief Financial Officer