UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended
September 30, 2023

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 001-35797

Zoetis Inc.

(Exact name of registrant as specified in its charter)

Delaware	**46-0696167**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10 Sylvan Way, Parsippany, New Jersey	**07054**
(Address of principal executive offices)	(Zip Code)

(973) 822-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**ZTS**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ **Accelerated filer** ☐ **Non-accelerated filer** ☐ **Smaller reporting company** ☐ **Emerging growth company** ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of October 27, 2023, there were 459,113,691 shares of common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	**2023**	2022	**2023**	2022
Revenue	**$ 2,151**	$ 2,002	**$ 6,331**	$ 6,040
Costs and expenses:				
Cost of sales	**638**	607	**1,833**	1,801
Selling, general and administrative expenses	**525**	501	**1,586**	1,495
Research and development expenses	**152**	134	**440**	391
Amortization of intangible assets	**38**	37	**112**	115
Restructuring charges and certain acquisition-related costs	**16**	6	**45**	9
Interest expense, net of capitalized interest	**59**	53	**180**	159
Other (income)/deductions—net	**6**	(3)	**(151)**	6
Income before provision for taxes on income	**717**	667	**2,286**	2,064
Provision for taxes on income	**121**	139	**469**	413
Net income before allocation to noncontrolling interests	**596**	528	**1,817**	1,651
Less: Net loss attributable to noncontrolling interests	**—**	(1)	**(2)**	(2)
Net income attributable to Zoetis Inc.	**$ 596**	$ 529	**$ 1,819**	$ 1,653
Earnings per share attributable to Zoetis Inc. stockholders:				
Basic	**$ 1.29**	$ 1.13	**$ 3.94**	$ 3.52
Diluted	**$ 1.29**	$ 1.13	**$ 3.93**	$ 3.51
Weighted-average common shares outstanding:				
Basic	**460.3**	467.8	**461.9**	470.0
Diluted	**461.4**	469.1	**463.0**	471.6
Dividends declared per common share	**$ —**	$ —	**$ 0.750**	$ 0.650

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Net income before allocation to noncontrolling interests	**$ 596**	$ 528	**$ 1,817**	$ 1,651
Other comprehensive income/(loss), net of tax[(a)]:				
Unrealized gains on derivatives for cash flow hedges, net of tax of $1 and $9 for the three months ended September 30, 2023 and 2022, respectively, and $0 and $23 for the nine months ended September 30, 2023 and 2022, respectively	**3**	30	**—**	78
Unrealized gains on derivatives for net investment hedges, net of tax of $5 and $11 for the three months ended September 30, 2023 and 2022, respectively, and $1 and $24 for the nine months ended September 30, 2023 and 2022, respectively	**18**	39	**5**	84
Foreign currency translation adjustments	**60**	(156)	**(6)**	(208)
Benefit plans: Actuarial gains, net of tax of $0 and $1 for the three months ended September 30, 2023 and 2022, respectively, and $1 and $1 for the nine months ended September 30, 2023 and 2022, respectively	**—**	—	**4**	1
Total other comprehensive income/(loss), net of tax	**81**	(87)	**3**	(45)
Comprehensive income before allocation to noncontrolling interests	**677**	441	**1,820**	1,606
Less: Comprehensive loss attributable to noncontrolling interests	**—**	(1)	**(2)**	(2)
Comprehensive income attributable to Zoetis Inc.	**$ 677**	$ 442	**$ 1,822**	$ 1,608

(a) Presented net of reclassification adjustments, which are not material in any period presented.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)		September 30, 2023 (Unaudited)		December 31, 2022
Assets				
Cash and cash equivalents[a]	$	**1,754**	$	3,581
Accounts receivable, less allowance for doubtful accounts of $18 in 2023 and $19 in 2022		**1,257**		1,215
Inventories		**2,744**		2,345
Other current assets		**467**		365
Total current assets		**6,222**		7,506
Property, plant and equipment, less accumulated depreciation of $2,529 in 2023 and $2,297 in 2022		**3,092**		2,753
Operating lease right of use assets		**226**		220
Goodwill		**2,762**		2,746
Identifiable intangible assets, less accumulated amortization		**1,398**		1,380
Noncurrent deferred tax assets		**190**		173
Other noncurrent assets		**216**		147
Total assets	$	**14,106**	$	14,925
Liabilities and Equity				
Short-term borrowings	$	**2**	$	2
Current portion of long-term debt		**—**		1,350
Accounts payable		**388**		405
Dividends payable		**—**		174
Accrued expenses		**693**		682
Accrued compensation and related items		**284**		300
Income taxes payable		**144**		157
Other current liabilities		**97**		97
Total current liabilities		**1,608**		3,167
Long-term debt, net of discount and issuance costs		**6,552**		6,552
Noncurrent deferred tax liabilities		**160**		142
Operating lease liabilities		**191**		186
Other taxes payable		**262**		258
Other noncurrent liabilities		**259**		217
Total liabilities		**9,032**		10,522
Commitments and contingencies (Note 15)				
Stockholders' equity:				
Common stock, $0.01 par value: 6,000,000,000 authorized; 501,891,243 and 501,891,243 shares issued; 459,524,713 and 463,808,059 shares outstanding at September 30, 2023, and December 31, 2022, respectively		**5**		5
Treasury stock, at cost, 42,366,530 and 38,083,184 shares of common stock at September 30, 2023 and December 31, 2022, respectively		**(5,369)**		(4,539)
Additional paid-in capital		**1,116**		1,088
Retained earnings		**10,140**		8,668
Accumulated other comprehensive loss		**(814)**		(817)
Total Zoetis Inc. equity		**5,078**		4,405
Noncontrolling interests		**(4)**		(2)
Total equity		**5,074**		4,403
Total liabilities and equity	$	**14,106**	$	14,925

[a] As of September 30, 2023 and December 31, 2022, includes $3 million and $4 million of restricted cash, respectively.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

Three months ended September 30, 2023

(MILLIONS OF DOLLARS AND SHARES)	Zoetis: Common Stock Shares	Zoetis: Common Stock Amount	Zoetis: Treasury Stock Shares	Zoetis: Treasury Stock Amount	Zoetis: Additional Paid-in Capital	Zoetis: Retained Earnings	Zoetis: Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance, June 30, 2023	501.9	$ 5	41.2	$ (5,126)	$ 1,098	$ 9,543	$ (895)	$ (4)	$ 4,621
Net income	**—**	**—**	**—**	**—**	**—**	**596**	**—**	**—**	**596**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**81**	**—**	**81**
Share-based compensation awards [(a)]	**—**	**—**	**(0.2)**	**9**	**18**	**1**	**—**	**—**	**28**
Treasury stock acquired [(b)]	**—**	**—**	**1.4**	**(252)**	**—**	**—**	**—**	**—**	**(252)**
Balance, September 30, 2023	**501.9**	**$ 5**	**42.4**	**$ (5,369)**	**$ 1,116**	**$ 10,140**	**$ (814)**	**$ (4)**	**$ 5,074**

Three months ended September 30, 2022

(MILLIONS OF DOLLARS AND SHARES)	Zoetis: Common Stock Shares	Zoetis: Common Stock Amount	Zoetis: Treasury Stock Shares	Zoetis: Treasury Stock Amount	Zoetis: Additional Paid-in Capital	Zoetis: Retained Earnings	Zoetis: Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance, June 30, 2022	501.9	$ 5	33.3	$ (3,766)	$ 1,059	$ 8,004	$ (722)	$ —	$ 4,580
Net income/(loss)	—	—	—	—	—	529	—	(1)	528
Other comprehensive loss	—	—	—	—	—	—	(87)	—	(87)
Share-based compensation awards [(a)]	—	—	(0.1)	4	13	—	—	—	17
Treasury stock acquired [(b)]	—	—	2.2	(377)	—	—	—	—	(377)
Employee benefit plan contribution from Pfizer Inc.[(c)]	—	—	—	—	1	—	—	—	1
Balance, September 30, 2022	501.9	$ 5	35.4	$ (4,139)	$ 1,073	$ 8,533	$ (809)	$ (1)	$ 4,662

Shares may not add due to rounding.

[(a)] Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with exercises of employee share-based awards. Also includes the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards to satisfy tax withholding requirements. For additional information, see *Note 12. Share-based Payments* and *Note 13. Stockholders' Equity*.

[(b)] Reflects the acquisition of treasury shares in connection with the share repurchase program. For the three months ended September 30, 2023, includes excise tax accrued on net share repurchases. For additional information, see *Note 13. Stockholders' Equity*.

[(c)] Represents contributed capital from Pfizer Inc. associated with service credit continuation for certain Zoetis Inc. employees in Pfizer Inc.'s U.S. qualified defined benefit and U.S. retiree medical plans.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY - Continued
(UNAUDITED)

Nine months ended September 30, 2023

	Zoetis									
	Common Stock		Treasury Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total
(MILLIONS OF DOLLARS AND SHARES)	Shares	Amount	Shares	Amount	Capital	Earnings	Loss	Interests	Equity
Balance, December 31, 2022	501.9	$ 5	38.1	$ (4,539)	$ 1,088	$ 8,668	$ (817)	$ (2)	$ 4,403
Net income/(loss)	**—**	**—**	**—**	**—**	**—**	**1,819**	**—**	**(2)**	**1,817**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**3**	**—**	**3**
Share-based compensation awards [a]	**—**	**—**	**(0.7)**	**34**	**28**	**(1)**	**—**	**—**	**61**
Treasury stock acquired [b]	**—**	**—**	**5.0**	**(864)**	**—**	**—**	**—**	**—**	**(864)**
Dividends declared	**—**	**—**	**—**	**—**	**—**	**(346)**	**—**	**—**	**(346)**
Balance, September 30, 2023	**501.9**	**$ 5**	**42.4**	**$ (5,369)**	**$ 1,116**	**$ 10,140**	**$ (814)**	**$ (4)**	**$ 5,074**

Nine months ended September 30, 2022

	Zoetis									
	Common Stock		Treasury Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total
(MILLIONS OF DOLLARS AND SHARES)	Shares	Amount	Shares	Amount	Capital	Earnings	Loss	Interests	Equity
Balance, December 31, 2021	501.9	$ 5	29.3	$ (2,952)	$ 1,068	$ 7,186	$ (764)	$ 1	$ 4,544
Net income/(loss)	—	—	—	—	—	1,653	—	(2)	1,651
Other comprehensive loss	—	—	—	—	—	—	(45)	—	(45)
Share-based compensation awards [a]	—	—	(0.6)	2	3	—	—	—	5
Treasury stock acquired [b]	—	—	6.7	(1,189)	—	—	—	—	(1,189)
Employee benefit plan contribution from Pfizer Inc.[c]	—	—	—	—	2	—	—	—	2
Dividends declared	—	—	—	—	—	(306)	—	—	(306)
Balance, September 30, 2022	501.9	$ 5	35.4	$ (4,139)	$ 1,073	$ 8,533	$ (809)	$ (1)	$ 4,662

Shares may not add due to rounding.

[a] Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with exercises of employee share-based awards. Also includes the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards to satisfy tax withholding requirements. For additional information, see *Note 12. Share-based Payments* and *Note 13. Stockholders' Equity*.

[b] Reflects the acquisition of treasury shares in connection with the share repurchase program. For the nine months ended September 30, 2023, includes excise tax accrued on net share repurchases. For additional information, see *Note 13. Stockholders' Equity*.

[c] Represents contributed capital from Pfizer Inc. associated with service credit continuation for certain Zoetis Inc. employees in Pfizer Inc.'s U.S. qualified defined benefit and U.S. retiree medical plans.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(MILLIONS OF DOLLARS)	Nine Months Ended September 30, 2023	2022
Operating Activities		
Net income before allocation to noncontrolling interests	**$ 1,817**	$ 1,651
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	**365**	346
Share-based compensation expense	**43**	46
Asset write-offs and asset impairments	**27**	7
Gain on sale of business, excluding transaction costs	**(118)**	—
Provision for losses on inventory	**82**	49
Deferred taxes	**(40)**	(110)
Employee benefit plan contribution from Pfizer Inc.	**—**	2
Other non-cash adjustments	**(6)**	3
Other changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	**(54)**	(120)
Inventories	**(497)**	(438)
Other assets	**(119)**	(20)
Accounts payable	**(9)**	(59)
Other liabilities	**(27)**	(227)
Other tax accounts, net	**(8)**	41
Net cash provided by operating activities	**1,456**	1,171
Investing Activities		
Capital expenditures	**(534)**	(415)
Acquisitions	**(155)**	(96)
Purchase of investments	**(3)**	(8)
Proceeds on derivative instrument activity, net	**23**	74
Proceeds from sale of business, net of cash sold	**96**	—
Net proceeds from sale of assets	**4**	—
Other investing activities	**2**	—
Net cash used in investing activities	**(567)**	(445)
Financing Activities		
Increase in short-term borrowings, net	**—**	3
Principal payments on long-term debt	**(1,350)**	—
Payment of consideration related to previous acquisitions	**(3)**	—
Share-based compensation-related proceeds, net of taxes paid on withholding shares	**18**	(38)
Purchases of treasury stock	**(857)**	(1,189)
Cash dividends paid	**(520)**	(460)
Net cash used in financing activities	**(2,712)**	(1,684)
Effect of exchange-rate changes on cash and cash equivalents	**(4)**	(20)
Net decrease in cash and cash equivalents	**(1,827)**	(978)
Cash and cash equivalents at beginning of period	**3,581**	3,485
Cash and cash equivalents at end of period	**$ 1,754**	$ 2,507
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	**$ 586**	$ 471
Interest, net of capitalized interest	**225**	209
Amounts included in the measurement of lease liabilities	**42**	37
Non-cash transactions:		
Capital expenditures	**4**	5
Excise tax accrued on net share repurchases, not paid	**7**	—
Lease obligations obtained in exchange for right-of-use assets	**74**	46

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

Zoetis Inc. (including its subsidiaries, collectively, Zoetis, the company, we, us or our) is a global leader in the animal health industry, focused on the discovery, development, manufacture and commercialization of medicines, vaccines, diagnostic products and services, biodevices, genetic tests and precision animal health technology. We organize and operate our business in two geographic regions: the United States (U.S.) and International.

We directly market our products in approximately 45 countries across North America, Europe, Africa, Asia, Australia and South America. Our products are sold in more than 100 countries, including developed markets and emerging markets. We have a diversified business, commercializing products across eight core species: dogs, cats and horses (collectively, companion animals) and cattle, swine, poultry, fish and sheep (collectively, livestock); and within seven major product categories: parasiticides, vaccines, dermatology, other pharmaceutical products, anti-infectives, animal health diagnostics and medicated feed additives.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) can be condensed or omitted. Balance sheet amounts and operating results for subsidiaries operating outside the U.S. are as of and for the three and nine months ended August 31, 2023 and August 31, 2022.

Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year.

We are responsible for the unaudited condensed consolidated financial statements included in this Form 10-Q. The condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. The information included in this interim report should be read in conjunction with the financial statements and accompanying notes included in our 2022 Annual Report on Form 10-K.

3. Accounting Standards

Recently Adopted Accounting Standards

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In January 2021 and December 2022, it issued subsequent amendments to the initial guidance: ASU No. 2021-01 and ASU No. 2022-06, Reference Rate Reform (Topic 848). The new guidance provides temporary optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. Adoption of the guidance is optional and effective as of March 12, 2020, but only available through December 31, 2024. During the first quarter of 2023, we adopted the guidance by executing amendments to our affected contracts that referenced LIBOR. The adoption did not have a material impact on our condensed consolidated financial statements or related disclosures.

4. Revenue

A. Revenue from Product Sales

We offer a diversified portfolio of products which allows us to capitalize on local and regional customer needs. Generally, our products are promoted to veterinarians and livestock producers by our sales organization which includes sales representatives and technical and veterinary operations specialists, and then sold directly by us or through distributors, retailers or e-commerce outlets. The depth of our product portfolio enables us to address the varying needs of customers in different species and geographies. Many of our top-selling product lines are distributed across both of our operating segments, leveraging our research and development (R&D) operations and manufacturing and supply chain network.

Over the course of our history, we have focused on developing a diverse portfolio of animal health products, including medicines, vaccines and diagnostics, complemented by biodevices, genetic tests and a range of services. We refer to all different brands of a particular product, or its dosage forms for all species, as a product line. We have approximately 300 comprehensive product lines, including products for both companion animals and livestock within each of our major product categories.

Our major product categories are:

- **parasiticides:** products that prevent or eliminate external and internal parasites such as fleas, ticks and worms;
- **vaccines:** biological preparations that help prevent diseases of the respiratory, gastrointestinal and reproductive tracts or induce a specific immune response;
- **dermatology products:** products that relieve itch associated with allergic conditions and atopic dermatitis;
- **other pharmaceutical products:** pain and sedation, antiemetic, reproductive, and oncology products;
- **anti-infectives:** products that prevent, kill or slow the growth of bacteria, fungi or protozoa;
- **animal health diagnostics:** testing and analysis of blood, urine and other animal samples and related products and services, including point-of-care diagnostic products, instruments and reagents, rapid immunoassay tests, reference laboratory kits and services and blood glucose monitors; and

- **medicated feed additives:** products added to animal feed that provide medicines to livestock.

Our remaining revenue is derived from other non-pharmaceutical product categories, such as nutritionals, as well as products and services in biodevices, genetic tests and precision animal health.

Our companion animal products help extend and improve the quality of life for pets; increase convenience and compliance for pet owners; and help veterinarians improve the quality of their care and the efficiency of their businesses. Growth in the companion animal medicines, vaccines and diagnostics sector is driven by economic development, related increases in disposable income and increases in pet ownership and spending on pet care. Companion animals are also living longer, deepening the human-animal bond, receiving increased medical treatment and benefiting from advances in animal health medicine, vaccines and diagnostics.

Our livestock products primarily help prevent or treat diseases and conditions to allow veterinarians and producers to care for their animals and to enable the cost-effective production of safe, high-quality animal protein. Human population growth and increasing standards of living are important long-term growth drivers for our livestock products in three major ways. First, population growth and increasing standards of living drive demand for improved nutrition, particularly through increased consumption of animal protein. Second, population growth leads to greater natural resource constraints driving a need for enhanced productivity. Finally, as standards of living improve and the global food chain faces increased scrutiny, there is more focus on food quality, safety and reliability of supply.

The following tables present our revenue disaggregated by geographic area, species and major product category:

Revenue by geographic area

	Three Months Ended **September 30,**		Nine Months Ended **September 30,**	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
United States	**$ 1,174**	$ 1,090	**$ 3,344**	$ 3,201
Australia	**84**	80	**248**	225
Brazil	**101**	70	**276**	233
Canada	**63**	56	**183**	172
Chile	**31**	31	**109**	106
China	**69**	92	**255**	291
France	**34**	28	**102**	91
Germany	**50**	43	**148**	132
Italy	**26**	24	**87**	86
Japan	**34**	37	**120**	137
Mexico	**42**	33	**119**	101
Spain	**30**	29	**94**	97
United Kingdom	**78**	59	**209**	174
Other developed markets	**127**	121	**374**	354
Other emerging markets	**187**	186	**605**	581
	2,130	1,979	**6,273**	5,981
Contract manufacturing & human health	**21**	23	**58**	59
Total Revenue	**$ 2,151**	$ 2,002	**$ 6,331**	$ 6,040

Revenue by major species

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
U.S.				
Companion animal	**$ 908**	$ 819	**$ 2,588**	$ 2,488
Livestock	**266**	271	**756**	713
	1,174	1,090	**3,344**	3,201
International				
Companion animal	**506**	452	**1,540**	1,412
Livestock	**450**	437	**1,389**	1,368
	956	889	**2,929**	2,780
Total				
Companion animal	**1,414**	1,271	**4,128**	3,900
Livestock	**716**	708	**2,145**	2,081
Contract manufacturing & human health	**21**	23	**58**	59
Total Revenue	**$ 2,151**	$ 2,002	**$ 6,331**	$ 6,040

Revenue by species

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Companion Animal:				
Dogs and Cats	**$ 1,354**	$ 1,213	**$ 3,931**	$ 3,715
Horses	**60**	58	**197**	185
	1,414	1,271	**4,128**	3,900
Livestock:				
Cattle	**374**	371	**1,102**	1,063
Swine	**129**	129	**404**	427
Poultry	**127**	116	**397**	361
Fish	**57**	60	**158**	151
Sheep and other	**29**	32	**84**	79
	716	708	**2,145**	2,081
Contract manufacturing & human health	**21**	23	**58**	59
Total Revenue	**$ 2,151**	$ 2,002	**$ 6,331**	$ 6,040

Revenue by major product category

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Parasiticides	**$ 465**	$ 422	**$ 1,465**	$ 1,417
Vaccines	**449**	449	**1,308**	1,300
Dermatology	**397**	348	**1,048**	978
Other pharmaceuticals	**313**	252	**922**	771
Anti-infectives	**264**	284	**796**	802
Animal health diagnostics	**95**	83	**284**	268
Medicated feed additives	**86**	78	**257**	261
Other non-pharmaceuticals	**61**	63	**193**	184
	2,130	1,979	**6,273**	5,981
Contract manufacturing & human health	**21**	23	**58**	59
Total Revenue	**$ 2,151**	$ 2,002	**$ 6,331**	$ 6,040

B. Revenue from Contracts with Customers

Contract liabilities reflected within *Other current liabilities* as of December 31, 2022 and 2021, and subsequently recognized as revenue during the first nine months of 2023 and 2022 were $4 million and $3 million, respectively. Contract liabilities as of September 30, 2023 and December 31, 2022 were $13 million and $14 million, respectively.

Estimated future revenue expected to be generated from long-term contracts with unsatisfied performance obligations as of September 30, 2023 is not material.

5. Acquisitions and Divestitures

A. Acquisitions

During the third quarter of 2023, we acquired 100% of the issued share capital of PetMedix Ltd. (PetMedix), a privately held research and development stage animal health biopharmaceutical company based in the United Kingdom, which develops antibody-based therapeutics for companion animals. The purchase price included upfront cash consideration of $111 million, excluding $19 million of cash acquired, $5 million in cash withheld for customary post-closing adjustments, and contingent consideration up to $100 million based on the achievement of certain milestones. There are additional contingent payments to be made to the seller upon receipt of payments from a third party related to a preexisting collaboration arrangement between PetMedix and the third party. The initial fair value assessment of the contingent consideration and additional contingent payments is not material and the transaction did not have a material impact on our condensed consolidated financial statements.

During the third quarter of 2023, we also completed the acquisition of adivo GmbH (adivo), a privately held research and development stage animal health biopharmaceutical company based in Germany. The transaction did not have a material impact on our condensed consolidated financial statements.

In 2022, we completed the acquisition of Basepaws, a privately held petcare genetics company based in the U.S., which provides pet owners with genetic tests, analytics and early health risk assessments that can help manage the health, wellness and quality of care for their pets. We also completed the acquisition of NewMetrica, a privately held company based in Scotland, that provides scientifically-developed instruments to measure quality of life in companion animals. These transactions did not have a material impact on our condensed consolidated financial statements.

During 2021, we entered into an agreement to acquire Jurox, a privately held animal health company based in Australia, which develops, manufactures and markets a wide range of veterinary medicines for treating companion animals and livestock. On September 30, 2022, after satisfying all customary closing conditions, including clearance from the Australian Competition and Consumer Commission, we completed the acquisition of Jurox. We acquired 100% of the outstanding shares for an aggregate cash purchase price of $226 million, which was adjusted to $240 million for cash and working capital and other adjustments as of the closing date. Net cash consideration transferred to the seller was $215 million during 2022 and $5 million for the nine months ended September 30, 2023. The transaction was accounted for as a business combination, with the assets acquired and liabilities assumed measured at their respective acquisition date fair values. The valuation was finalized during the third quarter of 2023. The table below presents the final fair values allocated to the assets and liabilities of Jurox as of the acquisition date:

(MILLIONS OF DOLLARS)		Amounts
Cash and cash equivalents	$	20
Accounts receivable		8
Inventories[(a)]		21
Other current assets		1
Property, plant and equipment[(b)]		25
Identifiable intangible assets[(c)]		135
Other noncurrent assets		7
Accounts payable		2
Other current liabilities		12
Other noncurrent liabilities		1
Total net assets acquired		202
Goodwill[(d)]		38
Total consideration	**$**	**240**

(a) Acquired inventory is comprised of finished goods, work in process and raw materials. The fair value of finished goods was determined based on net realizable value adjusted for the costs of the selling effort, a reasonable profit allowance for the selling effort, and estimated holding costs. The fair value of work in process was determined based on net realizable value adjusted for costs to complete the manufacturing process, costs of the selling effort, a reasonable profit allowance for the remaining manufacturing and selling effort, and an estimate of holding costs. The fair value of raw materials was determined to approximate book value.

(b) Property, plant and equipment is comprised of buildings, machinery and equipment, land, construction in progress and furniture and fixtures. The fair value was primarily determined using a reproduction/replacement cost approach which measures the value of an asset by estimating the cost to acquire or construct comparable assets adjusted for age and condition of the asset.

(c) Identifiable intangible assets consist of developed technology rights. The fair value of identifiable intangible assets was determined using the income approach, which includes a forecast of expected future cash flows. For additional information regarding identifiable intangible assets, see *Note 11. Goodwill and Other Intangible Assets*.

(d) Goodwill represents the excess of consideration transferred over the fair values of the assets acquired and liabilities assumed. It is allocated to our International segment and is primarily attributable to cost and revenue synergies including market share capture, elimination of cost redundancies and gain of cost efficiencies, and intangible assets such as assembled workforce which are not separately recognizable. The primary strategic purpose of the acquisition was to enhance the company's existing product portfolio.

B. Divestitures

During the third quarter of 2023, we completed the divestiture of Performance Livestock Analytics, part of our precision animal health business. The transaction did not have a material impact on our condensed consolidated financial statements.

During the nine months ended September 30, 2023, we received net cash proceeds of $93 million ($99 million sales proceeds, net of cash sold of $6 million) for the sale of a majority interest in our pet insurance business, Pumpkin Insurance Services. For the nine months ended September 30, 2023, we recorded a net pre-tax gain of $101 million within *Other (income)/deductions—net*, which includes $24 million related to the remeasurement of our retained noncontrolling investment to fair value.

6. Restructuring Charges and Other Costs Associated with Acquisitions, Cost-Reduction and Productivity Initiatives

In connection with our cost-reduction/productivity initiatives, we typically incur costs and charges associated with site closings and other facility rationalization actions, workforce reductions and the expansion of shared services, including the development of global systems. In connection with our acquisition activity, we typically incur costs and charges associated with executing the transactions, integrating the acquired operations, which may include expenditures for consulting and the integration of systems and processes, product transfers and restructuring the consolidated company, which may include charges related to employees, assets and activities that will not continue in the consolidated company. All operating functions can be impacted by these actions, including sales and marketing, manufacturing and R&D, as well as functions such as business technology, shared services and corporate operations.

The components of costs incurred in connection with restructuring initiatives, acquisitions and cost-reduction/productivity initiatives are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Restructuring charges and certain acquisition-related costs:				
Integration costs[(a)]	**$ 1**	$ 1	**$ 3**	$ 4
Transaction costs[(b)]	**2**	—	**4**	—
Restructuring charges[(c)]:				
Employee termination costs	**8**	2	**33**	2
Asset impairment charges	**1**	2	**1**	2
Exit costs	**4**	1	**4**	1
Total Restructuring charges and certain acquisition-related costs	**$ 16**	$ 6	**$ 45**	$ 9

(a) Integration costs represent external, incremental costs directly related to integrating acquired businesses and primarily include expenditures for consulting and the integration of systems and processes, as well as product transfer costs.

(b) Transaction costs represent external costs directly related to acquiring businesses and primarily includes expenditures for banking, legal, accounting and other similar services.

(c) The restructuring charges for the three and nine months ended September 30, 2023 primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives.

The restructuring charges for the three and nine months ended September 30, 2022, represent employee termination and exit costs associated with cost-reduction and productivity initiatives in certain international markets, as well as asset impairment charges primarily related to the consolidation of manufacturing sites in China.

(MILLIONS OF DOLLARS)	Accrual
Balance, December 31, 2022[(a)]	$ 15
Provision	**38**
Non-cash activity	**(1)**
Utilization and other[(b)]	**(18)**
Balance, September 30, 2023[(a)]	**$ 34**

(a) At September 30, 2023 and December 31, 2022, included in *Accrued expenses* ($25 million and $5 million, respectively) and *Other noncurrent liabilities* ($9 million and $10 million, respectively).

(b) Includes adjustments for foreign currency translation.

7. Other (Income)/Deductions—Net

The components of *Other (income)/deductions—net* are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Royalty-related income[(a)]	**$ (1)**	$ (1)	**$ (36)**	$ (3)
Interest income	**(23)**	(13)	**(79)**	(20)
Identifiable intangible asset impairment charges[(b)]	**6**	1	**17**	1
Other asset impairment charges	**1**	—	**1**	—
Net gain on sale of business[(c)]	**—**	—	**(101)**	—
Foreign currency loss[(d)]	**19**	11	**41**	36
Other, net	**4**	(1)	**6**	(8)
Other (income)/deductions—net	**$ 6**	$ (3)	**$ (151)**	$ 6

(a) For the nine months ended September 30, 2023, predominantly associated with a settlement for underpayment of royalties in prior periods.

(b) For the three months ended September 30, 2023, primarily represents certain asset impairment charges related to our diagnostics business.

For the nine months ended September 30, 2023, primarily represents certain asset impairment charges related to our precision animal health and diagnostics businesses.

[c] Primarily relates to the gain on sale of a majority interest in our pet insurance business. For additional information, see *Note 5. Acquisitions and Divestitures.*

[d] Primarily driven by costs related to hedging and exposures to certain emerging and developed market currencies.

8. Income Taxes

A. Taxes on Income

Our effective tax rate was 16.9% and 20.8% for the three months ended September 30, 2023 and 2022, respectively. The lower effective tax rate for the three months ended September 30, 2023, compared with the three months ended September 30, 2022, was primarily attributable to a benefit from the tax loss on the divestiture of Performance Livestock Analytics, a more favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs) and a higher benefit in the U.S. related to foreign-derived income, partially offset by lower net discrete tax benefits. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

Our effective tax rate was 20.5% and 20.0% for the nine months ended September 30, 2023 and 2022, respectively. The higher effective tax rate for the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, was primarily attributable to a higher net discrete tax expense mainly related to changes to prior years' tax positions and a less favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs), partially offset by a higher benefit in the U.S. related to foreign-derived intangible income and a benefit from the tax loss on the divestiture of Performance Livestock Analytics. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

In 2022, the company implemented an initiative to maximize its cash position in the U.S. This initiative resulted in a tax benefit in the U.S. in connection with a prepayment from a related foreign entity in Belgium which qualifies as foreign-derived intangible income; however, this income tax benefit was deferred to 2023 and 2024. A portion of this benefit was recognized during the three and nine months ended September 30, 2023.

B. Deferred Taxes

As of September 30, 2023, the total net deferred income tax asset of $30 million is included in *Noncurrent deferred tax assets* ($190 million) and *Noncurrent deferred tax liabilities* ($160 million).

As of December 31, 2022, the total net deferred income tax asset of $31 million is included in *Noncurrent deferred tax assets* ($173 million) and *Noncurrent deferred tax liabilities* ($142 million).

C. Tax Contingencies

As of September 30, 2023, the net tax liabilities associated with uncertain tax positions of $202 million (exclusive of interest and penalties related to uncertain tax positions of $27 million) are included in *Noncurrent deferred tax assets* and *Other noncurrent assets* ($2 million) and *Other taxes payable* ($200 million).

As of December 31, 2022, the net tax liabilities associated with uncertain tax positions of $194 million (exclusive of interest and penalties related to uncertain tax positions of $19 million) are included in *Noncurrent deferred tax assets* and *Other noncurrent assets* ($2 million) and *Other taxes payable* ($192 million).

Our tax liabilities for uncertain tax positions relate primarily to issues common among multinational corporations. Any settlements or statute of limitations expirations could result in a significant decrease in our uncertain tax positions. Substantially all of these unrecognized tax benefits, if recognized, would impact our effective income tax rate. We do not expect that within the next twelve months any of our uncertain tax positions could significantly decrease as a result of settlements with taxing authorities or the expiration of the statutes of limitations. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but our estimates of uncertain tax positions and potential tax benefits may not be representative of actual outcomes, and any variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. Finalizing audits with the relevant taxing authorities can include formal administrative and legal proceedings, and, as a result, it is difficult to estimate the timing and range of possible changes related to our uncertain tax positions, and such changes could be significant.

9. Financial Instruments

A. Debt

Credit Facilities

In December 2022, we entered into an amended and restated revolving credit agreement with a syndicate of banks providing for a multi-year $1.0 billion senior unsecured revolving credit facility (the credit facility), which expires in December 2027. The credit facility replaced the company's existing revolving credit facility dated as of December 2016. Subject to certain conditions, we have the right to increase the credit facility to up to $1.5 billion. The credit facility contains a financial covenant requiring us to not exceed a maximum total leverage ratio (the ratio of consolidated net debt as of the end of the period to consolidated Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA) for such period) of 3.50:1. Upon entering into a material acquisition, the maximum total leverage ratio increases to 4.00:1, and extends until the fourth full consecutive fiscal quarter ended immediately following the consummation of a material acquisition. In addition, the credit facility contains other customary covenants.

We were in compliance with all financial covenants as of September 30, 2023 and December 31, 2022. There were no amounts drawn under the credit facility as of September 30, 2023 or December 31, 2022.

We have additional lines of credit and other credit arrangements with a group of banks and other financial intermediaries for general corporate purposes. We maintain cash and cash equivalent balances in excess of our outstanding short-term borrowings. As of September 30, 2023, we had access to $50 million of lines of credit which expire at various times and are generally renewed annually. There was $2 million of borrowings outstanding related to these facilities as of September 30, 2023 and December 31, 2022.

Commercial Paper Program

In February 2013, we entered into a commercial paper program with a capacity of up to $1.0 billion. As of September 30, 2023 and December 31, 2022, there was no commercial paper outstanding under this program.

Senior Notes and Other Long-Term Debt

On November 8, 2022, we issued $1.35 billion aggregate principal amount of our senior notes (2022 senior notes), with an original issue discount of $2 million. These notes are comprised of $600 million aggregate principal amount of 5.400% senior notes due 2025 and $750 million aggregate principal amount of 5.600% senior notes due 2032. On February 1, 2023, the net proceeds were used to redeem in full, upon maturity, the $1.35 billion aggregate principal amount of our 3.250% 2013 senior notes due 2023.

Our senior notes are governed by an indenture and supplemental indentures (collectively, the indenture) between us and Deutsche Bank Trust Company Americas, as trustee. The indenture contains certain covenants, including limitations on our and certain of our subsidiaries' ability to incur liens or engage in sale-leaseback transactions. The indenture also contains restrictions on our ability to consolidate, merge or sell substantially all of our assets. In addition, the indenture contains other customary terms, including certain events of default, upon the occurrence of which the senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the senior notes of any series, in whole or in part, at any time by paying a "make whole" premium, plus accrued and unpaid interest to, but excluding, the date of redemption. Upon the occurrence of a change of control of us and a downgrade of the senior notes below an investment grade rating by each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, we are, in certain circumstances, required to make an offer to repurchase all of the outstanding senior notes at a price equal to 101% of the aggregate principal amount of the senior notes together with accrued and unpaid interest to, but excluding, the date of repurchase.

The components of our long-term debt are as follows:

(MILLIONS OF DOLLARS)	**September 30, 2023**	December 31, 2022
3.250% 2013 senior notes due 2023	**$ —**	$ 1,350
4.500% 2015 senior notes due 2025	**750**	750
5.400% 2022 senior notes due 2025	**600**	600
3.000% 2017 senior notes due 2027	**750**	750
3.900% 2018 senior notes due 2028	**500**	500
2.000% 2020 senior notes due 2030	**750**	750
5.600% 2022 senior notes due 2032	**750**	750
4.700% 2013 senior notes due 2043	**1,150**	1,150
3.950% 2017 senior notes due 2047	**500**	500
4.450% 2018 senior notes due 2048	**400**	400
3.000% 2020 senior notes due 2050	**500**	500
	6,650	8,000
Unamortized debt discount / debt issuance costs	**(62)**	(66)
Less current portion of long-term debt	**—**	1,350
Cumulative fair value adjustment for interest rate swap contracts	**(36)**	(32)
Long-term debt, net of discount and issuance costs	**$ 6,552**	$ 6,552

The fair value of our long-term debt was $5,893 million and $6,108 million as of September 30, 2023 and December 31, 2022, respectively, and has been determined using a third-party matrix-pricing model that uses significant inputs derived from, or corroborated by, observable market data and Zoetis' credit rating (Level 2 inputs).

The principal amount of long-term debt outstanding, as of September 30, 2023, matures in the following years:

(MILLIONS OF DOLLARS)	2023	2024	2025	2026	2027	After 2027	Total
Maturities	$ —	$ —	$ 1,350	$ —	$ 750	$ 4,550	$ 6,650

Interest Expense

Interest expense, net of capitalized interest, was $59 million and $180 million for the three and nine months ended September 30, 2023, respectively, and $53 million and $159 million for the three and nine months ended September 30, 2022, respectively. Capitalized interest expense was $7 million and $19 million for the three and nine months ended September 30, 2023, respectively, and $5 million and $16 million for the three and nine months ended September 30, 2022, respectively.

B. Derivative Financial Instruments

Foreign Exchange Risk

A significant portion of our revenue, earnings and net investment in foreign affiliates is exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk, in part, through operational means, including managing same-currency revenue in relation to same-currency costs and same-currency assets in relation to same-currency liabilities. Depending on market conditions, foreign exchange risk is also managed through the use of various derivative financial instruments. These derivative financial instruments serve to manage the exposure of our net investment in certain foreign operations to changes in foreign exchange rates and protect net income against the impact of translation into U.S. dollars of certain foreign exchange-denominated transactions.

All derivative financial instruments used to manage foreign currency risk are measured at fair value and are reported as assets or liabilities on the Condensed Consolidated Balance Sheets. The derivative financial instruments primarily offset exposures in the Australian dollar, British pound, Canadian dollar, Chinese yuan, euro and Norwegian krone. Changes in fair value are reported in earnings or in *Accumulated other comprehensive income/(loss),* depending on the nature and purpose of the financial instrument, as follows:

- For foreign currency forward-exchange contracts not designated as hedging instruments, we recognize the gains and losses that are used to offset the same foreign currency assets or liabilities immediately into earnings along with the earnings impact of the items they generally offset. These contracts essentially take the opposite currency position of that reflected in the month-end balance sheet to counterbalance the effect of any currency movement. The vast majority of the foreign currency forward-exchange contracts mature within 60 days and all mature within three years.
- For foreign exchange derivative instruments that are designated as hedging instruments against our net investment in foreign operations, changes in the fair value are recorded as a component of cumulative translation adjustment within *Accumulated other comprehensive income/(loss)* and reclassified into earnings when the foreign investment is sold or substantially liquidated. These instruments include cross-currency interest rate swaps and foreign currency forward-exchange contracts. Gains and losses excluded from the assessment of hedge effectiveness are recognized in earnings (*Interest expense, net of capitalized interest*). The cash flows from these contracts are reflected within the investing section of our Condensed Consolidated Statements of Cash Flows. These contracts have varying maturities of up to two years.

Interest Rate Risk

The company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rates and to reduce its overall cost of borrowing.

- In anticipation of issuing fixed-rate debt, we may use forward-starting interest rate swaps that are designated as cash flow hedges to hedge against changes in interest rates that could impact expected future issuances of debt. Unrealized gains or losses on the forward-starting interest rate swaps are reported in *Accumulated other comprehensive loss* and are recognized in earnings over the life of the future fixed rate notes. When the company discontinues hedge accounting because it is no longer probable that an anticipated transaction will occur within the originally expected period of execution, or within an additional two-month period thereafter, changes to fair value accumulated in other comprehensive income are recognized immediately in earnings.
- During the period from 2019 to 2022, we entered into forward-starting interest rate swaps with an aggregate notional value of $650 million. We designated these swaps as cash flow hedges against interest rate exposure related principally to the issuance of fixed-rate debt to refinance our 3.250% 2013 senior notes due 2023. Upon issuance of our 2022 senior notes, we terminated these contracts and received $114 million in cash from the counterparties for settlement, included in *Net cash provided by operating activities* in the Consolidated Statements of Cash Flows. The settlement amount, which represented the fair value of the contracts at the time of termination, was recorded in *Accumulated other comprehensive loss*, and will be amortized into income (offset to *Interest expense, net of capitalized interest*) over the life of the 5.600% 2022 senior notes due 2032.
- As of September 30, 2023, we had outstanding forward-starting interest rate swaps, having an effective date and mandatory termination date in March 2026, to hedge against interest rate exposure related principally to the anticipated future issuance of fixed-rate debt to be used primarily to refinance our 4.500% 2015 senior notes due 2025.
- We may use fixed-to-floating interest rate swaps that are designated as fair value hedges to hedge against changes in the fair value of certain fixed-rate debt attributable to changes in the benchmark Secured Overnight Financing Rate (SOFR). These derivative instruments effectively convert a portion of the company's long-term debt from fixed-rate to floating-rate debt based on the daily SOFR rate plus a spread. Gains or losses on the fixed-to-floating interest rate swaps due to changes in SOFR are recorded in *Interest expense, net of capitalized interest.* Changes in the fair value of the fixed-to-floating interest rate swaps are offset by changes in the fair value of the underlying fixed-rate debt. As of September 30, 2023, we had outstanding fixed-to-floating interest rate swaps that correspond to a portion of the 3.900% 2018 senior notes due 2028 and the 2.000% senior notes due 2030. The amounts recorded during the three and nine months ended September 30, 2023 for changes in the fair value of these hedges are not material to our condensed consolidated financial statements.

  During the first quarter of 2023, we executed amendments to certain of our interest rate swap contracts, which changed the floating rate index from LIBOR to SOFR. These amendments did not have a material impact on our condensed consolidated financial statements.

Outstanding Positions

The aggregate notional amount of derivative instruments are as follows:

(MILLIONS)	Notional September 30, 2023	Notional December 31, 2022
Derivatives not Designated as Hedging Instruments		
Foreign currency forward-exchange contracts	**$ 1,984**	$ 1,753
Derivatives Designated as Hedging Instruments		
Foreign exchange derivative instruments (in foreign currency):		
Euro	**650**	650
Danish krone	**600**	600
Swiss franc	**25**	25
Forward-starting interest rate swaps	**$ 100**	$ 50
Fixed-to-floating interest rate swap contracts	**$ 250**	$ 250

Fair Value of Derivative Instruments

The classification and fair values of derivative instruments are as follows:

(MILLIONS OF DOLLARS)	Balance Sheet Location	Fair Value of Derivatives September 30, 2023	Fair Value of Derivatives December 31, 2022
Derivatives Not Designated as Hedging Instruments			
Foreign currency forward-exchange contracts	Other current assets	**$ 12**	$ 22
Foreign currency forward-exchange contracts	Other current liabilities	**(11)**	(21)
Total derivatives not designated as hedging instruments		**$ 1**	$ 1
Derivatives Designated as Hedging Instruments:			
Forward-starting interest rate swap contracts	Other noncurrent assets	**$ 17**	$ 10
Foreign exchange derivative instruments	Other current assets	**15**	21
Foreign exchange derivative instruments	Other noncurrent assets	**19**	19
Foreign exchange derivative instruments	Other current liabilities	**(5)**	(9)
Foreign exchange derivative instruments	Other noncurrent liabilities	**—**	(4)
Fixed-to-floating interest rate swap contracts	Other noncurrent liabilities	**(36)**	(32)
Total derivatives designated as hedging instruments		**10**	5
Total derivatives		**$ 11**	$ 6

The company's derivative transactions are subject to master netting agreements that mitigate credit risk by permitting net settlement of transactions with the same counterparty. The company also has collateral security agreements with certain of its counterparties. Under these collateral security agreements either party is required to post cash collateral when the net fair value of derivative instruments covered by the collateral agreement exceeds contractually established thresholds. At September 30, 2023, there was $25 million of collateral received and $32 million of collateral posted related to derivative instruments recorded in *Other current liabilities* and *Other current assets*, respectively. At December 31, 2022, there was $8 million of collateral received and $21 million of collateral posted related to derivative instruments recorded in *Other current liabilities* and *Other current assets*, respectively.

We use a market approach in valuing financial instruments on a recurring basis. Our derivative financial instruments are measured at fair value on a recurring basis using Level 2 inputs in the calculation of fair value.

The amounts of net gains/(losses) on derivative instruments not designated as hedging instruments, recorded in *Other (income)/deductions—net*, are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Foreign currency forward-exchange contracts	**$ 16**	$ (23)	**$ (20)**	$ (49)

These amounts were substantially offset in *Other (income)/deductions—net* by the effect of changing exchange rates on the underlying foreign currency exposures.

The amounts of unrecognized net gains on interest rate swap contracts, recorded, net of tax, in *Accumulated other comprehensive loss*, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Forward-starting interest rate swap contracts	**$ 5**	$ 30	**$ 5**	$ 77
Foreign exchange derivative instruments	**$ 18**	$ 39	**$ 5**	$ 84

Gains on interest rate swap contracts, recognized within *Interest expense, net of capitalized interest,* are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Foreign exchange derivative instruments	**$ 4**	$ 4	**$ 14**	$ 11

The net amount of deferred gains related to derivative instruments designated as cash flow hedges that is expected to be reclassified from *Accumulated other comprehensive loss* into earnings over the next 12 months is not material.

10. Inventories

The components of inventory are as follows:

(MILLIONS OF DOLLARS)	**September 30, 2023**	December 31, 2022
Finished goods	**$ 1,185**	$ 1,090
Work-in-process	**1,062**	825
Raw materials and supplies	**497**	430
Inventories	**$ 2,744**	$ 2,345

11. Goodwill and Other Intangible Assets

A. Goodwill

The components of, and changes in, the carrying amount of goodwill are as follows:

(MILLIONS OF DOLLARS)	U.S.	International	Total
Balance, December 31, 2022	$ 1,485	$ 1,261	$ 2,746
Additions	**24**	**14**	**38**
Transfers/Adjustments[(a)]	**27**	**(34)**	**(7)**
Other[(b)]	**(2)**	**(13)**	**(15)**
Balance, September 30, 2023	**$ 1,534**	**$ 1,228**	**$ 2,762**

[(a)] Primarily related to asset transfers from international markets to the U.S.

[(b)] Includes adjustments for foreign currency translation and the sale of a majority interest in our pet insurance business within our U.S. segment.

The gross goodwill balance was $3,298 million and $3,282 million as of September 30, 2023 and December 31, 2022, respectively. Accumulated goodwill impairment losses (generated entirely in fiscal 2002) were $536 million as of September 30, 2023 and December 31, 2022.

B. Other Intangible Assets

The components of identifiable intangible assets are as follows:

(MILLIONS OF DOLLARS)	As of September 30, 2023 Gross Carrying Amount	As of September 30, 2023 Accumulated Amortization	As of September 30, 2023 Identifiable Intangible Assets Less Accumulated Amortization	As of December 31, 2022 Gross Carrying Amount	As of December 31, 2022 Accumulated Amortization	As of December 31, 2022 Identifiable Intangible Assets Less Accumulated Amortization
Finite-lived intangible assets:						
Developed technology rights[(a)]	$ 1,994	$ (1,065)	$ 929	$ 1,918	$ (975)	$ 943
Brands and tradenames	391	(245)	146	395	(237)	158
Other	333	(250)	83	337	(233)	104
Total finite-lived intangible assets	2,718	(1,560)	1,158	2,650	(1,445)	1,205
Indefinite-lived intangible assets:						
Brands and tradenames	91	—	91	91	—	91
In-process research and development[(a)(b)]	142	—	142	77	—	77
Product rights	7	—	7	7	—	7
Total indefinite-lived intangible assets	240	—	240	175	—	175
Identifiable intangible assets	$ 2,958	$ (1,560)	$ 1,398	$ 2,825	$ (1,445)	$ 1,380

[(a)] During the nine months ended September 30, 2023, certain intangible assets related to the acquisition of an Irish biologic therapeutics company, acquired in 2017, were placed into service.
[(b)] As of September 30, 2023, primarily includes intangible assets related to the acquisitions of PetMedix and adivo in the third quarter of 2023.

C. Amortization

Amortization expense related to finite-lived acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in *Amortization of intangible assets* as it benefits multiple business functions. Amortization expense related to finite-lived acquired intangible assets that are associated with a single function is included in *Cost of sales, Selling, general and administrative expenses* or *Research and development expenses*, as appropriate. Total amortization expense for finite-lived intangible assets was $46 million and $141 million for the three and nine months ended September 30, 2023, respectively, and $48 million and $147 million for the three and nine months ended September 30, 2022, respectively.

12. Share-based Payments

The Zoetis 2013 Equity and Incentive Plan (Equity Plan) provides long-term incentives to our employees and non-employee directors. The principal types of share-based awards available under the Equity Plan may include, but are not limited to, stock options, restricted stock and restricted stock units (RSUs), deferred stock units (DSUs), performance-vesting restricted stock units (PSUs) and other equity-based or cash-based awards.

The components of share-based compensation expense are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Stock options / stock appreciation rights	$ 3	$ 2	$ 6	$ 7
RSUs / DSUs	10	9	27	26
PSUs	4	4	10	13
Share-based compensation expense—total[(a)]	$ 17	$ 15	$ 43	$ 46

[(a)] For the three and nine months ended September 30, 2023 and 2022, we capitalized less than $1 million of share-based compensation expense to inventory.

During the nine months ended September 30, 2023, the company granted 271,150 stock options with a weighted-average exercise price of $162.12 per stock option and a weighted-average fair value of $43.56 per stock option. The fair-value based method for valuing each Zoetis stock option grant on the grant date uses the Black-Scholes-Merton option-pricing model, which incorporates a number of valuation assumptions. The weighted-average fair value was estimated based on the following assumptions: risk-free interest rate of 3.84%; expected dividend yield of 0.92%; expected stock price volatility of 28.63%; and expected term of 4.2 years. In general, stock options granted prior to 2023 vest after three years of continuous service, while stock options granted in 2023 are subject to graded vesting over three years. The values determined through this fair-value based method generally are amortized on a straight-line basis over the vesting term into *Cost of sales, Selling, general and administrative expenses,* or *Research and development expenses,* as appropriate.

During the nine months ended September 30, 2023, the company granted 270,960 RSUs, with a weighted-average grant date fair value of $162.53 per RSU. RSUs are accounted for using a fair-value-based method that utilizes the closing price of Zoetis common stock on the date of grant. In general, RSUs granted prior to 2023 vest after three years of continuous service from the grant date while RSUs granted in 2023 are subject to graded vesting over three years. The values generally are amortized on a straight-line basis over the vesting term into *Cost of sales, Selling, general and administrative expenses,* or *Research and development expenses,* as appropriate.

During the nine months ended September 30, 2023, the company granted 99,626 PSUs with a weighted-average grant date fair value of $238.24 per PSU. PSUs are accounted for using a Monte Carlo simulation model. The units underlying the PSUs will be earned and vested over a three-year performance period, based upon the total shareholder return of the company in comparison to the total shareholder return of the companies comprising the S&P 500 stock market index at the start of the performance period, excluding companies that during the performance period are acquired or no longer publicly traded (Relative TSR). The weighted-average fair value was estimated based on volatility assumptions of Zoetis common stock and an average of the S&P 500 companies, which were 31.8% and 40.9%, respectively. Depending on the company's Relative TSR performance at the end of the performance period, the recipient may earn from 0% to 200% of the target number of units. Vested units are settled in shares of the company's common stock. PSU values are amortized on a straight-line basis over the vesting term into *Cost of sales, Selling, general and administrative expenses,* or *Research and development expenses,* as appropriate.

13. Stockholders' Equity

Zoetis is authorized to issue 6 billion shares of common stock and 1 billion shares of preferred stock.

In December 2021, our Board of Directors authorized a $3.5 billion share repurchase program. As of September 30, 2023, there was $1.7 billion remaining under this authorization. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions and business needs.

Accumulated other comprehensive loss

Changes, net of tax, in accumulated other comprehensive loss, were as follows:

		Currency Translation Adjustments			
(MILLIONS OF DOLLARS)	Cash Flow Hedges	Net Investment Hedges	Other Currency Translation Adjustments	Benefit Plans Actuarial (Losses)/Gains	Accumulated Other Comprehensive Loss
Balance, December 31, 2022	$ 90	$ 41	$ (944)	$ (4)	$ (817)
Other comprehensive income/(loss), net of tax	**—**	**5**	**(6)**	**4**	**3**
Balance, September 30, 2023	**$ 90**	**$ 46**	**$ (950)**	**$ —**	**$ (814)**
Balance, December 31, 2021	$ 4	$ 5	$ (756)	$ (17)	$ (764)
Other comprehensive income/(loss), net of tax	78	84	(208)	1	(45)
Balance, September 30, 2022	$ 82	$ 89	$ (964)	$ (16)	$ (809)

14. Earnings per Share

The following table presents the calculation of basic and diluted earnings per share:

	Three Months Ended **September 30,**		Nine Months Ended **September 30,**	
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	**2023**	2022	**2023**	2022
Numerator				
Net income before allocation to noncontrolling interests	**$ 596**	$ 528	**$ 1,817**	$ 1,651
Less: Net loss attributable to noncontrolling interests	**—**	(1)	**(2)**	(2)
Net income attributable to Zoetis Inc.	**$ 596**	$ 529	**$ 1,819**	$ 1,653
Denominator				
Weighted-average common shares outstanding	**460.3**	467.8	**461.9**	470.0
Common stock equivalents: stock options, RSUs, PSUs and DSUs	**1.1**	1.3	**1.1**	1.6
Weighted-average common and potential dilutive shares outstanding	**461.4**	469.1	**463.0**	471.6
Earnings per share attributable to Zoetis Inc. stockholders—basic	**$ 1.29**	$ 1.13	**$ 3.94**	$ 3.52
Earnings per share attributable to Zoetis Inc. stockholders—diluted	**$ 1.29**	$ 1.13	**$ 3.93**	$ 3.51

The number of stock options outstanding under the company's Equity Plan that were excluded from the computation of diluted earnings per share, as the effect would have been antidilutive, were not material for the three and nine months ended September 30, 2023 and 2022.

15. Commitments and Contingencies

We and certain of our subsidiaries are subject to numerous contingencies arising in the ordinary course of business. For a discussion of our tax contingencies, see *Note 8. Income Taxes*.

A. Legal Proceedings

Our non-tax contingencies include, among others, the following:

- Product liability and other product-related litigation, which can include injury, consumer, off-label promotion, antitrust and breach of contract claims.
- Commercial and other matters, which can include product-pricing claims and environmental claims and proceedings.
- Patent litigation, which typically involves challenges to the coverage and/or validity of our patents or those of third parties on various products or processes.

- Government investigations, which can involve regulation by national, state and local government agencies in the U.S. and in other countries.

Certain of these contingencies could result in losses, including damages, fines and/or civil penalties, and/or criminal charges, which could be substantial.

We believe that we have strong defenses in these types of matters, but litigation is inherently unpredictable and excessive verdicts do occur. We do not believe that any of these matters will have a material adverse effect on our financial position. However, we could incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations or cash flows in the period in which the amounts are paid.

We have accrued for losses that are both probable and reasonably estimable. Substantially all of these contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions.

Amounts recorded for legal and environmental contingencies can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions.

The principal matters to which we are a party are discussed below. In determining whether a pending matter is significant for financial reporting and disclosure purposes, we consider both quantitative and qualitative factors in order to assess materiality, such as, among other things, the amount of damages and the nature of any other relief sought in the proceeding, if such damages and other relief are specified; our view of the merits of the claims and of the strength of our defenses; whether the action purports to be a class action and our view of the likelihood that a class will be certified by the court; the jurisdiction in which the proceeding is pending; any experience that we or, to our knowledge, other companies have had in similar proceedings; whether disclosure of the action would be important to a reader of our financial statements, including whether disclosure might change a reader's judgment about our financial statements in light of all of the information about the company that is available to the reader; the potential impact of the proceeding on our reputation; and the extent of public interest in the matter. In addition, with respect to patent matters, we consider, among other things, the financial significance of the product protected by the patent.

Ulianopolis, Brazil

In February 2012, the Municipality of Ulianopolis (State of Para, Brazil) filed a complaint against Fort Dodge Saúde Animal Ltda. (FDSAL), a Zoetis entity, and five other large companies alleging that waste sent to a local waste incineration facility for destruction, but that was not ultimately destroyed as the facility lost its operating permit, caused environmental impacts requiring cleanup.

The Municipality is seeking recovery of cleanup costs purportedly related to FDSAL's share of all waste accumulated at the incineration facility awaiting destruction, and compensatory damages to be allocated among the six defendants. We believe we have strong arguments against the claim, including defense strategies against any claim of joint and several liability.

At the request of the Municipal prosecutor, in April 2012, the lawsuit was suspended for one year. Since that time, the prosecutor has initiated investigations into the Municipality's actions in the matter as well as the efforts undertaken by the six defendants to remove and dispose of their individual waste from the incineration facility. On October 3, 2014, the Municipal prosecutor announced that the investigation remained ongoing and outlined the terms of a proposed Term of Reference (a document that establishes the minimum elements to be addressed in the preparation of an Environmental Impact Assessment), under which the companies would be liable to withdraw the waste and remediate the area.

On March 5, 2015, we presented our response to the prosecutor's proposed Term of Reference, arguing that the proposed terms were overly general in nature and expressing our interest in discussing alternatives to address the matter. The prosecutor agreed to consider our request to engage a technical consultant to conduct an environmental diagnostic of the contaminated area. On May 29, 2015, we, in conjunction with the other defendant companies, submitted a draft cooperation agreement to the prosecutor, which outlined the proposed terms and conditions for the engagement of a technical consultant to conduct the environmental diagnostic. On August 19, 2016, the parties and the prosecutor agreed to engage the services of a third-party consultant to conduct a limited environmental assessment of the site. The site assessment was conducted during June 2017, and a written report summarizing the results of the assessment was provided to the parties and the prosecutor in November 2017. The report noted that waste is still present on the site and that further (Phase II) environmental assessments are needed before a plan to manage that remaining waste can be prepared. On April 1, 2019, the defendants met with the Prosecutor to discuss the conclusions set forth in the written report. Following that discussion, on April 10, 2019, the Prosecutor issued a procedural order requesting that the defendants prepare and submit a technical proposal outlining the steps needed to conduct the additional Phase II environmental assessments. The defendants presented the technical proposal to the Prosecutor on October 21, 2019. On March 3, 2020, the Prosecutor notified the defendants that he submitted the proposal to the Ministry of the Environment for its review and consideration by the Prosecutor. On July 15, 2020, the Prosecutor recommended certain amendments to the proposal for the Phase II testing. On September 28, 2020, the parties and the Prosecutor agreed to the final terms and conditions concerning the cooperation agreement with respect to the Phase II testing. Due to the ongoing issues presented by the coronavirus (COVID-19) pandemic, the parties have been unable to secure a start date for the Phase II testing and have no timeline at this point when testing will begin.

Belgium Excess Profit Tax Regime

On February 14, 2019, the General Court of the European Union (General Court) annulled the January 11, 2016 decision of the European Commission (EC) that selective tax advantages granted by Belgium under its "excess profit" tax scheme constitute illegal state aid. As a result of the 2016 decision, the company recorded a net tax charge of approximately $35 million in the first half of 2016. On May 8, 2019, the EC filed an appeal to the decision of the General Court. On September 16, 2019, the EC opened separate in-depth investigations to assess whether Belgium excess profit rulings granted to 39 multinational companies, including Zoetis, constituted state aid for those companies. On September 16, 2021, the European Court of Justice upheld the EC's decision that the Belgium excess profit ruling system is considered an aid scheme and referred the case back to the General Court to rule on open questions. On September 20, 2023, the General Court confirmed the decision of the EC that the Belgium excess profit tax scheme constitutes illegal state aid. We are in the process of preparing an appeal of the General Court's decision. The company has not reflected any potential benefits in its condensed consolidated financial statements as of September 30, 2023 as a result of the 2019 annulment. We will continue to monitor the developments of the appeal and its ultimate resolution.

B. Guarantees and Indemnifications

In the ordinary course of business and in connection with the sale of assets and businesses, we indemnify our counterparties against certain liabilities that may arise in connection with the transaction or related to activities prior to the transaction. These indemnifications typically pertain to environmental, tax, employee and/or product-related matters and patent-infringement claims. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications are generally subject to threshold amounts, specified claim periods and other restrictions and limitations. Historically, we have not paid significant amounts under these provisions and, as of September 30, 2023, recorded amounts for the estimated fair value of these indemnifications were not material.

16. Segment Information

Operating Segments

We manage our operations through two geographic operating segments: the U.S. and International. Each operating segment has responsibility for its commercial activities. Within each of these operating segments, we offer a diversified product portfolio, including parasiticides, vaccines, dermatology, other pharmaceutical products, anti-infectives, animal health diagnostics and medicated feed additives, for both companion animal and livestock customers. Our chief operating decision maker uses the revenue and earnings of the two operating segments, among other factors, for performance evaluation and resource allocation.

Other Costs and Business Activities

Certain costs are not allocated to our operating segment results, such as costs associated with the following:

- *Other business activities,* includes our Client Supply Services (CSS) contract manufacturing results, our human health business, and expenses associated with our dedicated veterinary medicine research and development organization, research alliances, U.S. regulatory affairs and other operations focused on the development of our products. Other R&D-related costs associated with non-U.S. market and regulatory activities are generally included in the international commercial segment.
- *Corporate*, includes enabling functions such as information technology, facilities, legal, finance, human resources, business development, certain diagnostic costs and communications, among others. These costs also include certain compensation costs, certain procurement costs and other miscellaneous operating expenses not charged to our operating segments, as well as interest income and expense.
- Certain transactions and events such as (i) *Purchase accounting adjustments*, where we incur expenses associated with the amortization of fair value adjustments to inventory, intangible assets and property, plant and equipment; (ii) *Acquisition-related activities*, where we incur costs associated with acquiring and integrating newly acquired businesses, such as transaction costs and integration costs; and (iii) *Certain significant items*, which comprise substantive, unusual items that, either as a result of their nature or size, would not be expected to occur as part of our normal business on a regular basis, such as restructuring charges and implementation costs associated with our cost-reduction/productivity initiatives that are not associated with an acquisition, certain asset impairment charges, certain legal and commercial settlements and the impact of divestiture-related gains and losses.
- *Other unallocated* includes (i) certain overhead expenses associated with our global manufacturing operations not charged to our operating segments; (ii) certain costs associated with finance that specifically support our global manufacturing operations; (iii) certain supply chain and global logistics costs; and (iv) certain procurement costs.

Segment Assets

We manage our assets on a total company basis, not by operating segment. Therefore, our chief operating decision maker does not regularly review any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

Selected Statement of Income Information

(MILLIONS OF DOLLARS)	Earnings Three Months Ended September 30, 2023	2022	Depreciation and Amortization[a] Three Months Ended September 30, 2023	2022
U.S.				
Revenue	**$ 1,174**	$ 1,090		
Cost of sales	**228**	204		
Gross profit	**946**	886		
Gross margin	**80.6 %**	81.3 %		
Operating expenses	**202**	206		
Other (income)/deductions-net	**—**	1		
U.S. Earnings	**744**	679	**$ 19**	$ 12
International				
Revenue[b]	**956**	889		
Cost of sales	**306**	256		
Gross profit	**650**	633		
Gross margin	**68.0 %**	71.2 %		
Operating expenses	**156**	150		
Other (income)/deductions-net	**1**	(3)		
International Earnings	**493**	486	**24**	21
Total operating segments	**1,237**	1,165	**43**	33
Other business activities	**(124)**	(106)	**9**	7
Reconciling Items:				
Corporate	**(258)**	(245)	**33**	33
Purchase accounting adjustments	**(39)**	(40)	**39**	40
Acquisition-related costs	**(3)**	(1)	**—**	—
Certain significant items[c]	**(23)**	(6)	**—**	—
Other unallocated	**(73)**	(100)	**—**	2
Total Earnings[d]	**$ 717**	$ 667	**$ 124**	$ 115

[a] Certain production facilities are shared. Depreciation and amortization is allocated to the reportable operating segments based on estimates of where the benefits of the related assets are realized.

[b] Revenue denominated in euros was $206 million and $183 million for the three months ended September 30, 2023 and 2022, respectively.

[c] For the three months ended September 30, 2023, primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives, as well as certain asset impairment charges related to our diagnostics and precision animal health businesses.

For the three months ended September 30, 2022, primarily represents employee termination and exit costs associated with cost-reduction and productivity initiatives in certain international markets, as well as asset impairment charges related to the consolidation of manufacturing sites in China.

[d] Defined as income before provision for taxes on income.

(MILLIONS OF DOLLARS)	Earnings		Depreciation and Amortization[a]	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
U.S.				
Revenue	**$ 3,344**	$ 3,201		
Cost of sales	**645**	587		
Gross profit	**2,699**	2,614		
Gross margin	**80.7 %**	81.7 %		
Operating expenses	**602**	578		
Other (income)/deductions-net	**—**	(6)		
U.S. Earnings	**2,097**	2,042	**$ 58**	$ 40
International				
Revenue[b]	**2,929**	2,780		
Cost of sales	**912**	809		
Gross profit	**2,017**	1,971		
Gross margin	**68.9 %**	70.9 %		
Operating expenses	**473**	456		
Other (income)/deductions-net	**1**	(5)		
International Earnings	**1,543**	1,520	**67**	62
Total operating segments	**3,640**	3,562	**125**	102
Other business activities	**(354)**	(315)	**24**	21
Reconciling Items:				
Corporate	**(722)**	(771)	**95**	99
Purchase accounting adjustments	**(124)**	(120)	**118**	120
Acquisition-related costs	**(8)**	(4)	**—**	—
Certain significant items[c]	**45**	(10)	**—**	—
Other unallocated	**(191)**	(278)	**3**	4
Total Earnings[d]	**$ 2,286**	$ 2,064	**$ 365**	$ 346

[a] Certain production facilities are shared. Depreciation and amortization is allocated to the reportable operating segments based on estimates of where the benefits of the related assets are realized.

[b] Revenue denominated in euros was $627 million and $590 million for the nine months ended September 30, 2023 and 2022, respectively.

[c] For the nine months ended September 30, 2023, primarily consisted of a gain on the sale of a majority interest in our pet insurance business, partially offset by employee termination costs related to organizational structure refinements and certain asset impairment charges related to our precision animal health and diagnostics businesses.

For the nine months ended September 30, 2022, primarily represents inventory and asset impairment charges related to the consolidation of manufacturing sites in China as well as employee termination and exit costs associated with cost-reduction and productivity initiatives in certain international markets.

[d] Defined as income before provision for taxes on income.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview of our business

Zoetis is a global leader in the animal health industry, focused on the discovery, development, manufacture and commercialization of medicines, vaccines, diagnostic products and services, biodevices, genetic tests and precision animal health technology. For over 70 years, we have been innovating ways to predict, prevent, detect, and treat animal illness, and continue to stand by those raising and caring for animals worldwide - from veterinarians and pet owners to livestock farmers and ranchers.

We manage our operations through two geographic operating segments: the United States (U.S.) and International. Within each of these operating segments, we offer a diversified product portfolio for both companion animal and livestock customers in order to capitalize on local and regional trends and customer needs. See Notes to Condensed Consolidated Financial Statements — *Note 16. Segment Information*.

We directly market our products to veterinarians and livestock producers located in approximately 45 countries across North America, Europe, Africa, Asia, Australia and South America, and are a market leader in nearly all of the major regions in which we operate. Through our efforts to establish an early and direct presence in many emerging markets, such as Brazil, Chile, China and Mexico, we believe we are one of the largest animal health medicines and vaccines businesses as measured by revenue across emerging markets as a whole. In markets where we do not have a direct commercial presence, we generally contract with distributors that provide logistics and sales and marketing support for our products.

We believe our investments in one of the industry's largest sales organizations, including our extensive network of technical and veterinary operations specialists, our high-quality manufacturing and reliability of supply, and our long track record of developing products that meet customer needs, has led to enduring and valued relationships with our customers. Our research and development (R&D) efforts enable us to deliver innovative products to address unmet needs and evolve our product lines so that they remain relevant for our customers.

We have approximately 300 product lines that we sell in over 100 countries for the prediction, prevention, detection and treatment of diseases and conditions that affect various companion animal and livestock species. The diversity of our product portfolio and our global operations provides stability to our overall business. For instance, in livestock, impacts on our revenue that may result from disease outbreaks or weather conditions in a particular market or region are often offset by increased sales in other regions from exports and other species as consumers shift to other animal proteins.

A summary of our 2023 performance compared with the comparable 2022 period follows:

	Three Months Ended September 30,		% Change		
				Related to	
(MILLIONS OF DOLLARS)	**2023**	2022	Total	Foreign Exchange	Operational[a]
Revenue	**$ 2,151**	$ 2,002	7	(1)	8
Net income attributable to Zoetis	**596**	529	13	(3)	16
Adjusted net income[a]	**629**	566	11	(2)	13

	Nine Months Ended September 30,		% Change		
				Related to	
(MILLIONS OF DOLLARS)	**2023**	2022	Total	Foreign Exchange	Operational[a]
Revenue	**$ 6,331**	$ 6,040	5	(2)	7
Net income attributable to Zoetis	**1,819**	1,653	10	1	9
Adjusted net income[a]	**1,888**	1,758	7	—	7

[a] Operational growth and adjusted net income are non-GAAP financial measures. See the *Non-GAAP financial measures* section of this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for more information.

Our operating environment

For a description of our operating environment, including factors which could materially affect our business, financial condition, or future results, see "Our Operating Environment" in the MD&A of our 2022 Annual Report on Form 10-K. Set forth below are updates to certain of the factors disclosed in our 2022 Annual Report on Form 10-K.

Quarterly Variability of Financial Results

Our quarterly financial results are subject to variability related to a number of factors including, but not limited to: the decline in global macroeconomic conditions, inflation, global supply chain disruption, Russia's invasion of Ukraine, geopolitical tensions with and economic uncertainty in China, variability in distributor inventory stocking levels as a result of expected demand and promotional activities, weather patterns, herd management decisions, regulatory actions, competitive dynamics, disease outbreaks, product and geographic mix, timing of price increases and timing of investment decisions.

Disease Outbreaks

Sales of our livestock products have in the past, and may in the future be, adversely affected by the outbreak of disease carried by animals. Outbreaks of disease may reduce regional or global sales of particular animal-derived food products or result in reduced exports of such products, either due to heightened export restrictions or import prohibitions, which may reduce demand for our products. Also, the outbreak of any highly contagious disease near our main production sites could require us to immediately halt production of our products at such sites or force us to incur substantial expenses in procuring raw materials or products elsewhere. Alternatively, sales of products that treat specific disease outbreaks may increase.

Foreign Exchange Rates

Significant portions of our revenue and costs are exposed to changes in foreign exchange rates. Our products are sold in more than 100 countries and, as a result, our revenue is influenced by changes in foreign exchange rates. For the nine months ended September 30, 2023, approximately 43% of our revenue was denominated in foreign currencies. We seek to manage our foreign exchange risk, in part, through operational means, including managing same-currency revenue in relation to same-currency costs and same-currency assets in relation to same-currency liabilities. As we operate in multiple foreign currencies, including the Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, euro and other currencies, changes in those currencies relative to the U.S. dollar will impact our revenue, cost of goods and expenses, and consequently, net income. Exchange rate fluctuations may also have an impact beyond our reported financial results and directly impact operations. These fluctuations may affect the ability to buy and sell our goods and services between markets impacted by significant exchange rate variances. For the nine months ended September 30, 2023, approximately 57% of our total revenue was in U.S. dollars. Our year-over-year total revenue growth was unfavorably impacted by approximately 2% from changes in foreign currency values relative to the U.S. dollar. For operations in highly inflationary economies, we translate monetary items at rates in effect at the balance sheet date, with translation adjustments recorded in *Other (income)/deductions—net*, and we translate non-monetary items at historical rates.

Non-GAAP financial measures

We report information in accordance with U.S. generally accepted accounting principles (GAAP). Management also measures performance using non-GAAP financial measures that may exclude certain amounts from the most directly comparable GAAP measure. Despite the importance of these measures to management in goal setting and performance measurement, non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and, therefore, have limits in their usefulness to investors and may not be comparable to the calculation of similar measures of other companies. We present certain identified non-GAAP measures solely to provide investors with useful information to more fully understand how management assesses performance.

Operational Growth

We believe that it is important to not only understand overall revenue and earnings growth, but also "operational growth." Operational growth is a non-GAAP financial measure defined as revenue or earnings growth excluding the impact of foreign exchange. This measure provides information on the change in revenue and earnings as if foreign currency exchange rates had not changed between the current and prior periods to facilitate a period-to-period comparison. We believe this non-GAAP measure provides a useful comparison to previous periods for the company and investors, but should not be viewed as a substitute for U.S. GAAP reported growth.

Adjusted Net Income and Adjusted Earnings Per Share

Adjusted net income and the corresponding adjusted earnings per share (EPS) are non-GAAP financial measures of performance used by management. We believe these financial measures are useful supplemental information to investors when considered together with our U.S. GAAP financial measures. We report adjusted net income to portray the results of our major operations, and the discovery, development, manufacture and commercialization of our products, prior to considering certain income statement elements. We define adjusted net income and adjusted EPS as net income attributable to Zoetis and EPS before the impact of purchase accounting adjustments, acquisition-related costs and certain significant items.

We recognize that, as an internal measure of performance, the adjusted net income and adjusted EPS measures have limitations, and we do not restrict our performance management process solely to these metrics. A limitation of the adjusted net income and adjusted EPS measures is that they provide a view of our operations without including all events during a period, such as the effects of an acquisition or amortization of purchased intangibles, and do not provide a comparable view of our performance to other companies. The adjusted net income and adjusted EPS measures are not, and should not be viewed as, a substitute for U.S. GAAP reported net income attributable to Zoetis and reported EPS. See the *Adjusted Net Income* section below for more information.

Analysis of the condensed consolidated statements of income

The following discussion and analysis of our statements of income should be read along with our condensed consolidated financial statements and the notes thereto included elsewhere in *Part I— Item 1* of this Quarterly Report on Form 10-Q.

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
(MILLIONS OF DOLLARS)	**2023**	2022	Change	**2023**	2022	Change
Revenue	**$ 2,151**	$ 2,002	7	**$ 6,331**	$ 6,040	5
Costs and expenses:						
Cost of sales	**638**	607	5	**1,833**	1,801	2
% of revenue	***29.7 %***	*30.3 %*		***29.0 %***	*29.8 %*	
Selling, general and administrative expenses	**525**	501	5	**1,586**	1,495	6
% of revenue	***24 %***	*25 %*		***25 %***	*25 %*	
Research and development expenses	**152**	134	13	**440**	391	13
% of revenue	***7 %***	*7 %*		***7 %***	*6 %*	
Amortization of intangible assets	**38**	37	3	**112**	115	(3)
Restructuring charges and certain acquisition-related costs	**16**	6	*	**45**	9	*
Interest expense, net of capitalized interest	**59**	53	11	**180**	159	13
Other (income)/deductions—net	**6**	(3)	*	**(151)**	6	*
Income before provision for taxes on income	**717**	667	7	**2,286**	2,064	11
% of revenue	***33 %***	*33 %*		***36 %***	*34 %*	
Provision for taxes on income	**121**	139	(13)	**469**	413	14
Effective tax rate	***16.9 %***	*20.8 %*		***20.5 %***	*20.0 %*	
Net income before allocation to noncontrolling interests	**596**	528	13	**1,817**	1,651	10
Less: Net loss attributable to noncontrolling interests	**—**	(1)	*	**(2)**	(2)	*
Net income attributable to Zoetis Inc.	**$ 596**	$ 529	13	**$ 1,819**	$ 1,653	10
% of revenue	***28 %***	*26 %*		***29 %***	*27 %*	

*Calculation not meaningful

Revenue

Three months ended September 30, 2023 vs. three months ended September 30, 2022

Total revenue increased by $149 million, or 7%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, an increase of $156 million, or 8%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- price growth of approximately 5%;
- volume growth from new products of approximately 2%; and
- volume growth from key dermatology products of approximately 1%.

Foreign exchange decreased reported revenue growth by approximately 1%.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Total revenue increased by $291 million, or 5%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, an increase of $411 million, or 7%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- price growth of approximately 5%;
- volume growth from new products of approximately 1%; and
- volume growth from key dermatology products of approximately 1%.

Foreign exchange decreased reported revenue growth by approximately 2%.

Costs and Expenses

Cost of sales

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	2022	% Change	Nine Months Ended September 30, 2023	2022	% Change
Cost of sales	**$ 638**	$ 607	5	**$ 1,833**	$ 1,801	2
% of revenue	**29.7 %**	30.3 %		**29.0 %**	29.8 %	

Three months ended September 30, 2023 vs. three months ended September 30, 2022

Cost of sales as a percentage of revenue was 29.7% in the three months ended September 30, 2023, compared with 30.3% in the three months ended September 30, 2022. The decrease was primarily as a result of:

- price increases; and
- lower freight costs,

partially offset by:

- unfavorable manufacturing and other costs;
- inventory obsolescence, scrap and other charges; and
- unfavorable product mix.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Cost of sales as a percentage of revenue was 29.0% in the nine months ended September 30, 2023, compared with 29.8% in the nine months ended September 30, 2022. The decrease was primarily as a result of:

- price increases;
- favorable foreign exchange; and
- lower freight costs,

partially offset by:

- unfavorable manufacturing and other costs;
- inventory obsolescence, scrap and other charges; and
- unfavorable product mix.

Selling, general and administrative expenses

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	2022	% Change	Nine Months Ended September 30, 2023	2022	% Change
Selling, general and administrative expenses	**$ 525**	$ 501	5	**$ 1,586**	$ 1,495	6
% of revenue	**24 %**	25 %		**25 %**	25 %	

Three months ended September 30, 2023 vs. three months ended September 30, 2022

SG&A expenses increased by $24 million, or 5%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, primarily as a result of:

- certain compensation-related costs;
- an increase in technology costs; and
- higher freight and logistics costs,

partially offset by:

- lower travel and entertainment expenses.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

SG&A expenses increased by $91 million, or 6%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, primarily as a result of:

- certain compensation-related costs, primarily due to the timing of new hires in 2022;
- higher freight and logistics costs; and
- an increase in technology costs,

partially offset by:

- favorable foreign exchange; and
- lower bad debt expenses.

Research and development expenses

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	% Change	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	% Change
Research and development expenses	**$ 152**	$ 134	13	**$ 440**	$ 391	13
% of revenue	**7 %**	7 %		**7 %**	6 %	

Three months ended September 30, 2023 vs. three months ended September 30, 2022

R&D expenses increased by $18 million, or 13%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, primarily as a result of:

- an increase in certain compensation-related costs to support innovation;
- higher spend in project investments; and
- higher other operating costs.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

R&D expenses increased by $49 million, or 13%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, primarily as a result of:

- an increase in certain compensation-related costs to support innovation;
- higher other operating costs; and
- higher spend in project investments.

Amortization of intangible assets

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	% Change	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	% Change
Amortization of intangible assets	**$ 38**	$ 37	3	**$ 112**	$ 115	(3)

Three months ended September 30, 2023 vs. three months ended September 30, 2022

Amortization of intangible assets was $38 million in the three months ended September 30, 2023 and $37 million in the three months ended September 30, 2022. An increase in amortization due to intangible assets acquired during 2022 was partially offset by the effect of asset impairments taken in 2022 and assets that became fully amortized during 2022.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Amortization of intangible assets decreased in the nine months ended September 30, 2023 versus the comparable prior year period primarily due to asset impairments taken in 2022 and assets that became fully amortized during 2022, partially offset by intangible assets acquired during 2022.

Restructuring charges and certain acquisition-related costs

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	% Change	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	% Change
Restructuring charges and certain acquisition-related costs	**$ 16**	$ 6	*	**$ 45**	$ 9	*

* Calculation not meaningful

Restructuring charges and certain acquisition-related costs were $16 million and $45 million in the three and nine months ended September 30, 2023, respectively, and primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives, as well as costs related to recent acquisitions.

Restructuring charges and certain acquisition-related costs were $6 million and $9 million in the three and nine months ended September 30, 2022, and primarily consisted of employee termination and exit costs associated with cost-reduction and productivity initiatives in certain international markets, integration costs related to acquisitions and asset impairment charges related to the consolidation of manufacturing sites in China.

Interest expense, net of capitalized interest

(MILLIONS OF DOLLARS)	Three Months Ended September 30, **2023**	2022	% Change	Nine Months Ended September 30, **2023**	2022	% Change
Interest expense, net of capitalized interest	**$ 59**	$ 53	11	**$ 180**	$ 159	13

Interest expense, net of capitalized interest, increased in the three and nine months ended September 30, 2023 versus the comparable prior year periods. The increases were primarily as a result of higher interest rates on the $1.35 billion aggregate principal amount of our 2022 senior notes issued in November 2022 as compared to the 2013 senior notes redeemed in February 2023, upon maturity, partially offset by an increase in capitalized interest as compared to the prior year periods. The nine months ended September 30, 2023 also included a higher debt balance during a portion of the current period, partially offset by higher gains on foreign exchange derivative instruments as compared to the prior year period.

Other (income)/deductions—net

(MILLIONS OF DOLLARS)	Three Months Ended September 30, **2023**	2022	% Change	Nine Months Ended September 30, **2023**	2022	% Change
Other (income)/deductions—net	**$ 6**	$ (3)	*	**$ (151)**	$ 6	*

*Calculation not meaningful

Three months ended September 30, 2023 vs. three months ended September 30, 2022

The change in *Other (income)/deductions—net* in the three months ended September 30, 2023 versus the comparable prior year period was primarily as a result of higher foreign currency losses and certain asset impairment charges primarily related to our diagnostics and precision animal health businesses, partially offset by higher interest income in the current period due to higher interest rates on cash balances denominated in the U.S. dollar.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

The change in *Other (income)/deductions—net* in the nine months ended September 30, 2023 versus the comparable prior year period was primarily as a result of a gain on the sale of a majority interest in our pet insurance business, higher interest income in the current period due to higher interest rates on cash balances denominated in the U.S. dollar and royalty-related income that was predominantly associated with a settlement for underpayment of royalties in prior periods, partially offset by higher foreign currency losses and certain asset impairment charges primarily related to our precision animal health and diagnostics businesses.

Provision for taxes on income

(MILLIONS OF DOLLARS)	Three Months Ended September 30, **2023**	2022	% Change	Nine Months Ended September 30, **2023**	2022	% Change
Provision for taxes on income	**$ 121**	$ 139	(13)	**$ 469**	$ 413	14
Effective tax rate	**16.9 %**	20.8 %		**20.5 %**	20.0 %	

Our effective tax rate was 16.9% and 20.8% for the three months ended September 30, 2023 and 2022, respectively. The lower effective tax rate for the three months ended September 30, 2023, compared to the three months ended September 30, 2022, was primarily attributable to a benefit from the tax loss on the divestiture of Performance Livestock Analytics, a more favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs) and a higher benefit in the U.S. related to foreign-derived intangible income, partially offset by lower net discrete tax benefits. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

Our effective tax rate was 20.5% and 20.0% for the nine months ended September 30, 2023 and 2022, respectively. The higher effective tax rate for the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, was primarily attributable to a higher net discrete tax expense mainly related to changes to prior years' tax positions and a less favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs), partially offset by a higher benefit in the U.S. related to foreign-derived intangible income and a benefit from the tax loss on the divestiture of Performance Livestock Analytics. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items.

Operating Segment Results

On a global basis, the mix of revenue between companion animal and livestock products was as follows:

	Three Months Ended September 30,		% Change		
				Related to	
(MILLIONS OF DOLLARS)	**2023**	2022	Total	Foreign Exchange	Operational
U.S.					
Companion animal	**$ 908**	$ 819	11	—	11
Livestock	**266**	271	(2)	—	(2)
	1,174	1,090	8	—	8
International					
Companion animal	**506**	452	12	—	12
Livestock	**450**	437	3	(2)	5
	956	889	8	—	8
Total					
Companion animal	**1,414**	1,271	11	—	11
Livestock	**716**	708	1	(2)	3
Contract manufacturing & human health	**21**	23	(9)	3	(12)
	$ 2,151	$ 2,002	7	(1)	8

	Nine Months Ended September 30,		% Change		
				Related to	
(MILLIONS OF DOLLARS)	**2023**	2022	Total	Foreign Exchange	Operational
U.S.					
Companion animal	**$ 2,588**	$ 2,488	4	—	4
Livestock	**756**	713	6	—	6
	3,344	3,201	4	—	4
International					
Companion animal	**1,540**	1,412	9	(4)	13
Livestock	**1,389**	1,368	2	(4)	6
	2,929	2,780	5	(5)	10
Total					
Companion animal	**4,128**	3,900	6	(1)	7
Livestock	**2,145**	2,081	3	(3)	6
Contract manufacturing & human health	**58**	59	(2)	—	(2)
	$ 6,331	$ 6,040	5	(2)	7

Earnings by segment and the operational and foreign exchange changes versus the comparable prior year period were as follows:

	Three Months Ended September 30,		% Change		
				Related to	
(MILLIONS OF DOLLARS)	**2023**	2022	Total	Foreign Exchange	Operational
U.S.					
Revenue	**$ 1,174**	$ 1,090	8	—	8
Cost of Sales	**228**	204	12	—	12
Gross Profit	**946**	886	7	—	7
Gross Margin	***80.6 %***	*81.3 %*			
Operating Expenses	**202**	206	(2)	—	(2)
Other (income)/deductions-net	**—**	1	*	*	*
U.S. Earnings	**744**	679	10	—	10
International					
Revenue	**956**	889	8	—	8
Cost of Sales	**306**	256	20	1	19
Gross Profit	**650**	633	3	(1)	4
Gross Margin	***68.0 %***	*71.2 %*			
Operating Expenses	**156**	150	4	—	4
Other (income)/deductions-net	**1**	(3)	*	*	*
International Earnings	**493**	486	1	(3)	4
Total operating segments	**1,237**	1,165	6	(1)	7
Other business activities	**(124)**	(106)	17		
Reconciling Items:					
Corporate	**(258)**	(245)	5		
Purchase accounting adjustments	**(39)**	(40)	(3)		
Acquisition-related costs	**(3)**	(1)	*		
Certain significant items	**(23)**	(6)	*		
Other unallocated	**(73)**	(100)	(27)		
Total Earnings	**$ 717**	$ 667	7		

(MILLIONS OF DOLLARS)	Nine Months Ended September 30, 2023	2022	% Change Total	Related to Foreign Exchange	Operational
U.S.					
Revenue	**$ 3,344**	$ 3,201	4	—	4
Cost of Sales	**645**	587	10	—	10
Gross Profit	**2,699**	2,614	3	—	3
Gross Margin	***80.7 %***	*81.7 %*			
Operating Expenses	**602**	578	4	—	4
Other (income)/deductions-net	**—**	(6)	*	*	*
U.S. Earnings	**2,097**	2,042	3	—	3
International					
Revenue	**2,929**	2,780	5	(5)	10
Cost of Sales	**912**	809	13	(7)	20
Gross Profit	**2,017**	1,971	2	(4)	6
Gross Margin	***68.9 %***	*70.9 %*			
Operating Expenses	**473**	456	4	(5)	9
Other (income)/deductions-net	**1**	(5)	*	*	*
International Earnings	**1,543**	1,520	2	(2)	4
Total operating segments	**3,640**	3,562	2	(1)	3
Other business activities	**(354)**	(315)	12		
Reconciling Items:					
Corporate	**(722)**	(771)	(6)		
Purchase accounting adjustments	**(124)**	(120)	3		
Acquisition-related costs	**(8)**	(4)	*		
Certain significant items	**45**	(10)	*		
Other unallocated	**(191)**	(278)	(31)		
Total Earnings	**$ 2,286**	$ 2,064	11		

* Calculation not meaningful

Three months ended September 30, 2023 vs. three months ended September 30, 2022

U.S. operating segment

U.S. segment revenue increased by $84 million, or 8%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, reflecting an increase of $89 million in companion animal products, partially offset by a decrease of $5 million in livestock products.

- Companion animal revenue growth was driven primarily by increased sales of our key dermatology portfolio, small animal parasiticides, our monoclonal antibody (mAb) product for osteoarthritis (OA) pain, Solensia, and small animal diagnostics.
- Livestock revenue declined due to cattle and swine, partially offset by growth in poultry. Sales of cattle products declined mainly due to timing of supply in the prior year, partially offset by increased sales of cattle implants. Sales of swine products declined due to decreased disease prevalence. Sales of products in our poultry portfolio grew primarily due to increases in vaccines and medicated feed additives.

U.S. segment earnings increased by $65 million, or 10%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, primarily due to higher revenue and lower operating expenses, partially offset by higher cost of sales.

International operating segment

International segment revenue increased by $67 million, or 8%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022. Operational revenue increased by $75 million, or 8%, driven by growth of $52 million in companion animal products and $23 million in livestock products.

- Companion animal operational revenue growth was driven primarily by the growth in our mAb products for OA pain, Librela and Solensia, growth in key dermatology and growth in small animal parasiticides, partially offset by lower sales of vaccine products.
- Livestock operational revenue growth was due to increased sales of cattle, poultry and swine products. Sales of cattle products grew due to price and supply recovery, partially offset by unfavorable market conditions in key and emerging markets. Sales of poultry products grew due to price and demand generation efforts in key poultry markets. Sales of swine products grew due to demand generation efforts in key and emerging markets.

- Additionally, International segment revenue was unfavorably impacted by foreign exchange which decreased revenue by $8 million, or 0%, primarily driven by the Argentinian peso, Chinese renminbi, Russian ruble, Australian dollar and Turkish lira.

International segment earnings increased by $7 million, or 1%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022. Operational earnings growth was $17 million, or 4%, primarily due to higher revenue, partially offset by higher cost of sales and operating expenses.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

U.S. operating segment

U.S. segment revenue increased by $143 million, or 4%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, reflecting an increase of $100 million in companion animal products and $43 million in livestock products.

- Companion animal revenue increased due to key dermatology, our mAb product for OA pain, Solensia, our small animal antiemetic product, Cerenia, small animal vaccines and small animal diagnostics, partially offset by lower sales of anti-infective products and small animal parasiticides. Strong growth in the second and third quarters was partially offset by the first quarter impacts of distributor de-stocking across the portfolio, as well as purchases in the fourth quarter of 2022 ahead of expected price increases and promotional activities.
- Livestock revenue grew due to cattle and poultry, partially offset by a decline in swine. Sales of cattle products grew due to increased sales of cattle implants, higher volume of anti-infective products and improved supply of key products. Sales of products in our poultry portfolio grew due to increases in vaccines, medicated feed additives and biodevices. Sales of swine products declined due to decreased disease prevalence.

U.S. segment earnings increased by $55 million, or 3%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, primarily due to higher revenue, partially offset by higher cost of sales and operating expenses.

International operating segment

International segment revenue increased by $149 million, or 5%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022. Operational revenue increased by $270 million, or 10%, driven by growth of $181 million in companion animal products and $89 million in livestock products.

- Companion animal operational revenue growth was driven primarily by the growth in our mAb products for OA pain, Librela and Solensia, as well as growth in small animal parasiticides and key dermatology, partially offset by lower sales of vaccine products.
- Livestock operational revenue growth was due to increased sales of cattle, poultry, fish and sheep products. Sales of cattle products grew due to price and improved supply of key products. Sales of poultry products grew due to market growth, demand generation efforts and price in key poultry markets. Growth in our fish portfolio was primarily the result of increased sales of vaccines across key salmon markets, primarily Norway. Sales of sheep products grew primarily as a result of the acquisition of Jurox.
- Additionally, International segment revenue was unfavorably impacted by foreign exchange which decreased revenue by $121 million, or 5%, primarily driven by the Argentinian peso, Chinese renminbi, Australian dollar, Turkish lira and Japanese yen.

International segment earnings increased by $23 million, or 2%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022. Operational earnings growth was $64 million, or 4%, primarily due to higher revenue, partially offset by higher cost of sales and operating expenses.

Other business activities

Other business activities includes our Client Supply Services contract manufacturing results, our human health business and expenses associated with our dedicated veterinary medicine research and development organization, research alliances, U.S. regulatory affairs and other operations focused on the development of our products. Other R&D-related costs associated with non-U.S. market and regulatory activities are generally included in the International segment.

Three months ended September 30, 2023 vs. three months ended September 30, 2022

Other business activities net loss increased by $18 million in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, reflecting an increase in R&D costs due to an increase in certain compensation-related costs to support innovation, higher project investments and an increase in operating costs, as well as lower earnings in our human health business.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Other business activities net loss increased by $39 million in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, reflecting an increase in R&D costs due to an increase in certain compensation-related costs to support innovation, an increase in operating costs and higher project investments, as well as lower earnings in our human health business, partially offset by favorable foreign exchange.

Reconciling items

Reconciling items include certain costs that are not allocated to our operating segments results, such as costs associated with the following:

- ***Corporate,*** which includes certain costs associated with information technology, facilities, legal, finance, human resources, business development, certain diagnostic costs and communications, among others. These costs also include certain compensation costs, certain procurement costs, and other miscellaneous operating expenses that are not charged to our operating segments, as well as interest income and expense;
- Certain transactions and events such as ***Purchase accounting adjustments***, ***Acquisition-related activities*** and ***Certain significant items***, which are defined below; and
- ***Other unallocated***, which includes (i) certain overhead expenses associated with our global manufacturing operations not charged to our operating segments; (ii) certain costs associated with finance that specifically support our global manufacturing operations; (iii) certain supply chain and global logistics costs; and (iv) certain procurement costs.

Three months ended September 30, 2023 vs. three months ended September 30, 2022

Corporate expenses increased by $13 million, or 5%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, primarily due to higher compensation-related costs, higher interest expense, increases in professional services and investments in information technology, partially offset by favorable foreign exchange and higher interest income.

Other unallocated expenses decreased by $27 million, or 27%, in the three months ended September 30, 2023, compared with the three months ended September 30, 2022, primarily due to lower manufacturing costs and freight charges, as well as favorable foreign exchange, partially offset by higher inventory obsolescence, scrap and other charges.

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Corporate expenses decreased by $49 million, or 6%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, primarily associated with higher interest income, favorable foreign exchange and a settlement for underpayment of royalties in prior periods, partially offset by higher compensation-related costs, higher interest expense, increases in professional services and investments in information technology.

Other unallocated expenses decreased by $87 million, or 31%, in the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, primarily due to lower manufacturing costs and freight charges, as well as favorable foreign exchange, partially offset by inventory obsolescence, scrap and other charges.

See Notes to Condensed Consolidated Financial Statements—*Note 16. Segment Information* for further information.

Adjusted net income

General description of adjusted net income (a non-GAAP financial measure)

Adjusted net income is an alternative view of performance used by management, and we believe that investors' understanding of our performance is enhanced by disclosing this performance measure. The adjusted net income measure is an important internal measurement for us. Additionally, we measure our overall performance on this basis in conjunction with other performance metrics. The following are examples of how the adjusted net income measure is utilized:

- senior management receives a monthly analysis of our operating results that is prepared on an adjusted net income basis;
- our annual budgets are prepared on an adjusted net income basis; and
- other goal setting and performance measurements.

Purchase accounting adjustments

Adjusted net income is calculated prior to considering certain significant purchase accounting impacts that result from business combinations and net asset acquisitions. These impacts, primarily associated with certain acquisitions, include amortization related to the increase in fair value of the acquired finite-lived intangible assets and depreciation related to the increase/decrease to fair value of the acquired fixed assets. Therefore, the adjusted net income measure includes the revenue earned upon the sale of the acquired products without considering the aforementioned significant charges.

While certain purchase accounting adjustments can occur through 20 or more years, this presentation provides an alternative view of our performance that is used by management to internally assess business performance. We believe the elimination of amortization attributable to acquired intangible assets provides management and investors an alternative view of our business results by providing a degree of parity to internally developed intangible assets for which R&D costs previously have been expensed.

A completely accurate comparison of internally developed intangible assets and acquired intangible assets cannot be achieved through adjusted net income. These components of adjusted net income are derived solely from the impact of the items listed above. We have not factored in the impact of any other differences in experience that might have occurred if we had discovered and developed those intangible assets on our own, and this approach does not intend to be representative of the results that would have occurred in those circumstances. For example, our R&D costs in total, and in the periods presented, may have been different; our speed to commercialization and resulting revenue, if any, may have been different; or our costs to manufacture may have been different. In addition, our marketing efforts may have been received differently by our customers. As such, in total, there can be no assurance that our adjusted net income amounts would have been the same as presented had we discovered and developed the acquired intangible assets.

Acquisition-related costs

Adjusted net income is calculated prior to considering transaction and integration costs associated with significant business combinations or net asset acquisitions because these costs are unique to each transaction and represent costs that were incurred to acquire and integrate certain businesses as a result of the acquisition decision. We have made no adjustments for the resulting synergies.

We believe that viewing income prior to considering these charges provides investors with a useful additional perspective because the significant costs incurred in a business combination result primarily from the need to eliminate duplicate assets, activities or employees—a natural result of acquiring a fully integrated set of activities. For this reason, we believe that the costs incurred to convert disparate systems, to close duplicative facilities or to eliminate duplicate positions (for example, in the context of a business combination) can be viewed differently from those costs incurred in the ordinary course of business.

The integration costs associated with a business combination may occur over several years, with the more significant impacts generally ending within three years of the transaction. Because of the need for certain external approvals for some actions, the span of time needed to achieve certain restructuring and integration activities can be lengthy. For example, due to the regulated nature of the animal health medicines, vaccines and diagnostic business, the closure of excess facilities can take several years, as all manufacturing changes are subject to extensive validation and testing and must be approved by the U.S. Food and Drug Administration and/or other regulatory authorities.

Certain significant items

Adjusted net income is calculated excluding certain significant items. Certain significant items represent substantive, unusual items that are evaluated on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual nature. Unusual, in this context, may represent items that are not part of our ongoing business; items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis; items that would be nonrecurring; or items that relate to products that we no longer sell. While not all-inclusive, examples of items that could be included as certain significant items would be costs related to a major non-acquisition-related restructuring charge and associated implementation costs for a program that is specific in nature with a defined term, such as those related to our non-acquisition-related cost-reduction and productivity initiatives; amounts related to disposals of products or facilities that do not qualify as discontinued operations as defined by U.S. GAAP; certain asset impairment charges; adjustments related to the resolution of certain tax positions; significant currency devaluation; the impact of adopting certain significant, event-driven tax legislation; or charges related to legal matters. See Notes to Condensed Consolidated Financial Statements—*Note 15. Commitments and Contingencies*. Our normal, ongoing defense costs or settlements of and accruals on legal matters made in the normal course of our business would not be considered certain significant items.

Reconciliation

A reconciliation of net income attributable to Zoetis, as reported under U.S. GAAP, to adjusted net income follows:

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	% Change	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	% Change
GAAP reported net income attributable to Zoetis	**$ 596**	$ 529	13	**$ 1,819**	$ 1,653	10
Purchase accounting adjustments—net of tax	**30**	31	(3)	**98**	92	7
Acquisition-related costs—net of tax	**3**	1	*	**7**	3	*
Certain significant items—net of tax	**—**	5	*	**(36)**	10	*
Non-GAAP adjusted net income[(a)]	**$ 629**	$ 566	11	**$ 1,888**	$ 1,758	7

*Calculation not meaningful

(a) The effective tax rate on adjusted pretax income was 19.6% and 20.9% for the three months ended September 30, 2023 and 2022, respectively.

The lower effective tax rate for the three months ended September 30, 2023, compared with the the three months ended September 30, 2022, was primarily attributable to a more favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs) and a higher benefit in the U.S. related to foreign-derived intangible income, partially offset by a lower net discrete tax benefit mainly related to changes to prior years' tax positions. Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible and non-taxable items.

The effective tax rate on adjusted pretax income was 20.5% and 20.1% for the nine months ended September 30, 2023 and 2022, respectively.

The higher effective tax rate for the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022, was primarily attributable to a higher net discrete tax expense mainly related to changes to prior years' tax positions, partially offset by a higher benefit in the U.S. related to foreign-derived intangible income and a more favorable jurisdictional mix of earnings (which includes the impact of the location of earnings and repatriation costs). Jurisdictional mix of earnings can vary depending on repatriation decisions, operating fluctuations in the normal course of business and the impact of non-deductible and non-taxable items.

A reconciliation of reported diluted earnings per share (EPS), as reported under U.S. GAAP, to non-GAAP adjusted diluted EPS follows:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	% Change	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	% Change
Earnings per share—diluted[(a)]:						
GAAP reported EPS attributable to Zoetis —diluted	**$ 1.29**	$ 1.13	14	**$ 3.93**	$ 3.51	12
Purchase accounting adjustments—net of tax	**0.06**	0.07	(14)	**0.21**	0.20	5
Acquisition-related costs—net of tax	**0.01**	—	*	**0.02**	—	*
Certain significant items—net of tax	**—**	0.01	*	**(0.08)**	0.02	*
Non-GAAP adjusted EPS—diluted	**$ 1.36**	$ 1.21	12	**$ 4.08**	$ 3.73	9

* Calculation not meaningful

(a) Diluted earnings per share was computed using the weighted-average common shares outstanding during the period plus the common stock equivalents related to stock options, restricted stock units, performance-vesting restricted stock units and deferred stock units.

Adjusted net income includes the following charges for each of the periods presented:

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest expense, net of capitalized interest	**$ 59**	$ 53	**$ 180**	$ 159
Interest income	**23**	13	**77**	20
Income taxes	**153**	149	**487**	442
Depreciation	**76**	66	**220**	195
Amortization	**9**	9	**27**	31

Adjusted net income, as shown above, excludes the following items:

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Purchase accounting adjustments:				
Amortization and depreciation	**$ 39**	$ 40	**$ 118**	$ 120
Cost of sales	**—**	—	**6**	—
Total purchase accounting adjustments—pre-tax	**39**	40	**124**	120
Income taxes[(a)]	**9**	9	**26**	28
Total purchase accounting adjustments—net of tax	**30**	31	**98**	92
Acquisition-related costs:				
Transaction costs	**2**	—	**4**	—
Integration costs	**1**	1	**3**	4
Restructuring costs	**—**	—	**1**	—
Total acquisition-related costs—pre-tax	**3**	1	**8**	4
Income taxes[(a)]	**—**	—	**1**	1
Total acquisition-related costs—net of tax	**3**	1	**7**	3
Certain significant items:				
Other restructuring charges and cost-reduction/productivity initiatives[(b)]	**12**	4	**36**	7
Certain asset impairment charges[(c)]	**11**	2	**21**	6
Net gain on sale of business[(d)]	**—**	—	**(101)**	—
Other	**—**	—	**(1)**	(3)
Total certain significant items—pre-tax	**23**	6	**(45)**	10
Income taxes[(a)]	**23**	1	**(9)**	—
Total certain significant items—net of tax	**—**	5	**(36)**	10
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	**$ 33**	$ 37	**$ 69**	$ 105

(a) Income taxes include the tax effect of the associated pre-tax amounts, calculated by determining the jurisdictional location of the pre-tax amounts and applying that jurisdiction's applicable tax rate.

Income taxes in *Purchase accounting adjustments* also includes:
- For the nine months ended September 30, 2022, tax benefits related to a deferred adjustment as a result of a change in tax basis.

Income taxes in *Certain significant items* also includes:
- For the three and nine months ended September 30, 2023, a benefit from the tax loss on the divestiture of Performance Livestock Analytics, partially offset by a tax expense related to changes to prior years' tax positions with regard to the one-time mandatory deemed repatriation tax under the Tax Cuts and Jobs Act.
- For the nine months ended September 30, 2022, changes in valuation allowances.

(b) For the three and nine months ended September 30, 2023, primarily consisted of employee termination and exit costs related to organizational structure refinements and other cost-reduction and productivity initiatives.

For the three and nine months ended September 30, 2022, primarily represents employee termination and exit costs associated with cost-reduction and productivity initiatives in certain international markets, as well as product transfer costs.

(c) For the three and nine months ended September 30, 2023, primarily represents certain asset impairment charges related to our precision animal health and diagnostics businesses.

For the three and nine months ended September 30, 2022, represents inventory and certain asset impairment charges primarily related to the consolidation of manufacturing sites in China.

(d) Primarily represents a net gain on the sale of a majority interest in our pet insurance business.

The classification of the above items excluded from adjusted net income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(MILLIONS OF DOLLARS)	**2023**	2022	**2023**	2022
Cost of sales:				
Purchase accounting adjustments	**$ 1**	$ 1	**$ 10**	$ 3
Inventory write-offs	**2**	—	**2**	4
Other	**—**	1	**—**	4
Total Cost of sales	**3**	2	**12**	11
Selling, general & administrative expenses:				
Purchase accounting adjustments	**4**	8	**18**	22
Total Selling, general & administrative expenses	**4**	8	**18**	22
Research & development expenses:				
Purchase accounting adjustments	**1**	—	**1**	—
Total Research & development expenses	**1**	—	**1**	—
Amortization of intangible assets:				
Purchase accounting adjustments	**33**	31	**95**	95
Total Amortization of intangible assets	**33**	31	**95**	95
Restructuring charges and certain acquisition-related costs:				
Transaction costs	**2**	—	**4**	—
Integration costs	**1**	1	**3**	4
Employee termination costs	**8**	2	**33**	2
Asset impairments	**1**	2	**1**	2
Exit costs	**4**	1	**4**	1
Total Restructuring charges and certain acquisition-related costs	**16**	6	**45**	9
Other (income)/deductions—net:				
Net gain on sale of business	**—**	—	**(101)**	—
Asset impairment charges	**8**	—	**18**	—
Other	**—**	—	**(1)**	(3)
Total Other (income)/deductions—net	**8**	—	**(84)**	(3)
Provision for taxes on income	**32**	10	**18**	29
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	**$ 33**	$ 37	**$ 69**	$ 105

Analysis of the condensed consolidated statements of comprehensive income

Changes in other comprehensive income for the periods presented are primarily related to foreign currency translation adjustments and unrealized gains/(losses) on derivative instruments. The foreign currency translation adjustment changes result from the strengthening or weakening of the U.S. dollar as compared to the currencies in the countries in which we do business. Unrealized gains/(losses) on the changes in the fair value of derivative instruments are recorded within *Accumulated other comprehensive income/(loss)* and reclassified into earnings depending on the nature and purpose of the financial instrument, as described in *Note 9. Financial Instruments* of the Notes to Condensed Consolidated Financial Statements.

Analysis of the condensed consolidated balance sheets

September 30, 2023 vs. December 31, 2022

For a discussion about the changes in *Cash and cash equivalents*, *Short-term borrowings, Current portion of long-term debt* and *Long-term debt, net of discount and issuance costs,* see "*Analysis of financial condition, liquidity and capital resources*" below.

Inventories increased primarily as a result of the increase in demand and build-up of certain products, as well as lower sales than anticipated for certain products.

Other current assets increased primarily due to the timing of tax benefits recognized and higher value-added tax receivables for our international markets.

Property, plant and equipment increased primarily as a result of capital spending, partially offset by depreciation expense.

Other noncurrent assets increased primarily due to the retained noncontrolling investment following the sale of a majority interest in our pet insurance business and the addition of a financing lease. See Notes to Consolidated Financial Statements - *Note 5. Acquisitions and Divestitures.*

Accrued compensation and related items decreased primarily due to the payments of 2022 annual incentive bonuses, savings plan contributions to eligible employees and payments for sales incentive bonuses, as well as the timing of the bi-weekly payroll, partially offset by the accrual of 2023 annual incentive bonuses, sales incentive bonuses and savings plan contributions to eligible employees.

Other noncurrent liabilities increased primarily due to the contingent purchase price consideration associated with the acquisition of PetMedix during the third quarter of 2023 and the addition of a financing lease obligation.

The net changes in *Noncurrent deferred tax assets, Noncurrent deferred tax liabilities, Income taxes payable* and *Other taxes payabl*e primarily reflect adjustments to the accrual for the income tax provision, the timing of income tax payments and the tax impact of various acquisitions.

For an analysis of the changes in *Total Equity*, see the Condensed Consolidated Statements of Equity and Notes to Condensed Consolidated Financial Statements— *Note 13. Stockholders' Equity*.

Analysis of the condensed consolidated statements of cash flows

(MILLIONS OF DOLLARS)	Nine Months Ended September 30, **2023**	2022	$ Change
Net cash provided by (used in):			
Operating activities	**$ 1,456**	$ 1,171	$ 285
Investing activities	**(567)**	(445)	(122)
Financing activities	**(2,712)**	(1,684)	(1,028)
Effect of exchange-rate changes on cash and cash equivalents	**(4)**	(20)	16
Net decrease in cash and cash equivalents	**$ (1,827)**	$ (978)	$ (849)

Operating activities

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Net cash provided by operating activities was $1,456 million for the nine months ended September 30, 2023, compared with $1,171 million for the nine months ended September 30, 2022. The increase in operating cash flows was primarily attributable to higher net income as adjusted by non-cash items and the timing of receipts and payments in the ordinary course of business, partially offset by the inventory build-up of certain products for increased demand and to mitigate potential supply constraints.

Investing activities

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Our net cash used in investing activities was $567 million for the nine months ended September 30, 2023, compared with net cash used in investing activities of $445 million for the nine months ended September 30, 2022. The net cash used in investing activities for the nine months ended September 30, 2023 was primarily due to capital expenditures and acquisitions, partially offset by net proceeds on the sale of a majority interest in our pet insurance business and net proceeds from derivative instrument activity. The net cash used in investing activities for the nine months ended September 30, 2022 was primarily due to capital expenditures and acquisitions, partially offset by net proceeds from derivative instrument activity.

Financing activities

Nine months ended September 30, 2023 vs. nine months ended September 30, 2022

Our net cash used in financing activities was $2,712 million for the nine months ended September 30, 2023, compared with net cash used in financing activities of $1,684 million for the nine months ended September 30, 2022. The net cash used in financing activities for the nine months ended September 30, 2023 was primarily attributable to the repayment of the $1.35 billion aggregate principal amount of our 2013 senior notes due 2023 in February 2023, the purchase of treasury shares, the payment of dividends and taxes paid on withholding shares, partially offset by proceeds in connection with the issuance of common stock under our equity incentive plan. The net cash used in financing activities for the nine months ended September 30, 2022 was primarily attributable to the purchase of treasury shares, the payment of dividends and taxes paid on withholding shares, partially offset by proceeds in connection with the issuance of common stock under our equity incentive plan.

Analysis of financial condition, liquidity and capital resources

While we believe our cash and cash equivalents on hand, our operating cash flows and our existing financing arrangements will be sufficient to support our cash needs for the next twelve months and beyond, this may be subject to the environment in which we operate. Risks to our meeting future funding requirements are described in *Global economic conditions* below.

Selected measures of liquidity and capital resources

Certain relevant measures of our liquidity and capital resources follow:

(MILLIONS OF DOLLARS)	**September 30, 2023**	December 31, 2022
Cash and cash equivalents	**$ 1,754**	$ 3,581
Accounts receivable, net[(a)]	**1,257**	1,215
Short-term borrowings	**2**	2
Current portion of long-term debt	**—**	1,350
Long-term debt	**6,552**	6,552
Working capital	**4,614**	4,339
Ratio of current assets to current liabilities	**3.87:1**	2.37:1

(a) Accounts receivable are usually collected over a period of 45 to 75 days. For the nine months ended September 30, 2023 compared with December 31, 2022, the number of days that accounts receivables were outstanding remained within this range. We regularly monitor our accounts receivable for collectability, particularly in markets where economic conditions remain uncertain. We believe that our allowance for doubtful accounts is appropriate. Our assessment is based on such factors as past due aging, historical and expected collection patterns, the financial condition of our customers, the robust nature of our credit and collection practices and the economic environment.

For additional information about the sources and uses of our funds, see the *Analysis of the condensed consolidated balance sheets* and *Analysis of the condensed consolidated statements of cash flows* sections of this MD&A.

Credit facility and other lines of credit

In December 2022, we entered into an amended and restated revolving credit agreement with a syndicate of banks providing for a multi-year $1.0 billion senior unsecured revolving credit facility (the credit facility), which expires in December 2027. The credit facility replaced the company's existing revolving credit facility dated as of December 2016. Subject to certain conditions, we have the right to increase the credit facility to up to $1.5 billion. The credit facility contains a financial covenant requiring us to not exceed a maximum total leverage ratio (the ratio of consolidated net debt as of the end of the period to consolidated Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA) for such period) of 3.50:1. Upon entering into a material acquisition, the maximum total leverage ratio increases to 4.00:1, and extends until the fourth full consecutive fiscal quarter ended immediately following the consummation of a material acquisition. In addition, the credit facility contains other customary covenants.

We were in compliance with all financial covenants as of September 30, 2023 and December 31, 2022. There were no amounts drawn under the credit facility as of September 30, 2023 or December 31, 2022.

We have additional lines of credit and other credit arrangements with a group of banks and other financial intermediaries for general corporate purposes. We maintain cash and cash equivalent balances in excess of our outstanding short-term borrowings. As of September 30, 2023, we had access to $50 million of lines of credit which expire at various times and are generally renewed annually. There was $2 million of borrowings outstanding related to these facilities as of September 30, 2023 and December 31, 2022.

Domestic and international short-term funds

Many of our operations are conducted outside the U.S. The amount of funds held in the U.S. will fluctuate due to the timing of receipts and payments in the ordinary course of business and due to other reasons, such as business development activities. As part of our ongoing liquidity assessments, we regularly monitor the mix of U.S. and international cash flows (both inflows and outflows). Actual repatriation of overseas funds can result in additional U.S. and local income taxes, such as U.S. state income taxes, local withholding taxes, and taxes on currency gains and losses.

Global economic conditions

Global financial markets may be impacted by macroeconomic, business and financial volatility. Challenging economic conditions in recent years have not had, nor do we anticipate that it will have, a significant impact on our liquidity. Due to our operating cash flows, financial assets, access to capital markets and available lines of credit and revolving credit agreements, we continue to believe that we have the ability to meet our liquidity needs for the foreseeable future. As markets change, we will continue to monitor our liquidity position. There can be no assurance that a challenging economic environment or an economic downturn will not impact our liquidity or our ability to obtain future financing.

Debt securities

On November 8, 2022, we issued $1.35 billion aggregate principal amount of our senior notes (2022 senior notes), with an original issue discount of $2 million. These notes are comprised of $600 million aggregate principal amount of 5.400% senior notes due 2025 and $750 million aggregate principal amount of 5.600% senior notes due 2032. On February 1, 2023, the net proceeds were used to redeem in full, upon maturity, the $1.35 billion aggregate principal amount of our 3.250% 2013 senior notes due 2023.

Our senior notes are governed by an indenture and supplemental indentures (collectively, the indenture) between us and Deutsche Bank Trust Company Americas, as trustee. The indenture contains certain covenants, including limitations on our and certain of our subsidiaries' ability to incur liens or engage in sale lease-back transactions. The indenture also contains restrictions on our ability to consolidate, merge or sell substantially all of our assets. In addition, the indenture contains other customary terms, including certain events of default, upon the occurrence of which, the senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the senior notes of any series, in whole or in part, at any time by paying a "make whole" premium, plus accrued and unpaid interest to, but excluding, the date of redemption. Upon the occurrence of a change of control of us and a downgrade of the senior notes below an investment grade rating by each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, we are, in certain circumstances, required to make an offer to repurchase all of the outstanding senior notes at a price equal to 101% of the aggregate principal amount of the senior notes together with accrued and unpaid interest to, but excluding, the date of repurchase.

Our outstanding debt securities are as follows:

Description	Principal Amount	Interest Rate	Terms
2015 Senior Notes due 2025	$750 million	4.500%	Interest due semi annually, not subject to amortization, aggregate principal due on November 13, 2025
2022 Senior Notes due 2025	$600 million	5.400%	Interest due semi annually, not subject to amortization, aggregate principal due on November 14, 2025
2017 Senior Notes due 2027	$750 million	3.000%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2027
2018 Senior Notes due 2028	$500 million	3.900%	Interest due semi annually, not subject to amortization, aggregate principal due on August 20, 2028
2020 Senior Notes due 2030	$750 million	2.000%	Interest due semi annually, not subject to amortization, aggregate principal due on May 15, 2030
2022 Senior Notes due 2032	$750 million	5.600%	Interest due semi annually, not subject to amortization, aggregate principal due on November 16, 2032
2013 Senior Notes due 2043	$1,150 million	4.700%	Interest due semi annually, not subject to amortization, aggregate principal due on February 1, 2043
2017 Senior Notes due 2047	$500 million	3.950%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2047
2018 Senior Notes due 2048	$400 million	4.450%	Interest due semi annually, not subject to amortization, aggregate principal due on August 20, 2048
2020 Senior Notes due 2050	$500 million	3.000%	Interest due semi annually, not subject to amortization, aggregate principal due on May 15, 2050

Credit ratings

Two major corporate debt-rating organizations, Moody's and S&P, assign ratings to our short-term and long-term debt. A security rating is not a recommendation to buy, sell or hold securities and the rating is subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

The following table provides the current ratings assigned by these rating agencies to our commercial paper and senior unsecured non-credit-enhanced long-term debt:

	Commercial Paper	Long-term Debt		
Name of Rating Agency	Rating	Rating	Outlook	Date of Last Action
Moody's	P-2	Baa1	Stable	August 2017
S&P	A-2	BBB	Stable	December 2016

Share repurchase program

In December 2021, our Board of Directors authorized a $3.5 billion multi-year share repurchase program. As of September 30, 2023, there was $1.7 billion remaining under this authorization. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions and business needs. Share repurchases may be executed through various means, including open market or privately negotiated transactions. During the first nine months of 2023, 5.0 million shares were repurchased for $857 million, which excludes a $7 million accrual for excise tax on net share repurchases.

Off-balance sheet arrangements

In the ordinary course of business and in connection with the sale of assets and businesses, we may indemnify our counterparties against certain liabilities that may arise in connection with a transaction or that are related to activities prior to a transaction. These indemnifications typically pertain to environmental, tax, employee and/or product-related matters, and patent-infringement claims. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications are generally subject to threshold amounts, specified claim periods and other restrictions and limitations. Historically, we have not paid significant amounts under these provisions and, as of September 30, 2023 and December 31, 2022, recorded amounts for the estimated fair value of these indemnifications are not material.

New accounting standards

There were no accounting standards that were recently issued but not adopted as of September 30, 2023 that the Company expects to have a material impact on its condensed consolidated financial statements.

Forward-looking statements and factors that may affect future results

This report contains "forward-looking" statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We generally identify forward-looking statements by using words such as "anticipate," "estimate," "could," "expect," "intend," "project," "plan," "predict," "believe," "seek," "continue," "outlook," "objective," "target," "may," "might," "will," "should," "can have," "likely" or the negative version of these words or comparable words or by using future dates in connection with any discussion of future performance, actions or events.

In particular, forward-looking statements include statements relating to our future actions, business plans or prospects, prospective products, product approvals or products under development, R&D costs, timing and likelihood of success, future operating or financial performance, future results of current and anticipated products and services, product and supply chain disruptions, the impact of the COVID-19 pandemic, strategies, sales efforts, expenses, production efficiencies, production margins, anticipated timing of generic market entries, integration of acquired businesses, interest rates, tax rates, changes in tax regimes and laws, foreign exchange rates, growth in emerging markets, the outcome of contingencies, such as legal proceedings, plans related to share repurchases and dividends, government regulation and financial results. These statements are not guarantees of future performance, actions or events. Forward-looking statements are subject to risks and uncertainties, many of which are beyond our control, and are based on assumptions that could prove to be inaccurate. Among the factors that could cause actual results to differ materially from past results and future plans and projected future results are the following:

- unanticipated safety, quality or efficacy concerns or issues about our products,
- the possible impact and timing of competing products, including generic alternatives, on our products and our ability to compete against such products;
- the decline in global economic conditions, including Russia's invasion of Ukraine, and inflation;
- the economic, political, legal and business environment of the foreign jurisdictions in which we do business;
- disruptive innovations and advances in medical practices and technologies;
- consolidation of our customers and distributors;
- changes in the distribution channel for companion animal products;
- the impact of the COVID-19 global pandemic on our business, global supply chain, customers and workforce;
- an outbreak of infectious disease carried by animals;
- restrictions and bans on the use of and consumer preferences regarding antibacterials in food-producing animals;
- perceived adverse effects linked to the consumption of food derived from animals that utilize our products or animals generally;
- increased regulation or decreased governmental support relating to the raising, processing or consumption of food-producing animals;
- failure to successfully acquire businesses, license rights or products, integrate businesses, form and manage alliances or divest businesses;
- adverse weather conditions and the availability of natural resources;
- the impact of climate change on our activities and the activities of our customers and suppliers, including, for example, altered distribution and intensity of rainfall, prolonged droughts or flooding, increased frequency of wildfires and other natural disasters, rising sea levels, and rising heat index;
- failure of our R&D, acquisition and licensing efforts to generate new products and product lifecycle innovations;
- difficulties or delays in the development or commercialization of new products;
- product launch delays, inventory shortages, recalls or unanticipated costs caused by manufacturing problems and capacity imbalances;
- fluctuations in foreign exchange rates and potential currency controls;
- legal factors, including product liability claims, antitrust litigation and governmental investigations, including tax disputes, environmental concerns, commercial disputes and patent disputes with branded and generic competitors, any of which could preclude commercialization of products or negatively affect the profitability of existing products;
- failure to protect our intellectual property rights or to operate our business without infringing the intellectual property rights of others;
- a cyber-attack, information security breach or other misappropriation of our data;
- quarterly fluctuations in demand and costs;
- governmental laws and regulations affecting domestic and foreign operations, including without limitation, tax obligations and changes affecting the tax treatment by the U.S. of income earned outside the U.S. that may result from pending or possible future proposals;
- governmental laws and regulations affecting our interactions with veterinary healthcare providers; and
- the other factors set forth under "Risk Factors" in Item 1A. of Part I of our 2022 Annual Report on Form 10-K.

However, there may also be other risks that we are unable to predict at this time. These risks or uncertainties may cause actual results to differ materially from those contemplated by a forward-looking statement. You should not put undue reliance on forward-looking statements. Forward-looking statements speak only as of the date on which they are made. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or by the rules and regulations of the SEC. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q and 8-K reports and our other filings with the SEC. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the above to be a complete discussion of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A significant portion of our revenue and costs are exposed to changes in foreign exchange rates. In addition, our outstanding borrowings may be subject to risk from changes in interest rates and foreign exchange rates. The overall objective of our financial risk management program is to seek to minimize the impact of foreign exchange rate movements and interest rate movements on our earnings. We manage these financial exposures through operational means and by using certain financial instruments. These practices may change as economic conditions change.

For a complete discussion of our exposure to interest rate and foreign exchange risk, refer to *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes from the information discussed therein.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation as of September 30, 2023, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective at a reasonable level of assurance in alerting them in a timely manner to material information required to be disclosed in our periodic reports filed with the SEC.

Changes in Internal Control over Financial Reporting

During our most recent fiscal quarter, there has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated herein by reference to Notes to Condensed Consolidated Financial Statements—*Note 15. Commitments and Contingencies* in *Part I— Item 1*, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in the “Our Operating Environment” and “Forward-Looking Statements and Factors That May Affect Future Results” sections of the MD&A and in Part I, Item 1A. “Risk Factors,” of our 2022 Annual Report on Form 10-K, which could materially affect our business, financial condition, or future results and which are incorporated by reference herein. There have been no material changes from the risk factors disclosed in our 2022 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In December 2021, our Board of Directors authorized a $3.5 billion multi-year share repurchase program. As of September 30, 2023 there was $1.7 billion remaining under this program.

The following table provides information with respect to the shares of the company’s common stock repurchased during the three months ended September 30, 2023:

	Issuer Purchases of Equity Securities[b]			
	Total Number of Shares Purchased[a]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
July 1 - July 31, 2023	468,327	$174.84	467,884	$1,898,695,435
August 1 - August 31, 2023	478,575	$185.58	478,383	$1,809,916,160
September 1 - September 30, 2023	430,197	$184.77	429,667	$1,730,302,057
	1,377,099	$181.68	1,375,934	$1,730,302,057

(a) The company repurchased 1,165 shares during the three-month period ended September 30, 2023 that were not part of the publicly announced share repurchase authorization. These shares were reacquired from employees to satisfy tax withholding requirements on the vesting of restricted shares from equity-based awards.

(b) Amounts exclude the impact of excise tax on net share repurchases.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

Rule 10b5-1 Trading Arrangements

None

Item 6. Exhibits

Exhibit 31.1	Chief Executive Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 31.2	Chief Financial Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 32.1	Chief Executive Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
Exhibit 32.2	Chief Financial Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
EX-101.INS	Inline XBRL INSTANCE DOCUMENT
EX-101.SCH	Inline XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
EX-101.CAL	Inline XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
EX-101.LAB	Inline XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
EX-101.PRE	Inline XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT
EX-101.DEF	Inline XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
EX-104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Zoetis Inc.

November 2, 2023	By:	/S/ KRISTIN C. PECK Kristin C. Peck Chief Executive Officer and Director
November 2, 2023	By:	/S/ WETTENY JOSEPH Wetteny Joseph Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kristin C. Peck, certify that:

1. I have reviewed this Quarterly Report of Zoetis Inc. on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2023

By: /s/ KRISTIN C. PECK
Kristin C. Peck
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wetteny Joseph, certify that:

1. I have reviewed this Quarterly Report of Zoetis Inc. on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2023	By:	/s/ WETTENY JOSEPH
		Wetteny Joseph
		Executive Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350, I, Kristin C. Peck, Chief Executive Officer, hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Zoetis Inc. for the period ended September 30, 2023 (the "Report") (1) fully complies with Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zoetis Inc.

November 2, 2023	By:	/s/ KRISTIN C. PECK
		Kristin C. Peck
		Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. §1350, I, Wetteny Joseph, Executive Vice President and Chief Financial Officer, hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Zoetis Inc. for the period ended September 30, 2023 (the "Report") (1) fully complies with Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zoetis Inc.

November 2, 2023	By:	/s/ WETTENY JOSEPH
		Wetteny Joseph
		Executive Vice President and Chief Financial Officer