Sell: Zoetis (ZTS)

NOVEMBER 2025	HOLDINGS UPDATE	JENSEN QUALITY GROWTH STRATEGY

Investment Thesis and What Led Us to Sell

Zoetis (ticker: ZTS) operates as a leader in the animal health market, with solid competitive advantages stemming from its entrenched position in a relatively stable industry. However, sales growth from established drugs has waned, and a once promising drug pipeline has underwhelmed. This setback led to a deterioration in our long-term growth outlook for the business, particularly surrounding growth prospects for its monoclonal antibody drug franchise.

- **Competitive Advantages:** Zoetis benefits from intellectual property driven by innovation and research and development efforts, barriers to entry, and economies of scale.
- **Earnings Stability:** Zoetis has a resilient, growing business with revenue that tends to be recurring in nature tied to prescriptions and stable customer relationships.
- **Valuation:** The company has been experiencing valuation compression attributable to growth pressure and slight deterioration in fundamentals.

Company Overview

Zoetis provides, develops, manufactures, and markets animal health medicines, vaccines, diagnostic products, genetic tests, and biodevices. The company has approximately 300 product lines supporting eight core species. Zoetis is the animal health market leader in terms of revenue.

- Approximately two-thirds of the company's sales are derived from companion animal medicines with the remaining one-third of sales coming from livestock products.
- The company's geographic sales mix is 55% U.S. and 45% international.

The Jensen Quality Growth Investment Team trimmed back our Zoetis position opportunistically throughout 2025 in favor of companies with accelerating growth prospects and improving competitive advantages, recently using proceeds to increase the Quality Growth Strategy's position in **Eli Lilly (LLY)**. We sold the remaining position and allocated the proceeds toward companies with more attractive risk-adjusted return prospects.

Outlook

Our short- and long-term growth outlooks for Zoetis are constrained. While the company's core business remains advantaged, slowing growth prospects, reduced consumer spending on veterinary care, and a slight deterioration in fundamentals have, in our view, pressured both near- and long-term expectations.

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