

**Zoetis Inc.**

ZTS - BUY - Animal Health Industry Read-Throughs from Virbac's 4Q13 Earnings Release

**LOUISE CHEN, ANALYST**

louise.chen@guggenheimpartners.com  
212 381 4195

**SWATI KUMAR, ASSOCIATE**

swati.kumar@guggenheimpartners.com  
212 918 8754

**FLASH NOTE**

SECTOR: Specialty Pharmaceuticals

January 16, 2014

Virbac (VIRP-FR, NC, €169.50) just released its 4Q13 and 2013 results. In summary, 2013 sales were up 6% YOY, but currency posed a significant headwind (especially in 2H13). 2013 sales growth at constant exchange rates was 11%. Sales growth was primarily driven by food producing animals (or livestock), the Emerging Markets, and acquisitions. We highlight key data points, which provide read-throughs to ZTS (BUY, \$31.81) as well as the rest of the animal health industry below.

- Global factors that adversely impacted Virbac's organic growth include poor economic environment and unfavorable weather conditions.
- The contribution from recent acquisitions (Centrovit in Chile, Stockguard in New Zealand, as well as Santa Elena in Uruguay, now fully controlled and consolidated) has been significant and in line with the company's expectations.
- Business by species reflects the geographic trends. At constant scope, sales in the **companion animals** segment **remained stable (+0.2%)** despite the decrease of CaniLeish and the low market trends in Europe on one hand, and the Iverhart situation in the U.S. on the other.
- Growth in the **food producing animals** segment reached **+5.5%**, driven by emerging countries but partially offset by the negative trends observed in Europe and a difficult year in Australia. The company's development has been similar globally, outside Europe, in the bovine sector and in the industrial sector (swine and poultry), with growth of above 7%. Yet the situation remains unfavorable in Europe, with a decrease of around 2% in both sectors.
- Growth has been mostly driven by emerging markets (Latin America, Asia, India, South Africa).
- Business in Europe was stable globally but reflects a certain contrast between regions, with a good level of growth in the UK, Scandinavian, and Eastern European countries, offset by a slight decrease in France and Northern Europe and a decline in Southern Europe.
- In the U.S., sales were down around 5% as a consequence of the Iverhart Plus withdrawal, while other specialties (dermatology, endocrinology, dentals) generated a strong performance.

**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.

## ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

## IMPORTANT DISCLOSURES

The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

Guggenheim Securities, LLC managed or co-managed a public offering of securities for Zoetis Inc. during the past 12 months.

Zoetis Inc. is or was during the 12-month period preceding the date of the distribution of this report a client of Guggenheim Securities, LLC. Guggenheim Securities, LLC provided Zoetis Inc. investment banking services.

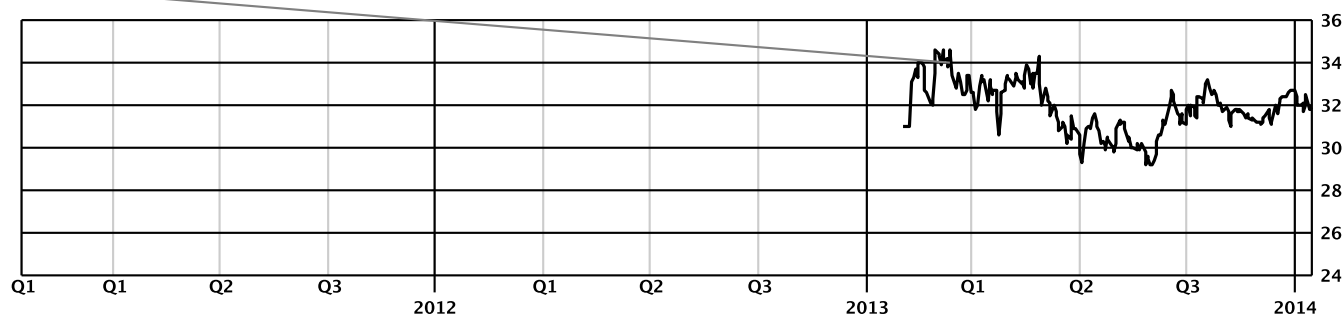
Guggenheim Securities, LLC or its affiliates received compensation for investment banking services from Zoetis Inc. during the past 12 months.

Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Zoetis Inc. in the next 3 months.

Please refer to this website for company-specific disclosures referenced in this report: [https://guggenheimsecurities.bluematrix.com/sellside/ Disclosures.action](https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action). Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

### Rating and Price Target History for: Zoetis Inc. (ZTS) as of 01-15-2014

03/13/13  
I:B:\$40



Created by BlueMatrix

## RATING DEFINITIONS

**BUY (B)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

**NEUTRAL (N)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

**SELL (S)** - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

**NR** - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

**CS** - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

**NC** - Not covered. Guggenheim Securities, LLC does not cover this company.

**Restricted** - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

**Monitor** - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

## RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	102	48.34%	25	24.51%
Neutral	108	51.18%	12	11.11%
Sell	1	0.47%	0	0.00%

## OTHER DISCLOSURES

This research is for our clients and prospective clients only. Other than disclosures relating to Guggenheim Securities and its affiliates, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the research analyst's judgment. Guggenheim Securities conducts a full-service, integrated investment banking and brokerage business, and one or more of its affiliates conduct an investment management business. Guggenheim Securities is a member of SIPC (<http://www.sipc.org>). Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our employees trading for our own account that reflect opinions that are contrary to the opinions expressed in this research. Guggenheim Securities or certain of its affiliates conducts an investment management business, trades for its own account, and conducts an investment business, and may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research. We and our affiliates also may sell to or buy from customers on a principal basis the securities described herein. We and our affiliates also do business with, or that relates to, companies covered in Guggenheim Securities' research, and may have a position in the debt of the company or companies discussed herein.

This research is not an offer to sell or the solicitation of an offer to buy any security. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

### TACTICAL TRADING IDEA DISCLAIMER

Guggenheim Securities, LLC produces "Tactical Trade Ideas" that identify short-term, catalyst-driven trading opportunities impacting companies within the Firm's coverage universe. Tactical Trade Ideas may exist on companies in this report and may be contrary to the analyst's published rating.

Copyright © 2014 by Guggenheim Securities, LLC, ("Guggenheim") a FINRA registered broker-dealer. All rights reserved. The contents of this report are based upon information or are obtained from sources that Guggenheim generally considers reliable, but Guggenheim makes no representations or warranties with respect to their accuracy, completeness, timeliness, suitability or otherwise, and assumes no responsibility to update them for subsequent events or knowledge. Guggenheim is not responsible for your use of this information.

## Contact Information

**NEW YORK SALES & TRADING DESK**

212 292 4700

**EQUITY TRADING DESK**

212 292 4701

**MEDIA INQUIRIES**

310 367 6567

**EMAIL**

general@guggenheimcm.com

## Locations

**NEW YORK**330 Madison Avenue  
New York, NY 10017**WASHINGTON, DC**1055 Thomas Jefferson Street, NW  
Suite 450  
Washington, DC 20007**BOSTON**500 Boylston Street, 13<sup>th</sup> Floor  
Boston, MA 02116**LOS ANGELES**601 South Figueroa Street  
Suite 4005  
Los Angeles, CA 90017**DALLAS**1717 McKinney Avenue  
Suite 870  
Dallas, TX 75202**SAN FRANCISCO**50 California Street  
San Francisco, CA 94111**NASHVILLE**104 Woodmont Blvd  
Suite 203  
Nashville, TN 37205**HERNANDO**1288 Byhalia Road  
Suite 2  
Hernando, MS 38632

## Guggenheim Equity Research

**AUTOMOTIVE****Matthew Stover, Analyst**matthew.stover@guggenheimpartners.com  
617 859 4605**Brendon Mason, Associate**brendon.mason@guggenheimpartners.com  
617 859 4624**ENERGY: EXPLORATION & PRODUCTION****Rob Cordray, Analyst**robert.cordray@guggenheimpartners.com  
972 638 5509**Steven Hader, Associate**steven.hader@guggenheimpartners.com  
972 638 5507**ENERGY: OIL SERVICES & EQUIPMENT****Darren Gacicia, Analyst**darren.gacicia@guggenheimpartners.com  
212 293 3054**Michael Gunther, Associate**michael.gunther@guggenheimpartners.com  
212 518 9782**Michael LaMotte, Analyst**michael.lamotte@guggenheimpartners.com  
972 638 5502**Wilson Waggoner, Associate**wilson.waggoner@guggenheimpartners.com  
972 638 5506**FINANCIAL SERVICES:  
LARGE-CAP BANKS****Marty Mosby, Analyst**marty.mosby@guggenheimpartners.com  
662 469 9595**Mason Mosby, Associate**mason.mosby@guggenheimpartners.com  
662 469 9194**FINANCIAL SERVICES: BUSINESS  
DEVELOPMENT COMPANIES****Rahul Agarwal, Analyst**rahul.agarwal@guggenheimpartners.com  
615 208 1221**FINANCIAL SERVICES: REGIONAL &  
COMMUNITY BANKS, CARD NETWORKS****Taylor Brodarick, Analyst**taylor.brodarick@guggenheimpartners.com  
615 208 1222**David Darst, Analyst**david.darst@guggenheimpartners.com  
615 208 1224**FINANCIAL SERVICES: INSURANCE****Bijan Moazami, Analyst**bijan.moazami@guggenheimpartners.com  
202 747 9466**HEALTHCARE: BIOTECH****Bret Holley, Analyst**bret.holley@guggenheimpartners.com  
212 293 2820**Daniel Chung, Associate**daniel.chung@guggenheimpartners.com  
212 518 9771**HEALTHCARE: PHARMACEUTICALS****Louise Chen, Analyst**louise.chen@guggenheimpartners.com  
212 381 4195**Swati Kumar, Associate**swati.kumar@guggenheimpartners.com  
212 918 8754**RETAIL & CONSUMER****John Heinbockel, Analyst**john.heinbockel@guggenheimpartners.com  
212 381 4135**Steven Forbes, Associate**steven.forbes@guggenheimpartners.com  
212 381 4188**TMT: CABLE & SATELLITE TV****Sabina Nyckowski, Analyst**sabina.nyckowski@guggenheimpartners.com  
212 292 4778**TMT: MEDIA & ENTERTAINMENT****Michael Morris, Analyst**michael.morris@guggenheimpartners.com  
212 381 4162**Curry Baker, Associate**curry.baker@guggenheimpartners.com  
212 518 9904