

Zoetis Inc.

ZTS - BUY - December WASDE Report Underscores Livestock Expansion Could Drive Upside to Sales Forecasts for ZTS

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FLASH NOTE

SECTOR: Specialty Pharmaceuticals

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The USDA released its monthly WASDE (World Agriculture Supply and Demand Estimates) today. The report supports our belief that livestock expansion for poultry and swine will pick up in 2014 and cattle will pick up in 2015. This would be good for ZTS (BUY, \$31.75), as 64% of its revenues in 3Q13 came from livestock. The key data points that support our positive investment thesis are highlighted below.

- The projected season-average farm price for corn is projected \$0.10 cents lower (was \$4.10 to \$4.90 in November) at the midpoint with the range narrowed to \$4.05 to \$4.75 per bushel based on prices reported to date (down 31% to 41% YOY). Last year, the price of corn was \$6.90. With a record crop now estimated for Canada, additional quantities of Canadian corn are expected to find their way into the U.S. market.
- The U.S. season-average soybean price is projected up \$0.35 at both ends of the range (was \$11.15 to \$13.15 in November) to \$11.50 to \$13.50 per bushel (down 6% to 20% YOY). Last year, the price of soybean was \$14.40.
- The forecasts for total red meat and poultry production for both 2013 and 2014 are raised from November.

Potential Stock Moving Catalysts. 1) Operating margin expansion; 2) new product launches; 3) business development; 4) expansion into adjacent categories; 5) U.S. drought subsidies

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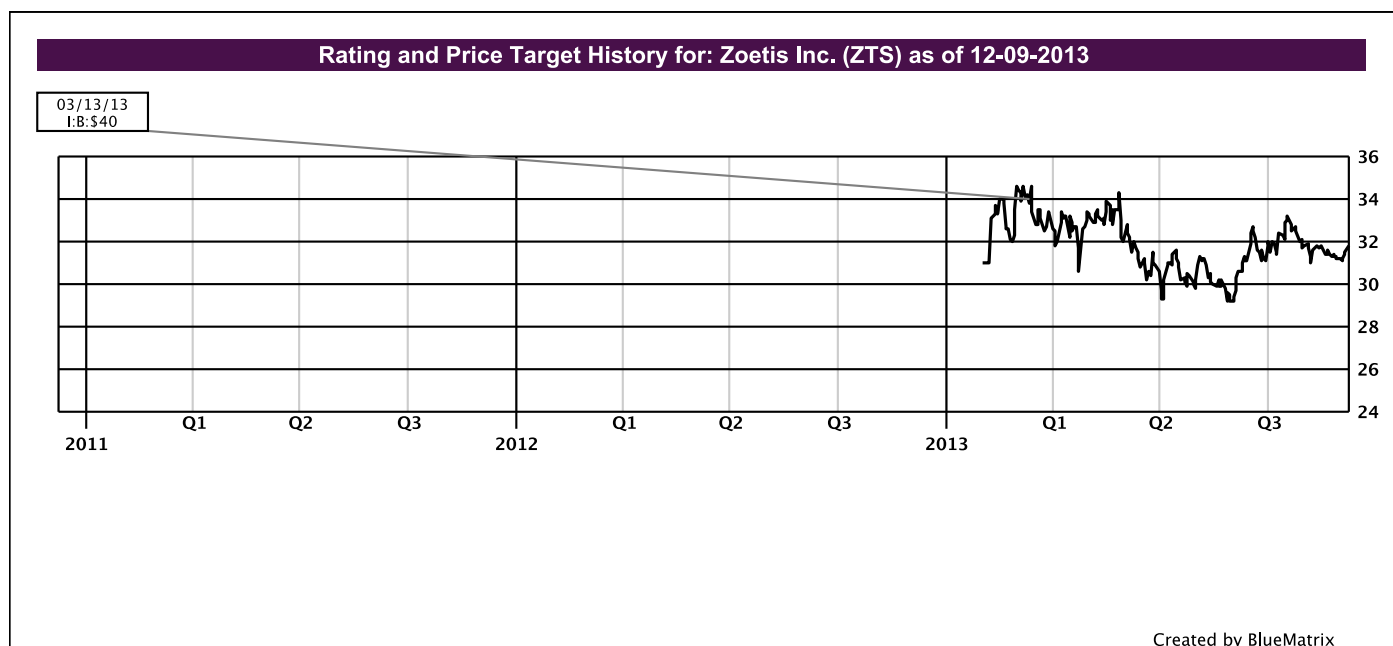
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