

Zoetis Inc.(ZTS)

\$132.66 (As of 06/26/20)

Price Target (6-12 Months): **\$139.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

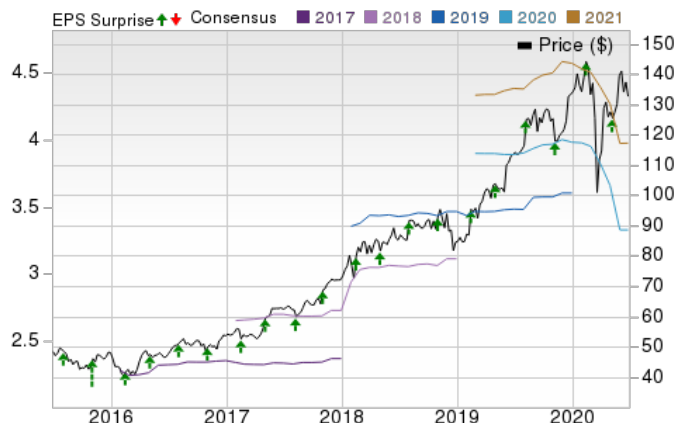
Growth: B

Momentum: A

Summary

Zoetis' companion animal portfolio maintains momentum on strong growth of key dermatology products, such as Apoquel and Cytopoint brands, as well as the Simparica franchise, including some initial stocking of Simparica Trio, which is the new triple combination parasiticide. Potential filings for new products and continued market expansions of major products should further boost growth. The recent acquisitions have further strengthened the companion animal sales portfolio. However, the company lowered its annual outlook on account of the adverse impact of the COVID-19 outbreak. Shares have outperformed the industry in the past year. Moreover, the cattle market is witnessing challenges for beef and dairy customers. The swine market is also being affected by the African swine fever in China. Competition is stiff as well in these markets.

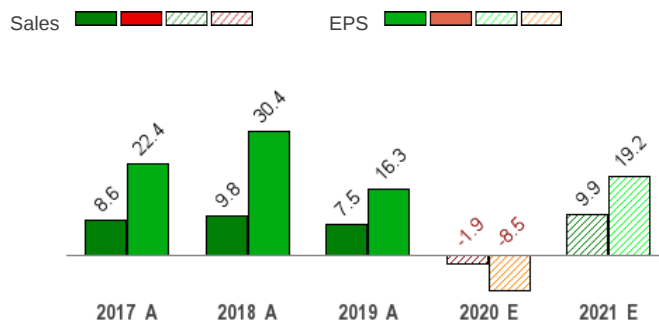
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$146.26 - \$90.14
20 Day Average Volume (sh)	1,709,690
Market Cap	\$63.0 B
YTD Price Change	0.2%
Beta	0.79
Dividend / Div Yld	\$0.80 / 0.6%
Industry	Medical - Drugs
Zacks Industry Rank	Top 34% (85 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.0%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	08/06/2020
Earnings ESP	3.6%
P/E TTM	35.8
P/E F1	39.8
PEG F1	4.7
P/S TTM	9.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,580 E	1,616 E	1,684 E	1,820 E	6,750 E
2020	1,534 A	1,351 E	1,538 E	1,702 E	6,142 E
2019	1,455 A	1,547 A	1,584 A	1,674 A	6,260 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.91 E	\$0.94 E	\$1.01 E	\$1.07 E	\$3.97 E
2020	\$0.95 A	\$0.65 E	\$0.83 E	\$0.90 E	\$3.33 E
2019	\$0.88 A	\$0.90 A	\$0.94 A	\$0.92 A	\$3.64 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/26/2020. The reports text is as of 06/29/2020.

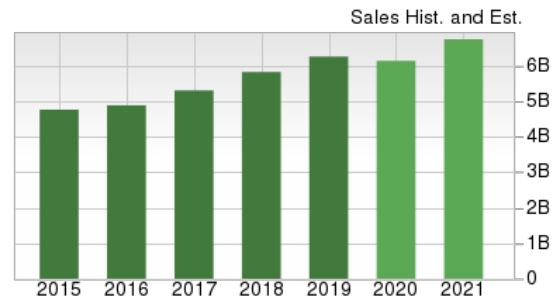
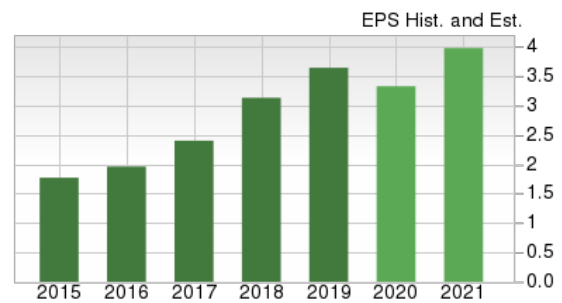
Overview

Florham Park, NJ-based Zoetis Inc. came into existence following Pfizer's decision to spin off its animal health business. The entity started trading on NYSE from Feb 1, 2013, under the name Zoetis. The company is a leader in the discovery, development, manufacture and commercialization of animal health medicines, vaccines and diagnostic products with a focus on both livestock and companion animals.

Zoetis has a diversified business, which caters to eight core species — cattle, swine, poultry, fish and sheep (collectively, livestock) and dogs, cats and horses (collectively, companion animals). The company focuses on seven major product categories: vaccines, anti-infectives, parasiticides, other pharmaceutical products, dermatology, medicated feed additives and animal health diagnostics.

Zoetis has been working on strengthening its product portfolio through acquisitions and deals. The company strengthened its portfolio of diagnostic products with the Abaxis acquisition in 2018, a leading provider of veterinary point-of-care diagnostic instruments. The acquisition added the VetScan portfolio of benchtop and handheld diagnostic instruments and consumables, which serves a large customer base of veterinary practitioners in North America. In 2019, Zoetis acquired Phoenix Central Laboratory for Veterinarians, Inc. and ZNLabs, LLC, thereby entering into reference laboratory services. Zoetis also entered the field of animal nutritionals with the acquisition of Platinum Performance in 2019.

Zoetis has consolidated its four-region structure into a two-region structure comprising the United States and International. Revenues increased 7% year over year to \$6.26 billion in 2019. The United States contributed 51.2% of total revenues in 2019 and International revenues contributed the remaining.



Reasons To Buy:

▲ **Increasing Share Price:** Zoetis' stock has outperformed the industry in the past year.

▲ **Strong Performance of New Products:** The company's companion animal business maintains momentum. Apoquel and other product launches continue to drive growth in the companion animal portfolio. Apoquel accounted for 9% of total revenues in 2019. New product launches have further boosted growth. Key dermatology products, Apoquel and Cytoint; new products such as Simparica and Stronghold Plus; and increased medicalization rates in key international markets such as China and Brazil should propel further growth. The FDA earlier approved ProHeart 12 (moxidectin), the industry's only once-yearly injection to prevent heartworm disease in dogs aged 12 months or older. Zoamix, an alternative to antibiotics in medicated feed additives, has also delivered an impressive performance.

Zoetis' diversified product portfolio, global footprint and productive R&D should help drive both top- and bottom-line growth.

The approval of Simparica Trio in the EU and the United States should strengthen the company's market-leading parasiticide portfolio for companion animals. The FDA recently approved it too. Per the company, the global canine parasiticides market is worth more than \$4 billion and the largest therapeutic category in medicines for dogs. Potential filings for new products and continued market expansions of major products like Cytoint, Simparica, and Apoquel should boost growth further. The company also continues to bolster its vaccine portfolio for livestock. In October, Zoetis received the United States Department of Agriculture's (USDA) approval for Poulvac Procerta HVT-ND, its first vector vaccine that will help protect against Marek's disease and Newcastle disease, which are highly contagious viral infections affecting poultry. The company expanded its Foster swine vaccine franchise in the second quarter, with approvals of different formulations in new geographies. Zoetis also received approval for Rimadyl (carprofen) for dogs in China, one of the fastest growing companion animal markets in the world. It is indicated for relief from pain and inflammation associated with osteoarthritis (chewables) and control of postoperative pain associated with soft tissue and orthopedic surgeries (injectable). Approval of innovative products should further boost sales.

▲ **Expansion through Acquisitions:** We are positive on Zoetis' acquisitions made so far. The company acquired Abaxis, Inc. for \$2 billion. The deal boosted Zoetis' presence in veterinary diagnostics space of the animal health market. This sector has witnessed an annual compound growth rate of about 10% over the past three years. With the acquisition, Zoetis has accessed Abaxis' VetScan portfolio of bench top and handheld diagnostic instruments and consumables. The company can now provide a broader range of veterinary diagnostics products, leveraging its global scale and direct customer relationships. It expects the veterinary diagnostics category to continue to grow faster than the animal health industry, with mid to high-single-digit growth. Moreover, Zoetis five-year collaboration agreement with Regeneron to research the use of latter's monoclonal antibody therapeutics in animals and discover new veterinary treatments will further diversify the broad portfolio. It recently acquired Platinum Performance, a privately held, nutrition-focused animal health company, which will further strengthen Zoetis' portfolio in the equine and pet-care markets. Zoetis recently announced the acquisition of ZNLabs, a full-service veterinary clinical reference laboratory company with a network of labs across the United States. The acquisition will strengthen the company's portfolio, expand its diagnostics footprint and enhance its value proposition to veterinary customers. The company can now provide a broader range of veterinary diagnostics products, leveraging its global scale and direct customer relationships. It expects the veterinary diagnostics category to continue to grow faster than the animal health industry.

In 2019, Zoetis acquired Phoenix Central Laboratory for Veterinarians, Inc. (Phoenix Lab), a full-service veterinary reference laboratory company, to enter the reference laboratory services market. Per the company, reference laboratories and point-of-care diagnostic testing are highly synergistic, offering veterinarians a single source for a full spectrum of tests, as well as access to the expertise of board-certified specialists and pathologists to support test results. It also acquired Platinum Performance, a privately-held, nutrition-focused animal health company. These acquisitions will further strengthen its market-leading portfolio. Earlier, the company announced the acquisition of Ethos Diagnostic Science, a veterinary reference lab business dedicated to serving leading specialty animal hospitals, the greater veterinary community and researchers with accurate, reliable results. In April 2020, Zoetis acquired Performance Livestock Analytics, a technology company that simplifies data and analytics for the livestock industry. This acquisition will help Zoetis accelerate progress in precision livestock farming and improve sustainability of producers' operations.

▲ **Returning Value to Shareholders:** Zoetis is working on returning value to shareholders in the form of share buybacks and dividends. In December 2018, the company announced a multi-year share repurchase program worth \$2 billion. The company also hiked its quarterly dividend by 30% in 2019 and recently announced a 22% increase in the dividend for the first quarter of 2020.

Reasons To Sell:

- ▼ **Guidance Lowered:** Zoetis lowered its annual outlook due to the impact of COVID-19 on its business, resulting from the global lockdown and recession. The lockdown has affected traffic at companion animal clinics and led to a reduction in demand for protein from restaurant and dine out sectors. Moreover, due to the current COVID-19 situation, clinic penetration and adoption of Simparica Trio will be more gradual than initially expected.
- ▼ **Impact of Disease Outbreaks on Livestock Business:** Disease outbreak among animals is a material cause of concern for Zoetis' livestock products. Such outbreaks may hurt regional or global sales of particular animal-derived food products or result in reduced exports of the same, due to either heightened export restrictions or import prohibitions, in turn, dampening demand for livestock products. In addition, outbreak of a highly contagious disease near the company's main production sites could require immediate production halt or force the company to incur substantial additional expenses for procuring raw materials or products from elsewhere. Thus, such incidents could hurt the top line considerably. Moreover, market conditions for beef and dairy customers were challenging in 2019 and can affect growth in 2020.
- ▼ **Stiff Competition:** Zoetis faces stiff competition from other animal health medicines and vaccine companies like Merck Animal Health and Elanco Animal Health, which recently inked a definitive agreement to acquire Bayer's Animal Health business for \$7.6 billion. Other competitors include IDEXX Laboratories and Boehringer Ingelheim Animal Health (the animal health division of Boehringer Ingelheim).
- ▼ **Debt Profile Risky:** As of Mar 31, 2020, the company's debt to total capital stood at 70.6. While the ratio has declined in the past three quarters, it still is up from the industry's 52.3. A higher ratio indicates higher financial risk. Moreover, the company has \$5.9 billion of long-term debt and \$1.9 billion of cash and equivalents. The high level of debt is a concern.

Development and regulatory setbacks for late-stage pipeline candidates would be a major disappointment for the company. Stiff competition in the animal health space remains a threat as well.

Last Earnings Report

Zoetis Q1 Earnings Beat Estimates, Revenues In Line

Zoetis posted first-quarter 2020 adjusted earnings of \$0.95 per share (excluding one-time items), which not only increased 7% year over year but also beat the Zacks Consensus Estimate of \$0.87.

Total revenues rose 5% year over year to \$1.5 billion, which meet the Zacks Consensus Estimate.

Quarterly Highlights

Zoetis reports business results under two geographical operating segments, namely the United States and International. It has a diverse portfolio of products for livestock and companion animals.

Revenues from the United States segment increased 9% year over year to \$786 million. Sales of companion animal products in this region grew 12%, primarily owing to higher sales of Apoquel and Cytopoint brands in the dermatology portfolio. Simparica franchise including some initial stocks of the new triple combination parasiticide, Simparica Trio, also led to this increase. Moreover, sales of livestock products rose 5% in the quarter due to double-digit growth in both poultry and swine. However, point-of-care diagnostic business witnessed a downside and a decline in cattle products was the result of persistently unfavorable market conditions in beef and dairy sectors.

Revenues at the International segment inched up marginally 1% year over year on a reported basis (up 4% operationally) to \$728 million. Livestock sales slipped 1% (down 2% operationally) in the quarter. Growth of cattle products was flat in the quarter. Notably, sales of swine products surged as a result of expanding herd production and beefed-up biosecurity measures in the wake of African Swine Fever in China. Alpha Flux, a recently-launched parasiticide, was the primary driver of growth in fish while price rises in Argentina, Mexico and Brazil fueled growth for poultry.

Sales of companion animal products grew 5% on a reported basis, reflecting a rise in the dermatology portfolio and parasiticide, Simparica franchise, including the launch of Simparica Trio in certain markets in the European Union (EU) as well as growth across key markets in China. Per the company, the COVID-19 pandemic left a minimal impact on Zoetis' first-quarter results.

2020 Guidance

Due to the COVID-19 impact, Zoetis is lowering its full-year guidance.

The company now expects adjusted earnings of \$3.17-\$3.42 per share, indicating an improvement from the previous guidance of \$3.90-\$4.00. Revenues are now projected between \$5.950 billion and \$6.250 billion, the mid-point of which is \$6.100 billion, lower than the Zacks Consensus Estimate of \$6.450 billion. Revenues were earlier anticipated in the range of \$6.650-\$6.800 billion.

The guidance takes into account the foreign exchange rates of late April.

Other Updates

In February 2020, Zoetis announced that the FDA-approved Simparica Trio (sarolaner, moxidectin and pyrantel chewable tablets), the first once-monthly, chewable tablet in the United States that delivers all-in-one protection from heartworm disease, ticks and fleas, roundworms and hookworms.

Meanwhile, last month, Zoetis acquired Performance Livestock Analytics, a provider of cloud-based data management to beef producers, to enhance its animal health solutions across the continuum of care for beef producers.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	1.00%
EPS Surprise	7.95%
Quarterly EPS	0.95
Annual EPS (TTM)	3.71

Recent News

FDA Approval for Simparica Trio – Feb 27

Zoetis announced that the FDA has approved Simparica Trio (sarolaner, moxidectin, and pyrantel chewable tablets), the first once-monthly, chewable tablet in the United States that delivers all-in-one protection from heartworm disease, ticks and fleas, roundworms, and hookworms.

Acquires Ethos Diagnostic Science – Feb 7

Zoetis announced the acquisition of Ethos Diagnostic Science, a veterinary reference lab business dedicated to serving leading specialty animal hospitals, the greater veterinary community and researchers with accurate, reliable results.

Declares First Quarter Dividend, Approves 22% Increase – Dec 11

Zoetis declared a first-quarter 2020 dividend of \$0.20 per share, an increase of 22% from the quarterly dividend rate in 2019. The dividend will be paid on Mar 3, 2020, to holders of record as of Jan 17, 2020.

Acquires ZNLabs – Nov 22

Zoetis announced the acquisition of ZNLabs, a full-service veterinary clinical reference laboratory company with a network of labs across the United States.

This laboratory company is founded by veterinarians who are seeking to revolutionize reference laboratory services for companion animals. The company has differentiated itself by offering a simple test menu and fast results with friendly service and no contracts.

The acquisition will strengthen Zoetis' portfolio, expand its diagnostics footprint and enhance its value proposition to veterinary customers.

Valuation

Zoetis' shares are up 0.2% in the year-to-date period and 17.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 6.6% and 2.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 5.6% while the sector is up 1.8%. The S&P 500 index is down 5.7% in the year-to-date period but up 4.1% in the past year.

The stock is currently trading at 9.78X forward 12-month sales per share, which compares to 2.67X for the Zacks sub-industry, 2.71X for the Zacks sector and 3.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.59X and as low as 4.03X, with a 5-year median of 6.27X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$139 price target reflects 10.25X forward 12-month sales per share.

The table below shows summary valuation data for ZTS

Valuation Multiples - ZTS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	9.78	2.67	2.71	3.37
	5-Year High	10.59	3.81	3.74	3.44
	5-Year Low	4.03	2.23	2.21	2.53
	5-Year Median	6.27	2.91	2.91	3.02
P/B TTM	Current	22.89	1.6	4.18	4.12
	5-Year High	25.5	13.3	5.06	4.56
	5-Year Low	14.64	1.02	2.93	2.83
	5-Year Median	19.83	2.48	4.27	3.69

As of 06/26/2020

Industry Analysis Zacks Industry Rank: Top 34% (85 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ono Pharmaceutical Co. (OPHLF)	Outperform	1
Catalent, Inc. (CTLT)	Neutral	3
Elanco Animal Health Incorporated (ELAN)	Neutral	4
Endo International plc (ENDP)	Neutral	3
Eisai Co. (ESALY)	Neutral	3
IPSEN SA ADR (IPSEY)	Neutral	3
UCB SA (UCBJF)	Neutral	3
Grifols, S.A. (GRFS)	Underperform	3

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	ZTS	X Industry	S&P 500	ESALY	GRFS	UCBJF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	A	A	A
Market Cap	63.01 B	110.84 M	21.00 B	24.17 B	12.88 B	22.48 B
# of Analysts	12	3	14	3	3	1
Dividend Yield	0.60%	0.00%	2%	1.54%	1.81%	0.00%
Value Score	C	-	-	B	A	B
Cash/Price	0.03	0.25	0.07	0.10	0.05	0.07
EV/EBITDA	27.58	-1.93	12.28	14.87	12.05	18.05
PEG Ratio	4.70	0.99	2.80	NA	0.99	NA
Price/Book (P/B)	22.88	3.39	2.88	3.74	1.62	2.86
Price/Cash Flow (P/CF)	29.16	11.26	11.08	16.90	11.26	20.60
P/E (F1)	39.74	16.57	20.57	34.78	13.77	20.20
Price/Sales (P/S)	9.94	5.90	2.14	3.78	2.21	NA
Earnings Yield	2.51%	-16.10%	4.62%	2.87%	7.26%	4.95%
Debt/Equity	2.22	0.01	0.77	0.08	0.95	0.14
Cash Flow (\$/share)	4.55	-0.49	7.01	4.82	1.66	5.61
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	20.59%	6.56%	10.84%	15.69%	3.34%	NA
Proj. EPS Growth (F1/F0)	-8.63%	13.97%	-10.73%	-40.07%	16.24%	-1.72%
Curr. Cash Flow Growth	18.22%	2.43%	5.46%	76.14%	6.49%	4.23%
Hist. Cash Flow Growth (3-5 yrs)	16.87%	5.72%	8.55%	13.84%	10.99%	20.58%
Current Ratio	2.77	3.69	1.29	2.07	2.75	1.38
Debt/Capital	68.98%	6.04%	45.14%	7.25%	48.78%	12.21%
Net Margin	25.41%	-132.39%	10.53%	17.47%	13.31%	NA
Return on Equity	67.72%	-63.13%	16.06%	18.43%	11.92%	NA
Sales/Assets	0.56	0.29	0.55	0.67	0.36	NA
Proj. Sales Growth (F1/F0)	-1.89%	0.00%	-2.70%	3.15%	4.83%	5.81%
Momentum Score	A	-	-	C	B	C
Daily Price Chg	-1.96%	-1.58%	-1.90%	0.32%	-0.37%	-1.03%
1 Week Price Chg	2.48%	2.19%	0.92%	2.04%	1.35%	16.57%
4 Week Price Chg	-3.95%	0.97%	-3.33%	8.35%	-0.16%	25.60%
12 Week Price Chg	14.33%	28.26%	19.31%	23.47%	-5.36%	32.75%
52 Week Price Chg	17.65%	-17.14%	-9.84%	42.15%	-8.95%	43.45%
20 Day Average Volume	1,709,690	334,402	2,782,477	2,476	1,729,722	845
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.07%	0.00%	0.00%	-1.69%	0.00%	0.00%
(F1) EPS Est 12 week change	-13.49%	-1.04%	-12.23%	-2.92%	-3.55%	-2.22%
(Q1) EPS Est Mthly Chg	-0.70%	0.00%	0.00%	NA	0.00%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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