



Zoetis Inc. (ZTS)

Updated February 13th, 2025 by Derek English

Key Metrics

Current price:	\$162	5-Year CAGR Estimate:	8.7%	Market Cap:	\$74 B
Fair Value Price:	\$136	5-Year Growth Estimate:	11.0%	Ex-Dividend Date:	04/21/25
% Fair Value:	118%	5-Year Valuation Multiple Estimate:	-3.3%	Dividend Payment Date:	06/03/25
Dividend Yield:	1.2%	5-Year Price Target	\$231	Years Of Dividend Growth:	11
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Zoetis was founded in 1952 as a subsidiary of Pfizer Pharmaceuticals. It became an independent company in 2013 when Pfizer spun off its interest in the firm. The U.S.-based drug company focuses on animal health, including discovering, developing, manufacturing, and commercialising medicines, vaccines, and diagnostic products. Biodevices, genetic tests, and precision livestock farming complement the company's offerings. The Vaccine segment is the largest revenue-generating segment, with 22% of the total revenue, while the United States generates 54% of the revenue.

On February 13th, 2025, Zoetis Inc. reported strong financial results for the fourth quarter of 2024, with revenue reaching \$2.3 billion, a 5% increase from the previous year and up 6% on an operational basis. The company experienced growth in both its U.S. and International segments, driven primarily by strong demand for companion animal products. In the U.S. segment, revenue was \$1.3 billion, reflecting a 4% increase compared to Q4 2023. Sales of companion animal products grew by 7%, fueled by continued strong demand for Simparica Trio, dermatology products such as Apoquel and Cytoint, and monoclonal antibody treatments for osteoarthritis pain. Growth was partially offset by the impact of the initial stocking of Librela and Apoquel Chewable products during their prior-year launches. Livestock product sales declined by 8%, primarily due to the divestiture of the medicated feed additive portfolio and certain water-soluble products.

In the International segment, revenue reached \$1.0 billion, which increased 6% on a reported basis and were up 10% on an operational basis compared to Q4 2023. Sales of companion animal products grew 11% on a reported basis and 13% operationally, driven by demand for dermatology treatments, parasiticides, and osteoarthritis pain management products. Livestock product sales remained flat on a reported basis but grew 6% operationally, with growth in cattle and poultry product sales attributed mainly to price increases across the broader international market.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.77	\$1.96	\$2.40	\$3.13	\$3.64	\$3.85	\$4.27	\$4.51	\$5.08	\$5.47	\$5.70	\$9.60
DPS	\$0.33	\$0.38	\$0.42	\$0.50	\$0.66	\$0.80	\$1.00	\$1.32	\$1.50	\$1.73	\$2.00	\$4.02
Shares¹	497	492	486	479	475	475	476	470	462	462	460	455

Zoetis has recorded solid and consistent growth over the last ten years, with earnings per share growing yearly since 2015. The average annual earnings per share growth rate was 13.4% in the previous 10 years. Tailwinds in companion products boosted earnings, representing 55% of revenue, and were further enhanced by the launch of Simparica Trio. In addition, the company gave guidance on operational growth between 6% and 8%, including an adverse impact of foreign exchange rates. However, we expect the exchange rates to balance over time and reaffirm our estimate for earnings to grow 11% annually through 2030. In addition to double-digit dividend growth, the company intends to add more investor value and continue repurchasing shares under a \$3.5 billion share repurchase program announced in December 2021. While the company's payout ratio is typically below 20%, Zoetis has an impressive dividend compound annual growth rate of 20.1% over the last five years. In addition, the company has increased its dividend each year since being spun off. The current

¹ Shares in millions

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quarterly dividend of \$0.500 per share is ~16% higher than last year, nearly matching our 15% growth estimate through 2030.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2030
Avg. P/E	21.8	26.0	24.3	25.4	27.3	30.4	37.5	40.5	37.6	31.7	28.4	24.0
Avg. Yld.	0.8%	0.7%	0.8%	0.7%	0.6%	0.6%	0.6%	0.7%	0.7%	0.9%	1.2%	1.7%

While Zoetis has shown impressive growth over the last nine years, the stock is not cheap. Since the market decline in March 2020, the company has risen from \$90 to a high of \$246. The stock has sold off and trades at \$162, with a current P/E ratio of 28.4. Typically, the average P/E ratio is 30 times earnings. The share price dropped from \$200 in February due to concerns about the side effects of arthritis drugs for cats and dogs. Shares trade at 118% of our fair value estimate of \$136. We expect the company to trade closer to 24 times earnings by 2030 and our five-year price target is \$231.

Safety, Quality, Competitive Advantage, & Recession Resiliency

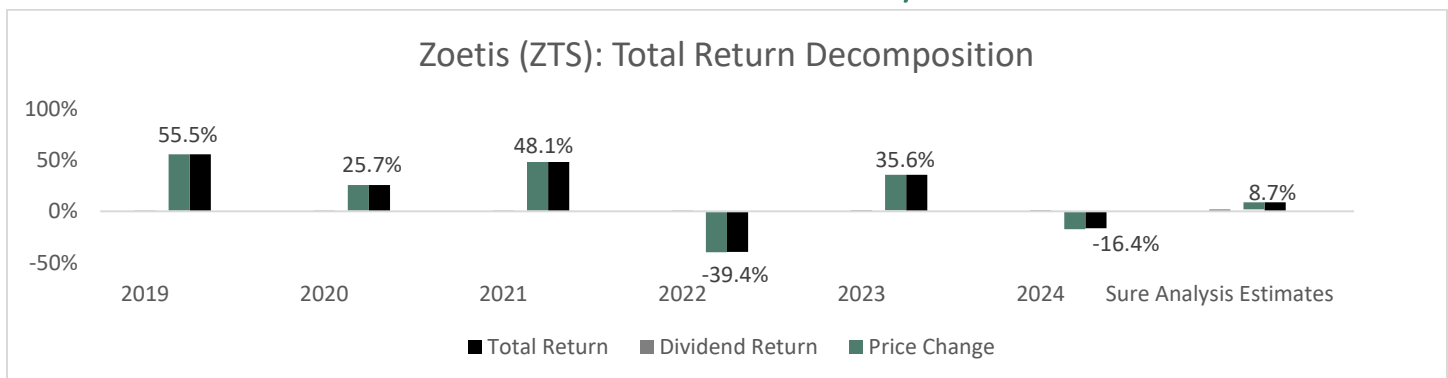
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Payout	19%	19%	18%	16%	18%	21%	23%	29%	30%	32%	35%	42%

According to Global Market Insights, the Animal healthcare market is predicted to grow at just under 5% CAGR through 2027. Vaccines, drugs, and the growing penetration of e-commerce are all anticipated to fuel growth. Zoetis focuses on acquisitions to grow its business and has made eight acquisitions to remain competitive over the last several years. Since 2018, the company has been advancing more into the veterinary diagnostics market with Abaxis's \$2 billion purchase. Outside of diagnostics, the company has been diversifying beyond its legacy pharmaceutical products, including the acquisition of Performance Livestock Analytics, which adds a software platform to help farmers make more efficient farms. This has helped Zoetis become one of the most innovative companies in the industry. As a result, we have seen impressive growth numbers in earnings and dividend growth, which look set to continue in the medium term. Still, the safety and future expansion of the company will largely depend on how it continues to integrate new acquisitions into its existing business model.

Final Thoughts & Recommendations

Since the spin-off from Pfizer in 2013, Zoetis' return has been in the healthy double-digit range for shareholders as the share price increased from \$30 to its current level. Strong tailwinds in the animal health market and shrewd acquisitions have helped the company grow earnings and dividends in the high teens. There is no question that Zoetis has the attributes of a quality company; however, the valuation is high. The stock trades above our fair value estimate and has a low dividend yield. Therefore, we expect annual returns of 8.7% through 2030. We rate Zoetis as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,785	4,765	4,888	5,307	5,825	6,260	6,675	7,776	8,080	8,544
Gross Profit	3,068	3,027	3,222	3,532	3,914	4,268	4,618	5,473	5,626	5,983
Gross Margin	64.1%	63.5%	65.9%	66.6%	67.2%	68.2%	69.2%	70.4%	69.6%	70.0%
SG&A Exp.	1,643	1,532	1,364	1,334	1,484	1,638	1,726	2,001	2,009	2,151
D&A Exp.	204	199	240	242	308	412	441	448	465	491
Operating Profit	969	1,070	1,397	1,725	1,881	2,018	2,269	2,803	2,928	3,069
Operating Margin	20.3%	22.5%	28.6%	32.5%	32.3%	32.2%	34.0%	36.0%	36.2%	35.9%
Net Profit	583	339	821	864	1,428	1,500	1,638	2,037	2,114	2,344
Net Margin	12.2%	7.1%	16.8%	16.3%	24.5%	24.0%	24.5%	26.2%	26.2%	27.4%
Free Cash Flow	431	440	497	1,122	1,452	1,335	1,673	1,736	1,326	1,621
Income Tax	233	206	409	663	266	301	360	454	545	596

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,588	7,913	7,649	8,586	10,777	11,545	13,609	13,900	14,920	14,290
Cash & Equivalents	882	1,154	727	1,564	1,597	1,932	3,602	3,482	3,577	2,039
Accounts Receivable	980	937	913	998	1,036	1,086	1,013	1,133	1,215	1,304
Inventories	1,289	1,467	1,502	1,427	1,391	1,410	1,628	1,923	2,345	2,564
Goodwill & Int. Ass.	1,703	2,645	2,709	2,779	4,565	4,482	4,404	4,156	4,126	4,079
Total Liabilities	5,251	6,822	6,150	6,800	8,592	8,837	9,836	9,356	10,520	9,295
Accounts Payable	290	293	265	261	313	301	457	436	405	411
Long-Term Debt	3,631	4,868	4,468	4,953	6,452	6,447	7,199	6,592	7,904	6,567
Shareholder's Equity	1,311	1,068	1,487	1,770	2,185	2,708	3,769	4,543	4,405	4,997
LTD/E Ratio	2.77	4.56	3.00	2.80	2.95	2.38	1.91	1.45	1.79	1.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.9%	4.7%	10.6%	10.6%	14.7%	13.4%	13.0%	14.8%	14.7%	16.1%
Return on Equity	51.8%	28.5%	64.3%	53.1%	72.2%	61.3%	50.6%	49.0%	47.3%	49.9%
ROIC	12.2%	6.2%	13.8%	13.6%	18.6%	16.9%	16.3%	18.4%	18.0%	19.6%
Shares Out.	501	497	492	486	479	475	475	477	470	462
Revenue/Share	9.53	9.49	9.81	10.76	11.96	12.99	13.95	16.31	17.18	18.48
FCF/Share	0.86	0.88	1.00	2.28	2.98	2.77	3.50	3.64	2.82	3.51

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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