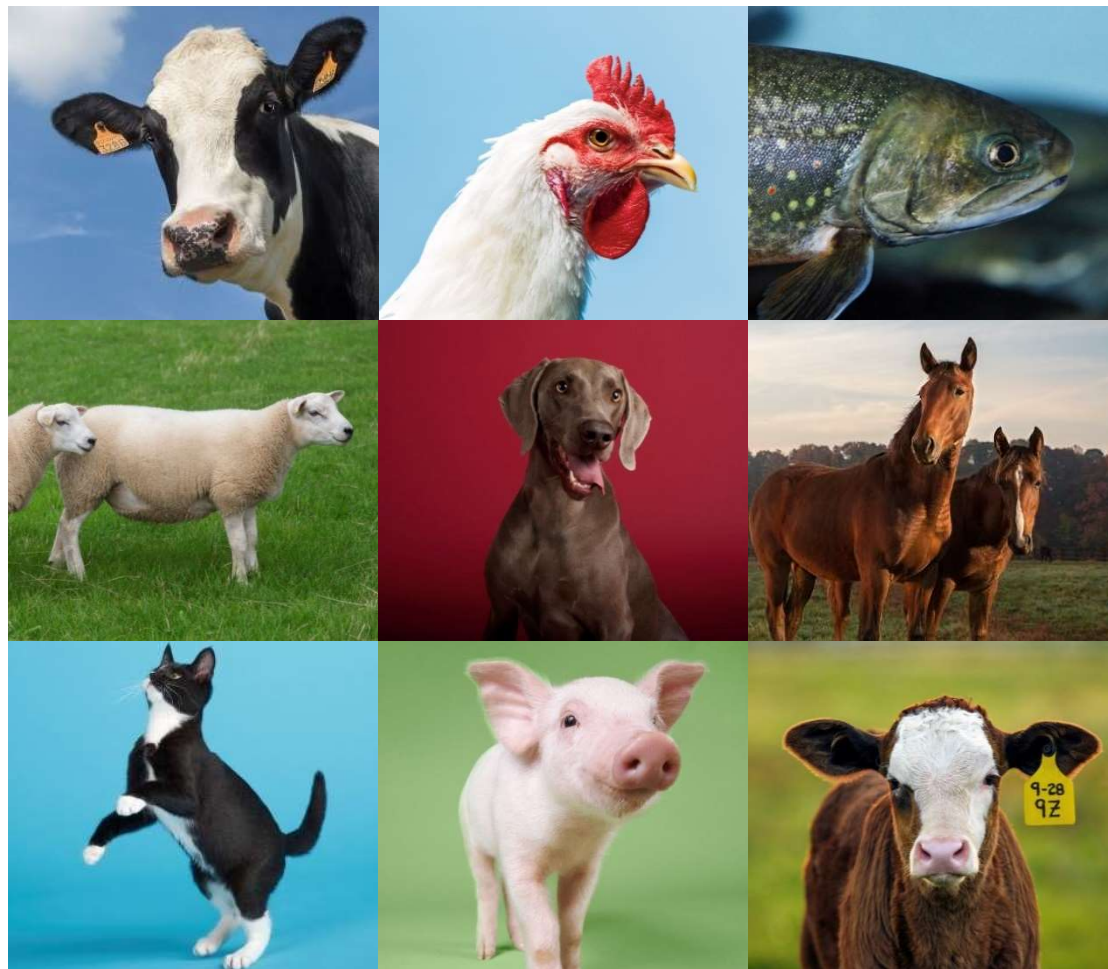


# SECOND QUARTER 2019 FINANCIAL RESULTS

August 6, 2019



zoetis

## FORWARD-LOOKING STATEMENTS

*This presentation contains forward-looking statements, which reflect the current views of Zoetis with respect to business plans or prospects, future operating or financial performance, future guidance, future operating models, expectations regarding products, expectations regarding the performance of acquired companies and our ability to integrate new businesses, expectations regarding the financial impact of acquisitions, future use of cash and dividend payments, tax rate and tax regimes, changes in the tax regimes and laws in other jurisdictions, and other future events. These statements are not guarantees of future performance or actions. Forward-looking statements are subject to risks and uncertainties. If one or more of these risks or uncertainties materialize, or if management's underlying assumptions prove to be incorrect, actual results may differ materially from those contemplated by a forward-looking statement. Forward-looking statements speak only as of the date on which they are made. Zoetis expressly disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. A further list and description of risks, uncertainties and other matters can be found in our most recent Annual Report on Form 10-K, including in the sections thereof captioned "Forward-Looking Statements and Factors That May Affect Future Results" and "Item 1A. Risk Factors," in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K. These filings and subsequent filings are available online at [www.sec.gov](http://www.sec.gov), [www.zoetis.com](http://www.zoetis.com), or on request from Zoetis.*

## NON-GAAP FINANCIAL INFORMATION

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

# JUAN RAMÓN ALAIX CHIEF EXECUTIVE OFFICER

# KEY TAKEAWAYS

## INNOVATION, DIVERSITY AND EXECUTION DRIVE STRONG Q2 RESULTS

- Generated 14% operational<sup>1</sup> growth in revenue in the second quarter, including the impact of the Abaxis acquisition, with 17% operational<sup>1</sup> increase in adjusted net income<sup>2</sup>
- Primary growth drivers were diagnostic sales from the Abaxis acquisition, key dermatology products, and in-line products including Simparica
- Steady and reliable results affirm our strategy of growth through innovation, diversity and consistent execution

## RAISING FULL YEAR GUIDANCE

- Increasing full year 2019 guidance based on strong first half momentum
  - Revenue range updated to \$6.175B and \$6.275B, with operational<sup>1</sup> growth of 8.5% to 10.0%
  - Adjusted net income<sup>2</sup> updated to \$1.700B and \$1.735B, with operational<sup>1</sup> growth of 9% to 12%
- Strategic investments in 2019 and beyond support long-term sustainable growth

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

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



**GLENN DAVID  
CHIEF FINANCIAL OFFICER**

# INCOME STATEMENT HIGHLIGHTS

	Second Quarter		
	2019*	2018*	Change
Revenue	\$1,547	\$1,415	9%
Reported Net Income	371	384	(3)%
Reported Diluted Earnings Per Share	\$0.77	\$0.79	(3)%
Adjusted Net Income <sup>1</sup>	436	375	16%
Adjusted Diluted Earnings Per Share <sup>1,2</sup>	\$0.90	\$0.77	17%

\* Millions of dollars, except per share data

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

<sup>2</sup>Adjusted diluted earnings per share growth of 17% includes 1% unfavorable foreign exchange impact, and operational growth of 18%.

# ADJUSTED INCOME STATEMENT HIGHLIGHTS

	Second Quarter				
	2019*	2018*	Change	Foreign Exchange	Operational <sup>1</sup>
Revenue	\$1,547	\$1,415	9%	(5)%	14%
Adjusted Cost of Sales <sup>2</sup>	457	443	3%	(9)%	12%
<i>as a percent of revenue<sup>3</sup></i>	<i>29.5%</i>	<i>31.3%</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>
Adjusted SG&A Expenses <sup>2</sup>	388	357	9%	(3)%	12%
Adjusted R&D Expenses <sup>2</sup>	110	102	8%	(2)%	10%
Adjusted Operating Expenses <sup>4</sup>	503	463	9%	(3)%	12%
Effective Tax Rate on Adjusted Income <sup>2</sup>	19.0%	20.1%	NA	NA	NA
Adjusted Net Income <sup>2</sup>	436	375	16%	(1)%	17%

\* Millions of dollars

NA – Not applicable

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

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

<sup>3</sup>Adjusted gross margin (a non-GAAP financial measure) was 70.5% in the second quarter of 2019, and 68.7% in the second quarter of 2018.

<sup>4</sup>Adjusted operating expenses (a non-GAAP financial measure) of \$503 million in the second quarter of 2019, and \$463 million in the second quarter of 2018 include adjusted amortization of intangible assets of \$5 million in 2019 and \$4 million in 2018.



# US SEGMENT PERFORMANCE

	Second Quarter				
	2019*	2018*	Change	Foreign Exchange	Operational <sup>1</sup>
Revenue	\$780	\$677	15%	-	15%
Livestock	280	271	3%	-	3%
Companion Animal	500	406	23%	-	23%
Cost of Sales	158	140	13%	-	13%
Gross Profit	622	537	16%	-	16%
<i>Gross Margin</i>	79.7%	79.3%	NA	NA	NA
Operating Expenses	127	116	9%	-	9%
Other (Income)/Deductions	-	-	-	-	-
Earnings <sup>2</sup>	495	421	18%	-	18%

\* Millions of dollars, NA – Not applicable

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

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



# INTERNATIONAL SEGMENT PERFORMANCE

	Second Quarter				
	2019*	2018*	Change	Foreign Exchange	Operational <sup>1</sup>
Revenue	\$742	\$728	2%	(8)%	10%
Livestock	444	463	(4)%	(8)%	4%
Companion Animal	298	265	12%	(9)%	21%
Cost of Sales	218	229	(5)%	(13)%	8%
Gross Profit	524	499	5%	(6)%	11%
<i>Gross Margin</i>	<i>70.6%</i>	<i>68.5%</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>
Operating Expenses	146	147	(1)%	(10)%	9%
Other (Income)/Deductions	-	2	**	**	**
Earnings <sup>2</sup>	378	350	8%	(4)%	12%

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

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

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



# INTERNATIONAL MARKET REVENUE

	Second Quarter				
	2019*	2018*	Change	Foreign Exchange	Operational <sup>1</sup>
Total International	\$741.9	\$727.9	2%	(8)%	10%
Australia	48.8	50.9	(4)%	(8)%	4%
Brazil	74.2	68.3	9%	(15)%	24%
Canada	53.7	55.6	(3)%	(4)%	1%
China	56.0	60.1	(7)%	(6)%	(1)%
France	27.1	29.5	(8)%	(8)%	-
Germany	39.1	38.4	2%	(8)%	10%
Italy	27.6	26.1	6%	(8)%	14%
Japan	41.1	39.1	5%	(3)%	8%
Mexico	29.9	25.5	17%	(3)%	20%
Spain	30.0	30.0	-	(8)%	8%
United Kingdom	42.3	36.1	17%	(7)%	24%
Other Developed	88.1	88.9	(1)%	(6)%	5%
Other Emerging	184.0	179.4	3%	(10)%	13%

\* Millions of dollars

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

## 2019 FINANCIAL GUIDANCE

Selected Line Items (millions of dollars, except per share amounts)	May Guidance	August Guidance
Revenue	\$6,100 to \$6,225	\$6,175 to \$6,275
Operational growth <sup>1</sup>	7.5% to 9.5%	8.5% to 10.0%
Organic Operational growth <sup>2</sup>	4.5% to 6.5%	5.5% to 7.0%
Adjusted cost of sales as a percentage of revenue <sup>3</sup>	31% to 32%	30% to 31%
Adjusted SG&A expenses <sup>3</sup>	\$1,450 to \$1,500	\$1,505 to \$1,545
Adjusted R&D expenses <sup>3</sup>	\$445 to \$465	\$450 to \$465
Adjusted interest expense and other (income) / deductions <sup>3</sup>	Approximately \$200	Approximately \$190
Effective tax rate on adjusted income <sup>3</sup>	20% to 21%	Approximately 20%
Adjusted diluted EPS <sup>3</sup>	\$3.42 to \$3.52	\$3.53 to \$3.60
Adjusted net income <sup>3</sup>	\$1,650 to \$1,700	\$1,700 to \$1,735
Operational growth <sup>1,4</sup>	8% to 11%	9% to 12%
Certain significant items and acquisition-related costs <sup>5</sup>	\$130 to \$150	\$110 to \$130
Reported diluted EPS	\$2.79 to \$2.93	\$2.93 to \$3.04

Exchange rates as of late July

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

<sup>2</sup>Organic operational growth (a non-GAAP financial measure) excludes the impact of the acquisition of Abaxis as well as foreign exchange.

<sup>3</sup>Adjusted net income and its components and adjusted diluted EPS are defined as reported U.S. generally accepted accounting principles (GAAP) net income and its components and reported diluted EPS excluding purchase accounting adjustments, acquisition-related costs and certain significant items. Adjusted cost of sales, adjusted selling, general and administrative (SG&A) expenses, adjusted research and development (R&D) expenses, and adjusted interest expense and other (income)/deductions are income statement line items prepared on the same basis, and, therefore, components of the overall adjusted income measure. Effective tax rate on adjusted income (a non-GAAP financial measure) equals the adjusted provision for taxes on income (a non-GAAP financial measure) divided by adjusted income before provision for taxes on income (a non-GAAP financial measure). Adjusted net income and its components, adjusted diluted EPS, and the effective tax rate on adjusted net income, are presented solely to permit investors to more fully understand how management assesses performance. Adjusted net income and its components and adjusted diluted EPS are not, and should not be viewed as, substitutes for U.S. GAAP net income and its components and diluted EPS.

<sup>4</sup>We do not provide a reconciliation of forward-looking non-GAAP adjusted net income operational growth to the most directly comparable GAAP reported financial measure because we are unable to calculate with reasonable certainty the foreign exchange impact of unusual gains and losses, acquisition-related expenses, potential future asset impairments and other certain significant items, without unreasonable effort. The foreign exchange impacts of these items are uncertain, depend on various factors, and could have a material impact on GAAP reported results for the guidance period.

<sup>5</sup>Primarily includes certain nonrecurring costs related to the acquisition of Abaxis and other charges.



# Q&A

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