

Zoetis, Inc. Class A

US CORE HOLDING*

Recommended since 20.11.23

02.12.2024

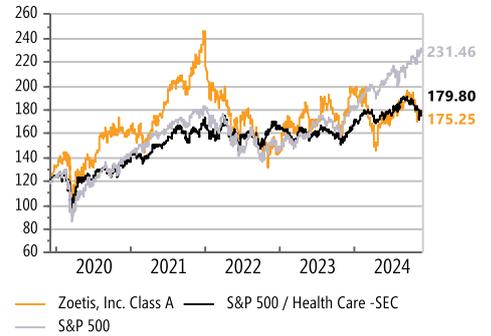


Country US	Market capitalization (bn) USD 79,3	Perf. since reco. (%)
Sector Health Care	Free float 99,9%	Zoetis, Inc. Class A -0,5
Factset ZTS-US	Closing price USD 175,25	Secteur 14,2
ISIN US98978V1035	ESG Risk score* 15,1 Low risk	

*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 1952 as a division of Pfizer and then made independent via an IPO in 2013, Zoetis is a world leader in animal health. The business is divided into two divisions: 1/ Companion animals (65% of sales) and 2/ Livestock (35% of sales). The company develops and markets vaccines, medicines and diagnostic solutions (instruments and tests).



Source: Factset

Market - competition - positions - barriers to entry

Zoetis is a pure player and leader in animal health. This market offers annual growth of 5%. The barriers to entry are innovation; the clinical development process; the complexity of molecules and formulations; and the regulatory environment. But R&D costs, duration and risk of failure of clinical developments are lower on average than in the pharmaceutical sector.

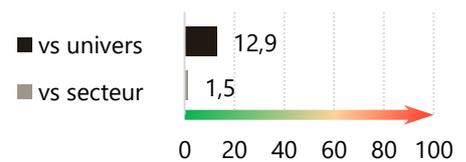
Investment case

- Animal health is benefiting from a number of long-term growth drivers: 1/ a stronger attachment to the pet (considered as a family member), leading to an increase in care; 2/ the expansion of emerging markets, with an increase in the share of pets and an improvement in their medical care; 3/ moderate generic competition; 4/ a diversified customer base and the absence of dependence on a reimbursement system, limiting pressure on prices; as well as 5/ the sophistication of treatments towards specialty treatments. This market offers annual growth of 5%.
- As a world leader, Zoetis is well positioned to take advantage of market fundamentals. The company expects sales growth of 5-9% a year, which will be accompanied by an improvement in margins. The product portfolio is diversified : 1/3 of sales are generated by 5 products, including Apoquel (atopic dermatitis) and Simparica (chewable antiparasitic for dogs), while the top 10 account for half of sales. The new product cycle will remain strong, with an increase in the share of higher-margin specialty products. The launch of the two monoclonal antibodies Librela and Solensia (treatments for osteoarthritis pain in dogs and cats respectively) confirms this trend.
- The company has repositioned itself towards growth segments, driven by both targeted acquisitions and innovation. The expansion of the Companion animals division and the development of the aquaculture business offset the lower performance of livestock. The latter now account for just 32% of sales (excluding aquaculture), compared with 62% in 2015.
- After exceptional sales growth in Q1-Q3 2024 (+12% at CER), Q4 will be marked by the annualization of the Librela launch in the USA (less favorable basis for comparison) and by the divestment of the Medicated Feed Additive business (MFA / 4% of sales but with an EBIT margin of only 30%). For 2025, management therefore anticipates a return to organic growth more in line with the historical average, i.e. +8% (in line with our estimates), to which will be added a negative scope effect (MFA) of 3.3%. Over the period 2024-27, we therefore expect sales to rise by 7%/year (+8%/year excluding the scope effect) and EPS by 12%.

ESG - risks and key points

- Zoetis' ESG risk is low. Good management of ESG issues and strong corporate governance performance. The company has not experienced any major controversies in the past.
- As a "pure player" in animal health, its exposure to ESG issues is average and lower than that of pharmaceutical companies (lower risk of litigation concerning drug side effects, lower price controls).
- The main risks concern compliance with business ethics and R&D best practices.

Risque ESG vs univers & secteur (percentile)



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
175	211

Our scenario assumes a US risk-free rate of 3,50%; sales growth averaging 7,2% p.a. over the period ; EBIT margin growth to 42,2% in 2029; and stability over the remainder of the period.

** La valeur scenario Bordier intègre le modèle économique de l'entreprise, notre scénario central de croissance et de profits et les données de marché, externes à l'entreprise (taux sans risque et prime de risque du marché actions). Elle ne constitue pas, en soi, un objectif de cours.

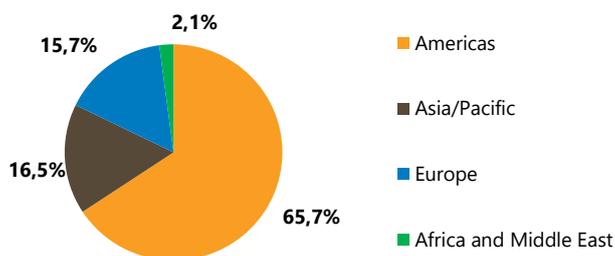
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"Bordier Core Holding" indicators

In millions of USD	2023	2024e	2025e	2026e	2027e
Sales revenue	8 544	9 210	9 643	10 415	11 248
Sales growth %	5,7%	7,8%	4,7%	8,0%	8,0%
<i>o/w organic</i>	7,0%	10,5%	8,0%	8,0%	8,0%
EBIT adjusted	3 231	3 572	3 857	4 270	4 690
% of sales	37,8%	38,8%	40,0%	41,0%	41,7%
Net income	2 457	2 699	3 010	3 380	3 752
Adjusted EPS	5,32	5,88	6,59	7,45	8,32
Adjusted EPS growth	8,8%	10,5%	12,2%	13,0%	11,7%
Capex/Sales	8,6%	8,7%	6,0%	5,0%	5,0%
Free cash-flow	2 041	2 178	2 841	3 254	3 615
FCF/Sales	23,9%	23,7%	29,5%	31,2%	32,1%
Dividend per share	1,40	1,48	1,59	1,81	2,02
Dividend yield	0,8%	0,8%	0,9%	1,0%	1,2%
ROCE - WACC	21,4%	23,2%	25,6%	25,1%	21,9%
ROE (%)	43,8%	38,5%	34,4%	31,3%	28,6%
Net debt/Ebitda	102,4%	65,7%	21,1%	-23,5%	-65,4%

Sales breakdown - 12/2023



Source: Factset, Bordier estimates

Ratios

	Zoetis, Inc. Class A	S&P 500	
		Sector	Market
PE (x)***		Health Care	SP 500
2023	29,8	22,5	23,5
2024e	26,6	21,7	25,3
2025e	23,5	18,0	22,1
P/B (x)***			
2023	14,1	5,1	4,7
2024e	11,3	5,1	5,2
2025e	9,0	4,5	4,6
Bêta (2 ans, journalier) vs marché: 0,89			

***) Les ratios de valorisation présentés sont donnés à titre d'information. Ils ne constituent pas le critère de sélection des Core Holdings et peuvent présenter des primes significatives, représentatives de la qualité du modèle économique de l'entreprise.

Governance and ownership structure

Since 2020 - CEO Kristin Peck

Key shareholders (if any):

100% free float

Agenda

Feb. 2025 : 2024 annual results / May 2025 : Q1 results

Aug. 2025 : Q2 results / Nov. 2025 : Q3 results

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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