

Zoetis Inc.

FY24 guide falls short, but Librela can still drive ZTS to new heights

Reiterate Rating: BUY | PO: 205.00 USD | Price: 183.49 USD

Mixed print as non-op items take a bite from 4Q

Zoetis (ZTS) reported 4Q results, with sales of \$2,213mn coming in roughly in-line. Adj OpM of 33.7% was below in part due to a ~100bps headwind from FX and non-op charges, leading to Adj EPS of \$1.24 vs BofAe \$1.33. See our [First Look](#) for more detail.

'24 sales guide strong; EPS tempered as ZTS funds growth

ZTS's FY24 outlook for 7-9% operational revenue growth broadly met expectations given continued momentum across key products. Despite the strong operational growth outlook, ZTS's initial Adj EPS guide of \$5.79 at midpoint fell short of consensus. Although optically disappointing, the drivers of the Adj EPS guide shortfall do little to change our core thesis. R&D is now expected to be well above our prior forecast, but we continue to see internal investment as ZTS's best option for capital allocation given its track record of industry leading growth and innovation. SG&A is starting to benefit from leverage on recent investments in sales & marketing infrastructure. Beyond operating factors, we also note FX poses a roughly -12c to -13c headwind to FY24 earnings at current rates.

FY24 set to be another strong year for key product lines

Mgmt. remains constructive on indicators from Librela's U.S launch, and while they did not offer guidance, a solid contribution to FY24 growth was suggested (we still est. ~\$250mn in 2024 US sales). Similarly, even with competitors to both Trio and Derm expected in FY24, mgmt. still sees +mid-high single digit growth for each franchise in the coming year. In terms of end-markets, ZTS expects vet clinic visit growth to normalize toward +0%-1%, with increased auto-ship and retail mix helping to offset the impact of clinic capacity constraints. Livestock is seen as more of a mixed bag, with new product benefits counterbalanced by weak OUS macro, resulting in low-single-digit growth.

Trim estimates; Reiterate Buy and \$205 PO

ZTS's 4Q results and initial FY24 guide were mixed, with both featuring a strong topline offset by softer margins/EPS. We lower our forecasts to reflect the update and roll our valuation forward to FY25; our PO remains \$205 (~31x FY25 P/E, was ~35x FY24). Our view on ZTS is largely unchanged; we still see the company as a clear market leader in an industry with durable secular growth drivers and thus we reiterate our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.88	5.32	5.80	6.50	7.20
GAAP EPS	4.49	5.07	5.55	6.26	6.96
EPS Change (YoY)	3.8%	9.0%	9.0%	12.1%	10.8%
Consensus EPS (Bloomberg)			5.95	6.68	7.36
DPS	1.30	1.50	1.73	1.98	2.28
Valuation (Dec)					
P/E	37.6x	34.5x	31.6x	28.2x	25.5x
GAAP P/E	40.9x	36.2x	33.1x	29.3x	26.4x
Dividend Yield	0.7%	0.8%	0.9%	1.1%	1.2%
EV / EBITDA*	26.1x	22.0x	20.2x	18.6x	17.2x
Free Cash Flow Yield*	1.6%	1.9%	2.4%	2.8%	3.1%

* For full definitions of *IQmethod*SM measures, see page 4.

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13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	9,224.8	9,150.5
2025E Rev (m)	9,910.1	9,819.9
2026E Rev (m)	NA	10,529.6
2024E EPS	5.90	5.80
2025E EPS	6.63	6.50
2026E EPS	NA	7.20

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Stock Data

Price	183.49 USD
Price Objective	205.00 USD
Date Established	27-Oct-2023
Investment Opinion	B-1-7
52-Week Range	151.03 USD - 201.92 USD
Mkt Val (mn) / Shares Out (mn)	85,249 USD / 464.6
Free Float	91.9%
Average Daily Value (mn)	342.64 USD
BofA Ticker / Exchange	ZTS / NYS
Bloomberg / Reuters	ZTS US / ZTS.N
ROE (2024E)	102.8%
Net Dbt to Eqty (Dec-2023A)	180.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

M-HSD: mid-to-high single-digits

iQprofileSM Zoetis Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	19.5%	20.3%	23.0%	24.1%	24.1%
Return on Equity	51.4%	64.2%	102.8%	171.8%	233.4%
Operating Margin	38.3%	37.8%	38.9%	39.9%	40.4%
Free Cash Flow	1,326	1,621	2,047	2,366	2,663

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.2x	1.4x	1.6x	1.5x	1.5x
Tax Rate	20.5%	20.3%	20.7%	20.7%	20.6%
Net Debt-to-Equity Ratio	98.2%	180.3%	356.2%	NM	NM
Interest Cover	14.0x	13.5x	16.9x	20.5x	24.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,080	8,544	9,150	9,820	10,530
% Change	3.9%	5.7%	7.1%	7.3%	7.2%
Gross Profit	5,640	5,996	6,450	6,982	7,529
% Change	2.8%	6.3%	7.6%	8.2%	7.8%
EBITDA	3,561	4,213	4,589	4,996	5,394
% Change	-8.3%	18.3%	8.9%	8.9%	8.0%
Net Interest & Other Income	(219)	(160)	(211)	(191)	(171)
Net Income (Adjusted)	2,297	2,457	2,661	2,960	3,249
% Change	2.5%	7.0%	8.3%	11.2%	9.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,114	2,344	2,548	2,848	3,137
Depreciation & Amortization	465	491	516	541	568
Change in Working Capital	(699)	(512)	(250)	(250)	(250)
Deferred Taxation Charge	(286)	(61)	0	0	0
Other Adjustments, Net	318	91	66	73	80
Capital Expenditure	(586)	(732)	(833)	(845)	(872)
Free Cash Flow	1,326	1,621	2,047	2,366	2,663
% Change	-23.6%	22.2%	26.3%	15.6%	12.5%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(611)	(692)	(796)	(915)	(1,052)
Change in Debt	1,350	(1,349)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,581	2,041	2,392	2,943	3,653
Trade Receivables	1,215	1,304	1,333	1,431	1,534
Other Current Assets	2,710	2,998	2,721	2,920	3,131
Property, Plant & Equipment	2,753	3,204	3,521	3,825	4,129
Other Non-Current Assets	4,666	4,739	4,562	4,601	4,641
Total Assets	14,925	14,286	14,529	15,720	17,088
Short-Term Debt	1,352	1,352	1,352	1,352	1,352
Other Current Liabilities	1,815	2,047	2,181	2,324	2,491
Long-Term Debt	6,552	6,554	7,906	9,258	10,610
Other Non-Current Liabilities	803	1,079	1,163	1,265	1,369
Total Liabilities	10,522	11,032	12,602	14,199	15,823
Total Equity	4,403	3,254	1,928	1,521	1,265
Total Equity & Liabilities	14,925	14,286	14,529	15,720	17,088

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Healthcare Technology & Distribution

Company Description

Zoetis is the global leader in the discovery, development, manufacturing, and commercialization of animal health medicines and vaccines for both the production and companion animal markets. Its well-diversified portfolio of over 300 product lines, which spans eight core species and five therapeutic categories, is directly marketed in 70 countries with the industry's largest sales force.

Investment Rationale

We believe Zoetis should benefit from rising demand for companion and production animal health products, particularly in emerging markets, new products and product line extensions, expanding ancillary service offerings, and greater operating and working capital efficiencies. Opportunistic investments in acquisitions and/or partnerships should supplement growth.

Stock Data

Average Daily Volume 1,971,777

Quarterly Earnings Estimates

	2023	2024
Q1	1.31A	NA
Q2	1.41A	NA
Q3	1.36A	NA
Q4	1.24A	NA

Price objective basis & risk

Zoetis Inc. (ZTS)

Our \$205 price objective (PO) is based on 31x our FY25 EPS estimates. This is roughly in-line with the historic ZTS multiple, which we believe is justified given upside from new product launches and incremental capital deployment, further margin expansion opportunity, and the defensive nature of the business, as well as reflects the near-term headwinds due to the Coronavirus outbreak.

Upside risks are continued ramp of new products, larger-than-expected contribution from future and ongoing launches, and accelerating growth from Abaxis acquisition.

Downside risks to our price objective are continued challenges from ongoing Coronavirus outbreak, competition in select markets or new product launches by competitors, weaker demand for animal health products, regulatory issues such as failure to get approval of key products in the pipeline, macroeconomic conditions, currency risks, and headwinds related to regulations of antibiotic use in animal feed additives.

Analyst Certification

I, Michael Ryskin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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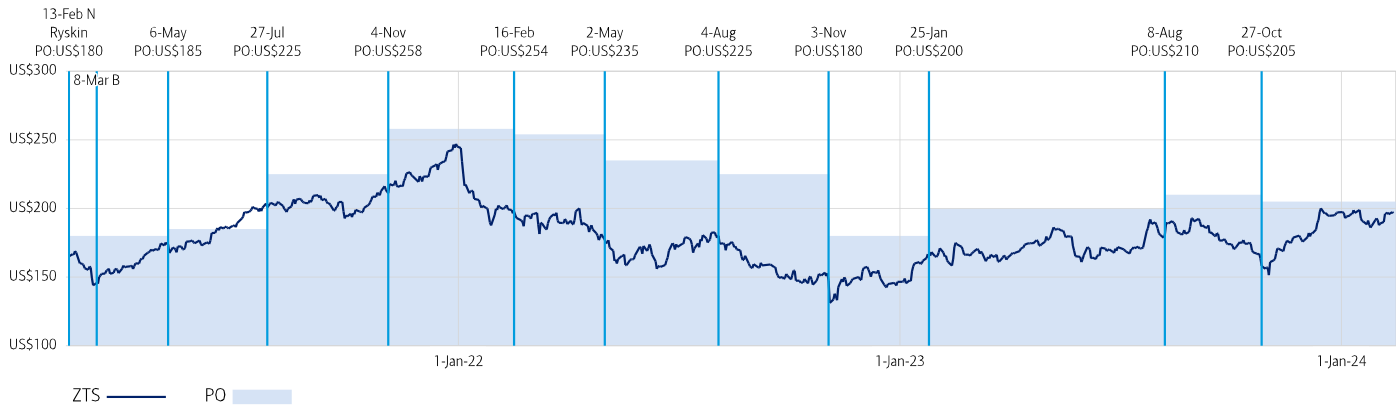
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Zoetis Inc. (ZTS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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