

Zoetis Inc.

ZTS - BUY - Market Opportunity for Flea & Tick Products Remains Robust Despite Weaker Season This Year

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FLASH NOTE

SECTOR: Specialty Pharmaceuticals

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Takeaways from 3Q13 earnings for Sanofi/Merial, Perrigo, and Bayer Animal Health indicate that the long-term market opportunity for generic & brand flea and tick products remains meaningful despite a weaker flea and tick season this year.

- **Sanofi/Merial:** Animal health product sales were down 6.4% in 3Q13 and 5.0% year-to-date on a constant currency basis. The drag in sales this year continues to be driven by companion animal sales (60% of total Merial sales), which was down 10% this quarter and down 9.7% year-to-date as a result of generic competition for Frontline (flea & tick), the only billion dollar brand in the entire animal health space. Other issues include tough comparisons year over year because of 3Q12 benefit of Heartgard's sales due to a competitor supply issue as well as poor seasonality this spring for flea & tick products. Merial intends to launch NexGard Chewables for fleas & ticks in the U.S. to help mitigate the impact of generic Frontline. Production animal sales were up 0.5% and 4.3% this quarter and year-to-date, respectively. The company expects Animal Health sales to be down 5.0% for the rest of the year.
- **Bayer Animal Health:** Animal health sales were up 1.5% this quarter and up 2.5% year-to-date on a constant currency basis. Growth this quarter was primarily due to the launch of Seresto flea & tick collar in the U.S. The company anticipates the overall animal health market will grow 3.0% in 2013 compared to 4.0% in 2012.
- **Perrigo:** During the company's earnings call, management highlighted softer animal health sales due to flea & tick season being weaker in 2013 versus last year. That said, the company remains excited about launching a store brand version of Frontline to national accounts in April/May 2014. PRGO already launched its store brand version to a limited number of regional chains this year. PRGO intends to sell generic animal health drugs, but this potentially large market opportunity is likely a few years away, in our view.

Companies Mentioned

Sanofi (SNY, NC, \$53.48)

Bayer (BAYN-XE, NC, €91.54)

Perrigo (PRGO, BUY, \$137.89)

Zoetis (ZTS, BUY, \$31.66)

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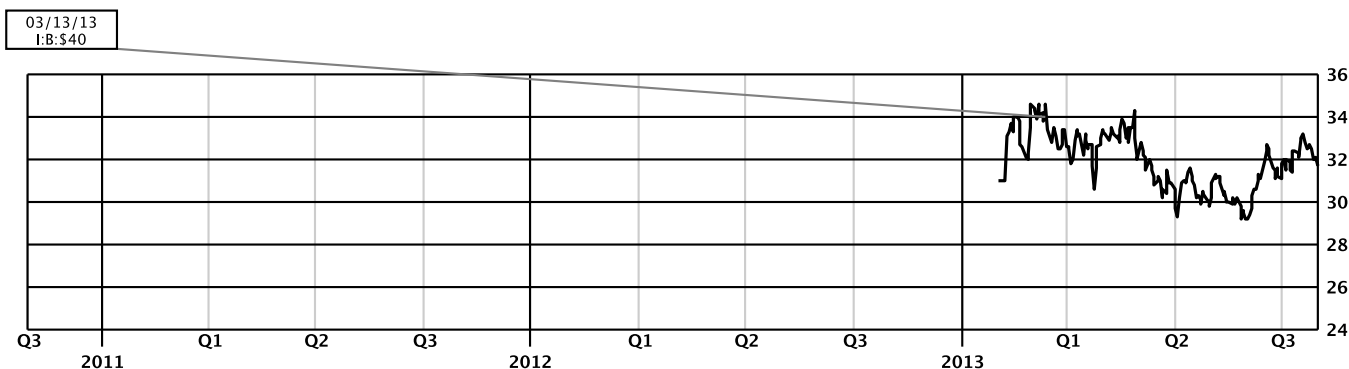
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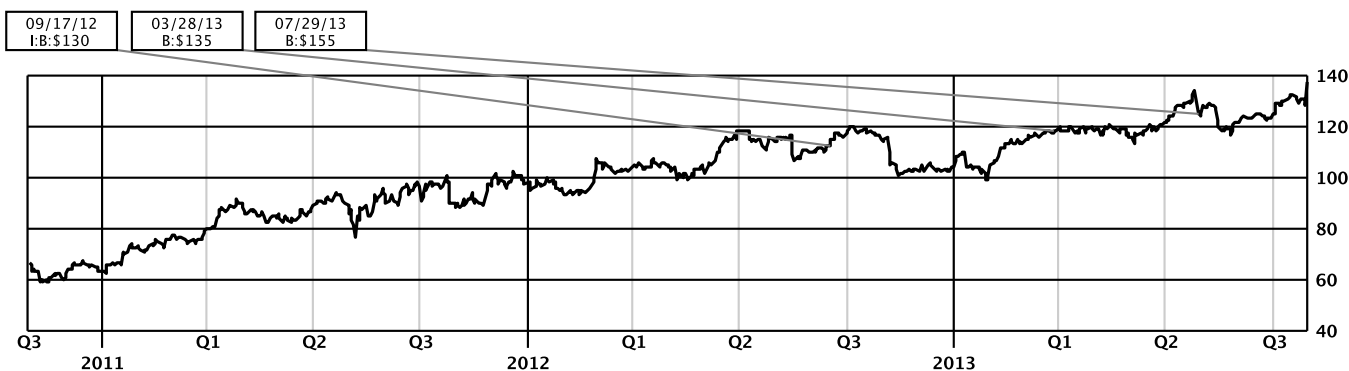
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Rating and Price Target History for: Zoetis Inc. (ZTS) as of 10-31-2013



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Rating and Price Target History for: Perrigo Co. (PRGO) as of 10-31-2013



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