

ZTS, PAHC - BUY - March WASDE Shows Stable Feed Prices and Continued Cattle Herd Expansion

SECTOR: Specialty Pharmaceuticals

March 10, 2015

Conclusion: *The USDA released its March WASDE (World Agriculture Supply and Demand Estimates) today. The report supports our positive view on the Animal Health industry. Feed prices remain low and producers continue to expand their cattle herds. We believe this would be good for ZTS (BUY, \$46.29) because 66% of its revenues in 2014 came from the livestock business. This is also positive for PAHC (BUY, \$35.30) because 100% of its revenues come from livestock animals.*

The key data points that support our positive investment thesis are highlighted below.

- The 2014/15 projected range for the U.S. season average corn farm price is raised up \$0.05 at the midpoint to \$3.50 to \$3.90 per bushel from \$3.40 to \$3.90 per bushel last month.
- The 2014/15 U.S. season-average farm price for soybeans is projected at \$9.45 to \$10.95 per bushel, unchanged from last month.
- The 2015 forecast of total red meat and poultry production is lowered from last month as lower beef production more than offsets increases in pork and broiler production. Fed cattle slaughter is expected to be lower in the first quarter, but cow slaughter remains higher than expected. In addition, carcass weights are reduced slightly in the first quarter. Pork production is increased on higher first quarter slaughter and slightly heavier carcass weights. USDA will release the Quarterly Hogs and Pigs report on March 27, which will provide an indication of producers' expectations to farrow sows through the third quarter. Broiler production is higher as hatchery data shows continued growth in chicks placed.
- The 2015 cattle price is unchanged. The hog price forecast is reduced as greater production and lower exports imply greater supplies for the domestic market. Broiler prices are lowered on weaker demand and larger supplies of product.

LOUISE CHEN louise.chen@guggenheimpartners.com	ANALYST 212 381 4195
SWATI KUMAR swati.kumar@guggenheimpartners.com	ANALYST 212 918 8754
BRANDON FOLKES brandon.folkes@guggenheimpartners.com	ASSOCIATE 212 518 9976

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 Phibro Animal Health Corporation during the past 12 months.

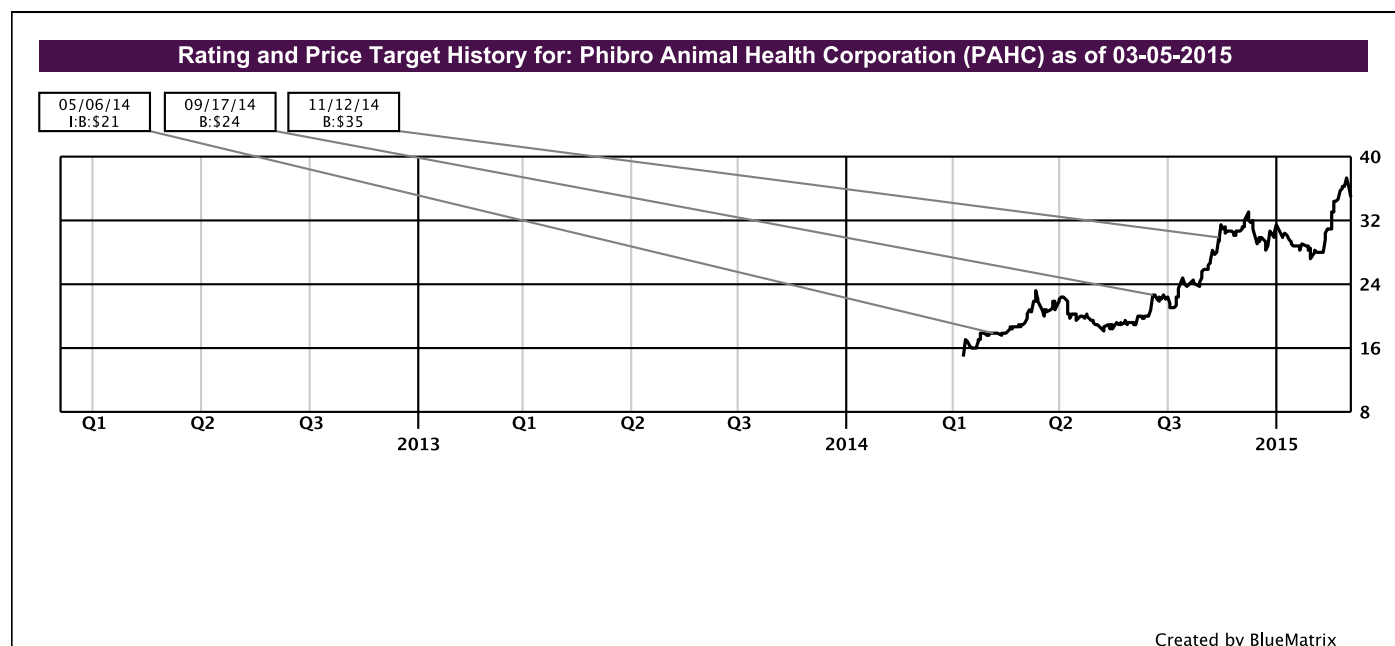
Guggenheim Securities, LLC makes a market in the securities or derivatives Phibro Animal Health Corporation.

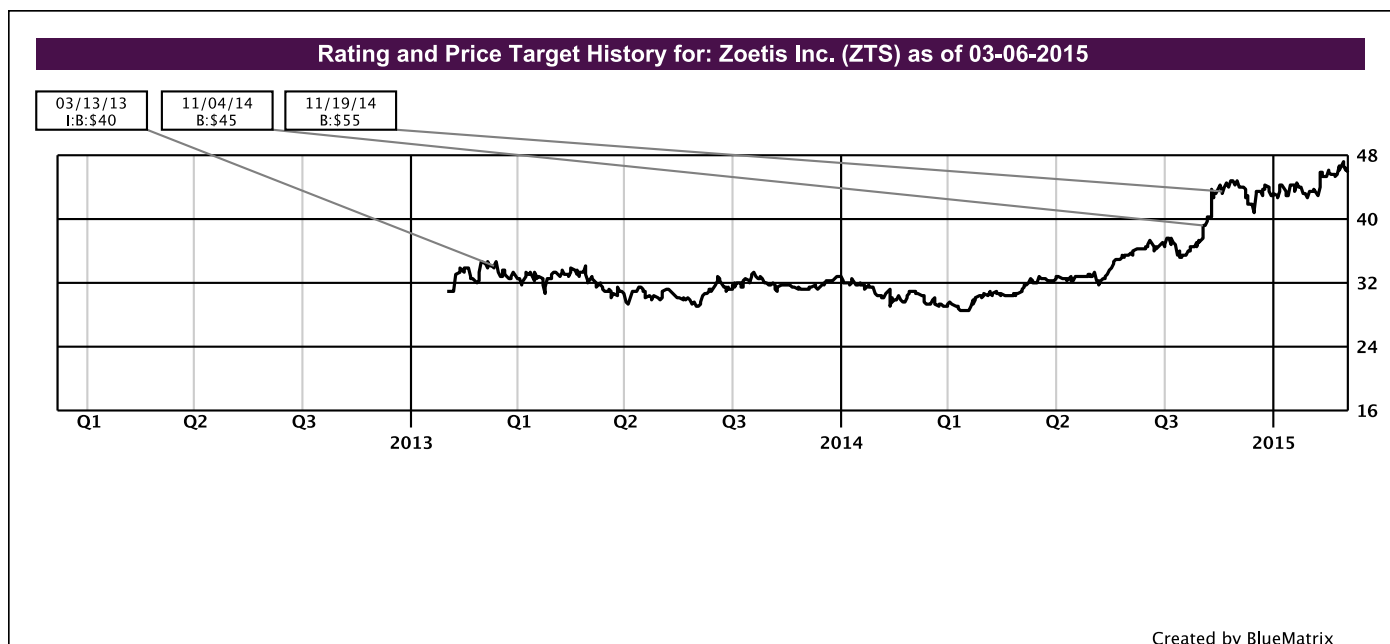
Phibro Animal Health Corporation and Zoetis Inc. are or were during the 12-month period preceding the date of the distribution of this report a client of Guggenheim Securities, LLC. Guggenheim Securities, LLC provided Phibro Animal Health Corporation and Zoetis Inc. investment banking services.

Guggenheim Securities, LLC or its affiliates received compensation for investment banking services from Phibro Animal Health Corporation and 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 Phibro Animal Health Corporation and 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 DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% 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 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% 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.

Prior to 12/8/14, Guggenheim Securities, LLC's BUY, NEUTRAL, and SELL ratings definitions were as follows (no other ratings definitions were changed):

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.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	88	47.57%	24	27.27%
Neutral	97	52.43%	4	4.12%
Sell	0	0.00%	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.

Where this material is being distributed in Europe, the recipients should note that this material has been prepared by Guggenheim Securities, LLC and is distributed in Europe by Guggenheim Securities International Limited, a UK Company registered under Company Number 06624746 with its registered office at 5th Floor, The Peak, 5 Wilton Road, London, SW1V 1AN; and is authorized and regulated by the Financial Conduct Authority (FRN 485435). This material is intended solely for distribution to professional and institutional investors and is not available to retail clients within the meaning of the rules of the Financial Conduct Authority nor in any jurisdiction within which its distribution would be prohibited.

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 © 2015 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 YORK330 Madison Avenue
New York, NY 10017**WASHINGTON, DC**1055 Thomas Jefferson Street, NW
Suite 450
Washington, DC 20007**BOSTON**500 Boylston Street, 13th 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
Suite 1515
San Francisco, CA 94111**NASHVILLE**104 Woodmont Blvd
Suite 203
Nashville, TN 37205**RICHMOND**919 East Main Street
Suite 1605
Richmond, VA 23219

Guggenheim Equity Research

**ENERGY: EXPLORATION & PRODUCTION,
OIL SERVICES & EQUIPMENT****Subash Chandra, CFA, Analyst**subash.chandra@guggenheimpartners.com
212 918 8771**Marshall Coltrain, Associate**marshall.coltrain@guggenheimpartners.com
212 518 9904**Michael LaMotte, Analyst**michael.lamotte@guggenheimpartners.com
972 638 5502**FINANCIAL SERVICES: INVESTMENT
COMPANIES, COMMUNITY AND
REGIONAL BANKS****Taylor Brodarick, Analyst**taylor.brodarick@guggenheimpartners.com
615 208 1222**FINANCIAL SERVICES: COMMUNITY AND
REGIONAL BANKS, PAYMENTS & CREDIT
SERVICES****David Darst, Analyst**david.darst@guggenheimpartners.com
615 208 1224**Ryan Strain, Associate**ryan.strain@guggenheimpartners.com
615 208 1226**FINANCIAL SERVICES: SUPER REGIONAL
AND UNIVERSAL BANKS & BROKERS,
PAYMENTS & CREDIT SERVICES****Eric Wasserstrom, Analyst**eric.wasserstrom@guggenheimpartners.com
212 823 6571**Jeff Cantwell, Associate**jeffrey.cantwell@guggenheimpartners.com
212 823 6543**HEALTHCARE: BIOPHARMA****Tony Butler, Analyst**tony.butler@guggenheimpartners.com
212 823 6540**HEALTHCARE: PHARMACEUTICALS****Louise Chen, Analyst**louise.chen@guggenheimpartners.com
212 381 4195**Swati Kumar, Analyst**swati.kumar@guggenheimpartners.com
212 918 8754**Brandon Folkes, Associate**brandon.folkes@guggenheimpartners.com
212 518 9976**RETAIL & CONSUMER: CONSUMABLES;
FOOD & DRUG****John Heinbockel, Analyst**john.heinbockel@guggenheimpartners.com
212 381 4135**Steven Forbes, Associate**steven.forbes@guggenheimpartners.com
212 381 4188**RETAIL & CONSUMER: SOFTLINES****Howard Tubin, Analyst**howard.tubin@guggenheimpartners.com
212 823 6558**TMT: MEDIA & ENTERTAINMENT,
CABLE & SATELLITE TV****Michael Morris, Analyst**michael.morris@guggenheimpartners.com
804 253 8025**Curry Baker, Associate**curry.baker@guggenheimpartners.com
804 253 8029