

# Zoetis, Inc. (ZTS)

## The Miss That Never Happened

**BUY**

Price target \$38.00

Price \$31.25

**Key Takeaway**

**Zoetis reported revenues 1% light of consensus and in line EPS of 36c. The APAC region beat our expectations with 7% operational growth. EuAfME was 3% light of our estimates with operational growth of 1% due to a poor performance in livestock as economic conditions and adverse weather impacted performance. Investors had been expecting a bad quarter, so the in-line result today and reaffirmation of FY guidance should flush out the last of the short positions.**

**Summary:** Q2'13 Non-GAAP EPS of \$0.36 were in line with consensus expectations. Management maintained their Non-GAAP 2013 EPS range of \$1.36-\$1.42 (Cons. \$1.40, JEF \$1.42).

**Net Sales:**

\$1.11bn (2% YoY) vs. JEF: \$1.13bn; Cons. \$1.13bn.  
Revenues were 1% lower than consensus expectations.

**Key Product Revenues:**

US: \$437m (JEF: \$440m)  
EuAfME: \$278m (JEF: \$287m)  
CLAR: \$213m (JEF: \$215m)  
APAC: \$186m (JEF: \$183m)

**Major Cost Lines:** The gross margin was lower than our expectation (64.1% vs. JEF: 64.3%). The operating margin was lower than our expectation (25.5% vs. JEF: 26.5%), as a result of a weaker gross margin and lower non-operating income. SG&A (\$339m, JEF: \$340m) and R&D (\$91m, JEF: \$90m) spend were in line with our expectations. The effective tax rate of 29.4% was slightly lower than our expectation of 29.5%.

**Diluted Non-GAAP EPS:**

\$0.36 (1% YoY) vs. JEF \$0.37 and Cons. \$0.36.  
Diluted Non-GAAP EPS were in line with consensus expectations.

**2013 Guidance:** Management reiterated their Non-GAAP 2013 EPS range of \$1.36-\$1.42 (Cons. \$1.40, JEF \$1.42).

**Conference call:** A conference call is scheduled at 8:30am EDT (866-952-1906).

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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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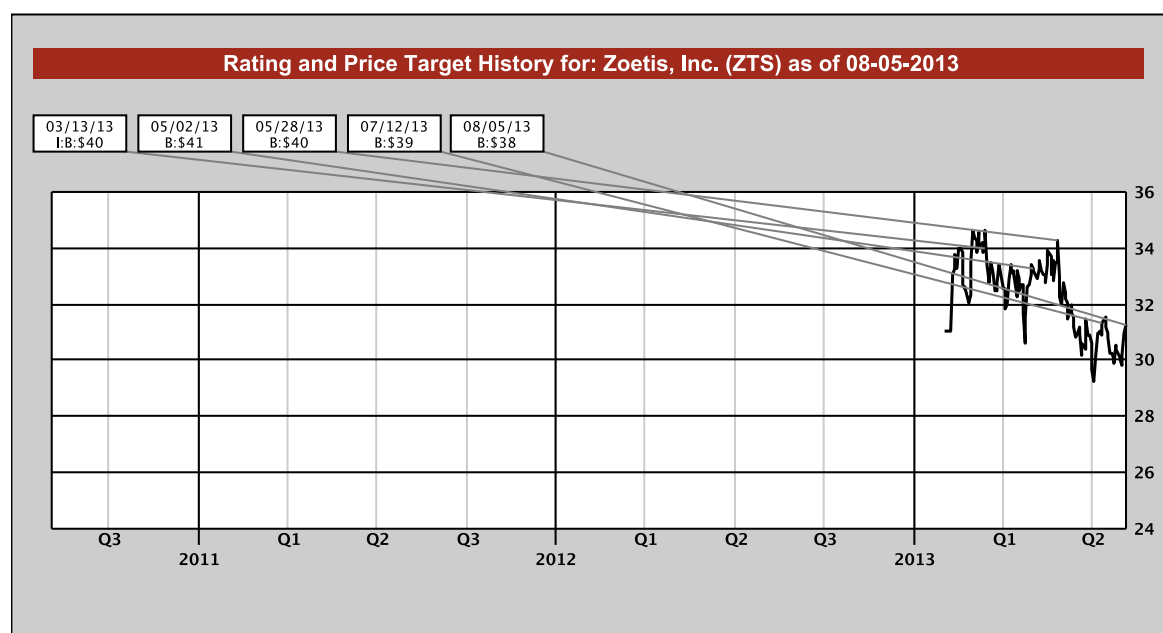
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			Count	Percent
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