

Zoetis Inc.

ZTS - BUY - Animal Health Industry Read-Throughs from
Vetoquinol's 4Q13 Earning Release

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FLASH NOTE

SECTOR: Specialty Pharmaceuticals

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Takeaways from 4Q13 earnings for Vetoquinol indicate: 1) continued growth in the companion animal industry; and 2) importance of emerging market (Asia/Pacific) as a strong growth driver in the overall animal health market. This remains in line with the theme we were seeing in 3Q13, which we noted in our past notes: [ZTS - BUY - Market Opportunity for Flea & Tick Products Remains Robust Despite Weaker Season This Year](#), [ZTS - BUY - Merck & Vetoquinol 3Q13 Earnings Read-Throughs Consistent with Other Reports This Quarter](#) and [ZTS - BUY - Read-Throughs from Other Animal Health Companies Support Our Positive Investment Thesis](#)

- Vetoquinol reported its strongest quarter this year with 4Q13 and 2013 organic sales growth of 7.8% and 3.1%, respectively (excluding negative currency headwinds). The company noted that, although the animal health market was sluggish in 2013, Vetoquinol's sales growth was driven by:
 - Launches of new products, including Zylkene (stress relief in dogs and cats), Cimaljex (treats pain and inflammation), Forcyl (anti-infective, companion animals), and Slevox (flea and tick like Frontline).
 - Vetoquinol's reference product sales, which increased by 9.1% in both 4Q13 and 2013. Reference products accounted for 44.3% of total sales this year versus 41.4% in 2012.
- Asia/Pacific was the strongest market for Vetoquinol, posting organic growth of 28.6% and 11.2% in 4Q13 and 2013, respectively. The Americas delivered solid organic sales growth of 8.6% in 4Q13 and 4.1% in 2013, whereas in Europe organic sales growth was modest, at 3.6% this quarter and 0.7% for the full year.
- Companion animal sales grew 13% in 4Q13 and 5.6% in 2013; meanwhile, livestock sales grew 2.7% and 0.6%, respectively.

Potential Stock Moving Catalysts. 1) Operating margin expansion; 2) new product launches; 3) business development; 4) expansion into adjacent categories; 5) U.S. drought subsidies.

Prices of companies mentioned: Vetoquinol (VETO.FR, NC, €35.00); Zoetis (ZTS, BUY, \$31.46)

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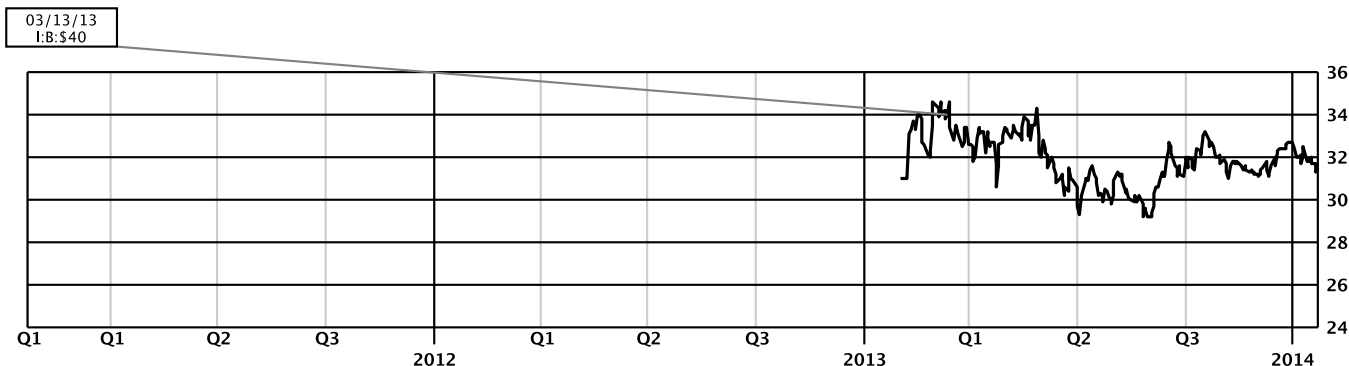
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Rating and Price Target History for: Zoetis Inc. (ZTS) as of 01-22-2014



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