

Thursday, October 3, 2013

## Zoetis (Outperform)

(ZTS-NYSE)

### Lilly's Optimistic 2014 Animal Health Outlook Positive for Zoetis

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**Flash:**

We are attending the Eli Lilly (LLY, \$50.54; Market Perform) investor day. The company's Elanco/Animal Health President stated that the company has an optimistic outlook for 2014, particularly for its livestock business. This is in part driven by lower corn prices and strong demand from emerging markets. The company expects mid-single-digit growth, in line with the industry, and improved margins for swine and poultry.

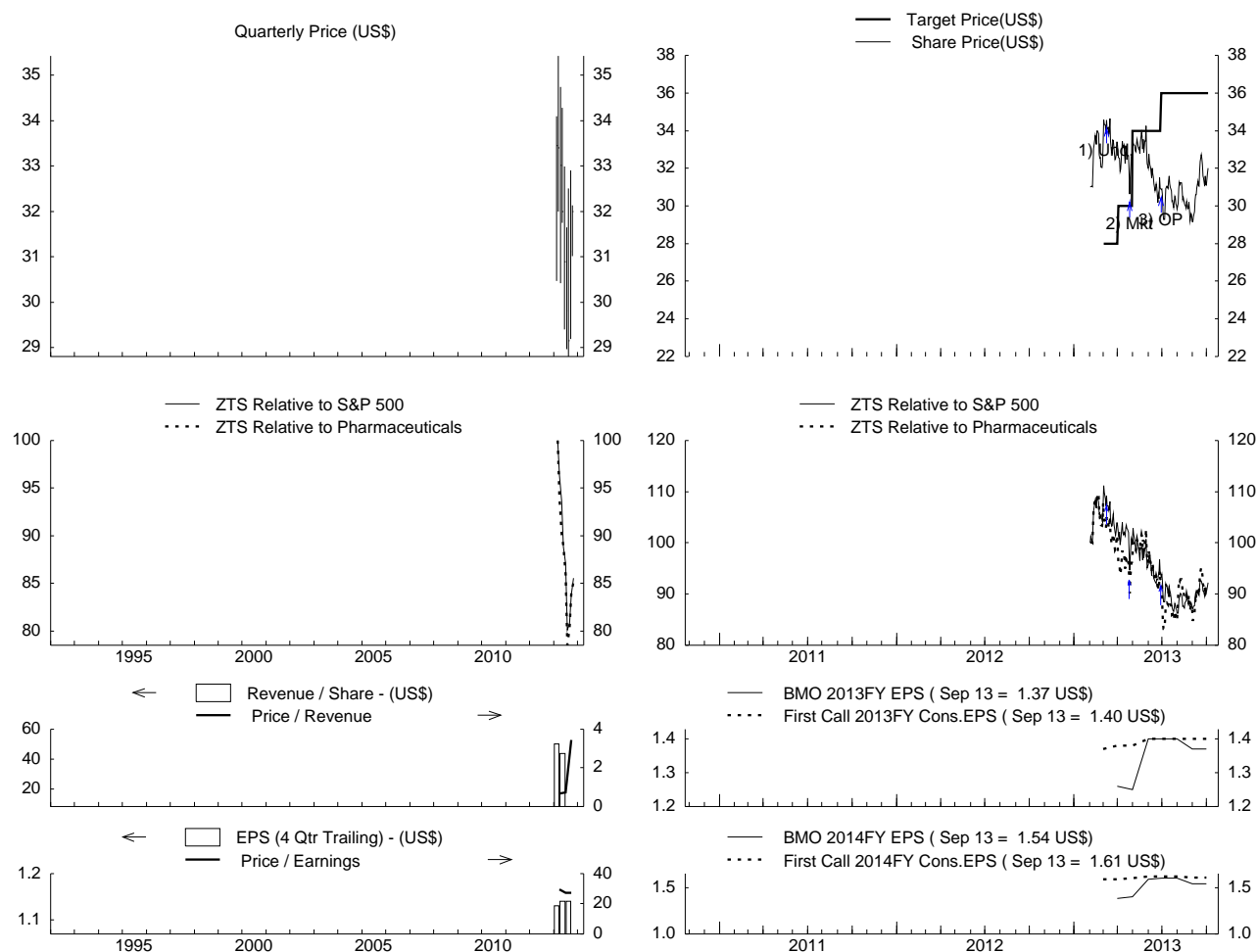
**Our View:**

- Incrementally positive for Zoetis and in line with our expectations. We expect Zoetis's livestock business to grow by 5% in 2014. Similarly we expect strong 8% growth for swine and poultry products, growing to \$1,471 million by 2016.
- We reiterate our Outperform rating on ZTS shares.

<b>Company:</b>	Zoetis (ZTS)
<b>Price/Rating/Target:</b>	\$32.00/Outperform/\$36.00
<b>Sector Name:</b>	Pharmaceuticals
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This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 6.

## Zoetis Inc. (ZTS)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	ZTS - Rating as of 1-Feb-13 = NR		
Range*:		na na		NC			>15 >15		Date	Rating Change	Share Price
Current*	1.14	27.3	0.26	0.8	23	1.4	21.9	>50	1 7-Mar-13	NR to Und.	\$34.56
									2 24-Apr-13	Und.to Mkt	\$30.62
									3 27-Jun-13	Mkt to OP	\$30.87

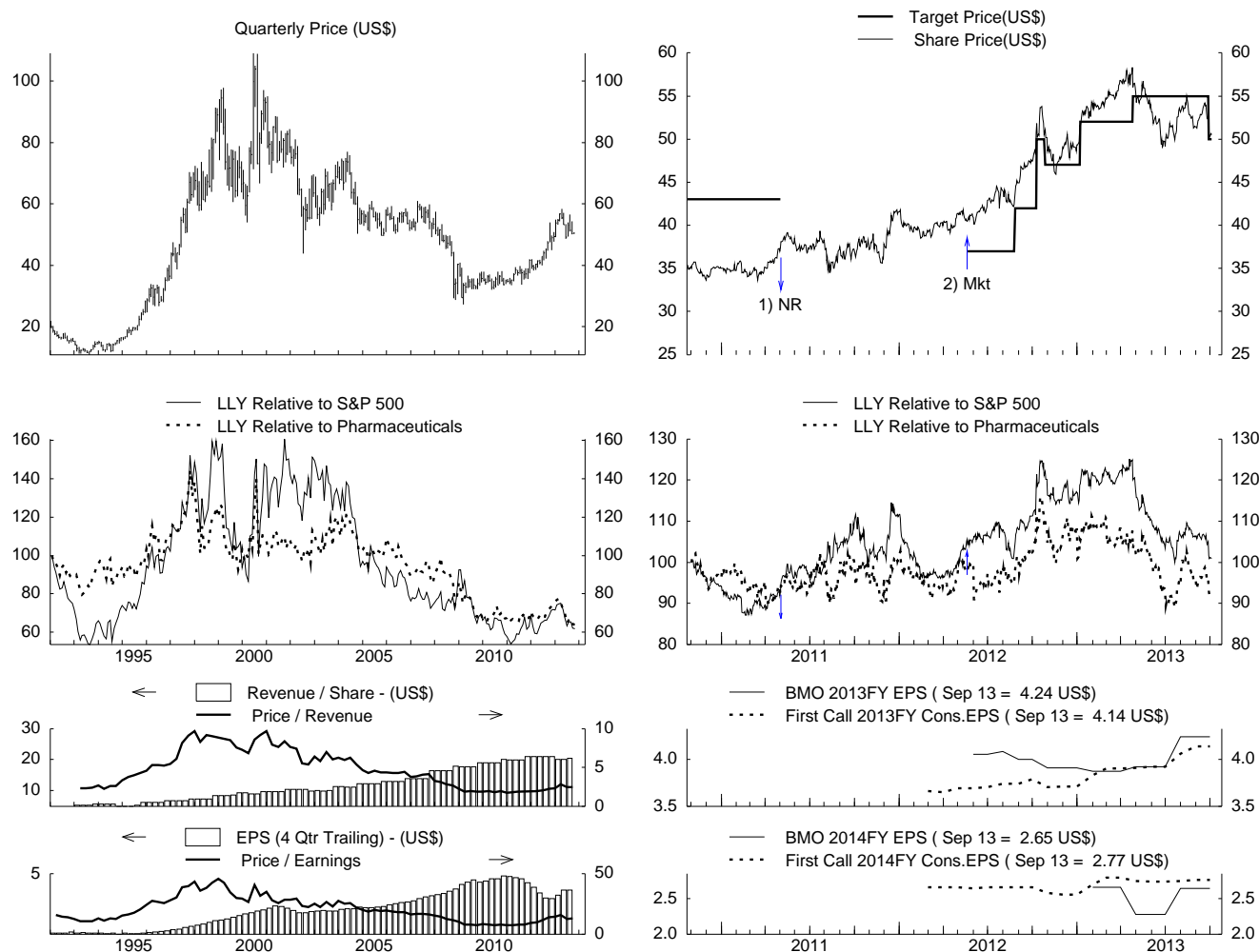
\* Current EPS is the 4 Quarter Trailing to Q2/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

Last Price ( October 2, 2013): \$32.00  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

## Eli Lilly &amp; Co. (LLY)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
1992	1.22	18.0 11.8	0.55	3.8 2.5	45	4.2	5.2 3.5	
1993	1.15	14.2 9.5	0.63	5.7 3.8	54	3.9	4.2 2.8	28
1994	1.10	15.1 10.7	0.65	5.5 3.9	59	4.6	3.6 2.6	26
1995	1.15	24.8 13.2	0.69	4.5 2.4	60	4.9	5.8 3.1	24
1996	1.30	30.9 18.8	0.72	3.0 1.8	55	5.5	7.3 4.4	25
1997	1.60	44.0 21.9	0.80	2.3 1.1	50	4.2	>15 8.4	33
1998	1.93	47.3 29.9	0.92	1.6 1.0	48	4.0	>15 14.3	47
1999	2.28	42.9 26.6	1.04	1.7 1.1	46	4.6	>15 13.2	>50
2000	2.65	41.1 20.4	1.12	2.1 1.0	42	5.4	>15 10.1	>50
2001	2.76	34.4 25.4	1.24	1.8 1.3	45	6.3	>15 11.1	47
2002	2.55	33.1 17.2	1.34	3.1 1.6	53	7.4	11.4 5.9	37
2003	2.58	28.6 20.5	1.42	2.7 1.9	55	8.7	8.5 6.1	32
2004	2.82	27.3 17.9	1.52	3.0 2.0	54	9.7	8.0 5.2	31
2005	2.88	21.2 17.2	1.60	3.2 2.6	56	9.6	6.4 5.2	30
2006	3.18	18.6 15.8	1.70	3.4 2.9	53	9.7	6.1 5.2	33
2007	3.55	17.2 13.8	1.88	3.8 3.1	53	12.1	5.1 4.1	33
2008	4.02	14.3 7.1	1.96	6.8 3.4	49	5.9	9.7 4.8	45
2009	4.43	9.2 6.1	1.96	7.2 4.8	44	8.3	4.9 3.3	>50
2010	4.74	8.0 6.8	1.96	6.1 5.1	41	10.8	3.5 3.0	50
2011	4.41	9.5 7.6	1.96	5.9 4.7	44	11.7	3.6 2.9	39
2012	3.39	15.9 11.0	1.96	5.3 3.6	58	12.9	4.2 2.9	28

Range\*: 47.3 6.1 7.2 1.0 >15 2.6

Current\* 3.94 12.8 1.96 3.9 50 13.5 3.7 29

Growth(%):

5 Year:	0.5	0.8	2.3
10 Year:	4.3	3.9	6.3
20 Year:	6.3	6.1	6.0

\* Current EPS is the 4 Quarter Trailing to Q2/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

LLY - Rating as of 22-Oct-10 = OP

Date	Rating Change	Share Price
1 3-May-11	OP to NR	\$38.09
2 18-May-12	NR to Mkt	\$40.44

Last Price ( October 2, 2013): \$50.54

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

## Important Disclosures

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### Company Specific Disclosure for ZTS

#### Methodology and Risks to Our Price Target

**Methodology:** DCF and P/E Multiple

**Risks:** Demand for animal health products could fluctuate and there are relatively low barriers to entry for competitors.

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#### Methodology and Risks to Our Price Target

**Methodology:** DCF: Free Cash Flow To Equity and multiple of sales.

**Risks:** Uncertainty of Phase 3 Pipeline.

### Distribution of Ratings (June 30, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.9%	17.6%	52.7%	39.6%	51.0%	53.2%
Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

NR = No rating at this time; and

R = Restricted – Dissemination of research is currently restricted.

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