

ZTS, PAHC - BUY - August WASDE Continues to Support Livestock Industry

SECTOR: Specialty Pharmaceuticals

August 12, 2014

The USDA released its monthly WASDE (World Agriculture Supply and Demand Estimates) today. The report supports our belief that livestock expansion for poultry and swine will pick up in 2014 and cattle will pick up in 2015. We believe this would be good for ZTS (BUY, \$32.60) because 62% of its revenues in 2Q14 came from the livestock business. This is also positive for PAHC (BUY, \$18.99) where 100% of its revenues come from livestock animals.

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

- The projected range for the 2014/15 season-average farm price for corn is lowered 10 cents on each end of the range to \$3.55 to \$4.25 per bushel.
- The projected U.S. corn yield increased 2.1% from last month to 167.4 bushels per acre. Corn supplies for 2014/15 are projected at a record 15,243 million bushels with the increase partly offset by a 65 million-bushel reduction in beginning stocks.
- The U.S. season-average soybean price for 2014/15 is forecast at \$9.35 to \$11.35 per bushel, down 15 cents on both ends.
- Soybean production for 2014/15 is forecast at 3,816 million bushels, up 16 million due to a higher yield. Harvested area is forecast at 84.1 million acres, unchanged from July. Soybean yield forecast is a record 45.4 bushels per acre, 0.2 bushels above last month and 2.1 bushels above last year
- The forecast for total meat production in 2014 is raised from last month. Production is raised for beef, pork, and broilers as lower feed prices encourage producers to raise animals to heavier weights.
- For 2015, lower feed costs are expected to lead to higher cattle, hog, and broiler weights, but in the case of beef, reduced feedlot numbers are expected to lead to lower slaughter (points to herd recovery), more than offsetting any gains from carcass weights. Broiler producers are also expected to increase bird numbers more rapidly than previously forecast during 2015 as returns are expected to be more favorable.
- Cattle price forecasts for 2014 and 2015 are raised from last month on the strength of demand and continued tight supplies of fed cattle. The annual price forecast for hogs is unchanged for 2014, but is lowered for 2015 from last month on slightly weaker expected demand. The annual broiler price forecast for 2014 is lowered, but the price for 2015 is unchanged. The turkey price forecast for 2014 is raised based on July price data. The egg price forecasts for both 2014 and 2015 are raised as demand remains strong.

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

Phibro Animal Health Corporation 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 Phibro Animal Health Corporation investment banking services.

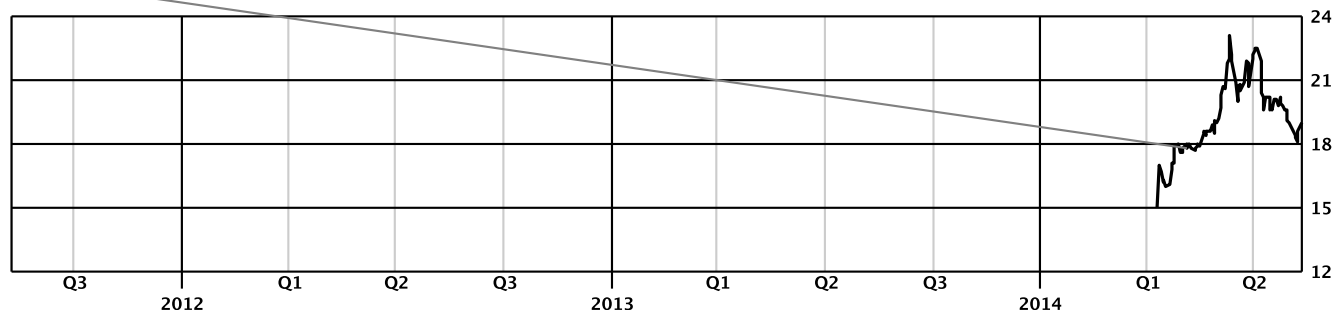
Guggenheim Securities, LLC or its affiliates received compensation for investment banking services from Phibro Animal Health Corporation during the past 12 months.

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>. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

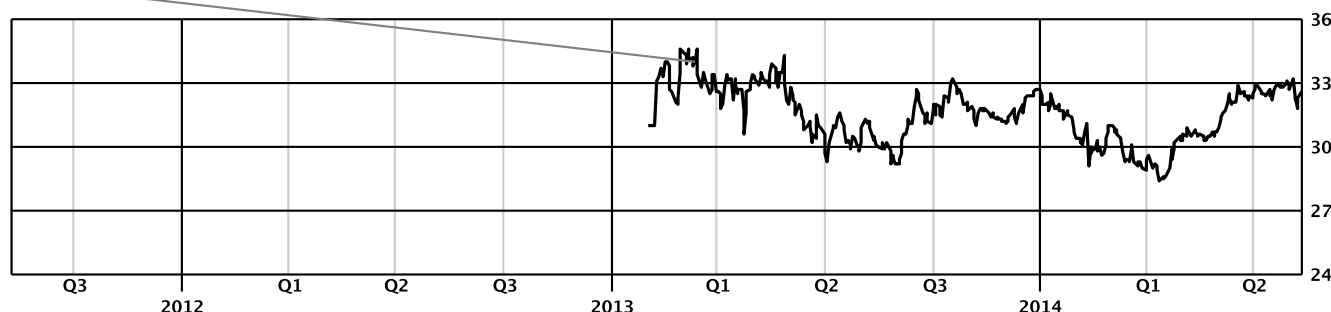
Rating and Price Target History for: Phibro Animal Health Corporation (PAHC) as of 08-11-2014

05/06/14
I:B:\$21



Created by BlueMatrix

Rating and Price Target History for: Zoetis Inc. (ZTS) as of 08-11-2014

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	105	57.07%	20	19.05%
Neutral	79	42.93%	5	6.33%
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.

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 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**Rob Cordray, Analyst**

robert.cordray@guggenheimpartners.com

972 638 5509

ENERGY: OIL SERVICES & EQUIPMENT**Darren Gacicia, Analyst**

darren.gacicia@guggenheimpartners.com

212 293 3054

Michael LaMotte, Analyst

michael.lamotte@guggenheimpartners.com

972 638 5502

Wilson Waggoner, Associate

wilson.waggoner@guggenheimpartners.com

972 638 5506

**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

Ryan Strain, Associate

ryan.strain@guggenheimpartners.com

615 208 1226

FINANCIAL SERVICES: INSURANCE**Bijan Moazami, Analyst**

bijan.moazami@guggenheimpartners.com

202 747 9466

Marshall Coltrain, Associate

marshall.coltrain@guggenheimpartners.com

202 747 9456

HEALTHCARE: BIOTECH**Bret Holley, Analyst**

bret.holley@guggenheimpartners.com

212 293 2820

HEALTHCARE: PHARMACEUTICALS**Louise Chen, Analyst**

louise.chen@guggenheimpartners.com

212 381 4195

Swati Kumar, Associate

swati.kumar@guggenheimpartners.com

212 918 8754

Brandon Folkes, Associate

brandon.folkes@guggenheimpartners.com

212 518 9976

RETAIL & CONSUMER**John Heinbockel, Analyst**

john.heinbockel@guggenheimpartners.com

212 381 4135

Steven Forbes, Associate

steven.forbes@guggenheimpartners.com

212 381 4188

**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