



Rating  
**Buy**

North America  
United States

Health Care  
Pharmaceuticals /  
Specialty

Company  
**Zoetis Alert**

Reuters  
ZTS.N

Bloomberg  
ZTS US

Exchange  
NYS

Ticker  
ZTS

Date  
30 April 2013

## Results

Price at 29 Apr 2013 (USD)	32.66
Price target	38.00
52-week range	34.64 - 30.62

David M Steinberg

Research Analyst  
(+1) 415 617-3296  
david.m.steinberg@db.com

Edward Y Chung

Research Associate  
(+1) 415 617-3301  
edward.y.chung@db.com

# Strong EPS First Quarter Out of the Gate

## Q1 EPS \$0.03 Ahead of Consensus Largely Driven by Disciplined Expense Management

Zoetis reported strong earnings in its first quarter post IPO, with Q1 adjusted EPS of \$0.36 (+18% Y/Y), \$0.03 ahead of consensus, reflecting a combination of lower than expected operating expenses (-3% Y/Y; -\$26M vs our forecast) and lower than projected interest expense (-\$7M vs our est). Increasing 4% Y/Y (+5% in constant currency), revenue of \$1.09B was largely in-line with expectations (+\$10M vs consensus). Underscoring our positive investment thesis, Zoetis' diversified product portfolio, geographic balance, and product leadership shined through despite ever shifting conditions around the world. Moreover, the Q1 results should be particularly reassuring to investors as three competitors – Virbac, Vetoquinol, and Lilly (Elanco) – recently reported weak Q1 animal healthcare results.

## Strength in the US and Europe; Weaker Results in Canada/LatAm and AsiaPacific

Relative to our estimates, stronger performances in the US (+7% Y/Y; +\$12M vs our est) and Europe/Africa/Mid East (+4% Y/Y operationally; +\$14M vs our est) more than offset slightly lower than forecasted results in Canada/LatAm (+4% Y/Y operationally; -\$7M vs our est) and Asia Pacific (+2% Y/Y operationally; -\$11M vs our est). Mgt indicated that while the US continued to experience drought conditions (adversely impacting livestock products), sales of companion animal products were very strong (+13% Y/Y), benefiting from a competitor's supply issue and pricing. Europe also benefited from strength in companion animals and pricing, with strong demand for swine and poultry products driving overall livestock performance in the region. Canada/LatAm experienced good growth for livestock products (+6% Y/Y operationally), especially in Brazil and Canada. This was somewhat offset by difficult comparables in the Canadian companion animal business, as the year ago period benefited from competitor supply issues that have since normalized. The Asia Pacific region arguably was the weakest performing segment. Mgt attributed much of this to the performance in Japan, which remains a drag due to broader economic conditions.

## Initial 2013 Guidance In-line With Expectations, Bracketing Consensus

Mgt issued relatively in-line full year 2013 guidance, with EPS of \$1.36-1.42 on revenue of \$4.425-\$4.525B. This compares to pre-Q1 DB revenue and EPS of \$4.51B and \$1.37 and consensus of \$4.52B and \$1.38. Mgt did not offer any directional guidance on quarterly performance, commenting that there is inherent variability in its business on a quarterly basis and instead, is more focused on the full year result. Including the reported Q1, we now project 2013 revenue and EPS of \$4.52B and \$1.41. We would note that typically expenses are highest in Q4.

## Several Points of Interest on the Call; PT Remains \$38

Mgt made several comments that offered more granularity and clarity on the business. First, mgt addressed concerns regarding the potential OTC shift (e.g., Perrigo) in companion animal health products, noting that it primarily affects the parasiticides category that doesn't need prescriptions. Importantly, mgt indicated that 95% of its business requires veterinarian Rx's. Second, M&A didn't sound like a major focus – at least for the near term – as Zoetis is largely focused on completing the build-out of its infrastructure globally post its separation from Pfizer. Third, mgt reinforced that price is an integral part of the company's strategy. This, as well as new product introductions, will abet gross margin expansion. Mgt also addressed a concern that Zoetis' prices were higher than some of its competitors. To that end, mgt indicated that lower cost competitors typically are local producers with perceived quality differentials.

## Key changes

EPS (USD)	1.37 to 1.41	↑	2.8%
Revenue (USDm)	4,510.0 to 4,514.7	↑	0.1%

## Stock & option liquidity data

Market cap (USD)	16,344.7
Shares outstanding (m)	500.4
Free float (%)	100
Volume (29 Apr 2013)	400,240
Option volume (und. shrs., 1M avg.)	–

## Key data

FYE 12/31	2012A	2013E	2014E
1Q EPS	–	0.36A	–
2Q EPS	–	0.36	–
3Q EPS	–	0.32	–
4Q EPS	–	0.37	–
FY EPS (USD)	1.08	1.41	1.60
P/E (x)	–	23.1	20.4

\* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, 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. THE VIEWS EXPRESSED ABOVE ACCURATELY REFLECT PERSONAL VIEWS OF THE AUTHORS ABOUT THE SUBJECT COMPANY(IES) AND ITS(THEIR) SECURITIES. THEY HAVE NOT AND WILL NOT RECEIVE ANY COMPENSATION FOR PROVIDING A SPECIFIC RECOMMENDATION OR VIEW IN THIS REPORT. FOR OTHER DISCLOSURES PLEASE VISIT <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=ZTS.N> MICA(P) 054/04/2013.