# Morgan Stanley

April 24, 2013

Stock Rating **Equal-weight** Industry View In-Line

### Zoetis Inc.

## Lilly quotes raise uncertainty; await ZTS call Apr 30th

Lilly missed animal health revenue expectations in 1Q due to ex-U.S. weakness. Lilly stated that ex-U.S. market growth slowed; meat supply is exceeding demand. Lilly Elanco (animal health) global sales rose 2% YOY, including U.S. +9% and int'l -8%. Elanco mgmt stated on the 1Q results call "I would say overall if you look at the animal health business, especially the food animal side ex-U.S., we are operating in the business that is cyclical in nature. Cycle relative to demand. Those cycles have become a lot more global as there's more global companies connected to the supply and demand. You see this every three to five years. You see a cycle happen...today, currently, meat supply is exceeding demand in certain parts of the world, and creating, we believe, a...slowing of this industry growth. Don't want to forecast the severity of it or the length of it, but we do see...this emerge relative to Q1 versus Q1 of 12."

We await Zoetis mgmt comments on the Apr 30th call to find out if Zoetis characterizes the ex-U.S. market similarly or differently. We look forward to 1Q:13 results and initial mgmt guidance for 2013. We forecast ZTS 1Q global revenues of \$1,076 million (+3% YOY), net income of \$163 million (+7% YOY), and EPS of \$0.33. The components of our +3% global rev YOY growth forecast include: U.S. -2%, Europe/Africa/Middle East +1%, Canada/LatAm +10%, and AsiaPacific +10%.

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#### **Key Ratios and Statistics**

Reuters: ZTS.N Bloomberg: ZTS US

Specialty Pharmaceuticals / United States of America

Shr price, close (Apr 23, 2013) \$31.70 Mkt cap, curr (mm) \$15,850 \$35.40-30.50 52-Week Range

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April 24, 2013 Zoetis Inc.



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Valeant Pharmaceuticals International, Zoetis Inc..

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(as of March 31, 2013)

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April 24, 2013 Zoetis Inc.

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	Coverage Universe		Investment Banking Clients (IBC)			
_	% of			% of % of Rating		
Stock Rating Category	Count	Total	Count	Total IBC	Category	
Overweight/Buy	1031	36%	402	39%	39%	
Equal-weight/Hold	1250	44%	480	47%	38%	
Not-Rated/Hold	105	4%	27	3%	26%	
Underweight/Sell	467	16%	113	11%	24%	
Total	2,853		1022			

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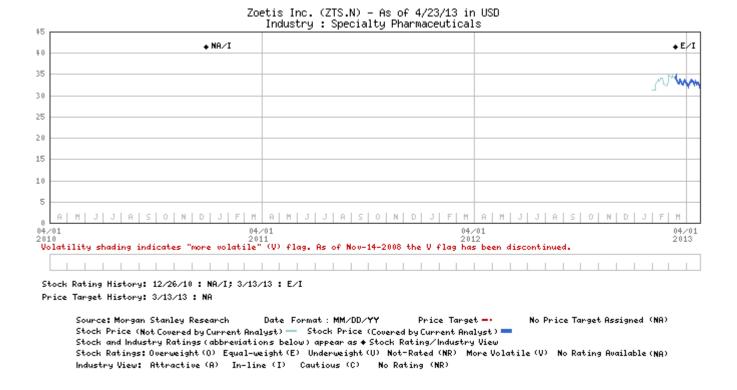
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Stock Price, Price Target and Rating History (See Rating Definitions)

April 24, 2013 Zoetis Inc.



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April 24, 2013 Zoetis Inc.

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### **Industry Coverage: Specialty Pharmaceuticals**

Company (Ticker)	Rating (as of) Price* (04/23/2013)		
David Risinger			
Actavis Inc (ACT.N)	O (01/25/2012)	\$98.77	
Alkermes Plc. (ALKS.O)	O (01/10/2013)	\$31.71	
Allergan Inc. (AGN.N)	O (09/07/2010)	\$114.09	
Forest Laboratories Inc. (FRX.N)	E (04/26/2011)	\$36.85	
Mylan Inc. (MYL.O)	E (03/01/2013)	\$28.62	
Perrigo Co. (PRGO.O)	O (02/04/2013)	\$119.98	
Teva Pharmaceutical Industries Ltd. (TEVA.N)	E (02/06/2012)	\$37.87	
Valeant Pharmaceuticals International (VRX.N)	E (09/14/2012)	\$74.98	
Warner Chilcott Plc (WCRX.O)	U (08/21/2012)	\$13.6	
Zoetis Inc. (ZTS.N)	E (03/13/2013)	\$31.7	
Marshall Urist, M.D., Ph.D.	,		
Hospira (HSP.N)	E (07/16/2009)	\$31.61	
Sagent Pharmaceuticals Inc (SGNT.O)	E (08/13/2012)	\$17.85	

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