

## Zoetis

3Q/13 First Impressions: Strong Top-Line Results  
Highlight Core Growth Potential - ALERT

Zoetis reported in-line 3Q EPS of \$0.34 on a strong top-line beat (9% cc growth), driven in particular by a recovery in US livestock sales and better results in the EuAfME region. This top-line upside was offset by higher promotional spend. Zoetis also raised the lower end of its 2013 EPS and sales guidance ranges. We see this quarter's top-line recovery as reinforcing Zoetis's longer-term growth prospects following slower 1H/13 growth, and overall we continue to see the company as a unique asset within the healthcare space with a highly diversified portfolio, the lack of third-party payer or generic exposure and a significant opportunity for margin expansion over the next 3-5 years. Along these lines, we are reiterating our Overweight rating.

- **Strong top-line beat offset by spending initiatives.** ZTS reported an in-line quarter on stronger-than-expected sales of \$1,103mn (+\$41mn vs. JPMe, +\$45mn vs. cons). SG&A was higher than expected at \$359mn (+\$30mn v. JPMe), as the company invested in promotional programs with the recovery in the market. We see recovery in the top line as validating the ongoing growth opportunity in the space and do not view the higher spend as concerning or the start of a trend toward materially higher expense levels.
- **3Q sales driven by a recovery in the livestock market.** Sales came in above our expectation in every region and were particularly strong in the US and EuAfME. In the US, sales of \$495mm were up 10% YOY and came in \$16mm above our forecast, driven by strong livestock growth of 11% with cattle sales annualizing over a drought-impacted 3Q/12. In EuAfME, sales of \$270mm (+9% operationally) benefitted from 15% operational growth in companion as well as increasing cattle sales in the region's emerging markets. CLAR sales were also modestly ahead of our forecast (+9% operationally), driven in particular by 19% companion growth as the result of a late paraciticide season in Canada.
- **2013 guidance moving to the high end of the range.** Zoetis raised the low end of its top-line guidance for a new range of \$4.48-\$4.53 billion (cons: \$4.49 bn, prior range: \$4.43-\$4.53 billion) and also raised the lower end of its EPS guidance to \$1.38-\$1.42 (cons: \$1.40, prior range: \$1.36-\$1.42).

## Overweight

ZTS, ZTS US

Price: \$31.93

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## Pharmaceuticals — Major &amp; Specialty

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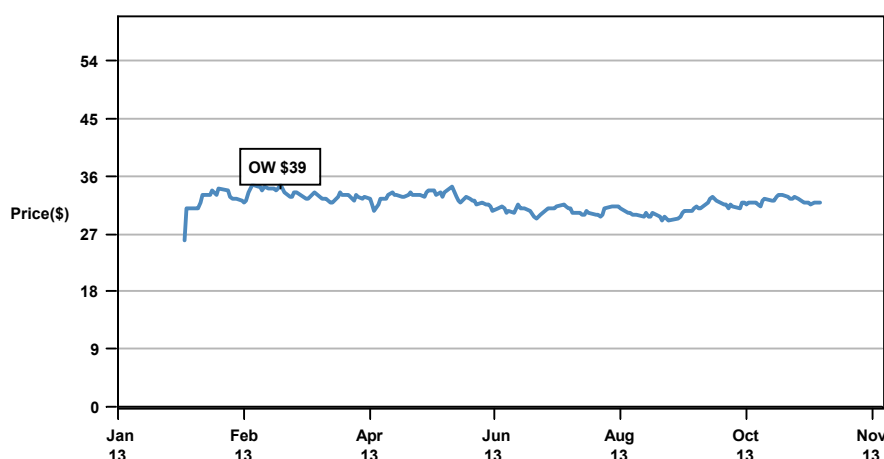
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Zoetis (ZTS, ZTS US) Price Chart



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.

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