

## Zoetis

### Remain OW Following PFE Share Exchange

Following the Pfizer share exchange making Zoetis a fully publicly-owned company, we wanted to revisit our thesis on the stock. Overall, the exchange does not alter our view on the company or the stock and we see Zoetis as a fairly unique asset within the healthcare space with a highly diversified portfolio, a significant emerging markets presence, and lack of third-party payer or generic exposure. Zoetis remains a clear leader within its industry and we believe the company is capable of generating sustainable mid-single digit top-line growth and low to mid-teens EPS growth. ZTS shares remain OW rated with a \$39 price target.

- **Zoetis holds a clear leadership position in an attractive animal health market.** We see the \$20+ billion animal health market that Zoetis competes in as capable of producing mid-single digit top-line growth driven by a mix of volume as well as price increases and new product introductions. With over \$4 billion in 2012 sales, Zoetis is a clear leader within the industry with a top three position in every major geography and product category.
- **Some modest headwinds in 2Q but full year outlook appears solid.** On the 1Q earnings call, management did highlight several pushes and pulls likely to impact results over the remainder of the year (delayed paraciticide season in Europe in 2Q, Novartis' Sentinel returning to market in the US, recovery in APAC growth in 2H). On balance, we are looking at 2Q as ZTS's lowest topline growth rate for the year (estimating +2%), and in general expect some quarter-to-quarter earnings variability for the company. That said, we remain very comfortable with our full year forecasts which include a topline growth recovery in the second half.
- **We see a significant margin expansion opportunity for Zoetis.** Zoetis has built a global direct sales infrastructure and already spends at industry leading levels on R&D and we see limited need for significant incremental expense growth as the company's top line grows. Along these lines, we forecast meaningful operating margin expansion to 30% by 2017.

#### Zoetis (ZTS;ZTS US)

FYE Dec	2013E	2014E	2015E
EPS Reported (\$)			
Q1 (Mar)	0.36A	-	-
Q2 (Jun)	0.34	-	-
Q3 (Sep)	0.37	-	-
Q4 (Dec)	0.34	-	-
FY	1.40	1.61	1.82
CONSENSUS_EPS			
Bloomberg EPS FY (\$)	1.40	1.63	1.83

Source: Company data, Bloomberg, J.P. Morgan estimates.

## Overweight

ZTS, ZTS US

Price: \$30.17

Price Target: \$39.00

### Pharmaceuticals — Major & Specialty

Chris Schott, CFA <sup>AC</sup>

(1-212) 622-5676

christopher.t.schott@jpmorgan.com

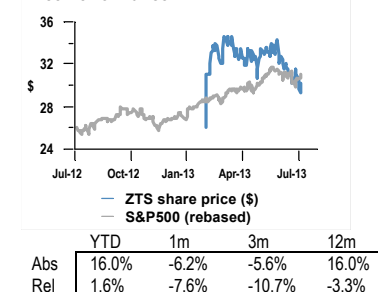
Jessica Fye

(1-212) 622-4165

jessica.m.fye@jpmorgan.com

J.P. Morgan Securities LLC

#### Price Performance



#### See page 6 for analyst certification and important disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

- **Zoetis' business offers several advantages over traditional pharma.** Animal health products do not face the same post-patent expiration cliff as traditional pharmaceutical products and the industry has limited exposure to government or third party payer risk. Further, new product development within animal health is supported by less expensive and less risky R&D cycles. In our view, these factors should translate to highly sustainable growth for Zoetis as compared to the patent expiration-tied cycle of the traditional human pharmaceutical model.
- Please see our Zoetis initiation [Best Of Breed; Initiating with Overweight Rating and \\$39 Price Target](#) for more details on the company.

## Investment Thesis, Valuation and Risks

**Zoetis** (*Overweight; Price Target: \$39.00*)

### Investment Thesis

**Maintain Overweight rating.** Zoetis, a spin-out of Pfizer's animal health division, holds a clear leadership position within its industry and operates a business model that we believe is capable of generating sustainable mid-single digit top-line growth and low to mid-teens EPS growth. Further, we see Zoetis as a fairly unique asset within the healthcare space with a highly diversified portfolio, a significant emerging markets presence, and lack of third-party payer or generic exposure.

### Valuation

Zoetis trades at 21.5x our 2013 EPS estimate of \$1.40. This represents a 7% premium to its healthy-growth comps (AGN, PRGO, MJN, MON). Recall that these names trade at a substantial 37% premium to the S&P 500 on 2013E P/E.

**Maintain Dec-13 price target of \$39.** Our \$39 price target for Zoetis is based on our DCF with the company's mid-single digit top-line growth and substantial margin expansion over the next 5-7 years representing key drivers of our valuation. We assume that Zoetis is able to generate at least industry average top-line growth over the next several years based on the company's global scale as well as its industry leading R&D investment. We are anticipating relatively modest expense growth over this same time horizon as we see limited need for substantial expansion of either Zoetis' sales efforts or overall R&D expense levels. This combination should translate to meaningful operating margin expansion through 2017. Beyond this time horizon, we assume a gradual slowing of both top-line growth and flattening operating margins as Zoetis' business matures.

We would also note that Zoetis is one of only three companies in our coverage universe (AGN and PRGO being the other two) where we assume a modestly positive terminal growth rate (2.5% for Zoetis). This is due to the macro drivers supporting volume growth for the company's products as well as the lack of true generic competition in the animal health space. Beyond the 2.5% terminal growth rate, other key assumptions in our DCF include a 9% WACC (consistent with the rest of our coverage universe).

### Risks to Rating and Price Target

Risks to our Overweight rating on Zoetis include increasing regulation on the use of antibiotics in healthy farm animals, greater-than-expected impact from the US drought, and broader economic volatility which would impact demand for Zoetis' products.

Figure 1: Zoetis P&L

\$ in millions

millions USD Fiscal year ends December 31	Mar 2013 1QA	Jun 2013 2QE	Sep 2013 3QE	Dec 2013 4QE	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
<b>Income Statement</b>												
<b>Revenue</b>												
Total Revenue	1,090	1,112	1,079	1,230	4,510	4,747	5,019	5,321	5,660	6,001	6,331	6,682
Cost of Revenue	398	400	372	437	1,607	1,662	1,732	1,825	1,924	2,010	2,089	2,172
<b>Gross Profit</b>	692	711	706	793	2,903	3,086	3,288	3,496	3,736	3,990	4,242	4,510
<b>Operating Expenses</b>												
SG&A	322	350	329	409	1,410	1,438.3	1,474.2	1,518.5	1,579.2	1,634.5	1,683.5	1,729.8
R&D	90	94	92	117	393	402.8	412.9	425.3	442.3	455.6	469.2	481.0
Amortization of intangible assets	4	4	4	4	15	14.5	14.5	14.5	14.5	14.5	14.5	14.5
<b>Total Operating Expenses</b>	416	448	424	529	1,818	1,856	1,902	1,958	2,036	2,105	2,167	2,225
<b>Income (Loss) from Operations</b>	276	263	282	264	1,086	1,230	1,386	1,537	1,700	1,886	2,075	2,285
Other (Income)/Expense	2	(8)	(8)	(8)	(22)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Net Interest Expense	22	30	30	30	113	115	103	84	65	54	43	32
<b>Total Interest and Other (Income)</b>	24	22	22	22	91	85	73	54	35	24	13	2
<b>Income (Loss) Before Income Taxes</b>	252	241	260	242	995	1,146	1,313	1,483	1,665	1,862	2,062	2,284
Taxes	73	71	77	71	292	332	381	430	483	540	598	662
non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	179	170	183	170	702	813	932	1,053	1,182	1,322	1,464	1,621
<b>Adjusted EPS (diluted)</b>	\$ 0.36	\$ 0.34	\$ 0.37	\$ 0.34	\$1.40	\$1.61	\$1.82	\$2.04	\$2.27	\$2.53	\$2.81	\$3.13
Share Count (diluted)	500	501	501	501	501	506	511	516	521	523	522	518

<b>Margins</b>												
<b>Gross margin</b>	63.5%	64.0%	65.5%	64.5%	64.4%	65.0%	65.5%	65.7%	66.0%	66.5%	67.0%	67.5%
SG&A	29.5%	31.5%	30.5%	33.3%	31.3%	30.3%	29.4%	28.5%	27.9%	27.2%	26.6%	25.9%
R&D	8.3%	8.5%	8.5%	9.5%	8.7%	8.5%	8.2%	8.0%	7.8%	7.6%	7.4%	7.2%
<b>Operating margin</b>	25.3%	23.7%	26.2%	21.5%	24.1%	25.9%	27.6%	28.9%	30.0%	31.4%	32.8%	34.2%
<b>Pretax margin</b>	23.1%	21.7%	24.1%	19.6%	22.1%	24.1%	26.2%	27.9%	29.4%	31.0%	32.6%	34.2%
Tax rate	29.0%	29.5%	29.5%	29.5%	29.4%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
<b>Net margin</b>	16.4%				15.6%	17.1%	18.6%	19.8%	20.9%	22.0%	23.1%	24.3%

<b>Growth Rates</b>												
Revenue	4.1%	1.6%	5.8%	4.6%	4.0%	5.3%	5.7%	6.0%	6.4%	6.0%	5.5%	5.5%
Gross profit	5.0%	-0.1%	5.9%	5.9%	4.2%	6.3%	6.5%	6.3%	6.9%	6.8%	6.3%	6.3%
SG&A	-2.7%	-0.2%	-0.3%	-7.1%	-2.9%	2.0%	2.5%	3.0%	4.0%	3.5%	3.0%	2.8%
R&D	-3.2%	3.8%	-2.5%	-3.4%	-1.5%	2.5%	2.5%	3.0%	4.0%	3.0%	3.0%	2.5%
Operating income	19.5%	-1.4%	18.1%	43.5%	17.9%	13.3%	12.7%	10.9%	10.5%	11.0%	10.0%	10.1%
Pretax income	10.0%	-9.4%	7.4%	38.9%	9.2%	15.2%	14.6%	13.0%	12.2%	11.9%	10.7%	10.7%
Net income	17.8%	-3.5%	19.0%	198.9%	30.3%	15.8%	14.6%	13.0%	12.2%	11.9%	10.7%	10.7%
EPS						14.7%	13.4%	11.9%	11.1%	11.4%	11.1%	11.6%

Source: Company reports and J.P. Morgan estimates.

## Zoetis: Summary of Financials

Income Statement - Annual	FY12A	FY13E	FY14E	FY15E	Income Statement - Quarterly	1Q13A	2Q13E	3Q13E	4Q13E
Revenues	4,336	4,510	4,747	5,019	Revenues	1,090A	1,112	1,079	1,230
Cost of products sold	(1,549)	(1,607)	(1,662)	(1,732)	Cost of products sold	(398)A	(400)	(372)	(437)
Gross profit	2,787	2,903	3,086	3,288	Gross profit	692A	711	706	793
SG&A	(1,452)	(1,410)	(1,438)	(1,474)	SG&A	(322)A	(350)	(329)	(409)
R&D	(399)	(393)	(403)	(413)	R&D	(90)A	(94)	(92)	(117)
Operating income	921	1,086	1,230	1,386	Operating income	276A	263	282	264
Net interest (income) / expense	(31)	(113)	(115)	(103)	Net interest (income) / expense	(22)A	(30)	(30)	(30)
Other income / (expense)	21	22	30	30	Other income / (expense)	(2)A	8	8	8
Pretax income	911	995	1,146	1,313	Pretax income	252A	241	260	242
Income taxes	(372)	(292)	(332)	(381)	Income taxes	(73)A	(71)	(77)	(71)
Net income - recurring	539	702	813	932	Net income - recurring	179A	170	183	170
Diluted shares outstanding	0	501	506	511	Diluted shares outstanding	500A	501	501	501
EPS - excluding non-recurring	-	1.40	1.61	1.82	EPS - excluding non-recurring	0.36A	0.34	0.37	0.34
EPS - recurring	-	1.40	1.61	1.82	EPS - recurring	0.36A	0.34	0.37	0.34
Balance Sheet and Cash Flow Data	FY12A	FY13E	FY14E	FY15E	Ratio Analysis	FY12A	FY13E	FY14E	FY15E
Cash and cash equivalents	317	319	1,094	1,681	Sales growth	2.4%	4.0%	5.3%	5.7%
Short Term Investment	-	-	-	-	EBIT growth	18.4%	17.9%	13.3%	12.7%
Accounts receivable	900	940	949	976	EPS growth - recurring	-	-	14.7%	13.4%
Inventories	1,345	1,116	923	842					
Other current assets	302	302	302	302	Gross margin	64.3%	64.4%	65.0%	65.5%
Current assets	2,864	2,676	3,269	3,800	EBIT margin	21.2%	24.1%	25.9%	27.6%
PP&E	1,241	1,261	1,276	1,276					
Total assets	6,262	6,094	6,702	7,233	Tax rate	40.8%	29.4%	29.0%	29.0%
					Net margin	12.4%	15.6%	17.1%	18.6%
Total debt	582	3,657	3,657	3,407					
Total liabilities	2,221	5,200	5,208	4,968	Return on assets (ROA)	8.6%	11.5%	12.1%	12.9%
Shareholders' equity	4,041	894	1,494	2,266	Return on equity (ROE)	13.3%	78.6%	54.4%	41.1%
Net income (including charges)	436	702	813	932	Free cash flow yield	-	4.4%	6.5%	6.9%
D&A	200	150	120	120					
Change in working capital	(149)	94	191	65					
Other	(33)	28	28	28					
Cash flow from operations	454	754	1,052	1,110					
Capex	(126)	(170)	(135)	(120)					
Free cash flow	349	664	998	1,063					
Cash flow from investing activities	(135)	(170)	(135)	(120)					
Cash flow from financing activities	(78)	(582)	(142)	(403)					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

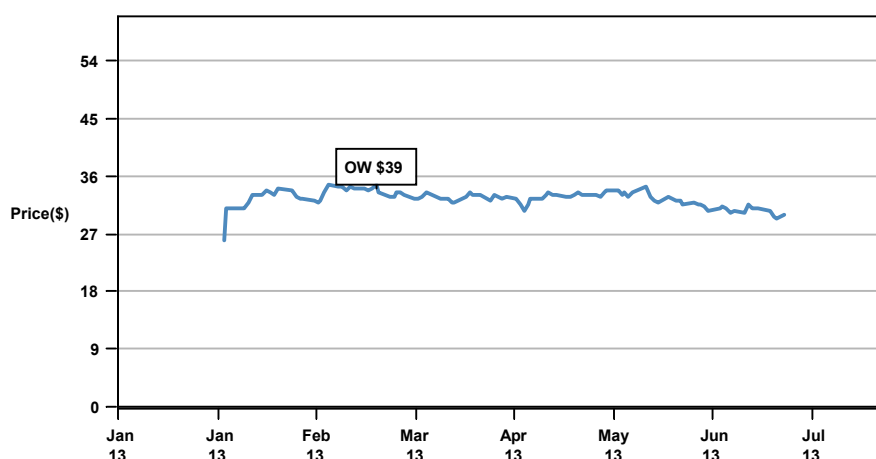
**Analyst Certification:** The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any 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(s) in this report.

## Important Disclosures

- **Lead or Co-manager:** J.P. Morgan acted as lead or co-manager in a public offering of equity and/or debt securities for Zoetis within the past 12 months.
- **Client:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients: Zoetis.
- **Client/Investment Banking:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as investment banking clients: Zoetis.
- **Client/Non-Investment Banking, Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Zoetis.
- **Client/Non-Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-securities-related: Zoetis.
- **Investment Banking (past 12 months):** J.P. Morgan received in the past 12 months compensation from investment banking Zoetis.
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from Zoetis.
- **Non-Investment Banking Compensation:** J.P. Morgan has received compensation in the past 12 months for products or services other than investment banking from Zoetis.

**Company-Specific Disclosures:** Important disclosures, including price charts, are available for compendium reports and all J.P. Morgan–covered companies by visiting <https://mm.jpmorgan.com/disclosures/company>, calling 1-800-477-0406, or e-mailing [research.disclosure.inquiries@jpmorgan.com](mailto:research.disclosure.inquiries@jpmorgan.com) with your request. J.P. Morgan’s Strategy, Technical, and Quantitative Research teams may screen companies not covered by J.P. Morgan. For important disclosures for these companies, please call 1-800-477-0406 or e-mail [research.disclosure.inquiries@jpmorgan.com](mailto:research.disclosure.inquiries@jpmorgan.com).

Zoetis (ZTS, ZTS US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
13-Mar-13	OW	34.00	39.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Mar 13, 2013.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

### Explanation of Equity Research Ratings, Designations and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, [www.jpmorganmarkets.com](http://www.jpmorganmarkets.com).

**Coverage Universe: Schott, Christopher:** AbbVie (ABBV), Actavis Inc (ACT), Allergan (AGN), Amarin Corporation (AMRN), Bristol-Myers Squibb Company (BMY), Eli Lilly & Company (LLY), Endo Health Solutions (ENDP), Forest Laboratories, Inc (FRX), Hospira, Inc. (HSP), Impax Laboratories (IPXL), Kythera Biopharmaceuticals (KYTH), Merck & Co., Inc. (MRK), Mylan Inc. (MYL), Perrigo Company (PRGO), Pfizer Inc. (PFE), Sagent Pharmaceuticals (SGNT), Teva Pharmaceuticals (TEVA), Valeant Pharmaceuticals (VRX), Warner Chilcott (WCRX), Zoetis (ZTS)

### J.P. Morgan Equity Research Ratings Distribution, as of June 28, 2013

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	44%	44%	12%
IB clients*	56%	50%	40%
JPMS Equity Research Coverage	42%	50%	8%
IB clients*	76%	66%	55%

\*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

**Equity Valuation and Risks:** For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at <http://www.jpmorganmarkets.com>, contact the primary analyst or your J.P. Morgan representative, or email [research.disclosure.inquiries@jpmorgan.com](mailto:research.disclosure.inquiries@jpmorgan.com).

**Equity Analysts' Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues.

### Other Disclosures

J.P. Morgan ("JPM") is the global brand name for J.P. Morgan Securities LLC ("JPMS") and its affiliates worldwide. J.P. Morgan Cazenove is a marketing name for the U.K. investment banking businesses and EMEA cash equities and equity research businesses of JPMorgan Chase & Co. and its subsidiaries.

All research reports made available to clients are simultaneously available on our client website, J.P. Morgan Markets. Not all research content is redistributed, e-mailed or made available to third-party aggregators. For all research reports available on a particular stock, please contact your sales representative.

**Options related research:** If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>

### Legal Entities Disclosures

**U.S.:** JPMS is a member of NYSE, FINRA, SIPC and the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities plc (JPMS plc) is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 25 Bank Street, London, E14 5JP. **South Africa:** J.P. Morgan Equities South Africa Proprietary Limited is a member of the Johannesburg Securities Exchange and is regulated by the Financial Services Board. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul Branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (JPMAL) (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (JPMSAL) (ABN 61 003 245 234/AFS Licence No: 238066) is regulated by ASIC and is a Market, Clearing and Settlement Participant of ASX Limited and CHI-X. **Taiwan:** J.P. Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited, having its registered office at J.P. Morgan Tower, Off. C.S.T. Road, Kalina, Santacruz East, Mumbai - 400098, is a member of the National Stock Exchange of India Limited (SEBI)



Registration Number - INB 230675231/INF 230675231/INE 230675231) and Bombay Stock Exchange Limited (SEBI Registration Number - INB 010675237/INF 010675237) and is regulated by Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM LK. **Philippines:** J.P. Morgan Securities Philippines Inc. is a Trading Participant of the Philippine Stock Exchange and a member of the Securities Clearing Corporation of the Philippines and the Securities Investor Protection Fund. It is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissão de Valores Mobiliários (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMSS) [MIC (P) 049/04/2013 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Japan:** JPMorgan Securities Japan Co., Ltd. is regulated by the Financial Services Agency in Japan. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisaliyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia. **Dubai:** JPMorgan Chase Bank, N.A., Dubai Branch is regulated by the Dubai Financial Services Authority (DFSA) and its registered address is Dubai International Financial Centre - Building 3, Level 7, PO Box 506551, Dubai, UAE.

#### Country and Region Specific Disclosures

**U.K. and European Economic Area (EEA):** Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMS plc. Investment research issued by JPMS plc has been prepared in accordance with JPMS plc's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. This material does not take into account the specific investment objectives, financial situation or particular needs of the recipient. The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the term "wholesale client" has the meaning given in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities plc, Frankfurt Branch and J.P. Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider/market maker for derivative warrants, callable bull bear contracts and stock options listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan, Type II Financial Instruments Firms Association and Japan Investment Advisers Association. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul Branch. **Singapore:** JPMSS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **Brazil:** Ombudsman J.P. Morgan: 0800-7700847 / [ouvidoria.jp.morgan@jpmorgan.com](mailto:ouvidoria.jp.morgan@jpmorgan.com).

**General:** Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMS and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own



independent decisions regarding any securities or financial instruments mentioned herein. JPMS distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

"Other Disclosures" last revised May 4, 2013.

---

**Copyright 2013 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.**