

## Zoetis Inc.

# 4Q23 First Look: Initial 2024 guide for 8% core sales growth, 9% Adj EPS yoy

Maintain Rating: BUY | PO: 205.00 USD | Price: 196.69 USD

## 4Q: +8% core growth, Adj EPS comes in below

ZTS reported 4Q revenue of \$2,213mn, roughly in line with BofAe/Street of \$2,199/\$2,193mn, as operational (constant currency, or cc) sales were up 8% versus our 8.2% estimate (see Exhibit 1). Adj GM came in at 67.1% vs BofAe 70.0% and Adj OpM was 33.7% versus BofAe of 37.5%. On the bottom line, Adj EPS of \$1.24 compared to BofAe/Street of \$1.33/\$1.32. 4Q earnings often carry particularly low margins due to species seasonality and order timing, and we believe this was again the case in 4Q23.

### Exhibit 1: ZTS 4Q23 results

4Q sales roughly in line, adj EPS below due to soft margins

	Actual	BofA estimate
Livestock revenues (\$, mn)	\$ 745	\$ 675
Livestock core growth (%)	6%	-3.7%
Companion Animal revenues (\$, mn)	\$1,448	\$ 1,499
Companion Animal core growth (%)	10%	15.1%
Total revenues (\$, mn)	\$2,213	\$ 2,199
Total core growth	8%	8.2%
Gross Margins	67.1%	70.0%
EBIT Margins	33.7%	37.5%
Adj EPS	\$1.24	\$ 1.33

Source: Company reports, BofA estimates, (core growth excludes impact of F/X)

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## FY24 guide: 7-9% core growth, \$5.74-\$5.84 Adj EPS

ZTS initiated FY24 guidance, calling for sales of \$9,075-\$9,225mn (versus BofAe/Street of \$9,225/\$9,201mn), with 7-9% core revenue growth and roughly -1% F/X. Adj EPS are expected to be \$5.74-\$5.84 (versus BofAe/Street of \$5.90/\$5.95). The FY24 revenue outlook came in roughly as expected as the company continues to see momentum across its key franchises (particularly in Companion Animal). That said, the Adj EPS guide range came in well below, which we believe is a function of worsening F/X headwinds (especially Argentinian Peso), as well as other non-operating items (higher interest expense).

## 4Q strength in Companion, driven by key franchises

As we highlighted in our readthroughs from Merck Animal Health's results (see our [February 1st note](#)), trends across the Animal Health industry remained noisy in 4Q. ZTS called out continued strength in its key Companion Animal franchises (pain, parasiticides, derm) but did flag weakness in international Swine, due to challenging market conditions.

## Color on Librela (& Trio) likely determines stock reaction

ZTS's posted a fine 4Q, though we expect much of the attention to be paid to the assumptions driving the below-expectation FY24 Adj EPS outlook. While the overall numbers are a bit disappointing, the focus from investors is on the Librela US launch, and how Trio performs in the face of competition. If these drivers continue to perform well, we think that investors will overlook non-operating headwinds to EPS in 2024. We maintain our Buy rating as we look forward to the 4Q call at 8:30am EST.

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### Stock Data

Price	196.69 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)	91,382 USD / 464.6
Free Float	92.0%
Average Daily Value (mn)	356.87 USD
BofA Ticker / Exchange	ZTS / NYS
Bloomberg / Reuters	ZTS US / ZTS.N
ROE (2023E)	69.7%
Net Dbt to Eqty (Dec-2022A)	98.2%
ESGMeter™	High

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GM: gross margin

OpM: operating profit margin

## Price objective basis & risk

### Zoetis Inc. (ZTS)

Our \$205 price objective (PO) is based on 35x our FY24 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.

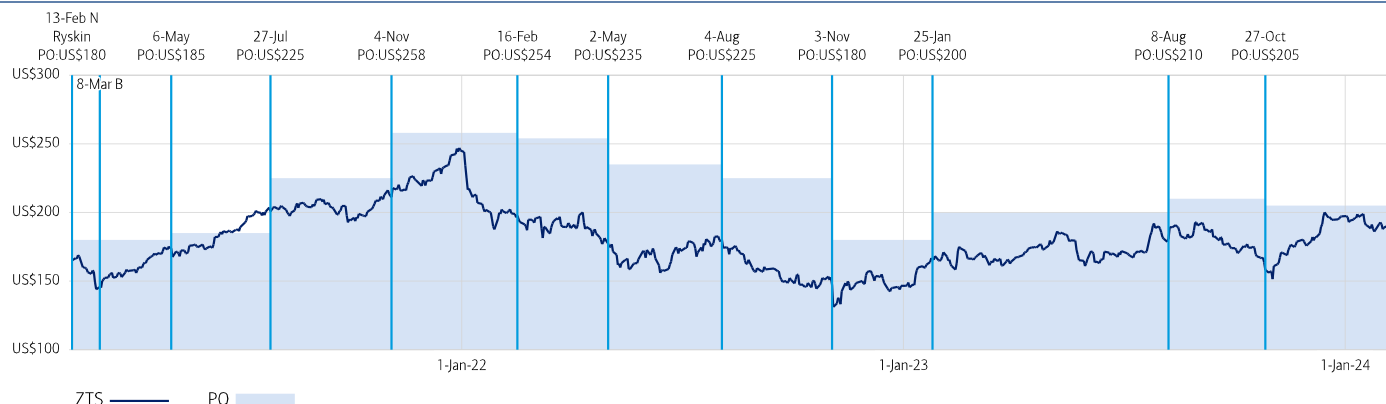
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### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Buy	≥ 10%	≤ 70%
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