

Zoetis Inc. (ZTS)

Overweight

AFT Acquisition Broadens ZTS' Product Portfolio And Adds Food Safety Offering

CONCLUSION

We learned Zoetis acquired Advanced Food Technologies (AFT), a privately owned company that provides food safety and animal care products to meat and poultry processing customers. To our knowledge, this acquisition is ZTS' entry into the food safety market and the company's first acquisition as a stand-alone entity. While the financial terms were not disclosed and since ZTS did not issue a press release, we believe this acquisition is a relatively small tuck-in deal. That said, we are encouraged to see some M&A activity and the expansion into food safety is an incremental positive, in our view. Zoetis remains a longer-term top pick and we expect solid results when the company reports Q3 earnings on November 5th. Maintain Overweight rating and \$39 PT.

- **Advanced Food Technologies details.** Founded in 2008 and headquartered in Shreveport, LA, Advanced Food Technologies provides post-harvest, food safety solutions and services in meat and poultry processing, in addition to offering hoof care products for the dairy industry. The company has nine employees selling its products and systems. AFT currently has systems operating in 25 states and has offices in Louisiana, Arkansas, New Jersey, Alabama, Texas, California, and Indiana.
- **AFT product offering.** In the meat processing segment, the company offers the following three products: 1) **Aftec 3000** - a buffered sulfuric acid that is safe to handle and highly effective against E. coli, according to a study by Oklahoma State University; 2) **Pera-Tec** (peracetic acid) - a concentrated, durable, oxidizing chemistry approved for Organic Products; and 3) **Bromi-Tec** (HB2) - HBr (Hypobromous Acid-active agent) fast oxidizing chemistry, especially good against E.coli. In the dairy segment, AFT offers **HOOF-Tec Complete**, which is an all-in-one liquid footbath solution that controls and prevents digital dermatitis, acts as a prevention aid for foot rot and heel erosion and helps improve hoof condition, primarily in dairy cows. The product is also non-toxic and reduces residual copper by over 70%. AFT also offers **HOOF-Tec Organic**, which is specifically designed for Organic Dairies and decreases copper use by over 40%. AFT has products for poultry, growers, and water treatment as well.

COMPANY DESCRIPTION

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

PRICE: US\$32.77

TARGET: US\$39.00

(24.5x FY14E EPS)

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Related Companies:

ZTS

Share Price:

32.77

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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			Count	Percent
BUY [OW]	336	56.66	72	21.43
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Analyst Certification — Kevin K. Ellich, Sr Research Analyst — Bradley D. Maiers, Research Analyst

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