

Zoetis, Inc. (ZTS)

Strong Q3'13 Sales Beat As Underlying Growth Improves

Key Takeaway

Zoetis reported better than expected Q3'13 sales of \$1.10bn, with particularly strong performances in the US and Europe. Q3'13 adjusted EPS of \$0.34 were in line with consensus expectations. However, higher than expected SG&A costs offset the 4% revenue beat. We are encouraged by the positive revenue dynamics and see this being reflected in the upward tightening of the FY 2013 revenue and EPS guidance ranges by management.

Summary: Q3'13 Non-GAAP EPS of \$0.34 were in line with consensus expectations while revenue of \$1.10bn beat consensus expectations (\$1.06bn) on higher than expected sales in US and Europe. Management narrowed its 2013 revenue and Non-GAAP EPS guidance to the upper end of the previous range on year-to-date financial performance.

Net Sales: \$1.10bn (+8% YoY) vs. JEF: \$1.05bn; Cons. \$1.06bn. Revenues were 4% above consensus expectations.

Key Product Revenues:

US: \$495m (JEF: \$479m)
EuAfME: \$270m (JEF: \$241m)
CLAR: \$171m (JEF: \$162m)
APAC: \$167m (JEF: \$165m)

Major Cost Lines: The gross margin was slightly below our expectation (65.3% vs. JEF: 65.8%). The operating margin was lower than our expectation (24.8% vs. JEF: 27.7%), primarily driven by a weaker gross margin and higher than expected SG&A (32.5% vs. JEF: 29.7%), partially offset by lower R&D (8.3% vs. JEF: 8.9%). The effective tax rate of 29.5% was roughly in line with our expectation of 29.4%.

Diluted Non-GAAP EPS: \$0.34 (+12% YoY) vs. JEF \$0.36 and Cons. \$0.34. Diluted Non-GAAP EPS were in line with consensus expectations.

2013 Guidance: 2013 Non-GAAP EPS guidance was raised to \$1.38-\$1.42 (Cons. \$1.40, JEF \$1.39) from \$1.36-\$1.42. 2013 revenue guidance was also narrowed to \$4.475-\$4.525bn (Cons. \$4.483bn, JEF \$4.456bn) from \$4.425-\$4.525bn.

Conference call: 8:30am ET; dial-in: (866) 952-1906; passcode: ZTSQ313.

BUY

Price target \$37.00

Price \$31.93

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Company Description

Zoetis, Inc. is a global leader in the discovery, development, manufacture and commercialization of animal health medicines and vaccines, with a focus on both livestock and companion animals. Zoetis represents the largest animal health business in the world, with over \$4.2bn in revenue in 2011.

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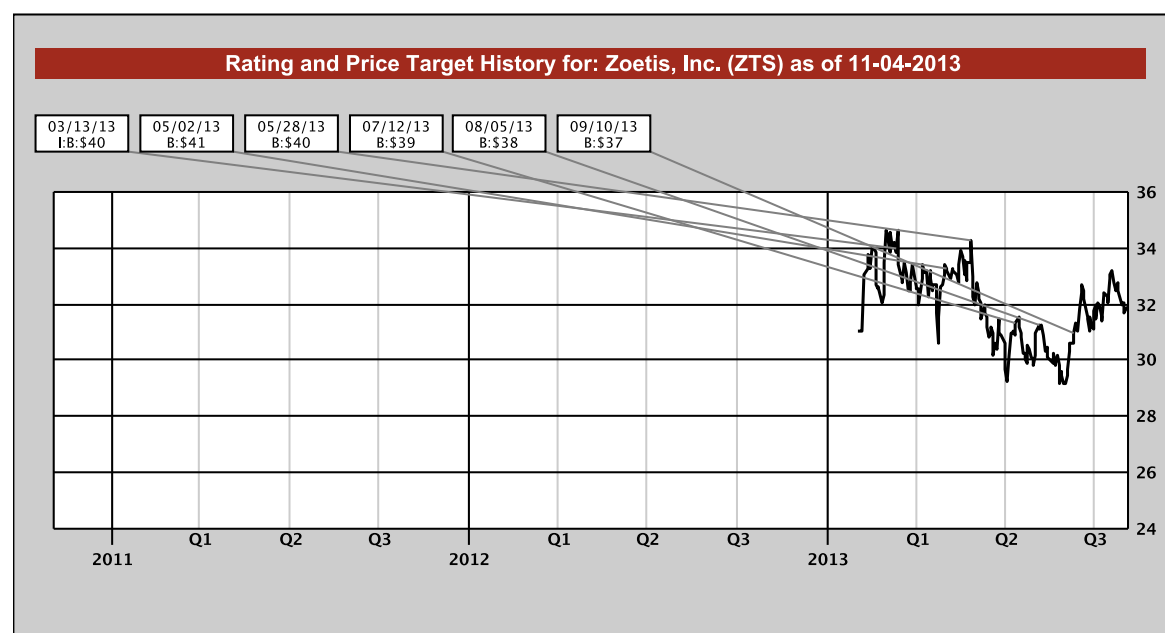
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