

Initiated 2026-10-20 · Price \$79.59 (close 2026-10-19, stockanalysis.com) · Mkt cap \$33.2bn (417.7mm diluted shares) · Health care / animal health pharmaceuticals · Model: verified

Rating: Hold — Conviction: Low

Zoetis is down ~45% in a year, trading at ~10x model-basis EBITDA and ~13x the cut FY2026 adjusted EPS guide, cheap for a 40%-margin franchise. But the earnings base is still being reset: guidance has been cut twice this year, US companion animal fell 11% in Q2, and Elanco's Zenrelia and Credelio Quattro are taking share in the two franchises that matter most. Price already sits much nearer Base than Bear; a Buy needs evidence that US share loss has stopped.

Conviction tests (3a-v-c): T1 fail (Base -0.8% at +1pp stays Hold; +31.3% at -1pp reads Buy, so Hold → Buy at -1pp) · T2 pass (Gordon alone +19.6%, exit-multiple alone +5.9%; Hold on both) · T3 pass (every FY0 fact and historical series from EDGAR, the Q2 10-Q or company releases; no est. inputs) · T4 pass (Q3 print on 2026-11-05 is a guidance event inside the cases, not a binary outside them)

MODEL VALUE RANGE VS PRICE



Business overview

Zoetis sells animal medicines, vaccines, parasiticides and diagnostics for pets and livestock, mainly through vets. FY2025 revenue was \$9.47bn: Companion Animal \$6.59bn (70%), Livestock \$2.76bn (29%), contract manufacturing \$0.12bn. Q2 2026 revenue was about half International (\$1.17bn, +8%) and half US (\$1.27bn, -7%). Three variables drive earnings: US share and price in parasiticides (Simparica Trio) and dermatology (Apoquel, Cytopoint); the pace of the osteoarthritis pain franchise (Librela, Solensia, and new long-acting Lenivia/Portela in Canada, EU and GB); and US clinic-visit volume and pet-owner price sensitivity.

Competition

Elanco is the competitor that matters for the thesis. Its Q2 2026 Pet Health revenue rose 11% organically to \$718mm; Zenrelia (an Apoquel competitor) was the largest growth contributor and reached blockbuster status in July, and Credelio Quattro (against Simparica Trio) is now in over half of US clinics (Elanco Q2 release, 2026-08-05). In the same quarter Zoetis's US companion animal revenue fell 11%, with the company citing heightened competition in dermatology and parasiticides, generic Cerenia and Convenia, and lower Librela sales. The pressure is showing up in price and share at once. Elanco trades at 15.3x aggregator EV/EBITDA and 19.7x forward P/E, against Zoetis's 9.95x and 12.8x (stockanalysis.com, 2026-10-19).

Bull case

1. **Margin recovers on the cost program** — the comprehensive cost and productivity program (Q2 restructuring \$75mm, mainly severance) and mix back toward new launches lift EBITDA margin from ~40% in FY2026 to 44% by FY2030, near the FY2025 43%. Plays out if FY2026 adjusted net income lands at or above the \$2.57–2.62bn guide and FY2027 guides margin expansion. *Model: ebitda_margin*
2. **Share loss annualizes; International and livestock carry growth** — International grew 6% organically and livestock 11% in Q2. Once Zenrelia and Credelio Quattro lap their launches in FY2027, growth returns to the ~5% FY2021–25 CAGR, helped by Lenivia/Portela. Plays out if US companion animal declines narrow to low single digits by Q4 2026. *Model: rev_growth*
3. **Re-rating from a trough multiple** — at ~10x model-basis EBITDA Zoetis trades below Elanco (15.3x aggregator) despite twice the margin; stabilization earns a 14x exit. *Model: exit_ev_ebitda*

Bear case

1. **Share loss keeps compounding** — Zenrelia and Credelio Quattro keep winning US clinics, and generics spread through older brands; revenue falls 4% in FY2027 and 2% in FY2028 before recovering slowly. Plays out if the FY2027 guide calls for another organic decline. *Model: rev_growth*
2. **Price competition and Librela fade compress margin** — defending Apoquel and Simparica Trio on price while Librela sales fall takes EBITDA margin to 36%. Plays out if adjusted net income falls faster than revenue again in Q3 and Q4 (it was guided –9% to –5% on –3% to –1% revenue). *Model: ebitda_margin*
3. **Market treats it as ex-growth pharma** — the multiple settles near Phibro's (~9.5x) less a discount for falling earnings: an 8x exit, a 9.0% WACC and 1.5% terminal growth. *Model: exit_ev_ebitda, wacc*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (EV \$40.7bn = mkt cap \$33.25bn – cash & ST inv. \$1.68bn + debt \$9.15bn; EBITDA = pretax + interest + D&A)	10.0x FY2025; ~11x FY2026E (est., ~\$3.67bn)	n/a (unverified)	aggregator TTM: ELAN 15.3x · PAHC 9.5x · IDXX 27.6x (ZTS 9.95x on that basis)	<code>model-inputs.json</code> ; stockanalysis.com 2026-10-19
P/E	12.8x on the \$6.15–6.25 FY2026 adjusted EPS guide	23.1x at the 52-week high (\$148.30) on FY2025 adjusted EPS \$6.41	ELAN 19.7x · PAHC 11.3x · IDXX 35.4x (forward)	stockanalysis.com 2026-10-19; Q2 2026 and Q4 2025 releases; Yahoo Finance 2026-10-15
FCF yield (aggregator TTM)	7.0%	n/a (unverified)	ELAN 3.2% · PAHC 0.6% · IDXX 2.9%	stockanalysis.com 2026-10-19

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$45.60 · Base \$89.73 · Bull \$134.50 per share, i.e. implied returns of –42.7% / +12.7% / +69.0% vs \$79.59. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price sits ~77% of the way from Bear to Base: the market has priced roughly a quarter of the bear case, not most of it. A modest Base return on a still-falling earnings base is why the call is Hold, not Buy.
- **Re-rating.** Base's 11.0x exit is a ~10% re-rating from today's 10.0x model-basis multiple. The methods differ by 13% (Gordon \$95.19, exit \$84.27), so the Gordon method embeds a larger terminal re-rating than 11x; the exit method is the more conservative read.

Balance sheet: net leverage 1.84x FY2025 model-basis EBITDA (gross 2.25x), coverage 13.8x. Liquidity: \$1.48bn cash plus \$0.20bn short-term investments at June 2026; revolver size n/a (unverified). Nearest material maturities: \$750mm 3.0% notes in 2027, \$1.35bn in

2028, and the \$2.0bn 0.25% convertible in 2029 (conversion \$148.20, far out of the money, so modeled as debt). Debt is all fixed-rate senior unsecured. Ratings: n/a (unverified).

Model note: tier `full`, status `built`, verification `verified` (3,207 formula cells matched in LibreOffice). No unverified inputs and no assumptions without a basis. Scenario consistency is `OK` on all 14 rows.

- **Sourcing.** EDGAR XBRL revenue, pretax income, interest expense, D&A, receivables, inventory and payables (10-K annual values, FY2021–25); the Q2 2026 10-Q for cash, debt tranches and shares; Q2 2026 and Q4 2025 releases for guidance.
- **EBITDA basis.** After restructuring and significant items, including other income; close to the aggregator's \$4.07bn TTM.
- **EPS vs guidance.** Base Y1 EPS \$5.75 is 2.7% above the \$5.55–5.65 reported EPS guide and 7% below the \$6.15–6.25 adjusted guide; the adjusted guide excludes purchase-accounting amortization and ~\$150mm of significant items, which the model keeps.
- **WACC.** 8.0% = CAPM (10Y 5.15% + beta 0.74 × 5% ERP = 8.85% cost of equity at 78%; after-tax debt 4.7% at 22%) = 7.96%, rounded. Bear adds +1pp for franchise-erosion risk.
- **FY2026 margin.** Base 40% is grossed up from the net income guide (est.). No tail run: no brand is ≥50% of revenue and Bear is a decline, not a plateau.

RELATIVE VALUE VS PEERS

Metric	ZTS	ELAN	PAHC	IDXX	Peer median	vs median
P/E (TTM)	13.0x	n/a	16.2x	39.1x	27.6x	–53%
P/E (forward)	12.8x	19.7x	11.2x	35.4x	19.7x	–35%
PEG	1.6x	1.8x	n/a	2.4x	2.1x	–23%
EV/EBITDA (TTM)	9.9x	15.3x	9.4x	27.6x	15.3x	–35%
EV/Sales (TTM)	4.2x	3.1x	1.5x	9.8x	3.1x	+38%
FCF yield	7.0%	3.2%	0.6%	2.9%	2.9%	+4.2pp

P/E (TTM)

P/E (forward)

PEG

EV/EBITDA (TTM)

EV/Sales (TTM)

FCF yield

As of 2026-10-20. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting reported cash. Not the model's own EV basis (see the report's valuation table). Quotes are the 2026-10-19 4:00pm ET closes. Dashed line = peer median. Source: stockanalysis.com/stocks/<ticker>/statistics/, fetched 2026-10-20.

Notes. PEG as given by the source, resting on its consensus growth estimates; n/a at the source for PAHC. ELAN is null: TTM net loss of \$199mm per the source. ZTS's 9.95x uses the source's \$4.07bn TTM EBITDA; on the model's basis it is 10.0x FY2025.

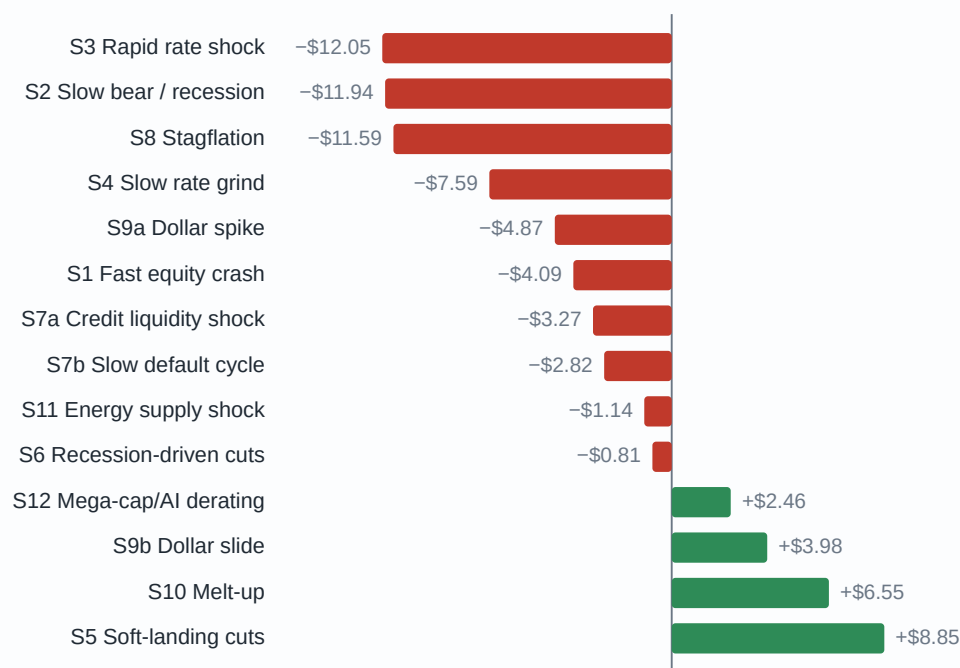
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Liquidity de-rating of a 0.74-beta name that has already de-rated	Low	–\$4.09
S2 Slow bear / recession	–	Fewer clinic visits and more pet-owner price sensitivity, the channel already visible in 2026. Much milder than Base – Bear (\$44): a two-year cycle, not permanent share loss	High	–\$11.94
S3 Rapid rate shock	–	Higher discount rate on a long-duration franchise; debt is fixed-rate, so earnings hold	High	–\$12.05
S4 Slow rate grind	–	Grinding discount-rate drag plus squeezed household budgets	Med	–\$7.59
S5 Soft-landing cuts	+	Lower discount rate and steadier pet spending	Med	+\$8.85
S6 Recession-driven cuts	–	Discretionary pet-care volume loss roughly offsets rate relief	Low	–\$0.81
S7a Credit liquidity shock	–	Investment-grade, fixed-rate debt; de-rating only	Low	–\$3.27
S7b Slow default cycle	–	Consumer credit stress trims vet spending; no refinancing channel	Low	–\$2.82
S8 Stagflation	–	Input-cost inflation plus pet-owner trade-down limits pricing, with a higher discount rate	High	–\$11.59
S9a Dollar spike	–	Translation loss on ~48% International revenue	Low	–\$4.87
S9b Dollar slide	+	Translation gain on the same base	Low	+\$3.98
S10 Melt-up	+	Beaten-down quality names re-rate in a broad risk-on tape	Med	+\$6.55
S11 Energy supply shock	–	Freight and input costs plus a household-budget squeeze	Low	–\$1.14
S12 Mega-cap/AI derating	+	Rotation toward low-beta health care	Low	+\$2.46

Currently active/on watch per the playbook: S3 partially active (price-level leg only); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Q3 (2026-11-05) or Q4 shows US companion animal organic declines narrowing to low single digits with the FY2026 guide held, and the FY2027 guide calls for organic growth; or the stock de-rates further with no new deterioration in the franchise data.

Downgrades if: a third FY2026 guidance cut, an FY2027 guide for another organic decline, adjusted net income falling faster than revenue again, or a Librela safety-driven label change.

Watch items

- **W1:** US companion animal organic growth — better than Q2's -11% and FY2026 revenue guide \$9.12–9.32bn held — Q3 2026 release — 2026-11-05 — *Model: rev_growth*
- **W2:** FY2026 adjusted net income — within \$2.57–2.62bn — Q4 2026 release — ~Feb 2027 — *Model: ebitda_margin*
- **W3:** FY2027 guidance — organic growth ≥0% (Base) vs a decline (Bear) — Q4 2026 release — ~Feb 2027 — *Model: rev_growth, ebitda_margin*
- **W4:** Elanco Zenrelia and Credelio Quattro momentum — Pet Health organic growth staying ≥10% — Elanco Q3 release — early Nov 2026 — *Model: rev_growth*

Sources

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- Zoetis Form 10-Q, quarter ended 2026-06-30 (incl. R56, R57 debt notes) — <https://www.sec.gov/Archives/edgar/data/1555280/000155528026000040/zts-20260630.htm> — accessed 2026-10-20
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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.