OFF WALL STREET

Zoetis (ZTS)

DATE: 5/17/2026 | **SECTOR:** HEALTHCARE | **SETUP:** COMPETITION
MARKET CAP: $31B | **ADV:** $583M | **SHORT INTEREST:** 4%

Bull case

- Bulls view ZTS as the leading player in the secularly-growing Animal Health market, with the most comprehensive and innovative product portfolio, which has historically allowed the company to command a premium position and generate superior growth/margins relative to competitors
    - ZTS 3-year revenue growth CAGR ~5% vs. ELAN ~2%
    - ZTS 3-year avg. adj. GM ~71% vs. ELAN ~55%
- With shares having declined -48% since the company first reported a negative inflection in US Companion Animal revenue growth in 3Q25, the stock now trades at an all-time-low valuation (3.9x NTM EV/S and 10.6x NTM P/E vs. 5-year avg. 9.2x and 29.5x, respectively; ELAN currently 2.7x NTM EV/S and 18.7x NTM P/E)
- At this level, bulls believe the stock has more than sufficiently priced-in current weakness, which management attributes primarily to temporary industry/macro headwinds:
    - Declining vet visits and increased price-sensitivity amid broader macro weakness, intense promotional activity from new entrants, distributor/retail partner inventory de-stocking, tough comps
- Moreover, management has expressed confidence that the company can continue to grow revenue/earnings through this period, driven by:
    - Strong international and livestock growth, new product launches (LA Cytopoint, Lenivia, Portela), new comprehensive cost and productivity program, investment in targeted DTC activity, and a robust pipeline (YE27-2028)

Short thesis

- We are skeptical of management's explanation that current weakness primarily reflects temporary macro headwinds, and of bullish expectations for a re-acceleration in revenue growth (from LSDs to MSDs) and continued gross margin expansion (~10-20bps p.a.)
    - We suspect intensifying competition is the primary driver of recent weakness in ZTS's US Companion Animal business (~45% of total revenues), with ELAN and MRK launching new blockbuster products that are rapidly gaining share in key growth categories that ZTS once dominated (e.g., Zenrelia, Befrena, and Numelvi in dermatology; Bravecto Quantum and Credelio Quattro in parasiticides)
    - ZTS's osteoarthritis mAb franchise is also flopping amid social media uproar over safety risks (seizures/death) and intensifying generic NSAID competition

    - Meanwhile, ongoing vet/retail consolidation continues to reduce ZTS's pricing power at the same time as ELAN finally has a sufficiently comprehensive portfolio to disrupt ZTS's previous effective-monopoly on corporate accounts
    - And broader macro weakness is only exacerbating ZTS's challenges given its 'premium' pricing/positioning
    - In sum, the animal health market appears to have structurally changed for the worse: branded/generic competition is intensifying, price may be turning from a tailwind to a headwind, and market growth is softening significantly
    - ZTS also appears to face an 'air pocket' over the next 12-18 months as near-term pipeline products are primarily reformulations of existing products that are unlikely to materially alter current competitive dynamics
- Moreover, despite significant multiple contraction to-date, ZTS still trades at a significant premium to ELAN on an EV/S basis, reflecting historically high margins that the company may struggle to sustain in this new environment

Risks

- Strength in international, livestock and diagnostics businesses more than offset continued US Companion Animal weakness
- Strong balance sheet/cash flow
