

ZTS - BUY - Expect July WASDE Crop Report to Be Positive Read-Through for Livestock Expansion

SECTOR: Specialty Pharmaceuticals

July 8, 2013

We are optimistic that livestock expansion for poultry and swine will pick up in 2014 and cattle will pick up for 2015. This would be positive for ZTS (BUY, \$30.17), since over 60% of its sales are to the livestock industry. The July and August WASDE crop reports (or World Agriculture Supply and Demand Estimates) are closely watched for a current read on harvest prospects for 2013 crops and prices, which determine producers' decisions to expand herd sizes. On a separate note, PRGO (BUY, \$123.77) indicated that the flea & tick season has been picking up, which is good for ZTS's companion animal business.

Please join us after the WASDE data release this Thursday at 2:30 PM for a conference call with our WRG Agriculture Policy Analyst, Mark McMinimy. Post the report, we should have a more informed idea of how crops are faring this year, which will provide better insight into the timing of livestock expansion in 2014 and 2015. The dial-in numbers are as follows: Toll-Free U.S./Canada: 1-866-823-5040; Toll & Outside of U.S./Canada: 1-719-457-6935; Conference ID: 6638968.

- **According to Mark McMinimy, trends from a USDA survey (USDA Acreage Report) of what U.S. farmers planted this year suggest there is potential for 2013 harvest surpluses and lower crop prices compared to 2012.** The June report indicated that growers planted exceptionally large harvests of both corn and soybeans, which bodes favorably for the potential of large harvests for both crops later this summer. If this happens, it would likely result in surplus supplies and considerably lower prices compared to 2012. The USDA currently projects 2013 crop prices may average 30% and 25% lower compared to 2012 levels for corn and soybeans, respectively. For additional detail, please refer to Mark McMinimy's note published on June 28, [Large Corn, Soybean Plantings Point to Potential for 2013 Harvest Surpluses and Lower Crop Prices](#).
- **Abundant crops and lower prices would benefit the livestock industry by putting it on the path to expansion.** The most important variables to monitor are the weather in the U.S. Corn Belt this summer and the recovery of drought-ravaged pastures in the Plains states. If corn and soybean yields rebound to more normal levels this year, and the likelihood is that they will, then feed costs could fall by one-quarter to one-third, providing a green light for livestock expansion.
- **USDA is to issue updated 2013 yield and production projections this Thursday, July 11.** This is important because July and August are the reproductive periods for U.S. corn and soybean crops. Following the data release, we will host a conference call with Mark McMinimy to discuss the key takeaways from the report.

LOUISE CHEN

louise.chen@guggenheimpartners.com

ANALYST

212 381 4195

SWATI KUMAR

swati.kumar@guggenheimpartners.com

ASSOCIATE

212 918 8754

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

IMPORTANT DISCLOSURES

The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

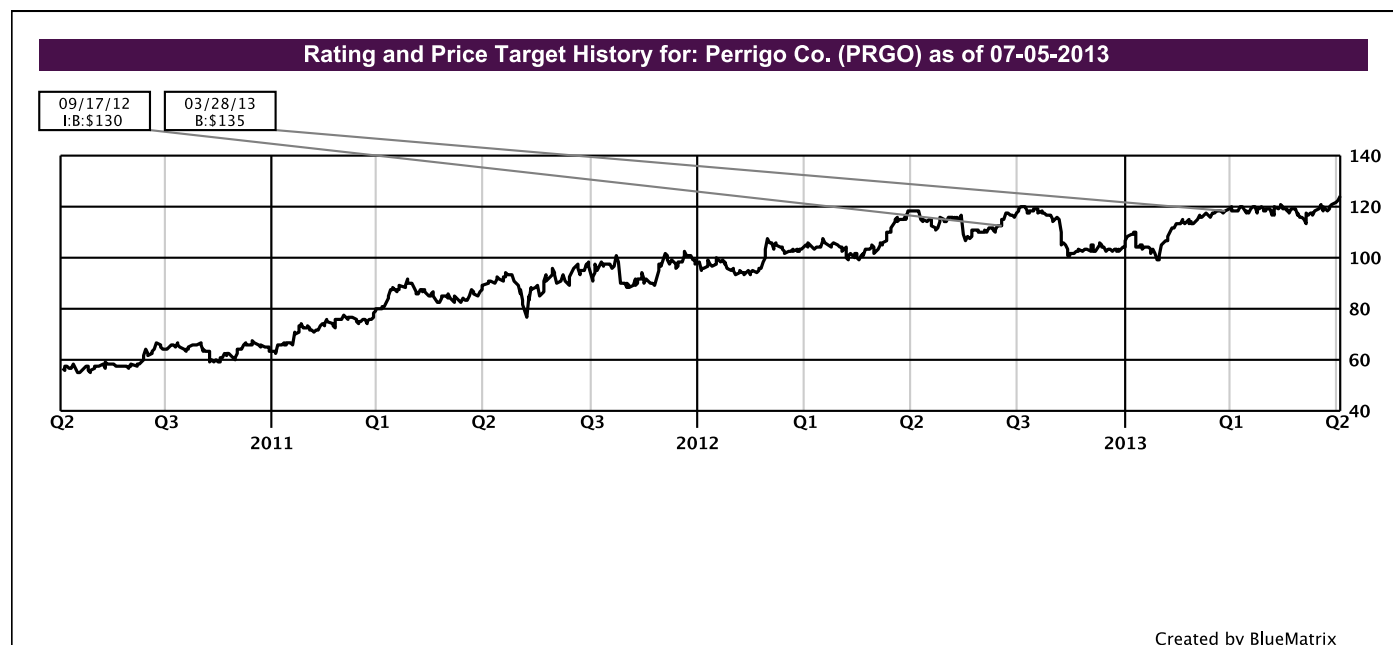
Guggenheim Securities, LLC managed or co-managed a public offering of securities for Zoetis Inc. during the past 12 months.

Zoetis Inc. is or was during the 12-month period preceding the date of the distribution of this report a client of Guggenheim Securities. Guggenheim Securities, LLC Provided Zoetis Inc. investment banking services.

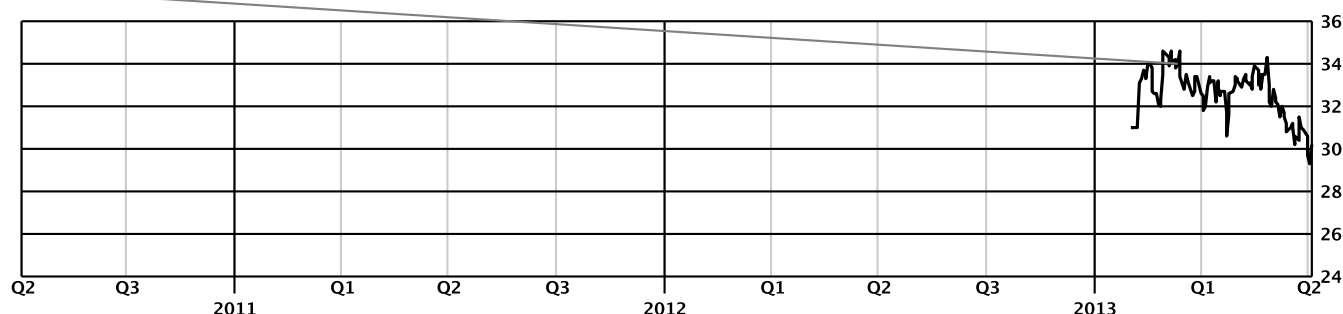
Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Perrigo Co. and Zoetis Inc. in the next 3 months.

For the first quarter 2013, this analyst did not timely, within 30 days of the end of the quarter, provide certifications to the Firm representing that, in connection with public appearances, the views expressed were consistent with his personal views and that no part of his/her compensation was related to his/her recommendation. The certifications were provided shortly thereafter.

Please refer to this website for company-specific disclosures referenced in this report: [https://guggenheimsecurities.bluematrix.com/sellside/ Disclosures.action](https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action). Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.



Rating and Price Target History for: Zoetis Inc. (ZTS) as of 07-05-2013

03/13/13
I:B:\$40

Created by BlueMatrix

RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

Restricted - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	84	54.90%	5	5.95%
Neutral	69	45.10%	5	7.25%
Sell	0	0.00%	0	0.00%

OTHER DISCLOSURES

This research is for our clients and prospective clients only. Other than disclosures relating to Guggenheim Securities and its affiliates, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis,

the large majority of reports are published at irregular intervals as appropriate in the research analyst's judgment. Guggenheim Securities conducts a full-service, integrated investment banking and brokerage business, and one or more of its affiliates conduct an investment management business. Guggenheim Securities is a member of SIPC (<http://www.sipc.org>). Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our employees trading for our own account that reflect opinions that are contrary to the opinions expressed in this research. Guggenheim Securities or certain of its affiliates conducts an investment management business, trades for its own account, and conducts an investment business, and may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research. We and our affiliates also may sell to or buy from customers on a principal basis the securities described herein. We and our affiliates also do business with, or that relates to, companies covered in Guggenheim Securities' research, and may have a position in the debt of the company or companies discussed herein.

This research is not an offer to sell or the solicitation of an offer to buy any security. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

TACTICAL TRADING IDEA DISCLAIMER

Guggenheim Securities, LLC produces "Tactical Trade Ideas" that identify short-term, catalyst-driven trading opportunities impacting companies within the Firm's coverage universe. Tactical Trade Ideas may exist on companies in this report and may be contrary to the analyst's published rating.

Copyright © 2013 by Guggenheim Securities, LLC, ("Guggenheim") a FINRA registered broker-dealer. All rights reserved. The contents of this report are based upon information or are obtained from sources that Guggenheim generally considers reliable, but Guggenheim makes no representations or warranties with respect to their accuracy, completeness, timeliness, suitability or otherwise, and assumes no responsibility to update them for subsequent events or knowledge. Guggenheim is not responsible for your use of this information.

Contact Information

NEW YORK SALES & TRADING DESK
212 292 4700

EQUITY TRADING DESK
212 292 4701

MEDIA INQUIRIES
312 977 4029

EMAIL
general@guggenheimmcm.com

Locations

NEW YORK
330 Madison Avenue
New York, NY 10017

CHICAGO
222 West Adams Street
Chicago, IL 60606

BOSTON
500 Boylston St, 13th Floor
Boston, MA 02116

LOS ANGELES
15821 Ventura Blvd
Encino, CA 91436
999 Corporate Drive
Ladera Ranch, CA 92694

DALLAS
1717 McKinney Avenue
Suite 870
Dallas, TX 75202

NASHVILLE
104 Woodmont Blvd
Suite 203
Nashville, TN 37205

HERNANDO
1288 Byhalia Road
Suite 2
Hernando, MS 38632

Guggenheim Equity Research

AUTOMOTIVE

Matthew Stover, Analyst
matthew.stover@guggenheimpartners.com
617 859 4605

Brendon Mason, Associate
brendon.mason@guggenheimpartners.com
617 859 4624

ENERGY: EXPLORATION & PRODUCTION

Rob Cordray, Analyst
robert.cordray@guggenheimpartners.com
972 638 5509

Steven Hader, Associate
steven.hader@guggenheimpartners.com
972 638 5507

ENERGY: OIL SERVICES & EQUIPMENT

Darren Gacicia, Analyst
darren.gacicia@guggenheimpartners.com
212 293 3054

Michael LaMotte, Analyst
michael.lamotte@guggenheimpartners.com
214 613 6700

FINANCIAL INDUSTRY GROUP

Rahul Agarwal, Associate
rahul.agarwal@guggenheimpartners.com
615 208 1221

Taylor Brodarick, Analyst
taylor.brodarick@guggenheimpartners.com
615 208 1222

David Darst, Analyst
david.darst@guggenheimpartners.com
615 208 1224

Marty Mosby, Analyst
marty.mosby@guggenheimpartners.com
662 469 9595

Mason Mosby, Associate
mason.mosby@guggenheimpartners.com
662 469 9595

HEALTHCARE: BIOTECH

Bret Holley, Analyst
bret.holley@guggenheimpartners.com
212 293 2820

HEALTHCARE: PHARMACEUTICALS

Louise Chen, Analyst
louise.chen@guggenheimpartners.com
212 381 4195

Swati Kumar, Associate
swati.kumar@guggenheimpartners.com
212 918 8754

RETAIL & CONSUMER

Steven Forbes, Associate
steven.forbes@guggenheimpartners.com
212 381 4188

John Heinbockel, Analyst
john.heinbockel@guggenheimpartners.com
212 381 4135

U.S. CABLE

Sabina Nyckowski, Analyst
sabina.nyckowski@guggenheimpartners.com
212 292 4778