

Zoetis

(ZTS-NYSE)

Stock Rating: Outperform
Stock Price: \$32.36
Target Price: \$38.00

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Pharmaceuticals

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US EPA's Deep Proposed Cut to Corn Ethanol Requirement Incrementally Positive

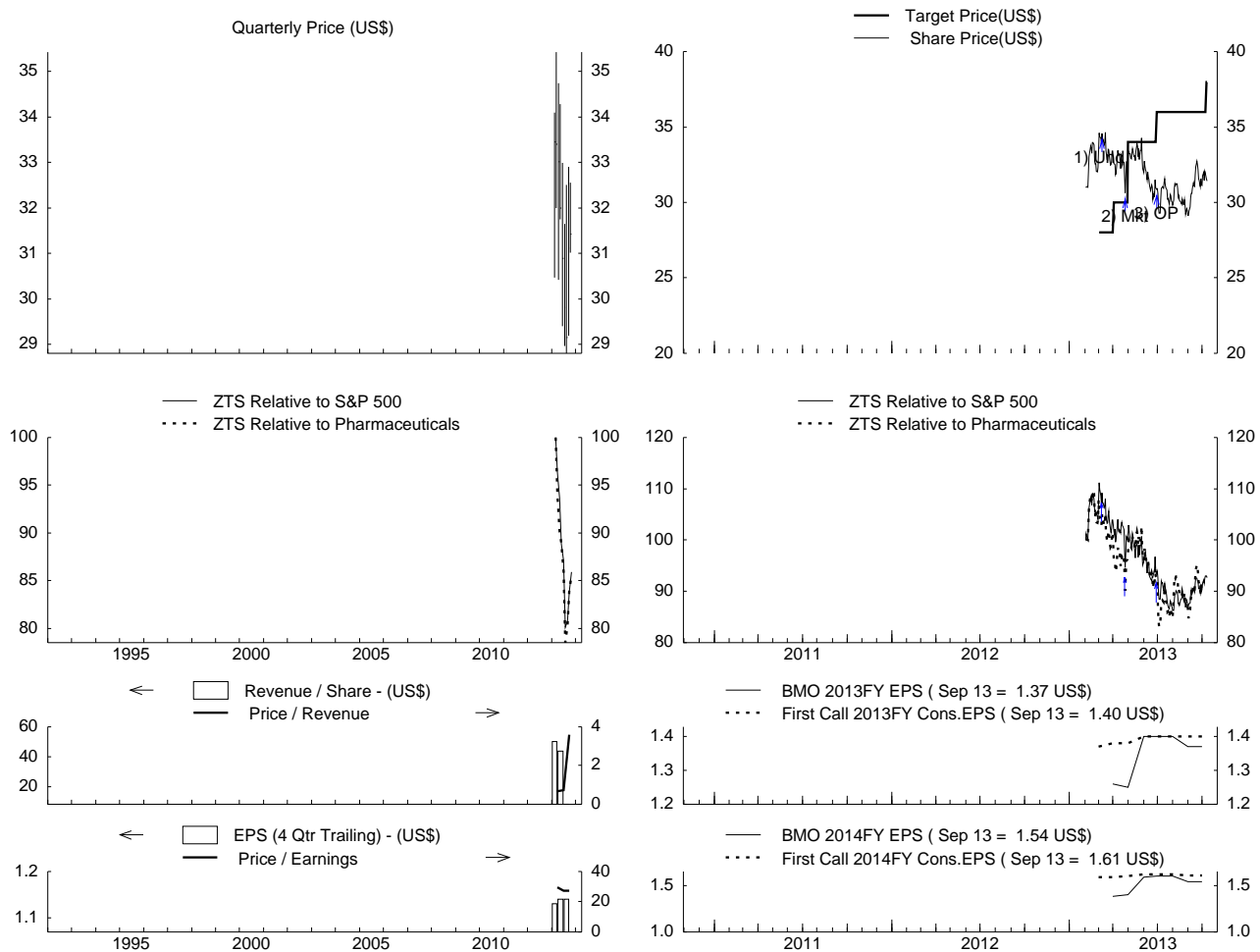
Yesterday, a number of media sources, including Bloomberg, reported that the US Environmental Protection Agency (EPA) is considering reducing its legal requirement on the use of ethanol that must be blended into US gasoline in 2014. One proposal would call for the use of roughly 13 billion gallons of corn-based ethanol in 2014, a significant cut from 13.8 billion gallons this year and the 14.4 billion gallons required for 2014.

Our View:

- Incrementally positive. The proposed reduction in the mandate for corn-based ethanol should reduce demand for corn and lower prices further. Corn prices have already dropped considerably partly because of improving drought conditions in the US. Overall, this is positive for Zoetis' US livestock business, which accounts for roughly 23% of total revenues, and perhaps the overall livestock business (~65% of revenues). The rationale is that lower corn prices should result in increased use of animal health products (e.g., feed antibiotics), as farmers increase the amount of time animals spend in the feedlots. The expected benefit from lower corn prices increases our confidence in the company's growth prospects in the near term (2014-2015).
- We reiterate our Outperform rating on ZTS shares.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

Zoetis Inc. (ZTS)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	ZTS - Rating as of 1-Feb-13 = NR		
Range*:		na na		NC			>15 >15		Date	Rating Change	Share Price
Current*	1.14	27.3	0.26	0.8	23	1.6	19.5	>50	1 7-Mar-13	NR to Und.	\$34.56
									2 24-Apr-13	Und.to Mkt	\$30.62
									3 27-Jun-13	Mkt to OP	\$30.87

* Current EPS is the 4 Quarter Trailing to Q2/2013.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (October 9, 2013): \$31.43
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Important Disclosures

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Company Specific Disclosure

Methodology and Risks to Our Price Target

Methodology: DCF and P/E Multiple

Risks: Demand for animal health products could fluctuate and there are relatively low barriers to entry for competitors.

Distribution of Ratings (September 30, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	20.3%	47.8%	36.7%	48.3%	52.6%
Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

NR = No rating at this time; and

R = Restricted – Dissemination of research is currently restricted.

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http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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