

## Zoetis Inc. (ZTS)

Overweight

Q1 Results Look Fine; FY13 Guidance Mostly In-Line

### CONCLUSION

We believe ZTS will trade higher as Q1 results were slightly better than expected and FY13 guidance was mostly in-line with Street estimates. Q1 revenues slightly beat Street estimates, while adjusted EPS of \$0.36 was \$0.03 higher than consensus of \$0.33. FY13 adjusted EPS guidance bracketed Street estimates, while the high end of the revenue guidance range was just shy of consensus. Operational revenue growth exceeded our expectations in the U.S., EuAfME, and CLAR, while growth in APAC was slightly lower than we expected. In general, we believe ZTS 1Q13 results (and first quarter as a stand-alone company) were fine and concerns heading into the print were somewhat overdone. We expect to hear about the operating environment, recent developments in Japan and Argentina, and capital allocation. CC @ 8:30 AM ET, dial-in #: 866-952-1906.

- **Slight upside to Q1 revenues.** Total revenues increased 4% y/y to \$1,090 MM, which was \$17 MM higher than our estimate of \$1,073 MM and \$11 MM higher than consensus of \$1,079 MM. Operationally, revenues increased 5%, which was partially offset by a 1% impact due to FX.
  - U.S. revenues increased 7% y/y to \$454 MM, which was \$12 MM higher than our estimate of \$442 MM.
  - EuAfME revenues increased 4% y/y to \$290 MM, which was \$15 MM higher than our estimate of \$275 MM.
  - CLAR revenues increased 4% y/y to \$171 MM, which slightly lower than our estimate of \$173.5 MM.
  - APAC revenues increased 2% y/y to \$175 MM, which was ~\$8 MM lower than our estimate of \$182.7 MM.
- **Adjusted Q1 EPS beat.** Adjusted EPS of \$0.36 was \$0.02 higher than our estimate of \$0.34 and \$0.03 higher than consensus of \$0.33. Adjusted EPS excluded \$0.08 related to purchase accounting adjustments, acquisition-related costs, and other one-time items. EPS upside relative to our model was driven by better revenues, lower SG&A, and lower interest expense. Gross margin of 63.49% was 51 bps lower than our estimate of 64.00%. Adjusted operating income increased 15.6% y/y to \$274 MM, which was \$9 MM higher than our estimate of \$265 MM, while adjusted operating margin increased 250 bps y/y to 25.14%, which was 41 bps higher than our estimate of 24.72%.
- **FY13 guidance mostly in-line with expectations.** ZTS issued FY13 guidance that was in-line with Street expectations. Revenues are expected to be in a range of \$4,425 to \$4,525 MM vs. Street at \$4,533 MM and PJC at \$4,504 MM and adjusted EPS is expected to be in a range of \$1.36 to \$1.42 vs. Street at \$1.38 and PJC at \$1.42.

### COMPANY DESCRIPTION

Zoetis is the leading global manufacturer of animal health medications and vaccines.

PRICE: US\$32.66  
TARGET: US\$40.00  
(24.5x FY14E EPS)

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ZTS

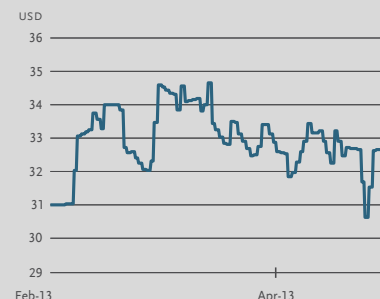
#### Share Price:

32.66

### RISKS TO ACHIEVEMENT OF PRICE TARGET

Risks include increased regulatory pressures, adverse weather conditions, lower utilization of products, increased competition, and macro economic factors.

#### Price Performance - 1 Year



Source: Bloomberg

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### Analyst Certification — Kevin K. Ellich, Sr Research Analyst — Bradley D. Maiers, Research Analyst

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