



ZOETIS_

The Quiet Power of Pet Pharma

In a world of rising healthcare costs and volatile consumer sentiment, Zoetis sits quietly in a corner of the market where **demand is both inelastic and deeply personal**. Whether it's a family's ageing golden retriever or a high-value dairy herd in the Midwest, health interventions for animals are rarely discretionary. That structural dynamic coupled with regulatory complexity, proprietary brands, and embedded distribution forms the backbone of Zoetis's enduring quality.

Formerly the animal health division of Pfizer, Zoetis was spun out in 2013 and has since become **the global leader in animal health**. **With more than \$8 billion in annual revenue** and

operations in over 100 countries, the company develops, manufactures, and markets medicines, vaccines, diagnostics, and genetic tests primarily for livestock and companion animals.

At the heart of Zoetis's compounding engine is a product portfolio that blends high brand loyalty with regulatory protection. Its companion animal business covering dogs, cats, and increasingly horses includes well-known brands like Simparica Trio (parasiticides), Apoquel (dermatology), and Revolution (flea and heartworm control). These products, often prescribed by veterinarians and administered monthly, enjoy brand stickiness and high gross margins.

Much like human pharma, they are difficult to switch out once treatment has begun. Meanwhile, Zoetis's livestock segment is built on decades of trust, with products that address herd health, productivity, and disease prevention.



These customers – beef, pork, poultry, dairy – buy not on impulse but on ROI (return on investment) and reliability. **Zoetis provides not just medicine but data analytics, diagnostics, and tech-enabled productivity tools.** The result is long-standing B2B relationships and recurring demand even during periods of macroeconomic stress.

What distinguishes Zoetis from many other life science companies is the stability and visibility embedded in its model. The product life cycles are long, generic substitution is slower than in human health, and the regulatory process, while rigorous, is also a significant barrier to entry for new competitors. Additionally, as veterinary practices consolidate and digitize, Zoetis has deepened its integration with practitioners via diagnostics, cloud-based platforms, and connected devices, further entrenching its presence across the care continuum.

Financially, Zoetis exhibits the hallmarks of a high-quality compounder:

- Gross margins consistently north of 67%
- Operating margins over 40%
- Return on invested capital well above 20%
- Strong, predictable free cash flow conversion

Importantly, it requires modest capital reinvestment enabling generous shareholder returns via buybacks and dividends while maintaining investment in R&D (~7-8% of sales annually). That R&D engine consistently refreshes the portfolio, with **a proven ability to launch 10+ new products a year, many of which extend or deepen existing franchises.** Risks do exist. Patent cliffs, regulatory shifts, disease cycles, and pricing pressures from veterinary chains are all watchpoints. However, Zoetis mitigates these through geographic diversification, a broad species mix, and a pipeline that blends incremental innovation with new category creation. Its strong brand equity in the veterinarian community acts as an additional layer of defence.

In short, Zoetis is a rare blend: a defensive, non-cyclical business with premium margins and a growing addressable market. As pet ownership continues to rise globally and livestock productivity demands increase, Zoetis remains ideally positioned to deliver resilient growth with capital-light compounding for many years to come.

| Written by Insync Fund Management