

## Zoetis Inc. (ZTS)

Overweight

### Snowstorm Hits South Dakota Cattle Market But Very Minor Impact on ZTS

#### CONCLUSION

Last weekend's snowstorm that rolled through the western part of South Dakota has left thousands (possibly tens of thousands) of cattle dead. While news reports, e.g. ABC, stated early estimates from the South Dakota Stockgrowers Association is the state lost at least 5% of its cattle, we got an update this morning and the executive director believes the losses could be worse, possibly in the 10-15% range of the 1.2-1.4 MM cattle that SD produces annually. Industry sources indicated parts of northwest Nebraska and northeast Wyoming could also report losses. We believe these losses could have a slight negative impact on sentiment for ZTS as this is a minor set back in our herd recovery thesis and the financial impact seems negligible in our estimation.

- **Snowstorm reduces South Dakota cattle herd.** Last weekend, western South Dakota experienced an early snowstorm that left 4 feet of snow that killed thousands of cattle. Some ranchers have reported losses of 20-50% and the South Dakota Stockgrowers Association estimates losses will be at least 5% or more of the states production. While most of these ranches are cow-calf operations, we estimate cattle in feedlots in South Dakota account for ~2% of the total in the U.S. Even though cattle product sales accounted for 32% of ZTS' 2Q13 revenues, we estimate the financial impact is not material, even though the losses in South Dakota sets that market back 2-3 years under our long-term herd recovery thesis.

#### COMPANY DESCRIPTION

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

PRICE: US\$31.93  
TARGET: US\$39.00  
(24.5x FY14E EPS)

#### Kevin K. Ellich

Sr Research Analyst, Piper Jaffray & Co.  
612 303-5666, kevin.k.ellich@pjc.com

#### Bradley D. Maiers

Research Analyst, Piper Jaffray & Co.  
612 303-6646, bradley.d.maiers@pjc.com

#### Related Companies:

ZTS

#### Share Price:

31.93

#### 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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### Analyst Certification — Kevin K. Ellich, Sr Research Analyst — Bradley D. Maiers, Research Analyst

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